POLICE AND FIREMEN'S RETIREMENT FUND
CITY OF RICHMOND HEIGHTS, MISSOURI

REGULAR MEETING, April 23, 2019

A regular meeting of the Board of Trustees of the Police and Firemen's Retirement Fund was held on Tuesday, April 23, 2019, commencing at 11:33 A.M in the first floor Conference Room at City Hall, 1330 S. Big Bend Boulevard. Present were Chairman Gerry Rohr, City Manager Amy Hamilton, Tim Day, Joan Provaznik, and John Soltysiak. Scott Colbert, Doug Koester, and John Bascio with Commerce Trust were also in attendance. The meeting was called to order prior to the arrival of Messrs. Jones and Holmes, so as to expedite Messrs. Colbert, Koester, and Bascio attendance at the meeting. Mike Jones arrived at 11:35, Steve Holmes arrived at 12:03. The meeting was recorded by Sara Fox.

CITIZEN COMMENTS

None.

NEW BUSINESS

Commerce Bank Trust Company Fund Presentation

In order to expedite Messrs. Colbert, Koester, and Bascio attendance at the meeting the Commerce Trust presentation was moved to the opening of meeting. Scott Colbert and Doug Koester of Commerce Trust Company presented the Board with the Pension Fund Portfolio. The Fund is currently at $14.4 Million.

Commerce manages an investment grade bond fund for the Pension's fixed income investments. They manage it to beat the average fund. When analyzing the fund's performance they use the BBG Barclays Aggregate as the benchmark. The BBG Barclays Aggregate is the S&P 500 of the bond market.

The percentage distribution of the portfolio is on page 3 of the report. Approximately half is invested in Corporates 53.79%, the remaining is distributed amount Treasuries 8.47%, Agencies 2.9%, Asset-Backed 5.49%, Mortgages 16.9% Municipal 10.56%, and Cash 1.89%. The Yield To Maturity (YTM) for the portfolio is 3.19% compared to Barclays at 2.94%. A 3.2% yield is all there is in the world today. The average borrowing rate of the next six largest borrowers on the planet; Japan, Germany, Great Britain, Spain, Italy, France. The average yield of their 10 year notes is less than 1%. The overseas rates are largely holding the US rates down. The US Feds are on pause, they have raised rates from 2.25% to 2.5%. The 10 year treasury is at 2.6%

Mr. Day asked with the inversion of the yield curve, will it hold rates steady or will they go down from here?

Mr. Colbert stated the Feds should remain on pause until they steepen up or they will have to ease rates. By pausing the markets will refresh, it has help to bring the yield curve up a little bit, but it is still very flat. The Fed funds rate is 2.4% and the 10 year rate is 2.56%, the 2 year treasury is 2.3%. So there is a slight lifted yield.

Mr. Day stated that CDs are up at 2.2%. Mr. Day asked if these rates would stay down too?

Mr. Colbert stated that the big thing holding the rates down are the oversees rates. Investors are more attracted to US investments since the rates are higher, they are AA+ credit rated, and the US dollar continues to strengthen. The US is one of the best looking countries, on a relative basis, in the world which is keeping our rates down. That is why the Fed isn't as concerned with the flat yield curve as they normally would be as there are two contributing things, first the oversees rates, because of quantitate easing, are below average, and second the Feds bought a bunch of the bonds. The bonds will remain on the Feds balance sheet causing less supply in the long run keeping the rates down.

Mr. Day asked if there is no sign of quantitative easing by the Feds?

Mr. Colbert stated the Feds will likely reduce the interest rate before quantitative easing. If the Feds get back to 0% interest rates there will be quantitative easing. The next recession will be around a 0% interest rate and there will be quantitative easing.

Mr. Day asked when they predicted the next recession would occur?

Mr. Colbert stated the next recession is predicted to occur in the next four years. This is the longest economic expansion we have had, it will be 10 years in June. Because the growth has been so slow we haven't created the friction that normally pushes us into a recession which is a Fed that has to overreach to that heat / inflation and snuff that inflation out. By all measures inflation is about 2%. The Fed is well within their inflation target so they don't have to be any more assertive than they have been. That is why they can wait/pause for the economy & friction to heat up or it doesn't and they will lower rates.

Mr. Day asked if the 10 year bond was going to stay at 3.5%?

