

**MINUTES**  
**ROCKFORD FIREFIGHTERS' PENSION FUND**  
**November 20, 2013**

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, November 20, 2013, at 10:15 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 10:20 a.m. Upon a call of the roll, the following answered:

**ATTENDED:** Alan Granite, President  
Tracy Renfro, Secretary  
Chris Black, City Finance Director  
Jim Strey, Trustee  
Michael White, Trustee

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

**GUESTS:** Attorney Carolyn Clifford , Ottosen Britz  
Bladen Burns, Fiduciary Management, Inc.  
Mike Piotrowski & Eric Gaylord of  
Marquette Associates

**I. PUBLIC COMMENT -- None**

**II. MINUTES**

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

**Ayes:** Alan Granite Jim Strey  
Tracy Renfro Michael White  
Chris Black  
**Nays:** None

- The November 1<sup>st</sup> special meeting minutes were presented. Michael White made a motion to approve the minutes as presented and Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Jim Strey  
Tracy Renfro Michael White  
Chris Black  
**Nays:** None

**III. APPROVAL OF APPLICATIONS/PENSION CHANGES**

- The Firefighters' contract was settled, and according to that settlement agreement, those who retired since January 1, 2012, are due a lump sum payment retroactive to January 1, 2012. Alan Granite made a motion, seconded by Jim Strey, to approve the retroactive payments to the 14 individuals as outlined in the attached documents. A roll call vote was taken:

**Ayes:** Alan Granite Jim Strey  
Tracy Renfro Michael White  
Chris Black  
**Nays:** None

- Frank Fuca is retiring effective November 26, 2013, having served 28 years and 6 months at age 55. He is entitled to a monthly pension of \$5,676.28/month or an annual pension of \$68,115.32. Jim Strey made a motion, seconded by Tracy Renfro, to approve the application for pension. A roll call vote was taken:

**Ayes:** Alan Granite      Jim Strey  
           Tracy Renfro      Michael White  
           Chris Black

**Nays:**           None

- James Meyer is retiring effective November 11, 2013, having served 28 years and 8 months at age 54. He is entitled to a monthly pension of \$5,094.13/month or an annual pension of \$61,129.60. Jim Strey made a motion, seconded by Tracy Renfro, to approve the application for pension. A roll call vote was taken:

**Ayes:** Alan Granite      Jim Strey  
           Tracy Renfro      Michael White  
           Chris Black

**Nays:**           None

#### IV. DISBURSEMENTS

- Alan Granite made a motion to approve the November payroll of \$1,238,814.23. This included the retro payments as noted above. Tracy Renfro seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite      Jim Strey  
           Tracy Renfro      Michael White  
           Chris Black

**Nays:**           None

- Invoices totaling \$63,344.60 were presented as shown in the attached warrant packet. Michael White made a motion to approve the invoices as presented in the warrant packet. Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite      Jim Strey  
           Tracy Renfro      Michael White  
           Chris Black

**Nays:**           None

#### V. CASH & INVESTMENTS

- Bladen Burns presented Fiduciary Management Inc.’s report:
  - The portfolio is up close to 27% despite a very sluggish economy. “It’s been a great stock market recovery but an absolute terrible economic recovery.”
  - There’s a lot of excess liquidity “which has to go somewhere.”
  - Fiduciary has been managing small cap money for 34 years, and this is the most expensive they’ve ever seen the small cap market.
  - There are 33 companies in the portfolio today and 17% cash which was up to almost 27% a month and a half ago. This is symptomatic of the fact that there is very little out there to buy. In many cases they’ve had to sell the stock as it was just too expensive, and “we can’t find anything to buy.”

