**MINUTES**
**PENSION TRUST COMMISSION**
**SECOND FLOOR CONFERENCE ROOM**
**CITY HALL**
**APRIL 26, 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; Ellwanger, Paul; Hadley, Bart; Hill, Andy; Livingston, Steve.
**ABSENT**: None
**ALSO PRESENT**: Denise Ezell, City Clerk's Office; Stephanie Tehauno; Financial Services; Perry Warren and Chad Rother, Morgan Stanley.

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II. Introduction of Visitors

No visitors

III. New Business

A. Approve minutes of July 27, 2017, October 19, 2017 and February 8, 2018.

**Motion** by Hill, **Second** by Ellwanger, to approve the minutes of July 27, 2017. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Bayones. **Nay**: None. **Motion Passed.**

**Motion** by Ellwanger, **Second** by Bayones, to approve the minutes of October 19, 2017. **Aye**: Ellwanger; Hadley; Hill; Bayones; Dentler. **Abstained**: Livingston. **Nay**: None. **Motion Passed.**

**Motion** by Ellwanger, **Second** by Bayones, to approve the minutes of February 8, 2018. **Aye**: Hadley; Livingston; Bayones; Dentler; Ellwanger. **Abstained**: Hill. **Nay**: None. **Motion Passed.**

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

Warren stated thanks for allowing us to be here. Turn to page 4 where you see the performance by calendar year. This goes back to before we started managing the whole account in late 2007. You will notice we have had a lot of volatility in 2018. We had a positive in January of 3.93 followed by a negative 2.63 in February and a negative 1.3 in March. The result of all that volatility was a negative 1.15% for the quarter. That is more volatility than we had in all of 2017. We didn't have a negative quarter in 2017 and I don't believe a negative month. On page 5 under Time Weighted Return Net of Fee section you see we started on November 15, 2007 with a balance of $34,679,131.46. We have had net distributions of $5,694,874.34 and investments earning of $25,161,344.69 leaving an ending value of $54,145,601.81. These numbers are reflected in the graph in the upper right hand portion of the page. The red line reflects the net invested capital and the blue reflects the total value of the account. To the left you see the performance for the last 12 months of 1.17, last 5 years 6.38 and since November 2007 5.45. On page 5 you see the time weighted performance numbers. Since we changed our benchmark, which is reflected in the second column shown as Custom Period June 30, 2016 through March 31, 2018, we have outperformed the benchmark. That performance is related to our allocation and to some extent our fix income holdings is outperforming the Barclays aggregate. As we have discussed we are purposely near our max weight in equities. That has allowed us to outperform our index by approximately 3.4%. We have a higher likelihood long term to meet our objectives by using this allocation. We should be prepared for some large swings in the value of the account caused by the higher equity allocations. On page 4 you see the account fluctuates. What we thought would occur is playing out. Notice the Barclays Aggregate Index is negative .32 since June of 2016. The performance for 3 years is 1.2 and 5 years is 1.83. Returns have fallen below the 3.85 since November 2007. That return was showing 4.85 when we made the changes. We want to increase our bond holdings when the amount in bonds can return enough that the balance in equities can produce the needed return to generate our 6.75% actuarial assumption. With the rates on the 10 year treasury going over 3% yesterday the time is getting closer to where our allocation can change. On the next page you see the portfolio x-ray. This drills into the portfolio and gives us the following information. Currently the portfolio is 7.26% cash, 58.65% US stocks, 9.02% non US stocks, 22.81% bonds and 2.25% alternatives. Look towards the middle left side of the page to the heading Investment Style. There are 2 tic-tac-toe boxes. The one on the left is the bond style box. You see the allocation matches our beliefs that rates will rise as reflected by the box with the majority of our allocation to bonds being limited to moderate duration. To the right you see the effective maturity of our bonds is less than 4 years. To the right the equity style box you see a majority of our holdings is in large cap companies. It is balanced between 24% value, 24% blend and 28% growth. We also have 22% in midcap companies with 5% in value, 6% in blend and 11% in growth.

Hadley stated you said “moderate duration”.

Warren stated “limited duration”. Limited duration is 2 years or less and moderate varies. It is very short because the effective maturity of all our positions is 3.95%. On page 12 is a chart that reminds us with our 70% in equities we should know and understand how it will affect the value and be willing to accept the volatility. The reason for accepting the volatility is for the desired outcome. Our goal is to reduce equities when the portion in bonds can earn enough to allow us to reach our long term 6.75% actuarial assumption. Based on reasonable long term return for equities is a math equation. If you look at the bottom of the page the average entry year decline is 10. It took about 2 months to get there in 2018. Last year we were only down negative 3. This doesn’t mean the market is going to trade off more during the year and we will end up with a negative 20, but we do want to address it. On page 15 the portfolio x-ray drills through all the managers that are managing the funds. We only have .6% in cash and not 7%. We have enough money to make the quarterly distribution. We only have $324,000 and the plan is they will pull $300,000 every quarter. Another note the S&P 500 year to date is down

1.21% and the aggregate bond is down 3.34%. We are doing well with a negative .15 for the quarter.

