

Meeting Minutes - March 20, 2007

The meeting of the Des Plaines Police Pension Board was called to order by President Chiaro at 9:03 a.m. in Room 101 of City Hall.

Roll Call. Present – Trustees Freeman, Marks, Muehlenbeck and Salas; President Chairor.(5). Absent: None. Also present were board attorneys Mathias Delort and Joseph Perkoski; annuitants Wendall Whitted and James Roel; and Board Financial Advisor Thomas McShane.

Attorney's Report.

Sudan Legislation. Attorney Delort reported that Judge Kennelly ruled that the Illinois Sudan investment law was unconstitutional, and that he enjoined the state officials from enforcing the law. Accordingly, the board need take no action at this time regarding divestment of equities that might violate that law. There is no word yet on whether the state will appeal. However, he noted that there is legislation pending to provide that local pension boards that are over invested in equities would be taken over by the State Investment Board, leaving the local board to only pay administrative bills and handle disability hearings.

McShane criticized the legislative proposal, noting that the local boards should have greater, rather than lesser, ability to invest in equities. The new law would require boards to reallocate funds frequently to ensure they do not accidentally exceed the triggering levels for a state takeover.

Levy Transmission Legislation. Attorney Delort also reported that State Senator Ira Silverstein has, at Delort's request, introduced Senate Bill 65, which parallels last year's law to provide that the county will transmit police pension levy proceeds directly to the police pension board. The bill has passed the Senate and is awaiting consideration in the House.

Malia Held Disability. It was reported that Officer Held has not filed any request for a disability pension.

Annual Affidavits of Eligibility. It was reported that annual affidavits of eligibility have not been received from two officers, John Stephens and Robert Schultz. The board considered invoking its authority under the board rules to suspend these officers' pensions due to their failure to provide evidence they are still eligible to receive a pension. It was noted that one officer has been recently hospitalized. Accordingly, staff was instructed to continue to pursue contact with the officers to secure the affidavits.

Investment Report. Thomas McShane advised the board that he and his investment team had severed their relationship with Wachovia Securities and had re-established themselves at Smith Barney/Citicorp. McShane explained that this move would enable him to better serve his pension client base. He requested that the board authorized a transfer of the custody of pension assets from Wachovia to Smith Barney and to enter into replacement contracts with Smith Barney to serve as investment adviser. He also stated that the staff at Smith Barney would provide a new perspective that might assist the board in fulfilling its obligations more effectively. The fees would remain the same, and the new firm would absorb minor costs such as the \$90 Wachovia account closing fee.

Motion by Chiaro, seconded by Freeman, to transfer board accounts from Wachovia to Smith Barney. Motion carried by unanimous voice vote.

Motion by Chiaro, seconded by Freeman, to continue to retain Thomas McShane of Smith Barney as the board's primary investment adviser. Motion carried by unanimous voice vote.

Motion by Chiaro, seconded by Salas, to authorize the board president to enter into contracts with Smith Barney as necessary to effectuate the transfer of assets and responsibilities from Wachovia to Smith Barney. Motion carried by unanimous voice vote.

Attorney Delort suggested that these motions be placed on the agenda of the April 10 meeting for additional ratification.

McShane noted that the board should consider reallocating its holdings to meet the required guidelines. Currently, about 48% of the board's holdings are in equities. He recommended trying to stay slightly under the 45% guideline, i.e., at 44%.

Motion by Chiaro, seconded by Salas, to reduce equity holdings to 44% as shown by the most recent annual Division of Insurance report. Motion carried by unanimous voice vote.

McShane recommended that the board look at taking excess funds at this time from some of the more aggressive managers, such as TCW or Fayez. About \$1,600,000.00 should be moved, prorated between the various funds. Motion by Chiaro, seconded by Muehlenbeck, to authorize the Investment Committee to make the precise transfer arrangements upon consultation with McShane and report back at the April 10 meeting. Motion carried by unanimous voice vote.

McShane reported that he is still dissatisfied with the performance of TCW and the board is close to terminating their relationship. He will provide a further update at the next meeting.

At 9:56 a.m., Ron Grossman and Glen Schneider of SG Capital were admitted to the meeting. Grossman was previously affiliated with Mesirow Securities and had handled a small cap portfolio for the board in the past. Schneider did research for Mesirow and joined Mesirow formally in 2000. They indicated that SG Capital has been operating since May, 2002. SG Capital currently manages (3) different Funds for Individual Investors. They have now created a Long Only Fund that may be appropriate for pension funds. There are six professionals in the firm, of whom four primarily do research. SG specializes in small cap companies with less than \$2 billion in assets. SG's investment decisions are largely earnings event-driven.

Grossman explained how SG interviews CEOs and CFOs of the companies each quarter and reviewed statistical tools it uses to select its holdings. SG is a registered investment advisor and is licensed by the SEC. McShane asked if SG was familiar with Illinois laws restricting pension board investments. Grossman indicated he

would have to look into that issue further. The board thanked SG for its presentation.

Adjournment. Motion by Chiaro, seconded by Salas, to adjourn at 10:48 a.m. Motion carried by unanimous voice vote.

Nick Chiaro

Chairman