

**MINUTES OF THE POLICE PENSION BOARD
RESCHEDULED QUARTERLY MEETING
TUESDAY, MAY 4, 2010
5:00 P.M.**

CALL TO ORDER:

President Helgerson called the meeting to order at 5:02 p.m.

ROLL CALL:

Present: President Stan Helgerson, Vice-President David Comstock, Secretary Andrew Doles, Assistant Secretary Dennis Walker, and Trustee Art Weber. A quorum was present. Village Treasurer Jack Walde, Mary Tomanek, Attorney Cary Collins and Recording Secretary Laura Donohue were also present. Scott Herrick arrived at 5:12 p.m.

ADOPT AGENDA:

A motion was made by Walker and seconded by Doles to adopt the agenda as presented. Voice vote: unanimous ayes - motion carried.

CONSULTANT REPORT:

Fixed Income Sector:

Herrick from Becker Capital reviewed the Fixed Income Investment Update focusing on the 1st Quarter ending March 31, 2010. Update includes the investment allocation and provides commentary on performance, activity, and the quarter ahead. Also explained was the Treasury Yield Curve at present, over the last six months, and the year prior.

Helgerson questioned the future of the fixed income investments. Herrick replied that rates continue to be at a 45 year low. Becker Capital is hoping for the 10 Year Treasury to hit 4%. Becker also believes there will be a slight uptick in inflation. The market has yet to price that in. Doles questioned the difference between Agency Bonds and Treasury Bonds. Herrick explained that Agency Bonds are higher risk/higher reward products that include mortgage related investments. Treasuries on the other hand are implicitly guaranteed by the US Government. Comstock questioned how corporate bonds are possible purchases based on the Investment Policy. Tomanek replied that corporate bonds with maturities until 2012 are approved in the policy. Helgerson added that the bonds must also be diversified investment grade.

Equity Sector:

Tomanek reviewed 1st Quarter ending March 31, 2010 performance numbers. Overall the fund is lagging the index due to the conservative nature of the investments. They are still expecting it to be some time before the difficulties of 2008 and 2009 will be behind us. Economic forecasts were explained and reviewed with a surprise in seeing very positive incoming tax revenues. Becker will be well situated going forward in a rising interest rate market. Current duration is outside the benchmark in the Investment Policy. However, Tomanek believes the durations to be sound and will review again prior to the regularly scheduled July quarterly meeting.

Tomanek presented a letter from James J. Tracy, Managing Director of the Consulting Group for Atalanta Sosnoff. Tomanek has no problem with the changes outlined. No action is necessary; however, the letter is attached for the files.

Helgerson requested a discussion of the Gateway investments. Tomanek explained that they had conducted an Equity Income Search through Morningstar using the S&P 500 as the benchmark, minimum rates of return, an overlaying minimum 4 star ranking mutual funds, and size specifications and produced some very good candidates. Looking at the annual returns projected for the next two to three years, Tomanek wanted to see how the funds fared in the recent past precarious environments. Strategically looking to replace portions of the Gateway investments while not duplicating the components of other funds such as Cambiar's Large Cap Value.

Additionally, Tomanek conducted a Global Search for replacement investments again using the S&P 500 as a benchmark but with no limit in downward markets. These types of investments have the unique ability to allocate anywhere based on their own portfolio styles. Again looking at the returns from 2008 and 2009, the search produced many different approaches that outperformed the benchmark. These investments allow for the flexibility of free movement based on market conditions. They do not get it right all of the time, but it can be seen as an additional tool in the proverbial toolbox.

As a long term strategy, Helgerson explained the need for these searches. Gateway moves with the market. In order to recover from losses or non-movement, the board's strategy needs to adjust. Comstock noted that there is an overwhelming amount of information for the board to sift through and the best methodology may come from allowing the money managers to use their expertise to shift investments as needed.

Allocations:

Gateway Funds – within the above mentioned searches, both First Eagle and Black Rock display well, while Permanent would not be a good choice. Doles questioned what monies would be changed – new or existing. Helgerson suggested shuffling the deck with half of the existing monies in Gateway pointing out that diversification is the key. Additional commentary reflected the ability to account for downside protection and spreading the funds out with multiple managers. Comstock questioned if the fund can use more than one of the suggested search replacements. Tomanek answered that she believes that multiple choices would be great. Helgerson reiterated that the discussion of downside protection versus placement of new monies received from property taxes are two different discussions. The replacement suggestions are for diversification purposes with no need for spreading out additional downside protection. Down markets will still bring down the percentages but will ultimately be assisted by the diversification.

The shift into the mentioned replacements will diversify risk. Complimentary choices would be: Black Rock which Comstock likes. Tomanek states that it has a good global footprint.

A motion was made by Doles and seconded by Comstock to sell \$500,000 of Gateway for an even split of \$250,000 each into BlackRock Global Allocation A and First Eagle Global A.

Doles questioned whether or not there are any costs or penalties involved with the Gateway sale. There are no additional costs or penalties. Voice vote: unanimous ayes - motion carried.

Helgerson announced that the board will need to be ready to discuss the placement of new monies at the July board meeting. Activities from Springfield will need to be examined. Tomanek will return in July and based on legislation; new strategies may need to be developed.

APPROVAL OF MINUTES:

The minutes of the regular meeting held January 27, 2010 were presented. There were no questions or changes to the minutes.

