

**OFFICIAL
MINUTES OF REGULAR MEETING OF THE
STERLING HEIGHTS
GENERAL EMPLOYEE'S RETIREMENT SYSTEM**

Thursday, September 15, 2016

Location: Room #201 40555 Utica Road, Sterling Heights, MI 48313 (586) 446-2331

Acting Chairperson Varney called the meeting to order at 1:30 p.m.

BOARD MEMBERS PRESENT: Jennifer Varney, Acting Chairperson / Treasurer
Brian Baker, Secretary
Todd Marsh, Trustee

BOARD MEMBERS ABSENT: Richard Weiler, Chairperson (excused)
Paul Henig, Trustee (excused)

ALSO PRESENT: Walt Hessel, Pension Administrator; Thomas Michaud, Legal Counsel,
VanOverbeke, Michaud & Timmony, P.C.

APPROVAL OF AGENDA:

Motion by Marsh, supported by Baker, to approve the agenda as presented.

Ayes: All. Motion carried unanimously.

APPROVAL OF MINUTES:

Motion by Marsh, supported by Varney, to approve the minutes of the regular meeting held August 18, 2016 and the special meeting of August 24, 2016.

Ayes: All. Motion carried unanimously.

COMMUNICATION FROM CITIZENS: None

**PRESENTATION OF ANNUAL ACTUARIAL VALUATION REPORT JUNE 30, 2016 –
GABRIEL, ROEDER, SMITH & CO.**

Francois Pieterse and Mark Buis presented the June 30, 2016 (47th Annual) actuarial valuation for the retirement system to the Board and reviewed the funding status of the closed plan while noting that this was the first full year issued under the revised valuation date in order to coincide with the City's fiscal year. The funding ratio of the plan is 82.4% that compared favorably to the national averages. Pieterse commented that based upon actual market asset values, the plan was 78.1% funded. The actuarial experience loss for the year totaled \$1,132,255 primarily due to two factors: unfavorable investment performance and the decrease in the investment rate of return assumption from 8.00% to 7.75%. Offsetting these losses was a favorable variance with lower than assumed wage increases. Due to contract negotiations, additional members entered the plan during the year and two bargaining units recovered their time bank FAC calculations which both contributed to an increase in total accrued pension liability. During the June 2016 fiscal year, the actuarial recognized rate of return on a market value basis was a negative - 0.24% thereby creating a negative smoothing layer for the next four years. Buis stated that the projected overall net positive layers from last year should help smooth volatility for the next three years.

Pieterse reported that the City required contribution for fiscal 2017/2018 would be \$3,265,816 after netting a projected \$558,027 in employee member contributions. The unfunded actuarial liability was amortized

over the remaining 13- year period and amounted to \$2,829,160 for the current year. Buis stated that the annual UAAL amortization amount would continue to increase significantly due to the closed fund declining amortization period approach.

Buis distributed a public sector assumed investment returns survey which demonstrated that the vast majority of systems have adopted a rate of return ranging from 7.00% to 7.49%. He commented that the current 7.75% rate was at the very high end of the reasonable assumptions range as determined by Actuarial Standards of Practice No. 27. Hessel stated that the formal annual market study that was recently completed from the capital market outlook data from Morgan Stanley – The Brice Group indicated that the system could still achieve in excess of 8% returns net of fees based upon the current tactical asset allocation but not the target mix. By Board consensus, it was decided that the matter would be addressed in the actuarial experience study which was due to be completed by the end of the June 30, 2017 fiscal year. This would allow for the Board to take formal action by June 2017 so that the next actuarial valuation and GASB reports could be prepared.

The Board thanked Mr. Pieterse and Mr. Buis for the report and efforts on behalf of the system.

Motion by Baker, supported by Marsh, that the Board hereby certifies to the employer – City, the employer contribution required for the fiscal year beginning July 1, 2017 (as reflected by the June 30, 2016 Actuarial Valuation) in the amount of \$3,823,843, consisting of the \$3,265,816 City contribution and the \$558,027 general employee contribution, and further

that the recommended transfer in the amount of \$2,279,355 to the Reserve for Retired Benefit Payments from the Reserve for Employer Contributions be made, and further

that a copy of this motion and the 46th Annual Actuarial report, dated June 30, 2016, be forwarded to the employer – City.

