

**SPECIAL MEETING**  
**POLICE PENSION BOARD**  
**DECEMBER 1, 2010**

The special meeting was called to order at 4:00 P. M. on December 1, 2010. Present were: Sgt. Hollinger, Officer Ryan, Mr. Davison, Mr. Lans, and Mrs. Quimby, and Mr. Danekas, Investment Advisor.

Mr. Lans stated that he had looked up the Administrative Code under required disclosures. He stated that he thinks it requires you to disclose and for us to ask those questions. Mr. Danekas stated that the State of Illinois says once a year. Mr. Lans stated that report does not give the percentage you are making and stated that the State requires more specificity. You are providing a general disclaimer that you may have a conflict of interest in what you are doing and that you get fees off of the product you sell. He thinks the State requires more. He stated that he wants to be sure of what we are doing and where the monies go because someone may question what Edward Jones is making 2.75% on the mutual funds and 3% on the bond trade. It would be only right that you knew about that when you did it and that it is competitive in the industry and we feel it is not an excessive amount given the expertise. Mr. Danekas stated that when you talk about markup on the bonds that is pretty much broker/dealer discretion. As the portfolio could we negotiate a better price on the markup? Mr. Danekas stated that the markup is set up in the home office not at his level. On the mutual fund side, that is industry wide. When you use the American Funds, it is what it is. You already have leverage on mutual funds. Mr. Lans wants to be able to negotiate bond prices. Mr. Lans stated are you going to do the 3% spread or can you do it for 2.5%. Mr. Danekas stated that we would have to work through our trading department and did not know if they would do it per issue or if you buy \$500,000 worth of a bond, you will get a discount. If you are buying \$10 and \$20,000 blocks, I am willing to go back to the trader and see what we can do. Mr. Lans felt we could look at that as the portfolio grows. The mutual funds do that for you. It looks at how many dollars are invested and hits a break point, 0, \$25,000, \$50,000, \$100,000, or \$250,000, \$500,000 or \$1,000,000. Mr. Lans stated that when you bring a bond issue to us, we are relying on your expertise, Edward Jones expertise and the rating agencies and you also regarding the credit worthiness of that bond issuer. Mr. Davison stated that he felt in the fiduciary role we are talking about that we are not expected to get involved in as great a detail that you are starting to talk about. Mr. Lans thinks we have an obligation to ask the advisor if they are doing that for us. He stated that he is not suggesting that the board look at each individual bond and the balance sheet of the issuing entity and determine whether or not they are credible. Mr. Davison stated that if we develop doubts about that then we can go out and look for another advisor, but that is one of the reasons we have an advisor. If we ask general questions and we are satisfied he is doing a good job for us that is why we have him. Mr. Lans stated that we are on the same page here. I just want to know that Edward Jones and Mr. Danekas are doing that on our behalf. Mr. Danekas stated that we would not be in business if we weren't. Mr. Davison stated he wanted to let Mr. Lans know where we were coming from that we weren't negligent or naïve. We did do a search looking for a financial advisor; however,

you are asking some great questions. Mr. Lanes remarked on the Madoff situation and that if someone had asked questions, things might have turned out differently. Mr. Lans stated that the commission for Edward Jones is the commission structure and that's on the buy side on the mutual funds and on the bonds there is a spread if you sell those. Mr. Danekas stated he could charge a spread but he doesn't. Anyone who buys a bond from him, he does not charge them to sell it. Edward Jones will allow a 1% spread to sell a bond which he does not do. You pay 1-3% to buy a bond and a mutual fund 2.75%, but nothing to sell it. He has fee disclosures in his office of all the firms you can look at. They charge annual fees, trustee fees which we do not charge you. If we weren't competitive we wouldn't be in the business.