Mr. Colbert stated the 10 year bonds are at 2.5%. The overseas rate is at 1%. If you ignored the overseas interest rates the US 10 year treasury tracks nominal growth in this country less 3/8ths of 1%. What this means, real growth/inflation is about 2%, that means nominal growth is about 4%. There is 4% more money in circulation this year than last year. GDP is up 4%. GDP is the only thing that you hear about on a real adjusted inflation basis. 4% less 3/8% is 3 5/8%. So the 10 year treasury would normally be about 3 5/8%, but the overseas rates at 1% are pulling it down, the US GDP is pulling it up, so it ends up almost exactly in the middle at 2.5%.

On page 3 the Barclays yield is on the right, the Plan is on the left. Barclays yield is 2.97%, the Plan is 3.19%. The Plan is slightly higher because Commerce's bias is to have a little bit more risk, causing bit more interest earnings. And biased a bit short in maturity or duration because we think these rates will gradually lift up a little bit. Those two bets have largely won the day.

On page 5 the returns show that the Plan has outperformed the Barclays benchmark for all time periods. Commerce has consistently outperformed the benchmark this is as consistent a performance as any income manager in the country. Board Member Steve Holmes' former company Summit Strategy used this strategy for their customers. This is a low risk high return strategy. That continues to earn a few extra basis points. The fixed investments are the Plan's hedge against a stock market disaster.

Mr. Koester noted that on page 4 the Plan has approximately 17% in BBB investments. Commerce usually ranges between 15 to 20%. The benchmark is at 13.58%. Mr. Koester stated that they are trying to trim this. Mr. Colbert stated that they are trimming it by taking out any credit that won't be able to maintain investment grade during the next down cycle.

Mr. Jones entered the meeting.

Mr. Colbert referenced the graph on page 7 showing the corporate credit spreads. He noted an item of interest is during the recession the interest rate spreads were wide. (Unintelligible) so it is like buying corporate bonds, rather than buying treasuries. Now you can see, by and large, all of the securities are back to their long term averages. Which tells you that they are starting to take some of the risk out of the portfolio. We largely want some of the risk back because on average everything is rich.

Mr. Colbert concluded by stating that they are very optimistic on the outlook of the economy and the Plan's financial assets. The Plan had another good year. It got caught short at the end of last year, as all investors did. That has all come back in the last quarter.

Steve Holmes entered the meeting.

Mr. Colbert asked Mr. Holmes if he had any questions. Mr. Holmes asked if he predicted that the GDP would be at 2% for the next three years. Mr. Colbert stated that they predicting the economy will be going well for quite awhile. They don't see a recession on the horizon. They are running the investment campaign like we are running for president, four more years. The US is largely an island unto ourselves. We only import 60% of goods and services and export 13%. While we get rocked a little bit by what goes on around the world, we are largely immune from financial headaches in other countries. They may slow the US down but they don't pull us into a recession. We will pull ourselves into a recession when we have an irrationally exuberant pocket of the economy that ends up blowing up and contagioning into other things. Exampls are; 1974 Energy crisis, Wage price spiral, 1990 1st Iraq war, 2000 Internet bubble, 2007 Housing crisis. Each one was different. The next event might be something in the high yield junky space particularly those that have gone into public things where people think they are liquid. If the retail investors tries to liquidate a junk bond, and they have to give them their money in one day, where there are not a lot of investors that would be interested in purchasing. This could cause the bonds to drop in price, this could happen very quickly. That could become a self-sustaining economic contagion that could scare people, causing a panic. There are too many liquid funds masking illiquid assets. That will suddenly have our NABS (National Association for Bank Security) drawn down and create a vacuum that scares people.

Mr. Day asked what type of loans are they?

Mr. Colbert stated that they are junk loans. There is plenty that are BB & B credit rated that deserve to get rolled over at 5 and 6% yields. They can't afford to be rolled over at a 10% or greater yield. They are essentially, tapped out of the market then. When an investor's bonds go from par to 50¢ on the dollar across many banks and investment firms, just because they have to be liquidated, it causes panic. The natural buyers are hedge funds who are waiting for the bond to collapse. By the time hedge funds purchase these, things have really collapsed.

Mr. Koester stated that in December there was a microcosm example of this at H.McGee with ETF (Exchange-Traded Fund) bonds. The price when way down, but it came back. Mr. Colbert stated that it fell almost like a stock.

Mr. Holmes asked, when do deficits matter?

Mr. Colbert stated typically countries don't get "tapped on the shoulder" for borrowings until they are two times levered. The US is about one time levered. The US, as the world's highest credit, has a lot of rope to hang ourselves. The world will give credit to us because we are paying 2.6% and no one else is paying anything. We will continue to be afforded cheap financing for our deficit until finally we are not. Then we will have to come to the reckoning that we have to stop it and it will be an emergency.

