MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
JANUARY 7, 2016 – 9:00 A.M.

Carl Dentler, called the meeting to order at 9:00 a.m. in the New City Hall 2nd Floor Conference Room. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL

PRESENT:	Dentler, Carl; Ellwanger, Paul; Hadley, Bart; Hill, Andy; Kindt, Bill, Livingston, Steve.
ABSENT:	Bayones, Teri.
ALSO PRESENT:	Tim Wilson, City Attorney's Office; Denise Ezell, City Clerk's Office; Perry Warren, Morgan Stanley.

I. Introduction of Visitors

None present.

III. Approval of Minutes from October 22, 2015.

Motion by Hill, **Second** by Ellwanger, to approve the minutes of October 22, 2015. **Aye**: Dentler; Ellwanger; Hill; Livingston. **Abstain**: Hadley; Kindt. **Nay**: None. **Motion Passed.**

IV. New Business

A. Nominate and approve a Chair and Vice-Chair for 2016.

Hill asked isn't this position normally held by past or present city personnel.

Dentler stated that has been the past procedure.

Hadley stated when Ihler moved into the City Manager position he asked if I would be the Department Directors representative. Being unfamiliar with everything I wasn't comfortable taking the chair position and Dentler agreed to do so temporally.

Motion by Hill, **Second** by Ellwanger, to nominate Bart Hadley as the Chair. **Aye**: Ellwanger; Hadley; Hill; Kindt; Livingston; Dentler. **Nay**: None. **Motion Passed**.

Motion by Hill, **Second** by Hadley, to nominate Paul Ellwanger as the Vice-Chair. **Aye**: Ellwanger; Hadley; Hill; Kindt; Livingston; Dentler. **Nay**: None. **Motion Passed**.

B. Receive quarterly financial report from Morgan Stanley and take action if necessary – Perry Warren, Morgan Stanley.

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Warren stated thank you for allowing us to be here today. Turn to page 4 and look at the far right hand under Period Returns – Net of Fees. At the end of 2015 we finished on the Dollar Weighted Rate of Return at -2.54. At the end of the 3rd quarter we were down 1.67. We bounced back into a nice smooth in the 4th quarter and were up 3.69%. As mentioned at every meeting we are going to have more volatility moving forward. Turn to page 5 and look at the upper left hand corner under Time Weighted Rate of return. The percentage of net of fees is -2.58. The difference between Dollar Weighted and Time Weighted is one counts for the time and the other counts for the money. The 3 year return is 4.98%. In October of 2014 we were at 6.75 because of the volatility in the market. We were in the negative for the last 12 months. A question I would ask is if the investments we owned are in alternatives. The S & P finished in the last 12 months at 1.38%. If you take those 500 stocks and equally weigh them those 500 companies were down 2.31%. We have a broader group of stocks. We believe we are well positioned for the long run. As rates rise and the market improves we will also.

Ellwanger stated I have a question under allocations. We have 70% of our investments in equities. Is that correct?

Warren stated yes. We are at 69% which is in the upper end of our range. Any other questions. If not turn to page 6. Since changing your Performance Goals is on the agenda I want to show the change that was made in 2014. Look at the percent of our portfolio under US Equities and International Equities. You see we were roughly 41% equities in 2012. After the change in 2014 we ended roughly at 62% in equities. Under alternatives in 2012 we had 1.3 and in 2014 we had 6. Those were changes we made during that time. Prior to that time our allocation was 65% aggregate bond and 35% stocks. When the math wouldn't add up with those numbers we made the change.

Ellwanger asked what is the definition of an alternative.

Warren stated alternatives to bonds. For example next to limited partnership you see gas went down but they paid the dividend. We were receiving 6%. The yield on the lower value is 10 but we are still getting the dividend. Bond yields were at 2%. Since this is a long term portfolio and in order to have a chance of meeting the benchmark we will have to have something other than bonds. The aggregate bond for the year was .55 and for 3 years it was 1.44. If we still had 65% bonds we would not have made the 4.98. This would have been higher if the change had been in effect for all of 2013.

Ellwanger stated okay.