New Business. Mr. Danekas handed out a sheet with the current dollars available. We currently have \$153,000 available. Everything is available except \$23,195. That is not available until January so there is roughly \$125,000. We did just invest \$51,000. There is \$100,000 available. He handed out the maturity bar chart. The bond purchased today was a 30 year bond so it is long term. He brought some examples today of some midterms and some short terms. When he was talking to the gentleman at the IDOI, they talked about that short term bond fund that we liquidated out of recently because half of it was government and half was corporate mortgage backed securities which is not allowed in the pension fund so we had to sell out of it. His question was whether we could have a fund that had exactly the pension board could have, can we hold it and is it part of our 10%? The answer was that yes we can hold it and it is not part of the 10% because it is not equities. We could buy a fund that has the types of bonds the pension board approves and not have it be included in our 10% that we can have in mutual funds. They are not paying much. Looking at short term rates, or CD's. He showed the board the current CD inventory which is interesting. To go over 1%, you have to go out three years and then you would get 1.35%. We buy CD's like Bank of America, Chase, Bank of New York and all across the country CD's. When we buy CD's, we buy a million dollar block. At the end of the week, whatever is not sold, we give back to the entity. The next thing we look at was bonds. He apologized for the handouts, but if Bruce wants disclosure, we will give him disclosure. On page 4 a fixed income proposal. The bottom one is the one we bought, \$50,000, 7.82%, matures in 2040, yield to maturity is 7.56%. When I ran this, it was trading at \$103.00, and when I put the trade in, our trader came back at \$102.75. The top three are bonds that we have in inventory right now. The one above Northern Illinois is actually a 0 coupon bond and it is short term and matures in 2022. We only have \$45,000 left in inventory so there is a chance if the board decides on this that when I go back to the office, that may be gone. We have \$45,000 and it is paying 5.11%, there is no premium, no discounts or accrued interest. When you buy a 0 coupon you buy it at a set dollar amount in this case \$55.90 and when that matures it matures at \$100. We have nothing in 2022 so that is an option. The two above that we have \$5 million of these issues. We have a five year at 1.75%, a Freddie Mac, trading at a little discount at \$99.85 and there is \$2.19 of accrued interest. The one below that is a federal farm credit bank. That is a 10 year final maturity with the coupon on that of \$3.37. That one is trading at a little bit of a premium, \$100.75. One of these falls into the short term

stuff, 2015, and one falls into the midterm stuff at 2020. This is an example of what is out there in the mid to short term offerings. The farm credit issue is callable in two years. Two examples of the different animal we talked about. These are government bond funds made up mainly of treasuries, treasury bonds, treasury notes, treasury bills and mortgage backs. These are all allowed in the State of Illinois code. The first one I handed out to you is with American Funds. You can see what it is made up of which is everything we can hold as a pension board. This one is up 6.88% year to date is what it is up. The expense ratio is .64% and to buy this is 2.5%. That goes to the mutual fund company and Jones gets a portion of that and so does Mr. Danekas. Mr. Lans stated when we are looking at funds as opposed to individual issues, if you are doing a fair comparison 10 years out we get 100 pennies on the dollar on the face amount of the bond. That might not be the case here and especially in the interest rate environment we are in now where rates are low. If you are trying to do a comparison in terms of timing and maturity, our net asset value could be less then. With a fund, there is no set maturity, so if it drops, there is no guarantee that it would come back up. You can check the returns per year going back to 1990. It has averaged 6.1% going back to 1990 which he finds very interesting because if you look at 1994, the Fed's raised rates 12 times. The fund was actually down 4.6%. In 1999, the Fed's raised rates 8 times and the fund was down 1.9%. In 2008, when the credit really hit the fan, this bond was up 7.7%. Year to date it is up 6.88%. The difference between this fund and the next fund is that this has an average maturity of five years. The bonds in it have an average maturity of five years. This like a mutual fund made up of short term bonds. On the flip side, the Franklin Templeton, they basically started bond funds. They were the first municipal fund, the first government fund in the industry. This has an average life of 2.5 years. When rates go up, the shorter the maturity, the less volatility in the price. The 30 year bond is going to go down more in value than the 2.5 year bond. Once again, if we are not selling them, we don't care. The comparison between the two funds at the 10 year number, 4.14%. Over the last 10 years we have had some good interest rate environments and some poor interest rate environments. He stated he brought American because we own American and brought Franklin Templeton as a comparison. On the 2<sup>nd</sup> page of the Franklin Templeton, it will give you the year by year return. The Franklin Templeton is up 3.22%. In 2009, the Franklin was up 2.8%, the American was up 2.2%. In 2008, 7.7% vs. 7.1%. Bottom line, the American over the last 10 years has performed better. We have \$100,000 still to invest. We could use one or both of these funds and their current yield is on American 1.99%, current yield on the Franklin is 2.1%. The reason he brought this to the table was to take care of short maturities and if rates are going higher, we may want to stay short with some of our money. Sgt. Hollinger stated that in 5 years, we may have the Chief and possibly Russ Schaefer retiring. Extending it out 10-15 years, there will probably be three. If someone retires and wants a lump sum, then we have to have cash available or liquidate something. If they want to do a pension, then we would be fine. Also you have to remember, we will fill this in as rates move up and things start to mature. Mrs. Quimby stated that the fact that we don't have maturities doesn't matter as we have officers payroll contribution flowing once a month for \$6,200 in, along with property taxes from June to November. The mutual funds are liquid every day and there

