

Brian Carlson Chris Black
Nays: None
Absent: Tracy Renfro

IV. CASH & INVESTMENTS

- Darren Kleis and Paul Stover of Principal U.S. Property, the core real estate fund manager, presented Principal's annual review report as of September 17, 2015:
 - Principal has over \$60 billion under management, over 60 years of investment experience and is one of the top 10 real estate managers in the country.
 - In the past year there have been no real organizational changes at Principal other than the retirement of the Chief Investment Officer after 30 years of service; however, the five-man investment team otherwise remains very stable.
 - The Core Real Estate Account is valued daily and currently has \$400 million "in the queue to come into the account."
 - Page 6 provides an overview of the fund which is an \$8 billion fund with about 135 properties. The debt ratio is only 20% and properties held are 93% occupied. They have a million square feet more occupied than were a year ago. "The economy is good; we're leasing more space; we have a good track record."
 - Page 7 shows the focus of the management team – increasing the NOI or Net Operating Income by leasing more space; raise current rents with the economy doing better; and cutting expenses by reviewing energy usage, insurance costs, etc. They also look at "nonstabilized" properties which are non-Core of which they are limited to 15% and 7.5% of that are properties under development. Selling or "pruning" certain properties is a continuing process to improve the quality of the portfolio.
 - Page 10 reviews the properties types, of which offices is the largest category. The next largest property type is retail occupying 16% of the fund holdings, which is slightly underweight to other funds of their type.
 - Page 12 shows its multi-family focus or non-commodity properties where it is actually doing some building in select areas.
 - Since meeting last year, Principal has expanded its student housing presence.
 - Page 13 focuses on the exposure to industrial properties which they "like a lot" and believe that rents for industrials will move upward as land gets more expensive.
 - Page 14 reviews Principal's top 10 (largest) holdings by value. Following pages show a picture and maps of their locations.
 - Page 16 and 17 present the returns several different ways comparing them against other funds and showing that Principal is beating its benchmark on income return except in the second quarter.
 - The properties are owned directly but Principal does not manage them – it hires managers to do the daily management. Principal does the asset management – it negotiates the leases and set the rents.
 - Being daily valued Principal always knows where it is. This quarter it is in the mid 3% for a return; Principal does expect returns to slow down somewhat from double digits to high single digits, in the 8-10% range. Overall the outlook is positive.

- Mike Piotrowski followed up Principal's presentation by stating that it compares very well with its peers and is a very high-quality portfolio.
- Mike Piotrowski briefly went over Marquette Associates' Flash Report as of August 31, 2015:
 - August was a very challenging month with almost every fund negative except real estate.
 - The markets were down overall 6% and the S&P was off over 12%. The pension fund itself was down 1.1% for the month.
 - Manning & Napier continues to struggle so Marquette will begin doing a search for a new manager.
 - Overall the investment earnings have been great over the last five years. The Feds continue to be cautious and we may "see things pop back" as end-of-the-year markets tend to do well.
- There were no cash needs for the month.
- Records of purchases and sales were distributed.

Michael White made a motion, seconded by Brian Carlson, to approve the purchases and sales for the month. A roll call vote was taken:

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|----------------|---------------|---------------|
| Ayes: | Alan Granite | Michael White |
| | Brian Carlson | Chris Black |
| Nays: | None | |
| Absent: | Tracy Renfro | |

V. OLD BUSINESS

- The rules update was tabled.

Attorney Clifford provided copies of the findings from the McCallips' disability hearing to Board members. By law the applicant has 35 days to appeal but since the disability pension was granted this should not be an issue. Alan Granite made a motion, seconded by Brian Carlson, to approve the findings and decision to grant the disability pension to Michael McCallips. A roll call vote was taken:

| | | |
|----------------|---------------|---------------|
| Ayes: | Alan Granite | Michael White |
| | Brian Carlson | Chris Black |
| Nays: | None | |
| Absent: | Tracy Renfro | |
- Attorney Clifford reported that all the record requests and subpoenas for Carla Heitter's medical records have been issued on her duty disability claim and reports have been coming in from the providers.
- Linda Wlaznik informed Board that she would be refiling the DOI Annual Statement for the year ending December 31, 2014, as the DOI wanted an adjustment to be made.
- The City Audit is done but has not yet been posted on the City's website.
- Timothy Sharpe, the City's Actuary, was called to report on this year's Actuarial Report:
 - The report tries to do two things: It tries to calculate the contribution requirement of the City and calculate the funded status of the Fund that the City uses in its audit disclosure of the Fund.

