

**MINUTES OF A REGULAR MEETING OF THE
HICKORY HILLS POLICE PENSION FUND
BOARD OF TRUSTEES
APRIL 17, 2019**

A regular meeting of the Hickory Hills Police Pension Fund Board of Trustees was held on Wednesday, April 17, 2019 at 5:30 p.m. at the Hickory Hills Police Department located at 8800 W. 87th St., Hickory Hills, Illinois 60457 pursuant to notice.

CALL TO ORDER: Trustee McDonald called the meeting to order at 5:30 p.m.

ROLL CALL:

PRESENT: Trustees Mary McDonald, David Wetherald, Alejandro Lopez and Robert Troy
ABSENT: None
ALSO PRESENT: Tom Sawyer, Sawyer Falduto Asset Management, LLC; Michael May and Amanda Secor, Lauterbach & Amen, LLP (L&A); Active Trustee-Elect Brian Nelligan, Hickory Hills Police Department

PUBLIC COMMENT: There was no public comment.

APPROVAL OF MEETING MINUTES: *January 16, 2019 Regular Meeting:* The Board reviewed the January 16, 2019 regular meeting minutes. A motion was made by Trustee Wetherald and seconded by Trustee Troy to approve the January 16, 2019 regular meeting minutes as written. Motion carried unanimously by voice vote.

ACCOUNTANT'S REPORT – LAUTERBACH & AMEN, LLP: *Monthly Financial Report and Presentation and Approval of Bills:* Lauterbach & Amen, LLP presented the Monthly Financial Report for the period ended March 31, 2019. The net position held in trust for pension benefits is \$26,730,590.92, with a change in position of \$1,105,185.93 for the eleven-month period ending March 31, 2019. L&A reviewed the Cash Analysis Report, Revenue Report, Expense Report, Member Contribution Report and Payroll Journal with the Board. The Board also reviewed the Vendor Check Report for the period January 1, 2019 through March 31, 2019 for total disbursements of \$88,429.05. Trustee McDonald noted that the interfund balance should be amended to reflect the GASB portion of \$1,125 to be paid by the City and \$1,541 of the fiduciary liability insurance to be paid by the Fund in order to update the amount due from municipality prior to the fiscal year-end April 30, 2019. A motion was made by Trustee Lopez and seconded by Trustee Wetherald to accept the Monthly Financial Report as presented and to approve the disbursements shown on the Vendor Check Report in the amount of \$88,429.05. Motion carried by roll call vote.

AYES: Trustees McDonald, Wetherald, Lopez and Troy
NAYS: None
ABSENT: None

Additional Bills, if any – Illinois Department of Insurance Compliance Fee: The Board noted that the Illinois Department of Insurance Compliance Fee invoice will be issued. A motion was made by Trustee Wetherald and seconded by Trustee Lopez to approve payment of the IDOI Compliance Fee upon receipt of the invoice. Motion carried by roll call vote.

AYES: Trustees McDonald, Wetherald, Lopez and Troy
NAYS: None
ABSENT: None

INVESTMENT REPORT – SAWYER FALDUTO ASSET MANAGEMENT, LLC: *Quarterly Investment Performance Report:* Mr. Sawyer presented the Quarterly Investment Performance Report for the period ending March 31, 2019. As of March 31, 2019, the quarter-to-date total net return is 9.13% for an investment return of \$2,218,865 and an ending market value of \$26,729,266. The current asset allocation is as follows: Fixed Income at 38.6%, Equities at 60% and Cash Equivalents at 1.4%. Mr. Sawyer reviewed the Market Commentary, Equity and Fixed Income Portfolios, and Transaction Ledger Report with the

Board. A motion was made by Trustee Wetherald and seconded by Trustee Troy to accept the Quarterly Investment Performance Report as presented. Motion carried unanimously by voice vote.

