Minutes
Village of Glen Ellyn
Police Pension Fund
Special Meeting
Tuesday, May 31, 2016
6:00 PM
Glen Ellyn Civic Center, Room 301

A. Call to Order

Attendee Name	Title	Status
John Kenwood	Trustee Liaison	Absent
John Adduci	Board Member	Present
Anthony Terranova	Board Member	Present
Bill Housey	Board Member	Present
Jim Monson	Board Member	Present
Jim Mullany	Board Member	Present

Others Present: Finance Director Christina Coyle, Finance Commission Chair Erik Ford, Recording Secretary Karen Blake

B. Public Comment (Non Agenda Items)

None.

C. Investment Consultant Presentations

STRATEGIC CAPITAL INVESTMENT ADVISORS

Daniel Gross started the presentation by noting that although the firm has no Article 3 or 4 clients at this time, they have been managing ERISA funds in that way for several years, bringing this expertise to the marketplace and being committed to it.

Jeff Kuchta said that he reviewed the Glen Ellyn pension plans and the past performance. Their presentation suggested that the fund has been underperforming by not investing in investments allowed by law, and by using the current asset allocation. The analysis shows that this situation may have cost the fund in the past five years. As of now, 55% of total assets can be invested in equities. One real estate equity fund is eligible for investment and is stable and diverse with commercial, hotels and residential properties. He encouraged staff to contact their clients to confirm the figures. The presenters went into detail on their view of how the pension fund assets could be invested for potential greater return. Strategic' s conclusion was that when the Code allows for more diversification, the fund investments should take advantage.

There was discussion concerning philosophy of managing, and the consensus was that if a manager is to be paid, the returns should be better than benchmarks. There was also discussion concerning individual bond purchases. Mr. Gross said that their bond managers have demonstrated ability to add modest value relative to the Barclay's index, net of fees.

There was discussion concerning triggers for selling and rebalancing protocols. Specifically for real estate, the asset class is very conservative, with commercial real estate having 80% equity to 20% debt. Board Member Housey asked about the point when it is apparent something is not working. The answers were that for real estate, it would be the debt cost; for yields, an increase in interest rates. There was also discussion concerning how it is determined to let a manager go. Strategic has systems to track performance and models that show a trend of quarterly performance, including returns and rankings. The systems alert to performance issues.

Richard Weikal described Strategic Capital. The firm does not directly manage assets. Their fees come from their clients, not the investment portfolio. The firm analyzes asset allocation and performance, and provides monthly reports, reconciles custodian fees and generally makes sure everyone is doing their job. The Asset Change report shows how funds are realized to pay out pensions, changes in investments and what is above and below benchmarks. The annualized fees are reported, and performance is analyzed net of fees.

Board Member Terranova asked if the firm would have to create new relationships as it breaks into the public sector. Mr. Gross said that they expect to be able to work with the managers they are currently using. For example, the fixed income managers are already using investment grade products. The firm has been working to break into the public sector for about 1 ½ years. The firm is offering their fees at a discount as they are new to the public pension market, and will be offered to their first few public sector clients. Although Glen Ellyn would be the firm's first client in this marketplace, the firm feels the public sector is very attractive over the long run, and many municipalities need its type of service.

THE BOGDAHN GROUP

The Bogdahn Group was represented by Mary Nye and Howard Pohl. Ms. Nye said that the relation between the Board, the Fund and the Consultant affects retirees, future retirees and their families. The bulk of their clients are public fund clients and over 200 are police and fire clients. Consulting is all this firm does, and it does not sell products. The firm customizes its approach for each client, i.e., how risk averse it is. They have many recommendations for the Glen Ellyn fund.

The firm's analysis suggested that the Glen Ellyn performance was average last year, and a below average performance when compared nationally. For Glen Ellyn, the firm might recommend increasing the equity portfolio to 65%, which would include 5%-10% in real estate, for which one insurance company has an eligible real estate fund.

In answer to questions, Ms. Nye said that the firm tends to be conservative, and on a short-term basis, can fall a bit above or below the median. One a manager is found that they like, the firm will stick with them in the long term as long as the managers can explain temporary underperformance. Their philosophy is to be proactive; for example, since bonds will deteriorate as interest rates increase, they have been recommending slowly getting out of bonds. In response to a question, it was noted that some clients have a standing letter of direction for the amount that needs to be taken out of the fund in each quarter. As an alternative, the firm may look at where the fund is overweighted, and take the required funds from that area.

There was discussion concerning possible recommendations for the Glen Ellyn portfolio. Regarding EFTs versus index funds, the recommendation would be to engage a fixed income ladder manager to identify index funds with less cost. Large cap equities would be in an index fund, and mid-small cap investments would be in a core or index fund. A developed market manager could be engaged for international exposure. There was also discussion concerning fixed income managers, who would manage around a benchmark set by the client. Mr. Pohl noted that the firm looks for good managers, and not necessarily high or low fees.

The firm's fee would be $30,000 annually, including all consulting services. They have a one-year money back guarantee. There are eight people in the Chicago office, and the balance of the research staff would be in Orlando. There would be a dedicated team, and the Director of Research is based in Chicago.

Finance Committee Chair Ford asked what Ms. Nye and Mr. Pohl would recommend for an actuarial assumption under Illinois statute. If the time frame is 40 years, they would be comfortable with 7.5%, but if the time frame is only 10 years, that would be problematic. Because the fixed income is so low, the balance of the portfolio cannot make up the difference. Salaries and earnings have to be looked at together. It was noted that the salary assumptions for Glen Ellyn would be based on the labor contract. Finance Director Coyle said that the actuarial assumption is based on 40 years. However, it was pointed out that each year that a 7.5% return rate is not achieved, the funding falls further behind.

NEXT STEPS:

June 21, 2016 is the next special meeting, at which the Board members will receive the final presentation. At that time, the Board can make a decision or do it at a separate meeting.
There was discussion concerning both firms' assessments of the current investment portfolio. The consensus in the industry seems to be that the Fund is paying more than is readily apparent. Board Members said that the current portfolio is sensitive to short term fluctuations. There appears to be an efficiency gains with larger managers.

D. Other Business

None.

E. Adjournment

1. Motion to Adjourn

RESULT:	**APPROVED [UNANIMOUS]**
MOVER:	Jim Mullany, Board Member
SECONDER:	Anthony Terranova, Board Member
AYES:	Adduci, Terranova, Housey, Monson, Mullany
EXCUSED:	Solomon