Most of the calculations are by statute but the assumptions are the responsibility of the Board and the City.

- Beginning on page 4, Sharpe discussed the new accounting rules that are now in place, the GASB 67 & 68 rules. This does two things: 1) now requires a calculation of the interest rate which falls to the investment advisor, i.e. Marquette, who came up with 7.5% based on a long-term view of 10 years and the types and allocations of investment classes. The range of assumptions can be all over the board depending on how aggressively the Fund invests but most are in the range of 7-7.5%. 2) The new accounting rules now require a change in the tables used. There are four tables used: mortality, turnover, disability and retirement table.
- The mortality table is the same as used in recent years but was adjusted slightly for public safety employees and this adjustment has been removed; just the “straight” table is now used. The important thing is we’ll see what impact the changes in the tables have made.
- At the bottom of page 4 is the summary of results. There were no real changes in terms of new firefighters and only a few retirements and one disability pension added. The change in the average salary rate was just over 4%, pretty close to the assumed rate of 5%. The payroll increase was 1.3%. The annual investment return was 5.66%, 2% lower than the assumed rate but not a big effect since the statutory 5-year smoothing is used. The City’s contribution has gone up from \$7.2 million to \$8.5 million, half of which is due to the changes in the tables. The percent funded decreased from 64% down to 59%; however, if the tables had not been changed the percent funded would have remained 64%. The increase in liability was \$20 million which is attributable to future expectations.
- Page 6 is the balance sheet for the Fund. It shows the market value of assets as \$160 million and the actuarial value of \$157 million which is a result of the 5-year smoothing. This means that the Fund has earned more than the assumed value over the last 5 years and this is being phased in; this is \$3 million in deferred gain.
- Page 7 is the Revenue and Expense summary for the year. At the beginning of the year the Fund was at \$158 million and at the end \$160 million, growing by \$2 million. The expenses were \$16 million so there is 10 years of reserves on hand. Contributions were \$9 million – \$7.2 million from the City and almost \$2 million from firefighters. With the City’s contribution of \$8.5 million and \$2 million from firefighters, if the assumed rate of 7.5% is attained then the Fund can be expected to grow by about \$4 million per year or \$20 million for 5 years or \$180 million in the Fund 5 years from now.
- Page 12 shows the projected pension payouts as worst case scenario. This assumes that everyone retires as soon as they can. In essence the reserves will actually be increasing. There are no actuarial assumptions involved; these are all just actual numbers which the Board “should be comfortable with” per Sharpe.
- Discussion was entered into comparing 2005 to 2015 liabilities and assets. Sharpe pointed out that this is not an apples to apples comparison as “the goal posts have changed.” There’s actually been only a 1% change in liability.
- Looking at pages 20 and 21, Sharpe explained the 6.82% discount rate versus the 7.5% assumed rate which occurs because the City funds only 90% of liability per statute. If the City was to fund at 100% of liability then there would be no adjustment to the interest rate.
- In closing Sharpe said as long as the City makes the required contribution “everything takes care of itself” – it’s the contribution that takes care of everything, not the interest rate. Closing

comments by Board members noted that the changes in the mortality tables have had a huge effect on the increases in liability – there have been two “bumps” in the last two years. The Board also discussed the increase in number of retirees due to the two recent buyouts, the increase in salaries and the effect of taking on 14 new firefighters who will be Tier II employees versus Tier I employees.

VI. NEW BUSINESS

- Attorney Clifford noted that she had just received a message that John Albaugh’s IME has been received and Marc Gasparini’s is also completed.
- Attorney Clifford will write the letter to the City requesting the year’s tax levy to present for the Board’s approval at the October Board meeting.
- Linda Wlaznik reported that there are 13 outstanding affidavits currently and one in particular for Tassoni for whom she has been unable to contact at all and his pension check will be withheld in October if nothing is received.
- Fourteen new recruits are starting on Monday, September 21st, and Brian Carlson and Alan Granite will be meeting with them to go over their pension entitlements.

VII. TRAINING

- Brian Carlson has met his training requirements for the year. Alan Granite will be signing up for the AFFI Conference in Springfield, and Michael White and Tracy Renfro will be attending the IPPFA conference in Lake Geneva to meet their requirements.

VIII. CLOSED MEETING – None required.

IX. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:45 p.m.
Next regular meeting is October 15, 2015, at 3:00 p.m.

Signed:



Brian Carlson, Secretary

10/15/15

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its October 15, 2015, meeting.

