

**BLOOMINGTON FIRE DEPARTMENT  
RELIEF ASSOCIATION**

**BLOOMINGTON, MINNESOTA**

**ANNUAL REPORT**

**For the Year Ended December 31, 2012**

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## President's Letter

March 2013

Dear BFDRA Members,

Gains in both stocks and bonds resulted in a overall gain of 12.67% for the special fund in 2012. Domestic stocks had a strong year, with the S&P 500 index up 16%. Bond returns were lower than in recent years, with the BC Capital Bond Index up 4.2%. Our asset mix represents roughly 65% equities and 35% fixed income.

A significant change this year is that our actuarial advised us to update our mortality tables to reflect longer projected life expectancies. The updated actuarial assumptions resulted in an increased actuarial liability for the fund. Our funding ratio slipped to 98.6%, down from 102.6% one year ago. Despite this slight percentage drop, we remain in a strong funding position.

For 2013, stocks have started strong while bond returns are trending lower. The bull market for bonds lasted longer than many people expected but may be coming to an end. We have moved some money out of bonds and we will continue to adjust our asset mix as needed to provide safety and performance.

Sincerely,

A handwritten signature in black ink that reads "John Bayard". The signature is written in a cursive style with a large, looped initial "J".

John Bayard  
President, BFDRA

## Bloomington Fire Department Relief Association

### SUMMARY OF CURRENT PLAN PROVISIONS

1. Basic Benefit	One-third of the final average salary of a City of Bloomington police officer of the highest grade, not including officer rank. The final average earning is the average of the monthly pay for such a police officer over the past three years. All benefits under the plan are adjusted annually to reflect changes in police officer salaries.
2. Normal Retirement Benefit	Basic benefit is payable at retirement after attainment of the age of 50 and completion of 20 years of service.
3. Deferred Vested Benefit	After completion of 20 years of service, the basic benefit is payable after attainment of age 50.
4. Disability Benefit	The basic benefit is payable while the member remains disabled. Non-Duty related disability payments are pro-rated based on credited full year(s) of service. Disability is defined as inability to perform the duties of a firefighter.
5. Surviving Spouse Benefit:	On the death of any active or inactive member, 75% of the basic benefit is payable to the surviving spouse for the spouse's remaining lifetime, or until remarriage. For non-duty related deaths, this benefit is pro-rated based on full years of credited service.
6. Children's Benefit	On the death of an active member, 25% of the basic benefit is payable to all surviving children, divided equally, until attainment of age 18. Maximum family benefit is 100% of the basic benefit.
7. Lump Sum Death Benefit	On the death of any active or inactive member, \$500 is payable from the Special Fund, and \$2000 is payable from the General Fund.
8. Membership Dues	Each active member contributes \$144. per year.

**CITY OF BLOOMINGTON FIRE RELIEF ASSOCIATION  
("FIRE RELIEF")**

**Investment Policies**

**I. Objectives**

It is the objective of the Board of Trustees to attain a favorable absolute and relative rate of return for the assets of the Fire Relief, consistent with the preservation of capital.

- A.** Safety - Safety of principal is of critical importance to the investment program. Investments of the Fire Relief shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio.
- B.** Liquidity - The Fire Relief's investment portfolio will remain sufficiently liquid to enable the Fire Relief to meet all operating requirements which might reasonable be anticipated.
- C.** Return on Investment - The Fire Relief's investment portfolio shall be designed with the objective of attaining a market rate of return.

**II. Prudence**

Investments shall be made with judgment and are, under circumstances existing at the time the investment is made, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering probable safety of their capital as well as interest yield to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse situations.

### **III. Authority**

Authority to manage the Fire Relief's investment program is derived from the following:

- ◆ Minnesota Statutes 356A, Public Pension Plan Fiduciary Responsibility:
  - ◆ Section 356A.06, Subdivision 7 (permissible securities)
- ◆ Minnesota Statutes Section 69.77, Subdivision 9; (mutual fund authority)

Under Minnesota law, the Board of Trustees is required to manage the affairs of the Fire Relief. It may engage the services of an investment manager or managers and performance evaluators to assist it in attainment of its goals and objectives.

If the Board of Trustees employs persons or firms to perform such services, it shall conduct studies to ascertain that such employees possess the necessary specialized research facilities and skilled personnel to meet these investment objectives and guidelines. The Board of Trustees shall require a fund manager, if employed, to adhere to the "prudent person" rule under such federal and state laws which now apply, or may in the future apply to investments of the Fire Relief.

