MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
NEW CITY HALL
OCTOBER 19, 2017 – 9:00 A.M.

Bart Hadley called the meeting to order at 9:00 a.m. in the New 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; Hill, Andy.
ABSENT: Kindt, Bill; Livingston, Steve.
ALSO PRESENT: Denise Ezell, City Clerk's Office; J.I. Johnson, Finance Director; Perry Warren and Chad Rother, Morgan Stanley.

II. Introduction of Visitors

Hadley stated

III. New Business

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

Warren stated we would like to thank the board for allowing us to be here to provide an update on the portfolio. Turn to page 4 and on the right hand side you see the year to date return for 2017 of 10.92% net of fees. Down from there you see the monthly returns this year resulting in that number. I want to point out that in 2017 we have not had a negative month. This has required us to sell equities during the year to maintain our allocation. We anticipate volatility will increase going forward. In 2016 we had a calendar year return of 7.05% which was a result of the numbers shown below. In 2016 we had 4 months that were negative with January being down 4.78%. We expect to see more volatility like what occurred in 2016 in the future. On page 6 in the upper left had corner you see for the last 12 months we began with a value of $47,919,276.33. We had net withdraws of $1,698,857.32 and investments earning of $6,278,739.52. This leaves a balance of $52,499,158.53. This resulted in a 13.35% return net of fees. In November 2007 we started with $34,679,133. We have had net withdraws since then of $5,394,874, and investments earnings of $23,214,901. This leaves us $52,499,158 with the return since then of 5.23% net of fees. The 5 year number of 6.57% is very close to the 6.75% target. As of yesterday's close our year to date number was 11.91%, last 12 months 16.32% and I'm excited that the last 5 years was 7.01%. That can change tomorrow but it is nice to talk about it today. Look at the graph on the upper right hand corner. This is a graphical representation of the numbers we just reviewed. The total value has increased and shows an upswing in the value as a result of the recent performance despite the effect of the current withdrawals. The net invested capital represents the value we have left of our beginning $35,679.000. We have communicated with Julie and Stephanie and based on their projection we anticipate quarterly withdrawals of $300,000. This represents about a 2.3% withdrawal rate from the portfolio. In the upper left hand corner of page 7 you see the year to date, last 12 months and since November 15, 2007. Performance numbers are 10.89% year to date, 13.34% last 12% months and 5.34% since November 2007. You allowed us to change the allocation and we added the Employee's Retirement System of the City of Lawton Benchmark, ERSOCOL Benchmark, to tract performance. You see the results here with a 2% out performance year to date of the benchmark and nearly a 4% out performance of the last 12 months. The Barclays Aggregate Bond just below shows that since inception the return has been 4.18%, last 12 months .07% and year to date 3.14%. We anticipate the bond return to be close to 2 or 2.5% over the next several years with volatility. You see it is playing out here in the numbers. This is why we have an overweight to equities. On the next page is the Portfolio X-Ray and this report drills into the holdings of all positions in the portfolio. We are in the process of making some changes to the portfolio, positioning it for the environment we anticipate going forward. At the end of September we were at the max weight of 70% equities. The pie chart to the right shows you the current allocations. Currently we have 57.57% US equities, 9.03% non-US stocks and total stocks is 66.5%. This is within our target range. Page 13 is a position summary that shows we have 5.5% in cash, 66.8% in equities, 19.6% in bonds and 8.15% in alternatives. I want to point out in the bottom right hand corner of the page is the current yield of 1.4%. We are working to increase that to where it is appropriate. We would like to have most of the withdrawal demands covered by the income of the portfolio. This would reduce our sequence of return risk. The chart on page 15 picks annual return, maximum intra-year decline and maximum intra-year rise. So far this calendar year the decline is well below average with a maximum decline of only .3%. Thanks for allowing us to be here and I'm available for any questions.

Ellwanger stated on page 13 you made a statement about earnings taking care of the expenses. Can you talk about this?

Warren stated a week or 2 ago I finally got the number of what the anticipated withdrawalss would be. Before finance would just show up and need $1.3 million. We have sold a few things so our cash is higher right now. Typically we want to stay fully invested. I wanted to know how much we are anticipating to with draw a quarter. Now we have defined the anticipated withdraw. If the portfolio is earning 1.4% that means that all we have to do from an appreciation is the other .9%. We want to maintain the performance, have distributions coming in case of a decline and have enough yield off the portfolio to make the distributions so we don't have to sell anything while it is down. We have that in place because of stocks and bonds. That is the reason we sold our high yield bonds and put the money in an intermediate bond portfolio. That is something that we do as managers. Right now the difference between high yield and regular corporate bonds the spread is very narrow. We got paid for the spread to narrow and we have an overweight to equities. High yield bonds act like equities. So we have had good experience without performance and we want to retain as much of that as we can. Part of the way to do that is lower our percent to equities. We can't lower it too far because of our long term number. We can lower the volatility from the bond side.

Ellwanger stated thank you.

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

Johnson stated on the balance sheet you see the total assets of $54,291,000 with most of that in some form of investment. There is $582,000 in cash and money market funds and the rest in various government/agency obligation, mutual funds, stocks and judgments. Employee's refunds of not quite $198,000 leaving a fund equity at the end of September of $54,093,770. The second page is the first quarter results for revenue expenditures and we had a net increase of $1,179,000. Most of that is in the unrealized gain of $1,587,000. The actual refunds made were $56,135.76 and there is a detail of those on the third page. The only other thing to add is we have received notice from Finley and Cook of a scheduled time they will be here to do the audit.

Motion by Ellwanger, **Second** by Bayones, to accept the treasurer's report. **Aye**: Dentler; Ellwanger; Hadley; Hill; Bayones. **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.

Hadley stated it appears we have had a higher number than normal of retirees. This is due to a glitch in our procedures in getting the information to you in a timely manner. This is catch up.

Ellwanger asked were all their benefits paid properly and this is just a reporting issue.

Hadley stated yes.

A. Consider Memo of Information regarding the death of retiree Daniel K. Tucker.
B. Consider Memo of Information regarding the death of retiree James P. Holley.
C. Consider Memo of Information regarding the death of retiree Mary Odum
D. Consider Memo of Information regarding the death of retiree Carolyn I Hernasy
E. Consider application for retirement from Julius E. Toles.
F. Consider application for retirement from Roy Rainwater.
G. Consider application for retirement from Tommie Williams.
H. Consider application for retirement from Mary Odom.
I. Consider application for retirement from Marianne Schweitzer.

J. Consider application for retirement from Roger Andrews.
K. Consider application for retirement from Manuel Cruz.
L. Consider application for retirement from Clinton W. Cobb, Jr.
M. Consider application for retirement from Anna M. Ray.
N. Consider application for retirement from George C. Cheatham.
O. Consider application for retirement from James T Russell, Jr.
P. Consider application for retirement from Barbara A Curran.
Q. Consider application for retirement from Trudy Kastner.

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

VI. Comments

None

VII. Audience Participation

VIII. Adjournment

There being no further business the business adjourned at 9:30 a.m.

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