

**Board Meeting
March 1, 2019**

PRESENT: PRESENT: John Rodgers, Chairperson; Mark Pierzchala, Councilmember; Stan Seemann, Citizen Representative; Susan Straus, AAME Representative; Karen Marshall, Human Resources representing the City Manager; Sgt. Chris Peck, FOP Representative, and Derrick Pierson, Union Representative. Also, in attendance were Gavin Cohen, Executive Secretary to the Board; Daisy Harley, Human Resources; Tim Peifer, Finance; as well as Ryen Sherman, Segal Marco Advisors by telephone, Christian Sevier, Segal Marco Advisors.

ABSENT: None

The meeting commenced at 9:00AM.

I. Approval of minutes November 30, 2018:

Mr. Rodgers asked the Board if they had any changes or comments to the minutes. Ms. Marshall made a motion to approve the minutes, while fixing any typographical errors, from the November 30, 2018 Board meeting. Mr. Seemann seconded the motion. The Board voted unanimously in favor of the motion.

II. RFP # 43-18 Deferred Compensation and Defined Benefit Pension Plan:

Mr. Cohen presented this item. He reviewed the process that is currently underway with the RFP. He reminded the Board that he could not discuss any details while the RFP is ongoing. He said that the sub-committee is meeting on March 21st, 2019 and should have a recommendation for the Board after that meeting.

III. Investment Performance Review quarter ended December 30, 2018:

Mr. Ryen Sherman (by phone) and Mr. Christian Sevier presented from Segal Marco Advisors (“SMA”), beginning with a general overview of the markets.

The Pension Fund returned -8.4% for the fourth quarter, underperforming the Policy Index return of -7.5%. The Fund returned +4.6% over the five-year period, outperforming the Policy Index, with investment gains of approximately \$17 million. The asset allocation is in compliance with the Board guidelines, although slightly underweight in International Equity and overweight in Real Estate. The underperformance for several of the funds during the period, including the Invesco Balanced Risk Allocation fund and Principal Diversified Real Asset fund, drove the relative underperformance of the Fund overall relative to the Policy Index. The allocation to Real Estate has been additive to overall Fund returns. The Board is holding off on selecting a replacement for State Street as manager of the small cap equity allocation until the record-keeper search has concluded. The Fund performed well in January (+4.5%) and total Fund assets once again surpassed the \$100M level.

Thrift Plan total assets ended the quarter at \$33.4 million. Investment losses for the quarter were -\$3.9 million. The American Funds target date series are the most utilized investment options and accounts for 35.4% of assets. The stable value fund has the second highest allocation accounting for 17.7% of the assets.

457(b) Plan total assets ended the quarter at \$26.0 million. Investment losses for the quarter were -\$2.8 million. The American Funds target date series are the most utilized investment options with 26.6% of assets followed by the stable value fund with 26.5% of assets.

Most of the investment options are performing in line with expectations, except for the Harbor International Equity Fund. Harbor recently replaced the prior sub-advisor, Northern Cross, with Marathon. SMA will continue to monitor this fund and make future recommendations to the Board accordingly. Difficult recent performance for both the Western Asset Core Plus Bond fund and Brandywine Global International Opportunities Bond fund were also noted, along with the fact that both funds have performed well so far in 2019.

The Retiree Benefit Trust returned -6.3% for the fourth quarter, which was ahead of the Policy Index return of -6.8%. For calendar year 2018 the Trust returned -2.6%, ahead of the Policy Index return of -4.0%. The asset allocation remains within the permissible ranges. The paperwork for the new Harding Loevner and Western Asset investments has been submitted by Mr. Cohen and those fund changes will occur once the Trust Agreement has been updated or earlier if the paperwork is approved by either Fund. Updates to the Investment Policy Statement for the Retiree Benefit Trust will be discussed at the next meeting.

SMA reviewed the S3 scoring report for the Thrift and 457(b) Plans. Mr. Sherman explained that approximately 75-80% of funds score in the "C" range, which doesn't necessarily require action. The Harbor International fund remains the only fund currently on Watch. SMA does not currently recommend any changes to the fund lineups for these Plans.

IV. **Supplemental Employee Contributions (SEC):**

Mr. Cohen presented this item. He reminded the Board that the Plan has a provision for Supplemental Employee Contributions. He said that the Board as fiduciaries should be recommending/highlighting this provision to the Mayor and Council. He mentioned that the additional information requested by the Board was included in the Board packet including schedules showing the impact to employees and the impact to the funding of the pension prepared by the Actuary.

He also referenced reports in the Board materials from NASRA that reflected updated information showing that many pensions across the country had made changes to employee contributions in their plans. He mentioned that the plan provision for a supplemental contribution was a policy of the Mayor and Council that has not been

implemented. Mr. Cohen said the topic had been before the Board and the Mayor and Council previously, but that no action had been taken.

The Board proceeded to have a robust discussion on what the Board responsibility is in regard to SEC, whether it is a Mayor and Council Policy or Policy option, whether the Board is going to make a recommendation or highlight the provision to the Mayor and Council and what the impact is to City employees. The Board reviewed the tables and charts that staff and the Actuary had prepared. The Board concluded that as fiduciaries they have an obligation to notify the Mayor and Council of their Policy option, but not to make a recommendation. The Board then reviewed draft correspondence that would reflect the Board position to the Mayor and Council. It was decided that staff would circulate a letter for Board review and comment which would be forwarded to the Mayor and Council.

V. **Retiree Benefit Trust:**

Mr. Cohen presented this item. He mentioned that the Trust was ten years old and that each member of the Board served as a Trustee to the Trust. He said that the Trust was formed to fund the City's retiree health benefit, and that he was the person that suggested utilizing the Board as Trustees as the structure for investments and management is similar for the pension. He had the Trust agreement reviewed by the Trust Attorney due to the Trust changing investment managers, he wanted to make sure that the Trust agreement was valid once the investments are spread out.

Mr. Rodgers stated that he had not previously been informed about the Trust agreement and that he as a Board member was subject to the agreement. Trustees had several questions about the Trust as the majority were appointed after the Trust was formed. The Board requested that this item be deferred to the next meeting and for staff to ask the Attorney to attend as the Board had several questions about the Trust agreement.

VI. **Future Agendas:**

Mr. Cohen reviewed several agenda items for the Board meeting in May 2019 as listed below:

- Status Update on the Board RFP 43#18
- Retiree Benefit Trust and Trust Attorney
- Investment Policy Statement for the Retiree Benefit Trust

Mr. Seemann made a motion to adjourn the meeting at 11:35 AM. Ms. Marshall seconded the motion.

All Board Members voted in favor of the motion.

THE NEXT REGULAR MEETING IS FRIDAY MAY 10, 2019