MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
JULY 31, 2019 – 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, Dentler, Carl; Ellwanger, Paul; Hadley, Bart; Petersen, Ed.
ABSENT: Hill, Andy; Livingston, Steve.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Stephanie Tehauno, Financial Services.

II. Introduction of Visitors

Hadley stated we do not have any visitors today.

III. New Business

A. Approve minutes of April 25, 2019.

Motion by Petersen, **Second** by Ellwanger, to approve the minutes of April 25, 2019. **Aye**: Dentler; Ellwanger; Hadley; 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 thanks for allowing us to be at each quarterly meeting to provide an update. Let us start on page four. This page reflects the Dollar Weighted Calendar Year Return. Year to date the return has been 13.31%, 2018 calendar return was a negative 4.66% and 2017 was 15.22%. Page 5 reflects the Time Weighted Returns. For the last plan year the return was 6.09%, the custom period and three year period was 9.45%. Remember the custom period reflects the change in our benchmark. We changed our allocation from 35% equities to 50% with a variance of 20%. We earned 9.45% over the last 3 years compared to our benchmark. The ERSOCOL stand for Employee Retirement System Of City Of Lawton. The account has earned 5.49% over the last 5 years, 7.01% the last 10 years and 5.55% since November 15, 2007. We have lagged the index for the plan year mainly due to the drop in interest rates and a large correction of negative 20% for the market in the fourth quarter of 2018. We feel that interest rates will move higher over time. Notice the Barclays Aggregate yearly return was 7.87%, which was caused by a large decline in interest rates. To the right is the 3 years return of 2.32%, 5 years 2.95% and 10 years 3.9%. The increase in return for the year is a reflection of the value of the bonds. We believe the return on bonds will be below average as reflected by the 3, 5 and 10 year periods. Page 6 shows the Time Weighted Returns. Loot at the Performance Since Inception column. We started with $34,679,131.46 on November 15, 2007. We have had net withdraws of $8,394,874.34, investments earning of $29,340,724.12, leaving a balance of $55,624,981.25. I am glad to see our 10 year is 7.01% and is above the actuarial of 6.75%. These numbers are illustrated to the right. The pale blue line reflects the total value of the account and the purple line is the net investment capital. The difference is in investment earnings. Below is the Projected Income Summary. We have plan distributions of $300,000 a quarter. We have had distributions of $2,400,000. The chart shows that the projected income for the portfolio is $1,016,756. This means the majority of our plan distributions will come from the cash flow of the portfolio. This is important with our allocations ranging between 65 and 70% equities. The next page is the Portfolio X-Ray. This page allows us to drill further into the portfolio. The asset allocation shows 6.2% cash, US stocks 60.81%, non- US stocks 7.41% and bonds 24.77%. To the right is the Stock Sectors. Notice we remain with a bias towards any of the sectors. Our goal has been to have a diversified equity portfolio with a long-term time horizon. In the middle of the page under the Investment Style, you see 2 tic-tac- toe boxes. The first one shows the bond allocation. Currently we do not have any allocations to the long-term bonds. This coincides with our belief that rates will move higher and not significantly decline. The equity style box shows we have 75% in large cap stocks, we are slightly overweighed in growth, balanced with 19% in mid cap and 6% in small cap. At the bottom of the page, it gives you a list of the top 10 holdings based on market value. Page 12 is the Positions Summary page. It reflects the holdings without drilling down into the portfolio like the Portfolio X-Ray. It provides a summary of our actual cash in the account of $147,484.54, equities valued at $38,850,895.27, which represents 69.4% of the portfolio. The yield from this portion is 1.3%. The next section is the Fixed Income and Preferreds. We have $13,552,212.69, which represent 24.2% of the portfolio. The yield from the fixed income is 2.9%. The next section is the Alternatives. We have $3,414,954.38, which represents 6.1% of the portfolio. Yield from the alternatives is 3.3%. When you total it all up, you have $55,965,546.88 with an estimated income of $1,016,751.46 and a current yield of 1.8%. Page 13 is the Position page. This page provides details to the summary page. We do not believe rates will go much lower and will rise over time. Look at the last position in the Exchange Traded Fund section. This is the Vanguard Total Bond Market. We established this position between December 2014 and May 2015. It is designed to represent the total bond market. It has a current yield of 2.78%. During the 4 plus years, we have owned the position we have earned the interest and had a slight appreciation of $9,909.49. This represent about half of 1% change in price over that time. This means we have clipped the coupon on the bonds and received very little in appreciation over the last four years. This is an example of why we are at the current allocation. We like to close our update with page 17. We are all aware the market has volatility. The fourth quarter of 2018, the plans second quarter, is one of the largest quarterly drops we have had with a market decline of negative 20%. We are thankful the first half of 2019 has brought us back to a solid return of over 6% for the plan year. This chart informs us that over time the portion that we have in the market can produce a median return of 13%. In order to achieve that we much be prepared to handle and expect a decline of 10% on a regular basis. Our goals is to reduce our allocation to equities when the yield on bonds rise to where we can reach our actuarial assumption of 6.75%. Thank you for giving us this opportunity. We will be glad to answer any questions at this time.

