MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
OCTOBER 25, 2018 – 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; Hadley, Bart; Livingston, Steve.
ABSENT: Ellwanger, Paul; Hill, Andy; Petersen, Ed.
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 have no visitors today.

III. New Business

A. Approve minutes of July 26, 2018.

Motion by Livingston, **Second** by Bayones, to approve the minutes of July 26, 2018. **Aye**: Dentler; Hadley; Livingston; Bayones. **Nay**: None. **Motion Passed**.

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

Warren stated we would like to thank the Authority for allowing us to be here each quarter. We will start on page 4. This page reflects the returns net of fees that we have through the third quarter of 2018. It shows we have a 5.73% return. Note that we had a good third quarter with 3.96% return. We had a return of negative .15% for the first quarter of 2018 and 1.86% for the second quarter. Note the return for calendar year 2017 was 15.22%. Page 6 reflects the time weighted return net fees. The last 12 months ending September 30th we had a beginning balance of $52,449,158, net withdrawals of $600,000 and investment earnings of $5,125,000 leaving an ending balance of $57,024,285. This produced a time weighted return of 9.83% compared to our benchmark of 7.07%. The last 3 years is reflected in the middle column and it shows we began with a total of $45,636,259, net withdrawals of $3,898,57 and investment earnings of $15,286,882 leaving us $47,024,285. This produced a return for the last 3 years of 10.59% compared to our benchmark of 8.75%. As a reminder we changed the benchmark in 2016 after changing our allocation from 35% equities to 50% equities. We have the ability to be as high as 70 and as low as 30. Look at the performance since inception column. It shows we stated with $34,679,131 on November 15, 2017. We have had net withdrawals of $5,994,874, investments earnings of $28,340,028 leaving us with an ending balance of $37,024,285. This produced a 5.75% return. The graph to the right reflects the performance since inception. The purple line represents the net investment capital and the blue line the total value of the account. The difference between the two is the investment earnings of $28,340,028.

Hadley asked why are the net contributions and withdrawals not steady.

Warren stated we had planned a withdrawal of $300,000 a quarter. Sometimes they have judgments and don't need it each quarter and sometimes they need more. We try to budget and be prepared to pull out $300,000. So far this year we have only taken $600,000.

Hadley stated we have taken higher amounts in the last 3 years. If you remove the last year we took out $3,000,000 the 2 previous years.

Tehauno stated more people are retiring.

Warren stated on page 7 you see the same figures of time weighted performance summary. We reviewed the last 12 months, 3 years and since inception. We also have the last 5 and 10 years. I'm happy to report that at the end of September we had outperformed the actuarial number of 6.75% for the last 12 months, 3 years, 5 years and 10 years as reflected on this page. Note the custom period which reflects the date we changed our benchmark to better reflect our change in allocation. The out performance was made possible by the Authority allowing us to have the variance in our allocation that we needed during this time of low interest rates. We made the recommendation to change the allocation from 35% equities to our current allocation when it was apparent it would be very difficult, if not impossible, to reach the 6.75% actuarial return. We have been fortunate that equity returns over the last 2 years have been higher than we anticipated when we set our target at 70/30. Look at the Barclay's Aggregate in the chart below. This represents the total bond market. The last 12 months has been a negative 1.22%, since June 30, 2016 a negative .31, the last 3 years 1.31%, and the last 5 years 2.16%. This is a long term account. As we discussed our goal is to attempt to make the 6.75% over the long haul with the least amount of risk. We hope that fixed interest rates will rise where we will be less dependent on the equity returns. Treasurer's yields have increased and if the market will allow us to increase the holdings in the fixed income securities when their yield is enough that we can make the actuarial return with a reduced amount of equities. The next page is the portfolio x-ray. This allows us to drill into the holdings to see where the funds are allocated. Before reviewing the x-ray I want to comment on the activity during the quarter. On July 24th we reduced our equity holdings roughly $2,000,000. At the time this was 4% of our equity allocations and moved the allocation from 70% to 66%. During the rebalance we also reduced our overweight bias in large grown and mid value. The difference in the performance between large growth and large value had reached a near record differential at the time. Since that time the gap has narrowed. The pie chart in the upper left had corner depicts the current allocation of the portfolio. According to Morningstar we currently have 8% in cash, 56.98 in US stocks, 7.98% non US stocks, 24.94% in bonds and 2% in other. It has been beneficial to remain with a neutral stock sector stance in a domestic bias. Look at the middle of the page at the fixed income style box. This shows the allocation of bonds. We are allocated with a majority of the holdings short term. The effective duration of the holding is 4.05. To the right is the equity style box. We remain overweight in large cap with a slight bias to growth. Large capitalization companies represent 79% of the equities followed by 17% for mid and 5 for small. Look at the last section of the page of the top holdings. We reduced the equities and added them to fix income. They were placed in Invesco Conservative Income Fund. This fund is designed to fluctuate very little even if interest rates rise or stocks fall. Currently it pays roughly 2.39%. As rates rise we plan to take these funds along with the BlackRock Strategic Income Opportunities fund and add those to treasuries. On page 13 is a summary of the positions and it actually shows what we see unlike the portfolio x-ray. This is an overview of the holdings. You see we have .5% in cash, 66.1% in equities, 27.5% in fixed income, and 5.9% in alternatives. Look at the graph on page 14. We end on this illustration. This graph depicts the S&P 500 annual returns and entry year decline since 1980. The annual returns are represented by the blue bars and the entry year declines by the red dots. I like to call this the red dot chart. It reminds us that each year when the market declines during the year it could be as little as minus 3 or as much as 49%. Knowing that since 1980 if we had stayed the course and had a median return of 12% we would have had to put up with a median decline of minus 10. With our overweight in equities it is always important to understand that we will have declines. We should adjust our allocation when appropriate and not at an inappropriate times due to motion or fear. We believe we are allocated appropriately for our goals and when the opportunity arises we plan to continue to adjust our allocation to best enable us to meet our objectives. Thank you and I'll be glad to answer any questions.