Ayes: All. Motion carried unanimously.

PRESENTATION OF GASB STATEMENTS NO. 67 & 68 PLAN REPORTING AND ACCOUNTING SCHEDULES JUNE 30, 2016 – GABRIEL, ROEDER, SMITH & CO

Pieterse and Buis reviewed the GASB No. 67 & 68 report with the Board and described the differences between the numbers reported for the funding valuation report and those figures that were incorporated into the GASB report. The most common denominator was that the market value assets in the valuation report agreed to the plan fiduciary net position – ending as presented in the GASB report in the amount of \$106,683,028. The net pension liability for the GERS system that would be recorded as a liability amounted to \$29,887,985. Discussion ensued with the appropriateness of the required expense and liability to the proprietary water and sewer fund as required under GASB. It was determined that said allocations were consistent with the allocation methodology as documented in the budgetary allocation process for expensing the City employer annual contribution. Buis pointed out that the total pension liability in the amount of \$136,571,013 was identical in both the valuation report and the GASB report due to the fact that both the assumptions and time frame for each report were the same. Because of the declining amortization of the UAAL in the funding valuation, the full 7.75% rate of return can be utilized in the GASB report and a lesser blended rate of return can be avoided thereby resulting in a lower reportable total pension liability overall.

The Board thanked Mr. Pieterse and Mr. Buis for the GASB report.

Motion by Baker supported by Marsh, to receive and file the GASB No. 67 and No. 68 Accounting and Financial Reporting for Pensions Report, dated June 30, 2016 and further that a copy of this motion and the GASB No.67 and No. 68 Accounting and Financial Reporting for Pensions Report, be forwarded to the employer – City.

Ayes: All. Motion carried unanimously

REPORT FROM LEGAL COUNSEL – CASE UPDATE (Confidential)

Michaud requested that his briefing be moved ahead of the Morgan Stanley Graystone Consulting presentations which would then be made to the joint retirement system Boards after the consent and regular agenda items were handled . He then requested that the Board recess to closed session to discuss confidential matters.

Motion by Baker, supported by Varney, to recess to closed session for the purposes of discussing litigation.

Roll call vote:

Weiler: Absent (excused)
Marsh: Absent (excused)
Baker: Aye
Varney: Aye
Marsh: Aye

Board recessed to closed session. Separate minutes of the closed session were compiled.

Board reconvened from closed session.

Motion by Baker, supported by Varney, to authorize Michaud to take the appropriate action to establish lead plaintiff status in the Correction Corporation of America securities litigation matter.

Ayes: All. Motion carried unanimously.

Motion by Marsh, supported by Varney, to receive and file the letter from Thomas Michaud sent to David Davis, counsel for William J. Lang in the Act 88 asset / liability transfer issue.

Ayes: All. Motion carried unanimously.

Michaud also commented on items as they appeared on the agenda.

CONSENT AGENDA:

Motion by Baker, supported by Varney, to receive and file consent items I A through I C-10.

Ayes: All. Motion carried unanimously.

I. RECEIVE AND FILE:

- A. Benefit register listing for September 1, 2016 from Comerica Bank showing 360 active retirees with a payout for August 2016 of \$898,036.89 and a year-to-date payout of \$8,186,041.12.

