

**MINUTES OF THE REGULAR MEETING OF  
SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM BOARD**

**January 13, 2014**

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The Board convened in Council Study at 9:00 a.m. with President Fisher presiding.

**PRESENT:** John Fisher, Audrey Harvey, Shawn Wells, Irv Lowenberg (late arrival), Duane Garth (late arrival)

**ABSENT:**

**ALSO**

**PRESENT:** Michael VanOverbeke and Frank Judd/Legal Counsel, George Vitta/Asset Consultant, Megan Battersby/Retirement Program Administrator, Lauri Siskind/Human Resources Director, Randy Dziubek/GRS, David Durham and John Solecki/Morgan Dempsey Capital Management, Jeff James and Jason Pomatto/Driehaus Capital Management, Jeffrey Hoo and Richard Passafiume/Granite Investment Partners, Thomas McDowell and Thao Buuhoan/Rice Hall James

**R.B. 14-01** **MOTION** by Wells, supported by Harvey, to approve the December 9, 2013 regular meeting minutes. **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-02** **MOTION** by Wells, supported by Harvey, to acknowledge receipt of the Cash & Asset Statement as of November 30, 2013 in the amount of \$192,400,153.46. **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-03** **MOTION** by Harvey, supported by Wells, to approve Payment of Invoices as follows: Invoices from GRS for actuarial services performed for the period July 1, 2013 through June 30, 2014 including the draft of the June 30, 2013 annual valuation in the amount of \$16,500.00; Invoice from Livingston York Advisors for Avignon consulting services for the period 10/1/13 – 12/31/13 in the amount of \$3,712.50. **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-04** **MOTION** by Wells, supported by Harvey, to acknowledge receipt of the Informational Items as follows: YTD 2013/2014 Budget and Correspondence received during the period December 9, 2013 through January 10, 2014. **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-05** **MOTION** by Fisher, supported by Harvey, to acknowledge receipt of DROP Applications from A. Kennedy (Command, 11/26/13), W. Johns (Fire, 12/1/13), E. Wells (Fire, 12/1/13), G. Gekiere (Fire, 12/9/13), R. Petranovic (Fire, 12/1/13), W. Harrison (Fire, 12/1/13), M. Payeur (Fire, 12/1/13) and D. LaFollette (Fire 12/9/13). **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-06** **MOTION** by Fisher, supported by Wells, to acknowledge receipt of Retirement Application from J. Knaus-Lum (Police, 2/3/14). **MOTION CARRIED UNANIMOUSLY**

**R.B. 14-07** MOTION by Fisher, supported by Harvey, to acknowledge payment of DROP distributions to J. Lelli, M. Wood and J. Knaus-Lum. MOTION CARRIED UNANIMOUSLY

**R.B. 14-08** MOTION by Fisher, supported by Harvey, to acknowledge payment of Annuity Withdrawal distribution to J. Knaus-Lum. MOTION CARRIED UNANIMOUSLY

Legal counsel stated that there was nothing new to report regarding legislative updates. The lawsuit filed against Joe Capozzoli, Pam Capozzoli and various others on behalf of the General Retirement System of Detroit by Racine & Associates for breach of contractual, statutory and fiduciary duties and fraud was discussed as was the amendment filed by the Defendant's attorney removing CAPROC LLC from his list of clients.

Lowenberg entered meeting.

Legal counsel stated that there is no intent by Detroit to pursue the retirement systems and that Scott Lites and Michael VanOverbeke will be discussing a course of action regarding representation with Marie Racine. Mr. VanOverbeke reminded the Board that he now serves as general counsel to the Detroit General Retirement System but that he is very cognizant of the fact that he also represents us. He is not the counsel in that litigation and he will acknowledge immediately if he perceives any conflict of interest. Our interests are not adverse to those of the General Retirement System of the City of Detroit; this lawsuit is good in that it will scrutinize dealings and management practices at no cost to the Retirement System. Tax returns are completed and there are sufficient funds to cover the fees. Any remaining funds will be split between Wayne County and Southfield F&P, perhaps on a 60/40 basis.

Mr. Vitta presented the capital markets and economic monthly update and it was another very strong month. It was an excellent quarter and a sensational year. The five year numbers tell us that the large caps and small caps have recovered but not as much as mid-caps.

Duane Garth entered the meeting.

It was a great year for stocks but not so much for fixed income. Economic indicators are slowly improving. An update on Bradford & Marzec was provided. It was recommended that they be put on probation for three months due to the departure of key team members and to allow further due diligence on the remaining members of the team.

**R.B. 14-09** MOTION by Wells, supported by Fisher, to put Bradford & Marzec on probation until March 31, 2014 with a monthly review. MOTION CARRIED UNANIMOUSLY

The monthly Avignon update from Livingston York Advisors was discussed. The properties are listed and the broker anticipates that offers will start to come in now that the Holidays are past.

Mr. Dziubek from GRS presented the final actuarial valuation as of June 30, 2013. With the adjusted asset value that was provided last month, the rate of return on funding value during the year was 8.88% and the rate of return on market value during the year was 10.54%, both of which exceed the assumed

annual actuarial rate of return of 7.75%. Because of the asset smoothing method used, however, full recognition of the appreciation is deferred over four years. The computed employer contribution rate for the fiscal year beginning July 1, 2014 is 31.68%. Rates of retirement were discussed and to the extent that members continue to retire earlier than expected, the Plan will experience an actuarial loss. Again, the question of whether the DROP saves or costs the City money was asked. Again, Mr. Dziubek stated that they see no evidence that it costs the City money but that they cannot, for certain, say that it saves the City money.