Hadley stated thank you.

Motion by Bayones, **Second** by Dentler, to accept the quarterly report from Morgan Stanley. **Aye**: Hadley; Livingston; Bayones; Dentler. **Nay:** None. **Motion Passed**.

D. Approve 2019 Yearly Meeting Notice.

Hadley stated according to the Oklahoma Records Acts we are required to give notice to the Municipal Clerk of our yearly meeting dates. Part of the reason for discussing this item is due to Ed Peterson's schedule. He has a recurring meeting in July and October at the same time as our meeting. We have two choices. First, to change our meeting dates to accommodate his schedule or he has offered to step aside. Does anyone have any feelings one way or another?

Livingston stated I don't.

Hadley stated we meet the fourth Thursday and for July and October we could change that to the third Thursday.

Warren stated we are pretty flexible.

Ezell stated if you would be more comfortable making a decision we can wait until January.

Livingston stated I think we need to make that decision when the others are available.

Motion by Livingston, **Second** by Dentler, to table this item until the January 2019 meeting. **Aye**: Hadley; Livingston; 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 I was going to redo the July report. For the quarter of April May and June we had a negative cash balance. The reason is because we had 2 months of retirement deposits that were not made until July. We have $118,000 in cash. At the end of September we had assets of $57.9 million and fund equity of $57.6 million. On the Statement of Revenue and

Expense we had high contributions for our first quarter due to the deposit that were not made for May and June.

Hadley asked why were those not made.

Tehauno stated those are made by payroll and finance has no control over them. I did remind her they needed to be deposited. She made them all in July.

Hadley stated we definitely don't want to get behind in those. If the deposits aren't made the money isn't earning interest. The City is currently working hard to try and get in place by January a new automated payroll system. Once this happens these kinds of issues will be in the past. We have a manual system and don't have the staff to get it all done in a timely manner. This stuff happens and we are trying to correct that.

Tehauno stated on the Statement of Revenue and Expenses we had a net increase from $2.1 million for the quarter. I believe most of that is from the unrealized gain from Morgan Stanley of $1.4 million and the $500,000 in deposits. We had refunds of $176,935.50 for employees who are leaving the City of Lawton. The last page gives you the breakdown of the refunds. If it doesn't show any taxes withheld that is because they rolled it over.

Hadley stated I'm assuming the $53,000 wasn't vested.

Tehauno stated I don't do those.

Hadley asked are there any questions.

<u>**Motion** by Dentler, **Second** by Bayones</u>, to accept the financial report. **Aye**: Livingston; Bayones; Dentler; Hadley. **Nay**: None. **Motion Passed**.

E. Consider ratifying the actions of the Pension Trust Chairperson in authorizing payment of part of the August 10, 2018 invoice from McAfee & Taft for services rendered to the Pension Trust.

Hadley stated for routine business the Trust has allowed me to go ahead and pay bills and then bring it to the Authority for ratification. There was a portion of the bill that was not Trust business and the City paid that portion.

<u>**Motion** by Livingston, **Second** by Bayones</u>, to approve the action of the Chairperson in authorizing payment of part of the August 10, 2018 invoice from McAfee & Taft. **Aye**: Livingston; Bayones; Dentler; Hadley. **Nay**: None. **Motion Passed**.

IV. Old Business

A. Consider application for normal retirement from Ingeborg M. Wilson.

Hadley stated this item was tabled at a previous meeting due to questions about her spouse not signing the application. We have obtained his signature.

Ezell stated this issue has been resolved and they are now obtaining the spouses signature.

Livingston asked what would you do if a spouse wouldn't sign.

Hadley stated we would encourage them to work something out. I'm not certain legally we could enforce any actions. The spouse has some rights but I don't know if it is as much as the employee.

Motion by Livingston, **Second** by Bayones, to approve the application for normal retirement from Ingeborg M. Wilson**.** **Aye**: Bayones; Dentler; Hadley; Livingston. **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.

A. Consider application for early retirement from Sheri Bennett.
B. Consider application for normal retirement from Terrance L. Ross.
C. Consider application for normal retirement from Paulette M Lucas.
D. Consider approval for the paid-in-full judgments to be released from the record.

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

VI. Comments

VII. Audience Participation

VIII. Adjournment

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

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