- B. Cash and Asset Statements as of August 31, 2016 from Comerica Bank and Morgan Stanley showing a total market value of \$108,512,068.43 comprised as follows:

<u>Desired</u>	<u>Asset Class / Percentage</u>
<u>Allocation</u>	

0%	Cash	0.05%	Comerica Bank	\$	50,315.15
16%	Fixed Income	17.17%	Boyd Watterson		18,628,393.16
8%	Fixed Income	9.00%	Western		9,751,920.39
15%	Small Cap	16.12%	Earnest Partners		17,496,952.48
6.8%	Large Cap Value	6.58%	Confluence		7,136,318.78
6.8%	Large Cap Value	7.01%	MFS		7,611,309.66
5%	Large Cap Growth	4.91%	AMI		5,327,833.99
5%	Large Cap Growth	4.54%	Winslow		4,924,635.89
3.4%	Large Cap Growth	3.50%	Janus Capital		3,800,944.35
8%	Large Cap Core	7.75%	London		8,412,554.68
5%	Large Cap Core	4.73%	S&P Index		5,136,088.50
8.5%	Large Cap Global	8.24%	INVESCO		8,946,673.49
8.5%	Large Cap Global	8.09%	Cambiar		8,776,458.98
4%	REITS	2.31%	Principal REIT		2,511,668.93

C. Correspondence

1. Securities Litigation Settlement Report – July 29, 2016
2. Notice received from Morgan Stanley dated August 12, 2016 regarding changes to money market fund.
3. Notice received from Morgan Stanley dated August 12, 2016 regarding annual account fees.
4. Email correspondence with Comerica Bank dated August 17, 2016 regarding confirmation of authorization list.
5. Notice received from Morgan Stanley dated August 18, 2016 confirming the payment of money manager fees to Boyd Watterson.
6. Letter and email correspondence with Morgan Stanley dated August 18, 2016 authorizing the transfer of funds for the payment of benefits.
7. Letter and email correspondence with Morgan Stanley dated August 18, 2016 authorizing the payment of money manager fees.
8. Notice received from Morgan Stanley dated August 19, 2016 regarding the waiver of annual account maintenance fees.
9. Confirmation notice received from Morgan Stanley dated August 25, 2016 regarding the transfer of funds to pay benefits.
10. “Pensions & Investment” magazines dated August 22 & September 5, 2016.

REGULAR AGENDA:

II. OLD BUSINESS:

A. GERS Summary Annual Report (SAR) – Public Act 347 of 2012 Compliance

Motion by Marsh, supported by Baker to receive and file the GERS Summary Annual Report (SAR) which was updated for compliance with Public Act 347 of 2012.

Ayes: All. Motion carried unanimously.

B. Correction of Pension – FLSA Retro Pay Adjustment – William Coffin

Motion by Baker, supported by Marsh, to approve the retroactive service retirement arrearage for retiree, William Coffin, formerly General Supervisor, Department of Public Works, effective December 24, 2015 in the amount of \$271.81 and the revised monthly pension amount of \$5,276.61 under straight life with annuity withdrawal based on a revised final average compensation of \$13,015.80.

Ayes: All. Motion carried unanimously.

C. Correction of Pension – FLSA Retro Pay Adjustment – Richard Hardin

Motion by Baker, supported by Marsh, to approve the retroactive service retirement arrearage for retiree, Richard Hardin, formerly Water Division Supervisor, Department of Public Works, effective June 27, 2015 in the amount of \$383.44 and the revised monthly pension amount of \$6,082.16 under straight life with annuity withdrawal based on a revised final average compensation of \$11,910.08.

Ayes: All. Motion carried unanimously.

D. Correction of Pension – FLSA Retro Pay Adjustment – Vaux Adams

Motion by Baker, supported by Marsh, to approve the retroactive service retirement arrearage for retiree, Vaux Adams, formerly Sewer Division Supervisor, Department of Public Works, effective May 24, 2014 in the amount of \$232.82 and the revised monthly pension amount of \$5,097.32 under straight life without annuity withdrawal based on a revised final average compensation of \$9,871.47.

Ayes: All. Motion carried unanimously.

III. NEW BUSINESS:

A. Refund of Employee Contributions & Interest – Adam Vanderleun, Emergency Dispatch

Motion by Baker, supported by Marsh, to approve the withdrawal and payment of employee contributions and interest in the amount of \$53,808.99 to Adam Vanderleun, Emergency Dispatch who separated from service on February 28, 2015.

Ayes: All. Motion carried unanimously.

