

**MINUTES OF THE RETIREMENT BOARD**  
**Thursday, September 7, 2017**  
**REVISED**

A meeting of the Retirement Board was held on Thursday, September 7, 2017 at 8:30 a.m., in the Administration Building, 9<sup>th</sup> Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Mark Deldin, Gary Cutler, Carol Grant, Larry Rocca, Bryan Santo, Bob Smith, George Brumbaugh

Excused:

Matthew Murphy

Also Present:

Stephanie Dobson, Steve Adair, Joe Biondo, Larry Lee, Tom Michaud, Amy Cole, Brian Brice, Karen Bathanti

**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 Vice-Chair Cutler, supported by Trustee Grant to approve the agenda as presented. The motion carried.*

**3. Approval of Minutes – August 24, 2017**

*A motion was made by Vice-Chair Cutler, supported by Trustee Santo to approve the minutes of August 24, 2017 as presented. The motion carried.*

**4. Approval of Invoice**

*A motion was made by Vice-Chair Cutler, supported by Trustee Grant to approve the invoice as presented. The motion carried.*

**5. Public Participation**

None

## **6. Graystone Consulting 2<sup>nd</sup> Quarter Performance Report**

Ms. Cole briefly discussed future expectations for the fund before beginning the review of performance in the 2<sup>nd</sup> quarter. As of June 30, 2017 the year-to-date return (net of fees) was 7.81%. She also covered asset allocation and manager performance. Ms. Cole also directed the Board's attention to the page detailing upcoming capital calls and expected distributions.

*A motion was made by Trustee Santo, supported by Trustee Smith to receive and file the Graystone Consulting 2<sup>nd</sup> Quarter Performance Report. The motion carried.*

## **7. Investment Consultant Interviews**

### **a. Graystone Consulting – 9:00 a.m.**

Ms. Cole and Mr. Brice were joined by Mr. Jeffrey McConnell (Chief Investment Officer for Graystone Consulting at Morgan Stanley) to provide the Board with their presentation. Mr. Brice began the presentation by discussing Graystone's experience and the depth of the resources available to them. Their firm has a global reach, but a local focus.

As a larger firm, Graystone Consulting feels they are able to put their clients "at the front of the line." They have 443 public fund clients across the country with about \$20 billion in assets in total. Collectively, Graystone Southeast Michigan is responsible for over 90 different clients with about \$8.3 billion in assets. Mr. Brice also pointed to a list of client references that Graystone has served for many years. He also discussed the structure of compensation with their firm. Each consultant earns their compensation via revenue share that is based on the performance of each client's portfolio. This gives them a strong incentive to make sure their clients do well.

Ms. Cole further described the resources that are behind the consultants at Graystone. There are strategists, researchers, manager analysts and a broad team of other professionals who work very hard to bring the best options to their clients. These individuals spend a lot of time researching managers and reviewing not just performance, but also the people involved and process followed. She stated that, up to this point, the Board may not have been afforded all of the resources available to it. She believes they have more to give and she is excited about the prospect of better aligning the Board's goals with what Graystone can truly provide in terms of portfolio customization.

Mr. McConnell spoke about the reports Graystone develops when researching a manager and their performance. These reports are the basis of their recommendations. He also mentioned that because of the size of Morgan Stanley, they are able to obtain access to deals that many other firms won't. There are allocations set aside just for Morgan Stanley or Graystone's institutional clients in some strategies that other smaller competitors might never see. They are able to offer lower minimums because they see more deals than most firms do and they are also able to offer lower fees.

Mr. Brice noted that fees would be \$180,000 annually, which is the same fee arrangement in place today. That fee is inclusive of all the services provided.

Vice-Chair Cutler asked what the proper time frame is for measuring a manager's performance. Mr. McConnell responded that it sometimes depends on the manager and sometimes it depends on the asset class. He indicated it's also important to pay attention to the market cycle.

Vice-Chair Cutler also asked what the proper method is for measuring an investment consultant's performance. Mr. McConnell indicated that performance should be measured against what the client's goals are and whether or not those goals have been met.

Vice-Chair Cutler then asked what mechanisms Graystone has in place for monitoring Public Act 314 and other compliance requirements. Mr. Brice stated that monitoring and compliance are important functions of what their analysts do. They use software to help look for variances and report back to clients.

Trustee Grant inquired who pays for the outside due diligence when Graystone chooses to move forward with that. Mr. McConnell responded that the team/branch that wants to conduct the due diligence will pay for it.

