

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

JUNE 22, 2016

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:16 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Elaine Greenway, Paul Kleeman, Bobbi Jo Perry, and Chairperson Wilfred Farrell.

ABSENT: Trustee Burton Fox and Vice Chairperson Mark Sedlak.

ALSO

PRESENT: City Attorney William C. Brown; Graystone Consultant Michael Holycross; City Clerk Amy K. Kirkland; Incoming City Treasurer Andrea K. Smith; and City Treasurer Ronald J. Tobey.

APPROVE AGENDA:

Motion by Trustee Greenway to approve the Agenda as presented.

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

APPROVE MINUTES OF APRIL 27, 2016 REGULAR MEETING:

Motion by Trustee Perry to accept the minutes of the April 27, 2016 Regular Meeting as presented.

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

CITIZEN COMMENTS:

City Treasurer Ronald J. Tobey thanked everyone that served on the Retirement Board, saying that many employees aren't interested in performing this vitally important duty.

Chairperson Farrell addressed Mr. Tobey on his pending retirement offering his congratulations and noting that he will be sorely missed.

CONSENT AGENDA:

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

1. **Approve Pension Check Reports:**

a. April 2016	\$ 211,166.12
b. May 2016	\$ 215,375.05

2. **Approve Statements:**

- a. Consolidated Statement - Including Statements for Individual Accounts
For Period 05/01/2016 through 05/31/2016

- (1) NFJ-Allianz
- (2) Harding Loevner
- (3) Atlanta Capital
- (4) Loomis Sayles
- (5) MD Sass
- (6) Franklin Templeton Investments

- b. City of Owosso Employees Retirement Fund
As of April 30, 2016

- c. City of Owosso Employees Retirement Fund
As of May 31, 2016

3. **Payment Authorizations:**

- a. Gabriel Roeder Smith & Company
For period 07/01/2015 through 06/30/2016 \$ 25,250.00
- b. Ronald J. Tobey, City Treasurer
Report of Checks Written – April 2016 \$ 267,923.13
- c. Ronald J. Tobey, City Treasurer
Report of Checks Written – May 2016 \$ 216,233.91

4. **Death Acknowledgements:**

None.

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

COMMUNICATIONS:

- o Graystone Consulting - *Holycross in Barron's "Top 1,200 Advisors"*
- o Amy K. Kirkland, City Clerk – *General City Union Employee Representative Election Results*
- o Amy K. Kirkland, City Clerk – *Police Unit Employee Representative Election Results*
- o Amy K. Kirkland, City Clerk - *Update: Dan Munro Request to Re-enter the Retirement System*
- o Kenneth G. Alberts, Gabriel Roeder & Smith – *2016-17 projected actuarial fees*
- o Gabriel Roeder & Smith – *NewsScan May 5, 2016*
- o Gabriel Roeder & Smith – *NewsScan June 3, 2016*

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

- Gabriel Roeder Smith: *GRS Insight, May 2016*

Chairperson Farrell congratulated Consultant Holycross for being honored as one of Barron's top 1,200 advisors in the country.

Chairperson Farrell inquired if Dan Munro returns to the system whether he would need to deposit his money in a lump sum or if he could make payments. City Treasurer Tobey indicated he felt the amount would have to be paid in full prior to coming back. Trustee Brewbaker pointed out it could be incredibly complex to calculate Mr. Munro's balance if they allowed him to make payments.

OLD BUSINESS:

Transfer to MERS – P. Kleeman

City Treasurer Tobey briefly detailed the process used to calculate the amount of the transfer noting that once again MERS is requesting the transfer of less money than the calculations according to the terms of our system. As with past practice, the MERS figure will be used. At this point Consultant Holycross noted that he couldn't see a means by which MERS could legally come back and ask for more money at a later point. City Attorney Brown indicated that the bigger issue arises when people transfer from MERS back into the City system.

Motion by Trustee Brewbaker to approve the transfer of Paul Kleeman to the MERS system and acknowledge the transfer of \$59,102.00 in pension liability.

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

As the Board was moving on to address New Business Mr. Holycross noted that the Board got out of WHV at just the right time, not only were they losing money but Richard Hirayama, the driving force behind the portfolio, had recently retired.

Large Cap Value Manager Search

Consultant Holycross indicated that the System's current large cap value manager, MD Sass, was down 1% on the year while the benchmark was up 6%. He went on to say that they have been lagging for the last 12-18 months and it was time to closely examine their performance and possibly explore alternatives.

Chairperson Farrell inquired as to why Sass had missed their mark so badly in the first quarter. Mr. Holycross indicated that when comparing the Sass portfolio to the benchmark differences in weighting and stock selection accounted for the losses, saying they beat their benchmark in only two sectors. He noted that manager performance will vary over time but it was his feeling that Sass's performance was poor despite the broad investment parameters they were given.

In the area of management Mr. Holycross encouraged the group to remember Martin Sass's age. He said he may retire in the next few years and no succession plan has been announced.

Mr. Holycross said he felt that there were other managers in this space that have performed more consistently than MD Sass and suggested the Board consider alternatives. The Board is free to interview managers or simply accept his recommendation. The Board felt strongly about interviewing candidates rather than simply accepting a recommendation and it was decided to include MD Sass in the interviews as well to give them the opportunity to defend their process.

The Board decided to hold their organizational meeting on the August meeting date starting at 7:15am, with interviews for 3 managers starting at 8:00am.

