

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

November 13, 2018

The Board convened in Council Study at 11:30 a.m. with President Fisher presiding. The Meeting was started at 11:37 p.m.

PRESENT: John Fisher, Duane Garth (late arrival), Audrey Harvey, Irv Lowenberg, Brent Wilson

ABSENT:

ALSO

PRESENT: Michael VanOverbeke/Legal Counsel, Brian Green/Investment Consultant, Megan Battersby/Retirement Program Director, Lauri Siskind/HR Director, Jeff Tebeau/GRS

R.B. 18-121 **MOTION** by Harvey, supported by Wilson, to approve the October 9, 2018 meeting minutes. **MOTION CARRIED UNANIMOUSLY**

R.B. 18-122 **MOTION** by Lowenberg, supported by Wilson, to acknowledge receipt of the Cash & Asset Statement as of September 30, 2018 in the amount of \$200,555,781.29. **MOTION CARRIED UNANIMOUSLY**

R.B. 18-123 **MOTION** by Harvey, supported by Lowenberg, to approve payment of invoices as follows: Invoice from Morgan Dempsey for asset management services for the period 07/01/18 – 09/30/18 in the amount of \$32,407.09; Invoice from NCPERS for membership renewal thru 12/31/19 in the amount of \$250.00; Invoice from MAPERS for membership renewal through 12/31/19 in the amount of \$200.00; Invoice from 1607 Capital Partners for asset management services for the period 7/1/18 through 9/30/18 in the amount of \$50,994.60; Invoice from LSIA for asset management services (Low Vol fund) for the period July 1, 2018 through September 30, 2018 in the amount of \$2,899.22; Invoice from LSIA for asset management services (Dividend Aristocrats and 30/70 funds) for the period July 1, 2018 through September 30, 2018 in the amount of \$5,435.84; Invoice from GRS for GASB Statement No. 67 plan reporting and accounting schedules as of June 30, 2018 in the amount of \$10,000 plus Additional work for GASB No. 68 Accounting Schedules as of June 30, 2018 included in the same report in the amount of \$2,500 for a total of \$12,500.00; Invoice from QMA for asset management services for the period Jul 01, 2018 – Sep 30, 2018 in the amount of \$29,599.79; Invoice from Chase for credit card purchases for the period 10/03/18 – 11/02/18 in the amount of \$1,146.01. **MOTION CARRIED UNANIMOUSLY**

R.B. 18-124 **MOTION** by Harvey, supported by Wilson, to acknowledge receipt of Informational Items as follows: YTD 2018/2019 Budget; Memo copy invoice from The Northern Trust Company for total services for the quarter ending 09/30/18 in the amount of \$30,680.00; Memo copy invoice from Brandes for asset management services for the period 07/01/18 through 09/30/18 in the amount of \$19,794.00; Memo copy invoice from Tortoise for asset management services for the period beginning July 1, 2018 and ending September 30,

2018 in the amount of \$15,655.93; Memo copy invoice from Loomis Sayles for asset management services for the period July 1, 2018 through September 30, 2018 in the amount of \$11,981.69; Correspondence received during the period October 9, 2018–November 9, 2018. MOTION CARRIED UNANIMOUSLY

R.B. 18-125 MOTION by Wilson, supported by Lowenberg, to pay the following invoices: Invoices from Villages of Avignon CDD and Clark & Albaugh regarding normal, recurring management and legal costs as of 10/9/18 in the total amount of \$4,319.85. MOTION CARRIED UNANIMOUSLY

R.B. 18-126 MOTION by Wilson, supported by Fisher, to approve Retirement Applications from R. Downing (12/01/18), W. Harrison (12/01/18) and S. Vazquez (12/09/18). MOTION CARRIED UNANIMOUSLY

R.B. 18-127 MOTION by Wilson, supported by Fisher, to approve DROP Distribution Elections from W. Harrison, G. Gekiere and S. Vazquez. MOTION CARRIED UNANIMOUSLY

R.B. 18-128 MOTION by Wilson, supported by Fisher, to approve Annuity Withdrawal Distribution Elections from W. Harrison, G. Gekiere and S. Vazquez. MOTION CARRIED UNANIMOUSLY

Legal counsel discussed a memo to the Board regarding Eligible Rollover Distributions. Included were a memo explaining the reason for the update, a recommended resolution adopting and incorporating the necessary modifications and a revised safe harbor notice.