Trustee Brumbaugh asked about what Graystone's commitment is in regards to the \$180,000 annual fee (what length of time is that fee guaranteed for?). Mr. Brice responded that it would be up to the Board to determine the terms they would like and the consultants would advocate for those terms on the Board's behalf with the firm. He would anticipate that between three to five years would be agreeable.

**b. AndCo Consulting – 9:45 a.m.**

Mr. Mike Welker, Mr. Brian Green and Mr. Mike Holycross joined the meeting to provide the presentation on behalf of AndCo Consulting. Mr. Welker provided some background on the history of AndCo. They are a smaller firm with just 84 employees, but they have one focus – providing the best available investment advice to their institutional clients. AndCo has a "client first" mentality. They have over 95% employee retention and they have all the resources and talent that any consulting firm in the country has. They have every standard software system as well as proprietary programs. AndCo also offers a "service guarantee". They offer a refund of everything paid to them within a 12 month period if a client is not happy with their service.

Mr. Green stated that AndCo now has 54 Michigan plans in 27 different communities. They have experienced significant growth in Michigan, but they also have a significant national presence. From a service standpoint, their team communicates extensively to share experiences and knowledge to see what information can be applied to various situations among different plans in different locations.

Mr. Holycross reviewed what has been done in the portfolio over the last several years and discussed several of the current managers. Mr. Green examined the “report card” for AndCo clients and talked about their research team. He stated that they have a level of access to research that the Board would never have had in the past. Mr. Green also provided some information related to the transition process. There are two individuals in the firm that are dedicated to on-boarding new clients. It is their responsibility to make the process easy on the Board and get things up and running seamlessly.

Lastly, Mr. Holycross directed the Board’s attention to the proposed fee schedule (\$190,000 for each of the first three years, \$205,000 for the fourth year and \$220,000 for the fifth year).

Trustee Rocca asked how many counties AndCo currently represents in Michigan and nationwide. Mr. Green responded that they represent Genesee, Midland, Oakland, Wayne, and Monroe. They were not sure how many counties they represent nationally.

Vice-Chair Cutler asked what the proper time frame is for measuring a manager’s performance. Mr. Green responded that most factors are evaluated on a rolling three and five year basis. Mr. Holycross also referred to the usefulness of the Underperforming Manager Policy.

Vice-Chair Cutler also asked what the proper method is for measuring an investment consultant’s performance. Mr. Welker stated that the most important measuring tool is the total fund performance. There are also a number of other metrics that can be analyzed (index comparison, universe rankings, actuarial return assumption, etc.). He also believes that the timeliness of response is also very important. Being able to execute things very quickly is key.

Vice-Chair Cutler then asked what mechanisms AndCo has in place for monitoring Public Act 314 and other compliance requirements. Mr. Green stated that they have a spreadsheet that tracks information related to compliance.

Mr. Michaud inquired about whether the fees are negotiable. Mr. Holycross indicated they “...are never going to walk away from Macomb County for a couple dollars”. Trustee Brumbaugh asked what “no direct or indirect manager compensation” means as noted in their presentation book. Mr. Welker responded that none of their consultants are paid either directly or indirectly by the fund companies. Trustee Brumbaugh then asked how Mr. Green and Mr. Holycross are paid. Mr. Welker stated they are paid based on the books of business that they support throughout the organization. Trustee Brumbaugh also asked if AndCo has lost any clients to Morgan Stanley within the last year or so. Mr. Green responded that St. Clair County moved from AndCo to Graystone through their RFP process.

Trustee Brumbaugh asked how many people work in the Southfield office. Mr. Green responded that there are four consultants in that office. There are no administrative or support people located there. Trustee Brumbaugh wanted to know who would take his call if there was no one in the office. Mr. Welker responded that the Client Solutions Group in

Florida would take the call and get in touch with either Mr. Green or Mr. Holycross to ensure that the message gets to them and they can respond as soon as they are available. Trustee Brumbaugh also asked if AndCo would be willing to accept the same fee as Graystone offered (\$180,000 per year with a three to five year commitment). Mr. Holycross responded, "If \$10,000 makes a difference in your decision making process, we will not let this go for a few dollars." Trustee Brumbaugh said it's not just \$10,000 because AndCo's proposed fees are higher each year, but that difference would pay for a couple of retirees benefits. Mr. Holycross said, if needed, he is willing to have that discussion. He said that he firmly believes that the \$10,000 is paid for in spades with \$60 million in excess returns in just the last five years. Trustee Brumbaugh reminded Mr. Holycross that "past performance is no guarantee of future results." Trustee Brumbaugh just wants to make sure everyone on the Board knows what they are buying and future discussions are not a guarantee of a commitment. Mr. Michaud added that he would have started the negotiation a little lower than even just matching Graystone's offer. Mr. Welker stated that they are committed to getting Macomb's business.

