## CITY OF OWOSSO

## EMPLOYEES’ RETIREMENT SYSTEM BOARD OF TRUSTEES

## REGULAR MEETING

## OWOSSO CITY HALL COUNCIL CHAMBER

October 24, 2018 7:15 AM

# CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:23 a.m.

# ROLL CALL:

**PRESENT:** Trustees Richard Brewbaker, Elaine Greenway, Douglas Morrice, Vice Chairperson Mark Mitchell, and Chairperson Wilfred Farrell. (One vacancy)

**ABSENT:** Trustee Andrew Reed.

**ALSO**

**PRESENT:** Graystone Analyst Erik Burger; City Treasurer Katherine R. Fagan; City Attorney Scott J. Gould; and City Clerk Amy K. Kirkland.

# APPROVE AGENDA:

Motion by Trustee Brewbakerto approve the Agenda with the following clarification to the payment to Morgan Stanley for consulting services:

1. Morgan Stanley – Graystone Consulting

For period 10/01/2018 through 12/31/2018 $ 34,104.66

Consulting Fee $ 17,737.66

Mgr Fee – Aristotle $ 5,485.70

Mgr Fee – Atlanta $ 2,278.95

Mgr Fee – Causeway $ 2,528.24

Mgr Fee – Cushing $ 1,722.52

Mgr Fee – Harding $ 2,499.68

MS UMA Fee $ 1,851.91

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

# APPROVE MINUTES OF ***August 22, 2018*** ORGANIZATIONAL MEETING:

Motion by Trustee Greenway to accept the minutes of the August 22, 2018 Organizational Meeting as presented.

Motion supported Trustee Morrice and concurred in by unanimous vote.

# APPROVE MINUTES OF **August 22, 2018** REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the August 22, 2018 Regular Meeting as presented.

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

# CITIZEN COMMENTS:

There were no citizen comments.

# CONSENT AGENDA:

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

**Approve Pension Check Reports*:***

1. August 2018 $ 248,598.50
2. September 2018 $ 248,506.80

**Approve Statements:**

1. City of Owosso Employees Retirement Fund

As of August 31, 2018

1. City of Owosso Employees Retirement Fund

As of September 30, 2018

**Payment Authorizations:**

1. Franklin Templeton Investments

 For period 07/01/2018 through 09/30/2018 $ 5,574.50

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

 For period 07/01/2018 through 09/30/2018 $ 300.00

1. Loomis Sayles/Natixis

For period 10/01/2018 through 12/31/2018 $ 9,592.81

1. Morgan Stanley – Graystone Consulting

For period 09/04/2018 through 09/30/2018 $ 820.77

Consulting Fee $ 256.49

Mgr Fee – Cushing $ 512.98

MS UMA Fee $ 51.30

1. Morgan Stanley – Graystone Consulting

For period 10/01/2018 through 12/31/2018 $ 34,104.66

Consulting Fee $ 17,737.66

Mgr Fee – Aristotle $ 5,485.70

Mgr Fee – Atlanta $ 2,278.95

Mgr Fee – Causeway $ 2,528.24

Mgr Fee – Cushing $ 1,722.52

Mgr Fee – Harding $ 2,499.68

MS UMA Fee $ 1,851.91

1. Katherine R. Fagan, City Treasurer

 Report of Checks Written – August 2018 $ 68,055.84

 (less pension checks)

1. Katherine R. Fagan, City Treasurer

 Report of Checks Written – September 2018 $ 1,348.20

 (less pension checks)

**Death Acknowledgements**

1. Jeanette Morgan – August 31, 2018

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

# COMMUNICATIONS:

Michigan Department of Treasury - *Uniform Actuarial Assumptions Update*

Michigan Department of Treasury – *Numbered Letter 2018-3*

Kenneth G. Alberts, Gabriel Roeder & Smith – *2018 Projected Actuarial Fees*

Morgan Stanley – *Changes to your proxy voting*

Cammack Retirement – *Chart of the Month, August 23, 2018*

Gabriel Roeder & Smith – *NewsScan, August 2018*

Gabriel Roeder & Smith – *NewsScan, September 2018*

Gabriel Roeder & Smith – *Perspectives, August 2018*

Gabriel Roeder & Smith – *Perspectives, October 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:

Morgan Stanley: *FYI, 4Q2018*

Pensions & Investments:  *August 20, 2018*

Pensions & Investments:  *September 3, 2018*

Pensions & Investments:  *September 17, 2018*

Pensions & Investments:  *October 1, 2018*

City Clerk Amy K. Kirkland commented in regard to the *Uniform Actuarial Assumptions Update* from the Michigan Department of Treasury saying the System will only be required to use the new assumptions when reporting to the State, but the extra work involved to generate a second report using the required assumptions will cost between $2,500.00 and $4,000.00. Graystone Analyst Erik Burger also commented saying he had spoken with the System’s actuary about the new assumptions and he indicated that he would like to spend some time at the April 2019 to explain the new regulations.

City Attorney Scott J. Gould commented on *Numbered Letter 2018-3* from the Michigan Department of Treasury saying he does not think this new regulation will apply to the System.

Lastly, in regard to the communication from Morgan Stanley about proxy voting, Mr. Burger indicated that the System’s money managers vote on behalf of the System so the communication marks no change.

There was a brief discussion about inviting the System’s Actuary Ken Alberts to the February 2019 meeting.

# OLD BUSINESS:

**Fiduciary Liability Insurance**

City Attorney Gould provided a memo to the Board saying it was a continuation of his August 22nd memo on the matter. He said that further exploration of the subject produced the same conclusions as it had in August. He feels that Trustees are covered by common law, state law, and precedent, but the Board may

feel the purchase of fiduciary liability insurance is simply a good business decision given the cost ($3,000.00 - $10,000.00 per year). At the least, he encouraged the Board to review its internal policies to make sure each Trustee knows the standard to which they are held and suggested the development of a statement to that effect which each Trustee would sign.

A majority of those present indicated that in light of the information presented, they felt no need to purchase insurance. There was discussion among the group about other measures that could be taken to prevent conflicts of interest. It was agreed that the Chairman and City Attorney would develop a statement and bring it back to the December meeting.

**UMA Overlay Fee Refund**

Chairperson Farrell explained this is for a refund we are entitled to as a result of Graystone asking that the UMA overlay fee be reduced.

Motion by Trustee Brewbaker to authorize acceptance of refund for a portion of the UMA overlay fees paid by the System since June 2017 in the amount of $4,978.23.

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

**Morgan Stanley SEC Settlement Follow-up**

Analyst Burger provided details of the settlement in question saying it related to an out of state advisor that dealt with private clients. The settlement will have no impact on institutional clients and no impact on the System.

# NEW BUSINESS:

**Investment Policy Amendment**

Analyst Burger distributed a new copy of the edited policy to the Board showing updates and corrections made since the meeting packet was distributed. He briefly detailed the major changes noting that most of them involved the asset allocation.

***Current Asset Allocation:***

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class/****Investment Style** | **Minimum** | **Target Average** | **Maximum** |
| Large / Mid Cap Growth Equity Manager | 12% | 17% | 22% |
| Large / Mid Cap Value Equity Manager | 12% | 17% | 22% |
| Dividend Manager | 7% | 10% | 13% |
| Small / Mid Cap Equity Manager | 6% | 8% | 10% |
| International Equity | 10% | 15% | 20% |
| **Total Equity** | **40%** | **67%** | **70%** |
| Investment Grade Fixed Income | 15% | 20% | 40% |
| Global Fixed Income | 0% | 5% | 7.5% |
| Non-Traditional Fixed Income | 0% | 5% | 7.5% |
| Cash and Cash Equivalents | 0% | 3% | 10% |
| **Total Fixed Income** | **25%** | **33%** | **65%** |

