

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801



URBANA POLICE PENSION FUND

Approved Minutes

January 14, 1992

Present: Elmo Denniston, President
Melvin Schwartz, Vice President
Steve Royal, Member at Large
Ron Eldridge, Comptroller
J. Dobrovolny, Attorney for the Pension Board
Dennis Belcher, Shearson Lehman
John McClure, Madison Investments

Absent: Marla Becker
Jim Wuersch, Secretary

The meeting was called to order by President Denniston at 10:05 a.m.

E. Denniston explained that J. Wuersch has an application of membership to the Fund and will bring it to the Board members residence for approval.

Policy Statement-Certificates of Deposit: The change that has been requested "domiciled in the City of Urbana" to "with a branch office in the City of Urbana" has been made in the investment policy. If acceptable, D. Belcher requested the Board to take a formal action to make the change in the policy statement. M. Schwartz made the motion for approval, S. Royal seconded; motion passed.

Current Maturities: D. Belcher stated that a lot of the CDs have matured (3 in January). We now have \$140,000 in local CDs; D. Belcher isn't sure how much cash is on-hand. R. Eldridge stated that he has talked to J. Wuersch about the CD at Central Illinois Bank and he was going to suggest that it be rolled over; the one year CD rate they quoted is 5.4%. R. Eldridge wouldn't recommend going beyond one year; J. McClure also feels that the rates are going to be going back up this year and he would rather go with a six month CD; however, since it is not 50% of the portfolio, he doesn't have a problem with a one year CD. M. Schwartz motioned to roll the CD over; S. Royal seconded it. R. Eldridge will draw out the interest and roll over \$95,000 principal, which will then mature again close to \$100,000 and he will do it this date.

R. Eldridge is further recommending American Savings Bank; they quoted 5.117 simple, to compound at 5 1/4%. We don't currently

have a CD there; their asset ratio is 1.67 and it has stayed the same for the last couple of years. Busey is trying to acquire it and the insurance will stay the same if you buy the CD before they merge.

R. Eldridge stated that Heartland, Champion, and Marine are the only other three institutions that we do not have CDs. Marine is not now interested in bidding; Champion and Heartland are in a slightly negative position (their liabilities are greater than their assets). R. Eldridge has no problem with investing below the insurance; however the Board has indicated in the past that they are not interested in doing this and he doesn't have a problem with this. R. Eldridge stated that in examining the list, the Board will see that we are basically out of the CD business, with the exception of Champion and Mutual.

Heartland (\$80,000) has been cashed in, plus the \$65,000 from Olympic.

Motion by M. Schwartz to buy as much as we can, up to \$90,000, at the 5.117 rate, at American Savings. Motion seconded by S. Royal and passed. R. Eldridge will take care of the paperwork.

Motion by S. Royal to accept the new offer from Shearson Lehman re: lowering the investment fee from 3/4 of 1% to 1/4 of 1%. M. Schwartz seconded motion and passed.

Manager Questionnaire:

D. Belcher discussed the investment manager questionnaire.

Madison: In reference to Madison, when they were initially selected, they were handling \$344 million in total accounts; they are now handling \$675 million, a sharp increase. They have added personnel to handle this growth.

Since inception in April 91, net gain of \$578,000, compounded rate of return is at 12.60 after all fees and expenses (including Shearson fees).

CIMG: CIMG's response was that they are currently handling \$65 million, when they were here before they were handling approximately \$120 million. Their decline is attributed to their business with First Intersate Bank, they were that Bank's trust department. The bank was bought out and brought the money in-house. He will check into this further.

Since inception in April 1991, net gain of \$454,000; they missed the move to down trend of interest we have had, rate of return is 10.41%.

D. Belcher stated that a long-term viewpoint should be looked at in regard to these two managers. CIMG has a good track record but missed a significant move in the bond market.

