City of Troy

Minutes

Employees' Retirement System Board Meeting

February 10, 2016 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 **February 10, 2016** at Troy City Hall, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting was called to order at 12:03 p.m.

Trustees Present:

Mark Calice
Thomas Darling, CPA
Thomas Gordon II
Steve Pallotta
Milton Stansbury
Dave Henderson

Trustees Absent:

Brian Kischnick

Also Present:

Kathy Kostopoulos
Scott Conrad

Minutes:

Resolution # ER – 2016-02-04

Moved by: Pallotta
Seconded by: Gordon

RESOLVED, that the Minutes of the January 13, 2016 meeting be approved.

Yeas: - 6 -
Absent: - 1 -

Retirement Requests:

None

Regular Business:

The GRS Engagement Letter of proposed services and actuarial fees for the City of Troy's ERS was discussed by the members of the board. Approved and reaffirmed were the major assumptions to be used, 6.5% return on investment and mortality tables.

Resolution # ER – 2016-02-05

Moved by: Pallotta
Seconded by: Gordon

RESOLVED, that the approval of GRS Actuary Services for valuation ending December 31, 2015 be approved.

Yeas: - 6 -
Absent: - 1 -

Investments:

- **Graystone Consulting Presentation**

Mr. Michael Holycross, Ms. Amy Cole and Mr. Robert Alati from Graystone presented the Graystone Morgan Stanley January 31, 2016 Portfolio for the City of Troy Employees Retirement System. Investment performance was reviewed and discussed with the members of the Board. Mr. Robert Alati presented an additional handout, illustrating the Dow Jones and Transport Industry trends. Mr. Michael Holycross discussed Morgan Stanley GIC Weekly article and reviewed the Total Fund Performance and Asset Allocations by Manager, and by Asset Class Manager Performance as of December 31, 2015 with the Board of Trustees. Discussed was the recommendation and handout provided by Mr. Holycross to raise the $3,386,000 benefits due to the City of Troy's General Fund based on investment transactions from Global Equities $1,800,000, Fixed Income $1,000,000, and Cash - ETF/MF $586,000. Mr. Holycross commented performance over the last 12 months has outperformed the broader portfolio and

the benchmark policy index. However the target return of 6.5% within the investment portfolio was not reached, as the market did not provide a 6.5% return.

Resolution # ER – 2016-02-06

Moved by: Darling
Seconded by: Stansbury

RESOLVED, accept Graystone recommendation to sell $1,000,000 Vanguard Total Market Fund, sell $800,000 TSW Fund. Sell $1,000,000 Templeton Global Return Fund and use proceeds along with existing cash to transfer $3,386,000 to the City of Troy for reimbursement of Benefits paid by the City.

Yeas: - 6 -
Absent: - 1 -

Ms. Cole reviewed the Morgan Stanley managed accounts for the month and quarter ended January 31, 2016. She noted that the ending value was $78.8 million representing a decrease of 4.37% for the month, quarter, and year to date net of fees. From inception ending value had an increase of 3.71% net of fees. For the month comparison, the S&P 500 Index represented a decrease of 4.96% and the MSCI EAFE a decrease of 7.23%.

- **UBS Financial Services Presentation**

Ms. Rebecca Sorensen, Mr. Darin McBride of UBS and Mr. Chris Gill financial advisor from Chicago, IL UBS, reviewed the stock holdings for the City of Troy Employees Retirement Systems Defined Benefit and NAIC portfolios at January 31, 2016 noting $110.6 million in assets. This represented a net time-weighted decrease of 3.36% for the month and for year to date increase of 1.14% net of fees. Ms. Sorensen reiterated and clarified for the members of the board, that the portfolio value as of December 31, 2015 was $114.4 million in assets which is consistent to what was reported by UBS last month's meeting and the year to date Net Time-weighted ROR at November 30, 2015 was an increase 1.07%. Recommendation provided by Ms. Sorensen and Mr. McBride to raise $4,702,000 benefits due to the City of Troy General Fund was as follows:

Cash:
ERS Cash $1,271,000 (from Precision Castparts sale, interest, and dividends)
NAIC Cash 38,000 (existing cash from dividends)
Sally Mae CD 240,000 (matures 2/4/2016)

Sales:
Dover 80,000 (Sell opinion on stock - small position)
Putnam Convertible 1,056,000 (Underperforming its category)
Corning 88,000 (Least Preferred - Neutral Rating - small position)
Templeton Foreign 559,000 (Underperforming its category)
Realty Income Corp 284,000 (Sell opinion - held in NAIC)

Totaling $3,616,000. Balance as needed from either Atlantic Richfield Bond or Loomis Sayles Investment Grade Bond Fund. Will need to retain $50,000 in a CD for recommended Put option.

Resolution # ER – 2016-02-07

Moved by: Darling
Seconded by: Henderson

Discussion: The Board discussed the recommendation and concluded not to take any money out of NAIC and the sale of the Realty Income Corp 284,000 (held in NAIC). It was supported that extra funds needed to raise up to $4,702,000 will be taken from Loomis Sayles Investment Grade Bond Fund.

RESOLVED, that the Members of the Board supported the UBS recommendation to raise $4,702,000 benefits due to the City of Troy using investment transactions from Cash: ERS Cash $1,271,000 (from Precision Castparts sale, interest, and dividends), Sally Mae CD 240,000 (matures 2/4/2016) and Sales: Dover 80,000 (Sell opinion on stock - small position), Putnam Convertible 1,056,000 (Underperforming its category), Corning 88,000 (Least Preferred - Neutral Rating - small position),Templeton Foreign 559,000 (Underperforming its category).

Yeas: - 6 -
Absent: - 1 -

February 2016 Option recommendations provided by UBS were reviewed and noted by the members of the board. Discussed were the Calls: Costco, IDEX, PEPSICO and Puts: TEVA PH. It was noted was that $50,000 in cash or CD form is needed to be available on hand in order to exercise option transactions, when necessary. Mr. Gill discussed the UBS House View Presentation February 2016 - Maturing bull or emerging bear? Noting that UBS leverages some of the largest asset managers in the industry in order to formulate the monthly view. He stated dispersion of returns appear to be very narrow and moderate growth is expected in 2016. UBS suggested the Eurozone is currently a favorable area. Market conditions and global industry outlook were discussed with the board members.

Other Business:

None

Public Comment:

Mr. Scott Conrad from City of Troy Engineering Department, retiree and part-time employee observed the meeting and declined to comment.

The next meeting is Wednesday, March 9, 2016 at 12:00 p.m. at Troy City Hall in the Council Board Conference Room, 500 W. Big Beaver Road, Troy, MI 48084.

The meeting adjourned at 2:10 p.m.

Mark Calice, Chairman

Thomas Darling, Pension Administrator