***Proposed Asset Allocation:*** (changes are noted in bold, blue text)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Class/****Investment Style** | **Minimum** | **Target Average** | **Maximum** | **Difference from Current** |
| Large Growth Equity | **17.0%** | **21.0%** | **29.0%** | 4.0% |
| Large Value Equity | **17.0%** | **21.0%** | **29.0%** | 4.0% |
| Small / Mid Cap Equity | 6.0% | 8.0% | **12.0%** |  |
| International Equity | 10.0% | 15.0% | **17.5%** |  |
| **Emerging Markets Equity** | **0.0%** | **5.0%** | **7.5%** | 5.0% |
| **Total Equity** | **50.0%** | **70.0%** | **80.0%** |  |
| Fixed Income | **20.0%** | **25.0%** | **40.0%** | -5.0% |
| **Real Assets / Master Limited Partnerships** | **0.0%** | **5.0%** | **10.0%** | 5.0% |
| Cash and Cash Equivalents | 0.0% | 0.0% | 10.0% | -3.0% |
| **Total Fixed Income** | **20.0%** | **25.0%** | **40.0%** |  |

Other proposed changes are as follows:

**IX. Investment Guidelines**

**C. Diversification Requirements**

 **Domestic Large/Mid Capitalization Equity Portfolio(s)**

• Holdings of any single issue in each investment manager's portfolio shall not exceed more than ~~5~~ **10**% of the market value of the total outstanding common stock of any one company;

• There is no constraint on the economic sector allocations of the portfolio. It is understood the investment manager may concentrate portfolio holdings in a limited number of economic sectors from time-to-time;

• Equities are limited to large and medium capitalization stocks. The minimum market capitalization at the time of purchase should be greater than $1 billion;

• From time-to-time, the investment manager may invest in U.S. dollar denominated equities of non-US companies that otherwise conform to the provisions of this investment policy.

**Small/Medium Capitalization Equity Portfolio(s)**

• Equities are limited to small and medium capitalization stocks. The market capitalization of any one equity security shall be between ~~$100 million and $10~~ billion **the smallest and largest company market caps within the Russell 2500 index** at the time of purchase;

• Holdings of any single issue in this investment manager's portfolio shall not exceed more than 5% of the market value of the total outstanding common stock of any one company\*;

• There is no constraint on the economic sector allocations of the portfolio. It is understood the investment manager may concentrate portfolio holdings in a limited number of economic sectors from time-to-time;

• From time-to-time, the investment manager may invest in U.S. dollar denominated equities of non-US companies that otherwise conform to the provisions of this investment policy.

*\*It is recognized, however, that an investment manager's holdings of a single issue in all portfolios firm wide may exceed this limit. This constraint applies only to the Plan's holdings.*

**International & Emerging Markets Equity Portfolio(s)**

Subject to the usual standards of fiduciary prudence the investment manager shall have the discretion to determine their portfolio's country allocations. However, the country allocations and portfolio structure should conform to these guidelines:

• Investments in any one security shall not exceed 10% of the market value of the investment manager's portfolio;

• Currency hedging is not permitted (it is recognized, however, that mutual or other commingled funds may engage in hedging activity);

• No fewer than three countries represented in the portfolio;

• No more than 20% of the market value of the portfolio may be invested in countries not represented in the ~~MSCI EAFE Index plus Canada~~ **Investment Manager’s appropriate style specific benchmark;**

• Non-U.S. dollar denominated equity securities are not permitted;

• No investments in securities of US based companies or convertible into the securities of US based companies.

**Fixed Income Portfolio(s)**

• Fixed income securities (except for those listed below) shall be rated "BAA"\* (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. The minimum dollar-weighted average credit quality rating of the fixed income portfolio is "AA". Asset backed securities, mortgage backed securities, and CMOs shall be rated "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency;

• Should a security be down-graded below "BAA-" (or its equivalent), the investment manager will advise the Board of Trustees (or an authorized representative) and the Investment Consultant in writing of this change and be able to provide the Board of Trustees (or an authorized representative) with a recommended course of action;

• Fixed income securities of a single issuer or issue, with the exception of U.S. Government and Agency securities, are limited to no more than 5% of the market value of the portfolio;

• The maximum maturity of any single security should not exceed 31 years. The dollar weighted duration of the fixed income portfolio should be within ±10% of the dollar weighted duration of the performance benchmark;

• No more than 30% of the market value of the investment manager's portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the investment manager's own classifications, which should be provided to the Board of Trustees upon request;

* The investment manager(s) shall not use derivative securities to increase the portfolio risk.

