

**CITY OF OWOSSO  
EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES  
REGULAR MEETING  
OWOSSO CITY HALL COUNCIL CHAMBER**

**FEBRUARY 27, 2019**

**7:15 AM**

**CALL MEETING TO ORDER:**

Chairperson Farrell called the meeting to order at 7:20 a.m.

**ROLL CALL:**

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

**ABSENT:** None.

**ALSO**

**PRESENT:** Gabriel Roeder Smith Actuary Kenneth Alberts; Graystone Consultant Brian Brice; Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; Gabriel Roeder Smith Consulting Actuary Laura Frankowiak; City Attorney Scott J. Gould; City Finance Director Cheryl A. Grice; and City Clerk Amy K. Kirkland.

**APPROVE AGENDA:**

Motion by Vice Chairperson Mitchell to approve the Agenda as presented.

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

**APPROVE MINUTES OF DECEMBER 12, 2018 REGULAR MEETING:**

Motion by Vice Chairperson Mitchell to accept the minutes of the December 12, 2018 Regular Meeting as presented.

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

**CITIZEN COMMENTS:**

There were no citizen comments.

**CONSENT AGENDA:**

Motion by Trustee Osika to approve the consent agenda as follows:

1. **Approve Pension Check Reports:**

- |                  |               |
|------------------|---------------|
| a. December 2018 | \$ 248,034.47 |
| b. January 2019  | \$ 249,866.76 |

2. **Approve Statements:**

- a. City of Owosso Employees Retirement Fund  
As of December 31, 2018
- b. City of Owosso Employees Retirement Fund  
As of January 31, 2019

3. **Payment Authorizations:**

- a. Franklin Templeton Investments  
For period 10/01/2018 through 12/31/2018 \$ 5,629.96
- b. Franklin Templeton Investments – SIK, former Fifth Third equities  
For period 10/01/2018 through 12/31/2018 \$ 300.00
- c. Loomis Sayles/Natixis  
For period 01/01/2019 through 03/31/2019 \$ 7,870.43
- d. Morgan Stanley – Graystone Consulting  
For period 01/01/2019 through 03/31/2019 \$ 28,495.07
  - Consulting Fee \$ 15,234.52
  - Mgr Fee – Aristotle \$ 4,708.79
  - Mgr Fee – Atlanta \$ 1,752.82
  - Mgr Fee – Causeway \$ 2,104.82
  - Mgr Fee – Harding \$ 2,080.45
  - Mgr Fee – Cushing \$ 1,103.98
  - MS UMA Fee \$ 1,509.69
- e. City of Owosso – Annual Audit Fee  
For period 07/01/2017 through 06/30/2018 \$ 2,969.00
- f. Katherine R. Fagan, City Treasurer  
Report of Checks Written – December 2018 \$ 200.00  
(less pension checks)
- g. Katherine R. Fagan, City Treasurer  
Report of Checks Written – January 2019 \$ 2,696.40  
(less pension checks)

4. **Death Acknowledgements:**

- a. Anna Mae Conklin – February 1, 2019 (beneficiary to Ernest, Fire Department retiree)

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

**COMMUNICATIONS:**

- 1. Michigan Department of Treasury - *Uniform Actuarial Assumptions Update*
- 2. Michigan Department of Treasury – *Numbered Letter 2018-3*
- 3. Kenneth G. Alberts, Gabriel Roeder & Smith – *2018 Projected Actuarial Fees*
- 4. Morgan Stanley – *Changes to your proxy voting*
- 5. Cammack Retirement – *Chart of the Month, August 23, 2018*
- 6. Gabriel Roeder & Smith – *NewsScan, August 2018*
- 7. Gabriel Roeder & Smith – *NewsScan, September 2018*

8. Gabriel Roeder & Smith – *Perspectives, August 2018*
9. Gabriel Roeder & Smith – *Perspectives, October 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:

- a. Morgan Stanley: *FYI, 4Q2018*
- b. Pensions & Investments: *August 20, 2018*
- c. Pensions & Investments: *September 3, 2018*
- d. Pensions & Investments: *September 17, 2018*
- e. Pensions & Investments: *October 1, 2018*

Graystone Consultant Brice said they were notified January 25<sup>th</sup> that co-portfolio manager Libby Toudouze had left Cushing Asset Management. The co-manager of the portfolio, John Musgrave, remains with the company and Paul Euseppi will take over Ms. Toudouze's position. Mr. Euseppi has been with the firm since 2008 and has served as a portfolio manager on a number of other strategies since 2011. Graystone does not anticipate any changes to the investment, portfolio construction, or risk management process for the strategy due to the change in team members. Further they do not believe that Ms. Toudouze's departure warrants a change in the Approved List status for the strategy. Mr. Brice indicated they will continue to monitor the situation and provide updates as necessary.

Chairperson Farrell asked if Mr. Brice was comfortable that she was no longer with the firm. Mr. Brice indicated his office had looked into the matter on a level deeper than the GIMA recommendation and he and his colleagues were comfortable with the change and were making no recommendation for changes at this time.

### **OLD BUSINESS:**

#### **Police Patrol Transfer to MERS**

While the Board had yet to receive formal notification, Chairperson Farrell felt it would be prudent to hold a discussion about the transition of the Police Patrol unit and its retirees to MERS and how it should take place. All board members, staff, and advisors were invited to comment. There was dialogue regarding making sure that all the parties involved in the transition are on the same page, who holds the authority to transfer retirees from the System, and ensuring that all of the players participate in the preparations for the transfer so the result is fair and equitable.

GRS Actuary Ken Alberts provided a bit of history for the Board, giving some context to the numbers that the Board will be considering throughout the process. Under normal circumstances when an employee retires GRS would determine the amount to be transferred from the City and Employee funds to the Retiree fund using the assumptions developed for the City's system. In this case MERS will be determining the amount necessary for transfer using their assumptions for the group the City fits in, small, medium, or large. The GRS calculation will either be too high or too low based on how we compare to their assumptions. Any gap in the funding would then be made up over time, but if you get the money into the plan sooner then the market can pay for the benefits, if it goes in slower then the City and employees will pick up the shortfall. Mr. Alberts also pointed out that when the Command Unit was transferred a number of years ago MERS forced new groups to pick one of their plans instead of using their own benefit plan. He felt that this was no longer a requirement and the Patrol Unit would be allowed to maintain the same benefits it enjoys in the City system.

Graystone Consultant Brian Brice indicated that they had estimated the amount to be transferred based on the actuarial report and some simulated results. The overall results pointed to the idea that the integrity of the portfolio would not change as a result of the transfer. If the agreed upon amount ends up being significantly higher than estimated there could be potential issues with the fixed income asset class. He also pointed out that he did not anticipate the actual liquidation of assets to take that long, neither did he anticipate any extra expense for coming up with the money.

Trustee Brewbaker inquired about possible changes to fees. Mr. Brice said, using the \$5.64 million they used in their simulations there would be no change in the fees.

Mr. Alberts encouraged the Board to think about what they would do with "extra" money if MERS asks for less than the Board thinks needs to go. He also reminded them that the \$5.64 million figure used in the Graystone simulations would include the \$600,000 contingency fund.

Wrapping up the conversation Chairperson Farrell said he would like to see a meeting of all of the relevant parties for the purpose of setting up a process for the transfer that everyone can agree to. He indicated that those interested in attending should contact City Clerk Kirkland.

### **Conflict of Interest Policy**

City Attorney Gould indicated that he had edited the conflict of interest policy according to the direction of the Board received at the December 2018 meeting.

Motion by Trustee Morrice to adopt the policy as follows, create an agenda item to address potential conflicts at each meeting, and require a signed statement acknowledging the policy from each Trustee.

