

PENSION ELECTION

Brothers and Sisters,

I would like to thank you for supporting me in the recent election for the open pension board trustee position. I was able to make 85 house visits before the vote count. Almost without exception each house was courteous and attentive regardless if you agreed with what I had to say. I heard mixed reviews about my campaign literature; the comments included “too long”, “slanderous”, “great information” and unfortunately, the occasional “what election?”. I understand that the election has stirred some controversy and more importantly discussions around mundane topics that often times are neglected. I think that is great. I ran for the position because I feel this is the most important issue facing our brotherhood and their families. I’m happy it created some engagement among the membership. I haven’t seen the official ballot for the upcoming special election. But I have heard there will be as many as five candidates listed. It looks like the membership has taken an interest in an election that traditionally doesn’t garner much interest. Unfortunately, the result of the election and the increased attentiveness to this issue has caused some members to disseminate information that I feel should not be left unaddressed.

You have received recent letters from outgoing and current active pension board trustees Fabrizio, Martin and Shanahan. It isn’t lost on me that I am not ‘their guy’. As the saying goes in Chicago, “we don’t want nobody nobody sent”. It also isn’t lost on me that the three of them thought I came on way too strong in my letter. That may very well be the case; but remember, I was running against the incumbent Tony Martin who has been in that position for a long long time. I had members who I was certain would vote for me tell me that I couldn’t unseat Tony; hence I came out strong. Was it slanderous? No, not even close. Had I known I would win with 65% of the vote I may have toned down some of my language. But that wouldn’t have changed the results of my analysis.

My analysis concluded that the fund would have been better off buying index funds to implement the asset allocation decision. I quantified the difference between active and passive management. I also made specific comments concerning the investment returns certain trustees continue to promote as reasons to re-elect them. I specifically stated “When compared to the wrong benchmarks, the returns are great, but they should be compared to a blended benchmark....If you only have 25% of the fund in S&P equities, the S&P is not your benchmark”. I stand by that analysis and would welcome any company that wanted to invite me to their house to expand on the methodology used.

I’m skeptical of the recent campaign literature quoting a national news source, CNBC. That news source concluded our pension fund as one of the highest performing among public pension funds. I’m not too impressed with being one of the best pension funds if the peer group is limited to other public pension funds. I am the Treasurer of a small municipal police pension fund; it only has \$8M in assets. That is quite small compared to our FABF which has approximately \$1B in assets. This smaller police pension fund isn’t comparable to our FABF; it’s size doesn’t allow for the benefit of a full-time chief investment officer or an asset class mix as aggressive as our FABF. This small police pension fund has nearly half of its assets in fixed income. Comparing our FABF to these small public pension funds isn’t a very meaningful performance measurement. But that is what CNBC and Morningstar are doing in their comparison. You can’t blindly rely on news outlets ‘analysis’, there is a burden on you to perform some critical reasoning. Again, I believe a more meaningful measurement of investment returns is to compare yourself against comparable asset class indexes.

The same campaign literature goes on to misinterpret the facts; trying to label me as pro-management because I have municipal finance experience. The literature continues to run with that same theme by stating that since I provided a quantifiable measurement of how legacy costs hurt the Fund that I must be for cutting

benefits. Let me be clear, I do not promote cutting any CFD member's pension benefits. Such proposals aren't even under the purview of a trustee. My literature actually stated that the Chicago pension funds are good public policy; beneficial not only to our membership but also the taxpayer. That is not a difficult argument to make, but nevertheless doesn't seem to get heard. The recently passed legislation (PA 96-1945), which is a substantial win for our FABF, will be attacked. It is imperative that we support our lobbying efforts to make certain no changes are made to this legislation. It is unfortunate that the City was able to push the funding mechanism back five years from what was originally proposed. A ten year bull market wouldn't do for our fund what this legislation will do. This is why I don't appreciate trustees promoting the FABF investment returns; it distracts members attention away from the real issue, funding. Our fund is not going to invest its way out of this precarious situation, funding legislation will.

There has been a lot of discussions concerning our investments. Please remember I stated in my initial letter that I believed our FABF investments were quite good. I don't consider it part of my role as trustee to micro-manage the chief investment officer Mike Moran. Mike has earned and deserves our gratitude for a smartly balancing our FABF's risks and returns. But I will most definitely interject another voice into how it continues to be balanced. From what I have seen so far as an elected trustee, I like the policy that is in place for selecting managers. But I'm experienced enough to know that policies aren't always followed. Public pensions have a history of not exactly being above board in how they procure investment managers. I'm not saying FABF is or was acting inappropriately, but through my experience I have developed a healthy professional skepticism. Given the recent sentencing of former FABF ex-officio trustee, City Treasurer Ahmad, for a kickback scheme related to investments, I think someone with a healthy professional skepticism on your board is warranted.

Let me assure the membership that I believe all the firefighter trustees will stand shoulder to shoulder on issues that concern your benefits. As a young boy I loved staying at the firehouse with my father and listening to the banter among them. Many of these men were war veterans from WWII, Korea and Vietnam, and they risked a lot for our contract and right to collective bargaining. I understand and appreciate their sacrifice. After I came on the job, firefighters demonstrated what it meant to be a member of the CFD. One in particular told me that no matter how much you may not like a guy, if he comes into the firehouse with his family and particularly his son, you give him a handshake like he is your best friend, introduce yourself to his son and tell his son that his father is the best fireman you know. I can put differences aside when the dust of an election settles. But I also am not going to acquiesce my beliefs just for the sake of getting along. I attempted to put some sound figures around meaningful analysis for the benefit of the members. But, if someone tells me $2+2=5$, we aren't going to agree, no matter how many times you repeat it. This position is not a springboard for other political aspirations for me, nor do I think it should be. However, I can assure the membership, I am capable of setting aside my difference and if need be, I can swallow my pride and admit fault.

Brothers and sisters, again thank you to each of you that has reached out to support me and wish me luck after the election, it may not seem much to you, but it is extremely encouraging to me. Please stay safe, look out for one another and exercise your right to vote.

Tim McPhillips, FABF Active Member Trustee