- Currently they've been "upgrading the quality of the portfolio" buying companies that will "do a reasonable job." It's just a very difficult market.
- If you need cash, "take it from us" Burns said.
- 2007 would have been the last time the cash holdings were this elevated but this happened because many of the companies were "taken away" – or acquired. Burns believes that the worst thing they could do would be to buy a company at an expensive evaluation or buy a sub-par business.
- The returns have been "terrific," and it's been "a great five years."
- Page 6 of the report looks at the portfolio from a dollar perspective. Initial investment was \$4.7 million; the Board has contributed \$5.6 million and taken away \$5.8 million so the net invested is a little over \$4.4 million. Today the portfolio 's market value is about \$15 million so in that five-year period Fiduciary has made just over \$11.5 million for the Fund.
- Bladen went over companies bought and sold recently.
- Fiduciary says that in general people seem to believe that stocks are reasonably priced since interest rates are low so getting even 2 to 3% on stocks is good. And the earnings outlook has not been good; all the earnings growth has come from buying back stock and cutting expenses. With valuations as high as they are, they've looked to buy companies that "are less susceptible to an economic downturn" to minimize risk, looking for higher quality coupled with cash to protect on the downside.
- Bladen said if the Board took just \$1.3 million in cash, they would be back into compliance (under 10% in cash) and they wouldn't rebalance.
- Fiduciary has come up with a wish list over the last few quarters if the valuations become cheaper but it's slow to happen.
- In conclusion Bladen called attention to their letter in the back which gives an overview of valuations, margins and companies in the portfolio.
- Mike Piotrowski summed up by saying "they're very honest" and they're more valuation sensitive than 95% of managers. They are out of compliance with the guidelines, and we're paying 90 basis points to manage cash. However, he would agree with Fiduciary that small caps are the richest area of the market but he thinks that large cap is fairly valued.
- Mike Piotrowski presented Marquette Associates' Flash Report for October 31, 2013:
  - September and October were phenomenal for stocks when the Fed decided not to pull away the stimulus, and the Fund is at an all-time high because of that.
  - Valuations are not as extended for large caps, and they would not recommend adding any additional monies to small or mid-cap managers. But future prospects of the bond market are "pretty dismal."
  - They believe the Fed will continue the stimulus for quite some time, probably into 2016. Marquette is, in their own words, more positive than Fiduciary of where the market is and will be. There is "a lot of free money out there."
  - Lately they have been more active, however, in re-visiting asset allocation. Want to look at it again at the end of the year, probably moving more to large cap and actively overweighting to international equities since the valuations are "so compelling."

- Overall Marquette doesn't foresee a "violent downturn" unless there's some macro event or the Fed withdraws all of a sudden. "You can make the case that stocks are going to do well."
- The Fund is at an all-time high (pg. 7) – almost \$152 million and overweight to equities. Worked well since bonds are down. The Fund overall is up 13% YTD, and the Fund is at 7.1% returns at ten years which is close the actuarial assumption.
- The US equity portfolio has really been the driver of returns. Currently, the Fund is overweight \$5 million to US equity.
- The performance of the individual fund managers was discussed:
  - In fixed income, bonds have had a nice month, up almost .75% and the fund is down less than the broad bond market. The index and Segall are less sensitive to interest rates which is good. PIMCO returned 1.6% significantly outperforming the traditional bond portfolio.
  - Fiduciary is, according to Mike Piotrowski, "a great group" if a little extreme in their views. He believes when the market does correct, they will do very, very well." They give an element of downside protection. They've managed to stay pretty close to the benchmark. Mike Piotrowski recommends that \$1 million should be taken out today and put into fixed income -- Hillswick. This will start the rebalancing process. Michael White made a motion to allocate \$1 million from Fiduciary to Hillswick. Chris Black seconded the motion. A roll call vote was taken:

**Ayes:**        Alan Granite        Chris Black  
                   Tracy Renfro        Michael White

**Absent:**     Jim Strey

**Nays:**        None

- Principal was added to the real estate composite with a year-to-date return of 10.9% which is 3% higher than the REIT portfolio. They are no longer accepting money into this fund. Commercial real estate has done very well.
- Mike Piotrowski advised that Segall Bryant has been looking to swap out partners to include additional employees' ownership in the company. The new private equity owner will actually own more of the company by revenue – 55% with management decisions split 50/50. It's kind of a unique situation but the Fund has not been officially notified. They'll be asking for the Board's approval which Mike Piotrowski recommends but no action is required today. They'll be presenting at next month's meeting.
- There were no cash needs for the month.
- Ted Dutkiewicz passed out the report on the status of the Fund as of September 30, 2013:
  - The report showed total current market value of the Fund was \$151.62 million, up 8.558% year to date. The equity fund is up 28.499%, and fixed income is down 15.755% at 34.969% of the total Fund.
  - Total annual return is at 15.32%; equity annual return is 33.23%, a fixed income annual return of -8.53%, and a total income return of 5.96%.
- Records of purchases and sales were distributed.