(Let the record show the Commerce Trust Company Fixed Income Investment Management Report is attached as record of the April 23, 2017 meeting).

APPROVAL OF MINUTES

December 10, 2018

Ms. Hamilton moved, Ms. Provaznik seconded, a motion of approval of the minutes of the December 10, 2018 meeting. Carried unanimously.

ACCOUNTS PAYABLE

	Dr. Daniel Schwarze – IME S. Kimker	**$**	**1,750.00**
	Daniel & Henry – Fiduciary Insurance Premium	**$**	**4,597.00**
	MAPERS – Annual Dues	**$**	**100.00**
ADD On:	**City Visa – Panera Lunch**	**$**	**112.53**

Ms. Hamilton moved, Mr. Soltysiak seconded, for the approval of the Accounts Payable as submitted and be received and filed. Carried unanimously.

FINANCIAL STATEMENTS

AJO Funds December 2018 Statement
AJO Funds January 2019 Statement
AJO Funds February 2019 Statement
AJO Funds March 2019 Statement
Commerce Trust Quarterly Report at December 31, 2018
Commerce Trust Quarterly Report at March 31, 2019
Sapience Small Cap Investment December 31, 2018 Statement
Sapience Small Cap Investment March 31, 2019 Statement
Silchester International November 2018 Group Trust Report
Silchester International December 2018 Statement
Silchester International December 2018 Group Trust Report
Silchester International January 2019 Statement
Silchester International January 2018 Group Trust Report
Silchester International February 2019 Statement
Silchester International February 2018 Group Trust Report
Silchester International March 2019 Statement
Silchester International March 2018 Group Trust Report
Vanguard November 2018 Statement
Vanguard November 2018 Total Return Chart
Vanguard December 2018 Statement
Vanguard December 2018 Total Return Chart
Vanguard January 2019 Statement
Vanguard January 2018 Total Return Chart
Vanguard February 2019 Statement
Vanguard February 2018 Total Return Chart
Vanguard March 2019 Statement
Vanguard March 2018 Total Return Chart

Ms. Hamilton moved, Ms. Provaznik seconded, for the approval of the Financial Statements as submitted and be received and filed. Carried unanimously.

Plan Redistribution

Ms. Fox referenced a summary report showing the fund distribution. She stated that the Board typically redistributes the Plan's funds at approximately this time annually.

Mr. Holmes recommended that we fund to policy.

Ms. Fox recommended transferring $3.9 million to Commerce from Vanguard, keeping Commerce's balance within 30 to 35% range as allowed by policy. She also recommended transferring $290,000 to AJO from Harbor/Sapience.

The Board discussed this recommendation.

Mr. Holmes moved, Mr. Day seconded, to the transfer $3.9 million to Commerce from Vanguard and $290,000 to AJO from Harbor/Sapience. Carried unanimously.

Analysis Services

Ms. Fox informed the Board that she spoke with James Dahm regarding his ongoing service providing the quarterly comprehensive Plan investment analysis. Mr. Dahm is unable to continue to provide this service to the Board. He considers it a conflict of interest to use his new employer's resources to generate the report. The board will need to retain the services of a new financial analysist.

Ms. Fox spoke with Mr. Rohr and Ms. Hamilton about possibly forming a committee to create an RFQ for this service, review the bids that are received, interview candidate, then make a recommendation to the Board. Ms. Fox stated that this is a rather long process and having a committee may help to expedite it.

Mr. Day asked if we were paying Mr. Dahm $5,000?

Ms. Fox thought his fee was $1,750 quarterly. Ms. Fox felt confident that a company that would provide this service would charge more than was paid to Mr. Dahm.

Mr. Rohr thought that Commerce Trust's quoted fee for this service was $50,000.

Mr. Holmes stated that any company that would be interested would really want to handle the Plan's money, not just prepare a quarterly performance report. He recommended that the Board purchase software that a member of the City's staff can update the various investment earnings and prepare the quarterly performance for the Board. Once the software is in place it will take under 30 minutes monthly or quarterly to run the report.

The Board will discuss this item at a future meeting when additional information on possible software is available.

OLD BUSINESS

Fire Captain/Paramedic Steve Kimker Application for Work Related Disability Benefits

The Independent Medical Examination (IME) Report from Dr. Schwarze was received. Dr. Schwarze's medical opinion concurred with that of Drs. Hulsey and Krause. Mr. Kimker would not be able to perform his job duties as a Fire Captain/Paramedic. The report was received and filed.

