MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
OCTOBER 22, 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.
ABSENT: Hadley, Bart; Kindt, Bill; Steve Livingston.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Jessica Brewer, City Attorney's Office; Krystal Urbanski; Perry Warren, Morgan Stanley.

II. Introduction of Visitors

Brewer stated I'm from the City Attorney's office and I'm sitting in for Tim Wilson.

III. Approval of Minutes from July 23, 2015 and August 27, 2015.

Moved by Hill, **Second** by Bayones, to approve the minutes from July 23, 2015 and August 27, 2015. **Aye**: Dentler; Ellwanger; Hill; Bayones. **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 balance sheet you see you have cash in the bank and money market funds of $560,461; investments US government obligations $2,260,115.09; mutual funds $27,035,942.05; stocks $15,534,031.44; judgments $1,883,247.06; interest and accounts receivable $154,386.52 which brings our total assets to $47,428,183.16. Liabilities and fund equity we have employee refunds/tax payable as of June 30, 2014 $171,659.62 which brings our total liabilities and fund equity to $47,428,183.16. The next page is revenue and expenditures. City contributions for the quarter was $454,349.48; employee contributions $286,240.41; miscellaneous revenue $250.00; realized gain/loss on Morgan Stanley ($16,705.33); dividends on Morgan Stanley $182,821.86; unrealized loss on Morgan Stanley ($3,432,315.07); interest $30,596.60 which gives us a revenue of ($2,494,762.05). Our expenditures starting with the benefits of participants which is our monthly pension payments of $1,014,670.57; refunds $135,524.37; other $2,500.00; investment fees $73,018.78; actuary fees $5,073.50; bank charges $180.64; and McAfee & Taft consulting fees $1,650.00. There is a breakdown of the refunds on the next page and the other expense was the IRS forms. Your total expenditures were $1,232,617.86 for a decrease of $3,727,379.91.

Ellwanger asked under revenue what is the realized loss.

Warren stated it was one of the holdings.

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

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

Warren stated turn to page 4 of the report. In the upper left hand corner under Since Inception the portfolio has made 5.66% and 5.42% over the last 3 years, which includes the changes that were made in February of 2014. The last 3 years return is down to 1.74%, the last 5 years 3.09% and since inception is 4.76%. For the long term we are in a good position. Looking at our asset allocation we are currently close to our maximum weight in equities at 69%. Last quarter the market went down and interest rates went down so we lagged. We are still in a good position. We are where we want to be and need to be for the long haul. Now turn to page 8.

Ellwanger stated before we leave that page help me understand. In the left hand corner where it says "Net Contribution/Withdrawals" is that cash? Is that the contributions that come in from either the city or the employee less the withdrawals for benefits?

Warren stated yes. On page 5 under "Net Contribution/Withdrawals it shows the year and quarter of what we withdraw.

Ellwanger stated thank you.

Warren stated lets go to page 8 to a list of all the current holdings. You will notice by the zero value on some of the positions we have made changes in our investments this quarter. We have removed funds and added a few that we believe will be a better opportunity to meet our objectives. Pages 8 through 12 shows the current holding in the portfolio. Now turn to page 18. As we have discussed many times this is a long term portfolio and this chart is interesting. The blue bars are the annual returns for each year from 1980 to recent. The red dot is the maximum intra year decline. Time is the reason that people make money in investments. I thought this chart was interesting for informational purposes. You see in 1980 the market was up 26% but during the year it was down 17%. In 1998 the market was down 19% but ended at 27%. Now go back to page 14. This shows our historic asset allocation over the last 4 years. In early 2014 you allowed us to make a change to offset declining return of bonds. We changed from 35% stocks 65% bonds to 50/50 with a variance of equities to go as high as 70 or as low as 30. We are trying to accomplish 6.75% over time. Our allocations have changed over time and have made the portfolio more volatile. Now let's look at page 7 of the current investment policy. In 2014 we changed the asset allocation to meet our objectives but we did not change the Performance Goals. The current policy reads "Blend of 35% SP 500 Total Return and 65% Barclay's Aggregate Bond as measured by Morningstar" and "The portfolio should earn (net of fees) at least 100% of the benchmark for at least 2 of the preceding time periods of 1 year, 3 year, 5 year". It is my recommendation that we consider changing the 35 and 65% to 50/50 and to add 10 years to the benchmark. It is easier for us if you leave it as it is.

Ellwanger asked our current Performance Goals are 35% of the SP 500 Total Return and 65% of the Barclay.

Warren stated yes.

Ellwanger stated and you are asking we consider changing that to 50/50.

Warren stated yes.

Ellwanger asked would we still be within our investment guidelines.

Warren stated absolutely.

Ellwanger asked and what are those currently at.

Warren stated 50/50. We can go as low as 30 and as high as 70. We don't have to make the change but I want you to know that this benchmark is more relevant since we made the changes.

Hill asked how can you take this performance goal and make it connect with what we are doing right now. Where do I see that in our performance?

Warren stated it will change every quarter. Right now we are here. Page 27 shows the benchmark. There is a typographical error where it says 65/65 it should say 65/35. Last quarter we were ahead and this quarter we are lagging. Over time this benchmark is easier to hit than the changes we are recommending. The current benchmark is too low of a bar. We don't have to change it but I wanted to bring it to your attention.

Ellwanger stated so you are pointing out that this is a performance goal and it is what we want to try and obtain or compare ourselves to. It is not changing any asset allocations.

Warren stated this is just a goal.

Hill asked is this something that we need to go ahead and do.

Warren stated I'm making that recommendation. Going forward we need to be benchmarked by that.

Ellwanger stated it would be easier for you if we leave it the same.

Warren stated a lot easier. I prefer you change it but you don't have to. We are going to do our best to make the 6.75% with the least amount of risk that we can. We are allocated where we need to be but do we want the performance goals to be closer to what we are actually trying to do or leave them as they are.

Dentler asked is that your recommendation.

Warren stated yes. It doesn't have to be done today as long as you are aware of this.

Ellwanger asked how many members are absent.

Ezell stated three.

Ellwanger stated I would recommend to table this until we have the other members present.

Warren stated that is great. That is all I have today and I will answer any questions you might have.

Dentler stated are there any other questions. Thank you for being here today.

C. Approve the Notice of Meetings for the 2016 calendar year.

Moved by Ellwanger, **Second** by Bayones, to approve the Notice of Meeting for 2016. **Aye**: Hill; Bayones; Dentler; Ellwanger. **Nay**: None. **Motion Passed.**

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

Brewer stated the City Attorney's office has received 2 invoices from McAfee & Taft. The first one is in the amount of $748 and the second one in the amount of $108. These are for John Papahronis' service pertaining to the recent IRS filing for determination to ensure our plan is in compliance with their requirements and regulations. We did receive an acknowledgement of our request on September 16. We are requesting these invoices be paid.

Moved by Hill, **Second** by Ellwanger, to approve both invoices to McAfee and Taft for payment. **Aye**: Hill; 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.

A. Consider Memo of Information regarding the application for normal retirement from Doug Stamper.

B. Consider Memo of Information regarding the application for normal retirement from Gary Bishop.

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

VII. Comments

Ellwanger stated I would like to thank Warren for spending about 2 hours with me to talk about our investments and the plan. He shared a lot of information that helped to educate me as a member of this committee. I don't know if anybody else has participated but I highly recommend you spending time with Warren to learn more about our investment. I don't know if the city has hired a Finance Director but I enjoy having them attend our meetings. This affects the balance sheet for the city and I would like for them to hear this information.

VIII. Audience Participation

IX. Adjournment

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