CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
830 Boonville
Springfield, Missouri 65802
Phone: (417) 839-8214

Minutes
May 14, 2015

1. Call to Order

Hartman called the meeting to order at 8:33 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Josh Hartman	President	X	
Charlie Cowherd	Citizen		X
Paul Carroll	Citizen	X	
James Gillette	Citizen	X	
Marilyn Hill	Citizen		
Ron Hoffman	Retiree	X	
Tony Kelley	Fire	X	
Gus Krafve	Citizen	X	
Chris McPhail	Police		X
Ed Cantrell (NV)	Retiree	X	
Adam Carter (NV)	Fire	X	
Grant Dorrell (NV)	Police	X	
Mary Mannix-Decker (NV)	Finance	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Rhonda Lewsader (NV)	Law	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – April 9, 2015 (open session)

Hoffman made a motion to approve the April 9, 2015 minutes as presented; 2nd by Kelley. Vote all: Yes.

3. Approval of Financial Statement Ending March 31, 2015

- The cash balance at the end of March was $11,401,938.
- The State Street S&P 500 Flagship NL Fund decreased by ($781,026). The return was even with the index at -1.58%.

- The State Street Russell 2000 NL Fund increased by $358,089. The return was even with the index at 1.74%.
- Pictet decreased by ($555,595). The return was -1.03% compared to the index return of -1.52%.
- Wells Fargo had a decrease of ($462,908). The return was -1.96% compared to the benchmark of -1.42%.
- Galliard increased $186,903. The return was 0.43% compared to the index return of 0.45%.
- The US Tips NL Fund decreased by ($81,027). The return was even with the index at -0.47%.
- Brandywine had a decrease of ($596,231). The fund returned -1.99% compared to the index return of -1.91%.
- Pyramis had an increase of $128,451. The return was 0.95% compared to the index at 0.46%.
- The State Street Commodities NL Fund decreased by ($684,804). The return was -5.15% compared to the index at -5.14%.
- Blackstone had an increase of $142,117. The fund returned 0.94% compared to the index return of 0.64%.
- Entrust had an increase of $965. The return was 0.09% compared to the index return of 0.64%.
- Prudential had an increase of $245,318. The return was 3.22% compared to the index return of 3.57%.
- Employee contributions for the month totaled $245,213 and employer contributions totaled $586,635. Sales tax contributions for the month totaled $3,037,503.
- Gain/Loss in market value, including managers' fees was ($2,082,171) for the month. Total additions were $1,795,391.
- Benefit payments totaled $1,757,294. Return of contributions totaled $260,605. Administrative expenses totaled $72,807. Net increase to the Plan was ($295,315).
- Total Net Assets at the end of March were $311,456,871.

Carroll made a motion to approve the financial statement ending March 31, 2015; 2nd by Kelley. Vote all: Yes.

4. Review of Retirement Applications

Retiree's Name	Application Type	Application Date	Retirement Date	Department
Mark Clinkenbeard	Age & Service	05/04/2015	07/15/2015	Fire

Kelley made a motion to accept the application presented above; 2nd by Carroll. Vote all: Yes.

5. Review of Calculations

Age & Service Calculations

Name	Type	Years of Service	Monthly Pension Amount	Partial Pension Amount
Kenneth Scott	Age & Service	22.01	$3,961.17	$1,320.39
Carl Schwartze	Age & Service	25.00	$5,067.30	$2,364.74

Carroll made a motion to accept the calculations presented above; 2nd by Kelley. Vote all: Yes.

6. Approval of Return of Contributions

Name	Dept.	Type	Years of Service	ROC
Kenneth Scott	Fire	Age & Service	22.01	$125,903.38
Carl Schwartze	Police	Age & Service	25.00 w/ military buyout	$122,111.73

Kelley made a motion to approve the return of contributions as presented above; 2nd by Carroll. Vote all: Yes.

7. Administrative Director's Report

Manley reported that the RFP for the actuary has been distributed. Responses are due by 3 p.m. on May 21st. Kelley, Gillette and Manley will meet on June the 9th to review the bids. The announcement as to who has been selected will be made on June the 18th.

MAPERS is July 15-17, 2015. The Segal Rogerscasey Summit is October 7-10th.

Investment Policy Statement – Manley distributed a revised copy to those present. Two changes were made since last month. One question that was asked last month was whether or not to put in a mid-cap description right now. We don't currently have any of those investments right now, but we also couldn't make any investments in that area since it is not listed in the IPS. SRC believes the best practice is to add them to the IPS as we do them. So right now SRC doesn't recommend that the IPS be held up to add mid-cap investments. It is ultimately the Board's call.

