URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

February 23, 1994, 9:45 a.m.
Urbana City Building - Conference Room

Present: Elmo Denniston, President
Jim Wuersch, Secretary
Steve Royal, Asst. Secretary
Melvin Schwartz
Jack Dianis

Others
Present: Ron Eldridge, Comptroller
Dennis Belcher, Smith Barney Shearson

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1. New Applicants: Adam Chacone's application was signed by the Board and approved. Motion by J. Wuersch that Adam Chacone be accepted to the Urbana Police Pension Fund, seconded by M. Schwartz, motion carried unanimously.

2. Board Liability Insurance: J. Dobrovolny forwarded information to E. Denniston re: officers and director's liability insurance coverage for police pension trustees which states that they are covered under the City's blanket insurance policy for liability. R. Eldridge questioned this statement and stated that he wrote the letter on behalf of the City which stated that they weren't covered, that there's specific exclusion in the policy for "benefits and those type of personnel matters". He recalled, in the past, that the Board bought a separate insurance for this coverage; he didn't recall the cost (early, mid-80's), and then the law changed and made it a lot more difficult for the Board to be sued. He doesn't believe we've had any since then. E. Denniston stated that an insurance representative from Insurance Risk Managers attended one meeting but he was not aware of any such coverage. R. Eldridge stated the representative was Roger Peterson and he checked into it and found that it was very difficult to get (late 80's) and based on his difficulty in finding it and what J. Dobrovolny was telling us about (the ability to be sued), R. Eldridge felt that it was not pursued at that point. E. Denniston stated that he didn't get a copy of R. Eldridge's reply to J. Dobrovolny, nor did J. Wuersch.

   R. Edridge stated that what the City has is a bond for theft of money but not an officers' liability fund, which his letter was addressing. D. Belcher stated that his understanding is that other Boards tried to cover the theft problem, which isn't a big problem, but the fiduciary liability is coverage nobody is really finding. R. Eldridge stated that he will ask R. Peterson to follow-up on it to see if he can find more information.

   E. Denniston retracted his statement about the Board's coverage. R.

Eldridge stated that the Board should ask J. Dobrovolny about what the odds are of the Board being sued; J. Wuersch questioned that the Board's risks may escalate under the current circumstances with ADA applications; D. Belcher stated that the risk comes from not following proper procedures, not decisions, the key is to stay in the procedures and insure that they show up in the Minutes. R. Edridge inquired if it states in our policies where some individual was suing a Board member. As part of the Board duties, will the Fund defend the Board member; R. Eldridge recommended that we check to see if that clause is included, if not, it should be. R. Eldridge further stated, with regard to the ADA issue, that they are probably looking to correct something, the biggest costs will be the legal fees, which the Board would incur.

3. <u>Audit of Pensioners</u>: J. Wuersch stated that an audit of pensioners has been conducted and the accountant from Dana Colbert's office thought the best way to do conduct it would be by sending out W-4 forms every two years (we were due this year). In the past, she has had people who didn't respond; J. Wuersch sent a letter out this year stating that they needed to respond or their pension payments could be in jeopardy. We received W-4's back on time from all except three pensioners, two of which J. Wuersch knows are still alive. J. Wuersch sent them a note with their last check that it would be the last check they got unless a W-4 form was received. J. Wuersch stated unless the Board disagrees with his decision, he will hold the check until a W-4 form is received, verifying that they are still alive and well. M. Schwartz stated that this is not uncommon, the University has a similar system in place for pensioners (annual address verification). M. Schwartz motioned that an address verification system be implemented annually and sent out with their W-2's at the end of the year. If not returned, the check will be withheld until further information is received; motion carried unanimously.

4. <u>Guidelines for General Conduct and Procedures of the Police Pension Board</u>: E. Denniston stated that he had asked that some guidelines be established and J. Dobrovolny stated that he had a rough outline and he would forward to the Board. After discussion, the Board would like guidelines established v. using the statutes as a reference point because statutes change. D. Belcher stated that the internal audit systems could be part of the guidelines; R. Eldridge stated that the past Minutes should be gone through. J. Wuersch stated that the Board needs to give guidance to J. Dobrovolny about the guidelines.

5. <u>Financial Report</u>: E. Denniston stated that we haven't had a quarterly/annual report. J. Wuersch will check into and forward.

6. <u>C. S. McKee</u>: A representative from C. S. McKee was to attend this meeting; however, due to the weather conditions, they were unable to do so. E. Denniston stated that they have been purchasing ginnie mays in large amounts ($300-500,000). D. Belcher stated that their representative will discuss the mortgage backed market in more detail. These bonds yield higher, require a lot of paperwork, and adjustments may have to be made because overpayment/nonpayment of mortgages.

7. <u>Smith Barney Shearson Presentation</u>: D. Belcher passed out information to the Board for their review; discussion ensued.

J. Wuersch stated that he heard the Chairman of the Feds state that we were entering into one of the best economic periods in recent history and asked what can the Fund expect to see happen differently with this portfolio in the future, than what we've seen in the short-term past. D. Belcher stated for the bond portfolios, when there's increasing economic activity (which is what the Chairman is referring), we'll be seeing lower interest rates for a couple of years than what we've historically seen. The problem is that while we have increasing interest rates, we are going to have capital losses (buy a bond at par $100,000, and all of sudden it's worth less), when you add a period of expanding economic activity and you have the bond markets slowly moving to higher interest rates, the stock market will be doing just fine. D. Belcher feels that the next 10 years are going to have lower rates of return than we've seen over the last 10 years, we'll be moving back to more normal rates of return from investments. The difference (interest rates - 30 year treasury with less than a 6% yield, when 5 years ago they were at 11-12%). It's going to be harder for the Fund to make the kind of money it needs to make to keep the tax levy under control. The good news is that the actuarial assumptions never got up in the double digits, so they don't have to come down rapidly either. We are going to see some pressure on the tax levies because of the change in the rates of return. We are trying to have something in there in the equity markets that gives us the possibility of raising the overall rates of return. Lower returns, stock investments will become more important, bond portfolios will have some problems because they'll have capital losses instead of capital gains.

D. Belcher stated that C. S. McKee had a banner year last year, they did a 9% return; however, interest rates in the 4th quarter took a 1% loss in the quarter.

R. Eldridge inquired if D. Belcher checked into the S. Africa; D. Belcher stated he tried to call them last night but they have a fine 4th quarter. The previous authority to the S. African fund was to take it up to $250,000; as of February 15th, the Fund is at that level. We are authorized to take it up to 10% of the total Fund ($800,000); D. Belcher would like the Fund to leave some room so that the Fund has the ability to react to fortuitous times and suggests that the Fund continue the monthly $25,000 into the equity until it gets to a half a million. D. Belcher expects the stock market to be okay. If the pull-back occurs in the stock market, the Fund should be positioned mentally to go in and make a larger investment into equities. R. Eldridge stated he thinks it's a good idea and stated the Fire Pension is at 10% and every fund that he knows of that is well-managed and professional is at 10%. The only problem he has is having everything in one Fund, but D. Belcher has explained the difficulties in change.

J. Wuersch stated that in the money market account at Busey there's $183,207.59 (estimated 6 months net outflow). There's not a lot of excess there so the money will be drawn from the fixed income account. Motion by M. Schwartz to authorize the ginnie may investments to the equity account, bring the total contribution up to a half a million dollars, which would be an incremental $250,000 over the next 10 months of $25,000/month; motion seconded by J. Wuersch; motion carried unanimously.

