

MINUTES OF THE RETIREMENT BOARD
Thursday, May 9, 2019

A meeting of the Retirement Board was held on Thursday, May 9, 2019 at 8:30 a.m., in the Administration Building, 9th Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Mark Deldin, Bryan Santo, Gary Cutler, Harold Haugh, Larry Rocca, Matthew Murphy, George Brumbaugh

Excused:

Carol Grant

Also Present:

Stephen Smigiel, Stephanie Dobson, Andrew McKinnon, Joe Biondo, Christina Miller, Tom Michaud, Mike Holycross

1. Call to Order

There being a quorum of the Board present, the meeting was called to order at 8:30 a.m. by Chair Deldin.

2. Adoption of Agenda

A motion was made by Trustee Haugh, supported by Trustee Murphy to adopt the agenda. The motion carried.

3. Approval of Minutes from April 25, 2019

A motion was made by Vice-Chair Santo, supported by Trustee Rocca to approve the minutes from April 25, 2019 as presented. The motion carried.

4. Approval of Invoices

A motion was made by Trustee Haugh, supported by Trustee Rocca to approve the invoices as presented. The motion carried.

5. Public Participation

None

6. Retirement Administrator Report

Ms. Dobson provided an update on the progress of the annual signature verification. She indicated that approximately 50% have been returned. She also noted that there is still one outstanding from 2018 and one also remains outstanding from 2017. The pensions and health care benefits have been stopped for both of those individuals. Ms. Dobson will continue providing updates as the process moves along. The due date for the 2019 signature verifications is May 17th.

A motion was made by Trustee Rocca, supported by Trustee Murphy to receive and file the Retirement Administrator Report. The motion carried.

7. Agreement for Retirement Administration Services – draft for review, Andrew McKinnon

Mr. Andrew McKinnon (Human Resources and Labor Relations Director) joined the meeting to discuss a draft of the renewal of the agreement for Retirement Administration Services. He also distributed a handout showing the salaries for the current Retirement Services positions. There are currently three people working in the Retirement Services division of Human Resources and Labor Relations (HRLR) – one Retirement Administrator (Ms. Dobson) and two Retirement Specialists. What Mr. McKinnon is asking for at this time is to have all three of the individuals working in Retirement Services subsidized by the Retirement System. One of the Retirement Specialists is currently subsidized by the General Fund while the other is paid for by the Retirement System.

The updated contract provided today adds the second Retirement Specialist position and stipulates the salary and benefits be paid for by the Retirement System. Both of the individuals in that position are cross-trained and back one another up. Trustee Haugh inquired about why any of the positions would be subsidized by the general fund. Ms. Dobson and Chair Deldin provided some background on the implementation of the Retirement Services division of HRLR. This agreement would add approximately \$69,000 in additional costs annually (salary and benefits) to what the Retirement System currently pays for the individuals working in the Retirement Services division.

Trustee Murphy requested a little more time to review the proposed agreement and consider the terms. He requested this item be added back on the next meeting agenda under “Unfinished Business” for a final resolution. The rest of the Board members agreed. It will be placed back on the agenda for the May 30th meeting.

8. Grievance Resolution discussion – 10-year look back period, Andrew McKinnon

Mr. McKinnon distributed a handout that provided some background on the grievances that have been filed related to the 10-year look back period. There have now been three grievances filed on this matter and the initial one went to arbitration. The arbitrator in that case found for the grievant. The crux of the issue is the way the 10-year look back period is viewed. Currently, Retirement Services takes a look at the retirement date and counts that as year one and then goes back nine additional years. The union believes that the period should go back 120 months from the retirement date. The Retirement Ordinance defines a “year” as 26 consecutive pay periods.

Mr. McKinnon stated that since they were not successful in the case that went to arbitration, he and Ms. Dobson have been looking at whether or not there are additional cases where people have been in similar circumstances. There have been three other individuals whose 10-year look back period was treated differently than the individual involved in the arbitration. Another grievance was settled by giving one individual what he was requesting for his 10-year look back period. The arbitration is not binding, but they would be hard pressed to achieve another outcome without additional evidence of consistent past practice. Mr. McKinnon said they are hoping to resolve this entirely by including language in future contracts that will make the definition of a “year” clear (and consistent with the Retirement Ordinance), so they do not need to continue going through the grievance process moving forward.

A motion was made by Trustee Murphy, supported by Trustee Cutler to receive and file the information provided by Mr. McKinnon related to the Grievance Resolution discussion about the 10-year look back period. The motion carried.

9. EARNEST Partners annual update, Aaron Kirchoff and Pavel Sokolov

Mr. Aaron Kirchoff and Mr. Pavel Sokolov joined the meeting to provide the Board with the annual update on their investment with EARNEST Partners. Mr. Kirchoff introduced himself to the Board and gave a brief overview of the firm and current performance of the portfolio (up about 11.5% net of fees through the first quarter).

Mr. Kirchoff also described the characteristics of the portfolio and indicated there is a slight overweight in Financials. They have investments in developed markets (roughly 70%) and emerging markets (about 29-30%). Those percentages remain fairly consistent across time. He also discussed some market commentary supplied in their presentation book and provided an overview of the equity market. Mr. Kirchoff also briefly discussed trade concerns and their effect on the market.

