



# Urbana Police Pension Fund

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## URBANA POLICE PENSION FUND MINUTES

Friday, October 26, 2012, 2 PM

\*\* Next Board Meeting: Friday, January 25, 2013, @ 1:30 PM \*\*  
\*\* City Building - Executive Conference Room \*\*

Present: Steve Royal, President (Term expires 5/31/14)  
Dave Smysor, Secretary (Term expires 5/14/13)  
Ron Eldridge, Treasurer (Term expires 5/31/13-Mayoral Appointee)  
Earl Hamilton, (Term expires 5/31/13-Mayoral Appointee)  
Doug Pipkins, Assistant Secretary (Term expires 5/31/14)

### Others

Present: Jim Dobrovolny, Attorney for the Board  
Patrick Donnelly, Morgan Stanley Smith/Barney

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The meeting was called to order at 2:35 PM by S. Royal.

### OLD BUSINESS:

Minutes 7/27/12: Motion by S. Royal to approve the minutes of 07/27/12; motion passed unanimously (voice vote of ayes by D. Smysor, R. Eldridge, E. Hamilton, D. Pipkins).

### NEW BUSINESS:

George Hewkin: D. Smysor advised the Board that he received the death certificate for G. Hewkin, who passed away on 08/17/12.

Treasurer's Report: R. Eldridge distributed the Treasurer's Report and reviewed the report, which included a list of individual investments, CD's, government investments, municipal and corporate bonds, and equities. Cash has increased from 6/30/12 from \$27.3-\$29.3 million, due largely to property tax received in September (\$852,000). As of 9/30/12, the Fund was at \$29.9 million. R. Eldridge stated in a few weeks additional property tax monies will be received and he recommended all excess cash be turned over to P. Donnelly, per investment policy. Motion by S. Royal to accept the Treasurers Report and thanked R.

Eldridge for his detailed report; motion passed by voice vote of ayes by D. Smysor, E. Hamilton, and D. Pipkins.

Audit Report: R. Eldridge reviewed the annual audit report, for the period ending 06/30/2012. No suggestions in procedures were made by the auditor. In the last three years, the Fund increased to \$7.4 million; and in the last 10 years, the Fund averaged an annual increase of assets of 7.2%. The actuary calculated next year's amount is \$2,130,205. The City will be levying up 7.2%; the pension funding ratio went up 4%.

R. Eldridge reviewed investment returns, identifying the 3, 5, and 10 year periods. Pensioners were categorized by types: disability, dependent, and service pensions. For 2012, no officers retired, 3 were hired (ages 36, 28, and 23); in 1988 the average officers' age was 34.7 years, in 2012, it was 35.0 years.

S. Royal commended R. Eldridge on all the work he put forth in providing this informative report. R. Eldridge informed the Board all the pension reports are on the City's website.

Motion by S. Royal that the Board receive and file the annual Audit Report for the Urbana Police Pension Fund, as presented by R. Eldridge. Motion passed by voice vote of ayes by D. Smysor, E. Hamilton, and D. Pipkins.

*These reports are available on-line @*  
<http://urbanaillinois.us/government/finance/financial-reports/police-pension-fund-audit-reports>

IPPPA Conference: D. Smysor stated the Fund might want to re-visit the pension of R. Fitzgerald (Chicago PD Pension) with the Chicago PBPA. J. Dobrovolny could send a notification to the PBPA because they only sent a portion of R. Fitzgerald's monies that was put in for him for his time while w/ the City of Chicago and he mentioned making some sort of official statement or letter to them what we believe should be sent on his behalf. J. Dobrovolny would like some chronology on this and can then look into it further. D. Smysor will get w/ J. Dobvorolny about the chronology and documentation for this matter.

Constitutional Amendment 49: J. Dobrovolny discussed the constitutional amendment 49, a blue pamphlet from Jessie White, explaining this was going to be on the ballot November 6<sup>th</sup>; The amendment addresses the first 600 words that it would require 3/5 majority of the legislature to pass any future benefit increases. The main concern is that they didn't completely print it out on the ballot, did not fully explain subparagraph d of the proposed amendment that there won't be any restrictions of passing any law that would further restrict benefit increases. This will give them the power to limit the 'pensionable salary', but what he thinks they are going after are COLAs

J. Dobrovolny encourages a NO vote. If the vote passes, there will be lawsuits filed regarding the constitutionality. This would apply to all pensions, including police and fire.