is no cost to get out of them. We can go with one of the funds to stay short paying about 2%, we go with a CD, or we can go with bonds, Freddie Mac or farm bank or a 0 coupon. Mr. Lans moved to purchase the \$45,000 for \$25,163.55 the Illinois Sports Facility Bond and split \$50,000 over the two issues, the Freddie Mac and Federal Home Loan Credit Bank, filling in the short to mid term on the bond ladder. He is relying on Steve's information and expertise that these are competitive rates in today's market place. The spread is 1.5 on both issues. Mr. Lans stated that he is not excited about bond funds at all in the current market. Mr. Danekas explained the bond fund is professionally managed and they have the ability to change with interest rate environments so the days of a bond fund getting destroyed when rates go up are a thing of the past. Look at the history in 1994-rates went up 12 times and it was only down 4.6%. Mr. Lans stated that he thought we are a hold to maturity investor. Mr. Lans stated that the only reason to sell issues in this fund would be if there are credit concerns that would cause us to become uncomfortable or if there are market anomalies that occur and for a particular issue we could realize a gain on it. Mr. Ryan disagreed with the Freddie Mac and favored the American Fund. He suggested doing the motions one at a time. Mr. Lans stated he is not comfortable with the mutual fund and favors the government backed fund. Mr. Lans dropped his original motion. Mr. Lans moved, Mr. Davison second that the board purchase the \$45,000 bond for Illinois Sports Facility bond for \$25,163.55. All ayes. Motion carried 4-0. Mr. Danekas stated that he would call everyone if this is not available. Motion by Mr. Lans, second by Sgt. Hollinger, to purchase \$25,000 in the Federal Home Loan Credit Bank. All ayes. Motion carried 4-0. Mr. Danekas stated that rates since they are so low will have to go up but we don't know when. As long as we stay in a low interest rate environment, these funds are going to be well. Most long term bond funds are being sold and they are going short. If rates start to rise, they want to keep low exposure when rates go up. When the Fed does start to raise rates, he personally feels they will be very slow at it. In the bond fund, you stand to get some appreciation in the bonds. If we do nothing at this time, we will have \$50,000 in cash for the January meeting. Typically, Mr. Danekas stated that he would have brought two or three options to the table and we would have voted. Bruce wanted more options and that is why he overloaded you with paper today. We purchase based on the recommendation of our financial advisor. That is using due diligence and things have worked very well and we have no reason to believe otherwise that something is amiss. Mr. Lans stated that he is not suggesting something is amiss, but he wants to have a clear conscience that he asked the questions and no one asks the questions unless the performance is substandard. Mr. Danekas asked Mr. Lans if he had served on a pension or police board previously which he stated he had not.