8. <u>S. African Provision</u>: D. Belcher stated in April there's an election in S. Africa. What he's hearing is that Mandela was asking U.S. politicians to remove the boycott; within the Confederation Life account, there is another larger fund (their normal stock equity fund) and the logical thing to do would be to end Confederation Life and move the S. African free fund into their larger, normal stock fund; and they'll try to do that with everyone at the same time.

   The other recommendation from D. Belcher has with the S. African Free Prohibition removed is to add a second fund like this with somebody else, he'd like to find a growth manager so that the Fund would have a growth manager and a value manager.

9. <u>C. S. McKee</u>: D. Belcher stated that the consulting group has changed its criteria on its manager evaluation. Before, they had two scores: qualitative and quantitative. What they've recognized is that the performance number, itself, is an item that follows other things so it's really inappropriate to mix that in with an overall evaluation so they've broken it into qualitative (people score) on a scale of 1-5, they are at 4.35 (which is quite good); their performance score is 2.6, which is okay. They are hit a little bit in this regard because they are more aggressive, more volatile, which brings down their overall score. The last criteria (reliability of composite) is 4.7 out of 5.0; their information is very clean, truthful. Overall opinion on them is quite favorable.

   The interrogatory will be discussed when McKee is present at the Board meeting.

10. <u>Madison</u>: In comparison, Madison is a 4.6.

    In summary, D. Belcher feels that any score over 3.5 is satisfactory. E. Denniston inquired who made this rating; D. Belcher stated that the consulting group has a staff of about 8 people that do nothing but go to the investment advisors place of business (day long interview process). They are paid to do these evaluations and that's all they do. Presently, there are a couple hundred advisors covered at this level.

11. <u>Auditors</u>: R. Eldridge stated the audit found no weaknesses, in fact they didn't have a suggestion to put in a letter. The portfolio has changed between the governments and the CDs; expenses continued to go up due to the number of retirees are increasing, as well as disabilities. Net return was 8.4% (interest earned plus actual monies taken in on buying and selling).

The next meeting of the Pension Board is scheduled for Wednesday, March 23, 1994, at 9 a.m.

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

Sincerely,	Approved this 31st day of March, 1994.
Karen R. Snyder	Jim Wuersch
Karen R. Snyder	Jim J. Wuersch
Recording Secretary	Secretary

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

Urbana Police Pension Fund
Wednesday, March 23, 1994

Present: Elmo Denniston, President
Jim Wuersch, Secretary
Melvin Schwartz
Jack Dianis

Others
Present: Ron Eldridge, Comptroller
Dennis Belcher, Smith Barney Shearson
William Vescio, Vice President of C.S. McKee
Jim Dobrovolny, Attorney for the Pension Fund

Absent: Steve Royal, Asst. Secretary

E. Denniston called the meeting of the Urbana Police Pension Fund to order at 9:40 a.m.

W. Vescio distributed review booklets for the past year; his presentation covered theories and thoughts on the decisions that C.S. McKee has made.

Tab A - Economic Perspective: W. Vescio stated that after 2 1/2 years of very slow economic growth, we are starting to see some economic growth (expectancy 3% in 1994). Unemployment has gotten better, dropping from 7 to 6.4%; total non-farm payroll has increased by approximately 1.5 million jobs over the past year; overtime is at record levels (suggesting additional gains in employment in the future). They predict inflation will be less than 3% in 1994. NAFTA will help our economy because exporting will be a bigger part of our economic review. McKee feels its likely that the Federal Reserve board will tighten monetary policy in 1994 as economic growth accelerates. The impact of this tightening on the yield curve remains to be seen.

Tab B - Portfolio Structure: Ending 1993. The market value of the fund was $4,031,809, 98% was fully invested in bonds and 2% was invested in money markets.

Tab C - Broad Market: W. Vescio discussed the maturity structure in comparison with Lehman Brothers. As of December 31, 1993, 79% was invested in U.S. Treasury Notes (today 58%); 19% was invested in mortgage-backed securities (today 40%); and cash is at 2%. C.S. McKee has taken money from the treasury portion and increased the mortgage-backed security portion. This was done because C.S. McKee felt that if rates were going to increase, ginnie mays would be a more defensive tool; over the last 4-5 years, ginnie mays have under performed and over the next couple, treasury will under perform and the ginnie mays would do better.

The current yield of the portfolio, at year end was 7.15%, a little higher than the index of 6.72%; the average maturity was 11.84 years.

Tab D - Recent Fixed Income Strategy: Historical data was reviewed, quarter by quarter.

> Interest Rate Determination: During the first quarter of 1993, McKee shortened average maturities down to 9.42 years, a couple months later they rechanged their thinking and started lengthening maturities again to 11.84%, where they stayed during the second and third quarters of 1993. The fourth quarter of 1993, economic activity began to accelerate and they shortened maturities again.
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> Sector Decision - Bond Selection: The third and fourth quarter of 1992, ginnie mays were reduced to 12%; first quarter of 1993, ginnie mays were reduced to 9%; second and third quarter of 1993, ginnie mays were up to 13%; fourth quarter went up to 19%; and now they are up to 40% (philosophy maximum).

Tab E - Cash Flow: During the second half of 1992, the Fund increased $186,391. In 1993, for the full calendar year, the Fund increased the portfolio $401,804.

Tab F - Portfolio Summary: Portfolio summaries were discussed.

D. Belcher distributed and reviewed the Annual Review Questionnaire with W. Vescio. W. Vescio currently manages 2.4 billion (1.220 in fixed income); C.S. McKee has 122 clients, 160 accounts. During calendar 93, McKee gained 16 new accounts, losing four clients ($11 million in assets). Out of the four, two were stock accounts, one was a balanced account, and one was a fixed income account; the loss was due to corporate new management consolidating. The minimum is $3-5 million; their published minimum is $3 million. Brian Johanson (from Indianapolis, IN) is their new fixed income manager; he will be working with Hugo Churchill (52 yoa) and James Stark (51 yoa). G. David Underwood, a stock portfolio manager, was replaced by Joseph Murvar (June 1, 1993). Johanson (35 yoa) has been in the fixed income area for about 7 years, managing a large bank & trust department in Indianapolis. W. Vescio stated that the firm has not been censored by the SEC and they have no complaints that have been filed. There have been no change in the ownership of the firm; H. Churchill was under a 7 year contract, which has expired, Charles Jacobs and Jim Haines are under a 12 year contract. Returns of the Urbana Police account have been similar to the returns of the average fixed income account managed by their firm.

D. Belcher discussed how the consulting group evaluates firms and reviewed McKee's scores.

Lukemire Disability: J. Wuersch stated that he will be moving forward with Lukemire's disability; he will forward copies of the documentation. J. Dobrovolny will contact Dan Walsh re: scheduling hearing.

ADA: Miscellaneous ADA discussion with J. Dobrovolny.

New Applicant: On April 14, 1994, a new applicant will begin employment at UPD, with his physical scheduled at the end of March.

S. African Law: D. Belcher stated this has been passed, freeing up the area of investments. He has begun the process of reviewing the process, he should be done by the next meeting to report his findings. He further suggested that the Board be ready to go along with the move by C.L. Management.

Investment Policy Statement: D. Belcher stated that he would like to go back and re-write the policy statement.

Manual for the Board: J. Dobrovolny stated that he's not happy with the format.

