City of Troy

Minutes

Employees' Retirement System Board Meeting

August 12, 2015 at 12:00 PM
City Council Board Room

Troy City Hall
500 West Big Beaver
Troy, Michigan 48084
(248) 524-3330

A meeting of the Employees' Retirement System Board of Trustees was held on **August 12, 2015** at Troy City Hall, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting was called to order at 12:10 p.m.

Trustees Present:	Mark Calice Thomas Darling, CPA Brian Kischnick Milton Stansbury Dave Henderson
Trustees Absent:	William R. Need (Ex-Officio) Thomas J. Gordon, II Steve Pallotta
Also Present:	Kathy Kostopoulos

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Resolution # ER – 2015-08-17

Moved by: Stansbury
Seconded by: Henderson

RESOLVED, The Minutes of the June 10, 2015 meeting be approved.
Yeas: 5
Absent: 2

Retirement Requests:

None

Regular Business:

Presented and reviewed by Mr. Tebeau of Gabriel Roeder Smith & Company, was the "Draft" of the City of Troy Employees Retirement System Fifty-First Annual Actuarial Valuation report for December 31, 2014. As explained, the purpose of the valuation is to measure the System's funding progress, to determine the employer contribution rate for the fiscal year ending June 30, 2017, and to determine the actuarial information for reporting purposes. Mr. Tebeau indicated that the report illustrates the City of Troy ERS has a "very good solid financial position". The "Market Value" basis is being utilized for the fund balance and under this method the City of Troy ERS is 100.6% funded. The City's Annual Normal Cost for Year Ending June 30, 2017 is anticipated at $658,557. Chairman Calice and Mr. Kischnick requested a commentary letter or an executive summary be prepared by Mr. Tebeau referencing the outstanding, solid financial position, which clearly communicates the conservative position taken by the Board of Trustees utilizing the "new" mortality rate table. The new mortality rate table RP-2014 was adopted in order to reflect the most recent

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mortality data and expected future mortality improvements projected out to 2019. Chairman Calice agreed that this should be communicated very clearly how the Board of Trustees has gone over and above for the citizens of Troy by utilizing this "new" mortality rate table which results in a very conservative and proactive approach with the valuation of the plan. City Manager Mr. Kischnick specifically pointed out how we have "made changes" and this is not just a "typical year" and we would like this recognized and to be communicated in an executive summary. Ms. Sorensen of UBS also commented and agreed that the Board of Trustees has always taken a proactive approach from inception and suggested this be highlighted. Mr. Tebeau agreed to work with the System Administrator on this request.

Comment A on page A-3 of the actuarial valuation report was reviewed in detail. Chairman Calice requested clarification on the terminology of "gains" and "losses". Mr. Tebeau stated that actuarial gains and losses are exhibited on pg. A-4, line 11. Mr. Tebeau stated that GRS separates "Investment" gains & loses from "System Liability" gains & loses and then nets the amounts together. For the City of Troy this year there was a large gain on "Investment" and a loss on the "System Liability" side. However, when netted together an overall "net gain" resulted. Chairman Calice requested that verbage be added to illustrate and clarify that the "Liability loss" is not from "Investments". Mr. Tebeau agreed to make an adjustment to the draft for clarification purposes.

A-5 Schedule of Funding Progress was reviewed and discussed. It was also noted that the "Aggregate Cost Method" is utilized by the City of Troy ERS as it is a "closed plan" and is funded at 100.6%. Also reviewed was the relationship of Funding Value, Market Value and Smoothed Market Value in the plan.

B-4 Derivation of Valuation Assets, Item G, Funding Value End of Year illustrated for 2013 ($155,001,358) and 2014 ($163,597,116) was reviewed. Mr. Tebeau stated approximately 24 Million of anticipated gains will be recognized over the next 4 years which is anticipated to aid the future contribution; line F6 Total Recognized Investment Gain.

