MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
OCTOBER 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; Hadley, Bart; Hill, Andy; Livingston, Steve; Petersen, Ed.
ABSENT: Ellwanger, Paul.
ALSO PRESENT: Dewayne Burk, Human Resources Director; Bob Ross, Acting City Attorney; Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Maddie Leonhart, Financial Services.

II. Introduction of Visitors

Hadley stated this is the Acting City Attorney, Bob Ross.

III. New Business

A. Approve minutes of July 31, 2019.

Hadley asked are there any changes to the minutes. If not, I would entertain a motion to approve the minutes.

Peterson stated it doesn't require a motion if there are no changes.

Hadley stated okay. Thank you.

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 Board for the opportunity to be here each quarter and to provide an update on the investment account. We will start by turning to page four (4). Page four (4) reflects the dollar weighted returns with the calendar year return in bold. You can see that in the calendar year 2019 we were up 13.51%. The returns for calendar year 2018 was a negative 4.66%, year 2017 was 15.22%, and 2016 was 7.04%. I broke 2018 and 2019 into quarters so we can better see the volatility that makes up those returns. Notice in the last calendar quarter of 2018 we were down negative 9.91% but the first quarter of 2019 we were up 9.84%. I believe the Board has a good understanding of the volatility that makes up our annual returns but we like to include it in our updates. Page five (5) reflects the dollar weighted returns for the last three (3), ten (10) and since inception of November 15, 2007. Look to the Performance Since Inception column. We began with $34,679,131 and have withdrawn $8,394,874 with investment earning of $29,409,731 leaving us with $55,693,988. In the chart to the right the purple line represents the net invested capital and the pale blue line the total value. The difference is the net invested earnings. Page six (6) reflects time weighted returns with the calendar year to date 13.44%, the last twelve (12) months 2.18%, the last three (3) years 8.36%, the custom period 8.71%, the last ten (10) years 6.37% and since inception 5.44%. We changed our allocation benchmark and that is represented by the custom period. As a reminder we came to the Board and recommended change to the allocations. We felt with bond yields low we would not be able to earn the 6.75% actuarial assumption with 35% weight in equities. The Board allowed us to go to our current allocation parameters. You see that for the custom period and the three (3) year we have outperformed our Employee's Retirement System of The City of Lawton benchmark which is represented by ERSOCOL. We meet our criteria by beating the benchmark or making the 6.75% actuarial assumption. I want to point out our twelve (12) month underperformance. As I have stated many times, we want to be right on our allocations long term. We are allocated currently with that in mind. Notice the returns for the Barclay Aggregate located just below our benchmark. Quarter to date is 2.27%, year to date 8.52%, last twelve (12) months 10.3%, last three (3) years 2.93%, custom period 2.84%, last ten (10) years 3.75% and since inception 4.21%. We are positioned where we may lag our benchmark when rates fall substantially like the last twelve (12) months. The ten (10) year treasury was 3.2% on October 10, 2018 and fell to 1.46% by September 3, 2019. When rates fall that much we will likely lag as we have over that period but back to the long-term view, we feel we must be allocated to give the system the best chance of making 6.75% over time. We believe stocks will out pace bonds over time and with current bond yields so low we believe we are properly allocated. We will continue to have volatility, as I showed earlier on page four (4), from time to time but over the term we should be rewarded for doing so which is reflected in our custom period numbers. We believe stocks will out pace bonds over time and with current bond yields so low we believe we are properly allocated. We will continue to have volatility from time to time but over the term we should be rewarded for doing so which is reflected in our custom period numbers. Page seven (7) is the same report as page six (6) with the exception of the date ending October 18, 2019 as opposed to the quarter ending September 30, 2019. Notice the change in the twelve (12) month numbers from the previous page. The volatility of the short term with the understanding of why can cause problems for investors. Our goal is to help with understanding and to remain focused on the long term. The next pages is the Portfolio X-Ray. The portfolio x-ray drills down into the holdings of our funds to see how they are allocated. Look to the pie chart in the upper left-hand corner. The portfolio has 4.78% in cash, 61.50% in stocks, 7.61% non-US stocks, and 25.25% in bond. Notice the stock sector triangle to the right. The portfolio is not tilting or favoring a specific sector. Below in the blue equity style box you see we are currently allocated with 74% stocks in large cap with 24% in large value, 24% in large bend and 26% in large growth. We are currently allocated with 20% in mid cap stock, with 7% in mid value, 5% in mid blend and 8% in mid growth. We are currently allocated with 6% in small cap with 2% in small value, 2% in small bend and 2% in small growth. Notice the top ten (10) holdings at the bottom of the page. Page thirteen (13) is the position summary page. The portfolio x-ray we just reviewed drills into the holdings to provide more details and the summary shows an overview. We have $111,709.71 in cash or 2% of the portfolio, $38,207,577.67 in equities or 69.9% of the portfolio, $12,882,196.68 in fixed income or 23% of the portfolio, $3,447,444.80 in alternatives or 6.3% of the portfolio for a total of $54,648,928.86. This reflects the number as of October 18 and not the end of the quarter. Since the end of the quarter we have distributed $1,000,000 additional dollars. Turn back to page four (4). Page four (4) is the calendar year returns including withdraws and earnings. Since our plan is fiscal and not calendar it makes it a little difficult. I wanted to point out in the last plan year we withdrew twice our plan amount of $1.2 million. We have withdrawals of $1,500,000 in the second quarter, $300,000 in the third quarter and $600,000 in the fourth quarter. With the recent $1,000,000 I thought it would be good to point this out to see if we should raise our quarterly assumption. Page eighteen (18) is a chart you have all grown to know. I like to end on this chart because of our allocation and the understanding that we have when it comes to volatility. The last twelve (12) months we have had an above intra year decliner as reflected on the far right by the second to the last red dot negative 20. As the chart shows the median intra year decline is minus 10 and it also shows that since the S&P 500 has had a median return of 12% since 1980. I'm glad the Board understands the volatility we have in the portfolio and why. I believe we are currently allocated to give us the opportunity to earn the actuarial assumption overtime. Again, we would like to thank the Board for the opportunity to provide the quarterly update and I would be glad to entertain any questions at this time.

