POLICE PENSION BOARD OF TRUSTEES
Tuesday, April 9, 2019
2:30 PM
Municipal Center - 333 South Green Street
Aldermen's Conference Room

AGENDA

1. Call to Order

2. Roll Call

3. Public Input (5-minutes)

4. Meeting Minutes:
   a) Motion to approve the January 8, 2019 meeting minutes.

5. Report of Investments and Accounts:
   a) Motion to approve Treasurer Report
   b) Fixed Assets Investment Report
   c) Equities Investment Report
   d) Semi-annual review of Police Pension Fund Investment Policy

6. Unfinished Business:
   a) Motion to approve payment of bills

7. New Business:
   a) Elections

8. Additional Items for Discussion

9. Motion to Adjourn

Next Scheduled Meeting: July 9, 2019
Call to Order
A meeting of the City of McHenry Police Pension Board of Trustees was called to order at 2:33 pm in the McHenry City Council Chamber, 333 S. Green Street, McHenry, IL.

Roll call:
Members present: Jeffery Foerster, Nick Clesen, Marc Fisher. Others present: Jim Schmidt, LPL Financial; Gary Karshna, Capital Gains, Inc. and Finance Director Lynch. There was a quorum present.

Public Input
None.

Meeting Minutes:
Motion to approve the October 16, 2018 meeting minutes.
President Foerster asked if any of the members had any comments or questions with respect to the October 16, 2018 meeting minutes. The Members offered no comments. A Motion was made by Member Fisher and seconded by Member Clesen to approve the October 16, 2018 meeting minutes as presented. Roll call: Vote: 3-ayes by unanimous voice vote. 0-nays, 0-abstained. Motion carried.

Semi-annual review of Executive Session Meeting Minutes
There was no executive session meeting minutes to review.

Investment Reports
Presentation and Motion to approve Treasurer’s Report
The Treasurer’s Report was not presented at this time.

LPL Financial Equities Report
Mr. Schmidt provided the Pension Board Members with an overview of the 2018 year end equities report. He reported that the markets had performed poorly this year and on paper the equities investments as a whole was down by 6%.

Capital Gains, Inc, Fixed Income Report
Mr. Karshna provided the Pension Board Members with an overview of the Fiscal Year 2018-19 Portfolio Report. He reported that seventy-eight percent of the Police Pension Portfolio is invested in corporate bonds, with the balance invested in a diversified mix of US government and municipal bonds. Mr. Karshna went on to report at this time, in his opinion corporate bonds are the preferred security, due to their higher yields.

Mr. Karshna provided the Pension Board Members with an overview of the 2018 Fixed Income Portfolio. He highlighted several newly acquired securities. President Foerster asked if Mr. Karshna had considered in the future exploring investing in CD’s. He noted that CD’s rate of return has recently increased. Mr. Karshna reported that he would investigate the CD market’s current rate of returns and report back.
New Business
Retiree Death Monitoring Service
President Forester discussed a new program in which IPPFA has partnered with the accounting and pension administration firm of Lauterbach & Amen, LLP. They offer a secure and free service to assist various pension funds such as IRMF and Chicago Police and Fire with death auditing services. President Forester stated at this time he would entertain a motion to enter into an agreement with Lauterbach & Amen, LLP to authorize participation in their Death Audit Service program. A Motion was made by Vice President Clesen and seconded by Secretary Fisher to authorize participation in the Lauterbach & Amen, LLP Retiree Death Monitoring Service Program. Roll call: Vote: 3-ayes: Vice President Clesen, Secretary Fisher and President Forester. 0-nays, 0-abstained. Motion carried.

Status of Police Pension Fund Disability Application of Sean Klechak
President Forester reported that he had spoken with Attorney Goodloe and she had informed him that Officer Klechak had completed his medical examinations and believes the reports should be available within the next couple months.

Motion to approve annual pension increases
President Forester distributed a list of pensioners that are eligible for a monthly pension increase effective various times in 2019. A Motion was made by Vice President Clesen and seconded by Secretary Fisher to approve the annual pension increases. Roll call: Vote: 3-ayes: Secretary Fisher, Vice President Clesen and President Forester. 0-nays, 0-abstained. Motion carried.

