MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
JULY 23, 2015– 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: Bayones, Teri; Dentler, Carl; Ellwanger, Paul; Hill, Andy; Kindt, Bill; Livingston, Steve.
ABSENT: Hadley, Bart.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Kelea Fisher, City Attorney's Office; Chase Massie, Human Resources; Krystal Urbanski & Julie Magness, Finance; Perry Warren, Morgan Stanley.

II. Introduction of Visitors

There were none present.

III. Approval of Minutes from April 22, 2015.

Ellwanger stated the agenda says April 20th and the minutes say April 22nd.

Motion by Kindt, **Second** by Bayones, to approve the minutes with stated correction of April 22, 2015. **Aye**: Dentler; Hill; Kindt; Livingston; Bayones. **Abstain**: Ellwanger. **Nay**: None. **Motion Passed**.

IV. New Business

A. Receive Quarterly Employees Refunds Made From Retirement System and Receive Quarterly Statement of Receipts and Disbursement and take action if necessary.

Urbanski stated starting with the Statement of Revenue and Expenses. For the fourth quarter the City contributions were $559,784.26, employee contributions were $352,637.34, miscellaneous revenue $100, realized gain/loss on Morgan Stanley $2,258.37, dividends on Morgan Stanley $199,828.48, unrealized loss on Morgan Stanley $300,735.83, interest of $79,188.20, gives you a total revenue of $893,024.82. Year to date your total revenue is $4,438,467.00. Expenditures for the fourth quarter were benefits of participants is $1,001,223.04, refunds of $158,153.02, investments fees of $73,214.07, auditor fees of $3,050.00, bank charges $96.27, and McAfee & Taft consulting fees of $1,188.00. Total expenditures for the fourth quarter were $1,236,924.40 which is a net decrease of $343,899.58. The fund balance as of June 30th was $50,987,185.55. The next page is your balance sheet. Cash in the bank/money market funds was $510,456.96, investment in US government obligations was $2,384,954.33, mutual funds $29,450,608.35, stocks $16,921,074.17, judgments of $1,727,365.84, interest and account receivable of $154,386.52, and liabilities of $171,659.62. Our total liabilities and fund equity is $51,158,845.17. The next page is a breakdown of all the refunds and taxes for the quarter.

Motion by Hill, **Second** by Ellwanger, to accept the financial report. **Aye**: Ellwanger; Hill; Kindt; Livingston; Bayones; Dentler. **Nay**: None. **Motion Passed**.

B. Receive quarterly financial report from Morgan Stanley and take action if necessary.

Warren stated the balance sheet states mutual funds/stocks and I want you to understand mutual funds can be bonds. Even though it is listed as stocks the report picks up change traded funds. They are like mutual funds but can also own bonds.

Warren stated first let's look at page 4 on this report. On June 30th we had $48,953,720.46 in the portfolio. The return of net fees for 3 years is 7.32%, for 5 years 7.46% and since inception is 6.04%. We had a portion of the portfolio in 2001 but we didn't really start until November 2007. We are really close to our target on years 3 and 5. Since the last meeting we have an increase of 3% in equities, a decrease of 2% in bond and alternatives stayed the same. There was a $600,000 withdrawal in June.

Warren stated page 5 gives you an idea of what has happened over the whole length of time. It is broke down by quarters because we are managing this for the long haul. We have the portfolio position that we think rates are going to rise. At the end of June it was at a low point of the market at 0.78 and yesterday it was 1.7. If you look at the aggregate bond market in 2013 it was down to 2.02%. The reason was 10 year treasuries went from 1.9 to 3% and caused bond prices to fall. In 2015 the return was a positive 6. If you net it out it works out to 2% a year and this is what we thought we were going to get from bonds. That is the reason for the allocation change where we increased stocks. In 2013 the return we made was nearly 13% compared to the index of 9%. The next year when rates went down we underperformed.

Warren stated on page 8 you see the same pie chart from the previous page. Since the last meeting we added about $650,000 to Deutsche Croci International fund, $200,000 to the growth using the First Trust IPOX 100 Index and $1,000,000 to the Vanguard Total Bond market. Those investments came out of short term treasuries. We also reduced our exposure in the 1 and 3 year treasuries by $100,000.

Warren stated turn to page 10. We believe with what is going on internationally their markets are going to end up doing better because they are behind us. When things were bad in the United Stated we lowered the value of the dollar to make our products more competitive in the world. As we become stronger and stabilize the international markets do the same. We believe because the currencies of the foreign countries are less valuable their products are going to look more compelling for us to buy to help their economies. The problem is you can't make those investments because if you own investments and things are good they make 15% but if you are losing 10% return because their currency is getting weaker you don't realize it. That is the reason we added $650,000 to the fund which increased our national exposure by 1.7% bringing it up to 4.4%.

Warren stated at the top of page 11 it shows we have Vanguard Total Bond. This is 6% of the overall portfolio.

Warren stated now turn to page 14. We feel one of the most important things we can do for the portfolio is to make sure it is allocated appropriately over time. You have a long term view and we want to manage it based on long term expectations while remaining aware of the current near turn factors. The pale blue lines are the historical returns of the stocks and bonds over the last 20 years. If our goal is 6.5% we could have been nearly all bonds over the last 20 years. That is the reason when we started in 2007 we had 65% of the portfolio in bonds. The blue line shows 35% bonds and 65% stock so you have a very low volatility. The return gets us real close to our target. The performance of the bond market is going to be lower than 6% and over the next several years we believe you will be closer to 2 or 3%. In order to make the return we have to move out here based on our forecast. That is why the portfolio is 65% with the maximum of 70%. We want to maintain that allocation because we feel over the next 2 to 5 years the stock market will outperform the bond market. Bonds will underperform their normal because as rates rise it hampers their total returns. We hope that rates rise and we get on the blue line.