Mrs. Quimby did a schedule of contributions going into the pension fund, income and the total to date. Percentages show that 12% of our income has come from investment returns or interest or dividend income since inception of the fund.

Mr. Danekas thanked everyone for coming in for this meeting kind of out of the norm, but after our last meeting with Mr. Lans bringing up quite a few questions and met

with him the following week to address those questions. He felt it would be informative to bring it to the full board to address his questions and take questions from the rest of the board. He did have a lot of handouts but wanted to show everyone what Bruce was asking about and what we have to address his questions.

The first form document is an income proposal and because most of the investments are income related, 90% of the investments have to be income producing investments. This form will become useful as the board makes decisions. The main page is Page 4 which addresses a lot of the questions that Bruce had mentioned at our last meeting. These are the three bonds we bought the last time we were together and this report actually shows you a lot of information. The top issue starting at the left hand side of the page, we bought \$30,000 of an Illinois State bond paying coupon is the interest rate 4.35%, final maturity is 6-1-18 so it is an 8 year bond. Yield to worst 4.35%, yield to maturity 4.35%. There are three different rating agencies, Moody's, S&P, and Finch. The price, this one is at par which is always 100, bonds will trade at premiums, bonds will trade at discounts. Total market was \$30,000, means we bought \$30,000 and it cost us \$30,000. The next column is accrued interest and the way that accrued interest works if we have a bond that pays interest January 1 and July 1, most bonds pay interest twice a year and we buy this bond March 1, accrued interest is everything that has accrued from the last interest payment to the day that we buy it. Let's say this top issue had \$572 in accrued interest, we will pay that when we buy the bond; however the next interest payment, we get that \$572 plus everything back. Some bonds have accrued interest, some don't. It depends on whether it is a secondary issue or a new issue. Continuing on to the last column, actual cost to buy that bond was \$30,577.70. \$572 was the accrued interest and there is always a \$4.95 SEC transaction fee. YTW stands for yield to worst and that is if the bond is callable which this bond is not. Normally, there is a difference between yield to maturity and yield to call. The one thing this report does not show is the call date. He will have to manually bring that.

Moving on to the next bond which is another Illinois State at 6.9%, maturity is 2035, yield to worst and yield to maturity are both 6.77%. The coupon is 6.9% and yield to worst and yield to maturity is 6.77%. That is because if you look under price, that bond was trading at \$101.50, trading at a premium. So it takes the premium into effect to give you a yield of 6.77%. Mr. Lans stated that what we are interested in when you are coming to us with a proposal is the yield to maturity and is that market competitive. Mr. Danekas stated that is what you are physically going to receive. Each one of your interest payments will be 6.9%. When that bond matures, it will not mature at \$101.50, but will mature at \$100.00. Even though you paid a premium of \$35,125, you will get \$35,000 back at maturity. You are paying a little bit of a premium to get a higher interest rate. The interest rate will be 6.9% but what you are concerned about is the yield to maturity. This is an annual yield. The way it works is that it pays interest in January and July. You take 6.9% and divide that in two. The annual yield is 6.90 but it is paid twice a year. So if the interest is \$1,000, you will get \$500 in January and \$500 in July to make a \$1,000 for the year. That one had \$456 of accrued interest. Total cost of the bond was \$35,986.

Police Pension Board – December 1, 2010 – Page 6

Mr. Davison asked if it is only going to pay 6.9%, what is the advantage of having them pay us twice a year? Mr. Danekas stated that is when they distribute their interest. We don't have a choice in that. There is no compounding of the interest.

