CALL MEETING TO ORDER:

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

ROLL CALL:

PRESENT: Trustees Burton Fox, Elaine Greenway, Douglas Morrice, Andrew Reed, Vice Chairperson Mark Mitchell, and Chairperson Wilfred Farrell.

ABSENT: Trustee Richard Brewbaker.

ALSO PRESENT: Gabriel Roeder Smith Consultant Kenneth G. Alberts; Graystone Consultant Timothy Brice; Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; Gabriel Roeder Smith Senior Actuarial Analyst Laura Pfeffer Frankowiak; City Attorney Scott J. Gould; and City Clerk Amy K. Kirkland.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda with the following changes:

Remove
Approve Minutes of April 18, 2018 Special Meeting
Fee Analysis – Amy K. Kirkland, City Clerk

Add
Morgan Stanley/Graystone Consulting 2Q 2018 Invoice
City of Owosso – Annual Audit Fee

Move
City of Owosso Employees’ Retirement System 73rd Annual Actuarial Valuation (move after Investment Consultant Report)

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

APPROVE MINUTES OF FEBRUARY 28, 2018 REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the February 28, 2018 Regular Meeting as presented.

Motion supported Trustee Fox and concurred in by unanimous vote.

APPROVE MINUTES OF APRIL 18, 2018 SPECIAL MEETING: (This item was removed from the agenda.)
CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

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

1. **Approve Pension Check Reports:**
   
a. February 2018 $ 239,884.40
b. March 2018 $ 239,884.40

2. **Approve Statements:**
   
a. **Quarter to Date Statement**
      For Period 04/01/2018 through 04/17/2018
      (1) **Total Portfolio**
   
b. **City of Owosso Employees Retirement Fund**
      As of February 28, 2018
   
c. **City of Owosso Employees Retirement Fund**
      As of March 31, 2018

3. **Payment Authorizations:**
   
a. **Franklin Templeton Investments**
      For period 01/01/2018 through 03/31/2018 $ 5,537.72
b. **Franklin Templeton Investments – SIK, former Fifth Third equities**
   For period 01/01/2018 through 03/31/2018 $ 300.00
   
c. **Loomis Sayles/Natixis**
      For period 04/01/2018 through 06/30/2018 $ 13,591.10
   
d. **M.D. Sass**
      For period 01/01/2018 through 03/31/2018 $ 4,745.47
   
e. **Morgan Stanley – Graystone Consulting** (Invoice presented at the meeting.)
      For period 04/01/2018 through 06/30/2018 $ 29,334.13
         Consulting Fee $ 17,178.42
         Mgr Fee – Aristotle $ 3,775.51
         Mgr Fee – Atlanta $ 2,174.64
         Mgr Fee – Causeway $ 1,031.01
         Mgr Fee – Harding $ 2,243.53
         MS UMA Fee $ 2,260.86
   
f. **City of Owosso – Annual Audit Fee** (This item was added to the agenda.)
      For period 07/01/2016 through 06/30/2017 $ 2,474.00
   
g. **Katherine R. Fagan, City Treasurer**
      Report of Checks Written – January 2018
      (less pension checks) $ 0.00
h. Katherine R. Fagan, City Treasurer
Report of Checks Written – February 2018 $ 1,264.04
(less pension checks)

i. Katherine R. Fagan, City Treasurer
Report of Checks Written – March 2018 $ 64,092.33
(less pension checks)

4. Death Acknowledgements:

None.

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

COMMUNICATIONS:

1. Amy K. Kirkland, City Clerk – Fee Analysis (This item was removed from the agenda.)
2. Causeway Capital Management – Material Changes to Form ADV
3. Gabriel Roeder & Smith – NewsScan February 2018
4. Gabriel Roeder & Smith – NewsScan March 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: February 5, 2018
c. Pensions & Investments: February 19, 2018
d. Pensions & Investments: March 19, 2018
e. Pensions & Investments: April 2, 2018
f. Institutional Investor: February 2018
g. Institutional Investor: March 2018

In response to the Causeway communication Graystone Consultant Timothy Brice indicated that there were no major personnel changes and no new law-suits at the firm. He said their firm is required to send an update annually and it contained nothing material according to Graystone and its analysts.

OLD BUSINESS:

None.

NEW BUSINESS:

Asset Allocation Review

A review of the System’s current asset allocation was conducted in light of the return projections provided by Graystone.

