

MINUTES OF THE REGULAR MEETING
BARRINGTON HILLS POLICE PENSION BOARD
JANUARY 24, 2011

Call to Order. President Hammelmann called the meeting of the Barrington Hills Police Pension Board to order at 7:33 a.m. in the conference room of the Village Hall.

Roll Call. Present – Trustees Borck, Fernandez, White and President Hammelmann (4). Also present were Investment Advisor Dave Wall, Wes Levy of Lauterbach & Amen and Camille Cribaro-Mello of Robbins, Schwartz, et al.

Approval of Minutes. The Board reviewed a copy of the minutes from the October 25, 2010 regular meeting. Motion by Borck, seconded by Hammelmann, to approve the minutes of the October 25, 2010 meeting.

Ayes: President Hammelmann, Trustees Borck, Fernandez and White (4)
Nays: None. Motion carried.

Payment of Bills. Motion by Hammelmann, seconded by Borck, to pay the following bills:

Robbins, Schwartz	\$1,649.16
Lauterbach & Amen	\$1,420.00
Wall & Associates	\$2,981.63
Dr. Tu	\$ 600.00*
Lyn White	\$ 190.00**

*Related to the recertification of disability of Hernandez.

**Expense reimbursement for training attended.

Ayes: President Hammelmann, Trustees Borck, Fernandez and White (4)
Nays: None. Motion carried.

Lauterbach & Amen Renewal. The Board's accountants, Lauterbach & Amen, submitted an engagement letter to extend their services for a three year period through December 31, 2013. Attorney Nanci Rogers of RSNLT reviewed and approved the form of agreement. Mr. Levy noted that the increase in fees was due to the additional preparation of the annual municipal compliance report, required by statute. Motion by Fernandez, seconded by Borck, to approve the renewal of Lauterbach & Amen's engagement through December 31, 2013.

Ayes: President Hammelmann, Trustees Borck, Fernandez and White (4)
Nays: None. Motion carried.

Board Attorney Report. Attorney Cribaro-Mello reported on the recently enacted pension reform changes affecting Article 3 police pension funds (P.A. 96-1495), including the Barrington Hills Police Pension Fund. Effective January 1, 2011, new members to the pension fund will have their pension determined differently than existing fund members:

- Minimum retirement age increased to 55 with minimum of 10 years of service; early retirement at 50 with up to 6% reduction in annuity.
- Retirement pension calculated at 2.5% “final average salary” for the each year of service, capped at 75%.
- “Final Average Salary” based on the best 8 out of the last 10 years of service and capped at \$106,800 (increased annually by lesser of 3% or ½ of the annual percent increase in CPI-U.)
- Costs of living adjustments (beginning at age 60) of the lesser of 3% or ½ of the annual percent increase in CPI-U.

Attorney Cribaro-Mello also advised that under the new law, the Board is now allowed to invest in investment grade corporate bonds, as discussed by Mr. Wall, below. Other changes include opportunities for pension boards to enforce municipal funding by certifying non-payment to the State Comptroller and re-directing state grant funds to the pension fund. Attorney Cribaro-Mello also discussed with the Board the likely legal challenges that would be made if the state legislature attempted to pass legislation to reduce pension benefits for fund members not affected by the new legislation.

Attorney Cribaro-Mello also discussed the new Civil Union law, recently passed by the state legislature and pending signature by Governor Quinn, and the possible impact to pension funds to recognize as survivors partners joined by civil union in addition to spouses recognized under the pension code.

Attorney Cribaro-Mello reminded the Board of the annual training requirements and acknowledged that Trustee White had submitted a certificate for 8 hours of training attended. Trustee Fernandez advised that he was attending training on 1-27-11.

Discussion of NCPERS Membership. The Board discussed possible membership in this national organization and received input from Mr. Wall and attorney Cribaro-Mello about the likely benefits of membership, including training opportunities. Trustee Borck indicated he would like to obtain additional information regarding the organization and the matter was tabled for further discussion and possible approval at the Board’s next meeting.

Accountant Report. Wes Levy distributed a monthly financial report for the month ended December 31, 2010 prepared by Lauterbach & Amen, LLP. The report depicted the statement of plan net assets for the Fund as of December 31, 2010, and the related statement of changes in plan net assets for the one month and the year ending December 31, 2010. As of December 31, 2010, plan net assets held in trust were \$4,145,385.29. Plan net assets increased by \$744,611.68 for the year ending

December 31, 2010. Levy also reviewed supplementary financial information contained in the report including a summary of cash and investments and Fund asset allocations as of December 31, 2010, and a detailed report of fund revenues and expenses. The asset allocation as of December 31, 2010 showed approximately 62% of funds invested in U.S. Government Securities and Agencies. A copy of the report is attached to these minutes.

Investment Report and Recommendations. Investment Adviser Dave Wall distributed a report showing the status of the Fund's investment portfolio as of the fourth quarter of 2010. A copy of the report is attached to these minutes.

As of December 31, 2010, the Fund portfolio was invested in 26% equity mutual funds, 7% cash and 67% in fixed income securities. Wall reviewed the performance of the Fund's investments for the fourth quarter noting that the Fund experienced an investment gain of \$69,365.44 during the quarter, with plan assets valued at approximately \$4,157,683.35 as of December 31, 2010. The Fund's overall rate of return for the year was approximately 6.2%. Wall reported that the fixed income portfolio lost approximately 1%, due to the defensive bond position. Overall the equity portfolio recognized a gain of \$104,887.19 for the quarter and is up more than 15% for the year. The gain exceeded the benchmark by nearly 2% for the year.

Wall discussed the new ability of the fund to invest in investment grade corporate bonds and provided summary information regarding certain bond index investments over the last 20 years. Wall advised that corporate bonds could provide greater return at a reduced risk, provided the investment remained over a long period of time. Wall highlighted certain additional risks that corporate bonds presented to funds similar in size to the Fund. For example, liquidity could be a concern. Also, in some cases factors other than financial factors could significantly impact corporate bonds (in the case of BP, corporate bonds fell 15% due to oil spill in Gulf, despite no change in BP's credit rating.) Wall suggested that corporate bonds held through a mutual fund may be a better option for the Fund, however such holdings would be treated as part of the Fund's equity portfolio. Wall's recommendation was that the Fund continue to invest surplus cash into the equity market, as stated in the Investment Policy. There was a concurrence among Board members.

Vacant Board Seat. President Hammelmann reported that the mayor had been reminded about the vacant board seat and that action to fill that seat was still pending.

Guest Speakers. None.

Further Matters for Discussion. Trustee Borck updated the Board that preparations were underway for the upcoming election for Board Trustees. Information will be sent to voting members in the near future.

Next Meeting. It was announced that the next regular Board meeting will be April 25, 2011 at 7:30 a.m. at the Village Hall in the Village of Barrington Hills.

Adjournment. On motion by Trustee Hernandez, seconded by Trustee White, and unanimously carried by voice vote, the meeting was adjourned at 8:44 a.m.

APPROVED:

President Hammelmann

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