As a recap from Mr. Tebeau, the mortality rate table RP-2014 was used in order to reflect the most recent mortality data and expected future mortality improvements projected out to

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2019 and recommends in 5 years to review the table at that time. He noted some plans are moving to a "Fully Generational" type of plan but does not recommend this strategy. This plan would cause an increase in liability and he feels it is not appropriate for the City of Troy ERS at this time. The System Administrator requested Mr. Tebeau to review the significant actuarial assumptions used for the valuation. Noted assumptions were; 6.5% per year investment return compounded annually which consists of a 3% real rate of return and 3.5% wage inflation assumption. The mortality table used was the RP-2014 projected to 2019. The System Administrator and Mr. Tebeau discussed GASB 67 note disclosure requirements, actual experience vs. assumptions.

Resolution # ER – 2015-08-18

Moved by: Darling
Seconded by: Kischnick

RESOLVED, to approve the City of Troy Employees Retirement System Fifty-First Annual Actuarial Valuation report for December 31, 2014 as presented, with addition of an executive summary and the above noted requested clarification changes to be made by Mr. Tebeau.

Yeas: 5
Absent: 2

Investments:

Michael Holycross and Brian Green of Graystone Consulting presented the June 30, 2015 Investment Review - Morgan Stanley Performance Report. The Total Fund Performance was reviewed pg. (58/354 pdf), noting the performance on the overall combined account for the pension. Mr. Green suggested on an aggregate basis not much has happened with the recent

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market overall for the quarter, even though there seemed to be daily volatility and noise in the market. Combined Account vs Policy Indexes' were reviewed; Current quarter -.07% vs. Policy Index -.56%, Calendar Y-T-D 1.97% vs. Policy Index 1.50%, Trailing 1 Yr. 2.76% vs. Policy Index 2.74%, Trailing 3 Yr. 11.3% vs. Policy Index 10.19%, Trailing 5 Yr. 11.06% vs Policy Index 10.74%, Trailing 10 Yr. 6.61% vs. Policy Index 6.47%. Also reviewed by Mr. Green, pg. (59/354 pdf) Asset Allocation, the Asset Class indexes' of Portfolio Percentages and Policy Allocation were compared with the resulting over and underweights noted.

In addition, Mr. Green discussed their specific account, pg. (60/354 pdf), Asset Allocation - By Manager / By Percentage Allocation (Morgan Stanley/Graystone) reviewing the overall market value of $87,928,248. Mr. Green stated overall asset class allocations are intentional and are pretty much the same and where they want them to be in regards to overweight equites and underweight fixed income. Mr. Green referred to the individual account managers reflecting that combined they held a little over 3 Million in cash. Chairman Calice asked Mr. Green about the "cash" and made reference to "mutual funds", Mr. Green confirmed that this is reflective of what they own. Next reviewed, Asset Class / Manager Performance - Morgan Stanley/Graystone pg. (61/354 pdf). Illustrating 3.73% since inception September 2014, vs Policy Index 3.95%. Mr. Green stated of the 8 equity managers; 6 are active 2 are index funds and they are off to a nice start for their long term success. Although from a global fixed income standpoint it's been a mixed bag. Greystone's Mr. Green felt that the PIMCO Real Return (PRLPX) Tips which started in June is off to a good start. Chairman Calice asked Graystone if we will achieve 6.5 %, Mr. Green felt it is possible.

Mr. Holycross concluded we will continue to see stable to moderate growth. Chairman Calice questioned if we were in a deflationary period, Mr. Holycross responded we have been in a deflationary period for the past 5 years since the banking crisis.

City Manager Mr. Kischnick expressed that he is comfortable with Graystone and UBS as the City's Financial Consultants for the ERS.

Break 1:15 – 1:22

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UBS Financial Services Presentation Investment Review - City of Troy Employees Retirement Systems Defined Benefit and NAIC June 2015 Report was presented by Ms. Sorensen and Mr. McBride. As stated by Ms. Sorensen, they have been watching the market very closely specifically in regards to China, Greece, and Puerto Rico. UBS has trimmed its recommended exposure to Emerging Markets and currently the ERS system has close to zero exposure from its assets held at UBS. In regards to interest rates UBS feels that the feds will start raising interest rates. At this time UBS still likes equities over fixed income they feel there is much value still available in them. In the fixed income area, UBS prefers investment grade corporate and high yield fixed income.