Graystone Consultant Brice indicated the Morgan Stanley Global Investment Committee (GIC) had made its annual forecast of future risk and return in February and the report in front of the Board now is based on that forecast. He went on to detail the GIC’s forecast for the markets over the coming year, noting the following: stocks will continue to look better than bonds; international equities will start to have an advantage over U.S. stocks in the coming year; bonds are not expected to have great returns with the
spread between U.S. treasuries and other bond investments shrinking and starting to lower overall returns; non-traditional asset classes are not very attractive overall, but a few select investments look positive; and short term returns are predicted to be lower though long term forecasts are in the double digit range. He said he would look at trimming back the System’s large cap equities in favor of the returns for small and mid-cap stocks, despite their volatility.

Mr. Brice went on to detail the custom asset allocation study they had put together containing the System’s current portfolio, the target portfolio, and a couple of different mixes showing the forecasted results of the portfolio with specific changes as follows:

### ASSET ALLOCATION SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>Current Portfolio</th>
<th>Target</th>
<th>Max 70% Equity</th>
<th>Additional Intl Eq &amp; Emg Mkts</th>
<th>Additional Intl Eq &amp; Emg Mkts and MLPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>0.10%</td>
<td>3.00%</td>
<td>0.1%</td>
<td></td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total Cash</strong></td>
<td><strong>0.10%</strong></td>
<td><strong>3.00%</strong></td>
<td><strong>0.1%</strong></td>
<td></td>
<td><strong>0.1%</strong></td>
</tr>
<tr>
<td>Investment Grade Bonds</td>
<td>24.2%</td>
<td>30.0%</td>
<td>27.0%</td>
<td>24.2%</td>
<td>24.2%</td>
</tr>
<tr>
<td>High Yield Bonds</td>
<td>1.0%</td>
<td>3.0%</td>
<td>1.0%</td>
<td></td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Total Bonds</strong></td>
<td><strong>25.2%</strong></td>
<td><strong>30.0%</strong></td>
<td><strong>30.0%</strong></td>
<td><strong>25.2%</strong></td>
<td><strong>25.2%</strong></td>
</tr>
<tr>
<td>US Equity</td>
<td>57.7%</td>
<td>52.0%</td>
<td>32.0%</td>
<td>49.2%</td>
<td>44.2%</td>
</tr>
<tr>
<td>International Equity</td>
<td>11.7%</td>
<td>15.0%</td>
<td>30.0%</td>
<td>18.8%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>5.3%</td>
<td>8.0%</td>
<td>6.8%</td>
<td></td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td><strong>74.7%</strong></td>
<td><strong>67.0%</strong></td>
<td><strong>70.0%</strong></td>
<td><strong>74.7%</strong></td>
<td><strong>69.7%</strong></td>
</tr>
<tr>
<td>Real Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Total Real Assets</strong></td>
<td><strong>5.0%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

### FORECASTED STATISTICS

<table>
<thead>
<tr>
<th></th>
<th>Current Portfolio</th>
<th>Target</th>
<th>Max 70% Equity</th>
<th>Additional Intl Eq &amp; Emg Mkts</th>
<th>Additional Intl Eq &amp; Emg Mkts and MLPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>7.7%</td>
<td>7.2%</td>
<td>7.5%</td>
<td>7.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Volatility</td>
<td>10.7%</td>
<td>9.5%</td>
<td>10.4%</td>
<td>10.8%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.44</td>
<td>0.45</td>
<td>0.43</td>
<td>0.44</td>
<td>0.45</td>
</tr>
<tr>
<td>Probability&lt; 0%</td>
<td>22.6%</td>
<td>21.5%</td>
<td>22.9%</td>
<td>22.8%</td>
<td>22.3%</td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td><strong>2.8%</strong></td>
<td><strong>2.9%</strong></td>
<td><strong>2.9%</strong></td>
<td><strong>2.9%</strong></td>
<td><strong>3.0%</strong></td>
</tr>
</tbody>
</table>

Overall the modeled mixes presented only a slight increase in return, if any. And Mr. Brice reminded the Board that should they choose to employ one of the new mixes the Investment Policy may need to be amended to accommodate the changes.