Review/Update Investment Policy: The Investment Policy was reviewed in summary by Mr. Sawyer. Sawyer Falduto Asset Management, LLC will produce an updated Investment Policy for review and approval at the next regular meeting in order to update the fixed income asset allocation guidelines; which will lower limits, upper limits and allocation ranges, as well as better align the portfolio with investment opportunities and improve trading efficiency in fluid capital markets.

COMMUNICATIONS AND REPORTS: *Statements of Economic Interest:* The Board was reminded that the Statements of Economic Interest are due by May 1, 2019.

Affidavits of Continued Eligibility: The Board noted that L&A will mail Affidavits of Continued Eligibility to all pensioners with the June payroll cycle. A status update will be provided at the next regular meeting.

Active Member File Maintenance: The Board noted that L&A will prepare Active Member File Maintenance letters for distribution to all active members requesting any additional pension file documents as required by the IDOI.

APPLICATIONS FOR RETIREMENT/DISABILITY BENEFITS: The Board noted receipt of David Wetherald's application for regular retirement benefits. L&A will prepare a benefit calculation for the Board's review and approval at the next regular meeting.

APPLICATIONS FOR MEMBERSHIP/WITHDRAWALS FROM FUND: *Application for Membership – Ricardo Brambila:* The Board reviewed the Application for Membership submitted by Ricardo Brambila. A motion was made by Trustee Lopez and seconded by Trustee Troy to accept Ricardo Brambila into the Hickory Hills Police Pension Fund effective February 1, 2019, as a Tier II participant. Motion carried unanimously by voice vote.

OLD BUSINESS: There was no old business to discuss.

TRUSTEE TRAINING UPDATES: The Board discussed upcoming training opportunities. All Trustees were reminded to submit their training certificates to L&A for recordkeeping.

Approval of Trustee Training Registration Fees and Reimbursable Expenses: Trustee McDonald informed the Board that she will be attending the IPPFA Spring Pension Conference. A motion was made by Trustee Wetherald and seconded by Trustee Troy to approve Trustee McDonald's per diem request in the total amount of \$70. Motion carried by roll call vote.

AYES: Trustees McDonald, Wetherald, Lopez and Troy

NAYS: None

ABSENT: None

NEW BUSINESS: *Discussion/Possible Action – Lauterbach & Amen, LLP Engagement Letter Renewal:* The Board reviewed the Lauterbach & Amen five-year engagement letter. A motion was made by Trustee Troy and seconded by Trustee Wetherald to engage L&A for five years in the annual amounts as follows: \$27,820 for the year ended April 30, 2020; \$28,660 for the year ended April 30, 2021; \$29,515 for the year ended April 30, 2022; \$30,435 for the year ended April 30, 2023 and \$31,295 for the year ended April 30, 2024. Motion carried by roll call vote.

AYES: Trustees McDonald, Wetherald, Lopez and Troy

NAYS: None

ABSENT: None

Certify Board Election Results – Active Member Positions: L&A conducted an election for the active member positions on the Hickory Hills Police Pension Fund Board of Trustees. The Board noted that 20 ballots were received and 20 ballots were counted. The election results are as follows: 5 votes for John Boehning, 9 votes for Adam Gulczynski, 15 votes for Al Lopez, 10 votes for Brian Nelligan and 1 vote for Heidi Wagner. Al Lopez and Brian Nelligan were elected as the active members on the Board of Trustees for two-year terms expiring April 30, 2021. A motion was made by Trustee Wetherald and seconded by Trustee Troy to certify the election results. Motion carried unanimously by voice vote.

Appointed Member Term Expiration – Mary McDonald: The Board noted Trustee McDonald's appointed term expires April 30, 2019 and the Mayor has agreed to an additional two-year term.

ATTORNEY'S REPORT – REIMER & DOBROVOLNY PC: *Legal Updates:* The Board reviewed the Reimer & Dobrovoly PC quarterly newsletter, *Legal and Legislative Update*.

CLOSED SESSION, IF NEEDED: There was no need for closed session.

ADJOURNMENT: A motion was made by Trustee Wetherald and seconded by Trustee Troy to adjourn the meeting at 6:13 p.m. Motion carried unanimously by voice vote.