NEW BUSINESS

2019/20 FY Benefit Increases

The City provided full time employees a Step increase of 3.58%, a Cost of Living Adjustment (COLA) was not provided. The annual increase for retirees covered by the pre-1986 retirement plan is based on the City's COLA increase to the Patrolman 3 Salary. The pre-1986 Plan retirees will not receive a benefit increase as the COLA was 0%.

Benefit increases for retirees in the 1986, 2000, 2003, & 2006 Plans, who are not receiving full social security benefits, will receive a 3.58% increase. This is the Step increase provided to active Police & Fire employees at 7/1/18.

The Board received a report that itemized the benefits that each retiree would be receiving July 1, 2019. The total 19/20 FY cost to the Plan for benefits is $1,966,478.86.

John Mick Social Security Confirmation

Mr. Rohr asked Ms. Fox to update the Board on Mr. Mick's delay in replying to the Board's request for confirmation of his social security benefits.

Ms. Fox stated that it was necessary to mail four letters to Mr. Mick requesting his authorization to confirm social security benefits that he may, or may not, be receiving. In the fourth letter Mr. Mick was informed that if he did not respond his benefits would be held until a reply was received. Ms. Fox informed the Board that in the 20+ years that she has been the Board Secretary there was only one year when multiple requests were not necessary.

Ms. Fox explained that this information determines what Mr. Mick's benefits will be from the Plan. His social security benefits would be deducted from his Plan benefits. Mr. Mick did reply and the requested confirmation has been received, and forwarded to the social security office. Mr. Mick's Plan benefits were not held up. Mr. Mick's social security benefit information is still pending receipt; therefore, the budget as presented does not include any reduction if he is receiving social security benefits.

2019/20 FY Proposed P&F Pension Budget

Ms. Fox explained the budget projections. Revenues: Real estate & personal property taxes show a very small conservative increase, contributions from active employees is based on the City's 19/20 FY draft salary budget, and investment income & gain/(loss) on investments in combination equal 6.5% (based on the Board's actuary assumed APR),

Expenses: Pensions & Annuities are budgeted at $2.27 million; Pension Benefits included one possible duty disability retiree, the 3.58% increase in benefits, no regular retirements are anticipated in the next fiscal year, and approximately $71,128 in contribution refunds for non-vested employees that may withdraw their contributions to the Plan. The remaining items are neutral from the prior year with one additional expenses for the bi-annual actuary report.

Ms. Hamilton moved, Mr. Holmes seconded, that the proposed budget be adopted as presented. Carried unanimously.

Fiduciary Insurance Policy

The Board received a copy of the 2019 Fiduciary Insurance Policy. Ms. Fox stated the Board is protected up to a $2,000,000 limit with a $5,000 deductible.

Board of Trustees Election

Ms. Hamilton moved, Mr. Soltysiak seconded, that Mr. Rohr be elected as the Chairman. Carried unanimously.

Mr. Holmes moved, Mr. Soltysiak seconded that Mr. Soltysiak be elected as the Vice-Chairman. Carried unanimously.

Mr. Rohr moved, Ms. Hamilton seconded, that Ms. Fox be elected as the Secretary. Carried unanimously.

New Hire Firefighter/Paramedic Adnan Redzic

The Richmond Heights Fire Department welcomed new Firefighter/Paramedic Adnan Redzic on Tuesday, February 12th. Adnan previously worked for Abbott EMS and the St. Louis Fire Department as an EMT and paramedic. Adnan obtained his paramedic and firefighter certifications in 2016.

Firefighter/Paramedic Michael Mayberry
Contribution Refund

Fire Fighter/Paramedic Michael Mayberry submitted his resignation from the City of Richmond Heights Fire Department. His last day was March 28, 2019. Mr. Mayberry's contribution refund is $553.99.

Police Officer Miranda Conard
Contribution Refund

Police Officer Miranda Conard submitted her resignation from the City of Richmond Heights Police Department. Her last day was April 12, 2019. Ms. Conard's contribution refund is $6,792.17.

Joint Committee on Public Employee Retirement (JCPER) 2019 Report

The Board received a summary of the JCPERS report of the Top 10 Ranked Plans based on Market Value and also based on Actuarial Value.