The next question Bruce asked was: How does the board know that Edward Jones is getting the best executed price on our bonds? He presented the MSRB report which is public knowledge, the Municipal Securities Rulemaking Board. Anyone can go on this site. At the very bottom of this it states that the MSRB is a federal regulator of broker/dealer and banks that market and trade underwriting municipal bonds. They also work side by side with the Securities and Exchanged Commission. These are the regulators of municipal bonds. They provide bond prices and this is every bond that trades and will show us the bonds we traded today. It literally hits the sheet as soon as the trade is placed. This is a bond that we bought on 9-17-10. It was a South Sangamon County Water Bond-Build American Bond. This is every trade that took place on that bond. The highlighted area is our actual bond. We bought \$50,000 of 6.123% bond and we got it for \$100, par value. This is every trade placed on that day. The question how do we know that Edward Jones is executing the best possible price is show to you right here. It was a new issue, the bond was trading at par with no discounts or premiums. The next example was one we bought last time and this is State of Illinois Bond. This is a bond that had been in inventory for a while so there was trading activity on it. The price fluctuates daily, sometimes throughout the day, but if you back to the second page, and note our trade, we bought \$30,000 and our bond filled at \$101.50. There are some bonds that filled at \$100, some at \$100.75 but most filled at \$101.50. Whoever bought at \$100 got a little better deal. He stated they may have had it in inventory or had less markup in it. They may have bought it a little cheaper. Mr. Davison still was trying to see how we got a good deal. This shows what we sold it to you for. Mr. Lanes stated that this shows what the bond sold for in the marketplace. If you sold it out of inventory, It will show here as well or you can buy it on the open market. The \$101.50 is the price that we paid you for it as a client. There was no additional markup. Our markup is in that number. Some firms work on different markups. Some don't markup at all and charge a wrap fee. These were not all sales from Edward Jones but sales across the country. Usually there is a lead underwriter and they will sell portions to other firms. The \$98.05 was a broker selling to a broker. Mr. Davison asked if your markup is the difference between \$98.05 and \$102.50? Our value was \$100.00. We had 1.5 points in that sale. Mr. Lanes stated the markup is actually what the customer bought it at. Mr. Danekas stated that most of their bonds are marked up between 1 and 3 percent. Most of the longer term bonds will have three points. The shorter term stuff we bought at \$100 and sold at \$100.25, that means our commission on that would be .25 or ¼ of a percent. That \$98.50 was a million dollar trade and you get some pretty healthy discounts with a million dollar trade plus it was a broker to broker trade. Most of the trades on this bond were \$100 to \$101.50. As long as it was \$101.50, the yield to maturity will be the 6.72%. If the cost was \$100, the yield to maturity would be 6.9%.

The bond that we bought today. I called each one of you. We had a \$50,000 Northern Illinois Municipal Power Bond paying 7.82%. The reason he called was they bought \$5 million of it at noon. By 2:30, it was gone. If you look at the third page, you will see our actual trade. When he called everyone, it was trading at \$103.00. We got \$102.75 when we traded, not a big difference, but at \$50,000 a quarter of a percent makes a couple dollars difference. This is all the trades that took place. By 2:16 this bond was gone. The settlement date was 12-15-10. It was a new issue today. He called his trader today since they had a pension board meeting and knew the pension board had excess of \$100,000 what do you see coming in. He told me to be patient that they would have one this afternoon. By noon it was in inventory. Mr. Lans asked Mr. Danekas to explain the attractiveness of Build America Bonds and to a pension. This was probably a full taxable one with credits back to the holder of the bond off their income tax. Since we are a non taxable entity we get the advantage of basically a taxable issue that under the investment code, it allows this entity to hold. The way the Build America Bonds work the holder gets a credit back on their income tax or the issuer gets part of their interest payments paid back to them by the federal government. They work both ways. There are no federal government guarantees as in any other municipal bond. It is not full faith and credit of the US government standing behind the bond. Mr. Danekas stated that is correct. Mr. Lanes stated that leads me to a question I asked over the phone. That is a pretty healthy rate and what is the credit worthiness of the underlying issuer. Who looks at that for us? Mr. Danekas stated that we go to the credit rating agencies. Jones will look at the credit worthiness of the company before they will buy a chunk. As a broker/dealer we hope that we will not put something in the inventory that will cause our clients some pain. The credit issuing on this was A2 by Moody's, S&P did not rate, and Finch rate it an A- so it averages an A rated paper. Before we put a chunk in our inventory, we will do our due diligence with each issue whether it is a bond, a stock or a mutual fund. We have a product review committee and everything has to go through that committee before it can go to our inventory. We have a research department on fixed income, stock research, and mutual fund research. Sgt. Hollinger asked why they didn't buy more since it went so fast. Mr. Danekas stated that it is possible that it was sold only in 5 million dollar blocks. Mr. Davison questioned if that was an indication that interest rates on long term bonds are going up? A lot of things are factored into this. Utility bonds are typically carry a little bit higher credit worthiness. A utility that has problems can raise the rates. One of the things they did with QE2, quantitative easing where the government was going to go in and the fed was going to go in and buy \$600 million dollars worth of mortgage backs to keep interest rates low. That happened about two weeks ago. Rates actually went up a little bit. The other thing that happened was the Build America Program, a 35% subsidy with the government subsidizing the issue 35% the cost of the interest is scheduled to expire December 31. A lot of people came to market in the last two weeks to get in in case it ends. There is legislation on the table right now to extend that and maybe go from 35% to 25%. It is going to change so a lot of new issues came in, supply and demand. Mr. Davison As your bond rating goes down, the more interest you will have to pay. The five pension funds have not been getting their payments from the State of Illinois. They are really wanting the State of Illinois to sell

