

Minutes

CARPENTERSVILLE POLICE PENSION FUND QUARTERLY MEETING

April 16, 2019

10:30 a.m.

Police Conference Room

ROLL CALL

John Galason, Carl Sebastian, Scott Adams, Russ Morehead, and Michael Salvaggio were present.

IN ATTENDANCE

Bill Yocius (Board consultant), Jim Nowicki and John Mitchell from Mitchell, Vaught & Taylor, Derek Flessner from Lauterbach & Amen, Jeff Slepian and Amy Kramer from Segall, Bryant & Hamill. Attorney Cary Collins arrived later in the meeting.

Approval of Minutes

Carl Sebastian made the motion to approve the Minutes from January 15, 2019, Russ 2nd, no discussion.

A roll call vote was taken: John G. - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries

Public Discussion

None.

Approval of Bills – 1st Quarter

- Cary Collins - \$8,669.37 (Cram Disability).
- Dolores Plocke Admin. Services - \$140.00 (\$70 - Jan, \$35 - Feb, \$35 - Mar)
- Tracy Galason Admin. Services - \$435.00 (\$135 - Feb, \$300 - Mar)
- Kathleen W. Bono, CSR, LT D Legal Services - \$3,798.80 (\$1,564.55 & \$2,234.25 for the 11/20/18 & 2/6/19 Cram hearings)
- Michael Salvaggio - \$195.59 (Reimburse meals at Cram disability hearing)
- Lauterbach & Amen - \$3,640.00 (\$3,275 1st Quarter, 2019 & \$365 FYE18 1099's)
- IRS - \$77,327.40 (1st Quarter, 2019).
- Management and trading fees for MVT, Inc. - \$18,223 + \$532.90 (Adelante) = \$18,755.90 (1st Quarter).
- Management and trading fees - Segall, Bryant & Hamill - \$23,447.90 (1st Quarter, 2019).

Total Bills for 1st Quarter (April 16, 2019 bill list) - \$136,409.96

John Galason motioned to approve the April 16, 2019 bill list, Scott Adams 2nd, no discussion.

A roll call vote was taken: John G. - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries.

Old Business

Decision and order regarding Cram's hearing was received just earlier this morning and the board needs time to review. Mike mentioned that an extensive amount of time, money and effort went into this case and the board would like to review the written decision before submission to Cram, his attorney, and the judge. A separate meeting will be held on Monday, May 22, 2019 at 12:00 p.m. to approve the decision.

New Business

- Gianna Sunta/Behning requested to withdraw pension contributions of \$9,561.20. Derek said she formally requested payment in February and payment was processed in February.

John made a motion to accept Gianna Sunta/Behning refund, Scott 2nd

A roll call vote was taken: John - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries.

- New hire Raffaele DePinto started 3/8/2019 and new hire Alyssa Messina started on 3/25/2019. We need to accept members as they are coming in.

John made a motion to accept Raffaele DePinto and Alyssa Messina into the Carpentersville Police Pension fund, Carl 2nd, no discussion.

A roll call vote was taken: John - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries.

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- Sergeant Matt Ostrem retired on 3/31/2019 at age 50 with 25 years of creditable service. Pensionable salary is \$121,840.18 with a multiplier of 62.5%. Original monthly pension amount of \$6,345.84. John made a motion to accept Matt Ostrem's retirement, Scott 2nd. Discussion made to have the details listed on the agenda in the future.
A roll call vote was taken: John - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries.

