CALL MEETING TO ORDER:

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

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Burton Fox, Elaine Greenway (arrived at 7:32 a.m.), Douglas Morrice, Andrew Reed, and Vice Chairperson Mark Mitchell.

ABSENT: Chairperson Wilfred Farrell.

ALSO PRESENT: Graystone Consultant Brian Brice; Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; City Attorney Scott J. Gould; City Manager Nathan R. Henne; City Clerk Amy K. Kirkland; and City Finance Director Karen M. Ruddy.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda as presented.

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

APPROVE MINUTES OF APRIL 18, 2018 SPECIAL MEETING:

Motion by Trustee Morrice to accept the minutes of the April 18, 2018 Special Meeting as presented.

Motion supported Trustee Fox and concurred in by unanimous vote.

APPROVE MINUTES OF APRIL 25, 2018 REGULAR MEETING:

Motion by Trustee Fox to accept the minutes of the April 25, 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 Trustee Fox to approve the consent agenda as follows:
1. **Approve Pension Check Reports**:
   a. April 2018 $247,511.68
   b. May 2018 $243,898.75

2. **Approve Statements**:
   a. Quarter to Date Statement
      For Period 04/01/2018 through 06/19/2018
      (1) Total Portfolio
   b. City of Owosso Employees Retirement Fund
      As of April 30, 2018
   c. City of Owosso Employees Retirement Fund
      As of May 31, 2018

3. **Payment Authorizations**:
   a. M.D. Sass
      For period 04/01/2018 through 06/30/2018 $1,960.99
   b. Morgan Stanley – Graystone Consulting
      Partial refund of consulting fees for MD Sass $ (865.28)
   c. Gabriel Roeder Smith & Company
      For period 07/01/2017 through 06/30/2018 $25,000.00
   d. Katherine R. Fagan, City Treasurer
      Report of Checks Written – April 2018
      (less pension checks) $63,148.68
   e. Katherine R. Fagan, City Treasurer
      Report of Checks Written – May 2018
      (less pension checks) $1,698.20

4. **Death Acknowledgements**:
   a. Paul Cameron

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

**COMMUNICATIONS:**

1. Amy K. Kirkland, City Clerk – Email regarding MS ceasing transactional business with government entities
2. Amy K. Kirkland, City Clerk – Election Results
3. Loomis Sayles/Natixis – Annual notice of availability: Privacy Policy & Form ADV Parts 2A & 2B
4. Graystone/Morgan Stanley – Annual notice of availability: Form ADV
5. Gabriel Roeder & Smith – NewsScan, April 2018
6. Gabriel Roeder & Smith – NewsScan, May 2018
7. Gabriel Roeder & Smith – Insight, May 2018
8. Cammack Retirement – Insights, 23 April 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, 2Q2018
b. Pensions & Investments: April 16, 2018
c. Pensions & Investments: April 30, 2018
d. Pensions & Investments: May 14, 2018
e. Pensions & Investments: May 28, 2018
f. Pensions & Investments: June 11, 2018
g. Institutional Investor: April 2018

**OLD BUSINESS:**

**Asset and Manager Allocation Review**

This item is a continuance of the review of the System's current asset and manager allocations in light of the return projections provided by Graystone.

Graystone Consultant Brice detailed the mixes the Board had requested at the last meeting. The current portfolio mix is returning 7.7% and the target is currently 7.2%. Maximizing the international exposure would keep the return 7.7%, but increase the volatility to 10.8%. And projections predicted that adding only MLPs to the current portfolio would provide a return of 7.7%, with a volatility of 10.5%.

While making any of the suggested changes would offer no increase in the return Mr. Brice pointed out that Graystone feels U.S. equities will decline slightly in the short term, but international equities will hold strong. Returns for MLPs continue to fall, but now might be a good time to buy because of their extreme value. He said there was no pressure to make a decision today, but it was his job to make sure the portfolio has the best mix of assets to achieve our goals for returns with the lowest risk possible.

Vice Chairperson Mitchell inquired whether anyone had a desire to make changes to the asset allocation at this time. No one expressed an interest in doing so. Vice Chairperson Mitchell asked that the item be revisited in August to see if anything has changed.

**Investment Manager Search – MLP Update**

Mr. Brice updated the Board on the performance of the MLP managers the Board has been following. Second quarter to date Salient has returned 15.07% and Cushing has returned 15.01% with their benchmark at around 13%. These returns represent an increase in their relative price, though they are still a value investment as compared to historical prices.

The Board will revisit this topic again at the August meeting.

