MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
JULY 30, 2020 – 9:00 A.M.

Bart Hadley called the meeting to order at 9:00 a.m. in the City Hall Second 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; Ellwanger, Paul; Hadley, Bart; Hill, Andy; Petersen, Ed.
ABSENT: Livingston, Steve.
ALSO PRESENT: Dewayne Burk, Human Resources Director; Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Maddie Leonhart, Financial Services.

II. Introduction of Visitors

Hadley stated I don't believe we have any visitors with us today.

III. New Business

A. Approve minutes of January 23, 2020.

Motion by Bayones,

Ellwanger stated asked where are the minutes.

Ezell stated those were emailed to you separately from the agenda.

Bayones stated I have a printed copy if you would like to look at them.

Ellwanger stated thank you.

Hill asked did you say they were emailed.

Ezell stated yes.

Bayones stated I believe the email was sent on the 27th.

Hill stated I don't believe I received the email.

Ezell stated Petersen called and stated the minutes were not in the packet, so I emailed them to everyone.

Hadley asked what is the best email for everyone so we can double check them.

Hill stated mine is EllaAndy84@yahoo.com.

Ezell stated that isn't what I have for you. I do have Ellwanger's because one of the girls from the bank called and updated us.

Ellwanger stated okay.

Hadley stated okay, so let's take a moment to look them over.

Second by Ellwanger, to approve the minutes of January 23, 2020. **Aye**: Ellwanger; Hadley; Hill; Petersen; Bayones. **Nay**: None. **Motion Passed**.

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

Warren stated good morning. I'm excited to be here this morning to provide an update on the investment account. My how things have changed in our world since the last meeting. A lot of changes to how the society operates with some changes being temporary and some that will stay for quite some time. We want to thank the board for allowing us to be here each meeting to provide the quarterly updates. Let's start on page four (4). Page four (4) is the dollar weighted performance by period. To the right is the calendar year return in bold. Calendar year return as of June 30th is negative .88. For the calendar year 2019 20.38%, 2018 negative 4.66, 2017 15.22 and 2016 7.04. You see all the returns since inception below. I have broken out the last six (6) months performance by month to reflect the year to date volatility. As I mentioned a lot has happened since our January meeting. In January we had a withdraw of $2,100,000. You will notice the temporary decline in investment earnings during the first calendar quarter of negative $8,683,365.92 bringing the fiscal third quarter down to $47,247,390.14. There were many factors caused by COVID 19 that lead to this volatility. Please note the second quarter positive in investment return of $8,187,350.36 bring the account balance back up to $55,434,740.50 at the end of the fiscal year on June 30th. During the volatile days we worked diligently to manage our allocations. In late January we raised the funds to make the distribution. I reduced the equity portion a few percentage points realizing it had a good year and expecting an opportunity to bring us back to the max weight which is within our discretion. We were able to do that due to the market's reaction to COVID and actions were taken to reduce the spread. Starting March 9th, I added to equities by investing in the diamond which is comprised of the 30 DOW Stocks. These stocks are names you would recognize. The top fifteen (15) holdings include Apple, United Health Care, Home Depot, Golden Sacs, Microsoft, VISA, McDonalds, Boeing, 3M, Johnson and Johnson, Caterpillar, Walmart, Proctor and Gamble, IBM, and the Travelers Company.

Hadley asked when was that?

Warren stated March 9th. It was tough to be under weight with the market down and not buy. Apple makes up the largest holding with 9.9% followed by United Health Care with 7.87% and Home Depot with 6.69%. Golden Sacs through Travelers range from 5.4% to 3.06%. I picked these to increase our equities to the max for several reasons. One was the dividend yield at the time of 2.5% and I added approximately a $1,000,000 on March 9th. We used funds we had set back in January for the addition and two (2) days later added another $1,000,000 at a price of $237. On March 12th we added another $500,000 at a price of $212. So, we were at $238, $237 and $212 with a yield of approximately 2.8. At this time, we were near our max weight in equities. On March 23rd we added approximately $500,000 at $186.78. So down from $238 to $213 and then $186 of a yield close to 3.2%. This is March 23rd. We are all aware the market turned on March