The next regular meeting is scheduled for July 17, 2019 at 5:30 p.m.



Board President or Secretary

Minutes approved by the Board of Trustees on 7-17-19

Minutes prepared by Amanda Secor, Pension Services Administrator, Lauterbach & Amen, LLP

Quarterly Investment Performance Report

March 31, 2019

Hickory Hills Police Pension Fund



Presented by:

Thomas S. Sawyer, Managing Partner
John J. Falduto, Managing Partner
Edward J. Lavin, Chief Investment Officer
David M. Harrington, Director of Portfolio Management

SAWYER FALDUTO
ASSET MANAGEMENT, LLC

Sawyer Falduto Asset Management, LLC
589 S. York Street
Elmhurst, IL 60126
O: (630) 941-8560
F: (630) 941-8558
www.sawyerfalduto.com

INVESTMENT POLICY GUIDELINES

Performance Measurements	Benchmark Index		
Cash Equivalents / Short Term	90-day US Treasury Bills		
Fixed Income	Barclays US Government Bond Index		
Fixed Income	Barclays US Government Bond/Credit Index		
Large Cap Domestic Equities	S&P 500 Index		
Mid Cap Domestic Equities	Russell 1000 Stock Index		
Small Cap Domestic Equities	Russell 2000 Stock Index		
International Equities	MSCI Europe/Australia/Far East Index		

Portfolio Allocation	Target	Range	Maximum
Cash / Short Term	0%	0 - 5%	100%
Fixed Income	40%	35 - 45%	100%
Equity	60%	55 - 65%	See Below

Fixed Income Allocation	Target	Range
Bank Certificates of Deposit	0%	0 - 20%
US Treasury Securities	30%	0 - 100%
US Government Agency (non-MBS)	35%	0 - 70%
US Government Agency (Callable)	10%	0 - 30%
US Government Agency (MBS)	5%	0 - 10%
Taxable Municipal Securities	10%	0 - 20%
Investment Grade Corporate Bonds	10%	0 - 30%

Equity Diversification	Target	Range
US Large Cap Stocks	60%	50 - 80%
US Small Cap Stocks	10%	0 - 20%
US Mid-Cap Stocks	20%	10 - 40%
International Stocks	10%	0 - 20%

Portfolio Allocation – Equity Maximum

Illinois Statute provides limits for investment in mutual funds / equities as a percentage of pension fund assets. Please note that the comments provided below summarize the statute and are general in nature. Please refer to the Illinois Compiled Statutes, the Pension Fund's Investment Policy and the Pension Board's legal counsel for information regarding investments allowed under the law.

- **Funds with total assets under \$2.5 million** may invest up to 10% of total assets in mutual funds / equities.
- **Funds with total assets over \$2.5 million and up to \$10 million** may invest up to 45% of total assets in mutual funds / equities.
- **Funds with total assets over \$10 million** may invest more than 45% of total assets in mutual funds / equities (either 55% or 65% depending on interpretation).

Initial interpretation of the statute was that funds with total assets of over \$10 million were allowed to invest up to 55% of total assets in mutual funds / equities on and after July 1, 2012. **On August 1, 2012, the Illinois Department of Insurance issued an advisory opinion indicating that the total allowable investment in equities (mutual funds) is 65%.**

PROPOSED INVESTMENT GUIDELINE UPDATE
MARCH 31, 2019

Objective:

- Update the fixed income asset allocation guidelines
 - Lower limits, upper limits and allocation ranges
- Better align the portfolio with investment opportunities
- Improve trading efficiency in fluid capital markets

Proposed Fixed Income Allocation			
	<u>Lower Limit</u>	<u>Allocation Range</u>	<u>Upper Limit</u>
U.S. Treasury Bills/Notes/Bonds	0%	5% - 40%	100%
U.S. Government Agency Securities (non-MBS)	0%	20% - 70%	75%
U.S. Government Agency Securities (Callable)	0%	5% - 20%	30%
U.S. Government Agency Securities (MBS)	0%	0% - 10%	10%
Taxable Municipal Securities	0%	5% - 20%	30%
Certificates of Deposit	0%	0% - 10%	20%
Investment Grade Corporate Bonds	0%	5% - 20%	30%