Trustee Smith said that Graystone had stated that because of their size they were able to offer "first in line" and unique opportunities that other firms may not have access to. He asked AndCo to comment on that. Mr. Welker said that he would be very interested to know which funds Graystone thought they would have access to that AndCo wouldn't.

Trustee Grant asked if any of their 54 current Michigan clients are out for RFP right now. Mr. Green responded that none are in the RFP process currently. He indicated Southfield Fire & Police just finished their review earlier this year, Bay County conducted their review last year and Wayne County is coming up on their review in April next year.

**8. Retirement Administrator Report**

None

**9. Disability Retirement**

**a. Christos Candiliotis (Re-examination Opinion)**

The Board was in receipt of the Medical Director's confidential medical reports regarding the re-examination of Christos Candiliotis. The Medical Director has concluded, based on the re-exam, that his disability retirement should be continued.

*A motion was made by Vice-Chair Cutler, supported by Trustee Grant that based on the Medical Director's opinion, the disability retirement of Christos Candiliotis shall be continued and the following resolution shall be adopted:*

**WHEREAS**, the Retirement Board is vested with the general administration, management and operation of the Macomb County Employees' Retirement System ("Retirement System") and

has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

**WHEREAS**, Christos Candiliotis was granted a disability retirement on May 26, 2016, after a finding by the Retirement Board that the requirements of the Retirement System had been met, and

**WHEREAS**, in accordance with Section 32 of the Retirement Ordinance, at least once each year during the first five (5) years following retirement of a member with a disability pension and at least once every three (3) year period thereafter, the Retirement Board requires a disability retiree to undergo a medical examination directed by the Retirement Board Medical Director, and

**WHEREAS**, the Retirement Board directed the Human Resources and Labor Relations Department to contact the Medical Director to set up an appointment for Christos Candiliotis to be re-examined and to advise the Medical Director of their responsibilities, and

**WHEREAS**, on July 6, 2017, Dr. Norman S. Miller, M.D. conducted an independent examination and reviewed all records provided and concludes Christos Candiliotis is not totally and permanently incapacitated for duty in the employ of the County, and further indicates that Christos Candiliotis should not remain retired, and

**WHEREAS**, the Retirement Board is in receipt of a certification from the Medical Director, dated August 25, 2017, which states that Christos Candiliotis is totally and permanently incapable of resuming employment with the County in the same or similar job classification in which said individual was employed at the time of disability, and

**WHEREAS**, the Retirement Board has discussed this matter and has determined that Christos Candiliotis has met the eligibility requirements for a continual disability retirement from the Retirement System, therefore be it

**RESOLVED**, that the Retirement Board hereby **approves** the continual disability retirement of Christos Candiliotis and directs that benefits be paid consistent with the Retirement System's provisions, and further

**RESOLVED**, that a copy of this resolution shall be provided to Christos Candiliotis and all other appropriate parties.

*The motion carried.*

**10. Presentation of 2016 Valuation – 10:30 a.m.**

Mr. Timothy Bowen joined the meeting to present the 2016 Actuarial Valuation on behalf of Conduent. He provided a brief overview on how the valuation is done. As of December 31, 2016, there were no changes made to assumptions. Mr. Bowen also discussed the covered

population, plan assets, funded status, county contributions and the funding policy. He is not recommending any changes to funding policy at this time.

*A motion was made by Trustee Santo, supported by Trustee Grant to receive and file the presentation of the 2016 Actuarial Valuation. The motion carried.*

**11. Retiree Consulting Expense Opinion**

Mr. Michaud provided a legal opinion to the Board that the Retirement System cannot bear the cost of the Retiree Consulting Service proposed by Ulliance. The cost would need to be built into the annual budget for Human Resources and Labor Relations (HRLR).

*A motion was made by Vice-Chair Cutler, supported by Trustee Rocca to receive and file the legal opinion and forward it to HRLR. The motion carried.*

**12. Designation of Delegates for MAPERS Fall Conference**

Chair Deldin inquired which Board members will be attending the MAPERS Fall 2017 Conference. All responded affirmatively except Trustee Rocca.