Ellwanger stated you made a comment about bonds just turned 3%.

Warren stated the 10 year treasury just went over 3%. It started the year at 2.4%.

Ellwanger asked what does that tell you. If the bond yields continue to increase what is that going to do to our portfolio.

Warren stated realistically our goal is 6.75%. That is what we would love to make if the market allow us to do so. Turn to page 6 and look at the 3 year number. Our benchmark is 50/50. If we had been 50/50 the last 3 years we would have made 5.53%. That means if we had had half our money in bonds and the other half invested in the index we would have underperformed by 1.25%. We changed that and it has pushed us up to 5.88%. If you have bonds that net 3% and we have a 50% allocation that half will make 1 ½. That means the other half has to make up the difference from 6.75 minus 1.50 which is 5.75. You double that and you have 10. We have to expect 10 from stocks long term. Bonds for the last 2 years have been negative because rates were going to rise. I don't like risk. I understand calculated risk but to take risk for the sake of taking it is foolishness. You have to take a certain amount of risk. Ideally we could be 35% stocks and 65% bonds. We can't do that until the 65% bonds is yielding enough, with a reasonable amount of return, and the other portion in equities produces their part. Long term we feel equities will make between 9 and 10%. That is where we are and why. It is not going to be a perfect experiment but we want to try our best to be within the guidelines you have provided to make the actuarial assumption. We want to make as much as we can within that guideline.

Hadley stated with the changes we ended up closer than we would if we hadn't made the changes.

Warren stated yes. You can see here it was 8.41 compared to 11.67. You have had to accept the fact that anybody can handle an up 3.93% in a month but it is tough to stomach a down 2.63%. The goal is for this account to be here long after Chad is gone. It is hard to micro manage the deal but we have to get the odds in our favor. Long term the equity market has made more than the bond market. That was when rates were higher. Equity provides the volatility long term and that is the place to be. If we had been in the standard index since June of 2015 we would have made 8.4%. That sounds good but long term with that much in bonds we wouldn't have outperformed the market. The part provided by bonds is not generating enough to make it reasonable that the equities could make up the difference. That is the reason for the allocation and it has been the right thing to do.

Hadley stated my understanding is we are expecting a couple more bumps this year.

Warren stated that is the moving fed funds rate. Then there is the market and the expectations of the future. An analogy is baseball has been played a long time. It has come to the conclusion that how they swung back in the day and how they swing now hasn't changed.

What has changed is the way we talk about it. There are going to be all kinds of things that cause the stock market to go up and down. At the end of the day our system is set up that way so we have to put the odds in our favor. That is the reason for moving to where we did. There is going to be a lot of things happening but at the end of the day we are basing that equities will outperform bonds. If we can handle the volatility and the bonds make more we can reduce our exposure to equities.

Hadley stated since this is long term this is different than the average investing.

Warren stated right. Even though this is a long term plan we have a sequence of return risk. That means the market could be down when we pull out the $300,000 for distribution. We have taken that off the table by planning. Even though the account is going to be more volatile what we would liquidate to make the distribution is not. That is part of the management. To sum it up we don't want to take any more risk than is mathematically necessary. We are going to do the best we can.

Hadley stated thank you.

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

Hadley stated as most of you are probably aware at this time we do not have a finance director. This is Stephanie Tehauno and she will be giving the financial report.

Tehauno stated the first page is the balance sheet. Ending on March 31, 2018 we had assets of $55,516,420.11, cash and money market of $302,884.91, investments of approximately $55,000,000, employee refunds of $307,072.53 leaving a fund equity of $55,209,347.58 at the end of March. On the Statement of Revenue and Expense you see the revenue was less than our expenditures. A payroll didn't post so we didn't capture it in the last quarter. That is part of the reason we had less revenues than expenditures. The employee contributions from the March 30th payroll didn't deposit until April. You will see the deposit next quarter. There was also a loss of unrealized gain/loss of $164,367. For the quarter we had a decrease of $709,029.18. The last page is the employee refunds. I have a correction due to the payroll not posting. The $87,243 is suppose to equal the refunds on the expenditures and it doesn't. There is a $6000 difference. Here is a corrected version. Instead of the $87,243.59 it is $93,632.91. Are there any questions.

Hadley stated thank you.

. 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 city code states the trust is to look at giving a cost of living to the retirees every 2 years. The city did give the general employees a cost of living.

