MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
APRIL 22, 2015– 9:00 A.M.

Bill Kindt, 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; Hadley, Bart; Hill, Andy; Kindt, Bill; Livingston, Steve.
ABSENT: Ellwanger, Paul.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Tim Wilson, City Attorney's Office; Julie Magness, Stephanie Tehauno and Krystal Urbanski, Finance; Perry Warren, Morgan Stanley; Nate Atchison, Finley & Cook.

I. Introduction of Visitors

None

III. Approval of Minutes from January 22, 2015.

Motion by Hill, **Second** by Bayones, to approve the minutes of January 22, 2015. **Aye**: Dentler; Hadley; Hill; Kindt; Livingston; Bayones. **Nay**: None. **Motion Passed**.

IV. New Business

A. Consider appointing Carl Dentler to fulfill the remaining term as Chair. This term as chairman would end the end of December and a new Chair appointed at the January 2016 meeting.

Motion by Livingston, **Second** by Kindt, to appoint Carl Dentler Chair until the end of December, 2015. **Aye**: Hadley; Hill; Kindt; Livingston; Bayones; Dentler. **Nay**: None. **Motion Passed**.

Wilson stated before moving to Item B I would like to ask permission to move Item E out of order. We have an attorney in Oklahoma City waiting on our call.

Dentler stated sure.

E. Consider authorizing John Papahronis with McAfee & Taft to review the City's retirement plan in order to draft an amendment and restatement to the plan, as required by the IRS and take appropriate action, if necessary.

Wilson stated John this is Tim Wilson and I have you on speaker at the Pension Trust meeting. We are ready to handle your agenda item.

Papahronis stated okay. I'm proposing to amend and restate the retirement plans in accordance to the IRS procedures. The procedures require the plan be amended and restated every 5 years. From time to time I send you what is called interim amendments to account for legislative and IRS required changes. We adopt the amendments to follow IRS requirement and then every 5 years we have to completely restate and incorporate all those amendments. Then the sponsor can ask for a Determination Letter which approves the form of the plan document. For governmental plans the deadline is January 31, 2016. The actual deadline was a couple of years ago and they granted an extension for 2 years to governmental plans only. I thought it was better to hold off as long as we could so we could catch any additional things that happen. So the plan has to be reinstated by January 31, 2016. I'm proposing to incorporate all the amendments and restate the plan and file with the IRS by January 31, 2016.

Hadley asked how many amendments are we talking about.

Papahronis stated I don't believe we had any discretionary amendments and 1 or 2 required one. This is an ongoing maintenance to your retirement plan. Once we do the amendments we file with the IRS and they approve the plan and give us a Determination Letter. The letter states they have examined the plan and it meets all their requirements. It is only good for 5 years.

Wilson stated so if we authorize you to do these amendments you will then bring it back to the Authority for them to adopt and then take it to City Council for their approval. Once the Authority and Council have approved the amendments you will submit it to the IRS for their review. Is that correct?

Papahronis stated yes. Once we file it with the IRS it usually takes a year for them to look at the application.

Wilson stated and today you are asking the Authority to allow you to begin preparing the amendments to bring back to them.

Papahronis stated correct. These amendments do not change the plan in anyway. There is no monetary affect on the plan as a result of these amendments.

Hadley asked have the interim amendments already been approved by the Trust.

Papahronis stated yes. The amendment I recall is the Pension Protections Act and it was adopted by the Authority several years ago. Now we will be incorporating it into the plan document.

Hill stated so once we do all this and get the IRS approval we are good for 5 years.

Papahronis stated right. Unless there is some sort of legislation or the IRS comes up with a new regulation we would not need to do anything.

Motion by Hadley, **Second** by Hill, to approve authorizing John Papahronis with McAfee & Taft to review the City's retirement plan in order to draft an amendment and restatement to the plan, as required by the IRS. **Aye**: Hadley; Hill; Kindt; Livingston; Bayones; Dentler. **Nay**: None. **Motion Passed**.

Wilson stated John the motion has passed and you are cleared to begin our work.

Papahronis stated very good. I will send a draft for the Authority to approve and recommend that City Council approve. It isn't due until January 31st but I don't want to get behind the curve so I'll send the draft late summer or early fall.

Wilson stated thank you and we appreciate your time and work.

Hadley asked do we keep Papahronis on retainer and then as they do work we pay for it.

Wilson stated yes. He will present a bill for pension work and if it is related to the retirement system then we pay for it.

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

Warren stated good morning. We appreciate your time and always look forward to meeting with you. We haven't made many changes to the portfolio since the last meeting. Due to our company improving the way we do reports we have some new ones today. You will see on page 4 a noticeable change is The Performance Since Inception. This picks up the performance when we originally started with 5% of the portfolio. The previous report started when we got the other 90%. At the end of April 20th you had $50,215,659 that we are responsible for. The time weighted return net fee is 7.27% for 3 years, 6.62% for 5 years and 6.23% all the way back. Changes that affect us since our last report is we reduced bonds by roughly 3% and increased out alternatives to about 4%.