Status of appointments to the Police Pension Board
President Forester reported that on January 21st Mayor Jett will asked the Council Members to concur with his appointment of Ms. Cheryl Kranz to fill the vacant McHenry Police Pension Board of Trustees position which will expire on April 30, 2020.

Approve Laura Goodloe to serve as the Pension Board’s FOIA Officer
President Forester stated that at this time he would entertain a motion to appoint the Pension Board’s Attorney Laura Goodloe to serve as the Pension Board’s FOIA Officer. A Motion was made by Secretary Fisher and seconded by Vice President Clesen to appoint Attorney Goodloe to serve as the Police Pension Board’s FOIA Officer. Roll call: Vote: 3-ayes by unanimous voice vote. 0-nays, 0-abstained. Motion carried.

Unfinished Business
Motion to approve payment of bills as present
President Forester stated that at this time he would entertain a motion to approve the payment of bills as follows:

- Puchalski, Goodloe, Marzullo- Attorney Fees -$921.18.
- IPPFA-Pension Conference-$830.00
- Capital Gains-5,032.00

A Motion was made by Secretary Fisher and seconded by Vice President Clesen to approve the payment of bills as present. Roll call: Vote: 3-ayes: Secretary Fisher, Vice President Clesen and President Forester. 0-nays, 0-abstained. Motion carried.

Public Pension Trustee Training Update
President Forester reported that he along with Vice President Ciesen and Secretary Fisher had completed their annual 16 hours of continuing Trustee training. In addition, Ms. Cheryl Kranz is aware and has agreed to complete the Pension Board training requirements.

**Adjournment**

There being no further public business to discuss, a Motion was made by Secretary Fisher and seconded by Vice President Ciesen to adjourn from the public meeting at 3:05 pm. Roll call: Vote: 3-ayes by unanimous voice vote. 0-nays, 0-abstained. Motion carried.

Respectfully submitted,

Debra Meadows
CITY OF MCHENRY

POLICE PENSION FUND

INVESTMENT POLICY

Adopted July 13, 1999

Revised:

3/13/2001
1/8/2013
10/8/2013
1/12/2016
10/11/2016
CITY OF MCHENRY POLICE PENSION FUND
INVESTMENT POLICY

PURPOSE
The investment of pension funds is the responsibility of the members of the Board of Trustees (Pension Board) of the McHenry Police Pension Fund (Fund). The purpose of this investment policy is to indicate a conscious, formal effort by the Pension Board to develop, implement and monitor the investment of pension funds. It shall be considered an important means to communicate the Pension Board's policy views on management of pension funds to the public, participants, and beneficiaries of the Fund.

SCOPE
This policy governs investment practices and applies to all financial transactions of the McHenry Police Pension Fund.

OBJECTIVES
The Pension Board has a fiduciary responsibility to discharge their duties with respect to the Pension Fund solely in the interest of the participants and beneficiaries as set forth in the Illinois Pension Code at 40 ILCS 5/1-109.

- **Safety:** Safety of principal is the foremost objective of the McHenry Police Pension Fund. Each investment transaction shall seek to first ensure that large capital losses are avoided whether they are from securities, defaults or erosion of market value.

- **Return on Investments:** The Pension Board seeks to attain or exceed market rates of return on its investments consistent with constraints imposed by its safety objectives, cash flow considerations and Illinois Laws that restrict the placement of public funds.

- **Maintenance of Public Trust:** All participants in the investment process shall seek to act responsibly as custodians of pension funds. Investment officials shall avoid any transactions that might reasonably impair Fund participant's confidence in the Pension Board's ability to manage the Fund.

- **Liquidity:** The assets shall be sufficiently liquid to meet the Fund's disbursement requirements for the payment of operating expenses and benefits.

RESPONSIBILITY
Management of the investment program is the responsibility of the McHenry Police Pension Fund Board of Trustees. No person may engage in an investment transaction except as provided under terms of this policy established by the Pension Board.