**NEW BUSINESS:**

**2017 Summary Annual Report**

For the benefit of those new to the Board City Clerk Kirkland noted that this report goes out to all System members and retirees as a summary of the last year's activities.

Motion by Trustee Greenway to approve the 2017 Summary Annual Report as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM
The Public Employees Retirement System Investment Act requires the City of Owosso Employees Retirement System to prepare and issue a summary annual report and to publish and make available annually a list of all expenses paid by soft dollars. The following information is provided for the year 2017.

The name of the retirement system is the City of Owosso Employees Retirement System. The Retirement System’s investment fiduciaries and service providers are:

**BOARD OF TRUSTEES:**
- Richard Brewbaker
- Wilfred Farrell
- Burton Fox
- Elaine Greenway
- Andrew Reed
- Doug Morrice
- Mark Mitchell

**INVESTMENT MANAGERS:**
- Atlanta Capital
- Franklin Templeton
- Loomis LCG
- MD Sass
- Aristotle
- Causeway
- Vanguard FTSE Emerging Markets
- JP Morgan Strategic Income

**INVESTMENT ADVISOR:**
- Graystone Consulting/Morgan Stanley

**ACTUARY:**
- Gabriel Roeder Smith & Company

**AUDITOR:**
- Rehmann Robson

**MEDICAL DIRECTOR:**
- Dr. Fred VanAlstine

As reported in the actuarial valuation for the annual period ending December 31, 2017 the Retirement System’s valuation assets were $34,163,886 and its actuarial accrued liabilities were $38,544,674, which produced a funded ratio of 88.6.

For the annual period ending December 31, 2017 the Retirement System’s investment performance on a mark to market basis (gross of manager fees and net of transaction costs) was 18.4%. The system’s investment performance, net of fees, on a rolling calendar-year basis is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>19.32%</td>
</tr>
<tr>
<td>3</td>
<td>8.87%</td>
</tr>
<tr>
<td>5</td>
<td>10.42%</td>
</tr>
<tr>
<td>7</td>
<td>8.22%</td>
</tr>
<tr>
<td>10</td>
<td>5.89%</td>
</tr>
</tbody>
</table>

On December 31, 2017 the market value of the assets was $35,752,993. The change in net plan assets from December 31, 2016 was $4,037,635.00.

For the annual period ending December 31, 2017 the Retirement System’s non-soft dollar expenses were $244,522.51 and benefit payments and member refunds were $2,900,822.85. No expenses were paid by soft dollars during the year. Expenditures for professional training and education for this year were $853.50. Employer contributions required for the year covered by the report total $738,565.
The adopted budget for the city fiscal year beginning July 1, 2016 included the following items:

- Checks printed, etc. $150
- Audit Costs $2,400
- Actuary Fee $39,000
- Conference Expenses $4,000
- Counseling Fee-Morgan Stanley $120,000

Total: $165,550

Additional items required for inclusion in the report are:

- The number of active members: 49
- The number of retirees and beneficiaries: 90
- The average annual retirement allowance: $31,680
- The total annual retirement allowance being paid: $2,851,171
- The valuation payroll: $2,701,419
- The employers computed normal cost of benefits (expressed as a percentage of valuation payroll):
  - General 7.86%; Police 6.40%; Fire 8.74%
- The employers total contribution rate (expressed as a percentage of valuation payroll):
  - General 49.85%; Police 11.92%; Fire 13.93%; overall weighted 28.147%
- The weighted average of member contributions, if any: $71,106
- The actuarial assumed rate of investment return: 7.25%
- The actuarial assumed rate of long-term wage inflation: 3.0%
- The smoothing method and period utilized for funding the system’s unfunded actuarial accrued liabilities, if any: 4-year smoothed market; Closed-11 year amortization
- The system’s actuarial cost method: Entry-age
- Whether system membership is open or closed to specific groups of employees:
  - General-closed; Police-open; Fire-open

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

**Consideration of Interest Rate on Employee Contributions**

City Clerk Kirkland explained to the Board that this is the interest rate given to employees that remove themselves from the System prior to retirement. Historically the rate has been set at 5% and is based in part on the assumed rate of return for the System of 7.25%.

Motion by Trustee Brewbaker to set the interest rate on employee contributions at 5% for the 2018-19 fiscal year.

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

**Purchase of Fiduciary Liability Insurance**

Vice Chairperson Mitchell introduced the topic saying that Board members are not covered at this time. The City's Finance Director had provided the Board with 4 quotes, indicating that the City's MMRMA insurance agent sought the quotes, found only two carriers, and recommended the firm with the best rate.

Vice Chairperson Mitchell inquired if the purchase of fiduciary liability insurance was prudent from a legal standpoint. City Attorney Gould indicated he would need some time to look into the issue and report back to the Board.