Hadley stated go back to the report and the extra money we have withdrawn. What was that for?

Leonhart stated we have had more employees leaving and taking a lump sum withdrawal. Four (4) or five (5) of those employees had lump sums that were $40,000 to $50,000.

Hadley stated okay.

Warren stated there was also a problem with a couple of checks. I just want to make sure we have a good assumption. If there is going to be higher withdrawals we want to make an adjustment. We plan for withdrawals so we had the money but it messes with our allocations and that can affect the portfolio. I want to make sure we are on the right path. After we took an additional $1,000,000, I want to make sure we are prepared in advance.

Hadley stated I don't know how it works with you and staff. Are you being notified before or after the fact?

Warren stated they call us when it is time. We were budgeting $500,000 a quarter. If we know three (3) or four (4) months ahead it could be beneficial.

Leonhart stated okay. This was because we had a lot of employee leaving and they took the lump sum which were very large.

Warren stated we will keep talking.

Hadley stated okay. Any other questions or comments. If not, I would entertain a motion to accept the report.

Peterson stated since it is a report it doesn't require a motion.

Hadley stated okay.

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 the Balance Sheet is on page eight (8). As of September 30, 2019 we had a cash balance of $98,035.85, assets in the amount of $56,676,132.92 for a fund equity of $55,619,711.72. Page nine (9) is the Statement of Revenue and Expenses. At the end of the first quarter the total revenue was $961,856.77. We did see an unrealized loss of $108,445.73. The miscellaneous revenue was payments of $150 from Joann Hobbs and $6.97 for an IRS refund.

