

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

**APRIL 26, 2017**

**7:15 AM**

**CALL MEETING TO ORDER:**

Chairperson Farrell called the meeting to order at 7:15 a.m.

**ROLL CALL:**

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

**ABSENT:** Trustee Burton Fox.

**ALSO**

**PRESENT:** City Attorney William C. Brown; Graystone Consultant Michael Holycross; City Clerk Amy K. Kirkland; City Treasurer Andrea K. Smith.

**APPROVE AGENDA:**

Motion by Trustee Mitchell to approve the Agenda with the following addition to Communications:

Medical Director Update  
Fee Breakdown

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

Chairperson Farrell welcomed new General City Union Representative Doug Morrice to the Board.

A moment of silence was held in memory of Board Vice Chairperson Bobbi Jo Perry marking the occasion of her passing.

Chairperson Farrell indicated that flowers had been sent to the family on behalf of the Board. Donations should be directed to City Clerk Kirkland to cover the cost.

**APPROVE MINUTES OF FEBRUARY 15, 2017 REGULAR MEETING:**

Motion by Trustee Brewbaker to accept the minutes of the February 15, 2017 Regular Meeting as presented.

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

**CITIZEN COMMENTS:**

City Attorney Brown indicated that he has a court hearing at 8:30am and will need to step out at that time.

**CONSENT AGENDA:**

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

1. **Approve Pension Check Reports:**

a. February 2017	\$ 232,923.36
b. March 2017	\$ 235,728.93

2. **Approve Statements:**

a. Month to Date Statements - Including Statements for Individual Accounts & Total Portfolio For Period 05/20/2015 (inception) through 04/12/2017

- (1) Total Portfolio
- (2) Aristotle – Large Cap Value
- (3) Atlanta Capital – Small/Mid Cap
- (4) Franklin Templeton Investments - Fixed Income
- (5) Harding Loevner – International Growth
- (6) Loomis Sayles – Large Cap Growth
- (7) MD Sass – Large Cap Value
- (8) Vaungard FTSE Developed Markets ETF – International Value

b. City of Owosso Employees Retirement Fund  
As of January 31, 2017

c. City of Owosso Employees Retirement Fund  
As of February 28, 2017

d. City of Owosso Employees Retirement Fund  
As of March 31, 2017

3. **Payment Authorizations:**

a. M.D. Sass  
For period 01/01/17 through 03/31/17 \$ 6,689.52

b. Morgan Stanley – Graystone Consulting  
For period 04/01/2017 through 06/30/2017 \$ 24,987.13

Consulting Fee & UMA Fees	\$ 17,861.28
Fees collected for Managers	
Aristotle	\$ 3,436.10
Atlanta	\$ 1,780.60
Harding Loevner	\$ 1,909.17

c. Andrea K. Smith, City Treasurer  
Report of Checks Written – February 2017 \$ 291,952.68

d. Andrea K. Smith, City Treasurer  
Report of Checks Written – March 2017 \$ 286,192.28

4. **Death Acknowledgements:**

- a. Bobbi Jo Perry – February 15, 2017
- b. Robert Speers – March 16, 2017

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

**COMMUNICATIONS:**

1. Michael W. Holycross, Graystone Consulting – *Amy R. Cole joins the firm*
2. Amy K. Kirkland, City Clerk – *General City Union Representative Election Results*
3. Wall Street Journal – *Indexes Beat Stock Pickers Even Over 15 Years*
4. Gabriel Roeder & Smith – *NewsScan February 2017*
5. Gabriel Roeder & Smith – *NewsScan March 2017*
6. M.D. Sass Investment -*Outlook for the First Quarter 2017*
7. Medical Director Update (This item was added to the agenda.)
8. Fee Schedule (This item was added to the agenda.)

Consultant Holycross indicated that Amy Cole had joined their team as a consultant and they had hired a new analyst to replace their former analyst Jimmy Chan.