Consultant Brice offered that in his experience it was common for pension systems to carry fiduciary liability insurance and a plan of similar size would typically carry between $1 million and $2 million in
coverage. He further offered that there is an organization that specializes in fiduciary liability insurance, their contact information can be found on the MAPERS website.

The Board expressed the desire to see more information prior to making a decision.

**Fee Review & City Concerns**

City Clerk Kirkland briefly explained the information that was distributed in the meeting packet saying she had tried to provide figures showing the cost of managing the pension funds at several different points in the past five years. The City has had growing concerns regarding the increase in fees over the course of the last several years and City representatives were present today to speak with the Board about possible efforts to lower the fees.

Ms. Kirkland went on to note that she had been informed by Consultant Brice, in the most delicate possible way, that the fees stated for Merrill Lynch did not appear to be accurate. Having worked with Merrill Lynch for nearly thirty years Mr. Brice said he was very familiar with their fee structure and it appeared that when the System was working with Merrill Lynch some expenses may have been divided between the System and the City resulting in the appearance of an overall lesser fee for the City. And after the System started receiving consulting services from Morgan Stanley the distribution of costs may have inadvertently changed due to the differences in the cost structures of the two firms.

Mr. Brice distributed a handout detailing the fee structure paid by the System under Merrill Lynch in 2015 showing a total fee rate of .53%, contrasted with the System’s current fee structure showing a total fee rate of .62%. He indicated that there were several factors that resulted in an overall higher fee: the System lost two UMA contracts when it moved from Merrill Lynch to Morgan Stanley, significantly increasing the management cost of nearly half the value of the entire fund; there is more money in the portfolio now than in 2015; and the Board has increased the number of equity managers. And in an effort to lower the overall fee he indicated had approached Loomis Sayles about reducing its fee and they agreed to do so moving from 65 basis points to 55. Further, he had spoken with Morgan Stanley about lowering its UMA overlay fee from 7 basis points to 4, indicating that talks continue with the firm as to whether that change could be retroactive to the time the System began working with The Brice Group. In total the agreed upon changes lowered the System’s overall fee to 58 basis points, making it lower than the MERS average fee of 62 basis points.

Trustee Brewbaker requested a summary of the retroactive fees at the August meeting.

The conversation then segued into the City’s concerns with the operating fees. Finance Director Ruddy indicated that the City had paid approximately $41,000 in actuarial and travel fees in 2013 and paid $142,000 for the same fees in 2017. She asked if there had been a change in the advisor fees. Mr. Brice indicated they had not, suggesting that the way the City and the System were splitting charges previously was different than it is now. In his experience investment and consulting fees are paid by the system, not the municipality.

There was discussion among City staff and Board members regarding the City’s concerns, managing the system properly, and doing what is best for the System. Vice Chairperson Mitchell said he felt that the costs to run the system had been reported differently in the past and the current costs didn’t seem out of line. He said that the Board has worked hard to keep the System solvent while monitoring costs. He went on to say that a lot of people had retired over the past ten years and the Board still managed to increase the assets of the plan. City Manager Henne got in on the conversation saying there were aspects of the system that he liked and other aspects that raised concern. His main concern is the significant pressure on the general fund resulting from increasing required contributions. He asked if there was any way the System could help the City with this issue. At that point the conversation concluded with all parties indicating they would keep the lines of communication open going forward.
INVESTMENT CONSULTANT REPORT:

Market Update

Consultant Brice started his update by saying the markets had experienced some volatility this quarter but overall things seem pretty solid. Value has not done as well as growth, technology continues to be a leading sector, and he feels the market will see an upturn when companies start making their quarterly results known.

Investment Portfolio Performance Update

Graystone Analyst Burger noted that the portfolio remains overweight in domestic and international equities with fixed income at its minimum limit. The portfolio is up 2% so far this quarter, up 1.33% for the year. He said that while this year’s performance is not as strong as last year’s it was still strong in light of the volatility. He recommended no changes to the portfolio at this time.

CITIZENS COMMENT:

City Treasurer Fagan reminded the Board that fiduciary insurance is important as Board members and staff members could be held personally liable for malfeasance. She also suggested that the Board consider the purchase of software to manage the member side of the System. The records for the System have been generated completely by hand to date and are vulnerable to simple human error. The Board seemed receptive to the suggestion and City Manager Henne said staff would put something together for the next meeting.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 22, 2018 at 7:15am

ADJOURNMENT:

Motion by Trustee Fox for adjournment at 8:43 a.m.

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

________________________________
Amy K. Kirkland, City Clerk