A motion was made by Comstock and seconded by Doles to approve the minutes of the January 27, 2010 meeting. Voice vote: unanimous ayes - motion carried.

TREASURER'S REPORT:

Financial Statements for the Period Ending March 31, 2010

Balance Sheet:

The total book value of assets reported was \$10,841,472.77. The equity market value adjustment was positive at \$196,341.67. The unrealized year-to-date market adjustment in the fixed income portfolio is negative at \$93,962.87.

Income Statement:

Total revenues through 03/31/2010 were \$2,193,758.35. Of this amount, employer contributions were \$767,531.86 or 99.8% of budget. The employee contributions were \$346,605.48 or 88.9% of budget. Investment income was a gain of \$1,079,621.01 which includes the referenced equity market value adjustment. The allocation of investments at market value is as follows: cash .4%, fixed income bonds 56.6%, and equities 43.0%.

Expenditures through 03/31/2010 were \$262,626.23 or 83.4% of budget. Benefit payments were \$200,844.97 and reflect previously approved pension payments to Schinkel, Stone, Azarela, Weber, and Frasier. Administrative expenses were \$61,781.26 or 82.4% of budget. Investment management fees amounted to \$52,939.58 and the compliance fee, training, memberships, legal and other administrative expenses were \$8,841.68.

Distributed with the financial reports for the period ending 03/31/2010 was the First Quarter 2010 Check Register, 1st Quarter Bank Statements, 1st Quarter Money Market Statements and Investment Confirmations for trade activity during the 1st Quarter, the Certificate of Insurance from FirstCity, Research and Correspondence from Morgan Stanley Smith Barney, the Royce Funds Annual Report and Shareholders Letter, Portfolio Perspectives from the Gateway Fund, and Zephyr Style ADVISOR charts and various Morningstar reports from Mary Tomanek.

A motion was made by Doles and seconded by Comstock to accept the Treasurer's Report and to ratify the money manager's transactions, wire transfers, ACH transfers and the check register through March 31, 2010.

Comstock questioned the full booking of all buy and sells on one day. Walde explained that the full month is booked from the entire total of all buying and selling throughout the month. Voice vote; unanimous ayes - motion carried.

APPROVE BILLS FOR PAYMENT:

There are no outstanding bills for payment.

REQUEST FOR BENEFITS:

No requests for benefits.

RECESS TO EXECUTIVE SESSION:

A motion was made by Doles and seconded by Walker to recess into Executive Session to review Executive Session Minutes. Voice vote: unanimous ayes – motion carried.

Adjourn 6:10 p.m.

RETURN TO REGULAR MEETING:

Call to order 6:15 p.m.

Present: President Stan Helgerson, Vice-President David Comstock, Secretary Andrew Doles, Assistant Secretary Dennis Walker, and Trustee Art Weber. A quorum was present. Village Treasurer Jack Walde, Attorney Cary Collins and Recording Secretary Laura Donohue were also present.

EXECUTIVE SESSION ACTION:

Approval:

The following Executive Session Minutes have all been reviewed and accepted by the Board; September 20, 2001, July 28, 2004, February 6, 2007, April 25, 2007, January 25, 2005, July 25, 2007, October 24, 2007, July 30, 2008, April 29, 2009, and July 28, 2009.

Release:

A motion was made by Helgerson and seconded by Doles to release the following Executive Session Minutes: January 25, 2005, July 25, 2007, October 24, 2007, July 30, 2008, April 29, 2009, and July 28, 2009. Voice vote: unanimous ayes – motion carried.

A motion was made by Doles and seconded by Walker to destroy all tapes related to the following Executive Session Minutes: January 25, 2005, July 25, 2007, October 24, 2007, July 30, 2008, April 29, 2009, and July 28, 2009. Voice vote: unanimous ayes – motion carried.

NEW BUSINESS:

Sustainability of the Fund:

Doles questioned the sustainability of the fund; Helgerson answered. See attached email. Discussion points include: The fund is not included in the State's jurisdiction and at present the State is unable to touch the fund. The monies are protected in the statutes. There is no chance for a change to the state constitution for another twenty years. The actuarial tables show a fully sustainable fund. The funding will be increasing dramatically in the future. The three sources of

funding are: 1) Employee Contributions– fixed by state statutes; 2) Employer Contributions; and 3) Investment returns – the municipalities are responsible for the difference. By nature of the model in place, 2033 is the year of 100% funding. The municipalities will be the hardest hit. Algonquin is a Home Rule Municipality and has the ability to tax for the employer contribution. Police Pension is a separate taxing body and the view is changing rapidly. Employer Contributions continue to be based on the actuarial calculation. Collins explained the role of portability, benefits, and the mortality table. Helgerson explained that the state legislature needs to increase the equity percentage and the funding levels to account for the ups and downs of the market.

Training Requirements:

Doles and Walker need to request their certificates from their training sessions. Comstock needs to schedule his training – Reports are due by August 13, 2010.

OLD BUSINESS:

None

NEXT QUARTERLY MEETING:

The next regular Police Pension Board meeting is August 3, 2010 at 5:00 p.m. in the Police Department Conference Room of Village Hall.

ADJOURNMENT:

There being no further business, it was moved by Doles and seconded by Walker to adjourn. Voice vote: unanimous ayes – motion carried.

The meeting adjourned at 6:37 p.m.



Secretary