B. Change in Retiree Status – Gary Bozinowski (Deceased)

Michaud led the Board in a moment of silence in tribute to Mr. Bozinowski who served on the GERS Board as trustee for six terms from October 1986 through October 2003 for a total of fifteen years.

Motion by Marsh, supported by Baker, to approve termination of option A benefits for retiree Gary Bozinowski, due to his death on August 30, 2016 and the death of his spouse on February 9, 2014.

Ayes: All. Motion carried unanimously.

C. Application for Service Retirement for Catherine Herwig, Deputy Court Clerk, 41-A District Court

Motion by Baker, supported by Varney, to receive and file the application for service retirement for Catherine Herwig, Deputy Court Clerk, 41-A District Court.

Ayes: All. Motion carried unanimously.

D. Application for Service Retirement for Daniel Redmond (subject to EDRO), DPW Inspector, Department of Public Works

Motion by Marsh, supported by Baker, to receive and file the application for service retirement for Daniel Redmond (subject to EDRO), DPW Inspector, Department of Public Works.

Ayes: All. Motion carried unanimously.

E. Application for EDRO Alternate Payee Benefit, Judith Zaluski (Dennis Zaluski, Department of Public Works)

Motion by Marsh, supported by Baker, to receive and file the application for EDRO alternate payee benefit, Judith Zaluski (Dennis Zaluski, Department of Public Works)

Ayes: All. Motion carried unanimously.

F. Pension Administration Comments

Hessell informed the Board that the first mailing for the annual verification process was sent out the first week of September and to date, approximately 79% of the members have responded.

G. Trustee Comments – None.

PRESENTATION FROM TIM BRICE MORGAN STANLEY GRAYSTONE CONSULTING

Members of the Police and Fire Retirement System Board joined the GERS Board for Brice's joint presentation and interview of prospective money managers in the alternative asset class – MLP (Master Limited Partnerships)

Brice distributed a MLP education presentation booklet that provided background information, the investment case for MLPs and a current market update. As the asset class generally is uncorrelated to US markets and has attractive cash distributions relative to other investments, an opportune time has come for investing.

Brice handed out an asset allocation review which included MLPs as part of the strategic asset allocation. Analysis showed that inclusion of MLPs would reduce overall portfolio volatility, increased portfolio returns and improve the sharpe ratio. The recommended allocation would be in the range of 2.5% to 5.0% of the portfolio.

INTERVIEW OF CUSHING ASSET MANAGEMENT

Libby Toudouze and Tim Scanlan represented Cushing Asset Management and the Cushing MLP Alpha Total Return Strategy portfolio product. The firm manages \$3.4 billion in MLP style assets and invests across the entire energy supply chain. Cushing Asset is 100% employee owned with 14 key professional staff participating in portfolio interests. The portfolio is 100% midstream focus (Energy Infrastructure & Logistics) and has a significantly less portfolio concentration than the benchmark.

Cushing's 360 degree risk management approach touts expertise in trend analysis, in-depth fundamental research and risk controlled portfolio construction. The Board thanked Ms. Toudouze and Mr. Scanlan for their presentation.

INTERVIEW OF CENTER COAST MLP

Jeff Jorgensen conducted the presentation for Center Coast MLP Separately Managed Accounts. The firm has broad operational experience with many of the professional staff having worked previously in the industry. Being headquartered in Houston, Texas the firm sees themselves positioned to capitalize on extensive industry relationships and information garnering. Total assets under management are \$3.7

billion. Center Coast employs a proprietary multi-factor model to screen and select the portfolio holdings. Their operational knowledge and experience drive their investment decisions. Jorgenson stressed the durability of cash flows and the margin of safety built into the portfolio. The Board thanked Mr. Jorgenson for the presentation.

ADJOURN:

Motion by Baker, supported by Varney, to adjourn the meeting at 3:45 p.m. as Marsh departed from the meeting causing a lack of quorum.

Ayes: All. Motion carried unanimously.

Respectfully Submitted,

Brian Baker, Secretary