*\*All rating categories, including qualifiers* "+" *and "-" for S&P and "1", "2" and "3" for Moody's. In the event of a "split rated" security, that is a security with non-equivalent rating classifications from different rating agencies, the lower of the credit quality ratings shall apply.*

**Real Assets / Master Limited Partnerships Portfolio(s)**

* **Holdings of any single issue in this investment manager’s portfolio shall not exceed more than 10% of the market value of the total outstanding common stock of any one company**
* **There is no constraint on the economic sector allocations of the portfolio. It is understood the investment manager may concentrate portfolio holdings in a limited number of economic sectors from time to time;**
* **Equities maybe large, medium or small capitalization stocks. The minimum market capitalization at the time of purchase should be greater than $100 million at the time of purchase;**
* **From time-to-time, the investment manager may invest in U.S. dollar denominated equities of non-U.S. companies that otherwise conform to the provisions of this investment policy.**

Lastly, it was proposed that Master Limited Partnerships be removed from the list of prohibited investments.

There was a brief discussion regarding the proposed changes.

Motion by Trustee Greenway to approve the changes to the Investment Policy as presented by Graystone at the meeting of October 24, 2018.

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

Analyst Burger indicated he would put together a final version of the document and share it with the System’s money managers.

# INVESTMENT CONSULTANT REPORT:

**Third Quarter 2018 Market Commentary**

Graystone Analyst Erik Burger presented the 2018 third quarter report. The overall portfolio is up 3.5% for the quarter. There has been a significant increase in market volatility this year as compared to last.

The trade war with China, tariffs and the rising dollar has added to the volatility and the rise in interest rates has also affected the markets.

Mr. Burger continued his presentation, distributing a chart and highlighting the charts on page 17 of the quarterly report. He pointed out that Graystone is monitoring these charts looking for an inverted curve, which could signal a recession is on the horizon. As a result the Board should look to be a bit more defensive going forward.

**Third Quarter 2018 Performance Report (and 4th Quarter to date)**

The third quarter was a good quarter, with the portfolio up 3.5%. The market value of the portfolio has decreased slightly year-to-date due to lower returns and the amount of withdrawals. Mr. Burger reported that we seem to be on target in most of our asset classes, though Graystone has been in contact with Loomis Sayles because of their continued underperformance vs. the benchmark. The emerging markets class continues its downward trend for the year, but on the bright side Franklin Templeton did a good job with their short term overweight for the quarter ending in positive territory. Cushing MLP is down 2.3% since its inception in early September.

Chairperson Farrell asked if there was any concern with the continued underperformance by Causeway this year. Mr. Burger indicated that Causeway still remains a good fund; it’s just a tough time for value managers. He went on to say that the changes made to the portfolio in August had a significant positive impact and he had no further recommendations for changes today.

**Total Portfolio Performance Summary for Period Ending 09/30/2018**

|  |  |  |
| --- | --- | --- |
|  | **QUARTER****TO DATE** | **1 YEAR** |
| **BEGINNING TOTAL VALUE** | 34,434,597 | 34,377,861 |
| **NET CONTRIBUTIONS/WITHDRAWALS** | -399,698 | -1,799,905 |
| **INVESTMENT EARNINGS** | 1,181,025 | 2,637,968 |
| **ENDING TOTAL VALUE** | 35,215,924 | 35,215,924 |

# CITIZENS COMMENT:

There were no citizen comments.

# NEXT BOARD MEETING:

The next board meeting is scheduled for December 12, 2018 at 7:15am

# ADJOURNMENT:

The meeting was adjourned at 8:30 a.m.

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 Amy K. Kirkland, City Clerk