Next steps:

- Board discussion, review and approval of the Proposed Fixed Income Allocation update
- Sawyer Falduto Asset Management will provide a complete updated Investment Policy for formal Board approval at the next quarterly meeting
- Reminder – Pension Board will need to file the updated and approved Investment Policy with the Illinois Department of Insurance (after the next meeting)

CASH FLOW AND PERFORMANCE REVIEW

Cash Flow	Quarter 1 2019	Year-to-Date
Beginning Market Value	\$24,304,622	\$24,304,622
Contributions / Additions	663,519	663,519
Distributions / Expenses	-457,740	-457,740
Adjusted Beginning Market Value	24,510,401	24,510,401
Ending Market Value	\$26,729,266	\$26,729,266
Investment Return	\$2,218,865	\$2,218,865

Performance Review	Quarter 1 2019	Quarter 2 2019	Quarter 3 2019	Quarter 4 2019	Year-to-Date
Total Account Return (Gross)	9.20%	%	%	%	9.20%
Total Account Return (Net)	9.13%	%	%	%	9.13%
Account Benchmark	8.85%	%	%	%	8.85%
Equity Return	14.13%	%	%	%	14.13%
Blended Benchmark	13.47%	%	%	%	13.47%
60% S&P 500	13.65%	%	%	%	13.65%
20% Russell 1000	14.00%	%	%	%	14.00%
10% Russell 2000	14.58%	%	%	%	14.58%
10% MSCI EAFE	10.13%	%	%	%	10.13%
Fixed Income Return	2.38%	%	%	%	2.38%
Barclay's US Gov't Bond	2.10%	%	%	%	2.10%
Barclay's US Gov't/Credit	3.26%	%	%	%	3.26%
Cash Equivalent	0.48%	%	%	%	0.48%
3 Month Treasury Bill	0.60%	%	%	%	0.60%

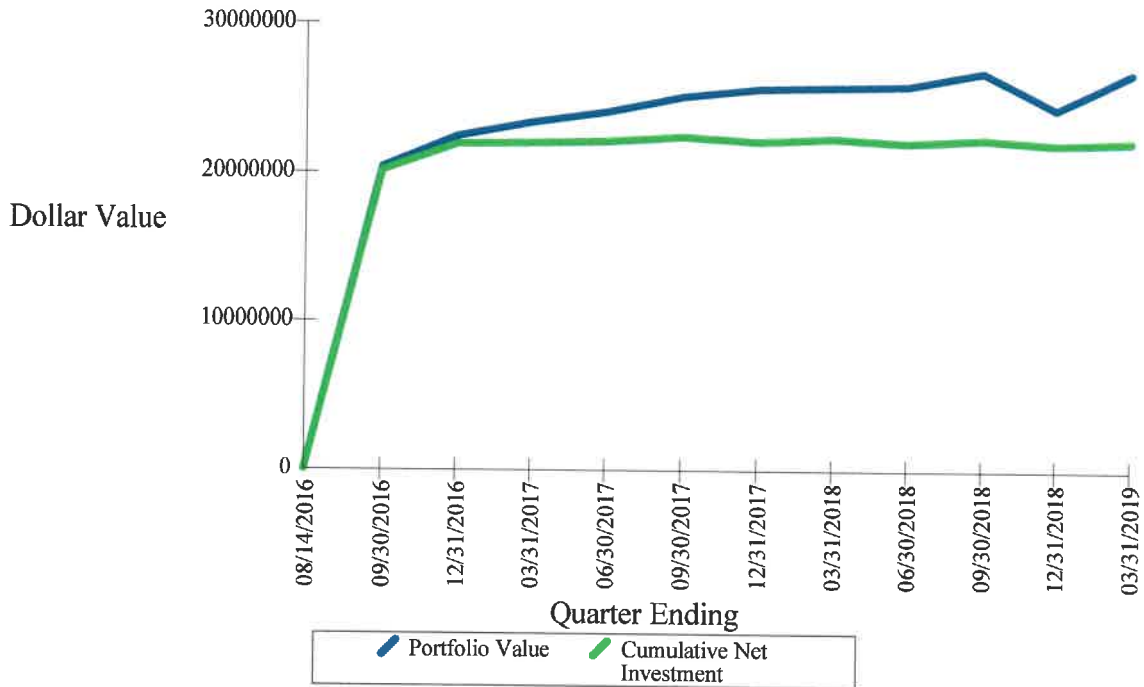
Long-Term Performance Periods Ending 3/31/2019	1 Year	3 Years	5 Years	10 Years	Since Inception 9/30/2016
Total Account Return	5.00%	%	%	%	7.75%
Account Benchmark	6.47%	%	%	%	7.88%
Equity Return	4.76%	%	%	%	11.69%
Blended Benchmark	7.44%	%	%	%	12.64%
Fixed Income Return	4.72%	%	%	%	1.45%
Barclay's US Gov't Bond	4.21%	%	%	%	0.58%
Barclay's US Gov't/Credit	4.48%	%	%	%	1.31%