Chairperson Farrell asked if they could model a mix with just the addition of MLPs and not include adjustments to International Equities and Emerging Markets. He said he would also like to see a mix in which International Equities reach their maximum limit. Mr. Brice indicated he would see that those two suggestions were modeled and encouraged any others with suggestions for models they would like to see contact him. Further he indicated there is no rush to make any changes as the current mix seems to be performing pretty well.

Trustee Fox inquired about the length of time over which Graystone was suggesting the Board phase in any changes to the asset allocation. Mr. Brice suggested using an approach utilizing 2-4 steps over the course of a year, saying this approach provides time to reassess the markets and confirm whether change was really warranted.
Having had a previous engagement scheduled Mr. Brice left the meeting at 8:02 a.m.

**INVESTMENT CONSULTANT REPORT:**

Graystone Analyst Erik Burger presented the 2018 first quarter report. The overall portfolio is down slightly for the quarter, but we continue to beat our benchmarks. MD Sass continues to struggle despite being overweight in tech. Aristotle continues to perform well, protecting money on the downside. Atlanta and Harding are doing very well with both firms ending the quarter in positive territory while their benchmarks were down. Causeway was down further than its benchmark and Franklin Templeton saved slightly more on the downside than its benchmark. Total fund performance for the quarter is as follows:

<table>
<thead>
<tr>
<th></th>
<th>QUARTER TO DATE</th>
<th>1 YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEGINNING TOTAL VALUE</td>
<td>35,621,824</td>
<td>32,535,351</td>
</tr>
<tr>
<td>NET CONTRIBUTIONS/WITHDRAWALS</td>
<td>-899,909</td>
<td>-2,071,741</td>
</tr>
<tr>
<td>INVESTMENT EARNINGS</td>
<td>-226,723</td>
<td>4,031,582</td>
</tr>
<tr>
<td>ENDING TOTAL VALUE</td>
<td>34,495,192</td>
<td>34,495,192</td>
</tr>
</tbody>
</table>

City Attorney Scott Gould left the meeting at 8:10 a.m. to attend to a court related matter.

As mentioned earlier MD Sass continues to struggle and Graystone is now suggesting the Board consider terminating their services. They propose moving part of the money to Aristotle and part of the money to an index fund. Along with this change they suggested the Board take advantage of the opportunity and move some money from Loomis to an index fund, in line with their recommendation that a certain portion of the portfolio be placed in passive investments. In response to the latter suggestion Chairperson Farrell inquired whether Loomis was having trouble. Mr. Burger reported that Loomis did not report any changes recently. There was discussion among the group regarding what action should be taken today, if the Board should look for a manager to replace MD Sass or leave the money in an index fund, the desire to keep the money from MD Sass invested, maintaining a passive investment as a placeholder in the market, and moving all the MD Sass funds to Aristotle.

Motion by Trustee Fox to terminate the services of MD Sass and move said funds to Aristotle.

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

On a side note, Trustee Reed indicated that during recent contract negotiations City administration had approached the police patrol unit with the idea of moving their retirement funds to MERS.

**CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 67TH ANNUAL ACTUARIAL VALUATION – KENNETH G. ALBERTS & LAURA PFEFFER FRANKOWIAK - GABRIEL ROEDER SMITH & COMPANY**

Ms. Frankowiak recapped the events of 2017 noting that the experience of employees as well as the investment returns for the year would slightly decrease the City’s annual contribution to the System for the coming year. The funding ratio increased slightly to 88.6% and the City’s contribution is budgeted at $12,708.00.

Mr. Alberts detailed the balance sheet in the report explaining the pieces and parts of the calculations in the valuation. He said the System experienced an overall loss for the year, though activity was not too far off from expectations and the loss was very small. He reminded the Board that in a small system each person can have a big effect on activity.
Mr. Alberts went on to make some general comments noting that there seemed to be an extra $200,000.00 in contributions last year, there are new reporting requirements for the City on the horizon, and new legislation will eventually require use of a standard set of assumptions, an experience study every 5 years, and an actuarial audit every 8 years. Lastly he mentioned that the Board may want to think about reducing the expected rate of return for the next valuation and reminded them an updated mortality table will be used in the next valuation.

The following are comments from the report:

**Comment A:** The System was closed to General Union and Police Command Officers new entrants effective January 1, 2005 and General Non-Union new entrants effective January 1, 2006. The plan is open for Police Patrol and Fire groups.

