

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

JUNE 28, 2017

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:21 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: Graystone Consultant Brian Brice; City Attorney William C. Brown; Graystone Analyst Erik Burger; Future City Treasurer Katherine Fagan; City Clerk Amy K. Kirkland; Morgan Stanley Associate Complex Manager Ian McCulloch; City Treasurer Andrea K. Smith.

APPROVE AGENDA:

Motion by Trustee Foxt to approve the Agenda with the following additions:

Death Acknowledgements

c. William Marr – June 12, 2017

NEW BUSINESS

2. Consideration of Interest Rate on Employee Contributions

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

APPROVE MINUTES OF APRIL 26, 2017 REGULAR MEETING:

Motion by Trustee Greenway to accept the minutes of the April 26, 2017 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

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

Approve Pension Check Reports:

- a. April 2017 \$ 235,641.63
- b. May 2017 \$ 239,543.14

2. **Approve Statements:**

- a. Quarter to Date Statements- Including Statements for Individual Accounts & Total Portfolio For Period 04/01/2017 through 06/15/2017

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

- b. City of Owosso Employees Retirement Fund
As of April 30, 2017

- c. City of Owosso Employees Retirement Fund
As of May 31, 2017

3. **Payment Authorizations:**

- a. Franklin Templeton Investments
For period 01/01/17 through 03/31/17 \$ 6,331.50
- b. Franklin Templeton Investments – former Fifth Third equities
For period 01/01/17 through 03/31/17 \$ 300.00
- c. Loomis Sayles/Natixis
For period 04/01/14 through 07/31/17 \$ 14,027.52
- d. Gabriel Roeder Smith & Company
For period 07/01/2016 through 06/30/2017 \$ 20,000.00
- e. Andrea K. Smith, City Treasurer
Report of Checks Written – April 2017 \$ 268,150.68
- f. Andrea K. Smith, City Treasurer
Report of Checks Written – May 2017 \$ 241,104.04

4. **Death Acknowledgements**

- a. Arthur Jack Speers – April 9, 2017
- b. Virginia Rolfe – June 6, 2017
- c. William Marr – June 12, 2017

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

The Board held a moment of silence to honor the passing of Mr. Speers, Ms. Rolfe, and Mr. Marr.

COMMUNICATIONS:

1. Troy Mooyoung, Graystone Consulting – *Holycross Departure*
2. Kenneth G. Alberts, Gabriel Roeder & Smith – *2017 projected actuarial fees*
3. Gabriel Roeder Smith: *GRS Insight, April 2017*
4. Gabriel Roeder & Smith – *NewsScan April 2017*
5. Gabriel Roeder & Smith – *NewsScan May 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:

- Institutional Investor: *May 2017 & June 2017*

OLD BUSINESS:

None.

NEW BUSINESS:

2016 Summary Annual Report

For the benefit of those new to the Board City Treasurer Smith noted that this report goes out to all System members and retirees as a summary of the last year's activities.

Motion by Trustee Fox to approve the 2016 Summary Annual Report as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM

2016 Summary Annual Report
(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 2016.

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
Andrew Reed
Doug Morrice
Mark Mitchell

INVESTMENT MANAGERS:

Atlanta Capital
Franklin Templeton
Loomis LCG
M D Sass
Aristotle
NFJ Allianz
IShares MSCI EAFE ETF

Causeway

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, 2016 the Retirement System's valuation assets were \$33,555,552 and its actuarial accrued liabilities were \$38,079,080, which produced a funded ratio of 88.1.

For the annual period ending December 31, 2016 the Retirement System's investment performance on a mark to market basis (gross of manager fees and net of transaction costs) was 5.68%. 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	5.35%	4.41%	8.02%	7.25%	4.79%

On December 31, 2016 the market value of the assets was \$31,715,358. The change in net plan assets from December 31, 2015 was (\$232,779).

For the annual period ending December 31, 2016 the Retirement System's non-soft dollar expenses were \$276,025 and benefit payments and member refunds were \$2,711,036.26. No expenses were paid by soft dollars during the year. Expenditures for professional training and education for this year were \$2,284.65. Employer contributions required for the year covered by the report total \$757,712.

The adopted budget for the city fiscal year beginning July 1, 2016 included the following items:

Checks printed, etc.	\$ 150
Audit Costs	\$ 3,000
Actuary Fee	\$ 53,400
Conference Expenses	\$ 4,000
Counseling Fee-Morgan Stanley	<u>\$100,500</u>
	\$161,050

Additional items required for inclusion in the report are:

The number of active members: 52
The number of retirees and beneficiaries: 88
The average annual retirement allowance: \$29,597
The total annual retirement allowance being paid: \$2,604,576
The valuation payroll: \$2,786,412
The employers computed normal cost of benefits (expressed as a percentage of valuation payroll):
General 7.84%; Police 6.52%; Fire 9.29%
The employers total contribution rate (expressed as a percentage of valuation payroll):
General 44.27%; Police 11.75%; Fire 16.19%; overall weighted 27.67%
The weighted average of member contributions, if any: \$64,802
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-12 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 Greenway and concurred in by unanimous vote.