Attorney General's Opinion Letter: An information letter from the attorney general was received this last summer, which the Department of Insurance stated that they do not have to follow. (The Dept. of Insurance does not have to follow a formal letter from the attorney general, as it is an opinion.) The Illinois Attorney General has agreed with all the attorneys in that the Dept. of Insurance has been incorrect in their posturing in the use of investment advisors to handle fixed income accounts for police; and they have also been incorrect in their interpretation of custody. The state law allows the use of professional custodians rather than physically hold the bonds in a safe. The requirements of the custody is that the Board has to instruct the City Treasurer to use a custodian. As long as it is done in that manner, it is quite clean and in accordance with state law.

John McClure, Madison Investments, made his presentation to the Board regarding the quarter and year-to-date.

There being no further items before the Board, the meeting adjourned.

Respectfully submitted,

Karen R. Snyder

Karen R. Snyder
Recording Secretary

URBANA POLICE PENSION FUND

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URBANA POLICE PENSION FUND

Approved Minutes

April 27, 1992

Present: Elmo Denniston, President
Melvin Schwartz, Vice President
Jim Wuersch, Secretary
Marla Becker, Member at Large
Dennis Belcher, Shearson Lehman
Ron Eldridge, Comptroller

Absent: Steve Royal, Asst. Secretary

Minutes of the meeting of January 14, 1992, was approved by M. Schwartz; seconded by J. Wuersch, motion carried.

D. Belcher's Report: D. Belcher reviewed the Quarterly Monitor on the Madison account; history since two years ago, the account totals to about 1/2 million dollars. In the last quarter, the account was down about \$73,000, as we have had some higher interest rates and lower bond prices come in during the first quarter. The percentage return is -2% due to treasury bonds being down a quarter of a percent. Madison has done a very good job last year, catching the falling interest rates very well. As we've encountered a backup of interest rates in the first quarter, that account has come down a fair amount.

Ron Eldridge questioned D. Belcher since the inception of the account, what have they have earned compared to what treasury bonds have done in that same period. D. Belcher stated that the amount would be slightly less than what the treasury bond returns have been; on an after cost basis, it gets a little tough to hit the treasury bond index, with an average maturity of seven years.

D. Belcher will drop a note to R. Eldridge on how have they done since we started the account, v. the inception of the year.

In the last quarter, CIMG has picked up a lot of ground. Their return was \$448,000, which is about \$17,000 less than what Madison has been, but has closed the gap a lot in the last quarter. Most of that closing of the performance gap came about in the current quarter when this account was only down about \$6,000. This occurred because they have a shorter maturity structure within the portfolio. The average maturity in the CIMG account is 2.6 years v. Madison of 5.3 years. The

difference occurs when you have shorter maturities and rising interest rates. Madison would like to shorten their maturities; CIMG would like to get their maturity out a little bit, picking up some yield for the account to about 3-3.25 years. CIMG had a negative return, break even point, of $-.18\%$; their previous quarter was 3.5% ; over the trailing twelve months it was 8.25% v. the Madison account of 8.55% . CIMG missed the interest rate rally in 1991; but they didn't try to play catch-up by compounding the mistake and the market has come back to them. The performance of both accounts are quite satisfactory per D. Belcher.

Custodial Account: Question by E. Denniston that accounts were less than the month before. D. Belcher stated that this was a result in the change of interest rates. He reviewed page 8 with the Board re: bonds.

Trades During the Quarter: In June, Madison sold \$150,000 of short-term treasuries and realized a book gain of \$7,800. They bought \$520,000 of bonds in mid-January, maturing in 2001.

CIMG had \$100,000 of treasuries mature in February; they sold 1/4 of a million of treasuries in January with a realized gain of the sale of \$7,400. CIMG had two purchases during the quarter of \$400,000, due in 1995 (purchased 031292); and \$300,000 worth of treasuries maturing in 1997 (purchased 032792).

Change in CIMG: CIMG consists of a core group of key people: Lou Chambers and Kathy Mallhall. D. Belcher has found that Kathy has left. He has always been impressed with Kathy; she is 41, had been founded with CIMG since 1983; she has worked with Lou Chambers since the late 70's-80's. She is single, dedicated and sharp. Her reason for leaving came about by accident, but given the opportunity, she decided to take a job in a major regional bank trust operation. Kathy left three weeks ago; however, the loss in the last quarter is not an effect of her departure. D. Belcher asked for the Board's feelings about this change. Their concern is the loss of accounts CIMG has encountered; Lou Chambers has no back-up person; and questioned their history and its effects. M. Schwartz is concerned with the pension dollars stability at CIMG.