*A motion was made by Vice-Chair Cutler, supported by Trustee Rocca to designate Chair Deldin and Trustee Grant as the delegates for the MAPERS Fall 2017 Conference. The motion carried.*

**13. Unfinished Business**

None

**14. New Business**

**a. Investment Consultant interview discussion**

Chair Deldin opened the floor up for discussion related to the interviews that were conducted this morning for Investment Consultant. Trustee Santo brought up the matter of fees. The starting fee for AndCo is higher and increases over a five year period where Graystone has a lower, fixed fee. He wondered if the Board should try to match Graystone's fee or just negotiate a fixed fee for the duration of a contract with AndCo. Chair Deldin stated that, in his opinion, when they are dealing with a fund worth almost \$1 billion, he is not going to twist anyone's arm to try to save \$10,000 or \$20,000. The fee is what it is. He would not be supportive of asking either company to discount their fee. He believes whatever firm is chosen will be for a host of other reasons besides just the fee.

Trustee Brumbaugh stated that he believes that part of a fiduciary's responsibility is to get the best price for whatever service they are looking for. He agreed that in looking at the fund as a whole, \$10,000 is not much, but when you consider that the average pension paid out is

approximately \$17,000 per year, a retiree would likely not be pleased to know that the Board is paying more when the companies were willing to take less. He said that it does not make sense to him to not try for a lower rate. Trustee Smith agreed with Trustee Brumbaugh. He suggested that if the Board were to choose AndCo, they would be remiss in not taking advantage of a lower rate if possible. He does not think they would give it a second thought in order to get the business. The Board should be looking at every dollar. He questioned whether the Board is planning to make a decision today or if this is just up for discussion. Chair Deldin stated the Board could proceed as it pleases today.

Trustee Rocca said he is inclined to agree with both Trustees Brumbaugh and Smith and the Board should save money if the companies are willing to reduce their fees. Trustee Grant asked if AndCo was locking in their fee at \$180,000 for three years based on their response to the question posed to them in their interview. Trustee Brumbaugh was under the impression they would be willing to go as long as five years (which corresponds with the Board's review schedule for service providers). Vice-Chair Cutler stated that he certainly agrees with saving dollars, but he feels similar to Chair Deldin and that saving \$10,000 on a \$1 billion fund is less important than choosing the best company. He would rather have AndCo representing the Board than Graystone and is not willing to risk not getting them for \$10,000 a year. Trustee Smith pointed out that AndCo essentially agreed that lowering the fee would not be a problem. He stated that he thinks AndCo and Mr. Holycross would be a better option due to the fact that their organization is smaller and more flexible. Trustee Santo stated that he is leaning more towards AndCo as well.

Trustee Brumbaugh asked how the process works regarding payment when a change is made in investment consultants. Mr. Michaud responded that the consulting fees would be pro-rated during the transition. The Board would simply need to choose a date when the change is to be effective and the transition could begin with signing a new contract and notifying all of the managers involved. He would assist in the process.

Trustee Smith asked if there is any pending litigation coming from Morgan Stanley and if there was any sort of non-compete clause with Mr. Holycross. Mr. Michaud stated that he is not aware of any pending or on-going litigation and he does not have any concerns with moving forward because the Board would be retaining AndCo as a firm and not Mr. Holycross as an individual.

Chair Deldin suggested that if the Board is ready to move forward today with a motion that authority be given to himself and Vice-Chair Cutler to negotiate the five year agreement in terms of fees because Morgan Stanley was not specific on what the five years was going to be and there has been some concern about the increased amount with AndCo. A motion could be made pending successful negotiation and any other concerns. Mr. Michaud recommended that approval of any agreement be subject to legal review and terms being finalized.

*A motion was made by Vice-Chair Cutler, supported by Trustee Smith to hire AndCo Consulting as the new Investment Consultant subject to review of the legal documents and negotiation of fees by Chair Deldin and Vice-Chair Cutler.*



Trustee Rocca asked if the outcome of the negotiation would be reported back to the Board at the next meeting. Chair Deldin responded affirmatively and stated that AndCo would be notified that whatever is settled on through negotiations would be brought back before the Board for any further discussion or review at the next meeting.

*The motion carried.*

**15. Adjournment**

*There being no further business before the Board, a motion was made by Trustee Rocca, supported by Trustee Smith to adjourn the meeting at 11:54 a.m. The motion carried.*