

# **POLICE & FIRE PENSION INVESTMENT BOARD**

## **MAY 23, 2005**

Members present: Don Taute- Personnel Director  
Don Herz – Finance Director  
Randall Case – Fire Captain  
Greg Sorensen – Police Sergeant  
Michael Donnelly - Vice President and Regional Director of Wells Fargo Bank, Nebraska Institutional Trust and Investment Services group.  
Gerry Finnegan – Independent Financial Planner  
Mark Westphalen – Edward Jones Co. Registered Representative  
Brad Thavenet – Fire Fighter

Members absent: Mark Meyerson – Police Sergeant

Personnel Dept.  
Resource Staff: John Cripe – Compensation Manager  
Paul Lutomski – Police and Fire Pension Officer

Others present: Max Callan – Smith Hayes Financial Services Investment Consultant  
Todd Peterson - Smith Hayes Financial Services Investment Consultant  
Dan Marvin – City Council Member

Paul Lutomski informed the Board that Chairman Mark Meyerson could not attend this meeting due to a family emergency and that Secretary Case has approved amending the agenda to begin with a reading and vote of prior meeting minutes.

Vice Chairman Don Taute called the meeting to order at 2:30. He states the revised agenda will be to read/vote on the prior minutes, discuss/vote on the draft investment policy, discuss broker/dealer vs. advisor relationship between the Board and Smith Hayes Financial Services, and then an update on the status of the draft ordinance to mandate City normal cost contributions.

Paul Lutomski read the minutes of the October 29, 2004 and January 27, 2005 meetings. Randall Case makes a motion to adopt the October 29, 2004 minutes as read. Michael Donnelley seconds the motion and all members approve. Randall Case makes a motion to adopt the January 27, 2005 minutes as read. Don Herz seconds the motion and all members approve.

Don Taute asked for a motion regarding the second agenda item, the draft Investment Policy. Gerry Finnegan moves to approve the policy as it is written and Greg Sorensen seconds the motion. Discussion converges to an agreement that last minute minor changes to the policy be discussed and voted on in their entirety. Changes were minor and approved without much discussion the two exceptions:

The first discussion involved the use of language in Lincoln Municipal Code section 4.62.025(h) pertaining to the Board. Plan administration proposed adding the underlined words to existing draft policy text “If an investment consultant is chosen by the Plan Administrator, the Board may seek the advice of the an-outside investment consultant to assist with this function.” Was decided to use the actual words from 4.62.025(h) and reference that citation. The above text was changed to “The Plan Administrator, after consultation with the Board, may retain the services of a qualified independent investment consultant (LMC 4.62.025(h)). The Board may seek the advice of the investment consultant to assist with this function.”

The second discussion involved the draft asset allocation table in Appendix A. New asset classes were proposed as well as eliminating some existing asset classes. Approving the new min and max ranges for each asset class would mean four classes current allocations would be outside the new ranges. Some members felt more research was needed before changing the acceptable classes and ranges. Brad Thavenet made a motion to approve all proposed changes to the draft investment policy with the exception of the allocation table in Appendix A and to replace it with the current allocation table. Mark Westphalen seconded the motion. It passed unanimously.

Gerry Finnegan made a motion to add a sentence to Appendix A stating the target return rate as set by the Plan Administrator. Greg Sorensen seconded the motion. It passed unanimously.

Don Taute tells the Board that he, John Cripe and Councilman Marvin have to leave in about 15 minutes to attend a 4:30 City Council meeting and asks if the Board would like to discuss item three, the broker dealer vs. advisor relationship, without him so that he can update them about the status of the draft ordinance to mandate City normal cost contributions. They Board agrees and Mr. Taute states he prepared the ordinance and delivered it about 10 days after the Board's January meeting. The Mayor's Office has asked the budget office to perform a financial impact analysis that will probably not be completed until after this year's budget is finalized. For the past few years Plan Administration has requested the City contribute full employer normal cost. Mark Westphalen asks that an update be provided to the Board in the July meeting. Don Herz states that they are trying to attain full funding as soon as the budget will allow and that in the last five-year forecast it was to occur in two years but that may not happen now. John Cripe states that once the gap is closed maintaining funding it will be comparatively easy.

Brad Thavenet asks if it would be possible to change the plan and DROP after 20 years of service if age 50+ and then retire-in-fact five years later. He also asks about increasing the six months of injury leave on Plan A to twelve months like Plans B and C. Don Taute offers to discuss those topics outside of this group. Don, John and Dan leave and Randall Case takes control of the meeting.

Mr. Case asks Max Callan to describe the differences between broker/dealer vs. advisor relationship between the Board and Smith Hayes Financial Services. Max explains that a broker/dealer is paid from 12b-1 fees and regulated by the NASD and therefore can not comment of products they do not broker to the client and can not provide the educational meetings that have occurred in the past. As an advisor, Smith Hayes would rebate all 12b-1 fees back to the Plan, would be paid a negotiated fee by the Plan and would be regulated by the SEC and therefore be able to comment on products they do not offer to the client and would be able to provide educational meetings as they have in the past. The net cost to the Fund for Smith Hayes' services would be roughly the same at \$50,000, or about 4 basis points of assets which is very

low. Max and Todd leave the meeting. Members discuss the relationship. Michael Donnelly makes a motion to change the relationship between the Board and Smith Hayes to advisor effective September 1, 2005. Greg Sorensen seconds the motion and it passes unanimously.

Meeting adjourned at 4:30 p.m.