D. Belcher consulted with his staff; and his recommendation is that they should be replaced. Shearson also has a Due Diligence Staff, which is based on investment managers around the country that they periodically visit, investigate with a score card system based on 5 being the highest. Shearson likes to use those rated from 3.5-5. At the request of D. Belcher, this Staff did a follow-up of CIMG. They are concerned about the high personnel turnover within the last couple of years. D. Belcher stated that L. Chambers called him Friday morning regarding Kathy's departure; and D. Belcher had talked to Kathy Thursday afternoon. Since CIMG has become too small, their continuity is in question, they won't be on the Staff's list. D. Belcher needs a minimum of

a month to come back with potential replacements; CIMG will be notified when a decision is reached. Since CIMG has limits, the Fund is not in danger of having assets disappear; each trade will be reviewed; there are not a lot of short term risks. M. Schwartz moved to have D. Belcher investigate new investment managers and to report back to the Board by May 26, 1992. Seconded by J. Wuersch; motion carried. If something may develop, D. Belcher shall notify the Board immediately. The next meeting will be Tuesday, May 26, 1992 at 1:30 p.m. at the City Building for this discussion.

Cash Flow Between Meetings: Two local CDs were purchased as a result of the last meeting. The rates were better locally than they were as a whole, nationally. It has been deemed that the operation fund is at \$100,000 in a money market account. Funds are transferred every month to the checking account. Currently, there is \$430,000 in the money market account. R. Eldridge's understanding that all excess money be immediately transferred to Shearson and if the Board wants to buy local CDs, it has to have the Board's approval. M. Becker questioned if J. Wuersch has time to track the interest rates; J. Wuersch stated that he talks to R. Eldridge about the interest rates. It is the understanding that the excess cash that builds up between meetings, J. Wuersch is authorized to transfer that money to Shearson to split between the two managers.

Local CDs: R. Eldridge stated that Mutual Home Savings is a strong savings and loan; it has a ratio of 9.0; it has been rated as an A for the last two years. We can withdraw the interest, it is earning 8.15% and matures in November. R. Eldridge recommends keeping the CD there.

R. Eldridge looked into the other three Urbana institutions that the Fund does not have funds in. They are First Federal, Bank One, and Heartland. First Federal has a strong ratio of 11.45% and rated as B+, staying the same rating over the last three years. Their quote of a one year CD is 4.20%. R. Eldridge called Hilliard Lyons and A.G. Edwards and their national average is 4.30%, which is substantially different than D. Belcher's 4.85%. Bank One has a ratio of 6.48% and rated as B, steady over the last three years; their rate is 4.21%. Heartland is still in a negative ratio: 1.66%; they're looking for investors; they are rated an E, which is the lowest they can have; and it has been this way over the last three years. Heartland's quote is higher at 4.75%. E. Denniston, M. Becker, and J. Wuersch don't see a problem investing in Heartland, as long as it stays under the \$100,000 amount. R. Eldridge recommended the investment of \$92,000. Motion carried by three votes; opposing vote was M. Schwartz.

City Attorney: It is by direction of the City Attorney that the Minutes be approved by the Board. Until approval, the Minutes will note **Unapproved** until the Board's approval. Notice of the meetings will be sent to the media.

John Fyffe: John Fyffe has requested his reimbursement of \$5,513.14 for monies he paid into the Fund, which resulted in \$5,863.45. The difference is that he was given a large check for comp time that pension was taken out.

Annual Police Fund Association Conference: The conference will be held in September in Moline, Illinois.

Dr. Ohlstrom: He is a diplomat in forensic psychology and can be contacted for psychological evaluations/hearings.

New Members: Dan Morgan was approved previously, though not signed by the Board until now. David Genenz and Kimberly Stain's application was also presented. Motion by M. Schwartz for approval, seconded by M. Becker, and carried.