R.B. 18-129 MOTION by Harvey, supported by Wilson, to adopt Resolution Re: Eligible Rollover Distributions as follows:

CITY OF SOUTHFIELD FIRE AND POLICE RETIREMENT SYSTEM

R E S O L U T I O N

Adopted: November 13, 2018

Re: Eligible Rollover Distributions

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees acknowledges that Section 402(f) of the Internal Revenue Code (the “Code”) requires the Board to provide written notice and explanation to recipients of eligible rollover distributions from the Retirement System (hereinafter, the “Safe Harbor Notice”), and

WHEREAS, applicable tax law and regulations require said Safe Harbor Notice to be provided within a reasonable period of time in advance of such distributions, and

WHEREAS, the Internal Revenue Service recently published Notice 2018-74 which modifies the safe harbor explanations that may be used to satisfy the requirements of Code Section 402(f), and

WHEREAS, legal counsel has prepared a revised Safe Harbor Notice consistent with the requirements of Section 402(f) and Notice 2018-74, and

WHEREAS, the Board of Trustees has discussed this matter with legal counsel, therefore be it

RESOLVED, that the Retirement System is hereby amended to comply with and shall be administered in accordance with the requirements of Notice 2018-74, and further

RESOLVED, that the Board of Trustees hereby adopts the revised Safe Harbor Notice consistent with the requirements of Notice 2018-74, and further

RESOLVED, that the Safe Harbor Notice be provided to recipients of eligible rollover distributions from the Retirement System consistent with Code Section 402(f), and further

RESOLVED, that a copy of this resolution shall be retained in accordance with the Retirement System's record retention policy and provided to all appropriate parties.

MOTION CARRIED UNANIMOUSLY

Legal counsel indicated that there are several weeks of legislative session to go before year end. There are two anti-defined benefit bills being pushed that would close rolling or open amortization periods in plans and that would seek to codify the State Treasurer's proposed actuarial assumptions for reporting purposes into legislation, which would effectively take away a new treasurer's ability to modify or make recommendations. He has pending meetings and will further update the Board in December.

Legal counsel also addressed the discussion from last meeting regarding the Retirement Program Director pursuing a possible opportunity to work with SERS and indicated that it had come to pass. He saw it as an advantage that her services will now be performed solely for Southfield. There is a provision in her current F&P contract regarding outside work that should be address in December and reflected in a new contract when the Retirement Program Director review occurs. It was noted that acceptance of the SERS position was contingent on F&P Board concurrence with the appointment.

R.B. 18-130 **MOTION** by Harvey, supported by Fisher, to acknowledge receipt of notification and acceptance and to acknowledge approval that the Retirement Program Director has accepted the position of SERS Retirement Administrator, such position to be held concurrent with the F&P Retirement Program Director position. **MOTION CARRIED UNANIMOUSLY**

Jeff Tebeau from GRS was in attendance to present the draft actuarial valuation as of June 30, 2018 to the Board. First, he discussed a letter to the Board regarding PA 202 services. It was noted that GRS was unable to certify that the current valuation assumptions and/or methods used by the System match or fall in the range of uniform assumptions established by the Treasurer for PA 202 reporting purposes. Therefore, the results of the valuation would most likely not be suitable for the reporting requirements.

GRS could either: 1) Perform calculations based on a different set of assumptions consistent with the Treasurer's established uniform assumptions for PA 202 reporting purposes; or 2) Discuss with the Board the suitability of using the Treasurer's established assumptions for funding purposes if policymakers wish to consider that change. Fees associated with either approach would be based on the complexity of the assignment.

R.B. 18-131 MOTION by Lowenberg, supported by Wilson, to receive and file the letter from GRS dated October 24, 2018 Re: Michigan PA 202 Services Related to MI Form 5572 (Retirement System Annual Report). MOTION CARRIED UNANIMOUSLY

Duane Garth entered the meeting.

The draft actuarial valuation report as of June 30, 2018 was presented and discussed. The purpose of the valuation is to measure the System's funding progress and to determine the employer contribution rate for the fiscal year ending June 30, 2020. A review of the Contribution to Provide Benefits exhibit showed the computed employer rate to be 36.36% with a minimum dollar contribution of \$7.2 million for the fiscal year beginning July 1, 2019. The minimum dollar contribution has increased from last year, even though the employer normal cost percentage has decreased, because the payroll has finally increased. Derivation of the experience gain/loss was examined as were risk and plan maturity measures. The length of the current amortization period is hurting plan funding status.

R.B. 18-132 MOTION by Lowenberg, supported by Wilson, to accept the draft City of Southfield Fire and Police Retirement System 66th Actuarial Valuation Report as of June 30, 2018 with a computed employer contribution rate of 36.36% and a minimum dollar contribution of \$7,208,026 for the fiscal year beginning July 1, 2019, and direct that the final valuation be prepared by the actuary. MOTION CARRIED UNANIMOUSLY

The 2019 meeting schedule was discussed and agreed upon.