Disability Taxes: J. Wuersch stated that he found that some of the funds are handling disability pension taxes differently than us. He further checked and found that they had an opinion from and IRS Supervisor that stated duty-related disability pensions are non-taxable. Mr. Colbert is going to seek an opinion to see if we can get some consistency. J. Dobrovolny stated that continuing comp (1 year salary you receive if injured in the line of duty) is separate from our pension and that he has seen some materials that indicates that income is non-taxable. J. Wuersch stated that this specifically refers to line in-duty pensions. J. Dobrovolny will do further checking regarding this.

Public Treasurers Act: D. Belcher stated that the Department of Insurance has taken the position that the Public Treasurers Act is applicable to the Police. It is basically a way to justify doing what needs to be done insofar as approving Belcher's market funds and including agencies within the allowable investments. D. Belcher inquired with J. Dobrovolny if he has seen any material regarding this. J. Dobrovolny will call Tom Jones to see if he can find out any information.

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

Respectfully submitted,

Karen R. Snyder

Karen R. Snyder
Recording Secretary

Approved this 31st day of March, 1994.

Jim Wuersch

Jim J. Wuersch
Secretary

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

Minutes of April 25, 1994

Present: Elmo Denniston, President
Jim Wuersch, Secretary
Steve Royal, Asst. Secretary
Melvin Schwartz, Trustee
Jack Dianis, Trustee
Jim Dobrovolny, Attorney for the Pension Fund

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1. David R. Shaffer: The Pension Board unanimously approved the application for Membership in the Urbana Police Pension Fund of David R. Shaffer.

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

Respectfully submitted,

Karen R. Snyder

Karen R. Snyder
Recording Secretary

Approved this 2nd day of May, 1994.

Jim Wuersch

Jim Wuersch
Secretary

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

4/25/1994

Administrative Session
Disability Hearing of Ofc. Gerald Lukemire

Present: Elmo Denniston, President
Jim Wuersch, Secretary
Steve Royal, Asst. Secretary
Melvin Schwartz, Trustee
Jack Dianis, Trustee
Jim Dobrovolny, Attorney for the Pension Fund

After the Disability Hearing of Ofc. Gerald Lukemire on the 25th day of April, the Pension Board went into administrative session. Motion by M. Schwartz that Gerald Lukemire is unable to perform the duties required of an Urbana Police Officer; seconded by J. Dianis, motion carried unanimously.

Further motion made by M. Schwartz that from all evidence presented that it is a duty-related disability; seconded by J. Wuersch, motion carried unanimously.

Motion by J. Wuersch that the disability pension commences with the termination of the City of Urbana paying him full salary under the Workmens Compensation Act; motion carried unanimously.

Respectfully submitted,

Karen R. Snyder

Karen R. Snyder
Recording Secretary

Approved this 2nd day of May, 1994.

Jim Wuersch

Jim Wuersch
Secretary

Minutes

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

URBANA POLICE PENSION FUND

Tuesday, July 26, 1994, 10 AM
City Building Conference Room

Present: Elmo Denniston, President
Jim Wuersch, Secretary
Steve Royal, Asst. Secretary

Others Present: Ron Eldridge, Comptroller
Dennis Belcher, Smith Barney Shearson
A/C Timothy Fitzpatrick

Member Absent: Melvin Schwartz
Jim Dobrovolny, Attorney for the Pension Fund
Jack Dianis

E. Denniston called the meeting to order at 10:20 AM. and informed the Board that Jack Dianis is moving out-of-town and will no longer be present at Board meetings.

Health Care After Separation From City: ACOP Fitzpatrick spoke before the Board regarding a question he posed to the Board two years ago about his prospective retirement upon the completion of 20 years (November 15, 1994). It centered around the following issues: someone who separates from the City who is not eligible to draw a pension (he'll be 44 yoa v. 50 yoa). Though retired by FOP pension standards, he would not draw his pension until he would be eligible to do so; however, he would like to pay for his health care coverage (just as any other pensioner would be contributing to the City).

He recalled that neither J. Dobrovolny or R. Eldridge were able to provide him with an answer to his inquiry. T. Fitzpatrick later learned, through a brief conversation with R. Eldridge that it was his opinion that T. Fitzpatrick was probably eligible but he didn't know for sure because it has never come up. With that in mind, he is approaching the Board for direction. J. Dobrovolny was going to, at the time, look into the legal aspects of this question. T. Fitzpatrick reiterated that November 15, 1994, is soon approaching and he would like to consider this as an option and be prepared, medically, for his future. He would like the Board's guidance/advice as to what their opinion is regarding medical coverage as a non-drawing retiree.

R. Eldridge's personal opinion was that he thought T. Fitzpatrick would be eligible: If you work 20 years, you should continue just like any other person but he thought he suggested that T. Fitzpatrick see R. Gremore, the City's Personnel Manager. T. Fitzpatrick doesn't recall R. Eldridge's suggestion that he see the Personnel Manager and his recollection was that it was in J. Dobrovolny's hands to check the legal issue. R. Eldridge stated that T. Fitzpatrick should ask the City if they would voluntarily give him a letter stating that they would allow him to continue on their coverage, providing that T. Fitzpatrick would pay the costs, just like other retirees. T. Fitzpatrick was agreeable to a written statement reflecting same.

T. Fitzpatrick explained that his situation is that he had cancer and is considering retirement; it's going to be 10 years since he was sick. R. Eldridge stated that it's not his decision but it would be his recommendation to follow-up with the City; if the City says "no" and they give him a reason, T. Fitzpatrick has the recourse to pursue it further by looking at past practices. J. Wuersch stated that the only police officer that he is aware of that has done the same is Gary Herbert and he's unaware of the status of his health care, but he did leave before he could draw his pension. T. Fitzpatrick is aware of COBRA, in which the employee could continue the employer's health care for 18 months; however, he understands that there is no written agreement between the City and the Pension Board for pensioners, at this time; it's just something that's been allowed/agreed upon. E. Denniston stated that he was told, long ago, that it was recognized via contract [PPBA/FOP] that pensioners would be kept under the City's blanket coverage; J. Wuersch stated that there's no reference to this in the current Contract. J. Wuersch or E. Denniston will follow-up with J. Dobrovolny regarding this and let T. Fitzpatrick know.

<u>Taxes on Disability Pensions</u>: J. Wuersch stated that a disability pensioner approached him about taxability of a duty-related pension. They brought with them a letter from Champaign Fire Department, IRS and their accountant (Gladrey/Pullen) and although not an opinion, it's everything but an opinion from IRS that those funds are not taxable if they are duty-related. He then had the Board's accountant write a letter to the IRS inquiring with the same question; their reply was that they were not giving us any opinions unless we were willing to pay them $2,500. He didn't pursue it further. Since then, he's aware of a letter that came out in a Fraternal Order of Police magazine written by an attorney that states that those funds are exempt if they are duty related; they are not taxable. Several of the duty-related pensioners have contacted this attorney and he has agreed to handle those that it would affect (5 duty-related pensioners) for 10% of any settlement that they would get from IRS (they can go back on IRS for three years, according to the article).

E. Denniston stated that M. Schwartz does a lot of tax returns and he contends that they are taxable; J. Wuersch stated that the Board's accountant agrees; however, there's obviously a disagreement among attorneys.

J. Wuersch stated that it may come to a point where their attorney requests some specific information from the Board about the plan; at that time, J. Wuersch will bring this to the attention of the Board for further discussion.

New Officers: Four new police officers will be starting within the next ten days; they are as follows:

July 27, 1994: Tova Gent

August 1, 1994: Jeff Alcantar, Kent Jepsen*, Lori Lockard.

* Note: Jepsen was formerly a UPD officer and has returned to the force after completing law school.