Total expenditures were $1,554,847.50. There was a net decrease of $5,92,990.73 for the quarter. Page ten (10) you will see the large amount paid out in refunds. Refunds for the first quarter was $309,468.75.

Hadley stated you can tell from the size of some of these withdrawals they were vested. It is mind boggling sometimes but you never know a person's situation. Thank you. Are there any questions.

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

. D. According to Section 17-3-4-339 (F) of the Lawton City Code consider a Cost Of Living Adjustment for retirees and take appropriate action if necessary.

Hadley stated the code says that every two (2) years the retirement system shall examine for the possibility of an increase for retirees. The increase shall be based on a percentage which is one half the cost of living identified in the CPI for all urban consumers of Dallas. The increase will not go into effect until it has been approved by the majority of the retirement commissioners. If an increase exists in the CPI the commissioners may consider a COLA. The last COLA was 1.15% a little over fourteen (14) years ago. The current CPI as of September 2019 was 2.9%. Fourteen (14) years is a long time to go without any increase but my personal opinion is if we are going to consider a COLA we should probably run it through our actuary and see what kind of impact it will have before we many any decisions. I'll open this up for discussion of the Trust.

Petersen stated that would be appropriate to do.

Hill asked so we can go half of 2.9%.

Hadley stated yes, it is half of 2.9%.

Hill asked are we bound by the half.

Hadley stated it says "if an increase exist the commission may consider a COLA of one half of the percentage increase."

Hill stated okay.

Hadley stated if the Trust wants to request a change in the language to give more consideration to the CPI, we can take that code change to Council. I haven't been on the trust for the last fourteen (14) years but the fact that nothing has been done in that period of time tells me that even half of the CPI is probably difficult on most years. We have had some changes in our benchmark and allocations since the last increase so having the actuary look at this is probably the prudent thing to do.

Petersen asked have the actuaries looked at it in the past.

Warren stated yes.

Petersen asked how recently.

Hadley stated I know they didn't two (2) years ago. Burk and the HR team are finding a lot of things that were supposed to happen that hasn't. I don't know when it last happened but I can find out when was the last time it was brought before the Trust.

Warren stated it might be good for him to bring us up to date.

Livingston stated we have struggled to keep the pension healthy. In the past when this was brought up for consideration, we have voted it down. We felt it would be sending the wrong message and was the wrong thing to do to increase the retiree's pension, although I'm sure they need and want it, at the same time we are changing how we calculate the retirement. We didn't even consider asking the actuary to look at it because basically they know to be actuarially sound Council would need to contribute more money.

Hadley stated our last actuarial report indicated more money was needed but it also showed that with the changes that had been made there has been a significant impact on the health of our plan. Going to career averaging and a defined contribution plan with Council committing to 6.5% of new hires payroll to our current plan has made a significant positive impact. With the two (2) changes in place I think it would be a good idea to have the actuary look at this to see what kind of impact it would have.

Motion by Peterson, **Second** by Hill, to table this item until the Actuary has the opportunity to evaluate the plan to see what kind of impact an increase to retirees would make on the pension plan. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.

E. Approve the Yearly Meeting Notice for 2020.

Hadley stated the yearly meeting notice has to be filed in the City Clerk's Office by December 15 of each year. The meeting dates reflect the same dates as 2019. For the months of January and April the meetings will be held on the third Thursday of the month and for July and October it will be the fourth Thursday of the month.

Motion by Dentler, **Second** by Livingston, to approve the yearly meeting notice for 2020. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed.**

IV. Old Business

Hadley stated I want to let the Trust know that the pension calculator that was purchased for HR it not up and running yet. IT discovered some issues that they were concerned with. They are working with Dean Actuaries to insure the security of the information. I just wanted to update you on why there was a delay.

