## CITY OF OWOSSO

## EMPLOYEES’ RETIREMENT SYSTEM BOARD OF TRUSTEES

## REGULAR MEETING

## OWOSSO CITY HALL COUNCIL CHAMBER

August 22, 2018 7:15 AM

# CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:24 a.m.

# ROLL CALL:

**PRESENT:** Trustees Richard Brewbaker, Elaine Greenway, Douglas Morrice, Andrew Reed, Vice Chairperson Mark Mitchell, and Chairperson Wilfred Farrell.

**ABSENT:** None. (One vacancy due to the resignation of Councilmember Burton Fox.)

**ALSO**

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

# APPROVE AGENDA:

Motion by Trustee Greenwayto approve the Agenda as presented.

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

# APPROVE MINUTES OF **June 27, 2018** REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the 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:

1. **Approve Pension Check Reports**:

1. June 2018 $ 252,983.14
2. July 2018 $ 248,598.51

2. **Approve Statements**:

1. July Statement

For Period 07/01/2018 through 07/31/2018

1. Total Portfolio
2. City of Owosso Employees Retirement Fund

As of June 30, 2018

1. City of Owosso Employees Retirement Fund

As of July 31, 2018

3. **Payment Authorizations**:

1. Franklin Templeton Investments

For period 04/01/2018 through 06/30/2018 $ 5,554.79

1. Franklin Templeton Investments – SIK, former Fifth Third equities

For period 04/01/2018 through 06/30/2018 $ 300.00

1. Loomis Sayles/Natixis

For period 07/01/2018 through 09/30/2018 $ 11,424.75

1. Morgan Stanley – Graystone Consulting

For period 04/01/2018 through 06/30/2018 $ 31,682.63

Consulting Fee $ 17,343.89

Mgr Fee – Aristotle $ 6,130.69

Mgr Fee – Atlanta $ 2,285.49

Mgr Fee – Causeway $ 1,672.72

Mgr Fee – Harding $ 2,245.29

MS UMA Fee $ 2,869.83

MD Sass Credit $ (865.28)

1. Gabriel Roeder Smith & Company

For completion of December 31, 2017 GASB 67 & 68 $ 13,000.00

1. Katherine R. Fagan, City Treasurer

Report of Checks Written – June 2018 $ 28,309.19

(less pension checks)

1. Katherine R. Fagan, City Treasurer

Report of Checks Written – July 2018 $ 1,348.20

(less pension checks)

1. **Death Acknowledgements**

None.

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

# COMMUNICATIONS:

* 1. Gabriel Roeder & Smith – *December 31, 2017 GASB 67 & 68 Report*
  2. Morgan Stanley – *Notice of SEC settlement*
  3. Gabriel Roeder & Smith – *NewsScan, June 2018*
  4. Gabriel Roeder & Smith – *NewsScan, July 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:

1. Gabriel Roeder & Smith – *Insight, July 2018*
2. Morgan Stanley: *FYI, 3Q2018*
3. Pensions & Investments:  *June 25, 2018*
4. Pensions & Investments:  *July 9, 2018*
5. Pensions & Investments:  *July 23, 2018*
6. Pensions & Investments:  *August 6, 2018*

Graystone Consultant Brian Brice indicated that he would follow up via email on Communication 2 to provide the Board with more information.

Mr. Brice went on to note that a review was underway of Morgan Stanley’s new policy to longer interact with governmental units in a transitional nature. He said he hoped that the review would be completed and news available by early September. He further noted that the changes should not affect the System’s relationship with Morgan Stanley.

# OLD BUSINESS:

**Asset and Manager Allocation Review**

The Board revisited the review of the System’s current asset and manager allocations addressed at the June 2018 meeting.

Consultant Brice detailed the current asset mix and potential changes that could be made, reminding the Board to keep in mind that the 30% short term/70% long term combination used to model these mixes mutes the returns that are available thru MLPs. Further noting that if we add to the International portion of the portfolio and purchase MLPs we diversify the portfolio and slightly minimize the volatility. Since the Board last met MLPs have done quite well, up over 11% for the year.

Chairperson Farrell said he was surprised that adding MLPs would reduce the volatility of the portfolio. Mr. Brice indicated that MLPs have a low correlation with the other investments in the portfolio, thus reducing risk.

Chairperson Farrell summarized the choices before the Board, reminding them that any potential action would address just the asset allocation and not specific money managers, that MLPs would represent an entirely new class of investments, and that they would add another manager fee to the list of System expenses. He further reminded the Board that the portfolio was overweight in equities.

Mr. Brice indicated that the current Investment Policy was silent on MLPs and an amendment would be required to accommodate such a change if it is made.

Chairperson Farrell went on to give his recommendation saying he thought the having the additional asset class would be advantageous. Even if the Board does not fund it at this time the option would always be there. He asked if the Board needed any further information prior to making a decision. The Board discussed the specific asset allocation changes they desired.