24th with a significant jump. That day we sold the share of the diamond at $204 that we had bought for $186.78 for a return of over 9%. I did that to bring us back to the max weight since our equity portion rose in value significantly. As the market has risen and pushed our equity allocation about 70% we have been reducing equities. Page five (5) shows the time weight returns at the end of the fiscal year June 30th. Notice the return of net fees. Our return for the last fiscal years was 5.24%, the last three (3) years 6.83%, the custom period of 8.37% which represents the change in allocation, the last five (5) years 6.24%, the last ten (10) years 6.85% and since inception 5.53%. As a reminder the custom period reflects the change in our allocation and benchmarks from the old allocation to our current guidelines. Our goal is to earn 6.75% or beat our benchmark. We did that in the three (3) year and custom period. We were a little short of our benchmark the last twelve (12) months due to our stance that long-term rates would stay the same or rise and during the last six (6) months rates fail. From December 31st the rates were 1.91% on the ten (10) year treasury and they hit a low on March 9th of below .4%. You notice the increase in bond returns due to the fall in interest rates as they are reflected by the Barclays Aggregate below. We feel we should remain underweighted in bonds until rates rise. Page six (6) reflects the time weighted returns as of June 30th. Notice the performance since inception. We begin on November 15, 2007 with $34,679,131. We have had net withdraws of $11,494,848, investment earnings of $32,350,457 leaving us the $55,434,741. The last twelve (12) months we started with $55,624,981, net withdraws of $3,099,974, investment earning of $2,909,733 leaving us the $55,434,741. The custom period we began with $46,450,836, net withdraws of $7,798,831, investment earnings of $16,782,735 leaving us the $55,434,741 on June 30th. The chart to the right reflects the numbers since inception. The purple line represents the net invested capital and the blue the total value. The difference between the two (2) is investment earnings. Page seven (7) reflects the dollar weighted return net of fees for the period ending July 23rd. I included this to reflect changes since the end of the fiscal year June 30th. Since inception we started with $34,679,131 with net withdrawals of $11,494,858 and investment earnings of $34,266,108. We have had little change since then leaving a balance on July 23rd $57,450,391. Notice the chart to the right where the number are reflected. The differences is the investment earning. Page eight (8) reflects the time weighted returns through July 23rd. The performance shows 8.65% the last twelve (12) months, 7.66% the last three (3) years, 9.19% for the custom period, 6.95% the last five (5) years, 6.85% the last ten (10) years and 5.79% since inception. We are proud that we are currently above the 6.75% actuarial assumption through the last ten (10) years. Please note ERSOCOL benchmark only updates monthly due to the HFRI fund weighted comp index. The next page is the Portfolio X-Ray. This allows us to drill down into the holdings of the portfolio and see in more detail the composition. The pie chart in the upper left-hand corner shows where cash represent 6.5%, US Stocks 60.54%, Non-US Stocks 7.20%, bonds 24.97% and other .79%. Currently we are within the allocation guidelines with 31.47% cash and bonds and 68.53% in equities and others. We will be near our max once the requested $600,000 is processed. Notice the stock section triangle to the right shows we remain balanced in the middle with a slight bias to cyclical stocks and a slight underweight to defensive stocks. Notice the blue equity style box where we are currently allocated at 24% large value, 28% large blend and 28% in large growth. We recently reduced large growth adding to bonds and large value. Currently we are allocated with 4% mid value and mid blend and 7% in mid-growth. We have 1% in small value, 2% in both small blend and growth. Notice the top ten (10) holdings at the bottom of the page. This section shows the percentage in dollar amount in the top ten (10) positions. Page 26 is the position summary page that shows the holdings without drilling into them like the portfolio x-ray. The summary shows cash $875,068.98 or 1.5%, equities $39,279,451.06 or 68.4%, fixed income and alternatives are broken out with fixed income being $13,062,009.49 or 22.7% and alternatives $4,233,861 or 7.4%. The total portfolio value on July 23rd was $57,450,390.66 with an estimated annual income of $978,254.23. On a side note we distributed the $600,000 on Monday July 27th. Page thirty-one (31) is the Intra Year Decline Chart. We like to end each update with a review of this chart. With our allowable allocation up to 70% in equities we feel it is important to review the volatility we will likely have to endure. The chart represents the S&P 500 annual returns. The blue bars represent the annual return and the red dots the max intra year declines. You notice the negative 34% in 2020 is a large decline tied with 1987 and 2002 for the second largest. With over $39,279,451 in equities we believe it is important to review this chart. We believe we are allocated appropriately based on the goals and objectives of the plan. I would like to thank the board for allowing us to be here to provide an update. I'll be glad to answer any questions at this time.

Petersen stated buy low sell high. That's the goal.