bonds to borrow the money so they can give the money to these pension funds so the pension funds have it to invest and it seems like a poor thing to have to do. Mr. Syverson was talking about the really high interest rates the State of Illinois has to pay for bonds that they sell now because of the credit rating and also the cost of that issue goes up. Mr. Danekas stated that the State of Illinois credit rating is still A rated. It went from AA to A rated. Once you go below BBB or higher is investment grade. BBB or below is junk is high yield. They reduced the benefits for the five pension funds last Spring and normally where it takes several weeks to pass legislation, they did this in one days' time. A major factor in that was to save their bond rating. Supposedly reducing the costs of the pension fund would show the world that they were being physically responsible. Syverson said that did not work either. The bond rating went down even though they did that. Mr. Danekas stated that was to clean up their balance sheet because that is a liability. Mr. Ryan stated that the State has way to much debt and not enough income.

Mr. Lanes reminded Mr. Danekas that he would talk about the spread. Mr. Ryan stated that all of this is public knowledge. You can get a pretty good idea if you know what we bought. When it comes to bond inventory, our bond traders go out and look for deals. We picked up \$5 million of this. This was a 30 year bond. We bought it at par. In this case, we had marked it up 3 points. You actually got a better price. You got \$102.75. That's where the markup is and that is where Jones makes money. If you think about Wal-Mart, they buy stuff at wholesale, mark it up and sell it at retail. That is how the bond world works. Some firms work on small markups, some work on 5-6 percent. Other firms will sell with now markup but will sell it with a wrap fee around it. They might have bought it at \$100 and sell to you at \$100, but you still are paying a wrap fee. Mr. Lanes questioned that for an account of this size, what is the norm in the industry for the spread on bonds? Mr. Danekas stated that because you are buying individual issues, if you took 1.2 million and bought one bond, you would probably get it at net asset value. Mr. Lanes stated that you have the ability to control the markup or spread that you are assessing. He stated that he has seen that done with other brokerage firms or a full service broker. Mr. Danekas stated that he does not have that ability, Jones does. When he puts that trade in today at \$103.00, it came back to me at \$102.75 so they did exactly as you said, they gave you a quantity discount. The norm in the industry is 1-3%. If you charged 3%, Edward Jones would have gotten \$1,500. Mr. Danekas stated that some of the bonds he will show the board today are 1, 1.2. The longer the bond, the more the spread. He stated he will show the board some short and intermediate stuff that has 1, 1.2 and 1.5 spreads. Mr. Lanes feels that in future trades that Mr. Danekas let the board know the spread. He says according to the code that they are supposed to know that anyhow and if we haven't been looking at that, that is something we ought to do. Mr. Danekas stated that is all part of the fee disclosure.