Warren stated look at page 13. With more volatility in the portfolio I wanted to go over this chart. As the nature of the portfolio we had 60 to 70% in the market and will have more volatility than in the past. This chart represents from 1980 the annual returns on the S & P 500. If you look at the blue bar and ignore the red dots we could live with that. The problem is between the blue bars are the red dots. At the last meeting the market had just bounced off the -12 and the S & P was down -8. The S & P moved back up during the quarter to 1. It is not unusual for the market to be down. If you look at the red dot at the bottom under Maximum

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Intra-year Decline the median is down 10.5% between the blue bars. The reason this is important is because of the allocation we have. We are going to have more volatility and what we don't want is to get to one of those red dots before it goes back to the blue bar. Page 19 represents the historical returns for the period of 1995 to 2015. In 2007 we were 65% government agency mortgage backed bonds and 35% stocks. If our number needs to be 6 ¾ and without taking risk to our principal you would be out there past that 65/35. If you look at the front end where interest rates are and you had 100% bonds we would have made 2.5%. Over the last 3 years if it all had been in aggregate bonds we would have made 1.44. We had to go on the gray line to a higher yield to have the hopes of making our actuarial number. If you just had S & P and bonds the standard deviation had to go from 4 to 10. That was the reason for adding alternatives and the reason for having international and small cap. We did not change the allocation to have more volatility. It was changed in an attempt to reach our goal. We have to handle the volatility or settle for less return. You could say don't go after the 6 ¾ go back to 5. If you do that then we will have to ask the City of Lawton to fund the pension. We are trying to fix it from this point forward. We had to do a fix due to the past funding. My last point is changing the benchmark. I made this recommendation at the last meeting. To have the benchmark represent our investment policy we recommend making a custom benchmark using the portfolio asset allocation target on page 5 of the Investment Policy. The 50% aggregate bond doesn't count for the 5% in alternatives or the 1 to 2% in cash. The reason a custom would be better is when you look at the S & P 500 we are allowed 5 to 20% in international stock and 9% in small caps that is not included in the S & P 500. If we do a custom benchmark it would include these indexes. The custom would have Russell 1000 Growth which would represent large value, Russell Midcap Growth which would represent value, Russell 1000 Value which would represent small cap value, MSCI AC World XUS represents the allocation in foreign stocks and HFRI Fund Weighted Comp represent the index to benchmark us against the alternative investments. The custom index best represents what we are trying to do which is meet or exceed the actuarial required rate of return. We recommend a custom benchmark.

Ellwanger stated I don't understand what you just said. The agenda says "consider changing the Performance Goals of the Investment Policy" and we are referring to page 6.

Warren stated yes and the Performance Goals are on page 7.

Ellwanger stated and the performance goal is a blend of 35/65.

Warren stated correct.

Ellwanger stated and the portfolio should earn a net of fee at 100% of the benchmark for at least 2 of the preceding time periods. So what are you saying?

Warren stated we changed the allocation from 65% bonds to 50/50. What you will be tracking us by will not be appropriate for the allocation changes. We made the decision in 2014 to change the investment policy. No longer does the 65% aggregate bonds represent the middle of our target.

Hadley stated the performance goals don't match.

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Warren stated correct. This is not to make it easier on us. What we want to do as managers is to be able to make the return. We want to make the 6 ¾ with the least amount of risk. We want you to have a benchmark to see how we are doing within your parameters. The one that will do that the best is a custom index where we take the S & P 500 component and break it into the Russell's 1000 growth, value and midcap. With this when we give our report we should be close to our benchmark. We have managers in each of these quadrants and they need to be beating that index or at least have the opportunity to do so. So a custom index is better and it is more complex. We need to have a benchmark that shows whether we have met our objectives or not. That is our recommendation.

Hadley asked did you read the agenda item.

Warren stated yes.

Hadley stated I'm not certain I wrote it correctly based on what I just heard. I went by the minutes and the policy.

Warren stated we need to replace "on a blend of 50% S & P 500 Total Return and 50% Barclays Aggregate Bond" to read "the employees custom benchmark."

Hadley asked what is the custom benchmark and where it is located?

Warren stated it is on the report. What you need to know is it is 2% of the allocation that makes up the custom benchmark.

Hadley asked should it be listed instead of just custom benchmark.

Warren stated yes. All you need to do is change the 50/50 to the Employees Retirement System custom benchmark. Then in the notes we would state the custom index is comprised of the following indexes. I'll help you with that.

Hadley stated the agenda item could say custom benchmark but for us to vote we need to know what that benchmark is. The motion to approve the item needs to read "consider approving the proposed changes to the Performance Goal section of the Pension Trust Investment policy providing two (2) options of the evaluation criteria of investment portfolio performance by using either the actual interest rate assumption of 6.75% or a benchmark based on the employees retirement system of the City of Lawton custom benchmark which is comprised of Citi Tbills, 90 Days Russell 1000 Growth, Russell 1000 Value, Russell Midcap Growth, Russell Midcap Value, Russell 2000 Value, Russell 2000 Growth, The MSCI World Index EXC, the aggregate bonds, and HMI." This makes it easier for us to see where we are doing well and where we are not.