All the physicals and psychologicals will be done by the end of the week; R. Eldridge was advised that the City should not deduct a pension until the above-referenced are approved by the Board. R. Eldridge stated, and J. Wuersch agreed that the City could deduct the pension but to "HOLD" them until they are approved.

Tax Revenues: R. Eldridge stated we collected 98% of what we levied, which is unusual, as we normally collect 99.995%; he has requested that the County look into this discrepancy and give the City an explanation. This affects the Pension Fund by approximately $15,000. R. Eldridge explained that the levy is done, errors occur, the City can appeal, and if you can prove that there was error, they will adjust your tax bill. The Department of Insurance will recognize that we didn't get our full revenue and they'll adjust that into the next year's levy; eventually, the Fund should be caught up.

Dennis Belcher discussed the following financial matters of the Fund, distributing accompanying material.

Capital Market Commentary-Second Quarter 1994. D. Belcher stated that since last fall, the Federal Reserve Board is rapidly raising interest rates because they see that the economy is beginning to grow rapidly (as it comes out of recession). They are afraid that the growth will become too rapid and that we will begin to have distortions within the economy, which will rise to higher levels of inflation. The Federal Reserve system would like to see a nice ease in slow growth that can be sustained in the future. When growth becomes too rapid, the Reserve system will begin to dampen down to short term interest rate increases. The Federal Reserve system can control short term interest rates, however, they do not control anything past that (they can impact the federal funds rate, the prime rate, 90 day treasury bill rate, etc.), but past that point is where the market forces which give rise to where those interest rates are. If the last six months were reviewed, D. Belcher stated that the 15 year government bonds were down 3% (3 months), down 9% (for 6 months); the stock market has done better than the bond market. D. Belcher went back 10 years, charting and discussing treasury bonds (December 1984). Interest rates run cycles of 3-5 years.

Quarterly Returns: Quarterly returns of Madison and C. S. McKee from March 1993 through June 1994 was discussed. Madison fared better, D. Belcher explained their investment strategies (McKee long-term/Madison short-term) and this is the type of period that highlights the differences between the two. By joining both of them, Shearson is trying to cover all of the normal kinds of bonds and specialists that are good with each particular class. McKee is in the good market, delivering what they are supposed to deliver.

Madison: Since it's inception (4 years ago), the account has grown through interest, dividends ($880,008 net gain). Over the last quarter, the account had a $30,605 loss (03/31/94, 06/30/94); the account was down 3/4 of 1%, which compares with the long bond being down 2.83%; treasury bills have been consistent with returns of 3 - 3 1/4%.

As Dennis talked to Madison in May, they have begun to lengthen the portfolio from 3 years average to 4 years average; their average maturity is 5 1/4 years, and average duration of 4.16 years.

Comparative rates of returns from inception year: 7.03%.

McKee: McKee is down about a point and a quarter, down about 3% in the first quarter, 4% in the first half of the year. The total return for the investment portfolio is not going to be up to actuarial assumptions. Within the longer time, the Fund needs to recognize that when you have change in cycles, this is normal, returns from investments come in spurts.

As Dennis talks to McKee, they're beginning to shorten the portfolio for November and in January, effective this week, they have lengthened maturities from 4.8 years to 5.3. Their feeling is that the market has overdone itself and with an inflation rate of 4.5 to 5%, when the real inflation is running more like 3% (rates have gone up too fast, too high).

Comparative rates of returns from inception year: 5.16%.

Both managers are doing about the same thing in their own styles, saying that interest rates will be going sideways as we go into the end of the year.

Confederation Life: D. Belcher has been informed that Confederation Life has been purchased by Great Southwest Insurance Company effective August 1. They do not know if there will be any change in their investment management; it's something that will be looked at by their new owner, after the merger is effective.

Cumulative Returns: D. Belcher discussed the chart of the various managers: CIMG, C.S. McKee, Madison, and C.L. Mgt.

Public Funds Investment Act: D. Belcher compiled and discussed this with the Board. This Act is changing the authority of what the Fund can purchase away from pure treasuries into federal and quasi federal agencies as well as U.S. Treasury securities. Because of this, D. Belcher stated that the Fund will need to modify their investment policy statement to reflect same.

This Act now permits market funds, Public Treasurers' Investment Pool (IPTIP), Repurchase Agreements (D. Belcher discourages Repos). This Act also discusses "Safekeeping", "All securities purchased shall be deposited and held in a safe place".

D. Belcher stated that since this area keeps changing, clearly there is a line that the Board has to walk between their fiduciary responsibility to the taxpayers enough to flaunt the regulatory authority while at the same time, they have to do what they think is correct.

D. Belcher will forward this Act, with the Board's permission, to the investment managers with a list of the new instruments; he would also like to review the investment policy.

Separate Account Review:

Tab III. There are two investment styles: growth and value. They both work and the way to beat the market is to recognize that there are styles. One way to invest realistically is to 1) use longer time periods (not 1 yr but 7 yrs), 2) consider the risk.

Separate Account Review: D. Belcher highlights that the S. African Prohibitions is gone and is of the opinion that a second stock manager should be added to have some diversity in what the Fund does. He would like to find an alternative that matched up well with Confederation Life and also to review Confederation Life against the larger universe of potential managers which are now available with the removal of the S. African prohibition, taking the following into account.

Screen 1: A larger number of alternatives pass the initial screen of a separate account product with an insurance company licensed to do business in Illinois.

Screen 2: Two general types of insurance companies are individual variable annuities and group annuities. Individual annuities are sold to you, as an individual (designed for smaller size sales to individuals). The Fund belongs as a group annuity, which is designed from $100,000 minimum issue to $10-15 million. They are based upon the group, no cost to buy in, no back-in penalties; there is an annual charge.

Screen 3: Continuity of key investment personnel are examined. At this time, insurance contracts that have not had at least 5 years continuity in investment personnel or have been in existence less than five years are removed from consideration.

Screen 4: Risk/reward analysis starts with a review of historic results of the investment operations that have survived the early screens. All information presented has been adjusted to reflect the after expense returns on all investment alternatives presented. Stress should be given to the longer term results rather than focusing just on the most recent results, but examination of a shorter time period is necessary to see if there has been one specific time period which can distort the longer term numbers.

Lincoln-Small Growth correlates with Confederation; Lincoln is doing well, Confederation isn't. Using the correlation analysis is to find good, solid parings, D. Belcher cut the list down to five alternatives and supplied a list to the Board.

Confederation does not allow much diversity; whereas, Lincoln offers diversity. Lincoln is a little riskier; D. Belcher suggests a new Lincoln Contract of $100,000. Once the contract is open and running, hold up the Confederation Life, move that money over and continue the $25,000/month. D. Belcher feels that this is a good time to make a move.

Motion by J. Wuersch that the Fund close the Confederated Fund and move to the Lincoln Fund; motion seconded by S. Royal; carried unanimously. Motion by J. Wuersch that the Fund move $100,000 out of the money managers into the Lincoln Fund and to make the Funds' contribution to Lincoln Fund $60,000. Of the $60,000 monthly contribution, it should be divided equally among the value equity, medium capitalization and small capitalization growth funds. J. Wuersch further stated that when the contracts are solidified, the Fund will close the Confederated Fund and move that balance into a Lincoln Fund, as well (50% value equity, 25% in medium capitalization, and 25% in small capitalization growth fund). Motion carried unanimously.

Convention: J. Wuersch stated that the convention is coming up around the first part of October. J. Wuersch, S. Royal, and E. Denniston are planning to attend; G. Foster, the new board member, will be contacted for his interest. Costs of the convention will be paid for by the Fund, as in the past.