The other question was if the current descriptions accurately describe the international small cap category. SRC believes that it does and doesn't think that any additional information was needed. One of the changes made was adding Developed Non-US Equity Small Cap with a minimum of 2%, a target of 4% and maximum of 7%. The small cap verbiage was also added to the Customized Index section on page 13. Those were the only two changes that were made.

Manley added that the last question that was asked last month was about using target as a category. SRC strongly recommends that we not eliminate that category. They feel like it is a best practice to have it in the IPS because it ties back to our asset allocation study. They like to see the targets in the IPS and are not aware of anybody that doesn't have them in their IPS. Manley said it is the Board's call, but as of today she has not made that change in the IPS.

Krafve added that on page 18 it states that the manager's portfolio should be maintained at A or better. He wants to make sure that is consistent with Investment Research's portfolio. In their presentation, one-third of their portfolio was BBB so that is going to bring the credit quality down. Krafve said his recommendation is to change it from A to A- to give them a little more leeway. It is not a big change, but it would give more flexibility. Hartman questioned just changing it to investment grade instead. Hartman said that would mean BBB and up. Kravfe said if a manager likes BBB a lot then it will pull the aggregate down a lot. They would have to counter balance with treasuries and maybe they don't like treasuries. Rushefsky said she would rather see it be A- than investment grade. She thinks we should be aiming for the most conservative at this point. Sheppard said as the risk guy in the room as far a fiduciary duty issues, he would ask if the Board wants to get SRC's input on both of these issues since they are attending today's meeting. Rushefsky said that SRC is probably going to want the most flexibility that they can get. She thinks our question should be for the protection of the fund.

Hartman added that from the time that this IPS was put together to today's credit environment, the concept of what A versus AA versus BBB+ has been pretty monumental in the past eight years. Household names are BBB+ now and they used to be AA. It doesn't mean they are bad companies. They are still very good companies. He thinks that keeping it investment grade is the best way to do it. Rushefsky said she hears what Hartman is saying, but her own feeling is that sometimes what the industry accepts as standard is not what's best for the individual investor. Hartman said the question becomes whether Investment Research can hit A-. Krafve said he thinks that an A- gives them a little extra wiggle room. Hartman said that they aren't going to change the way they are investing. Krafve said that the A rating is going to tie their hands even more. He reminded everyone that we are talking about bonds which are very conservative by nature anyway. Sheppard said that Investment Research would have seen the IPS before they presented. He would like to know if they made any comments on the A rating. Manley said no, they did not. Kravfe said that they can tailor any portfolio to an IPS and that is not a deal breaker for any manager. It just ties their hands more. If a client wants an AA rated portfolio, it can be done, but they will do better a better job for them if they have a little more room. Gillette added that lowering it just a bit is not saying that you're allowing them to invest in a bunch of junk. They still have to keep a decent set of assets. It does allow them to chase yield in tight markets.

Manley asked if there were any other comments. She would like to get the IPS approved so that it can go before Council. Carroll said that he's the one that was questioning the targets being included in the IPS. He said he's fine with them being in there as long each quarter SRC will give us an explanation of the recommendation that we keep our allocation the same even though it's not at the target. That way they are the ones on the hook because it is their fiduciary responsibility to be giving us the best advice. He thinks that would cover the Board from that perspective. Carroll added that he would add the mid-cap now. If in six months we want to get a mid-cap manager, do we want to have to go back to Council to change the IPS? He said that SRC may not want it in there now because they wouldn't know what the target would be. Manley said that she doesn't think the Board would have to go back to Council for up to one year.

Sheppard said you would think that they would want more flexibility, but yet they really feel strongly about keeping the target. To him it doesn't really add much and it adds risk if you're not on the target. The other thing is that the target is always right in the middle of the minimum and maximum range. He would think there would be times that you want your target to swing. So this would be a very static target number that would not apply necessarily three months or three years down the road. Carroll said that he doesn't deal with any defined benefit plans, but he knows that we are on the max range on the S&P and we are above the target on international. So if SRC wants to keep the targets in the IPS, then he would like for them to provide a document each quarter as to why they still recommend us being different than the target that they want in the IPS. Sheppard suggested hearing what SRC has to say. Rushefsky said that what we are going to do is raise questions. Every time we are not on the target we are going to invite challenges as to why we are there and the investment committee will have to justify it each time.

