

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
February 20, 2013

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, February 20, 2013, at 8:35 a.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 8:35 a.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President
Ronald Graw, Trustee
Michael White, Trustee
Chris Black, City Finance Director

ABSENT: Tracy Renfro, Secretary

STAFF: Ted Dutkiewicz
Linda Wlaznik, Pension Investment Accountant
Judi Yehling, Recording Secretary

GUESTS: Attorney Carolyn Clifford, Ottosen Britz
Mike Piotrowski, Marquette Associates
Chip Tatlow, Dimensional

PUBLIC COMMENT -- None

I. MINUTES

- The January 16th minutes were presented. Alan Granite made a motion to approve the minutes. Michael White seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Ronald Graw Chris Black

Nays: None

II. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Lynn Washburn-Livingston is eligible for her first increase. Her new monthly pension will be \$6,160.71/month or \$73,928.52 annually. Ronald Graw made a motion, seconded by Alan Granite, to approve the pension increase. A roll call vote was taken:

Ayes: Alan Granite Michael White
Ronald Graw Chris Black

Nays: None

III. DISBURSEMENTS

- Chris Black made a motion to approve the February payroll estimated at \$1,223,306.39. Michael White seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Ronald Graw Chris Black

Nays: None

- Invoices totaling \$70,899.44 were presented as shown in the attached warrant packet.

Michael White made a motion to approve the invoices as presented in the warrant packet. Ronald Graw seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
 Ronald Graw Chris Black

Nays: None

IV. CASH & INVESTMENTS

- Marquette Associates' Flash Report for January 31, 2013, was passed out to the Board by Mike Piotrowski.
 - Mike Piotrowski reported that the "markets have been very resilient." Bonds, however, have struggled; as interest rates rose and yields were up, bonds went down.
 - Risk did well and mid-cap stocks did the best with the S&P up 5.2% for the month. And today, Mike Piotrowski added, the markets were "off to a good start" at five-year highs – "good news" but things are "still tough."
 - Page 7 of the report shows the Fund at \$142 million. PIMCO was funded with \$3.5 million in December and \$10.5 million went to the Principal Property Fund in January, and we've "already seen some return."
 - Page 8 shows the Fund up 2.4% for the month. And while it has been a "tough" market for fixed income, U.S. equities are coming back with quality companies doing better versus risk.
 - On an individual basis:
 - PIMCO was up 1% for the month versus fixed income which was down. Mike Piotrowski commented that its performance was good for the Fund especially based upon where it was funded from (fixed income).
 - Hillswick was down by 90 basis points.
 - Fiduciary did better this month largely because of a greater turn to quality.
 - Montag & Caldwell, another high quality manager, has also done well the last three months and was up 8.3% over those three months. Based on this performance and if it continues, Marquette may be able to take Montag off "alert" status.
 - Both international fund managers did well over the last three months and were up 10%.
- Summarizing, Mike Piotrowski said he was cautious about equity valuations, and although we are "coming off a phenomenal year," we will see some pull-back. However, since the Fund is diversified, he thinks things will continue to improve. As far as the fiscal cliff/sequestration, Mike Piotrowski said there will, of course, be some cuts but all we can do is wait and see. The fact that the CPIU number is only 1.7% for next year just means an added challenge. It has "been a terrible month for bonds" but he doesn't see the trend continuing; there won't be significant negative returns, just really low ones.
- Chip Tatlow of Dimensional provided his report on performance of the International emerging markets fund that Dimensional manages for the Rockford Firefighters' Pension Fund:

- Page 3 provides an update of the firm's organization which is stable with \$206 billion under management and \$26 million in emerging markets. They have added some new employees and expanded with new offices in Tokyo and St. Croix which will help give them the ability to trade more quickly. They have also launched four new growth strategies in large cap, small cap and international large and small cap.
 - Page 4 provides a snapshot of Dimensional's allocations among the markets.
 - Dimensional is an academically driven investment fund which believes that the three dimensions of expected returns -- market, size and value -- are consistent around the world.
 - They believe that there is empirical evidence that ensures that premiums are pervasive and with deep value stocks this premium can't be timed and 2011 was a "difficult" year.
 - Page 10 describes their process for the ideal investment.
 - Pages 12 and 13 give snapshots of the emerging markets portfolio whose holdings are quite different from the benchmark. They hold 2,200 names across 17 countries targeting deep value stocks. In constructing the portfolio they attempt to hold the top 25% in each country. They put a country cap on the holdings of 15% but "bend a little" on South Korea and China. They start with stocks they want to exclude that don't meet their value criteria.
 - Page 20 gives a third-party trade cost analysis. Dimensional has a list of stocks they want to trade unlike their peers who are putting stocks in and out and paying for that sense of immediacy.
 - They tend to wait for emerging markets to develop like China whom they didn't add until 2006. They use the benchmark as a gauge and the big issue right now is South Korea.
 - Pages 22 and 23 show the performance of the portfolio. As of December 31, 2012, at one year the large cap growth was up 16.68%, small cap value was up 24%. Seven out of the last ten years they have outperformed the benchmark and in 2012 they did so by 1% net of fees.
 - In 2012 the large cap value stocks struggled and they generally underperformed in the large cap space but as of January 31, 2013, they are still outperforming the benchmark.
 - Tatlow's closing comment was that the Fund's entry point into the market was "painful." Mike Piotrowski followed up by saying that their process doesn't change. They focus on small cap value and have a very different style from other managers, and as a long-term investor, the Fund "has to weather the storm."
- Cash needs for the month are \$1,150,000. The recommendation is to split the amount needed taking 770,000 from Vanguard REIT Fund and \$380,000 from the Vanguard Institutional Index. Alan Granite made a motion, seconded by Michael White, to remove the amounts from the two funds as recommended to meet cash needs for the month. A roll call vote was taken:

Ayes: Alan Granite Michael White
 Ronald Graw Chris Black

Nays: None

- Ted Dutkiewicz passed out the financial report on the status of the Fund as of January 31, 2013:
 - The report showed total current market value of the Fund was \$142.48 million, up 2.014% year to date. The equity fund is up 17.772%, and fixed income is down 17.199% at 36.575% of the total Fund.

- Total annual return is at 33.47%; equity annual return is 213.27%, a fixed income annual return of -186.30%, and a total income return of 7.61%.

- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Michael White, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Michael White
 Ronald Graw Chris Black

Nays: None

V. OLD BUSINESS

- Chris Black is waiting on levy confirmation from the county. Attorney Clifford commented that the Illinois Department of Insurance announced that in 2013, it will not issuing a tax levy report, as it does not have the funds available in its budget to engage the actuarial services to produce the reports.
- Alan Granite reported the things have slowed down a bit as far as the membership updates are concerned but they are still “trickling in a bit.” Linda Wlaznik indicated that she has still heard nothing from the DOI.
- Linda Wlaznik Loretta Douglas is here for the DOI audit. The last audit was 10 years ago. She will be doing Fire and Police at the same time. Attorney Clifford said that the report will come in in draft form in approximately 6 to 9 months and the Board will have to review and respond in written form. There will be no final audit report until the Board’s comments are received. Once final, it will likely be available to the public on the website.
- Attorney Clifford addressed the Board on various items:
 - She reported that there is a disturbing advisory opinion from the DOI that was issued to a pension fund, indicating that the pension funds cannot hold ADRs and DOI will be “looking through” mutual funds to determine if the mutual funds contain ADRs – foreign companies that trade on the US exchange. Mike Piotrowski said he has no idea how the DOI would be able to enforce any strictures on the mutual fund holdings.
- Training:
 - Tracy Renfro is currently taking his required four-day, 32-hour training.

VI. NEW BUSINESS

- Lila Marsh, surviving spouse of Richard Marsh, passed away on February 15, 2013, and her pension will terminate. Michael White made a motion, seconded by Chris Black, to terminate the pension of Lila Marsh. A roll call vote was taken:

Ayes: Alan Granite Michael White
 Ronald Graw Chris Black

Nays: None

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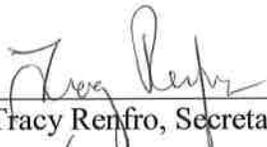
- **CLOSED MEETING** – None required.

VII. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 9:40 a.m.

Next regular meeting is March 20, 2013, at 8:30 a.m.

Signed:



Tracy Renfro, Secretary

3/20/13

Date

Prepared by:



Judith Yehling, Recording Secretary

3-20-13

Date

Approved by the Board of Trustees at its March 20, 2013, meeting