Warren stated on the next page you see the different places you need to be at different times. In 1985 to 1995 you could have been all bonds. The only reason to have bonds was to keep pace with inflation.

Warren stated let's move to the asset scan. The report scans all the way through the portfolio. If you look at the asset allocation it shows cash at 7.82%. On the other report is stated cash was .4%. This is cash we have to deal with and is actually in the portfolio. It is held by mutual funds and other investments. If we need to write a check we have .4%. When they scan the investments it shows that some of the fund managers are holding cash. Next is the asset scan. In the upper right hand corner you see a value of $49,533,622.15. This report was ran on Tuesday and since that time to now it is up $579,942. The tic-tac-toe boxes show how the portfolio is allocated to bonds. The first box shows we are 36, 40 and 0. The quality of our bonds is 35% high, 10% medium and 31% low. The reason that doesn't add up to 100% is because some of the bonds are unclassified. The big factor is that the effect of duration is less than 3 years. When rates move up our duration will be longer. Now look at the equity style box. As of right now we are 73 large, 18 medium and 9 small and 34 value, 31 growth and 35 blend. Are there any questions.

Ellwanger stated on this same page it shows Credit Quality Breakdown. Some items are below a B. Talk a little about credit quality.

Warren stated when we started we had nearly 65% in mortgage obligations that were backed by mortgages. They were all triple A layered. Because interest rates have gone down we don't want to own those. If you own them and rates go up you can suffer a lot as people might not pay off their mortgage to get a higher mortgage. So we changed from that and when we did we hired managers. We have money in the bond funds and when we invest they will have some that are high quality and some that can go anywhere. Non-rated doesn't mean that they are bad but that they haven't been rated. A lot of municipal bonds don't get rated. The 7.32% of bond portion is high yield bonds. This is one reason we are going to have more volatility. When you have 25 to 31% of low quality bonds it has to be managed. The manager and their team doesn't feel like the non-rated or below B is in jeopardy. We don't own individual bonds that are B or below because we don't have the expertise. If a company was to get into trouble we don't have the time to research what percentage of our money we would be backed. Because rates are so low and in order to have any kind of yield you have to have more triple B or those type quality bonds. When the stock market goes down the value of those bonds will fall. Over time the stock market will outperform the bond market. We believe over the next 5 years stocks will outperform bonds.

Dentler asked are there any other questions. Thanks for being here today.

C. Receive Report on Number of Employees Enrolled in the Pension Prior to Career Averaging and the Number of Employees Enrolled in Career Averaging and take action if necessary.

Massie stated at the end of June 30th we had 306 employees on the 3 year average and 202 employees on career averaging.

Dentler asked are there any questions. Thanks

D. Consider approving payment of an invoice from McAfee & Taft for services rendered to the Pension Trust.

Fisher stated on April 22nd the Trust approved John Papahronis to begin working to review the retirement plan and to draft an amendment and restatement that is required by the IRS. The attached invoice is for his work from June 17th thru June 29th in the amount of $704.00. We are submitting that for approval by the Trust.

<u>**Motion** by Kindt, **Second** by Ellwanger</u>, to approve payment of an invoice from McAfee & Taft for services rendered to the Pension Trust. **Aye**: Hill; Kindt; Livingston; Bayones; Dentler; Ellwanger. **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

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

Kindt stated I would like to pull item G.

Motion by Kindt, **Second** by Hill, to approve item A thru F of the consent agenda. **Aye**: Kindt; Livingston; Bayones; Dentler; Ellwanger; Hill. **Nay**: None. **Motion Passed**.

Kindt stated this retiree selected a 10 year certain and my question is if there is something in his file that shows who his beneficiary is.

Massie stated yes.

Kindt stated okay. We can't just assume that it is his wife.

Motion by Kindt, **Second** by Hill, to approve item 6G. **Aye**: Livingston; Bayones; Dentler; Ellwanger; Hill; Kindt. **Nay**: None. **Motion Passed**.

A. Consider approval for the paid-in-full judgments to be released from the record.

B. Consider Memo of Information regarding the application for normal retirement from Richard Werstein.

C. Consider Memo of Information regarding the death of retiree survivor Amelia Brown.

D. Consider Memo of Information regarding the application for normal retirement from David Wood.

E. Consider Memo of Information regarding the survivor pension of Susan Webb.

F. Consider Memo of Information regarding the application for early retirement from Raymundo Quiroga, Jr.

G. Consider Memo of Information regarding the application for early retirement of Kim Wayne Shahan.

VII. Comments

Ezell stated a year ago the Trust approved a medical retirement for Edward Northern. At that time he was not approved for permanent disability. Human Resources has been informed that his doctor has now placed him on permanent disability. Since he has reached this status we will no longer monitor his disability.

Warren stated I would like to let the Trust know that Armstrong is still on medical leave. This is not a life threatening situation but he is unable to return to work. We hope that between now and the end of the year he will be back. I will know more the first of January.

VIII. Audience Participation

None

IX. Adjournment

There being no further business the meeting adjourned at 9:35 a.m.

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