The Pension Board may appoint an investment manager (as defined in 40 ILCS 5/1-101.4) to assist in the management of the investment program. The investment manager shall acknowledge, in writing, that they are a fiduciary with respect to the McHenry Police Pension Fund. Any such written agreement shall be attached to this policy.

The Pension Board will meet with the investment manager quarterly to review market conditions and to determine investment strategy. The Treasurer of the City of McHenry
(Treasurer) is responsible for ensuring all investment transactions undertaken are consistent with the Fund's investment strategy.

The Board shall file a copy of this Policy with the Illinois Department of Insurance within 30 days after its adoption, per 40 ILCS 5/1-113.6. A copy of this Policy shall be made available to the public at the main administrative office by the Fund, per 30 ILCS 235/2.5(b).

PRUDENCE
The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of managing the portfolio. Investments shall be made with care, skill, prudence and diligence that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims.

PROHIBITED TRANSACTIONS
A Fiduciary with respect to the Fund shall not:

- Deal with the assets of the Fund in their own interests or for their own account.
- In their individual or other capacity act in any transaction involving the Fund on behalf of a party whose interests are adverse to the interests of the Fund or the interests of its participants or beneficiaries.
- Receive any consideration for their own personal account from any party dealing with the Fund in connection with a transaction involving the assets of the Fund.

INVESTMENT INSTRUMENTS
The Pension Fund may invest in any type of security allowed for in Police Pension Statutes 40 ILCS 5/1 – 113. Approved investments include:

1) Bonds, notes, certificates of indebtedness, treasury strips, treasury bills, or other securities, including obligations of the Government National Mortgage Association, which are guaranteed as to principal and interest by the full faith and credit of the government of the United States of America or its agencies.

2) Agencies include Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), Public Housing Boards (HUD), Farmers Home Administration, General Services Administration (GSA), Maritime Administration, Small Business Administration (SBA), Tennessee Valley Authority (TVA), Washington Metropolitan Area Transit Authority, Federal Land Bank, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association, Student Loan Marketing Association (Sallie Mae) and any other agency created by Act of Congress.

3) Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investment constituting direct obligations of any institution that is insured by the Federal Deposit Insurance Corporation or insured accounts at credit unions chartered in the state of Illinois or federally chartered provided its principal office is located in Illinois.

4) Illinois Funds (formerly IPTIP)
5) Municipal bond and tax anticipation warrants issued by any city, county, township, village, incorporated town, municipal corporation or school district in Illinois and Illinois Municipal Certificates of Accrual (M-Cats) or tax exempt securities.

6) Guaranteed Investment Contracts (GIC's) valued at purchase price (not market value) not to exceed 10% of the total aggregate book value of the portfolio.

7) Separate accounts of a life insurance company authorized to do business in Illinois, comprised of; common or preferred stocks, bonds or money market instruments; real estate or loans upon real estate secured by first or second mortgages. The total investment in such separate accounts shall not exceed 10% of the aggregate book value of all investments owned by the fund.

8) State of Israel Variable Rate Issue Bonds and Prime Rate State of Israel Notes, limited to 5% of the book value of the pension fund. The fund must have at least $5 million of net present assets to invest in these funds.

9) Corporate bonds which meet the following requirements:

   a) Rated as investment grade by one of the two largest credit rating services - Standard & Poor's and Moody's Investors Service - at the time of purchase.

   b) If securities are downgraded by both Standard & Poor's and Moody's Investors Service, subsequent to purchase, below investment grade, they must be liquidated within 90 days of the downgrade.

If the Fund has assets in excess of $2,500,000, it may invest up to 45% of its total assets in the following items:

1) Separate accounts that are managed by life insurance companies authorized to transact business in Illinois and are comprised of diversified portfolios consisting of common or preferred stocks, bonds or money market instruments.

2) Mutual funds that meet the following requirements:

   a) The mutual fund is managed by an investment company as defined and registered under the federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.

   b) The mutual fund has been in operation for at least 5 years.

   c) The mutual fund has total net assets of $250 million or more.

   d) The mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.

