

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

OCTOBER 25, 2017

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

ABSENT: None.

ALSO

PRESENT: Graystone Consultant Brian Brice; City Attorney William C. Brown; Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; and City Clerk Amy K. Kirkland.

Chairperson Farrell informed the Board that he would need to leave the meeting at 8:30 a.m.

APPROVE AGENDA:

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

3. **Payment Authorizations:**

c. <u>MD Sass</u>		
For period 07/01/17 through 09/30/17		\$ 5,074.69
d. <u>Morgan Stanley – Graystone Consulting</u>		
For period 10/01/2017 through 12/31/2017		\$ 28,988.98
Consulting Fee	\$ 17,318.00	
UMA Fees (to Morgan Stanley)	\$ 2,169.67	
Fees collected for Managers		
Aristotle	\$ 3,663.12	
Atlanta	\$ 1,973.45	
Causeway	\$ 1,688.84	
Harding Loevner	\$ 2,175.90	

4. **Death Acknowledgements:**

Max Lytle (beneficiary) – October 23, 2017

COMMUNICATIONS:

6. MD Sass – *Investment Outlook, 3Q 2017*

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

APPROVE MINUTES OF AUGUST 23, 2017 ORGANIZATIONAL MEETING:

Motion by Trustee Fox to accept the minutes of the August 23, 2017 Organizational Meeting as presented.

Motion supported Trustee Greenway and concurred in by unanimous vote.

APPROVE MINUTES OF AUGUST 23, 2017 REGULAR MEETING:

Motion by Trustee Fox to accept the minutes of the August 23, 2017 Regular Meeting as presented.

Motion supported by Trustee Reed 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. August 2017 | \$ 238,254.51 |
| b. September 2017 | \$ 238,254.51 |

Approve Statements:

- a. Quarter to Date Statement
For Period 10/01/2017 through 10/16/2017

(1) Total Portfolio
- b. City of Owosso Employees Retirement Fund
As of August 31, 2017
- c. City of Owosso Employees Retirement Fund
As of September 30, 2017

Payment Authorizations:

- | | |
|--|-------------|
| a. <u>Franklin Templeton Investments</u>
For period 07/01/17 through 09/30/17 | \$ 5,567.64 |
| b. <u>Franklin Templeton Investments</u> – former Fifth Third equities
For period 07/01/17 through 09/30/17 | \$ 300.00 |
| c. <u>MD Sass</u>
For period 07/01/17 through 09/30/17 | \$ 5,074.69 |

d. <u>Morgan Stanley – Graystone Consulting</u>		
For period 10/01/2017 through 12/31/2017		\$ 28,988.98
Consulting Fee	\$ 17,318.00	
UMA Fees (to Morgan Stanley)	\$ 2,169.67	
Fees collected for Managers		
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Causeway	\$ 1,688.84	
Harding Loevner	\$ 2,175.90	
e. <u>Gabriel, Roeder, Smith & Company</u>		
GASB 67/68 Report Preparation		\$ 13,000.00
f. <u>Katharine R. Fagan, City Treasurer</u>		
Report of Checks Written – August 2017 (less pension payments)		\$ 61,693.43
g. <u>Katherine R. Fagan, City Treasurer</u>		
Report of Checks Written – September 2017 (less pension payments)		\$ 2,135.62

Death Acknowledgements:

Max Lytle (beneficiary) – October 23, 2017

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

COMMUNICATIONS:

- Graystone/Morgan Stanley – *Asset allocation by manager*
- Morgan Stanley – *Asset Allocation Notice*
- Gabriel Roeder Smith – *GASB 67/68 Financial Reporting for Pensions December 31, 2016*
- Gabriel Roeder & Smith – *NewsScan August 2017*
- Gabriel Roeder & Smith – *NewsScan September 2017*
- MD Sass – *Investment Outlook, 3Q 2017*

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

- Morgan Stanley: *FYI 4th Quarter 2017*
- Gabriel Roeder Smith: *GRS Insight, July 2017*
- Institutional Investor: *September 2017*
- Pensions & Investments: *August 21, 2017*
- Pensions & Investments: *September 4, 2017*
- Pensions & Investments: *September 18, 2017*
- Pensions & Investments: *October 2, 2017*

OLD BUSINESS:

Medical Director Search Update

Chairperson Farrell indicated he was still working on getting a lead for a new medical director from the hospital.

