

Meeting Minutes - October 14, 2008

The meeting of the Des Plaines Police Pension Board was called to order by President Chiaro at 9:10 a.m. in Room 101 of City Hall in Des Plaines, Illinois.

Roll Call. Present: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Absent: None (0). Also present were Annuitant Wendall Whitted, Annuitant James Roel, Board Financial Advisor Thomas McShane, and Board Attorneys Joseph Perkoski and Brett Harvey.

Approval of Minutes. Motion by Salas, seconded by Muehlenbeck, to approve the August 12, 2008 regular meeting minutes. Motion carried by unanimous voice vote.

Disbursements. The Board reviewed the disbursements as identified on the October 14, 2008 warrant list #11 in the total amount of \$34,424.75. A roll call vote was taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

Board Attorney's Report

a. Lalowski Complaint for Administrative Review Update. Attorney Perkoski advised the Board that oral arguments on the Lalowski complaint for Administrative Review are scheduled for November 25, 2008.

b. Schroeder Disability Claim. Attorney Perkoski advised that the written decision on the Schroeder Disability Claim had been appropriately issued to Mr. Schroeder and his legal counsel. Mr. Schroeder will have 35 days from October 2, 2008 to appeal the decision through a Complaint for Administrative Review. Attorney Perkoski advised that he has received no notice from Mr. Schroeder's counsel as to what his client intends to do with respect to an appeal.

c. Review of Legal Developments. Attorney Perkoski and Attorney Harvey presented to the Board recommended revisions to Board's Rules and Regulations and the Board's Investment Policy. The Board is to

review the recommended revisions and the Board will set the matter for possible action at its next meeting. Thomas McShane discussed the recommended revisions to the Investment Policy. McShane noted that his goal with respect to the Investment Policy has been to have a document which is understandable to lay persons. McShane noted that the recommended revisions would bring uncharacteristic technical language to the Policy. Attorney Perkoski discussed the need to include in the Board's Rules and Regulations and Investment Policy specific language from HB 5088. Because the new law does not yet have implementing regulations, it is not entirely clear how the technical statutory language will be interpreted. Attorney Perkoski discussed that modifying the language could inadvertently result in statements which are deemed to be inconsistent with the Act. Attorneys Perkoski and Harvey will review whether any of the changes made to the Investment Policy could be included in the Rules and Regulations.

Attorney Perkoski also provided the Board with information on pending legislation. Attorney Perkoski discussed HB 5692 which permits a police officer transferring creditable service between police pension funds (as a result in a change of employment) to elect to have the amount of time that is transferred reduced rather than paying the true actuarial costs for all of the time served, thereby reducing the cost of the transfer. Attorney Perkoski discussed the challenges with the transfer of creditable service due to the substantial costs involved to the police officer in order to meet the true cost calculation for the total years of service.

Attorney Perkoski also discussed SB 1539 which provides that surviving spouses of annuitants are not disqualified from benefits if married one year before the death of the police officer even if the marriage occurred after the effective date of retirement or disability. Attorney Perkoski also discussed HB 5514 which provides a right to municipality to intervene and participate at any Board hearing related to the granting of a line-of-duty disability pension. Currently, the municipality may participate if a pension board grants permission.

Attorney Perkoski also discussed the case decision Jones v. Board of Police Pension Fund Bloomington, Illinois issued on September 15, 2008 by the Illinois Appellate Court for the 4th District. In this case, the Appellate Court reversed the Police Pension Board's determination that an officer was not entitled to a line-of-duty pension. The officer had been injured while driving a police transport van on a "routine patrol". The officer was on his way to monitor a roadway where there had been numerous reports of drivers exceeding the speed limit. On the way to that location, the officer was involved in a vehicle accident and was disabled. The pension board had determined that the officer had not assumed a "special risk" with respect to the operation of the van. The appellate court reversed this finding relying on the appellate court decisions in Sarkis, Merlo and Alm, noting that the injury need not be directly caused by the "special risk," but rather the injury must occur while performing an act of duty which contains the "special risk". Further the duty need not be inherently dangerous to constitute a special risk. In this case, the court found that the operation of the van in route to perform a patrol was in the line of duty because the patrol was a "special risk."

Old Business. President Chiaro noted that there was no old business.