### **IV. Ethics and Conflicts of Interests**

Officers and employees involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board of Trustees any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Fire Relief's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Fire Relief's, particularly with regard to the time of purchases and sales.

### **V. Investment Committee**

The Board will serve as the Investment Committee and shall meet at regular intervals to review the following:

- ◆ Investment Policy
- ◆ Investment strategy in current and prospective economic climate
- ◆ Examine the current risk levels of the securities represented in the Portfolio

## **VI. Authorized & Suitable Investments**

The Fire Relief is empowered by statute to invest in the following types of securities:

- ◆ Securities generally. The Fire Relief is authorized to purchase, sell, lend or exchange the securities specified below, including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency.
- ◆ Governmental bonds, notes, bills, mortgages or other securities which have direct obligations (or guaranteed or insured issues) of the United States, its agencies, its instrumentalities, or organizations created by of Congress, and its provinces, the principal and interest is payable in United States dollars; the states and their municipalities, political subdivisions, agencies, or instrumentalities; the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank; or any other United States government-sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.
- ◆ Investment-grade corporate companies organized under the laws of United States and Canada, including bond notes and debentures, providing the securities are investment-grade and are payable in United State dollars and the obligations must be rated among the top four quality categories by a nationally recognized rating agency.
- ◆ Bankers Acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency.
- ◆ Certificates of deposit are limited to those issued by United States banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration.
- ◆ Commercial Paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency.
- ◆ Mortgage participation certificates and pools or pass through certificates evidencing interest in pools of first mortgages or trust deed on improved real estate; located in the United States where the loan-to-value ratio for each loan as calculated in accordance with Section 61A.28, Subdivision 3, does not exceed 80% for fully amortizable residential properties and in all other respects meet the requirement of Section 61A.28, Subdivision 3.

- ◆ Asset-backed securities must be rated in the top four categories by a national recognized rating agency.
- ◆ Repurchase agreements and reverse repurchase agreements. The collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized.
- ◆ Savings accounts are limited to those fully insured by federal agencies.
- ◆ Guaranty fund certificates investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply.
- ◆ Surplus notes and debentures of domestic mutual insurance companies.
- ◆ Corporate stocks. Any stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions: the aggregate value of corporate stock investments, as adjusted for realized profits and losses, must not exceed 85% of the market or book value, whichever is less, of a fund, less the aggregate value of investment according to Section 356A.06 Subdivision 6. The investment must not exceed 5% of the total outstanding shares of any one corporation.
- ◆ Venture capital investment businesses through participation in limited partnerships and corporation.
- ◆ Regional and mutual funds through bank-sponsored collective funds and up to 75% of the market value of the fund may be invested in open-end investment companies registered under the Federal Investment Company Act of 1940, if the portfolio investment of the investment companies comply with the type of securities authorized for investment under Section 356A.06 Subdivision 7.
- ◆ Real Estate ownership interests or loans secured by mortgages or deeds trust through investment in limited partnerships, bank sponsored collective funds, trusts and insurance company commingled accounts, including separate accounts. Real Estate investments may not exceed 35% of the market value of the fund and there must be at least four unrelated owners of the investment other than the state board for investments.
- ◆ Preferred shares will be classified as bonds when determining asset allocation.



## **VII. Prohibited Investments**

The following investments are prohibited by the Board of Trustees:

Short sales  
Letter Stock  
Commodities  
Foreign Securities (other than those listed on the New York Stock Exchange)

## **VIII. Safekeeping and Custody**

All security transactions including collateral for repurchase agreements, entered into by the Fire Relief, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Board and evidenced by safekeeping receipts.

## **IX. Asset Allocation and Diversification**

The Fire Relief's asset allocation guidelines are:

Equities	75% Maximum
Fixed Income	45% Maximum
Cash / Cash Equivalents / Other approved investments	30% Maximum

The Fire Relief will diversify its investments by security type and institution and, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type or with a single financial institution with the exception of authorized mutual funds.