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

Respectfully submitted,
Karen R. Snyder
Karen R. Snyder
Recording Secretary

Approved this 17th day of August, 1994.
Jim J. Wuersch
Jim J. Wuersch
Secretary

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

URBANA POLICE PENSION FUND
Wednesday, November 2, 1994

NEXT MEETING: Tuesday, December 13, 1994, 9:00 AM

Members Present:	Elmo Denniston, President Melvin Schwartz Greg Foster Jim Wuersch, Secretary Steve Royal, Asst. Secretary
Others Present:	John McClure, Madison Investment Dennis Belcher, Smith Barney Jim Dobrovolny, Attorney for the Board Ron Eldridge, Comptroller

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E. Denniston called the meeting to order at 9:05 AM on Wednesday, November 2, 1994; motion carried unanimously to approve the Minutes of the last meeting of July 26, 1994.

J. Wuersch had the following items for Board discussion:

<u>Kent Jepsen - Officer Returning to Department</u>: UPD has re-hired an officer that was previously on the force; he has returned to UPD after attending law school for two years and has been accepted in the Fund. Jepsen has asked Wuersch if he can buy back time (we paid him out when he left the Department). Wuersch asked if the statute addresses "buying back time" and how that is accomplished. J. Dobrovolny stated that he can buy it back, paying 2% interest on his money.

J. Dobrovolny stated that 3-124 provides that acceptance of a refund shall barr the police officer and his/her dependents from any further participation in the benefits of this article, subject to restoration upon re-entry into service and repayment to the Fund of the refund, together with interest of 2% per annum from the date of refund to the date of repayment. For example, if $10,000 was returned to the Fund, an additional 2% would have to be paid until the date of repayment. The time that he was actually gone cannot be bought back; it can be a lump sum/over time. His suggestion, from the Board's standpoint, is that he prefers to see it in a lump sum. If he chooses to pay it back periodically and he gets injured and goes on disability, what would the Board do at that time if he has paid back only half at that time; it complicates matters, something has to be agreed to beforehand. J. Wuersch stated that he would have to buy back a considerable amount (6-7 years worth). E. Denniston feels that it should be paid back in one lump sum.

R. Eldridge stated that, in the past, the City has gone ahead and paid it and allowed the officer to pay it back over a 3-4 month period, on a short time frame. In those instances, it was a situation in which the City did something, and took him away from employment and he was re-instated; it was a different circumstance.

J. Dobrovolny's interpretation is that if he doesn't pay the money back, he doesn't get that credible service; until he pays the amount back, he would be considered a new hire. J. Dobrovolny stated that if he didn't reapply at all, he could buy back his credible service, but he was in the pension fund, if he gets hurt in six months, he's going to get a disability benefit regardless, just like any other officer would. By saying you could buy back the credible service, although the statute doesn't say in consideration for retirement, does that mean he can sit there until he's ready to retire and buy it all back and pay his 2% money; the statute doesn't really say, it just says he doesn't get those benefits until it's repaid to the Fund, with 2% interest. M. Schwartz stated that the University of Illinois system works the same way; if you want to hold back and buy back time that you're paying the percentage when you first came back to work; if you're getting ready to retire and it was 4% at that time or 8% at that time, you would pay accrued interest for your payment. If the Fund is going to wait 15, 20 years of that time to buy that time back, 2% doesn't look very good. J. Dobrovolny will check with the Department of Insurance.

Motion by Melvin Schwartz that the Board accept repayment from K. Jepsen the money that he withdrew, plus the accrued interest in a lump sum payment to buy back his previous years; seconded by J. Wuersch, motion carried unanimously. J. Wuersch will verify the payback with R. Eldridge.

Amy Sprout - New Officer: E. Denniston, J. Wuersch, S. Royal have reviewed the following physical: Amy Sprout (effective date 083194). This probationary police officer was admitted to the Fund; Motion carried unanimously.

Gary Herbert: Gary Herbert has turned 50 yoa (8/94) and has made application to the Fund (10/29/94) to start receiving his benefits and would like his benefits retroactive to the date he turned 50 v. the date that he submitted for retirement. J. Wuersch will advise Herbert that his benefits will be effective the date of his application.

Election Results: E. Denniston, J. Wuersch, and S. Royal were all re-elected. The election date was 09/26/94; terms are two years. J. Dobrovolny stated that their terms were expired; however, the statute provides that they continue to serve in office until an election is held. Traditionally, years have been alternated for election purposes when the Fund has active/retired members. The statute does not require this alteration; both elections can be held in the same year and the election shall be every two years. J. Dobrovolny's suggestion is that two years from this Spring would be the end of their term (1997) or start alternating election years (one then and then another the next year).

S. Royal stated that the Fund would be better off alternating; if members would decide to leave, everyone might be leaving at once. J. Wuersch concurred. E. Denniston stated alternating years (1996) would return the election to where it should be with Wuersch and Royal in 1997, every two years thereafter.

Motion by M. Schwartz that the election be held in 1996 and 1997; seconded by J. Wuersch; motion was unanimous and carried.

Line of Duty Disability: J. Wuersch stated that J. Dobrovolny managed to talk to several attorneys; some of them have taken the option to stop withholding, as far as the IRS is concerned. Some of the disability pensioners have made some requests of the Board to fill out a form, which the Board hasn't complied, in an attempt to put this between them and IRS.

To bring G. Foster up-to-date, E. Denniston explained that the individuals that have are on duty-disability have brought to the Board's attention that duty-related disabilities are not non-taxable by the IRS; several of them have got together and wanted the Board to assume the responsibility of not withholding; to reissue them a amended 1099 to reflect same. J. Dobrovolny stated that he talked to D. Walsh yesterday and those disability pensioners feel that it would facilitate getting a refund if they had amended 1099's. He hasn't talked to D. Colbert yet; apparently, he is looking to do that. However, without some waiver of liability issued to him from the Board, Colbert isn't willing to proceed. J. Dobrovolny will contact D. Colbert and feels that this will cause Colbert's office additional paperwork. Colbert still feels that those on disability are taxable and he will not reissue 1099's unless we give him a letter absolving him of any responsibility. J. Dobrovolny stated that in every instance he has seen, they proved to be non-taxable; however, to satisfy Colbert, we would want to have a letter ruling from the IRS, which will cost $2,500. M. Schwartz stated that he agreed with D. Colbert's interpretation.

J. Dobrovolny stated that there had been a ruling in the Illinois Municipal League's monthly publication last spring, which is what spurred those on disability to question the Board. The article referred further questions to the IRS; however, the IRS wasn't familiar with the article so a copy of the article was forwarded to them. The IRS agreed with the article in their response to him; but again, they stated, without getting into specifics, the general nature, etc. J. Wuersch stated that his interpretation of the letter is that they want to look at each case, on an individual basis, and want them to pay for that opinion; they don't want to give a blanket decision but on a case-by-case basis.

E. Denniston stated that one of the members, Bob Elliott, wrote his attorney to poll the ones that wanted to file for a rebate, to file as a class action because he was of the opinion that if they went into a class action, they wouldn't audit the individual accounts. E. Denniston stated that most of them that he has had contact with, have backed off because they are going to be handled on an individual basis v. carte blanche.

J. Dobrovolny stated that, at this time, the Board doesn't want to give D. Colbert a letter; S. Royal stated that this is between the pensioner and the IRS and the Board shouldn't get involved at this point.

