POLICE PENSION BOARD

The Police Pension Board meeting was held on May 9, 2013 at 1:00 p.m. with Chairman Mullaney presiding. Members present were Mr. Bonar, Mr. Lynn, Mr. Stallings, Mr. Unterkofler, Chief Hosfelt and Mr. Koenig.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was adopted as presented.

Adoption of Minutes - Police Pension Board Meeting of February 14, 2013

Mr. Stallings moved for adoption of the minutes of the Police Pension Board meeting of February 14, 2013, seconded by Chief Hosfelt and unanimously carried.

Quarterly Performance Review *(Quarter Ending March 31, 2013) (Milliman, Inc.*)

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Investment Monitor Summary Report for the Quarter Ending March 31, 2013. He advised members that the plan assets totaled approximately $11M, which was an increase from the end of 2012. He noted that there had been contributions to and distributions from the plan and that distributions were outpacing contributions; therefore, the funded status may decline slightly, but market activity for the year to date had been fairly good. He stated that the quarterly return was approximately 3.91%, which would be a potential 16% annualized return, although there was no guarantee that the remaining three (3) quarters would be as favorable, and that the actuarial target return for the plan was 7%. He indicated that the plan was on an amortization schedule to make regular annual contributions to improve the funded status.

Referring to Page 9 of the report, Asset Allocation, Mr. Marzinsky stated that the plan was in line with the target allocations. He noted that equity investments had grown more than fixed income investments and that the plan is evaluated by Milliman, Inc., at the end of each quarter or when contributions are made to rebalance to the investment targets.

In reviewing Page 10, Investment Policy Review - Active Management, Mr. Marzinsky noted some underperformance compared to market indexes; however, stated that all of the Police Pension Board investments rated very well compared to peers. He noted that risk statistics, such as standard deviation, also ranked well compared to peers, and Alpha and Sharpe ranks were favorable.

Mr. Marzinsky explained that some anomalies in the Beta and Tracking Error on Page 11, Investment Policy Review - Passive Management were due to Vanguard changing its underlying indexes. He noted that Beta should normally be around 1.0 and Tracking Error is generally desired to be close to 0.5. He advised members that Vanguard had changed its equity indexes from Morgan Stanley Composite Indexes (MSCI) to Financial Times and London Stock Exchange (FTSE) for international investments and to Center for Research in Security Prices (CRSP) for U. S. investments; therefore, he was not concerned about the numbers reflected in the report.

In summary, Mr. Marzinsky stated that the plan was beating its benchmark. Equity markets had been very good and were up approximately 15% year to date, although he cautioned that this trend may not continue throughout the year. He stated that as the market does better, the economy improves,

and unemployment begins to decline, interest rates will increase, resulting in issues with fixed income investments. He explained that Milliman, Inc., was developing theories for their pension fund clients to reallocate funds to safer areas and suggested that it may be advisable to look at moving fixed income investments to high dividend paying investments to match the regular cash flow to the duration and that this matter may be discussed at the next meeting. He pointed out that the return on the Police Pension Plan was approximately 4% and the index was approximately 3.7%; therefore, the plan was beating the index year-to-date by approximately 30 basis points. He noted that a number of index funds had been added to the plan and there was a good mix between index and active investments.

Chief Hosfelt moved for adjournment, seconded by Mr. Unterkofler and unanimously carried.

Meeting adjourned at 1:10 p.m.

Timothy Mullaney
Chair

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