## **CITY OF OWOSSO EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES**

### **CONFLICT OF INTEREST NOTICE AND PROCEDURE**

Trustees of the City of Owosso Employees' Retirement System Board (Trustees) have an obligation to manage the Owosso City Employees' Retirement System (Retirement System) with the pension and participants' interest being paramount. This responsibility is often called a fiduciary duty. The City of Owosso, by way of Ordinance Sec. 2-433, recognizes Public Act No. 314 of 1965 of the State of Michigan which established laws pertaining to said position.

Pursuant to MCL 38.1132(C)(1): "Investment fiduciary" means a person other than a participant directing the investment of the assets of his or her individual account in a defined contribution plan who does any of the following:

- (a) Exercises any discretionary authority or control in the investment of a system's assets. Investment fiduciary under this subdivision includes the state treasurer and his or her investment personnel for the systems described in section 13(4).

The Retirement Board Trustees ethically have a duty to act in all cases, except those where there is a conflict of interest. A conflict of interest arises when the personal interest of a public official places him or her in a position where he or she cannot execute his or her public duties without affecting his or her private interests, thus denying the public the fair, impartial and objective judgment to which it is entitled. In order to best serve the interests of the Retirement System, Trustees should disclose any conflict of interest which may be perceived as influencing their decision. The decision of potential conflicts of interest is a personal matter.

Statutory conflicts per MCL 38.1133(9): With respect to a system subject to this act, an investment fiduciary shall not do any of the following:

- (a) Deal with the assets of the system in his or her own interest or for his or her own account.

- (b) In his or her individual or any other capacity act in any transaction involving the system on behalf of a party whose interests are adverse to the interests of the system or the interest of its participants or participants' beneficiaries.
- (c) Receive any consideration for his or her own personal account from any party dealing with the system in connection with a transaction involving the assets of the system.

Anytime a Trustee believes he/she cannot act impartially with respect to a request, he/she should advise the Board of the same and refrain from acting on the request.

**PROCEDURE FOR ADDRESSING CONFLICTS OF INTEREST**

A Trustee with a potential conflict of interest should disclose the conflict to the satisfaction of the entire Board, so that the same becomes part of the official public record prior to any action and/or deliberation on the matter.

A Trustee abstaining due to a conflict of interest should not participate in the discussion of that item and should leave the conference area. It is important to leave the conference area prior to any discussion and/or deliberation on matter as it is not ethical to go through the public hearing process, then before the vote declare a conflict of interest and not vote. A Trustee abstaining due to a conflict of interest shall not have a replacement or substitute person for said deliberation and vote.

A Trustee with any concern or question of a potential conflict should engage the Procedure for addressing conflicts of interest, to the satisfaction of the Board.

**ACKNOWLEDGMENT**

I hereby acknowledge receipt and have thoroughly read this document in its entirety. I recognize that I am burdened with the responsibility of monitoring my personal affairs, interests and dealings in order to prevent a conflict of interest with the City of Owosso Employees' Retirement System, and to recognize, disclose and abide by the aforementioned procedure for addressing conflicts of interest between myself and the Retirement System.

**TRUSTEE:**

DATED: \_\_\_\_\_

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

**NEW BUSINESS:**

**PA 202 Discussion**

GRS Actuaries Ken Alberts and Laura Frankowiak detailed the requirements of PA 202 of 2017, starting by distributing the slides from a presentation Mr. Alberts gave last fall. Ms. Frankowiak explained that the state wanted to do an apples to apples comparison of public pension systems and the solution they developed was to require each municipality with a pension system to report the status of their system using a uniform set of assumptions created by the State. Any municipality that does not meet certain benchmarks using those assumptions will be required to file a plan to bring its system into compliance.

Mr. Alberts noted that the System must have an experience study conducted every 5 years (we are due for ours this year), and they must replace the actuary or have an actuarial audit performed every 8 years. The requirements of PA 202 will be the responsibility of the City, though who pays for the required calculations is up for debate. He said some municipalities may find they need 3 sets of valuation results

(funding, PA 202, and GASB) each year for reporting and funding purposes. All of which came about as a result of a push to remove municipalities from the pension business.