If the Fund has assets in excess of $5,000,000 and has appointed an investment advisor under section 1-113.5, it may, through that investment advisor, invest up to 45% of the aggregate market value of the total portfolio in domestic common and preferred stocks, provided;

(3)

3) The securities of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence for at least 5 years.

4) The corporation has not been in arrears on payment of dividends on its preferred stock during the past 5 years.

5) The market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the pension fund, and the investments in the stock of any one corporation do not exceed 5% of the total outstanding stock of that corporation.

6) The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the Board.

7) The issuer of the stocks has been subject to the requirements of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filing requirements of Sections 13 and 14 of that Act during the preceding 3 years.

8) The Fund’s total investment in the items authorized in section 5/1-113.3 and 5/1-113.4, shall not exceed 45% of the market value of the pension fund’s net present assets stated in its most recent annual report on file with the Illinois Department of Insurance.

If the Fund has net assets of at least $10,000,000 and has appointed an investment adviser, as defined under Sections 1-101.4 and 1-113.5, it may, through that investment adviser, invest an additional portion of its assets in common and preferred stocks and mutual funds.

The stocks must meet all of the following requirements:


2) The securities must be of a corporation in existence for at least 5 years.

3) The market value of stock in any one corporation may not exceed 5% of the cash and invested assets of the pension fund, and the investments in the stock of any one corporation may not exceed 5% of the total outstanding stock of that corporation.

4) The straight preferred stocks or convertible preferred stocks must be issued or guaranteed by a corporation whose common stock qualifies for investment by the Board.

The mutual funds must meet the following requirements:

1) The mutual fund must be managed by an investment company registered under the Federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.
2) The mutual fund must have been in operation for at least 5 years.

3) The mutual fund must have total net assets of $250,000,000 or more.

4) The mutual fund must be comprised of a diversified portfolio of common or preferred stocks, bonds, or money market instruments.

ASSET ALLOCATION
The Pension Funds total equity investment in the items authorized under this Section and Section 1-113.3 shall not exceed 65% of the market value of the Pension Fund's net present asset valuation, at fiscal year-end (April 30th). The recommended percentages of each asset class are listed below.

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<tr>
<th>Asset Class</th>
<th>Minimum</th>
<th>Maximum</th>
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<tr>
<td>Equities</td>
<td>40 %</td>
<td>65 %</td>
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<tr>
<td>Fixed Income</td>
<td>20 %</td>
<td>59 %</td>
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<tr>
<td>Cash/Cash Equivalents</td>
<td>1 %</td>
<td>30 %</td>
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1) Other permitted investments as approved by the Pension Board from time to time.

The Board of Trustees may register the investments of the Fund in the name of the Pension Fund, in the nominee name of a bank or a trust company authorized to conduct trust business in Illinois, or in the nominee name of the Illinois Public Treasure's Investment Pool.

CONTROLS
The Fund maintains its books and records in conformance with generally accepted accounting principles. The internal controls shall be reviewed by the Pension Board and an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets of imprudent action by employees and officers of the Pension Board.

The Treasurer is named an authorized signature on all Fund accounts. All Fund disbursements shall be authorized by the Pension board and be executed by two (2) signatures. One of the signatures shall be the Treasurer and the other shall be a Trustee authorized by the Pension Board.

DIVERSIFICATION/STRATEGY

Fixed Income:
1) The average maturity/duration of the portfolio will be managed based upon the current existing interest rate environment.

Equities:
2) Shall be maintained in accordance with the guidelines of Illinois State Statutes.

COLLATERALIZATION
It is the policy of the Fund to require that all deposits in excess of FDIC insurable limits (applies to bank Certificates of Deposit) be secured by collateral in order to protect deposits from default.

1) Eligible collateral instruments and collateral rations (market value divided by deposit) are as follows:
a) U.S. Government Securities  
b) Obligations of Federal Agencies  
c) Obligations of the State of Illinois  
d) Local and Municipal Bonds rated "A" or better by Moody's

The ratio of fair market value of collateral to the amount of funds secured shall be reviewed at least quarterly and additional collateral shall be requested when the ratio declines below the level required.