Mr. Wells read from the December, 2013 minutes as follows: "Mr. Dziubek went on to explain that when the DROP was put in, it was determined that it was supposed to be cost neutral. Actual experience has shown that the DROP has extended careers of the active members so that, on average, they are retiring later. The message is that the retirement rates for Police Officers to whom the DROP is no longer open are affected resulting in an increase in the overall cost to the plan sponsor. There is no evidence that the DROP has cost the City more money and, in fact, removal of the DROP for Police Officers is actually resulting in a slight increase to costs. GRS also wrestled with the fact that the DROP is not closed to Command Officers. Assumptions have been made that Police may move into Command and, once again, are eligible for DROP. If Command should lose the DROP, too, costs would increase even more. Wrapping up his comments, Mr. Dziubek indicated that the required contribution rate has increased this year because of the elimination of the DROP for Police Officers, because the payroll is not increasing at the assumed rate, because some investment gains and losses will work their way in and out of the asset smoothing method in the future, and because new hire (Tier II) benefits will have to work their way into the population before they will effect costs."

Mr. Wells said that he understood that to say that the elimination of the DROP for Police Officers is costing the System money. Mr. Dziubek apologized for the lack of definitive statements being made regarding the DROP but said that was the way it had to be. He went on to say, however, that he could say factually that when the Police were removed from the DROP, the rate went up slightly; if it will ultimately cost the System money cannot be determined until an Experience Study is done. Mr. Lowenberg asked about the effect of new hires with Tier II benefits and Mr. Dziubek stressed that they will not immediately affect the employer cost. Mr. VanOverbeke also reminded the Board that the effect of the removal of the DROP was entirely different than the cost saving associated with Tier II benefits. The two are not directly tied to each other and should be viewed independently and, in fact, causing a group to leave earlier than anticipated and begin to draw a pension benefits while a group of new hires begin to accrue new benefits actually will cost the System more. Mr. Dziubek finished with the statement that the rate of 31.68% should be fairly constant going forward.

GRS wanted to touch on a couple of miscellaneous topics. First, they wanted to notify the Board that they have been requested to prepare Supplemental Valuations by both the City and Police. Second, the new GASB Rules 67 and 68 require some additional reporting in the CAFR and GRS proposes to prepare a separate report that contains the information needed. They will send a formal engagement letter to the Board through the Administrator and project that the fee will be approximately 50% of the valuation fee. It was also suggested that a planning meeting occur in May prior to commencement of the next valuation.

**R.B. 14-10** MOTION by Lowenberg, supported by Harvey, to accept the final actuarial valuation as of June 30, 2013 as presented. MOTION CARRIED UNANIMOUSLY

Mr. Vitta gave the Board an overview before investment manager interviews commenced. There will be two micro-cap and two small cap managers presenting. At present, the Investment Policy calls for a \$10 million allocation. The incumbent, Fiduciary Management, remains on probation. The decision today could go to replace Fiduciary with one or more of the candidates or to continue with Fiduciary and add a micro-cap role.

The Board interviewed four of the candidates profiled in the report they received from Asset Strategies in December, Morgan Dempsey, Driehaus, Granite and Rice Hall James. Each of the four presented their investment team, investment product, research process, performance and fee proposal, among other items. Board members and the consultant asked each candidate questions then thanked them for their time. The Board discussed the pros/cons of each of the four firms and narrowed the selection process down to Morgan Dempsey and Granite. They requested the consultant return for the February meeting with answers to their questions and some further analysis on the two firm's investment products.

Approval of the Administrative Calendar was next up. Mr. Lowenberg questioned the status of the RFP for actuarial services that SERS was to undertake in early 2013 and in which F&P was requested to participate. Mr. Judd and Ms. Battersby were asked to follow-up with Ms. Siskind regarding the status. Ms. Battersby was asked to again request an explanation of the fee breakdown and a fee letter for 2014.

**R.B. 14-11** MOTION by Lowenberg, supported by Harvey, to rescind approval of payment to GRS for actuarial services pending provision of explanation of the fee increase and breakdown. MOTION CARRIED UNANIMOUSLY

**R.B. 14-12** MOTION by Fisher, supported by Lowenberg, to start the election process of the Fire representative to the pension Board. MOTION CARRIED UNANIMOUSLY

The Retirement Administrator requested the Board go into a closed session to discuss a personnel issue.

**R.B. 14-13** MOTION by Fisher, supported by Harvey, to go into closed session per request of Retirement System Administrator to discuss a personnel issue. Roll Call: Fisher-Yes, Lowenberg-Yes, Wells-Yes, Harvey-Yes and Garth-Yes. MOTION CARRIED UNANIMOUSLY

**R.B. 14-14** MOTION by Fisher, supported by Harvey, to come out of closed session. MOTION CARRIED UNANIMOUSLY

**R.B. 14-15** MOTION by Harvey, supported by Fisher, to amend the contract of the Retirement Program Administrator for the 2013 year to reflect her ability to cash in 10 unused vacation days to be paid at her current rate of pay. MOTION CARRIED UNANIMOUSLY

Meeting adjourned at 3:10 p.m.

Prepared by Megan Battersby  
Retirement Program Administrator

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Audrey Harvey  
Secretary