J. Wuersch stated that one of the disability pensioners has requested, though not formal, the monies that hasn't been sent to IRS yet be returned. R. Eldridge stated that those are filed monthly and Colbert is holding it in trust for the IRS.

G. Foster stated that in his capacity of Personnel Director and reviewer of disability insurance claims, his experience has been if you pay your insurance or pay towards your disability in pre-tax dollars, then it's taxable; if it's after tax dollars, then it's not taxable when you receive the benefit.

Currently, the Board has six on duty-related disability. These pensioners would have to file amended returns; they've taken this money to what they thought was taxation and now they are trying to go back and recover those taxes up through this year; and the question is how far back do you go.

Police Officer J. Tharp: Lengthy discussion regarding J. Tharp's entrance to the Pension Fund. J. Dobrovolny will be meeting with him to discuss how to proceed in getting him into the Fund; his payment to the Fund will be on the same basis as K. Jepsen, in that the Board will accept payment from J. Tharp, plus the accrued interest in a lump sum payment to buy back his previous years. J. Wuersch will verify the payback with R. Eldridge.

Following is the presentation by D. Belcher:

Tab 1: D. Belcher discussed background items that have been in the financial press to give the Board an understanding of the backgrounds.

Definitions of Financial Derivatives - His findings is that the word is used differently within different contexts; the words get thrown up on a wall and it colors everything.

Two things that happen in every financial cycle:

1. Good, well-intentioned people (i.e. city treasurers, community college finance officers, etc.) who have made a budget, assumed their interest earnings will be "x" and all of a sudden interest rates fall to a 25 year low, they can't make their targets so they start scrambling, trying to get up to what a reasonable rate of return.

2. The other is that Wall Street is coming up with new products. Derivatives, by themselves, are not bad; ginnie mays are derived from home mortgages; zero coupon bonds are derived from US treasury securities-treasury now issues their own.

Asset Liability Management Within a Pension Plan: This concept is used within pension plans; an actuary can project how much it is going to cost for everyone, that is covered by the plan, when they are going to retire, and how much money the plan is going to need each year out to year 2042. Thus, on the investment side, securities are going to be purchased to match up with all the liabilities we have in the future.

The problem with this Plan is that it is difficult to define the future; the alternative concept, as a group, is to earn as much money as able, within the boundaries of prudence, recognizing that we don't really know what will happen in the future.

A. Driving a Pension Fund: Types of funds that the Fund receives: City contribution, employee contributions, and investment earnings. Expense, benefit, investment earnings have to be in balance/in sync for the long-term health of the Fund.

Tab 2: Chart of returns from various markets/sections of markets: 90 day treasury bills (return of 2.84%, which is the best return), Standard Poors 500 stocks (1.3%), intermediate treasury bonds-10 years (down 3.7), 30 year treasury bonds are down 9.75%; the environment is tough in the financial market.

He discussed a chart for the period March 93 - September 94; a review of C.S. McKee (long-term) and Madison (short-term), comparing quarter by quarter return over the last major change in interest rates. In the strong bond market (with interest rates falling through September 93), McKee is doing quite well; Madison lagged. In the down markets, Madison has proven their worth; they have come through very nicely through the down market, adding value by sidestepping the debacle that has gone on in the bond market within the last year. September 94 found both to be even. Both of the managers, within reason, have met the Fund's expectations.

Line Chart: Discussion since 1990 with CIMG, then they were replaced by C.S. McKee (June 92). Tracking is that Madison, after leading the performance race for quite a period of time, has faded in relative performance. C.S. McKee was winning the race. In the down markets, they have come down a great deal more than Madison; however, they have a more aggressive stance still in the head.

The stock portfolio has been the largest percentage returns that the Fund has had this year; it has helped the Fund. Part of the reason that stocks are invested is trying to have to aid in the consistency of the return. This concept has carried more of the load, while the bond market has a very tough environment.

1st Quarterly Monitor: C.S. McKee (2 years) since the inception of the account, the total gain has been $445,474. In the quarter, the dollar gain has been about $14,000; the comparative rates of return has been positive, they have been up .38%. For the year-to-date, they are still down; the total return from that portfolio has been a -3.64%, trailing 12 months, they are down 4.71 (treasury bonds are down 4.05); they are doing what's reasonable to expect of them. D. Belcher advised that, over the past 12 months, the financial market has had a tough time. C.S. McKee is looking for higher rates again, as the Fund moves into the first quarter; they have begun to shorten their portfolio average maturities and durations again. Currently, their duration is 4.4 years, average maturity of 8.08 years; 75% of their portfolio has maturities under 5 years. Their primary fixed income portfolio manager, Hugo Churchill, has announced his retirement (effective 12/31/94) at age 52; his replacement has been hired. D. Belcher checked with the Consulting Group; they were aware of the impending retirement of Mr. Churchill; because of the retirement, they have down graded their score card from a 4 diamond to a 3 diamond (rating of 1-4). The 3 diamond is still satisfactory; but it is a fact that this Board specifically will have to deal with at the next Board meeting (at which time McKee will make a presentation). The retirement and replacement is important; since the key individual has changed, the Board should properly review them in detail.

Annualized Cumulative Return - C.S. McKee: D. Belcher discussed the chart that annualized the cumulative return from inception compared to the cumulative return of the treasury bond index.

On March 31, 1993, C.S. McKee had a cumulative, annualized return of 10.25%; the index had done about a 9.90%; they had relatively done quite well. Throughout the strong bond markets (with the falling interest rates), their relative performance has been very good. As the market goes down, with interest rates beginning to go up and bond prices falling, their relative performance has lagged v. the treasury index. Overall, it's quite fine at the end of that time.

Madison: The Fund's experience goes back to 1990, well over the four year mark now. Over that period of time, the net gain on the account has been just under $900,000, with $16,000 of that return becoming in the current quarter (positive return for quarter of .42%); they have a slightly higher return than C.S. McKee in the quarter. Their previous quarter (-7.76), the McKee account had a -.98; year-to-date they are down 1 5/8; McKee is down 3.6. Trailing 12 months, there is still a negative 1.5; the McKee account is a -4.71.

Annualized Cumulative Return - Madison: D. Belcher reviewed Madison with the intermediate treasury bond index. Even though Madison has done an excellent job in the down market, there is a performance gap that has opened up that their relative performance while good, is not sufficient to close the gap v. the index.

D. Belcher stated that at the last meeting, the Board had made a decision to terminate the account. The only way that the Board can buy stocks is to accept the account of insurance company, with a limitation of 10% of the total fund assets to equity investments and up until January of 1994, any portfolio had to be free of any companies that had an involvement in S. Africa. Now that we no longer have this limitation, an evaluation found that the Board would be better served with an entirely different life insurance contract. The Board had voted to terminate the contract with Confederation Life; in the process of doing that, he heard that Confederation Life was going to be taken over by the Canadian Regulators, which resulted in the Fund moving along faster. In a separate account product with insurance company, the separate account means that our funds are held separate, distinct from the funds of the insurance company. In the event of insurance take-over, there is no risk to money in separate account products. D. Belcher's concern is that, with this problem, a lot of Boards would be taking money out of this specific pool, D. Belcher didn't want Urbana to be the last guy in the pool. Frustrating to D. Belcher was that the ratings for them were fine, up until the point that they were taken over.

The net gain from the Confederation Life Contract was $15,000; of that $14,000 was made in the last quarter (return of 6.66%), over the trailing 12 months there was a 7.3/4% return.

Cumulative Comparison: J. Dobrovolny questioned the above two comparisons. D.