Mr. Sokolov examined a sample holding (Capgemini) and also offered some background on a new name in their portfolio (a sneaker company in China). He then reviewed the sector breakdown of the portfolio.

A motion was made by Trustee Murphy, supported by Vice-Chair Santo to receive and file the EARNEST Partners annual update provided by Mr. Kirchoff and Mr. Sokolov. The motion carried.

10. Experience Study presentation, Troy Jaros

Mr. Troy Jaros of Buck Global LLC joined the meeting to present the 5-Year Experience Study results to the Board. This report covers December 31, 2012 through December 31, 2017. He discussed the agenda for his presentation and went on to explain the difference between demographic actuarial assumptions and economic actuarial assumptions. Mr. Jaros also reviewed how these types of assumptions are set.

He continued with his presentation and examined how the Retirement System's experience with demographics and economics for the General County, Martha T. Berry, Road Commission and Sheriff's Department varied from the assumptions that have been in place. Some variances were very substantial and Mr. Jaros made recommendations on how to change those assumptions going forward. He also discussed the impact on actuarial liability and normal cost with the current and proposed assumptions.

A motion was made by Trustee Cutler, supported by Trustee Murphy to approve the 5-Year Experience Study from 2012 to 2017 including a reduction in the employer assumed rate of return to 7.0%. The motion carried.

11. Emerging Markets Equity Manager Analysis, Mike Holycross

Mr. Holycross directed the Board's attention to the book that had been provided in their packets. He also distributed a market value update as of March 31, 2019. He noted that he had spoken to the Board previously about adding one or two active managers in the emerging markets space. He is providing a comparison of three different firms for the Board's consideration today – ABS Investment

Management, Dimensional Fund Advisors (DFA), and Wellington Management Company. If they choose to go with one manager, a 3% allocation makes sense. If they choose two, they should likely bump that allocation up to 5%, but that would necessitate a change to the EARNEST Partners and/or HGK mandate or possibly require changing one of the existing international managers entirely.

Mr. Holycross reviewed each of the firm's profiles and their management fees. He noted that he believed ABS to be the most unique of the three firms. The ABS portfolio will have more exposure to frontier markets around the world. DFA and Wellington look more like what the Board already has invested with EARNEST and HGK. He also provided a quantitative review of each of the three firms compared against the benchmark.

Of the three options, Mr. Holycross stated that he is a big fan of ABS because they are so unique. Trustee Murphy asked what kind of change there would need to be in their mandate with their other managers if they chose to go with ABS. Mr. Holycross responded that ABS would be a nice complement to EARNEST and HGK. If only ABS is hired, there would potentially be no need to make any significant changes with either EARNEST or HGK. He is suggesting taking the 1.58% currently in Vanguard with the balance of the remaining 3% allocation coming from the other international equity portfolios.

Trustee Haugh asked for Trustee Cutler's input. Trustee Cutler stated that in looking at the three options DFA seems to be the least active. He believes if they want to hire just one manager, he would lean towards ABS, but if they wanted to do a combination and possibly eliminate an existing manager, then ABS and Wellington would complement one another well. The main thing he would like to do is get out of the passive management they currently have in emerging markets and keep an eye on downside protection.

Mr. Michaud asked Mr. Holycross to address the difference in the fees between ABS and the other two options. Mr. Holycross explained that ABS has a management fee, but because they are also working with 15-20 underlying managers they are also paying a management fee on top of that. It is like a private equity fund or a hedge fund where there are two layers of fee (one to the manager you hire and then one to the underlying managers). It all nets out in overall performance reported. The others (DFA and Wellington) have just one flat fee to the manager.

A motion was made by Trustee Cutler, supported by Trustee Haugh to allocate \$30 million to ABS Investment Management (\$16 million from Vanguard via liquidation of that investment with the balance coming from WAM Foreign Equity) into the ABS Strategic Portfolio pending legal review of the documents. The motion carried.

Mr. Holycross also advised the Board that there has been a personnel change within AndCo's research department. The majority of the research department is located in Orlando at the home office, but the director was in Chicago. A decision was made to have all directors with personnel responsibilities move to the home office in Florida. The current Director of Research is opting not to move and will be leaving AndCo. Mr. Holycross will be sending an email out about this change very soon.

12. MAPERS 2019 Spring Conference – designation of delegates (2)

A motion was made by Trustee Cutler, supported by Trustee Haugh to name Chair Mark Deldin and Vice-Chair Bryan Santo as the two delegates for the MAPERS 2019 Spring Conference. The motion carried.

13. Unfinished Business

None

14. New Business

Trustee Haugh inquired whether Ms. Dobson could reach out to Buck for a breakdown of the fee that they charge for an EDRO calculation. He is concerned because he discovered that a different actuary charges a fee that is less for what he perceives to be the same work. Ms. Dobson will look into it.

15. Adjournment

There being no further business before the Board, a motion was made by Trustee Murphy, supported by Trustee Haugh to adjourn the meeting at 10:34 a.m. The motion carried.