### **2019 Budget**

City Treasurer Fagan noted that the only increase in the proposed budget was for counselling fees.

Chairperson Farrell asked for clarification as to who covers what costs. Finance Director Grice indicated that everything in the budget before the Board this morning is covered by the City. She further noted that money manager fees are paid by the System.

Motion by Trustee Brewbaker to approve the budget for the 2019 calendar year as follows:

	<u>Jan-Dec 2018 Actual</u>	<u>Jan-Dec 2019 Proposed</u>
<b>Checks, misc.</b>	37.52	150.00
<b>Audit</b>	2,474.00	3,000.00
<b>Actuary Fee</b>	38,000.00	39,000.00
<b>Conference/membership</b>	844.80	4,000.00
<b>Counseling Fee</b>	124,760.34	130,000.00
<b>Total</b>	<b>166,116.66</b>	<b>176,150.00</b>

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

### **MAPERS One Day Seminar**

It was noted the One Day Seminar is set for this coming Friday.

No one expressed an interest in attending.

### **MAPERS 2019 Spring Conference**

The Conference will be held May 18-21, 2019.

Chairperson Farrell noted that the Sunday session alone is well worth the trip for Trustees.

Two Trustees expressed a potential interest in attending.

Motion by Vice Chairperson Mitchell to approve the attendance of two members to the MAPERS 2019 Spring Conference.

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

### **INVESTMENT CONSULTANT REPORT:**

#### **Investment Performance Analysis – 4Q2018**

Graystone Consultant Brice detailed market performance for 2018 saying annual returns for every major asset class were either negative or below the rate of inflation. There was lots of volatility in 2018 due in part to the FED pushing up interest rates. Bonds were flat for the year and stocks were generally in the red meaning there was nowhere safe to go.

Going forward Graystone recommends continuing to favor stocks over bonds, though expectations going forward are not as positive. They do not think a recession will happen this year, but they do anticipate 1-2 interest rate hikes in the second half of the year. They are encouraging clients to consider opportunities in developed and emerging markets. So far this year almost all asset classes are in positive territory and there is some breadth to the improvements. Mr. Brice ended by saying that he feels this year will be volatile but will end with overall gains.

### **Performance Update - as of February 15, 2019**

Graystone Analyst Burger echoed Mr. Brice's comments saying there was nowhere to hide at the end of 2018 with all of the System's managers down with the exception of Franklin Templeton. On a positive note he noted that the market had served the System well this year, increasing assets by \$2.5 million since December 31, 2018.

Chairperson Farrell inquired whether there were any concerns with the performance of Causeway. Mr. Brice indicated they are still comfortable with the investment, given the fact they are a value manager he would expect their performance to improve this year. He encouraged the Board to maintain a balanced portfolio.

Mr. Brice indicated that no asset class needs to be trimmed at this time. He noted that the portfolio is approximately 70% equity and asked if the Board was comfortable with this. He further indicated Graystone will be performing an asset allocation study that will be ready for the April meeting. He anticipates they will continue to favor stocks over bonds and international over domestic equities and concluded the report saying the Board may want to trim back equities at some point during the year.

GRS Actuary Alberts reminded the Board that if the Fire Department agrees to transfer to MERS it would leave the System with only the General group which is closed. This would have implications for the cash flow needs of the System and could make it appear the plan is more expensive.

Mr. Brice indicated he appreciated the Mr. Alberts was thinking ahead and promised to work with the Board in such a situation.

### **CITIZENS COMMENT:**

There were no citizen comments.

Chairperson noted the email from City Clerk Kirkland regarding the offer for consulting services. He said that if anyone is interested in learning more let him or Ms. Kirkland know.

### **NEXT BOARD MEETING:**

The next board meeting is scheduled for April 24, 2019 at 7:15am

### **ADJOURNMENT:**

The meeting adjourned at 8:59 a.m.

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Amy K. Kirkland, City Clerk