Suspension w/o Pay: Discussion if there's a right to buy bank time for unpaid leave. J. Dobrovolny stated:

- 30 days or more –Unable to buy back time
- 30 days and under – Ability to buy back time for credible service that is due to an injury or leave of absence.

Credible service, furloughs and leaves of absence were discussed. If an individual has a leave of absence, if they are being disciplined to 60 days off, they are unable to get the full time back; they can only buy back 30 days, no additional days can be bought back for credible service.

D Smysor will talk to R. Eldridge regarding a 15 day unpaid suspension.

Resignation of Ofc. Byron Ebbert: B. Ebbert resigned from the Department, effective 10/16/2012. D. Smysor will contact B. Ebbert regarding reimbursement of his contributions; he will receive no interest and the monies will have to be transferred to a qualified plan or 20% will be withheld. R. Eldridge will check to see if the money has been taxed and if it reduces your tax liability. He stated there is no state tax on these funds.

D.Shaffer: No word from D. Shaffer; he was sent a form with his numbers, but nothing has been returned to the fund. His window of opportunity is 2 years for an Article 3 Fund.

### **P. Donnelly - Investment Presentation:**

Overview on capital markets, economy, and a recap of what's occurred in the last quarter regarding the economy. The US stock market has had a good 3<sup>rd</sup> quarter.

Portfolio Review:

**Asset Allocation**: The policy change for asset allocation will go from 50-55%, adopting the changes. The current fund 54.5%, not excluding Busey and cash, but that's within our portfolio. 15% is in domestic US, 4.3% is in international, the lion's share is in equities within the S&P, some with mutual funds (Callamos); Clearbridge is the manager we hired; he's been raising cash (selling off stocks, not reinvesting of monies; he feels there's too much risk); the strategy he has regarding mutual funds has worked out nicely (we were struggling with gold, but that's come back). International managers are fine; P. Donnelly would not recommend taking action now, but stated we are close to adding to international

(some problems in Spain, Portugal, but there are some good companies there). P. Donnelly stated he would recommend possibly adding to it at the next meeting. As of 9/30, there's \$26,279,000 and explained the accruals and dividends that can hit on one month, but not settle on the statement until the next. P. Donnelly explained some of the differences in the report, this should be corrected next year.

**Callamos Growth and Income** has about 64% (\$1.3 million); P. Donnelly stated their CIO left the firm last month; he was there for 25 years and made all the investment decisions for the Fund. The Callamos' son that's now running the Fund was more in marketing than their investment management, so Morgan Stanley, Smith Barney's recommendation is to terminate Callamos. This withdrawal is at no cost to the Fund if they are terminated; just a recommendation MSSB feels they have to make. Callamos is a growth manager so it's a good time to re-evaluate them; currently, the Fund is money ahead (\$381,000 of growth since inception); Callamos has done well since growth has outdone value stocks.

**Hersh Cohen & Clearbridge Appreciation** was purchased because the Fund wanted to be more conservative and have a dividend-type discipline. They've done really well recently, sitting on about \$596,000 in cash; their opinion was they wanted to wait until after the election before they make any determination based on who wins the election. Their feeling is that there's a real challenge/volatility w/ the fiscal cliff, so why not just bank the profit, wait on the sidelines, for opportunity. They've done a great job, better dividends than the S&P.

Alternative Strategies: Mutual funds that could have gold in them look really good now, which the Fund bought a while ago. The biggest challenge for this Fund is the bond returns, which is a challenge for all the Police Funds. With the low level of interest rates and inflation is out there, bond returns are going to be a problem. This is going to need to grow, as part of your Fund, if you want to supplement stock market volatility with something like bonds. The Fund needs to hedge off some of that risk. Pimco Real Return Fund, which buys different bonds (Fund has this on their mutual fund on the stock side) does a good job of hedging off bond risk and generating returns. The Permanent Portfolio is more a defensive fund that can go out there and buy commodities (gold, silver, treasuries, etc.).

