

**MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
December 18, 2013**

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, December 18, 2013, at 8:30 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 8:45 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
Greg Hosbein, Segal, Bryant & Hamill

Mike Piotrowski, Marquette Associates

I. PUBLIC COMMENT -- None

II. MINUTES

- The November 20th minutes were presented. Minutes were amended to remove Judi Yehling's name as being present at the meeting; she was absent for that meeting. Alan Granite made a motion to approve the minutes as amended, and Tracy Renfro 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 following is a list of 10 individuals who are retiring with their effective dates and other details:

Name	Effective Date	Age	Service Time	Monthly Pension	Annual Pension
Tony Spataro	1-3-14	57	33 yrs-11 mos.	\$5,305.01	\$63,660.14
Sabas Gomez	1-2-14	63	37yrs-20 days	\$5,305.01	\$63,660.14
Lindsay Pooley	1-2-14	53	28 yrs-9 mos.	\$5,083.97	\$61,007.63
Mark Marinaro	1-3-14	56	26 yrs-10 mos.	\$5,335.42	\$64,025.07
Roger Hominick	11-28-13	59	35 yrs-11 mos.	\$5,175.62	\$62,107.46
Donald Lund	11-28-13	56	26 yrs-5 mos.	\$4,694.30	\$56,331.64
Kenneth Ketton	11-30-13	55	35 yrs-1 mo.	\$5,175.62	\$62,107.46

Ron Plantz	11-28-13	63	28 yrs	\$4,830.58	\$57,966.96
Daniel Morse	11-27-13	61	32 yrs 11mos	\$5,481.45	\$65,777.39
Charles Martini	11-29-13	59	36 yrs 11 mos.	\$7,158.06	\$85,896.72

Alan Granite made a motion, seconded by Jim Strey, to approve the above 10 applications for pension. A roll call vote was taken:

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

IV. DISBURSEMENTS

- Tracy Renfro made a motion to approve the December payroll of \$1,275,058.58. Chris Black seconded the motion. A roll call vote was taken:

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

- A motion was made to give Judi Yehling a stipend of \$300.00 for secretarial services.

Jim Strey made a motion to approve the stipend as presented. 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 \$27,164.48 were presented as shown in the attached warrant packet. Tracy Renfro 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

- Greg Hosbein of Segal, Bryant & Hamill presented annual review:
 - Prior to beginning his report, Hosbein commented that this has been a very “difficult year for bond managers.”
 - Hosbein reported that Segal is in the process of “swapping out” their private equity investor after 19 years. The previous investor wanted some liquidity, and they are taking this opportunity to expand employee investment; five more employees will become owners. Thoma Bravo is the new investor. The Board was provided a letter of consent to sign and return.

- Currently Segal has \$9 billion under management and “things” continue to go well; assets are very stable. The response to the new investor has been positive.
- The company philosophy is to hold high quality, higher yield bonds with an objective of attaining above-market returns with less risk.
- With the addition of corporate bonds they have “kept up” in the third quarter but YTD they have trailed the market by 30 basis points.
- Page 5 shows that only the intermediate corporate bonds are doing well – up 0.5%; but what hurt was they didn’t own any banking bonds which were up.
- Page 6 compares the portfolio with the benchmark and they are underweighted to treasuries and overweighted to corporates.
- Page 7 provides the credit sector detail. Their goal is to create a broad, diversified portfolio focusing on hi-quality bonds. As of this report they are not in the financial sector of the market.
- Looking at the charts on page 8 one can see that the market was dominated by the fiscal stimulus.
- Page 9 charts show that hi-yield bonds are at record lows.
- On page 11, Hosbein pointed out, the shaded areas on the chart show when the Fed pulled back and this is when banks go down which is why they don’t own any.
- Page 21 indicates which sectors did best when the interest rates rise and on page 22 it shows that the best asset class was intermediate corporates which is where Segal is overweight.
- When asked about municipal bonds, Hosbein said that taxable munis, which Illinois allows, are extremely attractive.
- As far as what they see the market like for 2014, we need to get the economic growth to feed on itself if the Fed pulls back. They believe diversification is the key. In 2008 everyone was leveraged to the real estate market.
- Mike Piotrowski said that while their performance was disappointing, they offer long-term protection; they are as diversified as they can be and they have a good track record.
- Mike Piotrowski recommended that the Board approve the change per Segal’s letter of November 20, 2013. Alan Granite made a motion, seconded by Tracy Renfro, to consent to the letter of agreement. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
	Chris Black	
Nays:	None	
- Mike Piotrowski presented Marquette Associates’ Flash Report for November 30, 2013:
 - Bernake is speaking today about what the Fed plans to do, and we may see a reduction of the stimulus. Right now we’re experiencing some economic growth and inflation is low but unemployment is still high.
 - The Fund is up 1% for the month and 14% YTD.