Ellwanger asked does the code state that if current employees receive a cost of living that it is to also roll over to retirees.

Ezell stated no. The code requires the trustees to look at giving a cost of living to retirees every 2 years. If the trust feels the pension can't afford an increase then you are not required to do so.

Ellwanger asked what affect would this have on us.

Livingston stated it would have to be a negative effect. We have had to make changes to the plan to make certain we can keep it. I'm not certain we can afford to give a cost of living.

Hadley stated where we stand at this time I don't believe we can afford to do so. We need to stay solvent for the employees and retirees sake.

Livingston asked did the actuary include anything in his assumption for an increase.

Hadley stated no.

All agreed to not give a cost of living.

IV. Old Business

None

ADDENDUM

Business Item:

1. Discuss making a recommendation to the Mayor and City Council for filling the vacant pension commissioner position left by the resignation of Robert Kindt, and take action if necessary.

Hadley stated I would like to know if any of you have a recommendation for the vacancy. Do we want a particular person or type of person? We meet all the requirements with our current makeup. We can make a recommendation to the Mayor but ultimately it is a Council decision.

Livingston asked do we need to fill the position with a retiree or current employee. I don't want to see us get over weighted with employees/retirees. I think you need a balance.

Hadley stated code requires us to have a minimum of 4 either current employee and/or retiree. I agree we need a balance. I wasn't sure if you wanted someone with banking experience, investments expertise, someone who has been an elected official, another retiree or what type person you are looking for.

Hill stated is Cherry Phillips still around. She has attended our meetings before and was very positive towards this benefit.

Hadley stated she was one of the only ones that voted against the removal of the defined contribution plan. Does anyone have any other recommendations? I'll give Cherry a call and if she is willing to serve I'll give her name to the Mayor.

Ellwanger asked if we think of anyone else can we get those names to you.

Hadley stated sure.

Hill stated we function pretty peacefully and I would sure like to keep it that way. There has been a time or two we have had members that were in your face and I didn't like that. I don't mind a difference of opinion but these were more than that.

Hadley stated I agree. I don't think we would have to worry about that with Cherry.

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 Donna J Gibson
B. Consider application for normal retirement from Ingeborg M. Wilson.
C. Consider Memo of Information regarding the death of spouse of retiree Joe Caldwell.
D. Consider Memo of Information regarding the death of retiree Leon L. Williams.
E. Consider approval for the paid-in-full judgments to be released from the record.

Ellwanger stated I would like to address item E.

Hill stated I would like to pull item B.

**Motion** by Bayones, **Second** by Dentler, to approve the consent agenda with the exception of Items B and E. **Aye**: Hill; Livingston; Bayones; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

Hadley stated item B is to consider the application for normal retirement for Inge Wilson. She was 66 years of age and had 12 years 4 month and 10 days of service. She has met the requirements for normal retirement.

Hill asked is there a requirement that a spouse has to sign this document stating he understands she has chosen the lifetime only option. I have faced this issue before in the military. Only her signature is on the benefit options selection.

Ezell stated I thought they did but I'll check with HR.

Hadley stated I thought it required their signature as well. I don't know if she is married.

Ezell stated if you are not comfortable approving this item today you can table it until the next meeting or you can approve it with conditions.

Hadley stated why don't we table it.

**Motion** by Hill, **Second** by Bayones, to table item B until the next meeting. **Aye**: Livingston; Bayones; Dentler; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**.

Hadley stated next is to consider approving the paid-in-full judgments to be released from the record.

Ellwanger stated I don't understand this item. I don't remember approving the purchase of judgments. I assume we purchase judgments and these are paid in full so they need our approval to release them. Have we done this before?

Ezell stated yes. When the city has a friendly suit they use the pension funds to pay those. The judgment is placed on the tax rolls and we earn interest on those judgments. It takes 3 years to pay a judgment in full. Once it is paid in full it needs to be released.

Ellwanger stated so the Trust is purchasing these judgments.

Ezell stated yes.

Ellwanger asked did we approve the purchase of the judgment.

Ezell stated no.

Livingston stated I believe this was approved by the board years ago.

Hill stated I believe the State sets the interest rate.

Ezell stated they do.

Hadley stated I was under the assumption years ago the Trust gave the authority to the city to purchase these judgments.

Ellwanger stated the reason for pulling this item was I didn't know if we had approved purchasing them so why were we approving to release them.

Hadley stated I'll check on this.

Livingston asked what is the interest rate.

Tehauno stated 5.25%.

Warren stated that is great and if these have been bought recently then it will go up because interest rates are going up. I'm sure there is a formula they go by.

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

VI. Comments

VII. Audience Participation

VIII. Adjournment

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

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