CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:21 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Jerome Haber, Douglas Morrice, Andrew Reed, Vice Chairperson Mark Mitchell, and Chairperson Wilfred Farrell.

ABSENT: None. (One vacancy.)

ALSO PRESENT: Graystone Consultant Brian Brice; Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; Finance Director Cheryl A. Grice; City Attorney Scott J. Gould; and City Clerk Amy K. Kirkland.

APPROVE AGENDA:

Motion by Vice Chairperson Mitchell to approve the Agenda with the following addition to New Business:

Transfer of Police Patrol to MERS

Motion supported by Trustee Brewbaker and concurred in by unanimous vote.

APPROVE MINUTES OF OCTOBER 24, 2018 REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the October 24, 2018 Regular Meeting as presented.

Motion supported by Trustee Morrice and concurred in by unanimous vote.

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

Motion by Vice Chairperson Mitchell to approve the consent agenda as follows:

Approve Pension Check Reports:

a. October 2018 $ 248,506.79
b. November 2018 $ 248,506.79
Approve Statements:

a. City of Owosso Employees Retirement Fund  
   As of October 31, 2018

b. City of Owosso Employees Retirement Fund  
   As of November 30, 2018

Payment Authorizations:

a. MAPERS  
   2019 Membership Renewal Fee $ 200.00

b. Katherine R. Fagan, City Treasurer  
   Report of Checks Written – October 2018 (less pension checks) $ 51,740.94

c. Katherine R. Fagan, City Treasurer  
   Report of Checks Written – November 2018 (less pension checks) $ 1,348.20

Death Acknowledgements:

None.

Motion supported by Trustee Morrice and concurred in by unanimous vote.

COMMUNICATIONS:

Government Finance Officers Association – Best Practice, Governance of Public Employee Postretirement Benefits Systems
Gabriel Roeder & Smith – 2018-2019 Maximum Deferral Threshold Limits
Gabriel Roeder & Smith – NewsScan October 2018
Gabriel Roeder & Smith – NewsScan November 2018
Gabriel Roeder Smith: GRS Insight, October 2018
Gabriel Roeder Smith: GRS Perspectives, November 2018

The following communications, publications and conference announcements are on file with the City Clerk – if you would like to read them, please contact her:

Pensions & Investments: October 15, 2018
Pensions & Investments: October 29, 2018
Pensions & Investments: November 12, 2018

Chairperson Farrell spoke regarding the communication about best practices saying the Board should consider adopting a code of ethics as well.

It was announced that Trustee Reed would need to leave the meeting at 8:00 a.m. to report to court on a work-related case. In light of this Chairperson Farrell indicated that New Business would be conducted prior to Old Business so that Trustee Reed could participate.

NEW BUSINESS:
Transfer of Police Patrol to MERS

Trustee Reed spoke on behalf of the Police Patrol unit saying they had agreed to move to the MERS system with the approval of their latest contract. He said the agreement was tentative at this point as the formal language of the contract had yet to be finalized and signed. He went on to say that there was no timeframe established as to when the transfer was to be executed.

Trustee Reed was asked why the Patrol Unit had agreed to make the move. He indicated that the City had asked for their transfer in the past and that transferring had become the City’s main ask during the latest round of negotiations. He went on to say they were not sold on the idea at first but the City made the terms favorable by agreeing not to alter the pensions of any current patrol members, agreeing there will be no further discussions regarding contributions, and new members would be placed in a hybrid plan.

Significant discussion followed regarding the Board’s role in the transfer, how the transfer will affect the System’s overall performance, how the amount transferred will be determined, if the City is entitled to any money that is left over should all groups agree to transfer to MERS, why the City is pushing the move to MERS, if the transfer will affect the cost of running the System, and whether legacy retirees would be or could be moved to the MERS system.

City Attorney Scott J. Gould indicated that the agreement to transfer the Patrol Unit had generated numerous questions and he would need to see the final contract to determine what was needed to move forward. He went on to say that he had spoken to the previous City Attorney William C. Brown in an effort to gather details of how past transfers had been handled and Mr. Brown made mention of an issue that arose each time the System attempted to transfer an individual to MERS. The issue involved differences in opinion regarding the amount of money to be transferred when individual police patrol members were promoted to command. The calculations determined by the System were always significantly higher than those determined by MERS. And there was concern that the command group would become progressively underfunded as new members transferred into the unit if MERS insisted that their calculations be used to determine the amount of funding transferred. Mr. Brown had further indicated that repeated attempts by the System to have the discrepancy addressed were dismissed by MERS. Not wanting to cause detriment to the transferred employees by holding up the process any longer the Board eventually yielded to MERS and agreed to authorize the transfers in the amount determined by them. Chairperson Farrell and Vice Chairperson Mitchell, who were on the Board at the time the transfers in question took place, verified Mr. Brown’s account of events. Finance Director Grice added her voice to the conversation saying she was surprised MERS had behaved that way saying she had been involved with them for a long time without issue. She went on to note, in response to the comment about whether the City gets any money left over if all the groups transfer to MERS, that she does not believe the City would get to keep the money. Several Board members defended the actions of the Board, saying they had managed the money well over the years. There was concern expressed that if MERS were to manage the money for the entire system that the Board would no longer have any oversight of any of the funds.