Wrap Accounts. Bruce asked about fee based accounts last time we met. When we dug into it further the Illinois State Pension Code will not allow for discretionary trading. Discretionary trading is part of fee based. There are three ways to buy investments. You can pay commission based, fee based which becomes 100%

discretionary which the State of Illinois will not allow, or there is a wrap account. A wrap account is when you don't pay a commission to buy something, but they will wrap it with a fee. With this bond, you paid \$1,500. How would you like to pay 1% on 1.2 million. Now we are talking about a lot of money. You are paying commission only on what you buy. When you do a wrap or fee based, it is on the entire account, an annual fee. If the account was up, your cost goes up. The value goes down, your cost goes down. I ran a hypothetical on your account. If you had a wrap account of 1 million dollars. That is \$10,000 a year. With your mutual funds, you are paying 2.75% right now. How often do we place a mutual fund trade? Once or twice a year. You are paying more on a commission base per trade but you are paying less. He ran a 5 year hypothetical and it came out a substantial difference. The wrap or the fee is going to be on the entire account. Why would you pay a wrap or management fee to manage bonds unless you are buying or selling bonds all the time. Fee based is that you are going to give me a million dollars and I am going to manage however I see fit. Before that you are going to pay me a fee to do that which is called discretionary trading. He will buy and sell stocks, bonds whatever within the parameters of the pension plan. It says right in here you cannot do discretionary trading. You four have to have the discretion. Fee based products are becoming bigger and bigger. Mr. Davison feels that the brokers do not spend as much time looking at your portfolio as they do with a fee based account. Mr. Danekas stated that more and more firms are going fee based because it is ongoing revenue. Jones just brought fee based in 1-2 years ago but did not eliminate their commission base. We will service you no matter what. Jones does not have a wrap program. Mr. Lans stated that wrap accounts work really well where there is a lot of active trading in a portfolio especially with stocks. They may negotiate a flat amount for that wrap and get no commission charges on any of their trades and if they are trading frequently enough whether its options or equities, they come way ahead. Mr. Danekas stated that it won't work for this plan, but if it did, you would be around the 1% range. There is not a right or wrong, but whatever works best for your entity.

Mr. Danekas stated that Mr. Lans asked a question about no loads and loaded funds. Right now you are using loaded funds. That is a commission goes to the mutual fund company and a portion of that to Jones and a portion of that to me. The very top example I am showing is Magellan one of the largest mutual funds. On the left hand side about half way down under fees and expenses, you can see front load/NA/No load. Gross expense ratio .75. The NA means it is a No Load. The gross expense ratio at .75 is what goes to the money managers to manage the fund. That is pretty reasonable, but there is no cost to buy it. On the next page is actually a loaded fund that you own which is Growth Fund of America. Under the fee schedule it says 5.75. You are not paying 5.75 because you are over \$100,000. You are paying 2.75. Continue down to gross expenses which is a .76. That is the management of the fund. That goes to the Mutual Fund. Part of that expense ratio does go back to the broker. That is the 12B1 fee. Congress has been debating if they want to keep them or not. If you look at the gross expense ratio is .76, the no load is .75. He stated that he would check performance in the area of trailing returns. Under load adjusted monthly-10 year return -1.72. On the next

Police Pension Board – December 1, 2010 – Page 9

page this fund hasn't been anything to write home about, but even after paying a load, you were .85. Mr. Davison stated that you can find no load funds that do as well as loaded funds. Mr. Lanes stated that statute requires us to understand what goes back to you out of the investment dollars that are placed with the firm. He did not feel you were getting that in the past or understanding that. Mr. Davison stated that we were not asking. The information was not being withheld from us. Mr. Danekas showed the last four years of reports that go to the Village of Rockton, 2010, 2009, 2008, and 2007. This is required by the State of Illinois and here is how we get paid.

The next meeting was scheduled for January 19, 2011, at 4:00 P. M.

Respectfully,

Judy Rossi  
Recording Secretary