Manley said that the investment subcommittee will be meeting soon to discuss the Global REITs and the international small cap manager searches. The finalists will present at one of the meetings.

Manley reminded the Board that a few months ago it was discovered that an individual who was being paid a surviving benefit for an education of children that were no longer in the age requirements. The individual has agreed to repay the overage amount. The charges will be drafted monthly from a bank account to regain the overpayment.

8. Segal Rogerscasey

Manley asked Boucek his opinion about the level the investment managers should be maintaining their portfolio. Boucek said he doesn't have a problem with saying investment grade or better because that is what you want. Krafve asked Boucek if he remembered the overall credit quality of Investment Research. Boucek said that he would have to look to be sure. Boucek said he sees it listed both ways in other IPS'. A- is probably more common though.

Manley asked Boucek to address having the targets in the IPS. Boucek said he doesn't quite understand the politics of the press in Springfield and he knows that is one of the potential issues among others. He said he has never not seen the targets in an IPS. He said that the only analogy he can come up with is that if you all were to decide to manufacture a car and you don't really think people will use neutral so you build one without it. People would test drive it and question why the car doesn't have a neutral. He thinks the same is true with the IPS. If you don't have a target, people are going to question why you don't. That is the only thing he would be worried about. Because targets are so common, if you don't have them in the IPS you will open yourselves up for questions. Boucek said he does hear the Board's issues though. He added that nothing you do can insulate you from somebody raising an issue. The issue is, can you create a defense that makes sense. He said it is normal market movement to fluctuate a little beyond the targets. He said he doesn't know how someone can take issue with the targets.

Boucek said SRC wouldn't counsel on where you should be relative to the targets. He said that is not their call. Carroll said right now the target on the S&P is 12 and we are at 16. You're not recommending us to stay at 16 are you? Boucek said that we will start funding the long bond manager so it will come down. Carroll mentioned that small cap is at 7 which is the maximum end of the range. He said that if we put a target in the IPS and we get away from the target to one of the ends of the range, SRC is not going to say that yes it is ok to be there? Carroll added that we have been on the high range of the S&P ever since he's been on the Board and that was three years ago. It's been beneficial that we haven't had another melt down in the S&P. Everything is fine as long as the market is normal, but if we get a severe bear market and he was a participant looking at the Plan and the target is 12 and you all were at the maximum end not even near the target, I would be questioning that. Boucek said that his response would be that the money was earmarked for long bonds, but because of interest rates we haven't moved into them. Now we are starting to so that is going to bring that down. Carroll asked if SRC would document that for the Board when things are away from the target. Boucek said right, most of the time it comes up at the Board meetings. Carroll said he's not worried about when we will rebalance. He's said he just worried about when we are at the max range of a category and it goes south. Boucek said that SRC wouldn't let us stay there long. The only reason we have been high in the S&P so long is because of the interest rate environment in the long bonds. Carroll said so therefore SRC would let us stay somewhere for a long time because we have stayed away from the target for the S&P since he's been on the Board for three years. Carroll said that he doesn't have a problem with that, but he would like to have documentation from SRC quarterly explaining why we are away from the targets. Carroll asked if SRC is ok with doing that. Boucek said right now this Plan is in an extremely unusual situation with the long bonds. He's very comfortable explaining why we held out. Carroll said he understands, but wants to know if SRC is willing to put it on paper as to why SRC is recommending being so far from the target. Boucek said that is an unusual situation. If you are where you are right now, no. If you didn't have the long bond issue he would be saying that we have to rebalance immediately. Boucek said he won't say never because there have been times when SRC told its clients to get out of treasuries and go load up on corporate debt because the spreads were unbelievable. Those are extremely rare situations. He said that that if we get one or two percent above the target on emerging market equities he's not going to be banging on the table, but if you got up to the max he probably would. Carroll said that he wants to make sure that SRC is willing to not just tell us these things, but be willing to put it in the quarterly report. Boucek said yes. Carroll said as specific as here is the target and SRC's recommendation is to stay there or move on a quarterly basis. Boucek said absolutely. Carroll asked if it would be in the quarterly report. Boucek said yes. He can add verbiage to the report. Carroll said that if we are going to keep the targets in the IPS, at a minimum we have to have that explanation documented by SRC in the quarterly reports.

