



**Board Meeting  
March 2, 2018**

PRESENT: PRESENT: John Rodgers, Chairperson; Mark Pierzchala, Councilmember; Stan Seemann, Citizen Representative; Anita McCombs, AAME Representative; Susan Straus, transitioning to AAME Representative; Karen Marshall, Human Resources representing the City Manager; 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 conference call); Kris Seets and Jim McPhillips, Bolton Partners.

ABSENT: Sgt. Chris Peck, FOP Representative.

The meeting commenced at 9:05 AM with introductions.

I. Approval of minutes November 17, 2017:

Mr. Rodgers asked the Board if they had any changes or comments to the minutes. Seeing none, Councilmember Pierzchala made a motion to approve the minutes from the November 17, 2017 Board meeting as presented. Mr. Pierson seconded the motion. The Board voted unanimously in favor of the motion.

II. Review of Actuarial Valuation Report as of July 1, 2017 for FY 2019:

Mr. Cohen introduced Bolton Partners (Bolton) as the Pension Plan's new actuaries. Kris Seets, from Bolton presented the Pension Actuarial Valuation Report (Report).

Mr. Seets provided an overview of the Report explaining its purpose. He described the two main purposes of the Report. The first, the Funding Valuation, is to ensure that the City can satisfy the promise to the Plan participants to make benefit payments. The Funding Valuation therefore provides the City with a recommended contribution to the Plan each year. The other is the Accounting Valuation. The Accounting Valuation under GASB provides Pension Plan information for the City's financial statements.

The City annually contributes an Actuarially Determined Contribution (ADC) to the Pension Plan as recommend by the actuary. The City's policy is that they will pay 100% of what the actuary recommends. The ADC is used to help ensure sufficient assets are accumulated to pay the expected benefits. The ADC allocates the expected value of future benefits (paid after employment) to the service periods when they are earned.

The Plan's assets relative to the expected value of benefits provides the Plan's Funded Ratio. The shortfall between the assets and expected value of benefits is referred to as the Unfunded Liability. A portion of the City's ADC is a payment toward reducing the Plan's Unfunded Liability. To ensure integrity of the Report, Bolton replicated the prior valuation performed by the prior actuary.

Mr. Seets gave an overview of some of the recommended changes from the previous actuary that were implemented for the valuation.



- 1) Updated the life expectancy assumption to be based on the most recent study performed by the Society of Actuaries.
- 2) Revised the method used to reflect the delay between the date of the valuation (7/1/17) and date of the City's contribution (early FY19).
- 3) Included the estimated administrative expenses in the FY19 ADC.

Mr. Seets then continued to review the Plan's investment performance on page 7 and 8 relative to the earnings assumption of 7%. He explained the Plan's smoothing techniques to dampen the effect of volatile investment markets. He then described the projected unfunded liability on page 9. The projected unfunded liability as of July 1, 2018 is \$15.8 million. Mr. Seets further reviewed the City's projected contributions on page 11, the calculation of the supplemental employee contributions for Administrative, Union and Police Employees on pages 12 and 13, and the cost of providing a COLA of 1% to retirees on Page 14.

In summary the Plan funding is strong and improving. The City has consistently fully funded its recommended contributions and its future contribution requirements are expected to remain relatively stable.

### III. Review of Other Post-Employment Benefits Actuarial (OPEB) Valuation Report for FY 2019 and FY 2020 Contributions

Jim McPhillips from Bolton presented the OPEB Report.

The OPEB Valuation Report, provides the City's recommended contribution to the Retiree Benefit Trust (RBT) for FY2019 and FY 2020. The Accounting Valuation provides the required GASB information for the City's financial statements. Mr. McPhillips shared that the City's OPEB RBT is relatively well funded compared to other jurisdictions that are not. The benefit is limited up until a retiree qualifies for Medicare at age 65.

To ensure the integrity of the OPEB Report, Bolton Partners replicated the valuation performed by the prior actuary.

Mr. McPhillips gave an overview of some of the recommended changes from the previous actuary that were implemented for the valuation.

- 1) Updated the expected rates of future investment returns, retirements, terminations, and other experience to match the expectations used by the pension plan.
- 2) Included the anticipated effect of the "Cadillac" tax.
- 3) Included an assumption that 90% of future retirees will elect to participate in the City's retiree medical insurance.
- 4) Reflected the anticipated reduction in liability due to benefits being paid during FY19.

In summary, the Plan funding is strong and improving. The City has consistently fully funded its recommended contributions and its future contribution requirements are expected to remain relatively stable.