The Board then moved on to discuss the situation with the medical director position. Trustee Mitchell inquired whether the Board had to name someone specific to the position. City Attorney Brown indicated that the ordinance required someone be named, though the ordinance could always be amended. There was discussion regarding sending out general invitations to local physician's offices. It was agreed the issue would be tabled until the next meeting, though anyone with ideas should forward them on to Ms. Kirkland in the meantime.

City Clerk Kirkland then detailed the fee schedule showing all of the fees paid by the System and how much is paid to each manager.

**OLD BUSINESS:**

**Franklin Templeton Adjustments.** Consider adjustments to the Franklin Templeton portfolio.

Consultant Holycross noted that the fixed income portfolio has been recently rebalanced and he has some recommendations for changes he will discuss when the performance report is covered.

**NEW BUSINESS:**

**Election of Vice Chairperson.** Elect a new Vice Chairperson to fill the unexpired term of B. Perry.

Chairperson Farrell opened the floor for nominations for Vice Chairperson.

Trustee Brewbaker nominated Trustee Mitchell.

Trustee Greenway nominated Trustee Brewbaker. Trustee Brewbaker declined the nomination.

Chairperson Farrell closed the floor to nominations.

The nomination before the Board was to appoint Trustee Mitchell as the Vice Chairperson.

Roll Call Vote.

AYES: Trustees Brewbaker, Greenway, Mitchell, Morrice, Reed, and Chairperson Farrell.

NAYS: None.

City Clerk Kirkland administered the oath of office to Vice Chairperson Mitchell.

**Application for Retirement - Helen Gaynor**

Motion by Trustee Brewbaker to approve the retirement of Helen Gaynor effective April 26, 2017.

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

**MAPERS 2017 Spring Conference.** Consider attendance at the MAPERS 2017 Spring Conference.

The offer to attend the conference was extended to all members of the Board. It was agreed two people would be authorized to attend.

Trustee Greenway indicated she was interested in attending.

Motion by Vice Chairperson Mitchell to authorize the attendance of two people to the MAPERS 2017 Spring Conference.

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

Trustee Greenway inquired whether a certain level of education should be required of Board members. It was noted that education was strongly encouraged but not required at the current time.

**INVESTMENT CONSULTANT REPORT**

It was agreed the 1<sup>st</sup> quarter performance report would be delayed until after the money manager interviews and the actuarial report.

**INTERNATIONAL VALUE MONEY MANAGER SEARCH:**

**7:45am - Cambiar Investors: Molly Cisneros, Senior Vice President of Sales & Client Services, via telephone**

Cambiar is a Denver based firm that is 100% employee owned. They have a very stable team and pride themselves on their research. Their portfolio consists of approximately 40 stocks chosen by analysts that are sector experts. The team meets at least three times a week and relies heavily on the confidence of the sponsoring analyst when purchasing a new stock. They do not feel the need to have representation in each sector and country and the team has self-imposed limits on countries, sectors, and single positions.

Their philosophy is based on the belief that markets are efficient over the long term but are inefficient in the short term. They look for stocks that have been penalized by the market for one reason or another, but have a history of success and leadership in their areas. They like firms with capital discipline and firms with low leverage. To be eligible for the portfolio stocks must be in the bottom quartile of the range of valuations and have a future catalyst that will get the value to move in a positive direction. They desire a 50% total return over a 1-2 year span. The team will sell an equity when the thesis is realized or when there is a negative change in the company's fundamentals. The team will formally review a purchase if there is a 20% decline from the purchase price.

**8:15am – Causeway Capital Management, LLC: David Hissey, Director of Institutional Business Development**

Causeway is a firm based in Los Angeles with \$46 billion in assets under management. They are 100% employee owned. The firm has a very stable team with the average tenure of their portfolio managers at 17 years. They have 11 portfolio managers, an 8 member quantitative team, and 12 support staff dealing directly with the portfolio.