**Comment B:** Experience during the year was less favorable than assumed. The primary sources of unfavorable experience were:

- Losses related to a retiree reported this year that was not reported as dead;
- Losses related to retiree mortality (2 deaths compared with 3.3 expected);
- Losses related to retirements (2 members actually retired compared with 0.5 expected); and
- Losses related to investment activity (the recognized rate of investment return was 7.15% compared with the assumed rate of investment return of 7.25%).

However, the funded status increased to 88.6% on an actuarial value of assets basis and 92.7% on a market value of assets basis. The increase in the funded status is primarily attributable to the low amortization period and the fact that employer contributions were 156% of expected.

**Comment C:** The Retirement System currently has a contingency reserve of approximately $789 thousand. This reserve is the excess of the Reserve for Retired Benefit Payments over the accrued liabilities for retirees and beneficiaries.

See page A-4 for additional details regarding the contingency reserve amounts by group.

**Comment D:** The computed Employer contribution effective July 1, 2018 is $712,708, assuming periodic payments throughout the fiscal year or a lump sum payment in the middle of the fiscal year.

**Comment E:** The actuarial value of assets recognized a 7.15% rate of return, despite the market rate of return of 18.69%. This difference is due to the 4-year smoothing. The portion of this year’s gain recognized in the actuarial value of assets was offset by the losses from prior years continuing to be recognized this year. As recognition of those prior losses is completed, there will be downward pressure on contributions as the remainder of this year’s gain is recognized over the next 3 years.

**Comment F:** The last experience review was completed in 2013. We suggest that a formal experience study be done for the System to ensure that assumptions going forward are consistent with long term expectations with regard to both economic and demographic trends. New state laws passed in late 2017 now require an experience study every 5 years and an actuarial audit every 8 years (P.A. 202 of 2017).

**Comment G:** Observations for next experience review:

- All assumptions continue to be reasonable.
- The industry trend on the mortality assumption is to update the mortality assumption to a version of the 2014 table.
- The industry trend has been to lower assumed price inflation, which may result in the lowering of the assumed rate of return.
ACTUARIAL DISCLOSURE: The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in Section D of this report. This report includes certain risk metrics on page A-8, but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the plan’s financial condition.

OTHER OBSERVATIONS:

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan’s contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.25% on the actuarial value of assets), it is expected that:

1) employer normal cost amounts as a percentage of payroll will remain approximately level year-to-year;
2) the unfunded actuarial accrued liability will be fully amortized after 11 years; and
3) the funded status of the plan will increase gradually towards a 100% funded ratio.

Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligations.
2) The measurement is inappropriate for assessing the need for or the amount of future employer contributions.
3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

Chairperson Farrell inquired about the status of the Contingency Fund. Mr. Alberts indicated that the City’s contribution would be reduced by $246.00 for every $1,000.00 released from the Contingency Fund. He said he likes the idea of having a cushion in a system this size, but the Board is free to release some of the money if they wish.

Trustee Reed inquired whether the portion of the Contingency Fund allocated to the Police Patrol unit would go with the unit if they decide to move to MERS. In his response Mr. Alberts pointed out two things: that in the past MERS has calculated the amount required for transfer and it has been significantly less than that calculated by the System, and the GASB report makes no distinction between groups when it comes to funding levels or contingency levels.

Mr. Alberts reported that the plan is in a pretty good position, but when the financing period gets below 10 years the Board may want to close it off and create another base, essentially refinancing the liabilities.

Motion by Trustee Fox to accept the 2017 Annual Actuarial Report as presented.

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

Trustee Reed reported that the funding level for the Police Command unit is now so low that they no longer have the opportunity to come back to the City’s system. He further reported that the City has approached the Police Patrol unit about moving their pensions to MERS. Mr. Alberts opined that the attraction of MERS can be deceiving. While the funding requirements are lower there are complications...
that aren’t immediately apparent. He said that to keep things simple they gather all of their member systems together into three pools based on the size of the systems. They then determine a set of assumptions for each pool. These assumptions are applied to the actuarial valuations for individual plans according to the pool in which they were included. This can result in a skewed report depending on how similar the individual system is to the other systems in the group.

Trustee Fox leaves the meeting at 9:45 a.m.

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for June 27, 2018 at 7:15am

ADJOURNMENT:

The meeting adjourned at 9:52 a.m.

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Amy K. Kirkland, City Clerk