Possible Disability: Mike Dennemann may be filing for disability. He is just short of 20 years and has a knee injury. Once workmen's comp has been initiated and he applies for disability, he still has the workmens comp for a year with the City. J. Wuersch questioned if pension could be put on hold for a year. R. Eldridge's understanding is that you can only draw workers comp if you are still an employee of the City. When you apply and are awarded the pension, you cease to become an employee. E. Denniston stated that in the case of R. Elliott, pension benefits were not to start until workmens comp ended. Both pension and workers comp cannot be drawn at the same time. It was the consensus that application can be made while on workers comp; and the disability pension can begin when workers comp ends.

Annual Physicals: In reference to Jim Teague's psychological yearly evaluation, J. Wuersch stated that he was evaluated by a Bloomington psychologist before. J. Wuersch is going to try to get him evaluated by someone he has seen before.

Transaction Sheet: M. Schwartz questioned payment to the City of Urbana in the amount of \$215. J. Wuersch stated that this is for retired employees health insurance benefits. It comes out of their checks and the City is written a second check for this.

Duties of D. Colbert's services were discussed. R. Eldridge stated that if D. Colbert's office ever decided not to do the Pension Fund work, that the City could provide this service.

Board Term: M. Schwartz's term expires next month; but he is willing to serve again by the Mayor's reappointment. R. Eldridge will contact the Mayor regarding M. Schwartz's reappointment.

M. Becker will be moving outside of the City limits in about six months (S. of St. Joseph) and questioned her term. R. Eldridge

will talk to the Mayor about this if the requirement to live in the City is required by law or by the Mayor's policy. M. Becker's term expires 053192.

Audit Report: Distributed by R. Eldridge and reviewed. It is sent into the Department of Insurance, as required by law. It will be reviewed by the Board and comments can be made at the next meeting.

AIDS Screening: R. Eldridge questioned if new police officers are screened for AIDS; J. Wuersch stated that he believes they do test for initial entrance into the Pension Fund. J. Wuersch will follow-up to see that this is being conducted.

There being no further items before the Board, the meeting was adjourned.

Respectfully submitted,

Karen R. Snyder
Karen R. Snyder
Recording Secretary

URBANA POLICE PENSION FUND

Unapproved Minutes

May 26, 1992 1:30 p.m.

Present: Elmo Denniston, President
Melvin Schwartz, Vice President
Jim Wuersch, Secretary
Steve Royal, Asst. Secretary
Marla Becker, Member at Large
Dennis Belcher, Shearson Lehman
Ron Eldridge, Comptroller
Jim Dobrovolny, Attorney for the Pension Board
Representatives from Hamilton Allen & Associates
Representatives from C. S. McKee

Motion to approve the Minutes of the meeting of April 27, 1992 by M. Schwartz, seconded by J. Wuersch; the Minutes were unanimously approved.

Background on the Investment Manager Search: Introduction by D. Belcher on how the search was conducted. He stated that he utilized the firm's data base of over 600 investment managers. They used the following criteria to narrow down the selection: expertise in government bond portfolios, a track record of at least five years, and the National Visit List score. Information was provided for distribution to the members. The purpose of this information is to give some sense of the personnel, how successful they are in running the business of managing money, continuity, to see if they really are as successful, rigorous in the day-to-day internal operations as they are simply making investment decisions. Both of these managers, along with the existing manager, score quite highly on that national visit list score. This was an important part of the criteria used in coming down to the two finalists. In effect, there were seven finalists; D. Belcher and his partner, John, went through each of the seven finalists, reviewed their own file, talked to people. Through this process, the cream of the crop was recognized.

Performance: Performance numbers were examined from 1985-87 (3 yr. period); then the same longer term period was broken down in a second three year period. In looking at the performance, there was a tendency of who had the best performance in the first three year period to have slightly less than best performance in the second three year period. Conversely, those managers who had missed a beat in the first three year period, across the board, became stronger in performance in the second three year period.

Both of these candidates are very qualified. Their performance is important, but not at this stage. They are both well-qualified to do the job.

Cost: Both managers, at the level we are at, quoted a basis cost of 50 basis points a year/one-half a point. What D. Belcher stated to these two companies was that the manager they are replacing was at 40 basis points and what do they want him to show them at; both of them agreed to 40 basis points, which is a reasonable level.