Warren stated for us getting the allocations set and leaving it alone is the best plan. In light of the downturn bonds went up and caused our equities to go down. If we don't take advantage when it gets significant you have a lot of movement and don't get any gain. We want to be in a position where we can go back to where we were on bond yields. Currently the bond yield on a ten (10) year treasury is .545 and on December 31st it was 1.91. We have been saying we want to be underweight in bonds. We want to be towards our max weight because I feel that bonds are going to go down causing us to sell equities to buy bonds. If we feel we need to make the appropriate change we will. We have a good range to do that.

Hadley stated you talked about keeping it this way until rates begin to rise. At an Investment Committee meeting a couple of the members indicated they don't expect interest to rise for at least a year. We are going to be here a while.

Warren stated I'm not anticipating that rates are going to rise. Obviously, I was wrong. Here we are putting money in and it went from $238 to $212 then to $187. It is a deep physiological scar putting more money in. We had conservations about 1987 when the market went down 34% and they said it would take forever to come back. When you ask how long it took, they said two (2) or three (3) years. By the end of the year it was up 10%. When we were at 67% and bonds went up and stocks went down, we had room to put that in. We didn't know but that was what we needed to do. We did it because we didn't get the kicker on the bond side because we were not long in bonds. Our stance is rates are going to stay where they are or go up gradually. The change on page five (5) that you see in the Barclays Aggregate in the custom period we made 3.88% with rate going from where they did in 2016 all the way down to .54%. If we had half our money in there, we would average 3.88% for the past four (4) years. That doesn't help tremendously. It is a mathematical answer and the odds are in our favor. The number on our coupon clipping is significant enough and we change our allocation to reduce volatility. Right now, bonds are the most volatile they have been since I have been in the business. Coupon rates are so low. The ten (10) year treasury was 1.91% in December and a 2% bond had a return of 8%. The only way that happens is if you are long.

Hadley stated thank you.

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

Leonhart stated you have the third and fourth quarter in your packet and we are going to cover the fourth quarter. It starts on page seven (7). The balance sheet shows total cash of $1.1 million and total assets of $57.4 million. Page eight (8) is the Statement of Revenues and Expenses. Revenue contributions were $8.9 million and that was due to an unrealized gain of $8.7 million. The $150 miscellaneous revenue is a payment from Joan Hobbs. Total expenditures were $1.1 million. We had a net increase of $7.7 million for the fourth quarter. Page nine (9) is the Employee Refunds. There was a total of $216,781.21 which was a nice surprise. It has been quite a bit higher in the previous quarters. Are there any questions.

Motion by Ellwanger, **Second** by Hill, to accept the financials as presented. **Aye**: Hadley; Hill; Petersen; Bayones; Ellwanger. **Nay**: None. **Motion Passed.**

D. Receive Actuarial Report from Chuck Dean and take action if necessary – Chuck Dean.

Stricken

E. Consider approving a new mortality assumption table that pertains to governmental employees.

Stricken

F. Consider ratifying the actions of the Pension Trust Chairperson in authorizing payment of the invoice dated February 20, 2020 from McAfee & Taft, in the amount of $1,347.50, for services rendered to the Pension Trust.

Motion by Petersen, **Second** by Ellwanger, to ratify the actions of the Pension Trust Chairperson in authorizing payment of the invoice dated February 20, 2020 from McAfee & Taft, in the amount of $1,347.50, for services rendered to the Pension Trust. **Aye**: Hill; Petersen; Bayones; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

IV. Old Business

A. Consider the application for retirement of John Elwell.

Ezell stated this item came before you at the previous meeting. It was pulled due to mistakes that were made and questioned. Those mistakes have been corrected and brought back for your approval.

Motion by Bayones, **Second** by Hill, to approve the application for retirement of John Elwell. **Aye**: Petersen; Bayones; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**.

V. 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.

Hill stated I would like to pull item F.

Motion by Hill, **Second** by Petersen, to approve items A through E and items G through L. **Aye**: Petersen; Bayones; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**

A. Consider application for normal retirement for James H. Maroon.
B. Consider Memo of Information regarding the death of retiree Delana Joy Fortune.
C. Consider application for normal retirement for Alfreda Wheeler.
D. Consider Memo of Information regarding the death of retiree Leslie Labrada.
E. Consider application for normal retirement for spouse of deceased employee Michael D. Porter.
F. Consider application for early retirement for James Bearbow.
G. Consider application for normal retirement for Erlene L. Maroon
H. Consider application for early retirement of Frank V Jensen.
I. Consider Memo of Information regarding the death of retiree Constance Love.
J. Consider application for normal retirement for Barbara Burnett.
K. Consider application for early retirement for Frank Davis.
L. Consider application for early retirement for Gregory P. Stallings.