Warren stated now go to page 5. The reason this report is different than the previous report is because the previous one smoothed things out to much and this one shows you quarter by quarter. We have thought that interest rates will rise and I'm going to point out the affects of that. In 2013 you notice under the aggregate bond column bonds were down to 2%. As interest rates rose on the 10 year treasuries from 1.9 at the beginning of 2013 and ended at 3%. This is only 1.1% on a 10 year bond and it had a negative effect of down 9. The aggregate bond is an index of all bonds and it was down 2. What was not anticipated is bonds retraced their whole move in 2013 and came back in 2014. At the end of 2014 we were back to 1.9% on a 10 year treasury. In 2013 we out performed and in 2014 we underperformed. We believe we have the portfolio situated where we think we are going to have inflation and raising rates at some point.

If you average the negative 2 and the 5.97 you end up with around a 2% return and we think bonds are going to underperform.

Warren stated now let's move to page 9. The only new position since the last report is on this page. If you look at the left hand side under international equities you will see that roughly 2.7% of the portfolio is in international equity. We add the Deutsche Croci International Fund. We have increased our exposure in international equities from 1.5 to 2%. The reason that we filled in with international equities is because they were going through some of the things we have done. We expect higher returns but we are afraid that the currency will negate a lot of those returns. The companies may make 15 to 20% but if the currency falls against the US dollar by 10 we have made 5. That is the reason that position is in there. We want to hedge that back to the US dollar and we will change that as the currencies straighten out. We are there to make the return and not bet on the currency.

Warren stated now go to page 13. This report has added some screens that we didn't have before. As you know we feel the way we are allocated is the most important thing for the plan. The outcome of the plan is going to be based on how we allocate it and not how we time the market or on each individual security position.

Warrens stated now to page 14. We spent quite a bit of time over the last several meetings talking about where interest rates are and how it affects our asset allocations. This is a nice illustration of the things that have changed over the last year. You will notice the pale blue is a period of historical average the last 20 years. If you had allocated your money to bond it would have made close to 6% and stock would have made 9%. The forecast is from right now if you had 100% bonds you are making about 25%. The reason for adding this in is because we have talked a lot about why we changed your allocation. We are at 50/50 with the leniency to go 20 more or less depending on the situation. We moved out here and the reason was not that we are bullish on equities it was just the position that we are in with interest rates. If we stayed at 35% stocks we would be fighting the water pretty hard and we don't need to do that.

Warren stated page 15 shows you what we have been though over the last several years. If you look at 1985 to 1995 you can see why we wanted that leniency. If we were in the gray period we wouldn't have had as much in equities and we could have had a whole lot in bonds. It wasn't that bonds were yielding 12% but the interest rates fell over that period of time giving outside performance. From 1995 the bundles came down and the curve looks different because all the returns were lower. What we have been through from 2005 to 2015 is not in any kind of shape that we have as before because we had period where we had the deep crash in 2008 that caused equity returns to fall. So the shape of the curve changed. I really appreciate you allowing us to change and have the flexibility to match the allocation. It allows us to look at where we are in the current environment and where we think things are going to be.

Warren stated now look at the Asset Scan. This report looks at each position. You see the cash is at 1.9 and that is the actual cash we see in the account. If you look through the report scans those are all the investments. Something I want to point out is from a year ago we have increased the equities by 10%. Looking at the equity style box you see we are kind of style agnostic. We want to try to be between 70 and 75% in large companies and right now we have

73%. We want to be between 15 and 20% in medium and we are at 18% and we want to be between 6 and 10% in small companies and we are at 10%. We have 34% in value, 36% in core and 33% in growth. Even though we have reduced our weighting with bonds we still want to be smart with them. You will notice in this style box we have roughly 55% of our money in short durations, 30% in high quality, 10% in medium, 38% in low quality and the difference is unclassified. The reason it doesn't add up to 100% is because some are unclassified. Next is the duration of the portfolio. Even though we say it is short term it is around 3 which is low. Even though we have bonds we are not in bonds that will cause us to have a great fall. What duration means is the longer duration the more effect and downward effect on the price. When we talk about a 10 year treasury and 13 having a yield of 1.9 and rates only going to 3 the value of that bond fell by 9%. Total return for that year was around 7. It reversed that in 2014 so that is why we don't want to have duration. You can look at page 15 and ask when do we want to be in longer duration and when do we want shorter duration. When bond yields are high we probably could have longer duration bonds. When yields are low we want to have lower durations.

Warren stated in October we will try to go into more detail because we have new members. I appreciate your time and the opportunity to help the city. That is important to us.

Hadley stated if the entire Trust doesn't need you to go into more detail I would be happy to meet with you and not take up everybody's time. I would appreciate the opportunity to do so.

Warren stated good.

Dentler stated thank you.