## **X. Performance Standards\Market Yield (Benchmark)**

The total portfolio will be measured against the following benchmarks:

### **Domestic Equities**

- ⇒ *Wilshire 5000 Stock Index*
- ⇒ *S&P 500*
- ⇒ *Russell 2000*

### **International Securities**

- ⇒ *Morgan Stanley Capital International Index*

### **Bonds**

- ⇒ *BC Capital Aggregate Bond*

### **Short Term and Cash**

- ⇒ *90-day Treasury bill*

## **XI. Reporting**

Annually the Fire Relief's investment policy will be sent to each investment manager, brokers and consultants who will be providing services to the fund. These investment professionals must acknowledge receipt of the statement and agree to abide by all applicable investment laws and restrictions.

Annually the Fire Relief's investment policy will be kept on file at the State Auditor's Office.

Annually an update of the financial condition of the Fire Relief should be made to the City of Bloomington's City Council.

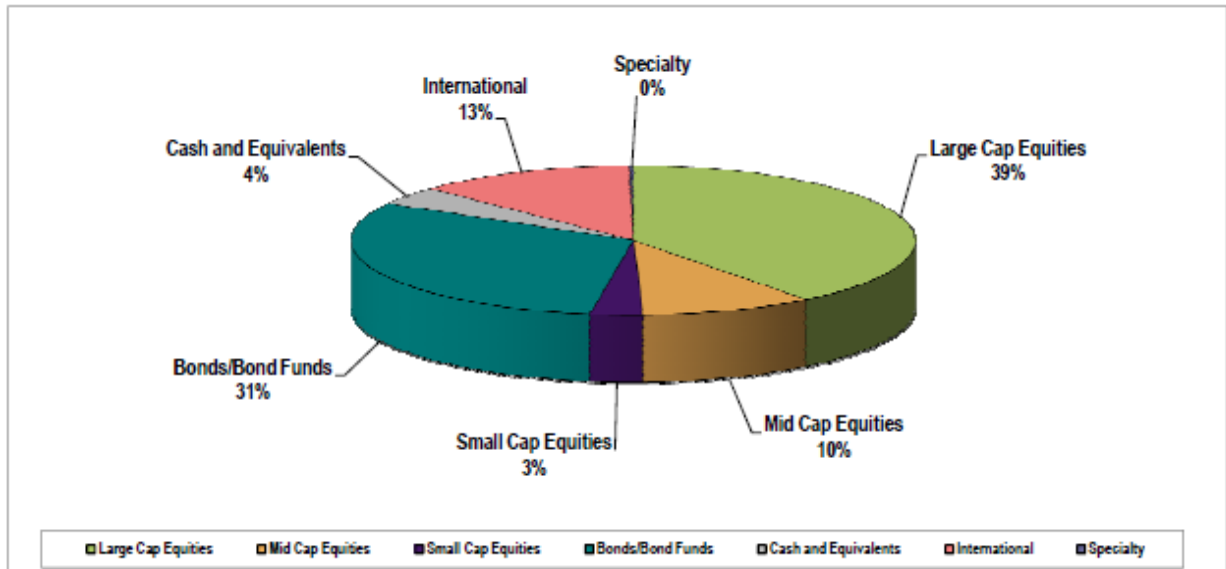
## **XII. Investment Policy Adoption**

The Fire Relief's Investment Policy shall be adopted by resolution by the Fire Relief Trustees.

**Adopted by Fire Relief Board of Trustees on March 22nd, 2010.**

# Financials

Asset allocations as of 12/31/2012:



Total returns for each investment of the Special Fund:

Account	Percent of Total Invested	End Balance 12/31/2012	YTD Return
Union Bank Account	2.37%	\$2,907,775	0%
IOS Account	2.97%	\$3,644,917	10.53%
DSIP Account	2.4%	\$2,953,182	12.11%
MPMG Account	1.71%	\$2,102,413	16.98%
DMA Account	0%	\$0	8.3%
TDO Account	2.46%	\$3,020,473	10.05%
Fixed Income Portfolio	.45%	\$549,896	6.04%
ETF Account	0%	\$0	1.76%
Astor Account	0%	\$0	.43%
SBI Bond Market Fund	28.94%	\$35,561,940	6.67%
SBI Common Index Fund	31.90%	\$39,203,603	16.35%
SBI International Fund	11.3%	\$13,884,951	17.58%
SBI Growth Fund	15.52%	\$19,073,386	16.83%
<b>Total</b>	<b>100%</b>	<b>\$122,902,541</b>	<b>12.67%</b>