International: Thornberg (performed better) and William Blair complement each other in the merging market. P. Donnelly stated MSSB thinks the bottom has been set there; it can still drop, but to try to time a good portion of the International, time in those markets and global growth they would probably recommend additional purchasing.

Bonds: Madison funds got moved to McDonnell Investments and Madison has done fine; the 10 year return on this Fund has been fantastic; however, he would not recommend further funds being invested in this Fund. Madison is up 2% in the last 12 months.

McDonnell: Trailing 12 months, they are up 6%; they've done fine, they are trying to get more yield; their duration is about 5.7 years; they'd like to push it out to about 7 years.

Department of Insurance: J, Dobrovolny stated the Department of Insurance has written an advisory opinion for a couple of the Boards that the 45% recent legislation is now 55%; the question was put to them when we were at 45%, we were 35% in equities and 10% in mutual funds. Would the same hold true with the new category of 55% money, could we not add 10% mutual funds? J. Dobrovolny stated he's not saying we should go there, but something to think about; if we wanted to move money into equities, your choice would be treasuries; P. Donnelly stated that would give you the ability to own some 1040 mutual funds that act very different than equities and that provide some no correlative returns. P. Donnelly stated he thinks the State is trying to help Funds find a way to invest in some asset classes that you really can't, per the legislation, unless you use these 1040 act mutual funds.

Cash Flow: If cash comes in, P. Donnelly would recommend:

- Termination of Callamos Growth; there's really no reason to hang onto them.
- 100% of Callamos, along w/ any excess money R. Eldridge has from property taxes, should be invested:
  - 50% Cabelli
  - 50% Clearbridge

P. Donnelly would like to recommend another growth manager at the next meeting. He'd like to utilize the new growth manager to complement the allocation; he feels growth has been up dramatically and it's a good time pause from that and allow some more prudent/conservative strategies and allocate back to growth once we get past the election and see what happens w/ the debt ceiling.

- Any new money R. Eldridge has should be added to the Funds:
  - a. Pimco All Asset Authority – (more volatility) Has run the Fund for 10 years, utilizes all PIMCO mutual funds; been very successful. He thinks this is a natural piece to complement the overall fund in the alternative strategy.
  - b. Pimco Commodity
  - c. Permanent Fund (store of wealth)

The above is P. Donnelly's recommendation. Fee is 5% (no front end load, no back-end load, management fee is 35 basis points). Fees are about 75 basis points, but if you look at emerging markets, it's quite a bit higher. There is no soft dollar fee returned to MSSB for buying this fund.

Motion by S. Royal to sell 100% of Callamos; with that sale, split 50% w/ Gabelli & 50% to ClearBridge. Motion carried by voice vote: R. Eldridge (aye), E. Hamilton (aye), D. Smysor (aye), D. Pipkins (aye).

Motion by S. Royal that any property tax money that will be coming in shall be split that 3 ways between:

- PIMCO REAL RETURN FUND
- PERMANENT PORFOLIO FUND
- AND OPENING A NEW ACCOUNT FOR PIMCO ALL ASSET ALL AUTHORITY FUND

Motion carried by voice vote: D. Smysor (aye), D. Pipkins (aye), E. Hamilton (aye), and R. Eldridge (aye).

P. Donnelly will bring information for growth managers at the next meeting and make sure the portfolio does not need to hire somebody else to replace that slot.

R. Eldridge can contact D. Smysor or S. Royal when he's in receipt of the property tax funds. D. Smysor stated he thought the process is that we'd pull money out of Clearbridge and Cabelli after the first of the year when the new growth manager starts.

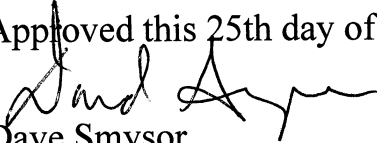
P. Donnelly will also go over the fees at the next meeting.

Respectfully submitted,

*Karen Snyder*

Recording Secretary

Approved this 25th day of January, 2013

  
Dave Smysor

Secretary