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 Sharon Cheatwood.
B. Consider application for normal retirement for Gerald S. Ihler.
C. Consider Memo of Information regarding the death of retiree Robert Barnes.
D. Consider application for normal retirement for Georgia A. Peters.
E. Consider application for early retirement for Steven L. Greb.
F. Consider Memo of Information regarding the death of retiree Robert Hoyt
G. 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**: Hill; Livingston; Petersen; Bayones; Dentler; Hadley. **Nay**: None. **Motion Passed**.

VI. Comments

Petersen stated I'm confused about what I have read in the paper and what people have tried to explain to me regarding the pension situation of the previous City Attorney.

Hadley stated the City Attorney is one of a few positions that does not work for the City Manager. There are four (4) positions within the city that doesn't work for the City Manager. Those are the City Manager, City Attorney, City Clerk and Municipal Judge. Because this was their employee Council handled this outside the City Managers office and we haven't been privy to all the details. Talking in generalities someone like the City Attorney who is vested and qualified even if they are dismissed for cause, disciplined or any of that their retirement cannot be taken away. There are only a few strict guidelines that could cost someone their pension. Those are fraud, embezzlement or something of that nature and I believe it has to be a felony offense. I don't know the exact details but it is my understanding, and I haven't seen the investigative report, but I don't believe there has been any allegations of this nature that would cost him his pension.

Petersen asked and he is in this pension program.

Hadley stated yes, he will retire with a little over 30 years I believe.

Petersen asked so at some point we will see his paperwork come through this Trust.

Hadley stated yes. He is working to some degree. He is providing service to Council and Mayor from his home but he is no longer the City Attorney. They have hired Bob Ross as the Acting City Attorney. I'm sorry, I should have asked Ross to weight in. Is there anything that I left out?

Ross stated I would have stated the same thing you did. I'm not complaining but I think Council intentionally did not confide in me all the details. Everything Hadley has said is correct. He still works for the City in that capacity. It is my understand he will work through the end of March next year at which point he will be at 30 years.

Hadley stated he will officially retire at the end of March. I said the City Attorney does not work for the City Manager, however when he was removed as City Attorney, he became an employee of the City Manager but by agreement he can do work for Council. Our charter says he can no longer be employed by the Council. It only allows the City Manager, City Attorney, City Clerk and Municipal Judge to be their employee.

Peterson asked so while he is not an employee of the City, he is still acquiring City benefits.

Hadley stated I need to clarify that. I said he wasn't an employee of the City Manager and he wasn't until he was removed as the City Attorney. Now he is a City employee and reports directly to the City Manager during this interim position. However, he still has direct communication and continues to do service or work for the Councilmembers that wish to use him. We have an entire legal department that many Councilmembers lean on heavily. I have seen a lot of agenda items that Ross and his team have handled for Council.

Peterson stated I think the area of confusion was how is he being allowed to continue to accrue time to his retirement to get his thirty (30) years if he is not in the same capacity as he was previously. I'm sure we will see that when we see his paperwork.

Hadley stated basically he was removed of his title which means he was removed from being a direct employee of Council. He is still receiving a paycheck, pension is being withdrawn from his checks, and the City is still contributing their portion of his pension until he officially retires. It is like a different version of terminal leave except when you are on terminal leave you no longer do work for the City. My understanding, which is nebulous of this situation, is that he is using some terminal leave or will at some point but he is also continuing to provide service to some Councilmembers and the Mayor. I'm sorry I can't answer a whole lot about it.

Petersen stated it seems to be an appropriate question for this group.

Hadley stated he is still an employee, he still contributes to the pension system and the City contributes their portion also. Are there any other questions?

VII. Audience Participation

None

VIII. Adjournment

There being no further business the meeting adjourned at 9:40 a.m.

Motion by Hills, **Second** by Bayones, meeting adjourn. **Aye**: Livingston, Petersen; Bayones; Dentler; Hadley; Hill. **Nay**: None. **Motion Passed**.