NEW BUSINESS:

Franklin Templeton Portfolio Holdings Review

Chairperson Farrell gave a brief overview of the Franklin Templeton account for the new members explaining that Franklin had agreed to hold a series of bonds originally purchased by Fifth Third that were unable to be liquidated without significant loss to the System when the fixed income management duties were transferred from Fifth Third to Franklin Templeton. These holdings were originally valued around \$2 million, over the course of the last several years many of the bonds reached maturity and the funds were transferred into the managed portion of the account. The remaining bonds total just over \$208,000 and have a maturity of approximately 5.2 years. Misters Brice and Burger then presented a detailed review of the Franklin Templeton holdings, including both the managed and unmanaged portions of the portfolio. No changes to either portfolio are recommended at this time.

MLP Education

Consultant Brice started the discussion by detailing the impetus for introducing Master Limited Partnerships to the portfolio, indicating that their models show more moderate rates of return over the short term leading them to look for an investment that will not increase risk but will increase return. Master Limited Partnerships fit the bill, having a volatility rate similar to that of equities with a significantly higher rate of return.

Mr. Brice then guided the Board through a presentation introducing Master Limited Partnerships (MLPs). MLPs typically own and operate assets involved within the energy infrastructure landscape, including pipelines, storage facilities, and processing facilities. MLPs tend to generate consistent long-term cash flows via their use of long-term contracts that require minimum volume or payment commitments. They also enjoy tax advantages that can be passed along to investors, avoiding corporate taxation due to their partnership structure. MLPs tend to have a low correlation with stocks and bonds making them ideal from a diversification standpoint.

He went on to say that Graystone targets firms that function midstream of the energy production process, having less volatility than those at the beginning or end of the process. The firms must also pass their due diligence and have third party management. He suggested the Board consider making an investment of 5%, or approximately \$1.5 million, to move into the asset class. Alternately, the Board could choose to move slowly into the class ramping up participation as comfort levels increase.

Chairperson Farrell inquired how long Graystone has been following MLPs as an asset class. Mr. Brice indicated they have observed them for several years and are recommending them to other clients as well.

Vice Chairperson Mitchell expressed concern saying that much of the oil storage and transportation infrastructure is concentrated in one area, is getting older, and may be subject to lawsuits resulting from spills. Mr. Brice encouraged Mr. Mitchell to raise those questions with the managers.

Mr. Brice inquired as to the steps the Board would like to take next saying he could bring suggestions to the Board for the next meeting or he could set up a series of interviews for the next meeting. The Board indicated they would prefer to examine the suggested firms prior to the schedule of any interviews.

Investment Policy Changes

A revised Investment Policy was presented to the Board in the packet. Chairperson Farrell commented that he did not remember making any changes to the Policy at the August meeting. No one else indicated they remembered such action. Consultant Brice said it was discussed but possibly was never acted on. In light of this he suggested that the Board hold off on making any changes to the Investment Policy until they've decided whether or not to invest in MLPs (which would require further changes to the Policy). The Board was in agreement.

INVESTMENT CONSULTANT REPORT:

Third Quarter 2017 Executive Summary Report

Commenting on the 3rd quarter of 2017 Mr. Brice said they continue to see positive numbers for the quarter and the year overall. He said growth has outpaced value and energy has been down a bit this year. International markets have outpaced domestic markets and emerging markets have exceeded both. He said the bond market continues to be very slow, though positive. All global economic markets appear to be going up.

Mr. Burger noted the 3rd quarter performance for each manager for the Board with the overall portfolio up 4.1% for the quarter and 14.47% for the year to date as summarized below:

Total Portfolio Performance Summary for Period Ending 09/30/2017

Source of Funds Thousands of Dollars	Quarter	Year to Date	1 Year
Beginning Market Value	33,317	31,637	32,137
Net Contributions	-300	-1,717	-2,293
Investment Earnings	1,361	4,458	4,534
Ending Market Value	34,378	34,378	34,378

Chairperson Farrell left the meeting at 8:30 a.m. Vice Chairperson Mitchell resumed the duties of the chair.

Mr. Brice noted that the System's international growth manager, Harding Loevner, had performed a soft close of its International Equity ADR portfolio in September. The soft close will prevent the dilution of the portfolio by prohibiting new investors from entering the portfolio. (Current investors may still increase their investment.)

He had no further comments or recommendations for change to report.

Mr. Burger distributed a handout detailing the System's current asset allocation, policy targets, and suggestions for rebalancing.

Motion by Trustee Fox to move \$400,000 from Loomis Sayles, \$50,000 from MD Sass, and \$50,000 from Aristotle (\$500,000 total) to the JP Morgan Chase Strategic Income portfolio.

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

Mr. Brice indicated he would follow up with Clerk Kirkland to complete the rebalancing.

CITIZEN COMMENTS:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for December 13, 2017 at 7:15am

ADJOURNMENT:

Motion by Trustee Brewbaker for adjournment at 8:44 a.m.

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

Amy K. Kirkland, City Clerk