Hadley asked are there any questions. Seeing none, I would entertain a motion to accept the report.

<u>**Motion** by Dentler, **Second** by Ellwanger</u>, to accept the Morgan Stanley Report. **Aye**: Ellwanger; Hadley; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.

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

Tehauno stated as of June 30th we had a cash balance of $617,823.80. At the end of the fourth quarter we had assets of $57,751,863.51 and our fund equity was $56,314,871.29. The next page you see under revenues contributions were down to $2,653,868.77. This was due to a huge unrealized gain the previous quarter. Miscellaneous revenue for July was the payment from Hobbs. Total expenditures for the quarter was $1,429,369.37 and a net increase of $1,224,499.40. The last page is our employee refunds of $164,517.44.

Hadley asked are there any questions. Seeing none, I would entertain a motion to accept the report.

Motion by Bayones, **Second** by Petersen, to accept this report. **Aye**: Hadley; Petersen; Bayones; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

D. Consider approving an implementation payment for $5,000 for the development and implementation of a benefit calculation software for the City of Lawton employee retirement system.

Hadley stated we brought this before the Board once before. As we went through the process to purchase the software our IT felt that there were some security issues and recommended we not move forward. Our new IT Director feels comfortable with the security measures in place. We have one person who does payroll and retirements. She does both manually. This would help her with the retirement calculations. HR has agreed to incur the recurring cost. Once the software is up and running, an employee can put in the different scenarios and it will give them an estimate of what their retirement would be.

Petersen asked what is the basis of the reoccurring cost.

Hadley stated it is a cost of $250 for maintenance and licensing fees per month.

Burk stated this would help with minimizing errors.

Ellwanger stated that is correct. I cannot imagine doing manual calculations. Does our actuarial service provide a service like this?

Hadley stated Dean provides this software. There were other programs that were more expensive and would take more work.

Motion by Petersen, **Second** by Ellwanger, to approve the implementation payment for $5,000 for the development and implementation of a benefit calculation software for the City of Lawton employee retirement system. **Aye**: Petersen; Bayones; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

E. Consider ratifying the actions of the Pension Trust Chairperson in authorizing payment of part of the May 29, 2019 invoice, all the invoice from June 17, 2019 and July 10, 2019 from McAfee & Taft for services rendered to the Pension Trust.

Hadley stated this is for work we authorized Papahronis to do for the Trust. The May 29th invoice included work he had done for the City of Lawton. That is the reason for not paying the entire amount. The Trust has given me the authority to authorize payment on minor invoices.

Motion by Ellwanger, **Second** by Dentler, to ratify the actions of the Pension Trust Chairperson in authorizing payment of part of the May 29, 2019 invoice, all the invoice from June 17, 2019 and July 10, 2019 from McAfee & Taft for services rendered to the Pension Trust. **Aye**: Petersen; Bayones; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**

IV. Old Business

None

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.

A. Consider application for normal retirement from John Timothy Bennett.
B. Consider application for early retirement for Afsaneh Jabbar.
C. Consider application for normal retirement for Judy Gay McConnell.
D. Consider application for early retirement for Jeffery Mowry.
E. Consider application for normal retirement for Barbara E Wallace.
F. Consider application for early retirement for German R Arango.
G. Consider application for normal retirement for Gene Allen Sovo.
H. Consider application for normal retirement for Sharon Thompson.
I. Consider approval for the paid-in-full judgments to be released from the record.

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

VI. Comments

Hadley stated I want to say I appreciate this Trust. There is a group called OMRF, Oklahoma Municipal Retirement Fund, that runs several pensions systems within the state. Those cities do not have the kind of commitment from employees and citizens of the community. They have to hire someone to do this type of work. After talking with OMRF, it makes me appreciate this group even more. Thanks to each and every one of you for taking the time and commitment to do this. We do appreciate it.

VII. Audience Participation

VIII. Adjournment

There being no further business the meeting adjourned at 9:25 a.m.

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