

CITY OF OLNEY
FIRE PENSION BOARD
OCTOBER 25, 2016

AGENDA #1 “CALL TO ORDER” The City of Olney Fire Pension Board met in the Fire Station at 1:30 p.m. on October 25, 2016, with Dave Lobacz presiding.

AGENDA #2 “ROLL CALL” The following members were present at roll call: City Treasurer Sanders, Retired Firefighter Clarence Smith, and Dave Lobacz. City Clerk Kelsie Sterchi and Assistant City Treasurer Jane Guinn were also present.

AGENDA #3 “APPROVE MINUTES FROM FIRE PENSION BOARD MEETING ON AUGUST 30, 2016” Mr. Smith moved to approve the Fire Pension Board minutes from August 30, 2016, seconded by Mr. Sanders. A majority affirmative voice vote was received.

Captain Mike Hill entered the meeting at 1:32 p.m.

AGENDA #4 “TREASURER’S REPORT”

4-A “Discussion: Income and Expense May 1, 2016 - September 30, 2016” The Board was provided with a copy of an income and expense statement from May 1, 2016, through September 30, 2016.

Mr. Sanders reported that two of the three Fire Pension tax levy installments had been received, totaling \$128,646.60. The Interest and Gain on Investments categories appeared off of the full year budget, but Mr. Sanders was not concerned. Those categories should be on track by the end of the year.

The Pension Payments category was on track. Fiscal year-to-date showed \$65,680.54 in net income.

Mr. Sanders noted that a CD was set to mature on November 9, 2016, and another was set to mature on January 12, 2017. Looking out two months, Mr. Sanders felt that the Fire Pension Board could have \$100,000.00 available to invest. Between 2016 and 2021, the only year where nothing was set to mature was 2020. Mr. Sanders had no concerns in either revenues or expenses.

4-B “Discussion: Investment Schedule and Maturities” The Board was provided with an investment schedule as of September 30, 2016.

Mr. Sanders told the Board that the TrustBank CD was set to mature on January 12, 2017. This CD has a rate of 2%. All other CDs are held at Morgan Stanley or Investment Centers of America.

The local CD options as of October 24, 2016, were mostly lower than what Morgan Stanley or Investment Centers of America could provide.

AGENDA #5 “MORGAN STANLEY INVESTMENTS” Eric Laughlin was present to address the Board at this meeting.

Mr. Laughlin told the Board that since the last meeting’s conference call, not much had changed. The big topics currently were the presidential election and Federal rates. Even with this in mind, Mr. Laughlin was not concerned with equity returns for the year.

Mr. Laughlin continued to review his third quarter report. Most of the bond indexes were up. The equity markets were also healthy. Year-to-date, returns were listed at 4.13%. Return rates since inception were listed at 2.43%.

The McDonnell account held 48.19% of the portfolio held at Morgan Stanley, and showed a 3.59% return year-to-date. The Consulting Group Advisor account held 17.65% of the portfolio held at Morgan Stanley, and showed a 7.13% return year-to-date. Lastly, the Brokerage (CD) account held 34.15% of the portfolio held at Morgan Stanley, and showed 3.39% return year-to-date.

Mr. Sanders noted that the CD return was more than the yield. He was curious if that could be liquidated. Mr. Laughlin replied that liquidation was an option, but not recommended.

Asset allocation showed 16.6% invested in equities. While the cap for equity investment was currently at 10% for the Fire Pension Fund, the 16.6% allocation was not of issue because no other investments had been made after hitting the 10%. Mr. Sanders informed the Board that equity investment overall, not just at Morgan Stanley, was at 10.53%.

Mr. Laughlin noted that when rates increase, the CDs will have negative returns, but the returns would not be as bad as if the investments were instead in bonds.

Mr. Laughlin also told of the importance of demographics in relation to consumption. As the demographics change, so will spending patterns.

Mr. Lobacz wondered if the amount over 10% in equities could be placed in any sector of equities. Mr. Sanders told that the Fire Pension has certain guidelines on where equity investments can be made, but that investment managers allow for more flexible investing. For example, the Fire Pension Board cannot own stocks unless the Fire Pension Fund holds more than \$5,000,000.00. A money manager would also be needed in that case.

Captain Hill exited the meeting at 2:04 p.m. and returned at 2:05 p.m.