Belcher stated that Madison is a less aggressive manager for the duration; their strong point is their risk control in bad markets.

Lincoln Contract: As the Fund moved into the Lincoln Contract, the stock market continued to do well; the Lincoln Value Fund was up $4,300 in the quarter, the small cap fund was up $775, totaling $5,000 in the quarter as a continuation of the same trend that we saw with Confederation Life. Lincoln's information is too early to be worth much; it's the first partial quarter. The stock side has helped the Fund in this particular period.

The Fund will continue its contributions until it reaches the maximum 10% ($900,000). D. Belcher stated it would be safe to continue the present pattern of the monthly investments up until the next Board meeting. J. Wuersch stated that if the law puts a cap on it, we're under that now. Currently, $60,000 a month is being moved over; approximately $55-60,000; the Board estimates that only $60,000 can go in there. No motion was made; provided for informational purposes.

Following is a presentation by John McClure reviewing the quarterly report and issues raised by D. Belcher:

Green Booklet: June fiscal year; the numbers provided are pre-expense; they don't include Madison's fee nor any other fee (reason for difference from D. Belcher's figures). The rules and regulations that tie together is that this is the way Madison has to report.

As D. Belcher mentioned, the SEC and the Consulting Group frequently audit. The numbers reviewed reflect the last quarter. The intermediate returns are actually better than the long returns.

J. McClure stated that there's not as much risk in today's market, as there was last September. The rates are much higher now; they are purchasing bonds for the Fund's portfolio; they are not being aggressive, as there is still risk when the economy is strong; when inflation is still flickering and the Federal Reserve stating they are going to raise rates more, it's not time to get fully invested. Because rates are higher, there is less risk in the market (they've gone from a 1/6 duration to a 3/6. In 1991, they were seven years invested and made some money for the Fund. Madison is being cautious, conservative as they go forward. They are concerned with the 3-5 year market; the Feds can only control the short-term rates; the elements of the market take care of the others. The market has already discounted expecting the next Federal Reserve increase, which will probably take place in the week after next. The bond market is ahead of it, ahead of inflation, expecting a 1% inflation. Madison feels that they've been through the pain and it's almost over; they're feeling that there's so much debt in this country, which is something that they watch (how much we borrow v. how much we make after taxes). In 1950, the number was at 50%; today, that number is 94% (i.e. you make $50,000, you are borrowing about $48,000); the trend is that we live in a leverage society. Consumer credit is up to 14% (over a year period). If short-term loans get up to 6%, bonds will probably be 8-8.5%, the trend will be people going to CDs v. the bond market (stabilizing effect).

Performance: J. McClure stated that in 1993, Madison didn't perform well the first two quarters of the year; because they are cautious, they were expecting things to go bad on the bond market 6 months before they did, maturities were shortened down, not to as low as they were in February, but they were way too low to get the market reaction. Madison, since inception, on a pre-expense basis, under performed about 3.5% (2.5 came in the first two quarters). In 1991-1993, when the market started to fall, the short end fell much more than the longer end. Thus, the short-term performed much better in those good periods than they normally do. When the reverse happens with the yield curb, there's a 3% difference. It will get back to 1.5, which is the normal, the opposite reaction will occur and the short-term will not do quite so well.

D. Belcher states that a couple years ago, two things happened: 1) too cautious too early; 2) the behavior of the bond market in the 3-5 year time frame was a little bit weirder; however, you kind of know that they go back through the same bond cycle again, but on the other side it will be weird again and you would expect to have performance better than you would expect. Madison has gone from a defensive position to a more neutral position; all their real short term bonds have been sold for two year bonds; the reason for doing this is that the shorter bonds are yielding about 5 v. the two year bond yielding 7.

Change in Interest Rates: J. McClure went over the price change in the bonds, what happened to rates (up 2.5%) and the returns. The bond model is their discipline, it's the rating; when it's negative, they go short term. It started turning negative in early 1993, which is when they shortened terms. Economic charts (inflation indicators) were reviewed. He foresees that returns will return to normal, the "normal" being 8-10% of the 90's.

Madison Management: D. Belcher inquired as to how much J. McClure is managing (1.9 billion), with all of it, with the exception of $50 million, in fixed income. In 1993, Madison formed a subsidiary operation in Scottsdale; the subsidiary operation manages nothing but insurance clientele. Two new people were hired that used to work in Chicago and are now in Scottsdale. They have a self-contained unit that manages $350 million in insurance company assets. Of the growth, most of it is there and is a little misleading.

Madison has lost some clients this year due to their performance in 1993 (lost 34). Of the 34, 15 left for "performance for other reasons", 7 left because of tax reasons (their accountant told them they should be getting into municipal bonds v. taxable bonds), and 8 clients were credit unions where their liquidity is managed (they needed their money). Madison has 420 clients; there are six portfolio managers; there are no plans in the future to add any more because they have two additional managers not included in the Scottsdale office (Lou Logolan and Mark Weibel). No portfolio managers have left, none have been censored by the SEC, and no complaints have been filed against J. McClure. The SEC was in J. McClure's offices because of their periodic review that they have to go through. No recommendations/censor report was made by the SEC; there were no problems "clean as can be"; no change in ownership of the firm.

D. Belcher inquired if Madison feels that they can add significant value without the ability of going into corporates for the client; J. McClure stated that they have done that in the past and that there's plenty of movement in the market that would allow the Fund to do better than the market whether you are corporate or government. Corporates, typically, have better returns. D. Belcher advised J. McClure that the Fund now has the ability that we are permitted to own specific agencies and that will have a potential to add returns as the Fund moves forward. J. McClure stated that they examine the spread of agencies over how much more are they paying. The EDD is a form filed with the SEC, that Madison is required to provide to all clients of the firm. If there are any problems, they are required to disclose them in the EDD; no problems noted. The most important thing for the client to see is if there has been any change in personnel, ownership, and legal problems; they would have to disclose.

The returns for Urbana has been similar to other corporate, government funds that Madison oversees. Over the last year, there has been very little variation; in the last nine months, everyone has been within plus/minus a half a point, which is tighter than historical because they are managing more aggressively. In bordering states, their current count is $500,000; the rest of the world is a million. Madison advertises a million but they've always taken a half a million dollar account in Illinois, Minnesota, etc. The reason for this is that they like to see all of their clients.

J. McClure has been with Madison for eight years and in the business for 25 years. He started in Wisconsin; he performed a variety of functions: from investments to lending, primarily on the wholesale side, asset/liability investor group.

<u>Scorecard from the Consulting Group - Madison</u>: As of June 1994, the Consulting Group categorizes Madison as follows:

Qualitative Rating	They look at the people, process, how they do it, can they service the business, do they know how to run a business, office, etc.
Quantitative Rating	On a risk-adjusted performance against other managers with similar styles, objectives (against their peers), how have they fared?
Reliability of Composite Reading	(aka Lie Rating) If they advertise that their performance is "X", what the analyst does is goes in and checks actual accounts to see if the numbers the client actually has had matches with what Madison says the client has had.

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Total Score	4 diamond (highest of rating system)

McKee currently has a 3 diamond rating; they have been downgraded because of the impending retirement of the head bond person.

Other factors they examine is their movement from the prior year, the prior time that they were examined (5 is the highest rating).

D. Belcher stated that their score card is fine; it's clean as far as the investment manager evaluation process.

Intermediate Bond Index. D. Belcher inquired with J. McClure if he felt that the intermediate bond index would be fair to use in evaluating performance. J. McClure stated that the intermediate index is a three year duration and the average duration of their portfolio has been 4.5 (with ranges of 2-8). Given this, J. McClure stated that he would be disappointed if they didn't significantly outperform that index over the next 12 months.