Annualized returns for periods exceeding one year. All account performance and benchmark calculations include any change to asset allocation guidelines. Past performance is no guarantee of future returns. Unless otherwise noted, all investment results and performance are presented gross of investment advisor fees.

Portfolio Value vs. Cumulative Net Investment

From 08/14/2016 to 03/31/2019

Hickory Hills Police Pension Fund



<u>Period Ending</u>	<u>Contributions and Withdrawals</u>	<u>Cumulative Net Investment</u>	<u>Portfolio Value</u>	<u>Investment Gain</u>
08/14/2016	20,838	20,838	20,838	0
09/30/2016	20,128,722	20,149,560	20,366,900	217,340
12/31/2016	1,778,840	21,928,400	22,456,945	528,545
03/31/2017	52,935	21,981,335	23,377,393	1,396,058
06/30/2017	115,978	22,097,313	24,068,730	1,971,417
09/30/2017	289,660	22,386,972	25,091,437	2,704,464
12/31/2017	-309,126	22,077,846	25,629,503	3,551,657
03/31/2018	240,884	22,318,730	25,733,123	3,414,392
06/30/2018	-313,522	22,005,208	25,862,768	3,857,560
09/30/2018	266,500	22,271,709	26,770,351	4,498,642
12/31/2018	-350,615	21,921,093	24,304,696	2,383,603
03/31/2019	220,968	22,142,062	26,729,266	4,587,205

QUARTERLY UPDATE – MARCH 31, 2019**Key Points****Equities**

- Equities posted solid gains during the first quarter both domestically and internationally
- The equity strength was broad-based as all of the S&P 500 sectors generated positive returns
- S&P 500 had its best start for the year since 1998 and highest overall quarterly gain since 3Q 2009

Fixed Income

- Short-term interest rates were unchanged at the Federal Reserve March meeting
- Current Federal Reserve monetary policy has shifted away from additional rate increases
- Capital markets are now reflecting the strong possibility of a rate decrease during 2019

Economy

- Expectations for economic growth have been lowered based on global trade concerns
- Growth continues to be positive, but at a slowing rate

Equity Markets Rebound After 2018 Swoon

Equity markets largely recovered in 2019 from the double-digit declines experienced during the 4th quarter of 2018. A quick look at several of the major market indices we track regularly in the Market Commentary:

	2016	2017	2018	1st Quarter 2019	Cumulative Return 12/31/15 – 3/31/19
Standard & Poor's 500 Index Large-cap U.S. equities	11.96%	21.83%	-4.38%	13.65%	48.22%
Russell 2000 Index Small-cap U.S. equities	21.31%	14.65%	-11.01%	14.58%	41.81%
MSCI-EAFE Index International developed countries	1.51%	25.62%	-13.36%	10.13%	21.67%

