

Meeting Minutes - April 8, 2008

The meeting of the Des Plaines Police Pension Board was called to order by President Chiaro at 9:09 a.m. in Room 101 of City Hall.

Roll Call. Present – Trustees Muehlenbeck, Salas, Marks, and President Chiaro (4). Absent: Trustee Freeman. Also present were Annuitant Wendall Whitted, Annuitant Jim Roel, Recording Secretary Tina Whitted, Board Attorney Joseph Perkoski, and Board Financial Advisor Thomas McShane.

Approval of Minutes. Motion by Muehlenbeck, seconded by Marks to approve the February 12, 2008 regular meeting minutes and the February 12, 2008 Executive Session minutes. Motion carried by unanimous voice vote.

Financial Report. Financial Advisor Thomas McShane presented the Board with his February 2008 Performance and Review report and the First Quarter 2008 Performance report. McShane discussed generally the continuing problems with the economy and the impact on equities. McShane noted the continuing trend in the market of a flight to quality in equities and a flight to treasuries.

McShane discussed the Fund's performance for the First Quarter 2008, noting a percentage decrease in total fund performance in the first quarter of 2.39%. The Fund performance for the trailing 12 months was an increase in total fund performance of 5.43%. A copy of the "Total Fund" performance chart from McShane's First Quarter 2008 Performance report is attached as Appendix A.

McShane further discussed the Fund's holdings in Great Lakes-Large Cap Value, Fayez-Large Cap Growth, Wells-Large Cap Growth, Kayne-Small Cap Core, and SG Capital-Small Cap Growth. With respect to Fayez, McShane noted that the risk return ratio with respect to the fund is positive. With respect to Kayne, McShane noted that the fund was performing below expectations and that he is reviewing a possible recommendation to replace this holding. McShane will provide a recommendation for an investment alternative to Kayne for the Board's consideration. With respect to

SG Capital, McShane noted that despite the holding's investment return have decreased in value by 8.10%, there is reason to believe that this Fund will make substantial improvement as the market improves into next year.

McShane further discussed his Report's depiction of all fund investments (page 1 of McShane's First Quarter 2008 Performance report) which provides a snapshot of all investment managers from April 2007 through March 2008. A copy of the chart from McShane's First Quarter 2008 Performance report is attached hereto as Appendix B.

McShane also discussed some housekeeping items relative to the Fund including documentation relative to the Board's transfer of \$1,000,000 from Great Lakes to Amerifund. In addition, McShane discussed a duplicate charge to the Fund and the subsequent crediting of the Fund's account in the amount of \$19,004.60 as an adjustment relative to Great Lakes-Large Cap Value Fund. McShane also discussed adjustments to the Fund's account relative to an overpayment on consultant fees.

In addition, McShane briefly addressed issues raised by the Illinois Municipal League (IML), and its recent campaign to purportedly raise awareness on the under-funded status of the downstate pension funds. McShane provided his perspective on the growing controversy noting that there is primarily a perception issue here with respect to the funding of the downstate pension funds. Adding fuel to the issue is the current downturn in the economy.

Disbursements. The Board reviewed the recommended disbursements as set forth in the April 8, 2008 warrant list. The "2008 Monthly Contractual Increase" for Lauterbach & Amen in the amount of \$60.00 was discussed.

Motion by Salas, seconded by Marks, to pay the disbursements as listed in the April 8, 2008 warrant list in the total amount \$27,889.37. Ayes: Trustees Salas, Muehlenbeck, Marks and President Chiaro (4). Nays: None. Motion carried 4-0.

Approval of Lauterbach & Amen, LLP Balance Sheets for January and February 2008.

The Board discussed the Lauterbach & Amen Balance Sheets for January and February 2008.

Motion by Marks, seconded by Salas, to approve the Lauterbach & Amen Balance Sheets for January and February 2008. Ayes: Trustees Marks, Salas, Muehlenbeck and President Chiaro (4). Nays: None. The motion was carried, 4-0.