IV. RFP for Combined DB, DC and Deferred Compensation Plans:

Mr. Cohen introduced this item. At the previous Board meeting the Board gave direction to staff to prepare a RFP for combined Defined Benefit (DB), Defined Contribution (DC) (401a), and Deferred Compensation Services (457). The Board also requested a discussion on the pricing model of the RFP and requested that Segal provide a proposal for technical assistance with the RFP. The Board directed that staff bring back the combined RFP for review at the June 2018 meeting.

Mr. Cohen noted that staff plans to do four things differently with this RFP. First, they plan to have a pre-proposal conference to allow firms to clarify any items in the RFP. Second, sections of the responses will be separated to distinguish information that will be core to the evaluation from supplemental questions. Third, the fee section will be clearer and include options to transfer assets to the provider's platform. Fourth, the evaluation criteria will be simplified. The Board approved having the RFP reviewed by procurement and legal prior to providing final direction. Segal will add in the current programs statistics before the RFP is publicly posted.

V. Investment Performance Review quarter ended December 31, 2017:

Mr. Sherman from Segal Marco Advisors presented this report. He started with the Pension Fund performance report. The Pension Fund returned 14.2% for the calendar year and outperformed the benchmark return of 12.1%. The Fund returned 8.7% over the five-year period, which amounted to approximately \$35.6 million in investment gains. The asset allocation is in compliance with the Board guidelines and the fund managers are performing in line with expectations. In addition, the Plan's overall risk profile was less than its peers over the three and five-year periods.

Mr. Sherman noted that investment grade fixed income has produced negative returns this year as interest rates have increased. He noted that diversifying the fund's fixed income exposure into an unconstrained bond fund and Global Tactical Asset Allocation fund has helped protect the fund in the current rising rate environment.

Mr. Sherman reminded the Board about the prior discussions regarding removing or reducing the TIPS allocation due to the low return outlook and interest rate risk for the asset class. As an alternative to TIPS, Segal put together a diversified real asset search, which would still provide exposure to inflation hedging assets but at a lower interest rate risk and enhanced expected return.

Mr. Sherman then reviewed the Thrift Plan performance report. The total assets ended the quarter at \$34.6 million. The American Funds target date series are the most utilized investment options and accounts for 34.3% of assets. The stable value fund has the second highest allocation accounting for 15.6 % of the assets.

All the Thrift Plan investments are performing in line with expectations.

Mr. Sherman then reviewed the City's 457 Plan performance report. The total assets with Mass Mutual ended the quarter at \$27.3 million. The American Funds target date series are the most utilized investment options with 26% of assets followed by the stable value fund with 23.8% of



assets. However, 35.5% of new contributions are going into target date funds so that allocation should increase over time.

Mr. Sherman reviewed Segal’s proprietary mutual fund scoring analysis for all the investment options.

Mr. Sherman ended his presentation with the Retiree Benefit Trust performance report. The fund returned 15.3% for the calendar year to date period, which outperformed the benchmark return of 13.8%. The since inception return is 9.3%, which is in line with the benchmark.

Manning & Napier’s equity portfolio significantly rebounded this year, outpacing the benchmark by almost 5%.

VI. Asset Allocation Review – Liquid Diversified Hard Assets Search:

Mr. Sherman reviewed the results of the Liquid Diversified Hard Assets fund manager search, which compared three different funds. The three final candidates were State Street Global Advisors, Wellington Management Company, LLP, and Principal Global Investors, LLC. The Board reviewed the candidates based on the following seven criteria:

1. Company’s organization
2. Team
3. Strategy and Philosophy
4. Investment Process
5. Operations
6. Fund Performance
7. Terms

Mr. Sherman discussed the pros and cons of each fund. The Board weighed up the investment vehicle, the fees, the performance metrics over the years, and relative risk and make up of each fund’s portfolio. Based on this evaluation, the Board made a determination that that Principal Global Investors with its Diversified Real Assets Fund is what would fit best into the Board’s portfolio. After a lengthy discussion, Mr. Seemann made a motion to terminate their investment with Blackrock TIPS and transfer the assets to the Principal Diversified Real Asset Fund (PDRDX) managed by Principal Global Investors, LLC. Ms. Marshall seconded the motion. The Board voted unanimously in favor of the motion.

Segal Marco will help coordinate the transfer of assets. Segal will also propose changes to the Board’s investment guidelines.

VII. Future Agendas:

- Asset Allocation Review
- Investment Policy Review - Result of Liquefied Diversified Hard Assets
- Pension Plans RFP
- Benefit Index – Funds Held with Principal Financial Group
- Fiduciary Responsibility Training

Councilmember Pierzchala made a motion to adjourn the meeting at 12:30 PM. Mr. Pierson seconded the motion. All Board Members voted in favor of the motion.

**THE NEXT REGULAR MEETING IS FRIDAY JUNE 1, 2018**