2) Safekeeping of collateral:

a) Third party safekeeping is required for all collateral. To accomplish this, the securities can be held at the following locations:

i. A Federal Reserve Bank of branch office.

ii. At another custodial facility—generally in a trust department through book entry at the Federal Reserve, unless physical securities are involved. If physical securities are involved, at a third party depository in a suitable vault and insured against loss by fire, theft, and similar causes.

b) Safekeeping of collateral shall be documented by a written agreement approved by the Treasurer. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

c) Substitution or exchange of securities held in safekeeping as collateral may occur without prior written notice to the Treasurer provided that the market value of the replacement securities are equal to or greater than the market value of the securities being replaced. The Treasurer shall be notified in writing within two days of all substitutions.

CUSTODY AND SAFEKEEPING OF INVESTMENTS

1) Third party safekeeping is required for all securities owned by the Fund. To accomplish this, the securities shall be held in a trust department through book-entry at the Depository Trust Company.

2) Safekeeping shall be documented by an approved written agreement. The agreement may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement. Fees for this service shall be mutually agreed upon by the Pension Board and the safekeeping bank.

ETHICS AND CONFLICTS OF INTEREST

Any fiduciary with respect to the Fund shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

INDEMNIFICATION

Pension Board members, investment officers, and the Treasurer acting in accordance with this Investment Policy and such written procedures as have been or may be established, in relation thereto, and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market changes,
REPORTING
On an annual basis, the Treasurer shall submit to the Pension Board an investment report which shall describe the portfolio in terms of investment securities, maturity, cost, and earnings for the current period and year to date. The Treasurer shall also submit a comprehensive annual report on the investment program and activity.

MEETING SCHEDULE
The Board shall schedule quarterly meetings on the 2nd Tuesday of January, April, July and October of each year. Special meetings may be called from time-to-time by the Police Pension Fund President.

AUDIT
The Police Pension Fund shall be audited annually by a certified public accountant in conjunction with the City's audit. In addition, the Fund is subject to periodic examination by the Illinois Department of Insurance.

DEFINITIONS:

Beneficiary. Person eligible for or receiving benefits from a pension fund.

Book Entry Security. Securities that can be transferred from institution to institution using the federal electronic wire system, thus eliminating the physical transfer of certificates. Records are maintained on a computer system at the Federal Reserve.

Collateral. The pledging of a security to guarantee performance of an obligation.

Commercial Paper. Unsecured promissory notes of corporations issued for 270 days or less.

Fiduciary. Person entrusted with the control of assets for the benefit of others.

Investment Manager. An individual or organization that provides investment management services for a fee, either on a discretionary or nondiscretionary basis. Under Illinois law, an investment manager is considered a fiduciary with respect to the Fund.


Market Value. The present price of a given security.

Return. The profit or interest as payment for investment.

Security. Any note, stock, bond, certificate of interest or certificate of deposit.

Stagnate Account. Term used of variable annuities. Because the risk is borne by the investor in a variable annuity, the issuer may not commingle funds invested in the variable annuity with the general funds of the issuer.

Treasury Bill. Short-term debt obligation of U.S. government which will mature within ten years at the time of original issuance.

Treasury Bond. Longer debt obligations of U.S. government which will mature in ten years or longer at the time of original issuance.

Yield. Percentage measured by taking annual interest from an investment and dividing by current market value.
AMENDMENT
This policy may be amended from time to time by the Pension Board.

CONFLICT
In the event of any conflict between this Policy and the Illinois Compiled Statutes or case decisions of the State of Illinois, the Statutes and case law decisions shall govern.
The undersigned have read and agree to follow the Investment Policy adopted by the Board of Trustees of the City of McHenry Police Pension Fund on July 13, 1999, and last amended October 11, 2016.

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<tr>
<td>Laura Goodloe</td>
<td>Puchalski, Goodloe, Marzullo LLP</td>
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Investment Policy
Signature Page

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