Accountant's Report - Lauterbach & Amen provided a written report for the month ended 3/31/2019 with audit adjustments for FYE 12/31/18 of additional tax collections of \$5,966.38.
Assets: Cash and Cash Equivalents - \$50.00, Money Market Mutual Funds - \$843,818.36, Fixed Income - \$14,116,429.50, Stock Equities - \$17,727,080.70, Mutual Funds - \$11,537,550.47. Total Cash and Investments - \$44,224,929.03. Accrued Interest - \$74,027.84. Due from Municipality - \$5,966.38. Prepaids - \$250.00. Total Assets - \$44,305,173.25.
Liabilities: Expenses Due/Unpaid - \$11,313.92. Net Position in Trust for Pension Benefits: **\$44,293,859.33.**
Net Position Held in Trust for Pension Benefits: Beginning of year - \$41,222,557.12. End of period - \$44,293,859.33, up \$3,071,302.21 for first three months of 2019.

Annual IDOI Compliance fee not to exceed \$8,000. Cap is set based on assets. Send to L&A as soon as it's received. Due date will be in June.
John made a motion to pay IDOI when bill is received, Russ 2nd. No discussion.
A roll call vote was taken: John - yes, Carl - yes, Scott - yes, Russ - yes, Mike - yes (5-0) Motion carries.

Derek mentioned IDOI sent new Siren on 4/4/19. Requiring retiree's spouse information (name, gender, date of birth and date of marriage). Deadline is 4/23/19. Tracy will put information together for Derek.

Treasurer's Report - Not available as there is currently no Finance Director. Treasurer is currently Lauterbach & Amen, which is the reason for wanting to hire a new actuary so all of the finances are not managed by one firm.
Russ made a motion to accept the Treasurer's report, Scott 2nd. No discussion.
A roll call vote was taken: Russ - yes, Carl - yes, Scott - yes, John - yes, Mike - yes (5-0) Motion carries.

Investment Consultant Report - Bill Yocius from Shields Capital provided an in-depth overview of the total portfolio asset allocation, fund quarterly performance and a review of the previous six quarter's performance. He then said that each of the investment firms would review their performance and requested that they dismiss themselves afterward so he can review the five-year investment performance that the board asked him to put together.

Investment Report - Jeff Slepian from Segall Bryant & Hamill provided a written and verbal overview of performance as of 3/31/2019. The cash balance is currently at \$435,374 (2.4%); equity is currently at \$17,223,658 (96.5%). Beginning portfolio balance as of 1/1/2019 was \$15,642,475, net cash flow of (\$23,448), realized income of \$43,928, gain of \$2,180,573. Ending portfolio balance as of 3/31/2019 is **\$17,843,528.**

2018 experienced growth in the first nine months, then the 4th quarter the Feds raised the rates which caused volatility and worries of trade war with China.

Investment Report - Jim Nowicki from (MVT) provided a written and verbal overview of performance as of 3/31/2019. Fixed Income Assets were up 1.34% for the quarter, +\$192,710. Equities were up 17.07% for the quarter. Total Fund was up 1.64% for 1st quarter.
Beginning Value: \$15,223,358. Contribute & Withdraw: (\$620,168). Net Investment Gain: \$245,787. **Ending Value: \$14,848,977.**

All changes for equity have been made except for Adelante. Now MVT only manages the REIT section. This past quarter REITS came in at over 17% with the benchmark at 16%. For fixed income, 2 year treasury bonds have a higher yield than 5 year treasury bonds. MVT will be evaluating extending the duration of the bonds however it doesn't make sense to switch to a 5 year if there is no reward and a risk of losing income.

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Investment Consultant Review of Investment Firm Performance

Russ voiced concern on which order the investment firms and the consultant report go in the meeting. He would like to hear the investment firms first, then afterward, have Bill give his evaluation of each of the firm's performance. For now, the consensus is to have each firm to come out for the next quarterly meeting and see what happens at the next meeting.

Shields oversees the mutual fund managers. He needs to have visibility to all of the funds. He currently has access to Schwab, but not Adelante yet.

John at MVT had asked for the performance review that Shields is providing, however he is asking that the documents get returned to him. According to council, Bill can do what he feels is necessary with the 5 year performance. This is Bill's work product and if someone submits a FOIA, you can only provide what you have.