Ms. Sorensen stated that based on discussions with the System Administrator, the City's ERS needs to distribute $4,712,000 in August. Currently cash available is $2,550,000 and the difference needs to be raised. UBS suggests selling the Prudential Jennison Natural Resources Fund currently valued as of this writing at approximately $834,000. The system Administrator asked if this is a mutual fund and Ms. Sorensen confirmed it is. UBS has been looking at large positions of $1 Million or more. Also, UBS recommends selling half the General Dynamics position which has an "Under-Perform" rating. Current holdings with UBS approximate $2,136,000. Selling half will raise approximately $1,068,000. UBS' definition of Under-Perform is that the security position is expected to underperform its sector benchmark over the next 12 months. Chairman Calice asked what the next rating levels are after "Under-Perform", Ms. Sorensen replied "sell" "market perform" "outperform" and "buy".

Also, UBS suggests raising the remainder through a reduction in Apple stock approximately $250,000 for the additional cash needed after sales of the above. Ms. Sorensen stated that the City's ERS has a lot of Apple in various areas resulting in a little over 3%.

Resolution # ER – 2015-08-19

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Moved by: Calice
Seconded by: Stansbury

RESOLVED, the Board of Trustees agreed to make the recommended UBS changes to the portfolio to raise the cash needed for the City's ERS of approximately $2 Million. UBS suggests selling the Prudential Jennison Natural Resources Fund of approximately $834,000, selling half the General Dynamics position of approximately $1,068,000 and the remainder needed to come from Apple stock of approximately $250,000.

Yeas: 5
Absent: 2

Also, reviewed by UBS City of Troy Performance ending June 30, 2015 pg. (118/354 pdf), illustrating a good performance since 2002, reviewing the past 13 years.

Chairman Calice requested the review of NAIC. Ms. Sorensen reviewed Summary of performance by account pg. (123/354 pdf). The NAIC without the ERS was up 3.41% for the quarter with current valuation of $19,056,179.94 at 6/30/2015. Chairman Calice question Mr. Sorensen as to why there is not more in the account. Ms. Sorensen replied there is no reason why there cannot be more. The System Administrator commented that the reason is the Board previously decided to go down another path with investment advisors as the NAIC portfolio is 10% of overall holdings and is in the large cap sector. Also, system allocations % are also in effect and must be considered amongst all investment advisors. NAIC investments are currently based on the IAS report buy and sell recommendations as reviewed by UBS and the System Administrator. The System Administrator further added that this is a closed system with approximately 300 - 400 retirees. Mr. Henderson asked why we have NAIC as a separate account. Chairman Calice replied it's a money manager of sorts and to show performance on the large cap. UBS indicates there is no harm, having this as a separate account. Ms. Sorensen also suggested it is possible to have UBS reinvest proceeds generated by NAIC, should the ERS Board of Trustees decide to do so in the future.

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Also reviewed is a handout presented by from UBS on Option Cash Flow. Net option revenue from January through July 28, 2015 resulted in $36,282. Returns are reflected on the ERS large portfolio only.

From the IAS Report the Board of Trustees acknowledged the following activity based on the July – August 2015 IAS recommendations.

- Buy/Sell:
  - Sold 2,000 shares of Bio Reference (BRLI)
  - Sold 2,000 shares of HCC Insurance (HCC)
  - Buy 5,000 shares of Blackhawk Network (HAWK)

Chairman Calice stated that there is a request to withdraw approximately 3 Million from Morgan Stanley and approximately 4 Million from UBS to reimburse the City for pension benefits paid. The System Administrator added the amounts for each firm is based on the investment ratios held.

Resolution # ER – 2015-08-20

Moved by: Darling
Seconded by: Henderson

RESOLVED, the request to withdraw $3,362,000 from Morgan Stanley and $4,711,800 from UBS to reimburse the City for pension benefits paid be approved.

Yeas: 5
Absent: 2

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Other Business:

None

Public Comment:

None

The next meeting is Wednesday, September 9, 2015 at 12:00 p.m. at Troy City Hall, Council Board Conference Room, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting adjourned at 1:58 p.m.

Mark Calice, Chairman

Thomas Darling, Pension Administrator