Warren stated absolutely.

Hill asked do you still want to add the 10 years.

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Warren stated yes because this is a 30 year plan.

Ellwanger asked do we feel this needs to be done today or could we table this until we have it in writing.

Warren stated we invest based on the investment policy. This doesn't have to be done anytime but as manager the benchmark we have to answer to in June is easier to beat than the one we would like to go to. At the end of the day we want to be accountable for what y'all have allowed us to manage.

Ellwanger stated I'm not opposed to it but I just don't know how to state it.

Hadley stated that is a good point. I'll put this back on the agenda for the next meeting.

C. Consider changing the Performance Goals of the Investment Policy – Perry Warren, Morgan Stanley.

Motion by Dentler, **Second** by Kindt, to table this item until the next meeting. **Aye**: Hadley; Hill; Kindt; Livingston; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

D. Pursuant to Section 307B7, Title 25, Oklahoma Statutes, consider convening in executive session to discuss the pending medical retirement of Steven Bowen, and take appropriate action in open session as necessary. – Human Resources

Motion by Hill, **Second** by Ellwanger, to convene into executive session. **Aye**: Hill; Kindt; Livingston; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

The Authority convened in executive session at 9:30 a.m. and reconvened in regular, open session at 9:41 a.m. Roll call reflected all members present except Bayones.

Motion by Ellwanger, **Second** by Dentler, to approve the medical retirement of Steven Bowen for a non-job related injury and that he be required to report back on an annual basis as to his medical condition until he reaches normal retirement age. **Aye**: Livingston; Dentler; Ellwanger; Hadley; Hill; Kindt. **Nay**: None. **Motion Passed**.

V. Old Business

None

VI. Consent Agenda

FOR THE BENEFIT OF THE AUDIENCE, ALL MATTERS LISTED UNDER THE CONSENT AGENDA ARE CONSIDERED TO BE ROUTINE BY THE PENSION COMMISSION AND WILL BE ENACTED BY ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION OF THESE ITEMS. IF DISCUSSION IS DESIRED, THAT ITEM

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WILL BE REMOVED FROM THE CONSENT AGENDA PRIOR TO ROLL CALL AND WILL BE CONSIDERED SEPARATELY.

A. Consider Memo of Information regarding the death of retiree John Walter Walsh.
B. Consider Memo of Information regarding the early retirement of Tim Libby.
C. Consider Memo of Information regarding the normal retirement of Herman J Triche, III.
D. Consider Memo of Information regarding the normal retirement of Lanny J Wallace.
E. Consider approval for the paid-in-full judgments to be released from the record.

Motion by Hill, **Second** by Kindt, to approve the consent agenda. **Aye**: Dentler; Ellwanger; Hadley; Hill; Kindt; Livingston. **Nay**: None. **Motion Passed**.

VII. Comments

Hadley stated I want to update the Authority on a situation where there was an overpayment to a retiree. Three years ago there was a data entry error by one of our accountants. Due to this error a particular retiree began receiving $2521.78 per month when he should have received $521.78. He was receiving an extra $2000. This wasn't discovered until 8 months later. He had received a total of $16,000. This accountant is no longer employed with the City of Lawton not just for this error but for others also. At the time I was the Acting Finance Director and I went to visit with the retiree to discuss a couple of different options for repayment. We have kept his retirement check and at this point he still has a balance of $2433.72 owed. It will completely be recouped in May of this year.

Kindt stated on Item B of the consent agenda he is to get a 2.5% reduction because of his early retirement. The figures don't show that. We don't know if the early retirement was applied or not. If we saw the computation that might help to prevent another incident such as this.

Hadley stated this particular gentleman had been receiving a pension for a long time. They discovered a mistake with his social security number. When the accountant went in to make the correction instead of correcting the social security he added a 2 in the dollar amount. It wasn't caught until we did our annual reviews. I agree it might be a good idea if we included the computation. When we bring these items forward could we include that information.

Massie stated okay.

Hadley stated I would also mention you might hear that the City is considering offering some early retirement incentives. It would not be an early retirement but incentives for those that qualify. We are strongly considering offering to pay their health insurance for one year. Are there any other comments.

VIII. Audience Participation

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IX. Adjournment

There being no further business the meeting adjourned at 10:00 a.m.

Motion by Kindt, **Second** by Ellwanger, to adjourn. **Aye**: Dentler; Ellwanger; Hadley; Hill; Kindt; Livingston. **Nay**: None. **Motion Passed**.

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