Hill stated the agenda item commentary has a typo. It states $1,101,569.71 and should say $101,569.71.

Motion by Petersen, **Second** by Bayones, to approve Item F with stated corrections. **Aye**: Bayones; Ellwanger; Hadley; Hill; Petersen. **Nay**: None. **Motion Passed**.

VI. Comments

Petersen asked how much did the city pay to the employees who brought the suit against the former City Attorney.

Hadley stated the total was around $100,000.

Bayones stated it was $90 something.

Hadley stated it was about $100,000 between the six (6) employees.

Petersen asked total.

Hadley stated yes. I believe the pension trust purchased the judgment with a guaranteed interest rate. The money was paid from the pension trust account and we earn the interest.

Hill asked what is that interest now.

Ezell stated I believe it was 5.8%.

Hadley stated it was almost 6%.

Ellwanger asked is Chuck Dean or someone reviewing all the retirement calculations.

Burk stated we are conducting an audit of the approximately 250 retirees. Some are part of the GEMS system, which is our software program, and some were prior to GEMS. We are going through personnel records and recreating and building the records to put them in the system. Dean Actuary has a software program and they are going to verify the actual amount that is being drawn. We are trying to find any mistakes.

Ellwanger asked on new retirees is somebody reviewing that calculation prior to being approved.

Burk stated our payroll administrator and her assistant do those periodically. As far as verification we were utilizing our city auditor, but that position has been cut. We have not elected a person to verify those.

Hadley stated it is my understanding they both do the calculation and then compare their number. We have a contract with an outside firm to provide internal audit needs to do those kinds of things until we have things operational with Dean Actuary. I need to find out where we are on that.

Burk stated Dean Actuary has a software program that is supposed to streamline, expedite and take out the human error process. Hopefully once we get everything finalized and processed, we will be able to compute those without having to make projections.

Ellwanger stated thank you.

Hadley stated we will probably be bringing back the Tier II process. We have our first retiree and as we went through the process, we found something that I don't believe the language intended. There are some discrepancies that I don't believe were intended to be that way. The way the language is written if you were hired in December and you retired in January the wages you received in December counts as a full year in the average. If you worked ten (10) years and you had two (2) weeks pay in December that was the number used in your calculation. That will bring your average down. I don't believe that was ever the intent. I'll let Dewayne explain the other issue.

Burk stated when we went from Tier I to Tier II on June 30, 2011 there was a clause put in that if you were re-employed and had previous time with the city you had an option to buy back into the system.

Hadley stated that has always been there. It was in the old system.

Burk stated this retiree bought back time. When we did the calculation according to code, in my opinion, they left out the multiplier for the number of years. Thereby negating the necessity to buying the time back. There was no reason to buy his time back if he gets no credit for it.

Hadley stated his previous time was from the late 70's and early 80's. This brought the average down even further. He spent $4,000 to buy the time back to hurt his pension. His pension would have been better without the buy back because there is no multiplier for the years.

Burk stated I don't believe this is accurate or was intended to be this way. I believe the multiplier was left out. It was probably an oversight. We have been in contact with Mr. Papahronis.

Hadley stated it is our belief that the only change that was intended instead of getting your highest three (3) years for your average was to get a career average. I believe and so does everyone I have spoke with the only change was the multiplier. A solution Dewayne has come up with is instead of saying it by year say by month and the multiplier is divided by the twelve (12). This is something that we are looking at and we want to have Chuck Dean look to make sure that was really the intent. The very first person to retire is the one to bring all this to our attention.

Burk stated currently he is on terminal leave and I think he is due to retire in a couple of months. We are trying to get this completed before then. We may need to have a special meeting. We would like to take care of this prior to his pension going into effect.

Hadley stated we have spoke with Papahronis, the pension attorney, about these issues and it is allowed to make it retroactive if we had to. We only have one (1) retiree and if we don't get it done before he retires we could make it retroactive and go back to correct his retirement. It does make a difference. It isn't substantial but there is a difference and will cost him money for the rest of his life. Is there anything else to discuss?

Ellwanger stated thank you.

VII. Audience Participation

VIII. Adjournment

There being no further business the meeting adjourned at 9:45 a.m.

Motion by Ellwanger, **Second** by Bayones, to adjourn. **Aye**: Ellwanger; Hadley; Hill; Petersen; Bayones.