Board Attorney's Report

Sarkis Appeal Update. Attorney Perkoski advised the Board that his office filed the Board's Request for Appeal with the Illinois Supreme Court on March 14, 2008. Perkoski noted that the City of Des Plaines, through its counsel, also filed its request for an appeal on March 14, 2008. No brief was filed on behalf of Mr. Sarkis. Perkoski reviewed the primary arguments asserted in the Board's brief including the argument that the Appellate Court had applied the wrong standard of review and thereby failed to give appropriate deference to the decision of the Board. In addition, Perkoski explained that the Board is asserting in its appeal that the Appellate Court's decision in *Sarkis* is at odds with a recent decision handed down in the Appellate Court in the Second District -- which was issued after the briefing in the Appellate Court in the *Sarkis* matter had been completed.

Lalowski Complaint for Administrative Review. Attorney Perkoski advised the Board that Mr. Lalowski's brief in support of his complaint for administrative review is due to be filed with the Court on April 10, 2008. Thereafter, the Board will have until May 9, 2008 to file its brief in opposition to the complaint.

Review of Recent Legislation. Attorney Perkoski discussed House Bill 5158, which would amend Article 3 of the Pension Code to allow the Surviving Spouse of a police officer who retired under Article 3 to be eligible for 100% of the deceased retiree's pension when the marriage occurred after the police officer retired -- as long as the marriage lasted at least one full year. Currently, there are

no benefits to surviving spouses where the marriage occurred after the officer's retirement. Perkoski noted that the bill was still in the House, with the second reading of the bill having occurred on March 13, 2008. According to the "pension impact note" filed relative to the bill, the result of this legislation would be an increase of 5% in eligible spouses for pension benefits period.

Perkoski further discussed House Bill 4905, which is related to the efforts of the Illinois Municipal League to bring greater scrutiny and restrictions on downstate pension funds. Perkoski discussed the primary provisions of the legislation which would include requiring that a pension impact note for legislation impacting downstate police and fire pension funds demonstrate the fiscal impact of the legislation on at least 25 municipalities with pension funds. In addition, the legislation would amend the property tax extension limitation law and property tax code by exempting from the definition of aggregate extension all contributions to a pension fund created under articles of the Illinois pension code. In addition, legislation would make changes concerning prohibited transactions by fiduciaries of a pension fund. The legislation would also place limitations on the use of consulting services and prohibit gifts to a member of a board of trustees of a pension fund. The legislation would also include provisions concerning fraudulent claims for disability pension by police officers and firefighters. The legislation would also require publication of a notice regarding the Fiscal status of a Pension Fund on an ongoing basis. Perkoski noted that House Bill 4905 was referred to the House Rules Committee on March 14, 2008.

Perkoski further discussed the potential legal implications relative to the efforts of the IML to raise awareness and scrutiny on downstate Pension Funds. Perkoski noted the response of the Illinois Police Pension Fund Association (IPPFA) as well as various Illinois mayor associations who are grappling with the issue of underfunded pensions. Perkoski noted that the primary impact from a legal perspective on downstate pension funds will be the need to adjust to possible legislation heightening scrutiny on pension funds. Perkoski noted that the Des Plaines Police Pension Fund already has in its Bylaws and in its Investment Policy

safeguards which provide internal checks and balances to prevent fraud and to prevent under-funding. Perkoski recommended that his firm undertake a review of the Board's policies to further enhance the self-review and self-scrutiny mechanizing of the Board's operations in anticipation of legislation in this area. The Board expressed agreement in the direction recommended by Attorney Perkoski.

Old Business.

Officer Nicholas Braski. The Board discussed the transfer of service credits for Officer Nicholas Braski who came to the City from Morton Grove. Officer Braski was advised by the Board counsel earlier this month of the transfer of service credits process and the "true cost" calculation. Officer Braski will now determine if he wishes to direct the transfer of service.

Annual Affidavits. The Board discussed the 100% return rate on the submission of annual affidavits.

Physician Certifications. The Board discussed the sending out of the annual physician certifications to subject annuitants.

Executive Session.

Motion by Chiaro, seconded by Muehlenbeck, to enter closed session at 10:32 a.m. pursuant to 5 ILCS 120/2 (c) (11). Motion was carried by unanimous voice vote. Return to regular session at 10:43 a.m.

Adjournment.

Motion by Salas, seconded by Muehlenbeck, to adjourn at 10:45 a.m. The motion was carried by unanimous voice vote.

Approved:

Nick Chiaro

Chairman