Sheppard questioned if it would make any sense to take the word target out and put normal. He said it doesn't sound right but is that really more accurate? Boucek said the target is the cornerstone of everything you do. The target is the result of an asset liability study. Carroll said he understands that and by having it in the IPS, when we are away from the target it would put liability on the Board. Hartman said that is what the range is for. Gillette said that he doesn't think it would put any liability on the Board as long as we are within the range. It's only that being outside of the range that is the issue. Boucek said that is exactly it. Carroll questioned why the target was even in there then. Hartman said you have to have a target. Carroll said that he just wants the Board to be able to explain why it was so far from the target in the event of a meltdown. Gillette and Boucek said they wouldn't have any problem defending our position. Boucek said there is a lot of documentation in terms of the meeting minutes. Carroll asked Kelley his thoughts since he knows the participants better. Kelley said that he tends to think more in line with what Carroll is saying. There is an investment standpoint and a participant standpoint. He guarantees that if things went south there will be guys out there that will sharp shoot everything. If you can defend it then that is one thing, but he doesn't think it is outside the realm of possibility for this sort of scenario to take place.

Boucek said that if something is at the maximum, SRC would be telling us to rebalance. He just can't envision an opportunity like that. Carroll repeated that we have been that way for three years. Boucek said this is a three-sigma event. This doesn't happen. Carroll said it has happened. Boucek said in a typical situation where we don't have interest rates in a place that they have never been since the beginning of time, he can't think of a time that he would sit here and say to a client not to rebalance. Had the Board already been invested in long bonds then he certainly would be advising us to rebalance. Sheppard questioned that if the Plan was at the max end of the ranges in three categories for two years and is low in some of the other categories. All of a sudden we have a pretty quick adjustment in the market and get hammered in all three of those categories to now all of a sudden we are at the minimum range. Someone then comes to the Board that is upset with the performance because we are suddenly 65% funded instead of 75% funded. Say the Board is questioned by the press about not being at the target for the last two years and not rebalancing. Sheppard asked Boucek what his response would be when they asked, what were you thinking? Boucek said it wouldn't happen. You are focusing on a time and a situation that is extremely unique. He added that the current situation is outside of the norm, but it is completely defendable given the interest rate environment. Sheppard's two-year scenario would have never happened. We are in a situation that is going away and it shouldn't exist going forward. Could it exist? Yes, but normally it would not. If you feel more comfortable as a group that we add a text box in the quarterly report that says that there are no recommendations for rebalancing at this time or suggestions on where to move money that is not a problem. Carroll said he thinks at a minimum that would be good in the quarterly report.

Rushefsky said she can see things both ways, but a couple of things that Boucek said trouble her a little bit. One is that it is not going to happen and it is unprecedented. Lawyers make careers out of things that people don't expect to happen. When these things happen they can be catastrophic. 2008 should have never happened, but those things do happen. She is concerned because she heard Boucek say over and over again that he couldn't imagine that he wouldn't tell the Board to rebalance. She's not saying that Boucek wouldn't say that, but she can hear someone on the witness stand saying our company policy is that we always tell the client to rebalance. So if something happens to Boucek or if our minutes are not clear or whatever it is, someone will be saying of course we would have told them to rebalance. Rushefsky said she's just talking from a lawyer's perspective. Boucek said if the lawyers really wanted to make money off of 2008-2009, they would have gone after the guys who were crooks, the guys that leveraged the system globally and caused this to happen. That was abuse and fraud in expediential format that we have never seen before. They have tightened it up a bit, but they haven't done enough in his mind to fix it. However, when you have a paper trail saying that we did these things in good faith, you're hard pressed to have someone say you did something illegal or wrong. That's what he's getting at. We take minutes at these meetings. If the bond market froze up again and we couldn't sell bonds, he would probably say that we can't do anything right now. Something like that is defendable. He can't possibly envision someone challenging a decision by a group in that kind of environment. It doesn't mean that it can't happen because people can get crazy about anything really. Boucek said that absent these unusual circumstances, having targets and reasonable ranges makes sense. He still thinks the Board would get more scrutiny about not having the targets in the IPS.