Presentations: Both of the companies made their presentations for the Board.

Board Evaluation of the Investment Managers: J. Dobrovolny stated that McKee appears to be a more aggressive investment manager. The past two managers differed in philosophy (CIMG & Madison). M. Schwartz stated that McKee wants to get in the Illinois market, which would be a positive selling point for them because they will try their best in performance.

D. Belcher stated that the traits needed in presentation and public speaker are not necessarily the same traits that make a good investment manager. The two shouldn't be confused.

D. Belcher stated that McKee in qualitative scores (people, judgmental scores is a 4/5); Hamilton has two 3's which is information/investment process, which is "where their lines of authority and decision making process fit with the compensation policies of the fund". (Hamilton is weak; McKee is stronger in this area.) The other weakness upon Hamilton is the extent of portfolio manager discretion/to correct performance dispersion; accounts that have different portfolios that don't do exactly the same performance in a quarter. Hamilton has a committee that makes the decision which results in the portfolios being a little more scattered out. In Hugo's case (McKee), he makes the decision and makes sure it is done; thus, they have a cleaner, crisper line which is why they are ranked more highly.

In looking at business evaluation, which is the firm's ability to manage its business, the ability to charge competitive fees while maintaining a high, professional standard is critical to the long-term success of the firm. As far as running the overall business, McKee is coming out much stronger; Hamilton is scoring more highly because of their recent performance. D. Belcher stated that the National Visit List score is significantly in favor of McKee; and the investment philosophy of the Board is that Madison is a very risk strategy; Hamilton combined with them becomes difficult to make money. C.S. McKee with Hamilton would make sense; but to use Madison with Hamilton is a little bit of overkill. He feels that if you want different styles, it's really McKee with Madison. John, D. Belcher's partner, ran the quarterly performance; however, there wasn't any information to quantify. D. Belcher feels that McKee would be the better choice, because of the National Visit List score and their investment philosophy matches better with Madison.

Termination of CIMG-Police Pension Board: J. Wuersch motioned that the Investment Advisory Agreement between the City of Urbana Police Pension Board and CIMG be terminated on June 15, 1992. Seconded by E. Denniston; motion passed unanimously.

Agreement with C. S. McKee and the Police Pension Board: M. Schwartz motioned that the Pension Board President and Secretary sign the necessary paperwork to enter into an Investment Advisory Agreement with C. S. McKee, effective June 15, 1992. Seconded by S. Royal; motion passed unanimously.

J. Dobrovolny stated that he reviewed the Contract by McKee; he stated that it is not as detailed as what we are already using; but he feels that it is broad enough to do what the Board wants them to do. The contract with Hamilton had some details that needed to be changed; however, he did not feel that it would be a problem getting them changed. He will review the contract with McKee again and with D. Belcher.

Department of Insurance: D. Belcher stated that the Department of Insurance has taken the position that they do not have the time, nor the resources, to verify each individual stock with the portfolio. So, as long as they have some prospectus documentation that some attempt is made to avoid companies doing business with S. Africa is that it is okay. D. Belcher suggests that the Board have a letter from the Department of Insurance signing off on this particular product that it meets with the requirements of the Code. D. Belcher will follow-up regarding this.

Custody Issue: D. Belcher stated the City of Rockford sued the Department of Insurance over using professional custodians. The Attorney General's office refused to even take the case to court by simply stating that they will sign an agreement as soon as the attorneys figure it out. The agreement has been signed and entered into the court of records. The Department of Insurance seems to be selecting Funds that have money market funds. D. Belcher will be working on this and will follow-up with the Board.

Follow-up Physicals: Annual physicals are in the process of being scheduled. The psychological physical will be scheduled in Normal.

File Cabinet: J. Wuersch stated that space has run out in the current file cabinet; and he would like authorization to purchase another fire-proof file cabinet. Motion by M. Schwartz for such purchase; seconded by M. Becker; motion passed unanimously.

There being no further business before the Board, the meeting adjourned.

Respectfully submitted,

Karen Snyder, Recording Secretary