Chairperson Farrell indicated he would like to see updated second quarter numbers before the meeting. And Trustee Perry wanted a list of questions for the interviews. Mr. Holycross indicated he would send second quarter numbers as soon as they were compiled and he would see that interview questions were placed in the search booklets, with a separate list of questions for MD Sass.

NEW BUSINESS:

Application for Retirement – R. Tobey

Motion by Trustee Brewbaker to approve the application for retirement from Ronald Tobey effective June 26, 2016.

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

Naming Authorized Persons

Motion by Chairperson Farrell to authorize naming the new City Treasurer Andrea K. Smith, the City Clerk Amy K. Kirkland, the Board Chairperson Wilfred A. Farrell, and the Board Vice Chairperson Mark A. Sedlak as the persons authorized to make changes to the Graystone/Morgan Stanley portfolio, including the withdrawal of funds and the selling of securities, effective June 24, 2016.

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

2015 Summary Annual Report

Motion by Trustee Greenway to approve the 2015 Summary Annual Report and authorize its distribution to all System members as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM
2015 SUMMARY ANNUAL REPORT

(and formerly List of Expenses Paid by Soft Dollars)

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 2015.

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 Paul Kleeman Bobbi Jo Perry Mark Sedlak
INVESTMENT MANAGERS:	Atlanta Capital Franklin Templeton Loomis LCG M D Sass NFJ Allianz IShares MSCI EAFE ETF
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, 2015 the Retirement System's valuation assets were \$33,296,146 and its actuarial accrued liabilities were \$36,885,534, which produced a funded ratio of 90.3.

For the annual period ending December 31, 2015 the Retirement System's investment performance on a mark to market basis (gross of manager fees and net of transaction costs) was 2.07%. The system's investment performance, net of fees, on a rolling calendar-year basis is as follows:

	1 Year	3 Year	5 Year	7 Year	10 Year
Total Portfolio	1.63%	8.96%	6.53%	9.25%	5.5%

On December 31, 2015 the market value of the assets was \$31,948,137. The change in net plan assets from December 31, 2014 was (\$1,735,582).

For the annual period ending December 31, 2015 the Retirement System's non-soft dollar expenses were \$223,118 and benefit payments and member refunds were \$2,510,549. No expenses were paid by soft dollars during the year. Expenditures for professional training and education for this year were \$818.00. Employer contributions required for the year covered by the report total \$614,448.

The adopted budget for the city fiscal year beginning July 1, 2015 included the following items:

Checks printed, etc.	\$ 150
Audit Costs	\$ 2,900
Actuary Fee	\$ 24,000
Conference Expenses	\$ 4,000
Counseling Fee-Merrill Lynch	<u>\$238,000</u>
	\$269,050

Additional items required for inclusion in the report are:

The number of active members: 56

The number of retirees and beneficiaries: 83

The average annual retirement allowance: \$30,172

The total annual retirement allowance being paid: \$2,504,312

The valuation payroll: \$2,891,530

The employers computed normal cost of benefits (expressed as a percentage of valuation payroll):

General 7.33%; Police 5.11%; Fire 9.86%

The employers total contribution rate (expressed as a percentage of valuation payroll):

General 31.28%; Police 10.38%; Fire 13.15%; overall weighted 21.35%

The weighted average of member contributions, if any: \$4,265

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-13 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 Treasurer Tobey 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, 7.25%. He indicated that if the assumed rate of return is lowered any further the Board may want to consider changing the interest rate on employee contributions.

Motion by Trustee Brewbaker to set the interest rate on employee contributions at 5% for the 2016-17 fiscal year.

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

INVESTMENT CONSULTANT REPORT:

While the figures for the second quarter report were not yet compiled Consultant Holycross took advantage of the opportunity to discuss the upcoming Brexit vote (the vote to decide whether the UK will remain in the European Union) and depending on the outcome how it might affect the portfolio. He distributed handouts detailing the System's holdings in Europe and the UK. Odds makers put the chances of the UK leaving the EU at 25%-30% and forecasting predicts a pretty significant impact to the UK economy and significant risk to global equities should they vote to leave.

CITIZEN COMMENTS:

There were no citizen comments.

The Board briefly discussed who might attend the upcoming MAPERS conference.

Motion by Chairperson Farrell to allow 4 members to attend the 2016 MAPERS Fall Conference, on a first come, first served basis, in an amount not to exceed that currently budgeted for education.

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

City Attorney Brown thanked City Treasurer Ron Tobey for his service to the City saying it has been a pleasure working with him over the years.

Chairperson Farrell asked that formal recognition of Ron's service be acknowledged in the meeting minutes:

Ronald Tobey began his career with the City of Owosso in July of 1984 as an Administrative Assistant in the Treasurer's Office, steadily rising through the ranks over the years, receiving his final promotion in October of 2001 to City Treasurer. Ron quietly completed his duties, making sure every detail, no matter how minute or how complex was handled properly. While he was quite adept at the accounting aspects of his job he drew particular enjoyment from his role with the City of Owosso Employees' Retirement System, counselling employees on the various options available to them in retirement and assisting them in planning for this life-changing decision. Ron's calm, dedicated presence will be missed by employees and retirees alike, and the Board of Trustees expresses its' thanks to Ron for his many year of dedicated service on the occasion of his retirement.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 24, 2016 at 7:15 a.m.

ADJOURNMENT:

The meeting adjourned at 8:40 a.m.

Amy K. Kirkland, City Clerk