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

**Ayes:**        Alan Granite        Jim Strey

Tracy Renfro     Michael White  
Chris Black  
**Nays:**         None

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## VI. OLD BUSINESS

- Linda Wlaznik reported that we're still waiting for the response from DOI on the audit report.
- Actuarial report and the letter to City Council regarding the tax levy recommendation were discussed. Per Ted Dutkiewicz City Council is looking at the \$5,776,061 which should be what is stated in paragraph 2 of Attorney Clifford's letter in lieu of the \$6,672,686 which is the statutory minimum. Ted Dutkiewicz and Chris Black attempted to explain the levy and expense as there's always been a lag based on the year end. Per Attorney Clifford this is making more of a budget request and the \$6,672, 686 is what the City is budgeting.

What Attorney Clifford wants to communicate is that the Board recognizes that the City can meet the minimum statutory number but what the Board advocates as fiduciaries is using entry age normal at 100% funding. The SEC has identified PUC and 90% goal as structural underfunding. She also wants to point out that this could also affect the City's bond rating. Further discussion centered on what besides dialog the Board could put forward and develop as an action plan to present to City Council. At least with the change in the mortality table, "we're putting more money in without actually increasing the liability." Attorney Clifford said that when we get the DOI audit back the Fund "may get pegged for the year (the City) did not meet the minimum PUC" but this Fund would probably "go to the bottom of the pile" as there are many funds that have underfunded for many more years. Need to look for an opportunity to "have some kind of meaningful interaction about funding policies" in the next year. Per Chris Black the letter shouldn't say "based on the suggested actuarial amount" but could say that Mr. Sharpe noted that the levy is not consistent with GASB. As a result Mr. Sharpe prepared a separate actuarial calculation that is at the back of the report for purposes of the City's audit. Need to also take out the statement "would not be in compliance for reporting purposes." It was suggested that wording be added to say "the Board recognizes its fiduciary responsibility and feels that the most prudent thing would be to follow the entry age normal at 100% funding which would then translate into a levy of \$7,725 451." The big issue is the 90% versus the 100%.

Michael White made a motion, seconded by Tracy Renfro, to approve the tax levy as prepared by counsel subject to the amendments suggested by the Board to be reviewed prior to signing by the Board President. A roll call vote was taken:

**Ayes:**         Alan Granite     Jim Strey  
                  Tracy Renfro     Michael White  
                  Chris Black  
**Nays:**         None

- As a result of the death of former Board member Elden Raasch and submission of his death certificate, the Fund received a check for \$1.3 million against the annuity contract held by the Hartford. Ted Dutkiewicz verified by phone that this was indeed the correct death benefit as opposed to what was believed previously. The original investment was \$8 million in 1994 but the Fund was subsequently able to take out in excess of \$16 million to fund other investments. In addition there was a market value of about \$80,000 prior to Bill Robertson's death, and even with Elden's death, it's still at a value of between \$40,000 to \$50,000, with three annuitants still on record each at about \$1.3 million. The fund will have received about a \$25 million payout on an \$8 million investment.

- Discussion of the fiduciary liability policy was tabled until next month's meeting.
  - Meeting dates and times were discussed. Linda Wlaznik presented a "potential" schedule. The police board changed its schedule so we have to relook at the January 16<sup>th</sup> date; the police board is moving its meeting to January 21<sup>st</sup>, the following Tuesday. The Board agreed to set its meeting to January 21<sup>st</sup> also at 3:00 p.m. Alan Granite moved to accept the 2014 meeting schedule as attached with the exception of the January date being changed from the 16<sup>th</sup> to the 21<sup>st</sup> with all the meetings scheduled for 3:00 p.m. Jim Strey seconded the motion. A roll call vote was taken:

**Ayes:**        Alan Granite        Jim Strey  
                   Tracy Renfro        Michael White  
                   Chris Black

**Nays:**        None

- The affidavits are complete.

VII. **CLOSED MEETING** – None required.

VIII. **NEW BUSINESS** – None.

**IX. Training**

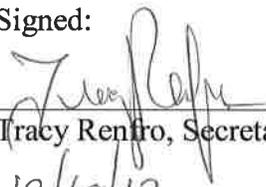
- Attorney Clifford provided information about the NIAFPD 2014 Conference at the Westin in Lombard.
- Verified that all except Tracy Renfro are up to date on their training requirements. Tracy needs 16 hours by April of next year.

**X. ADJOURNMENT**

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 12:17 p.m.

Next regular meeting is January 21, 2014, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary

12/18/13

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

*Approved by the Board of Trustees at its December 18, 2013, meeting.*