Looking Forward

- **Federal Reserve:** At its March meeting, the Federal Reserve left short-term interest rates unchanged holding the target range at 2.25% - 2.50%. Somewhat unexpectedly, the Fed changed direction with regard to monetary policy, adopting a more dovish tone indicating there would likely be no additional rate increases this year. Additionally, the Fed announced the end of its balance sheet reduction (remember Quantitative Easing?) later this year. Concerns over the global economic environment led the Fed to trim expectations for both U.S. economic growth and inflation, citing levels very close to 2% as the expectation for both measures.
- **Valuations and Earnings:** In terms of earnings, the largest companies in the U.S. will have a steeper hill to climb during 2019. After growing at a rate exceeding 20% last year, 2019 corporate earnings are

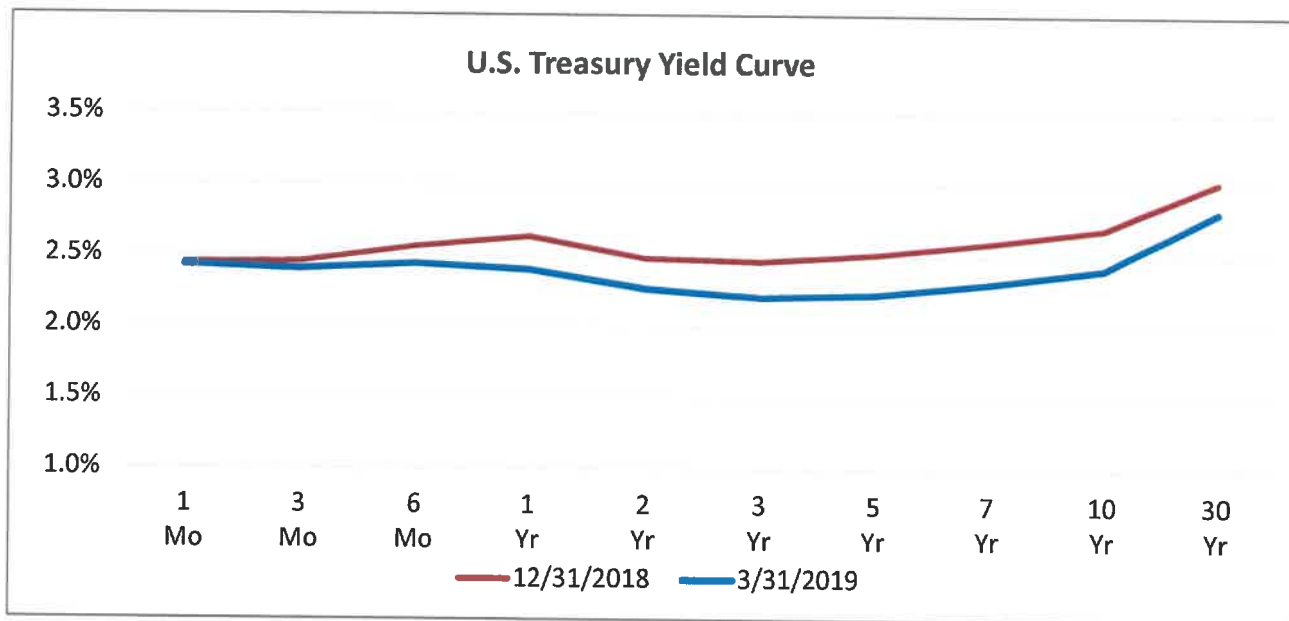
expected to grow at a 6 to 9% pace. With earnings bottoming out during the 4th quarter of 2018 and the subsequent recovery in stock prices, equity valuations have returned to levels investors have become accustomed to in recent years. At this writing, the S&P 500 is valued at a price-to-earnings multiple (P/E) of just over 18x trailing 12-month operating earnings, or a little over 17x what companies are expected to earn for 2019.