C. Receive audit report from Finley & Cook and take action if necessary.

Atchison stated I believe you received the audit in your packets. Let me say I'm glad to be here. I want to mention we have made some diversion for the new data that GASBY 67 requires. The impact will be much greater on the city than on your financials. Starting on page 1 we were able to render a clean opinion on the assets and statements. We have no issues to bring to you. Finance keeps really a good set of documents and has excellent information we need. Page 2 is where we talk about the fact we have a new GASBY and here is how you have to account for the transactions. It says you need to report or make a computation in this report of the net pension liability that the city owes. In prior years all we had to do was indicate the total assets and the actual determination of further liability. If you go to page 16 you will see there has been a computation made as far as using the current discount rate. The expected rate of return was 6.75% on the assets. The actuary goes though and determined based on the system, age, and salary what the future liability is. If you look at about the middle of the page it talks about the total pension liability. The actuary said the total pension liability of the plan is $79,000,000. As of June 30, 2015 the plans net assets were $51,000,000 and the difference between the $79 and $51 is the "Net Pension Liability" that is owed by the city effective 2015. In the city's financial statement they are required to actually show that liability. The balance of that amount at the last fiscal year was $27,000,000. In previous years an actual report was only required every 2 years. With the implication of GASBY 67 there was an actual in both 2013 and 2015 and you will possibly need to do one on a yearly basis from this time forth so we know exactly what that payable is. The audit took a little longer to get the information from the actuary this year due to all the changes. The report we received had all the information we needed and we were able to get the audit done. As far as the information it went extremely well. We had excellent corporation from staff. We pick our own samples and sent our own conformations. We had no interference as far as our number of samples. We had no material weaknesses in the internal controls. We had one comment we brought to their attention. The State has a rule if you have unclaimed checks after a period of time you need to send a notice to them. We noticed a lot of outstanding checks. So you need to come up with a policy to be in compliance. Other than that we had no issues. We also did certain tests to look for fraud and we came up with nothing. We have nothing to report.

Kindt stated I couldn't follow what the problem was with the checks.

Atchison stated it isn't a problem but if you have outstanding checks that are over 5 to 7 years you have to fill out a form and list those check. You have to tell who the payee's are and then send a cashier check to the state for those amounts. We advise you do all you can to find those folds because once you turn it over to the state you will not get it back.

Dentler stated thank you.

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

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

Urbanski stated first is your balance sheet. Cash in the bank and money market funds you have $132,476.35, US government obligations is $5,311,131.72, mutual funds is $28,483,392.00, stocks $15,413,292.39, judgments $2,008,065.77 and interest/account receivables is $152,386.52 for total assets of $51,502, 744.75. In liability we have $171,659.62 and our total liabilities/fund equity is $51,502,744.75. The next page is your statement of revenue and expenses. The city's contribution for the third quarter was $457,526.12, employees contribution $288,224.43, miscellaneous revenue $100.00, realized gain/loss on Morgan Stanley $12,540.21, dividends on Morgan Stanley $191,179.38, unrealized gain/loss on Morgan Stanley $378,039.63, interest of $62,898.81 for total revenue of $1,390,508.58. Expenditures we have benefits of participants of $994,432.10, refunds of $212,286.81, investments fees of $71,762.40, filing fee for audit $4,000.00, Morgan Stanley investment fees $84.61 for total expenditures of $1,282,565.92. This quarter we have a net increase of $107,942.66 for a fund balance of $51,331,085.13.

Hadley asked are the refunds to employees leaving the city.

Urbanski stated yes. The last page shows you every person who has left and the taxes that were paid for those payouts.

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

F. Discuss the process of releasing judgments purchased by the City Employees Retirement System and take appropriate action, if necessary.

Wilson stated as you know the city incurs judgments for liability against it when we are negligent. A lot of the time those judgments end up on the sinking fund/tax rolls and the pension board purchases those judgments. Once the money is collected for those judgments the Finance Department issues a Releaser of Judgment and they are released from the records. It is our recommendation that we add an extra step to releasing the judgments and at your quarterly meeting they be presented to the board. The board would authorize the release and then finance will do so.

Dentler asked do we need to make any changes.

Wilson stated no. This is a protection step for both the city and the board.

Motion by Livingston, **Second** by Bayones, to change the process of releasing judgments purchased by the City Employees Retirement System to come before the Authority before automatically releasing the said judgments. **Aye**: Livingston; Bayones; Dentler; Hadley; Hill; Kindt. **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 death of retiree Yee Vang.
B. Consider Memo of Information regarding the death retiree Hubert Buzbee.

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

VII. Comments

Hadley stated I would like to say I'm glad to be here and appreciate the help that I have received from staff. I'm sure I'll have more questions but I'll try to keep them as much offline so it doesn't take up everybody's time.

VIII. Audience Participation

IX. Adjournment

There being no further business the meeting adjourned at 9:50 a.m.

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