Trustee Brewbaker asked if a rough estimate could be developed to give them an idea of how expenses will change after the Patrol unit leaves. Graystone Consultant Brice estimated that approximately $5.6 million would be tagged for transfer and he felt the System’s costs shouldn’t go up significantly, but that he would do an analysis of the costs. He also agreed to develop a plan showing how the funds for the transfer will be raised.

Trustee Reed left the meeting at 8:02 a.m. to head to the Court House.

Vice Chairperson Mitchell inquired about the status of the current contract negotiations with the Fire Department. Trustee Brewbaker indicated the Department had yet to receive a response on their proposal from the City.
Vice Chairperson Mitchell expressed his concern for current retirees asking if they would have a representative on the Board if they remain in the System. It was agreed the topic would be revisited again in February 2019.

OLD BUSINESS:

Conflict of Interest Notice and Procedure

Chairperson Farrell opened the conversation saying that the Hospital Board includes an item on each agenda that provides an opportunity for any members to declare if they have a conflict of interest regarding something on that agenda. Copies of the Hospital’s Conflict of Interest Policy and Conflict of Interest Disclosure Questionnaire were distributed to the Board.

City Attorney Gould indicated that he felt the Hospital’s policy is good, but the State of Michigan has already laid out the law for government pension systems. He detailed his proposal which is based on said regulations. Any potential conflicts need to be addressed before a discussion begins. The individual with the conflict must leave the area where the debate is being held, they cannot have any input or influence on the matter. Chairperson Farrell asked the Board how they would like to proceed.

Mr. Gould asked the Board their preference for handling the voting portion of the policy. Should the conflicted member be replaced with a substitute that would represent the interests of the unit? If so, it would be good practice for each unit to have a pre-selected alternate. There was discussion among the Trustees as to whether a substitute should be included in the vote. Vice Chairperson Mitchell indicated that members are absent on occasion and the Board is still able to transact business as long a quorum is present. There was discussion about giving the Board the opportunity to move forward, looking out for the interests of fellow units, and whether requiring an alternate would become cumbersome to the business of the Board. It was suggested the Board not institute a substitution policy, but that language be included in the policy to require a quorum. Attorney Gould will bring the revised policy to the February meeting.

INVESTMENT CONSULTANT REPORT:

Fourth Quarter 2018 (to date) Market Commentary

Graystone Consultant Brice gave an update on the markets in the fourth quarter to date indicating that November was volatile; there is concern about the slowing of growth, and whether the yield curve is in fact inverting indicating a recession may be on the horizon. He went on to say that there was really nowhere in the market one could go to for positive returns with capital markets in decline with the exception of the S&P. The overall market is still considered to be a bear market but pretty much every sector has experienced a 10% correction.

Trustee Haber leaves the meeting at 8:20 a.m.

Mr. Brice then distributed the December 2018 edition of the Morgan Stanley On the Markets publication. He highlighted the following Graystone predictions for 2019: anticipate change in the markets, the FED may not continue to raise interest rates in 2019, international markets will outperform US markets, value will outperform growth, and if the US/China trade war is solved the market will experience a solid jump.

Portfolio Performance Update, through November 30, 2018

Graystone Analyst Burger provided an update on the performance of the portfolio through November 30, 2018 indicating that the portfolio was up for the month of November but overall investment earnings were down for the year, including a 6% loss in October alone.
Mr. Brice noted that they have been keeping an eye on the System’s managers through this downturn and there is nothing requiring action at this point.

**Asset Allocation Evaluation**

Consultant Brice continued on to address the asset allocation and rebalancing of the portfolio noting that fixed income will take a bit of a haircut to raise the cash necessary for pension payments as he was not recommending any changes to the overall mix in the portfolio. Going forward, he said he felt Aristotle would be an important piece in domestic returns for 2019, the international allocation of the portfolio is nearing its target of 20%, and he feels MLPs will do well if oil prices continue to increase. He reminded members that while Loomis Sayles was a big driver of performance during this growth cycle, they have a concentrated portfolio that is high in tech and we may want to move away from growth toward value for the coming year. Lastly, he noted that international markets are a few years behind US markets and he feels they will be heading into positive territory in 2019. Overall he expects 2019 will be better than 2018.

On another note, Mr. Brice indicated that he did not feel that the transfer of the Patrol unit to MERS will cause big problems for the portfolio.

**CITIZENS COMMENT:**

There were no citizen comments.

Vice Chairperson Mitchell inquired about a second Council representative for the Board. He was told the Mayor is working on making an appointment.

Chairperson Farrell thanked former Board Trustees Burton Fox and Elaine Greenway for their service. He also acknowledged the sad loss of Burton’s wife Ella.

Chairperson Farrell inquired about the possibility of holding new member training. Mr. Burger indicated that such training was usually conducted one-on-one and time could be scheduled to meet with new members.

Chairperson Farrell reminded Board members that the System’s actuary Ken Alberts will be here for the February meeting to discuss PA 202 and the transfer of the Patrol unit to MERS.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for February 27, 2019 at 7:15am

**ADJOURNMENT:**

Motion by Trustee Brewbaker for adjournment at 8:49 a.m.

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

Amy K. Kirkland, City Clerk