- Performance of the Fund is solely dependent on what was held in equities, and it captured “a lot of the up side.” Things continue to go up and the Fund had a good year but Mike Piotrowski said he “wouldn’t bank on another 30% year.”
- Page 8 shows the international equities underperforming but Mike Piotrowski believes will see a benefit eventually. The portfolio has done almost 10% the last five years.
- Page 7 shows the allocations, with the Fund holding at least 35% in fixed income and cash so we definitely need to reallocate to back into balance with State statutes. The Fund is underweight to non-US equities but there is still a question as to what to do for next year. Marquette will do another asset allocation study, but not until early next year as they want to have the year-end data included.
- Mike Piotrowski commented that none of asset classes are really that attractive. However, the international markets and real estate are probably the best bet in terms of investment for next year; US equities could also perform pretty strongly as well. The bond market will continue to be challenging but unfortunately we have to have at least 35% there. As far as reallocation, depends a lot on what the Feds do.
- In discussing the real estate market, Mike Piotrowski said they see a 6-8% return for the next few years but there is a tremendous amount of demand and getting in is very limited.
- Mike Piotrowski was asked about the status of Montag & Caldwell. Mike Piotrowski said “they’ve had a good couple of months but they’re on a short leash.” If we go through a market where high quality is rewarded, it’s an environment where an active manager like Montag should do well. They are still on alert status.
- Ted Dutkiewicz handed out a report showing the Fund’s position as of November 30th and indicated that with the need to reallocate and cash needs of \$750,000, the recommendation is to put another \$2.5 million into fixed income taking most from the equity side. The proposal is to take \$1.5 million from Montag & Caldwell; \$750,000 from Vanguard which will be used to fund the \$750,000 for cash needs; and taking \$1 million out of the Institutional Index Fund to bring that back in line. The plan is to look again at the values at the end of next week to see if anything more needs to be done. If we do have to take more out of equities, it would be out of the Vanguard funds and leave it in cash or put it back into fixed income. The goal of the approved rebalancing was to stay away from PIMCO and Principal. The rationale to reallocating a little more to Segal Bryant than Hillswick was its exposure to corporate bonds and only a little to Northern as it’s a government index fund which “may not be going anywhere.” Michael White made a motion, seconded by Chris Black, to accept the rebalancing and reallocate the Fund as outlined in the proposal. A roll call vote was taken:

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

Nays: None

- Michael White made a second motion, seconded by Jim Strey, to authorize a second reallocation at the end of the year if required to get in compliance with State statutes. A roll call vote was taken:

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

Nays: None

- Ted Dutkiewicz passed out the report on the status of the Fund as of November 30, 2013:
 - The report showed total current market value of the Fund was \$152.31 million, up 9.055% year to date. The equity fund is up 29.271%, and fixed income is down 15.593% at 34.877% of the total Fund.
 - Total annual return is at 15.11%; equity annual return is 31.05%, a fixed income annual return of -6.27%, and a total income return of 5.68%.

- Records of purchases and sales were distributed.

Alan Granite 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

VI. OLD BUSINESS

- Linda Wlaznik the DOI audit report is “in progress.”
- Attorney Clifford indicated she had no further updates on the fiduciary liability policy and is still waiting for another quote. Ted Dutkiewicz said the current policy has been renewed with an increase.

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS

- Attorney Clifford brought an alleged “QILDRO” up for discussion which was raised by a potential retiree whose divorced spouse filed what at the time was not really a QILDRO in March of 1999 since the law was not enacted until July of 1999. The document doesn’t meet the statute, and the firefighter in question decided not to retire at this time. The “right” QILDRO documents need to be sent to the person who originally filed and presented them to the Fund, and then someone needs to contact the ex-spouse. Attorney Clifford’s recommendation is for the Board to decline the document as presented. The amount may be correct in terms of what the parties agreed to in the context of the divorce decree but it was prepared before the QILDRO law it was in effect. The QILDRO law has statutory forms that then need to be signed by a judge and certified by the court.

Michael White made a motion, seconded by Tracy Renfro, to reject the “QILDRO” as submitted by Aleck Rinaldo, as it doesn’t meet the statutory standard and definition of a QILDRO. A roll call vote was taken:

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

Nays: None

- Attorney Clifford brought several other matters before the Board:
 - Memos written by the City of Naperville finance director which analyzed its progressive pension funding were presented as an example to possibly use in future discussion with the City of Rockford.

- Senate Bill No. 1 on pension funding has been signed by the Governor and becomes effective June 1, 2014. One provision reworked how the State funds its pension funds – no longer will the State of Illinois be using PUC and there will be 100% funding phased in by 2016. Although there will be litigation challenging this statute, Attorney Clifford believes that this portion may survive and eventually be applied to Article 3 and 4 funds. Most likely the court challenge will take at least two years. There was a lengthy discussion held on the provisions and effects. In any case, it doesn't affect IMRF or Article 3 and 4 funds and everything will be on hold to see if it survives the constitutional challenge. This will probably be a three- to four-year process.
- A firefighter who worked for two years for the Village of Buffalo Grove Fire Department and 10 years here, has asked about the buy-back provisions. He cashed out and would have to repay those contributions with 6% interest for all the years he's been gone and he would owe Rockford for all the years he's been here plus 6% interest. The firefighter in question can e-mail Linda Wlaznik to find out the payment.
- Question was raised about providing annual statements of contributions to the active firefighters like what had been done in the past. Linda Wlaznik said anyone could just e-mail or call her to get their status.
- Discussed taxability of a disability pension if you've been on that pension for 30 years. If it's not a duty disability pension, it's fully taxable. If it's duty, then 65% is non-taxable. If it's a duty disability pension, you can apply to have the health benefits for the retiree and their spouse paid for at 100%.

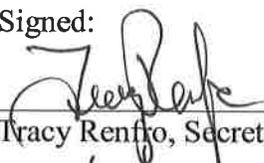
IX. Training

- Tracy Renfro said that he still needs to sign up for training, and Attorney Clifford mentioned once again the NIAFPD 2014 Conference at the Westin in Lombard.

X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 10:25 a.m.
 Next regular meeting is January 21, 2014, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary

1/21/14

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its January 21, 2014, meeting.