Motion by Chairperson Farrell to adopt a new asset allocation mix as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class/**  **Investment Style** | **Minimum** | **Target** | **Maximum** |
| **Domestic Equities** | **40%** | **50%** | **70%** |
| Large / Mid Cap Growth Equity Manager | 11.0% | 21.0% | 31.0% |
| Large / Mid Cap Value Equity Manager | 11.0% | 21.0% | 31.0% |
| Small / Mid Cap Equity Manager | 3.0% | 8.0% | 13.0% |
| **International Equities** | **10%** | **20%** | **25%** |
| International Equities | 5.0% | 15.0% | 17.5% |
| Emerging Markets | 0.0% | 5.0% | 7.5% |
| **Fixed Income** | **20%** | **25%** | **40%** |
| Fixed Income | 20% | 25% | 40% |
| **Real Assets** | **0%** | **5%** | **10%** |
| MLPs | 0% | 5% | 10% |
| **Cash/Cash Equivalents** | **0%** | **0%** | **10%** |

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

**Investment Manager Search – MLP Update**

The Board then moved on to discuss the candidates to fund the new MLP asset class. Consultant Brice briefly refreshed Board members on the two candidates that were interviewed earlier in the year, Cushing and Salient. Both firms are mid-stream MLPs and both can be hired at 40 basis points. He recommended the Board select Cushing as they have a better track record and their portfolio has slightly less volatility.

Chairperson Farrell asked Board members if they felt comfortable funding the new asset class now or if they wanted to wait. He further asked if they were interested in increasing the current international allocation. Mr. Brice distributed a handout showing the recommended rebalance necessary to raise funds for the MLP investment and to increase the international exposure.

Motion by Trustee Brewbaker to hire Cushing Asset Management as the System’s MLP manager with an allocation of 5%.

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

Motion by Trustee Greenway to remove $1,750,000 from Loomis Sayles, $1,000,000 from Aristotle, and $250,000 from Atlanta Capital investments and allocate the resulting $3,000,000 as follows: $250,000 to Harding Loevner, $1,000,000 to Causeway International, and $1,750,000 to Cushing Asset Management.

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

In light of the Board’s decisions Mr. Brice noted the need to revise the investment policy.

Motion by Chairperson Farrell to revise the Investment Policy to support the asset allocation approved during the course of the previous agenda item.

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

Chairperson Farrell noted the GASB 67 & 68 report distributed to the Board in the meeting packets.

**Purchase of Fiduciary Liability Insurance**

The Board resumed their consideration of the purchase of a fiduciary liability insurance policy continued from the meeting of June 27, 2018. City Attorney Gould distributed copies of his opinion on the matter to the Board, summarizing his view that Board members have sufficient protection and immunity for the actions involved in administering the fund. He said he had a call in to the City’s insurance broker, MMRMA, to verify that his understanding of their coverage was accurate and he would contact the Board if he discovered they were not covered.

Mr. Gould went on to say that the Board may find the purchase of coverage to good business decision when comparing the premium to the coverage and he would not be offended if they did so.

Chairperson Farrell asked Consultant Brice whether the other Boards he advises purchase fiduciary insurance coverage. Mr. Brice said he thought that more have the coverage than do not.

Vice Chairperson Mitchell inquired whether the purchase of a policy would take away any of the currently provided protections. Mr. Gould said he felt such a policy would work in addition to the current coverage only coming into play after the City’s insurance is exhausted.

City Attorney Gould indicated he felt that Board members would be covered even in the event of fraud, though he was still gathering information.

# NEW BUSINESS:

**MAPERS Fall Conference Attendance**

Motion by Chairperson Farrell to fund the attendance for two people to the MAPERS Fall Conference.

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

Members interested in attending the conference should contact Clerk Kirkland.

# INVESTMENT CONSULTANT REPORT:

Consultant Brice recapped the 2nd quarter market performance for the Board.

Analyst Burger recounted the System’s 2nd quarter performance and updated the Board on the performance to date, noting the portfolio was up 7 basis points in the 2nd quarter but flat for the year to date. The portfolio is up approximately 3.16% in the 3rd quarter.

Mr. Brice highlighted Causeway’s lack of performance for the year to date, down almost 6%, but encouraged the Board not to be worried as they are still good managers. He said there has been a large spread between growth stocks and value stocks, but the future was looking positive for value managers.

# CITIZENS COMMENT:

The Board took receipt of an email from VanOverbeke, Michaud & Timmony, P.C. regarding the uniform actuarial assumptions proposed by the State Treasurer under Section 5 of Public Act 202 of 2017 for the 2019 fiscal year. Per the terms of the Act, the Treasurer will review and publish the assumptions annually. The memo goes on to elude that all municipal retirement systems in the state will be required to utilize the assumptions in their annual actuarial valuation. Consultant Brice and Attorney Gould indicated they would look into the matter further to find out whether the Board must adopt the dictated assumptions.

Mr. Brice updated the Board on the status of the retroactive refund of UMA overlay fees saying that they would have those numbers once the paperwork is executed and they are able to calculate the amount.

There were no citizen comments.

# NEXT BOARD MEETING:

The next board meeting is scheduled for October 24, 2018 at 7:15am

# ADJOURNMENT:

The meeting adjourned at 9:04 a.m.

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Amy K. Kirkland, City Clerk