Hartman said that the Board has documentation. We had a presentation on moving cash out of specific assets that we were overweight in. He thinks it is perfectly defensible as to why we were high. On top of that, it was growing at 2% a month. We are taking cash out, but it is still growing. Boucek said he will start including the text box as to why we are over or under weight if the targets are in the IPS. Gillette added that the Board owns the minutes. We have documentation every quarter when SRC comes in. He would much rather have our documentation because the owner of the minutes owns the meeting. We approve the minutes and they get posted to public record. He's happier having that in our minutes than having the text box in the SRC report. Gillette said we can defend the position we are in right now. We don't even have to tell the story. We can say go out to the website and look at the minutes and you will see how we got from 50% funded to 70% funded and why we made the decisions we made along the way. We are trying to re-event something that has been around for a very long time when talking about the targets. It is our job to document things and we already do.

Boucek said that if there was something wrong here he would be throwing it on the table. We you have is very normal. What we have with this one asset class is not normal and it has driven a decision for a year or two. Sheppard said that he thinks Boucek is saying that the target is our normal target, but there are situations where that is not going to be our target. Boucek said those are usually very rare. Sheppard asked if he would agree that these are the normal targets. Boucek said correct. Sheppard thinks we should say normal target. Rushefsky said that the people here know what the situation is, but not all of us will be here forever. So we need to make sure that every time this situation comes up, that it is well documented. Having it in the report is not a bad idea, but it has to be recorded in the minutes each time why we go over the target if it is a long period of time. Manley reminded the Board that the meetings are also recorded and saved on the server.

Quarterly Report – First Quarter 2015

Boucek said it was a little bit of a volatile market in the first quarter of 2015. The return on the investment was ($7,594,000) for an ending market value of $299,522,000. The fiscal year-to-date investment performance is -2.1%. International equities, domestic fixed income, international fixed income and hedge fund to funds did well this quarter.

Boucek said that as far as the asset allocation, we are going to rebalance and we are starting to move into other asset classes so these over and under weights are going to shift around over the next quarter or next six months for sure. That will bring us back more in line with the targets. Boucek said that we are right in line with the total domestic equities. As far as total international equities, Pictet had a good bounce back this quarter. Their strong results were in Europe and industrial holdings. We hope that trend continues. They are still a highly rated firm. Their history hasn't been valued added since inception, but SRC still thinks Pictet is a good firm. Anytime you taking on active risk and management there are times when they are going to underperform and Pictet has gone through that. Wells is another one. Their high quality hurt them as well. They continue to face that environment and probably will for a little bit here in 2015. They did get good results from their holdings in the financials and utilities sectors. Domestic bonds outperformed the index. Galliard outperformed and continues to deliver value added results. TIPS were right in line with the index. The international bonds were down for the quarter. Brandywine was down, but not anywhere near as much as the index. Pyramis had a good quarter with at 2.85% increase. Pyramis returned 3.22% for the quarter. There was an issue with the trust statements so it shows 0% in the quarterly report. As far as the alternatives, the commodity index was in line with the benchmark. Entrust and Blackstone continue to deliver positive results.

Boucek thanked the Board for their time and exited the meeting.

9. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Kelley made a motion to move to closed session at 10:11 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Carroll. Vote all: Yes. Open session resumed at 10:28 a.m.

10. Investment Policy Statement

Kelley made a motion to approve the Investment Policy Statement as discussed in the closed session; 2nd by Carroll. Vote all: Yes.

11. Quarterly Investment Report Approval

Kravfe made a motion to accept the quarterly investment report as presented by Segal Rogerscasey; 2nd by Kelley. Vote all: Yes.

12. Other Business

Carter said it has been brought to the Board's attention that Human Resources is restricting who may attend the pre-retirement seminar to only those who will be retiring very soon. Some that are considering purchasing military time and can retire almost immediately are being told they can't attend the seminar.

HR is saying that they are not eligible to attend per the Pension Board policy. However, no documentation can be found that doesn't allow that. Manley said that basically HR is saying that if they haven't purchased their time prior to the seminar, they can't attend. Carter added that most of the time they purchase their time at retirement. Cater said that the Board can't make the City do anything, but maybe a motion requesting that they allow them to attend would be helpful. Kelley made a motion to request that Human Resources allow anyone who is within three years of eligibility under any circumstance, including employees that have the option to purchase prior credit, to be allowed to attend the pre-retirement seminars; 2nd by Carroll. Vote all: Yes.

White mentioned that several people are having a hard time finding the minutes on the website. The minutes are on the site, but there have been several complaints about the site not being user friendly. She will start emailing the minutes to all police and fire employees after they are approved each month in addition to posting them on the website.

13. Adjournment

Kelley made a motion to adjourn the meeting; 2nd by Carroll. Vote all: Yes. The meeting adjourned at 10:36 a.m. on May 14, 2015.