SBH Five-Year Performance:

SBH has 40% of the fund. Bill met with management team prior to this meeting. Their return on equity of 10.7%, their growth is a shade higher and their earnings growth of their portfolio are all better than the Russell 3000, however some of the investments that they are choosing are more volatile than the index would be.

Pros: Long tenured management team and met with Mr. Segall. Investment process hasn't changed. They have been in All Cap strategy and haven't drifted, they are consistent. They have recently exceeded the Russell 3000.

Cons: They have trailed the Russell 3000 over the last five years. Their total account performance is 9.6%, which is down. Their equity growth is higher, but when you add cash in, the fund starts to trail. They did have a rough 2018, which affected their five-year performance. Another con is that SBH is expensive at 60 bps on 40% of the portfolio.

Recommendations/Action Items:

- Reduce the 40% to some other number and add numbers back to mutual fund where we pay 8 bps.
- We need net excess performance of Russell 3000.
- Work on fee and see if we can get a reduction from 60 bps.
- Take cash and move to stock fund or money market. Bill to discuss options with Derek at L&A. The board would like at least a month's worth accrued.
- Use cash to pay retirees. Would go direct from SBH to L&A.
- No need to do a full review of SBH.

MVT Five-Year Performance:

Full disclosure - Bill had been with MVT for 11 years, 3 years as a CEO. Left and thought it was non-controversial and on good terms, however it was not perceived that way.

MVT has 38% of the portfolio, most of it in fixed income.

Pros: Long tenure in John Mitchell. Shorter duration portfolio means they are assuming less interest rate risk, especially if interest rates rise.

Cons: Recent loss of staff. Bill mentioned himself; Emily Agosto and David Vaught from the Chicago office left in October & December 2018. Danielle Taylor and Amanda Vaught left in December 2018. Shorter than benchmark duration has hurt bond performance for a long time. MVT has not hit the benchmark in the last 16 years. For the last five years, performance is at 1.2 and the benchmark was 1.7, a loss of 50 pts. The overall performance has been good, but MVT no longer has the equities to manage that helped lift the overall performance. Another con are the fees. MVT is at 28 bps. SBH is at 20 for bonds.

Recommendation/Action Items:

- Bill to dollarize the loss in performance compared to the benchmark for the past 16 years.
- Consider doing an RFP.

Adelante Five-Year Performance:

Represents 0.8% of total portfolio. Difficult to move money out of a separate account. MVT gets 28 bps plus 87 bps for Adelante for 0.8% of the total portfolio.

Recommendation/Action Items:

- Consider moving to a mutual fund.
- Look to move to Conan Steers.
- Bill to do an RFI on Investments

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Invoice for Investment Consulting will come from Integrated Advisors Network, which is a national provider. Shields Capital is Bill's company that is a DBA as part of Integrated Advisors. Integrated Advisors provides compliance, research, customer service, and the technology/software that Bill uses to create the reports for the board. He pays a fee (comes out of his fee to the board).

The board is saving approximately \$1,600 per quarter by moving the mutual funds from MVT to Shields Capital and the board is getting consulting on top of it.

John made a motion to pay the invoice from Integrated Advisors Network in the amount of \$6,168.56 which is the consulting fee from Shields Capital, Scott 2nd. No Discussion.

A roll call vote was taken: Scott - yes, John - yes, Carl - yes, Mike - yes (4-0) Motion carries.

Other Business

Special Meeting minutes from 1/29/19.

John made a motion to accept the Special Session minutes from 1/29/19. Scott 2nd. No Discussion.

A roll call vote was taken: John - yes, Carl - yes, Scott - yes, Mike - yes (4-0) Motion carries.

IPPAC Conference

Chief Kilbourne will be attending and they are down a deputy chief, therefore Mike will stay at the department so someone is at the department.

Executive Session

Adjournment

John Galason made a motion to adjourn at 1:16 p.m., Scott 2nd

A roll call vote was taken: John - yes, Scott - yes, Carl - yes, Mike - yes (4-0) Motion carries.