New Business.

a) Mayoral Appointment of Trustee Robert Neil. The Board welcomed new Trustee Robert Neil. Trustee Neil replaces the late Gaston Freeman as the mayoral appointment to the Board.

b) Election of Assistant Secretary. Robert Muehlenbeck was nominated to fill the position on the Board as Assistant Secretary. The position was vacated with the departing of Gaston Freeman. Motion by Chiaro, seconded by Neil, approving the appointment of Robert Muehlenbeck as the Assistant Secretary. Motion carried by unanimous voice vote.

c) Application for Membership from Officer David

Shrewsbury. Officer Shrewsbury started with the department on September 22, 2008. Officer Shrewsbury's is 24 years old. Motion by

Salas, seconded by Neil, to accept the application of Officer Shrewsbury. Motion carried by unanimous voice vote.

d) Retirement of Officer Scott Webster. The Board reviewed the retirement pension calculation for Officer Scott Webster provided by Lauterbach & Amen. Officer Webster was a patrol officer/evidence technician who began with the department on July 2, 1984. The effective date of retirement is September 17, 2008, constituting 24 years and two months of service. The Lauterbach & Amen calculation is based upon a salary of \$76,576 annually plus longevity of \$2,643 for a total of \$79,219. According to Lauterbach & Amen, the annual pension benefit for Officer Webster is \$47,531.40 or \$3,960.95 per month. Motion by Marks, seconded by Muehlenbeck, to approve the pension benefit of \$47,531.40 annually for Officer Scott Webster as calculated by Lauterbach & Amen. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

e) Deferred Retirement of Officer Gregory Mall. The Board discussed the retirement pension (deferred basis) for Officer Gregory Mall as calculated by Lauterbach & Amen. Officer Mall began with the Department on July 6, 1987 and retired on October 3, 2008, constituting 21 years and 2 months of service. The pension calculations based upon a salary of \$72,928 with longevity of \$2,458 for a total of \$75,386. The date of pension is deferred until February 1, 2010. The retirement pension will be \$39,577.65 annually or \$3,298.14 monthly according to Lauterbach & Amen. Motion by Salas, seconded by Neil, to approve the deferred retirement pension calculation for Officer Gregory Mall in the amount of \$39,577.65 annually (deferred basis) to commence on February 1, 2010 in accordance with the calculation provided by Lauterbach & Amen. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

f) Death of Surviving Spouse, Irene Senteff. The Board discussed notification of the death of Irene Senteff, the spouse of Sergeant Peter Senteff. Irene Senteff passed away on July 16, 2008 at the age of

86. Sergeant Peter Senteff had served with the department from June 1, 1957 through June 17, 1978.

g) Approval of 2009 Scheduled Pension Benefit Increases. The Board discussed Lauterbach & Amen's letter of September 15, 2008 providing a list of the scheduled pension benefit increases for each annuitant for the 12-month period of January 2009 through December 2009. Motion by Salas, seconded by Neil, to approve the pension benefit increases for January 2009 through December 2009 as calculated by Lauterbach & Amen and as set forth in Lauterbach & Amen's letter of September 15, 2008 to the Pension Board. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

h) Pre-payment Options for Lauterbach & Amen bills. President Chiaro discussed a pre-payment option presented for Lauterbach & Amen. Currently, the Board pays Lauterbach & Amen monthly based on invoice. Because of recent accounting changes, Lauterbach & Amen is required to have the Board provide a written approval before it can issue a check to itself for its services to the Board. With payment on a monthly basis, this process can be cumbersome. President Chiaro is proposing pre-payment of the Lauterbach & Amen fee on an annual basis such that the approval process need only take place once a year. The Board discussed the pre-payment option. Motion by Muehlenbeck, seconded by Neil, to approve changing the payment process for Lauterbach & Amen such that the Board will prepay Lauterbach & Amen on an annual basis for projected services rendered. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

i) Service Transfer Updates. The Board discussed the completion of the transfer of creditable service for Officer Matthew Jones from Park Ridge Police Pension Fund to Des Plaines Police Pension Fund as well as the transfer of creditable service for Office Joan M. Penze from IMRF Police Pension Fund. The Board further discussed the proposed calculations for

transfer of creditable service relative to Officer Susan Pavek, Officer Richard J. Niemann and Officer Daniel R. Niemann.

j) Annual Tax Levy Request Letter. The Board discussed a draft of the annual tax levy request letter to be sent to City of Des Plaines. In reviewing the draft, the Board directed adding to the letter historical data concerning the actuarial calculation provided by the State of Illinois for the previous year relative to the underfunding of that amount by the City. The Board discussed the fact that in 2007, the Board had asked the City for a tax levy in the amount of \$3.2 million dollars based upon the actuarial calculation from the state. However, the City only provided a tax levy of \$2.5 million dollars. The Board discussed that a continuation of this underfunding has a compounding effect detrimental to the health of the Fund. The Board's attorneys will prepare a revised draft of the letter to enhance the letter with historical data.

k) Purchase of Canon Optical Scanner. President Chiaro discussed his continued review of options on the purchase of office equipment to facilitate the scanning of documents. President Chiaro is recommending the purchase of a Canon Optical Scanner at an approximate cost of \$800 and the purchase of a dedicated computer to facilitate the scanning. The dedicated computer would have an approximate cost of \$1,000. The Board discussed these options. Motion by Salas, seconded by Neil, to approve the purchase of a Canon Optical Scanner and associated computer for an amount not to exceed \$2,000. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