Actuarial Assumption. The actuarial assumption is 7% over the past four years; it's very much a concern that longer term, over a full interest rate cycle, that this Board beat that, after expenses. D. Belcher asked J. McClure that as they finish this portion of the interest rate cycle, will the Board be able to exceed that on a cumulative basis since inception with Madison.

J. McClure stated that basically, they are a half a point under or 1/4-3/4 of a point under based on the figures Smith Barney and Madison. He further stated that as the Fund gets to the middle part of the cycle, that bonds do as suggested, and the Fund get a 9-10% return. The difference of a half of a percent would be made up by one year like that. The difference between 6.5 and 7 can easily be overcome.

D. Belcher asked J. McClure if there was anything the Board could do, of a structural nature, to aid in the smooth function of the accounts, specifically is the trading desk working satisfactorily, is the custody arrangement easy, quick to use, do you ever have a case when a trade is not made because of complications of not getting a trade done, any structural suggestions that should be looked at. J. McClure stated that if they were purchasing corporate bonds, he would recommend that they be able to buy bonds in other places. When the trade was made yesterday, they bought and sold $300 million in bonds. With the custody arrangements, the trading arrangements, you make a decision, fill out a form, fax it, it's done. The Fund is getting the advantage of being a part of $300 million purchase as opposed to being a $300,000 trade. D. Belcher wants to emphasize with the Board that one of the things that is hard to track but you know it's there is what happens to the Board's benefit is that when you have aggregation of purchase orders, they're buying $300 million in bonds, that's a lot of bonds.

Trades - Smith Barney: S. Royal inquired about the amount of trades made through Smith Barney and J. McClure stated that they all are because the government market is a pure market; but when they do make a trade, they check with Smith Barney, Goldman, Merrill Lynch, with at least five different trading desks to make sure that what they are getting from Smith Barney is a good/fair trade. The government market is a commodity; the price is really set by the market and if a trading desk knows that Madison has been around, they know what they are doing, and have a good reputation, they're going to get the best price. R. Eldridge inquired what would Madison do if the Smith Barney price was not the better one; J. McClure stated that they do/what they have done is that they buy it somewhere else and deliver it in the Fund's account; they are not restricted to go to Smith Barney. On the trade made yesterday, 50% was made with Smith Barney. J. McClure assured the Board that on the government side of the market, it's a clean market; the mark-up/profit that the bond trading company is making is very, very small; corporate bonds is a lot different, and mortgages are real "horse trading". When you're buying a government bond, it's like buying a stock; you know what you're getting, you know it's fair.

G. Foster questioned J. McClure when buying or selling, is there some revenue dollars that float in the firm; is there some incentive to have turnover? J. McClure stated that there's none whatsoever. Any trading costs on the portfolio negatively affects their performance. There is no incentive; by law they cannot have any relationship with trading companies. D. Belcher stated that no one has the vested interest in trading; in fact, there are a lot of dis-incentives for trading. J. McClure stated that some money managers will have relationships with brokers; but Madison does not do this.

Policy Statement: D. Belcher stated the statement is out-of-date and needs to be revised. A current copy was rewritten by D. Belcher and he would like to know the proper way to proceed from this point forward: Board review with feedback to D. Belcher or a special meeting.

Deadline is prior to the meeting with McKee; D. Belcher will incorporate the corrections and the next draft to be delivered at the next Board meeting.

D. Belcher stated that whatever is in the policy statement, the Board better do or don't say it. That it's okay not to cover things, but it's okay to cover things in language that doesn't pin anyone down. It's also okay to use this exercise as a point of what the Board does on the investment side so that they might rethink the current process.

D. Belcher stated that Smith Barney will not benefit from any transactions; transactions that are handled are handled at zero cost to the Fund. D. Belcher stated that the treasury bond market today is so huge, efficient, that it's a commodity. There is always a spread in the market; but there's no mark-up. D. Belcher traced problems that they had with McKee in which their trader wasn't telling them zero mark-up, which is what they are supposed to do. One of the reasons that most traders go through Smith Barney is because the structure of the deal is lower: price. The motive for Smith Barney is that the firm is getting 25 basis points.

City Audit Report: R. Eldridge distributed the City's audit report; the Board was advised to review and it will be discussed at the next meeting. Along with it is a cover memo from R. Eldridge re: make-up of employees, the portfolio, whether the Fund did good/bad, reasons why and comparisons. Local CDs are listed in the report.

McKee: D. Belcher stated that McKee came as a surprise, but should be dealt with early next year.

The next meeting is scheduled for Tuesday, December 13, 1994, 9 AM.

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

Sincerely,

Karen R. Sndyer
Recording Secretary

Approved this 23rd day of November, 1994.

Jim J. Wuersch
Secretary

URBANA POLICE PENSION FUND

308 SOUTH VINE STREET
URBANA, ILLINOIS 61801

URBANA POLICE PENSION FUND
Minutes of Meeting: Tuesday, December 13, 1994

Next Meeting: February 21, 1995, 9 AM

Present: Elmo Denniston, President
Melvin Schwartz, Vice President
Jim Wuersch, Secretary
Steve Royal, Assistant Secretary
Greg Foster, Board Member

Ron Eldridge, Comptroller
Dennis Belcher, Smith Barney
Bill Vescio, C.S. McKee

E. Denniston called the meeting of the Urbana Police Pension Board to order; the minutes of the last meeting were approved. The Board recommends that the Minutes not be as lengthy as they have been; tapes of the Board minutes will be kept for future reference.

C. S. McKee: Bill Vescio, Vice President of C.S. McKee, discussed personnel changes (Joseph Bonomo was hired to replace H. Churchill), interest rates and their affect on the economy, structural decisions, cash flow, projections for the next quarter.

Madison: D. Belcher stated he received a call from Madison. As they are in a weaker position than McKee, they are offering to go from 40 flat basis points to 30. D. Belcher stated that he has had good relations with their managers and is surprised that they are making this offer.

Public Pension Bills: J. Dobrovolny brought up two issues: There will be a new process for public pension bills to be handled by the state legislature. The Public Pension Commission consists of 12 members that will be making a recommendation to the Governor on legislation that will be a more public process. The Senate Bill just passed the House and will be going back to the Senate and acted upon January 1995. Previously requisites were that you would have to be a sworn commissioned officer, make application three months within hire, physically and mentally fit (duly certified by a Board physician). The physically and mentally fit clause will be taken out from the Statute, if passed, to become a member of the Fund. This delineation is due to an Aurora lawsuit.

Discussion regarding statutory amendments to the admissions procedure and to the admissions of previously denied applicants.

Bryant Seraphin: Bryant's physical and psychological were reviewed by the Board; motion by M. Schwartz, seconded by G. Foster to admit B. Seraphin; motion passed unanimously; effective date of admission to the Fund is October 6, 1994.

Investment Policy Statement. Presentation by D. Belcher regarding guidelines on the Board's operation, background on how investment decisions are made, fiduciary responsibility, actuaries, tax levies, investment horizons, board of trustee responsibilities, non-discretionary advisory duties, custodial arrangement scrutiny by the Department of Insurance, etc.

J. Wuersch will check into liability coverage for D. Colbert.

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

Respectfully submitted,

Karen R. Snyder
Recording Secretary

Approved this 25 day of January, 1995.

Jim Wuersch
Board Secretary