Mr. Sanders added that it would take approximately two to three years before the Fire Pension Fund would qualify to invest 45% in equities instead of 10%.

Firefighter Michael Beam entered the meeting at 2:06 p.m.

AGENDA #6 “INVESTMENT CENTERS OF AMERICA INVESTMENTS - KATIE FEHRENBACHER” Katie Fehrenbacher was present to address the Board. The Capital One CD was set to mature in March of 2018 at a rate of 1%. The Hartford annuity matures in 2019 and is showing a 3% yield. Ms. Fehrenbacher added that the annuity has a minimum of a 3% yield, so it can go no lower.

There was \$350,000.00 invested in the VOYA annuity, and it showed a rate of 3%. Ms. Fehrenbacher wanted the Board to note that \$150,000.00 of that total investment is at a rate of 3%, and the other \$150,000.00 is dependent upon the market and can earn between 0% and 5%. Additionally, in December of this year, VOYA would review the annuity and credit any interest difference.

If the amount available to invest in equities goes to the 45% within the next three years, Ms. Fehrenbacher recommended investing the \$100,000.00 in a shorter term CD.

Mr. Sanders told the Board that the annual pension reports had been filed.

Mr. Laughlin agreed that the \$100,000.00 available to invest could go to a shorter term CD, or could be placed in a CD that would mature in 2020 since no CDs are currently set to mature in that year.

Mr. Lobacz wondered what corporate bond fixed rates could be expected in 2018. Mr. Laughlin replied that the Fire Pension Board cannot buy corporate bonds. The bonds can be owned by the Board, but they must have a money manager/investment advisor in control of those corporate bonds. For example, McDonnell is the investment advisor for the corporate bonds in the portfolio. Morgan Stanley is the money manager.

Mr. Lobacz then asked if the Board could have any say on how McDonnell invested in those corporate bonds. Mr. Laughlin felt that telling investment advisors how to manage was not typical. Captain Hill added that could be of issue legally if the Board micro manages in that way.

Mr. Lobacz inquired if more money could be allocated to McDonnell. Mr. Laughlin indicated that more money could be allocated, but he warned that when interest rates go up, bond prices go down. He felt that CDs take out the interest risk.

Mr. Lobacz then asked what the penalty would be if the Board decided to break a long term CD. Mr. Laughlin indicated that there would be a market to sell it, if desired. Ms.

Fehrenbacher told that there would be anywhere from three to six month penalties on interest.

AGENDA #7 “AUTHORIZE ANY NEW INVESTMENTS OF FUNDS” Overall, the Board felt that a two year CD would be most desirable. There was not enough of a interest rate difference between two and three year CD rates.

Mr. Sanders moved to have the Morgan Stanley CD set to mature on November 9, 2016, re-invested with a two year CD at Morgan Stanley that would yield no less than 1.1%, seconded by Captain Hill. A majority affirmative voice vote was received.

Mr. Lobacz wondered what the Board should do with the additional \$100,000.00 available to invest. Mr. Sanders recommended to make that decision at the next meeting.

AGENDA #8 “AUTHORIZE REIMBURSEMENT TO THE CITY OF OLNEY FOR AUDIT COST OF \$800.00” Captain Hill moved to reimburse \$800.00 to the City of Olney for the Fire Pension audit cost, seconded by Firefighter Beam. A majority affirmative voice vote was received.

Mr. Sanders added that at the next meeting, another reimbursement to the City of \$1,800.00 would be presented for Kemper CPA’s completion of the annual report.

Mr. Sanders went on to inform the Board that he is still trying to schedule a training session with Robert Beal. It was also noted that this meeting of the Fire Pension Board would qualify for training hours since Mr. Laughlin was present.

AGENDA #9 “PUBLIC COMMENTS/PRESENTATION” No one from the public was present.

AGENDA #10 “SCHEDULING OF NEXT MEETING” The next meeting of the Fire Pension Board was scheduled for December 7, 2016, at 9:00 a.m. at the Fire Station.

AGENDA #11 “ADJOURN” Mr. Smith moved to adjourn, seconded by Firefighter Beam. A majority affirmative voice vote was received.

The Fire Pension meeting adjourned at 2:45 p.m.

Clarence Smith
Secretary