R.B. 18-133 MOTION by Harvey, supported by Wilson, to approve the 2019 meeting schedule with meetings on Tuesdays at 11:30 a.m. on the following dates in 2019: January 22, February 12, March 12, April 9, May 14, June 11, July 9, August 13, September 10, October 8, November 12 and December 10. MOTION CARRIED UNANIMOUSLY

The Board reviewed the Avignon monthly update information. The purchaser has indicated that he is unable to close by the contractual deadline of 11/15/18. He requested that SFPRS consider several amendments to the deal, one of which is to extend the closing date by 90 days.

R.B. 18-134 MOTION by Lowenberg, supported by Garth, to acknowledge and concur with the revised terms of the Avignon sale and purchase agreement as presented by the Avignon consultant and to alert the Board of Directors of SFPRS Avignon of the development and need for a signature on an Addendum to Agreement. MOTION CARRIED UNANIMOUSLY

Market Update as of October 31 was reviewed. It was a down month across the board for both equities and fixed income. The quarterly investment performance review as of September 30, 2018 was presented. The Executive Summary was as follows:

- Total Fund return of +1.98% trailed the Policy Index return of +2.35%.
- The primary driver of the underperformance was relative underperformance from QMA Mid Cap and the exposure to LSIA Equal Weight and LSIA Low Volatility.
- Within the Large Cap allocation, the underweight to the largest names in the traditional S&P 500 caused the lag vs. peers and benchmark, as names like Apple, Amazon, Alphabet (Google) and Microsoft led performance.
- QMA Mid Cap underperformed, returning +2.76% vs. +3.86%. The primary driver of underperformance was an overweight to valuation related factors.
- Morgan Dempsey (Micro Cap Equity) outperformed their benchmark, returning +1.28% vs. +1.14% for the quarter.
- 1607 Capital Partners underperformed their benchmark by 1.03% for the quarter. They still rank favorably over all time periods.
- In their fifth quarter of watch status, Brandes Emerging Markets outperformed by 0.36%. Their watch status was extended through 6/30/2018.
- Both Domestic Fixed Income managers, Tortoise Credit and Loomis Sayles, outperformed their benchmarks for the quarter.
- Nantucket outperformed for the quarter and long term. Longer term results remain strong vs. benchmark and peers.
- KStone Partners underperformed their benchmark for the quarter. Long term results remain strong.
- JCR Fund III made multiple distributions during the quarter and remains approximately 70% called. JCR Fund IV made additional calls during the quarter and is now just over 20% called.
- Landmark Fund VII had multiple distributions and a single capital call during the quarter.
- As of 9/30/2018, the Total Fund is in compliance with the Investment Policy Statement and Public Act 314.

R.B. 18-135 MOTION by Lowenberg, supported by Wilson, to receive and file The Southfield Fire & Police Retirement System Investment Performance Review for the Period Ending September 30, 2018 and approve the quarterly performance rate of 1.9766%. MOTION CARRIED UNANIMOUSLY

The investment consultant presented a review of Brandes Emerging Markets and his recommendation was to terminate Brandes and consolidate the assets into 1607 Capital Partners. Irv Lowenberg questioned whether 1607 is still a first choice for an international manager. He asked if there were any other options that would be a good compliment to 1607 rather than placing all assets with them and John Fisher agreed. The investment consultant will prepare a search for an international manager for presentation in December.

R.B. 18-136 MOTION by Lowenberg, supported by Wilson, to approve the consultant's recommendation to terminate Brandes Investment Partners and place the assets with 1607 Capital Partners with a peer review/search of international managers to follow. MOTION CARRIED UNANIMOUSLY

The investment consultant next presented Real Estate Debt - Manager Analysis. The purpose of the report was to review potential candidates for an allocation to real estate debt strategies. Funds would come from Domestic Equity and it would be a 2-2.5% allocation of approximately \$5 million. It was the decision of the Board to invite Bloomfield Capital to the December meeting and to postpone until January the investment manager roundtable meeting that was scheduled for December.

Avignon was revisited to address two open items.

R.B. 18-137 MOTION by Lowenberg, supported by Wilson, to approve payment of the tax bills for the Avignon properties in the amount of \$12,765.37 on or before December 4, 2018 to achieve the maximum savings possible. MOTION CARRIED UNANIMOUSLY

R.B. 18-138 MOTION by Wilson, supported by Garth, upon review and approval by legal counsel, to direct that an Officer of SFPRS Avignon execute the proxy form provided by the Avignon consultant and return a copy by email to the consultant for forwarding to the Secretary of the CDD and, further, direct the Avignon consultant to instruct its proxy to vote as recommended at the November 14, 2018 meeting election. MOTION CARRIED UNANIMOUSLY

R.B. 18-120 MOTION by Fisher, supported by Wilson, to authorize that any shortfall in cash necessary to pay benefits between now and the next meeting be taken from US Fixed Income portfolio. MOTION CARRIED UNANIMOUSLY

Meeting adjourned at 2:35 p.m.

Prepared by Megan Battersby, Retirement Program Director

Approved by Board Motion on December 11, 2018