Consideration of Employee Interest Rate (This item was added to the agenda.)

City Treasurer Smith 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%.

Motion by Vice Chairperson Mitchell to set the interest rate on employee contributions at 5% for the 2017-18 fiscal year.

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

Holycross Departure

Graystone Consultant Brian Brice, Graystone Analyst Erik Burger, and Morgan Stanley Associate Complex Manager Ian McCulloch were present to discuss the dismissal of Michael Holycross from Graystone. Chairperson Farrell started the conversation by saying that it had been discovered that Mr. Holycross had been abruptly terminated by Morgan Stanley, resulting in a series of phone calls between representatives from Morgan Stanley and the Retirement System in an attempt to make sense of the sudden termination and of where the relationship goes from here. Misters Brice, Burger, and McCulloch were invited to the meeting to detail what they could about Mr. Holycross's termination and to outline Morgan Stanley's plan for the System going forward.

Chairperson Farrell noted for the Board that the information regarding Mr. Holycross's termination was received from a third party. He expressed his extreme disappointment that communication with Morgan Stanley regarding this matter was initiated by the System and not by Morgan Stanley, saying he expected more from such a large firm with deep resources. He said this could not be the first time such a termination has taken place yet customers were left to be blindsided by the news.

Mr. McCulloch acknowledged that Mr. Holycross had been terminated by Morgan Stanley. He went on to say that the remaining employees were not involved in any wrong doing and were offered the opportunity to reapply for positions with other Morgan Stanley affiliates. Some chose to reapply (such as Mr. Burger), others chose not to do so. For legal reasons Mr. McCulloch was not able to detail the reasons why Mr. Holycross had been terminated.

Mr. Brice then explained the connection between Graystone and Morgan Stanley, saying Graystone is the business of Morgan Stanley that handles all institutional investing. He went on to explain that there were originally three Graystone firms in southeast Michigan. One firm was closed as the result of Mr. Holycross's termination and the other two firms are now under one umbrella and will be functioning more like a single firm. The new combined firm will be overseeing Mr. Holycross's former book of business. He noted that he had been assigned to take over the contract with the Retirement System and he hoped that the transition would be rather seamless. He indicated that his firm had an interest in submitting a proposal when the System was looking for a new consultant two years ago but was blocked from doing so because Mr. Holycross had already reserved the right to submit a proposal on behalf of Graystone. He said his firm has a history similar to that of the System in that the firm had established itself as a Merrill Lynch affiliate and had a 40+ year relationship with the company prior to them pulling out of the public pension advising market. The firm evaluated its choices at that point and decided to sign on with Graystone/Morgan Stanley leading to the firm they are today. He is also a member of MAPERS and his firm has significant experience in advising public pension plans. He recognized that he is not the consultant that the Board originally hired but indicated his desire to succeed if given the chance.

Picking up on Mr. Brice's comment Chairperson Farrell noted for the other Trustees that the Board is not obligated to stay with the current arrangement, but is free to choose whomever it would like as a consultant.

Consultant Brice closed the conversation by saying he wants to be a good partner going forward.

Performance Update

Analyst Burger presented the performance update to the Board indicating the managers are doing very well, up 10% for the year and up 15% in the last 12 months.

(Full text of the report is on file in the Clerk's Office.)

Chairperson Farrell inquired about the minimum allocation for fixed income investments per the Investment Policy. It was noted that the minimum allocation is 25% and the System is currently .6% below policy at this time.

Next Steps

Misters Brice, Burger, and McCulloch were dismissed from the meeting so the Board could speak freely about what steps to take next in regard to the consulting contract.

City Clerk Kirkland and City Treasurer Smith detailed for the Board the manner in which the news of Michael Holycross's termination was discovered, with Smith noting that her emails were returned with no explanation and Kirkland indicating that her husband brought her the news after having lunch with another finance industry employee.

Ms. Kirkland then went on to explain that Mr. Holycross had reached out to her office recently. He had said that he had done nothing wrong and that Morgan Stanley was simply trying to thin the herd in southeast Michigan by firing him. He also indicated to her that he would be pursuing legal action against Morgan Stanley for wrongful termination.

The Board then considered its options in light of all it had heard. The Trustees agreed that the System was in a stable position currently and the new consultant knows the history of the System. Several Trustees indicated they felt comfortable with the arrangement for now.

City Attorney Brown encouraged the Board to think about whether the situation fundamentally changes how they conduct business. He asked if placing a special item on each agenda to monitor the status of the arrangement was warranted. No one expressed a desire to create a special agenda item but there was a general consensus that the arrangement should be re-examined in the future. Vice Chairperson Mitchell suggested reviewing the arrangement at the December meeting. The Board was favorable to the suggestion.

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 23, 2017 at 7:15am

City Treasurer Smith introduced her successor, Kathy Fagan, to the group indicating her last day with the City will be July 3, 2017. She went on to thank everyone for the opportunity to work for the System.

ADJOURNMENT:

The meeting adjourned at 8:57 a.m.

Amy K. Kirkland, City Clerk