Approval of Lauterbach & Amen Balance Sheets for July and August 2008. The Board discussed the Lauterbach & Amen balance sheets for July and August 2008. Motion by Marks, seconded by Muehlenbeck, to approve the Lauterbach & Amen balance sheets for July and August 2008. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

Financial Report. Financial Advisor Thomas McShane presented the Board with his Third Quarter 2008 Performance and Review report dated October 14, 2008. McShane discussed the current financial crisis noting the relationship between the impact of the credit crisis because of declining home prices and declining employment, all having a sharply negative effect on business and consumer confidence in the 3rd quarter 2008. McShane noted that the government is now better coordinating the relief effort with respect to the infusion of cash into the banking system. McShane also discussed the government's plan to retain money managers to facilitate its new role in the financial and credit markets. McShane further discussed the dramatic sell-off in the market of the previous week noting that stock liquidation was the only way to generate cash.

In addition to the Third Quarter 2008 Performance and Review report, McShane distributed an additional document titled, "Month to Month, Trailing Twelve Months Ending 10/12/08" depicting the Fund's current distributions and values. As noted in the Month to Month document, the Pension Fund is down approximately 15% in value since October 2007. A copy of the Month to Month report, Trailing Twelve Months Ending 10/12/08 is attached hereto as Exhibit A and incorporated herein. A copy of the chart depicting Total Fund Performance for the period of 12/31/02 through 09/30/08 is attached as Exhibit B and a copy of the Investment Performance Summary for the period of December 31, 2002 through September 30, 2008 is attached hereto as Exhibit C.

With the decline in the market, McShane opined that it was time to begin moving back into the purchase of equities as stocks are in essence on "sale" – in many cases, 40% down in value. McShane noted that moving back towards equity will not be comfortable but likely necessary as the market may quickly level off and flatten. The Board discussed possible sectors for investment. McShane recommends that the Board first move money into large blue chip stocks before looking at the more risky emerging market and foreign small stocks. The money for the move back toward equity would come from the Fund's fixed income portfolio with a goal toward moving back toward a 45% equity investment. Specifically,

McShane is recommending that the move toward equity be based upon a determination of the difference between the Fund's current allocation in equities as of October 14, 2008 and the 45% portfolio limitation. One-third (1/3) of that difference would be the amount of the initial investment. The initial investment would come from the Fund's fixed income portfolio and would be moved into an S&P 500 Index Exchange Traded Fund (ETF). McShane recommends that thereafter the Board systematically invest the remaining amount of the difference between the Fund's current allocation in equity and the 45% limit to bring the Fund to the 45% equity limit over the course of the next 12 months. McShane estimates that the initial amount that would be invested under this formula would be approximately \$1.2 million dollars with subsequent incremental investments of approximately \$230,000 until the differential is met.

Motion by Salas, seconded by Marks, directing the Board's Financial Advisor to transfer money from the Fund's fixed-income allocation in an initial amount equivalent to one-third (1/3) of the difference between the Fund's current allocation in equities as of October 14, 2008 and the 45% total Fund equity limit, said initial amount to be invested in an S&P 500 Exchange Traded Fund (ETF); with additional investments to be made thereafter on a systematic and incremental basis bringing the Fund to the 45% equity investment level over the course of the next 12 months. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

McShane further discussed the finance committee's recommendations for a fixed-income and small to mid-cap equity managers. McShane reported that the finance committee is recommending that the Board add to its fixed-income managers, SKBA Capital Management, LLC. McShane noted that SKBA would complement the McDonnell investment portfolio. McShane is recommending that \$10MM be transferred from McDonnell Fixed-income to SKBA Capital Management.

Motion by Muehlenbeck, seconded by Salas, authorizing the Board to engage SKBA Capital Management LLC with contract execution subject to Board counsel review; and to authorize the transfer of \$10 million dollars

from McDonnell fixed-income to SKBA Captial Management LLC. A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Naves: None (0). Motion carried: 5-0.

McShane further discussed the finance committee's recommendation on the small to mid-cap equity managers. The Board is recommending that Kayne Small Cap Core be replaced with Messner and Smith small cap core.

Motion by Salas, seconded by Neil to retain Messner and Smith small-cap core with contract execution subject to Board Counsel review, and to transfer all current funds in Kayne-Small cap core to Messner and Smith (balance effective on the date of transfer). A roll call vote taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Naves: None (0). Motion carried: 5-0.

Adjournment. Motion by Salas, seconded by Muehlenbeck to adjourn at 11:50 a.m. The motion was carried by unanimous voice vote.

Approved:

Nick Chiaro
President