The firm's philosophy involves looking for firms that are fundamentally strong but have endured headwinds. The team meets with over 500 management teams each year and focus on a bottom-up research style. Approximately 150 high-quality large-cap names are given to their quantitative team who then estimate the returns each name would bring to the portfolio and quantify the risk brought by each stock. Two analysts examine a stock when considering it for possible inclusion in the portfolio. The entire investment team must agree on a 2-year price target for a stock to be included. Their sell discipline is not numerically defined, they keep the top 35-55 stocks with the greatest estimated return per unit of risk. Those equities that are falling down the rankings are trimmed or sold so there is constant movement on the list.

**Discussion:**

Trustee Greenway indicated she preferred Causeway, in part because they made their presentation in person.

Trustee Brewbaker indicated he preferred Causeway, though Cambiar has a slightly better performance record.

Consultant Holycross noted that either firm blended well with the System's current international growth manager Harding Loevner with the results coming out very, very close.

Chairperson Farrell indicated he liked Causeway's analysis of risk when determining portfolio holdings.

The Board then compared the fees of both firms. Cambiar = 42 bp Causeway = 40 bp

Motion by Chairperson Farrell to select Causeway as the System's international value money manager.

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

Mr. Holycross said the transition to include Causeway should be completed within the next 30 days.

**CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 72<sup>ND</sup> ANNUAL ACTUARIAL VALUATION:**  
**KENNETH G. ALBERTS - GABRIEL ROEDER SMITH & COMPANY**

Mr. Alberts started his presentation by providing a brief educational overview of the how the figures in the actuarial report are calculated and what they represent for the benefit of the new board members.

He went on to recap the events of 2016 noting that the experience of employees as well as the investment returns for the year would increase the City's annual contribution to the System. The funding ratio decreased to 88.1% and the City's contribution is budgeted at \$757,712.00 for the year. All benefits for current retirees are fully funded, but there is an unfunded liability of \$4.1 million for future retirees. Mr. Alberts indicated that he felt a 7.25% assumed rate of return is reasonable over the long term and overall the System was on "the upside of average".

The comments from the report are as follows:

**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 investment activity (the recognized rate of investment return was 6.51%)

compared with the assumed rate of investment return of 7.25%);

- Losses related to retiree mortality (1 death compared with 3.1 expected);
- Losses related to pay increases for Fire and Police divisions.
- Losses related to retirements (5 members actually retired compared with 1.6 expected).

As a result the funded status decreased to 88.1% on an actuarial value of assets basis and 83.3% on a market value of assets basis.

**Comment C:** The Retirement System currently has a contingency reserve of approximately \$839 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:** While there were no System changes since the last valuation, there were changes in the member contribution rate that had previously been adopted, but are becoming effective 7/1/2017. In particular, the member contribution rate for Police decreases by 1% to 10% and the member contribution rate for Fire increases by ½% to 8%. The net effect is an increase in the City's contribution of approximately \$1,400 for FY 2018. This completes the phase in of previously adopted changes.

**Comment E:** The computed Employer contribution effective July 1, 2017 is \$731,228, assuming periodic payments throughout the fiscal year or a lump sum payment in the middle of the fiscal year.

**Comment F:** The actuarial value of assets recognized a 6.51% rate of return, despite the market rate of return of 5.21%. This difference is due to the 4-year smoothing. The portion of this year's loss recognized in the actuarial value of assets was offset by the gains from prior years continuing to be recognized this year. As recognition of those prior gains are completed, there will be upward pressure on contributions as the remainder of this year's loss is recognized over the next 3 years.

**Comment G:** Forward look: There are currently just below \$1 million of past investment losses scheduled to be recognized in next year's valuation. Unless offset by gains, this will likely result in an increase in next year's employer contribution of approximately \$120,000.

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

- All assumptions continue to be reasonable.
- The industry trend on the mortality assumption is to move away from static projections of mortality improvements to generational projections of mortality improvement.