Top 10 Ranking - Market Value:

Rank APR MktV Plan

1 - 7.00% - 212% - Maplewood Police & Fire Retirement Fund
2 - 7.00% - 129% - Metro North Fire District
3 - 6.50% -123% -RH Police & Fire Retirement Fund
4 - 7.00% - 118% - Community Fire Dist
5 - 5.00% - 112% - Little River Drainage District
6 - 6.50% - 110% - Arnold Police
7 - 7.75% - 108% - Pattonville-Bridgeton Fire District
8 - 6.50% - 108% - North Kansas City Policemen's & Firemen's

9 - 7.00% - 107% - Creve Coeur Fire District
10 - 7.50% - 106% - Ferguson Retirment

Top 10 Ranking - Actuarial Value:
Rank APR AV Plan
1 - 7.00% - 199% - Maplewood Police & Fire Retirement Fund
2 - 7.00% - 129% - Metro North Fire District
3 - 6.50% - 123% -RH Police & Fire Retirement Fund
4 - 5.00% - 112% - Little River Drainage District
5 - 6.50% - 110% - Arnold Police
6 - 7.00% - 109% - Community Fire Dist
7 - 7.50% - 106% - Ferguson Retirement
8 - 7.00% - 105% - Valley Park Fire District
9 - 7.00% - 105% - Black Jack Fire District
10- 4.75% - 103% - Warrenton Fire District Length of Service Awards Program

Ms. Fox stated that the Maplewood Police & Fire Retirement Fund only includes retirees and widows, there are no new members in the Plan. When all of that Plan's retirees are deceased the remaining funds will go back to the City of Maplewood. The new members are in LAGERS.

Transcribing Secretary Pat Villmer

Mr. Rohr informed the Board that Transcribing Secretary Pat Villmer passed away. Ms. Fox will now transcribe the meeting minutes.

MAPERS Conference

Ms. Fox reminded the Board that the next MAPERS Conference would be held July 10th through 12th 2019. She asked if any Board Members would like to attend to please contact her for registration.

Better Together

Mr. Soltysiak asked the Board what would happen with the Pension if Better Together's proposal/vote prevailed. The Police employees may not be paying into it anymore, only the Fire employee, or if no employees are paying into it will this Pension be able to survive and continue paying the retirees & widows that are already receiving retirement benefits?

Ms. Hamilton stated that better Together was asked this questions. Their reply was that all obligations would be met.

Mr. Soltysiak asked, just for clarification, if an active employee retired today and they lived for another 30 years, they would continue to receive pension benefits for all 30 years?

Ms. Hamilton concurred that was correct.

Mr. Holmes stated that he does not know of any conceivable way that they could take a benefit from you. This has been tested so many times, even in Illinois were they have no money, the judgment has always been pension benefits are sacrosanct. The concern isn't if the benefits will be paid. The concern is will they grab the overfunded status. These funds were earned by the Richmond Heights staff and they should benefit from them. If the cities were to merge and we didn't do anything with the overfunded status he is confident that the funds would be grabbed and help to pay the other unfunded status. The unfunded status would be so huge our overfunded amount would be a "spit in the ocean". So all of the hard earned money

Mr. Holmes stated that he likes were the Plan is at, we are 10 years into a bull market, he likes our conservative investment posture, and he feels that the Board has been prudent when considering benefits.

If Better Together prevails he would be an advocative of recommending to benefit the overfunded status out to the people that have earned it. It is important to know how the merger is written. Would Plans be grandfathered in going one day forward. In this case we would be fine. If all resources are combined into one pot that all obligations for the metropolitan area would be paid out of, that would be damaging. Currently our Plan has 130¢ on the dollar, a lot of other Plans have 50¢ on the dollar. They will not take your benefit but you will have less assets backing the benefits than it does now.

Mr. Day asked, to protect the Plan should it be written into the Plan that if there is a merger the overfunded status is benefited out?

Mr. Holmes stated that the Board would just increase the benefits so the Plan is 100% fund instead of 123% funded and then turn that over to the new metro city. The benefits would not be able to be changed because the employees would already have been told about the increase in benefits. Mr. Holmes said that the Board would need to monitor the movement so the benefit increases could be implemented timely enough so they do not miss any imposed deadlines.

ADJOURNMENT

With no further business to come before the meeting, at approximately 12:54 P.M., Ms. Hamilton moved, Mr. Holmes seconded, a motion that the meeting be adjourned. Carried unanimously.

Respectfully submitted,

Sara J Fox

Sara J. Fox, Recording &
Transcribing Secretary