U.S. equity markets have absorbed a lot of potentially negative information in a short period of time. During periods of above average volatility, sharp price declines often provide opportunities to rebalance and take advantage of divergences between asset classes.

Bond Yields - A Move to Safety and Curve Inversion

The rates across the U.S. Treasury yield curve shifted lower during the quarter. At this writing, the curve is inverted from the 6-Month T-Bill to the 10-Year Treasury Note.

- The yield curve inverted briefly at the short-end driving investor uncertainty about the direction of the economy. A flight to the safety of U.S. Government debt pushed the yield on the 10 Year Treasury note to 2.41% which is the lowest level in fifteen months.
- While it is worth noting that flat or inverted yield curves are often associated with periods of slowing economic growth, expectations are the U.S. economy will continue to move forward, just at a more modest pace.



The focus on portfolio positioning remains unchanged. Credit quality remains paramount and durations are positioned conservatively relative to benchmarks.

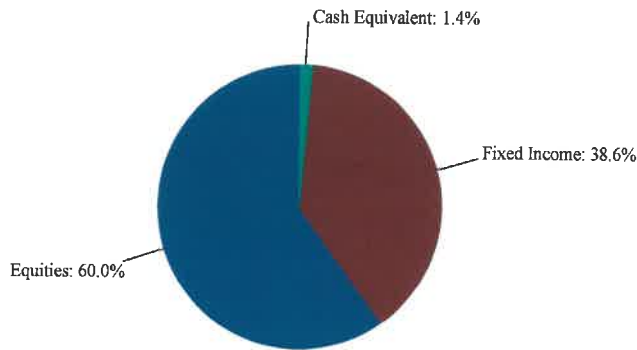
The information contained in this commentary is the opinion of the author and obtained from sources believed to be reliable, but the accuracy cannot be guaranteed. Past performance is not predictive of future returns.

Portfolio Statement

As of 03/31/2019
03/29/2019 Prices

Hickory Hills Police Pension Fund

Portfolio Allocation



<u>Weight</u>	<u>Description</u>	<u>Symbol</u>	<u>Quantity</u>	<u>Current Value</u>	<u>Current Yield</u>	<u>Annual Income</u>
Equities						
Large Cap Mutual Fund						
1.5%	AQR Large Cap Defensive	AUEIX	19,456.754	411,121.21	1.1%	4,433.22
5.7%	LSV Value Equity Fund	LSVEX	59,096.299	1,514,638.14	1.9%	29,388.59
5.6%	Pioneer Equity Income	PYEQX	43,782.223	1,506,546.29	1.0%	15,761.60
11.3%	T Rowe Price Growth Stock	PRUFX	45,635.111	3,023,326.10	0.4%	11,865.12
11.6%	Vanguard 500 Index Fund	VFIAX	11,872.656	3,105,411.90	2.2%	69,151.11
35.8%				9,561,043.64	1.4%	130,599.64
Mid Cap Mutual Fund						
9.0%	Vanguard Mid Cap Index	VIMAX	12,128.785	2,414,113.37	0.3%	8,128.71
3.0%	Victory Sycamore	VEVIX	21,622.533	810,628.76	1.2%	9,780.92
12.1%				3,224,742.13	0.6%	17,909.63
Small Cap Mutual Fund						
1.0%	Bridgeway Ultra-Small Company	BRSIX	23,337.534	271,882.27	0.6%	1,766.18
2.4%	Goldman Sachs Small Cap	GCSIX	25,238.401	643,074.46	0.2%	1,418.39
2.5%	T Rowe Price QM US Small-Cap	TQAIX	18,062.626	661,092.11	0.0%	0.00
5.9%				1,576,048.84	0.2%	3,184.57
International Mutual Fund						
1.0%	First Eagle Overseas	SGOIX	10,894.438	258,307.12	1.5%	3,834.85
1.4%	Goldman Sachs International	GCIIX	31,159.677	382,952.43	1.8%	6,777.22
1.4%	MFS International Growth I	MQGIX	10,341.929	384,512.92	1.0%	3,875.02