**Comment I:** The contingency reserve grew this year. However, since there was a mortality loss with no offsetting gains (related to retiree liabilities), the contingency reserve was expected to decrease. The contingency reserve is directly related to the development of the Reserve for Retired Benefit Payments (RRBP). We therefore attempted to reconcile the RRBP from December 31, 2015 to December 31, 2016. The chart on the following page shows our attempted reconciliation, assuming mid-year benefit payments and mid-year reserve transfers. A comparison of the expected 2016 balance to reported 2016 balance indicates the reported balance to be approximately \$300K higher than expected. While we did not expect to exactly reproduce the 2016 balances due to the simplifying mid-year assumption, we expected to come closer. Analysis using the prior investment return assumption of 7.5%, which more closely reproduces the balances for these groups that do not have new retirees. We therefore recommend that the development of the RRBP be reviewed.

Using 7.25% Interest

Division	Reported 2015 Reserve	Reported Benefit payments	Reserve Transfers	Expected Interest (at 7.25%)	Expected 2016 Balance	Reported 2016 Reserve
Police Patrol	\$ 4,141,497	\$ 347,998		\$ 287,644	\$ 4,081,143	\$ 4,093,735
Police Command	504,953	42,339		35,074.30	497,688.30	499,212
Fire	6,756,582	747,123	\$ 507,051	481,149.59	6,997,659.59	7,167,657
Other	14,234,347	1,467,116	1,695,791	1,040,279.63	15,503,301.63	15,654,929
<b>Total</b>	<b>\$ 25,637,379</b>	<b>\$ 2,604,576</b>	<b>\$ 2,202,842</b>	<b>\$ 1,844,147</b>	<b>\$ 27,079,792</b>	<b>\$ 27,415,533</b>

Using 7.50% Interest

Division	Reported 2015 Reserve	Reported Benefit payments	Reserve Transfers	Expected Interest (at 7.50%)	Expected 2016 Balance	Reported 2016 Reserve
Police Patrol	\$ 4,141,497	\$ 347,998		\$ 297,562	\$ 4,091,061	\$ 4,093,735
Police Command	504,953	42,339		36,283.76	498,897.76	499,212
Fire	6,756,582	747,123	\$ 507,051	497,740.95	7,014,250.95	7,167,657
Other	14,234,347	1,467,116	1,695,791	1,076,151.34	15,539,173.34	15,654,929
<b>Total</b>	<b>\$ 25,637,379</b>	<b>\$ 2,604,576</b>	<b>\$ 2,202,842</b>	<b>\$ 1,907,738</b>	<b>\$ 27,143,383</b>	<b>\$ 27,415,533</b>

**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 12 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.

Motion by Trustee Brewbaker to accept the 2016 Annual Actuarial Report as presented.

Motion supported by Chairperson Farrell and concurred in by unanimous vote.

**INVESTMENT CONSULTANT REPORT:**

Graystone Consultant Holycross said he felt 2017 should be a good year for equities in U.S. and global markets and the portfolio would remain overweight in stocks for now. The portfolio is up 5.26% for the 1<sup>st</sup> quarter, though he cautioned the Board not to let MD Sass linger too much longer if they lag the benchmark for another quarter.

At the recommendation of Mr. Holycross the Board made 2 adjustments to the portfolio:

1. To shorten the duration and increase the yield of the fixed income portfolio
2. To move into the emerging markets class

Chairperson Farrell expressed his concern with JP Morgan's use of derivatives.

Motion by Trustee Brewbaker to take \$1,000,000 from the Franklin portfolio to purchase the JP Morgan Strategic Income Mutual Fund.

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

Motion by Chairperson Farrell to move \$200,000 from Loomis Sayles and \$800,000 from MD Sass to establish a new asset class in emerging markets by purchasing an emerging markets index fund.

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

**CITIZENS COMMENT:**

There were no citizen comments.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for June 28, 2017 at 7:15am

**ADJOURNMENT:**

The meeting was adjourned at 10:40 a.m.

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Amy K. Kirkland, City Clerk