

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

December 8, 2014

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

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

ABSENT: Irv Lowenberg

ALSO

PRESENT: Frank Judd/Legal Counsel, George Vitta/Asset Consultant, Megan Battersby/Retirement Program Administrator, Matt Byron/Livingston York Advisors (via telephone), Jeff Tebeau/GRS, David Durham and John Solecki/Morgan Dempsey

R.B. 14-154 MOTION by Wells, supported by Garth, to approve the November 10, 2014 regular meeting minutes. MOTION CARRIED UNANIMOUSLY

R.B. 14-155 MOTION by Wells, supported by Garth, to acknowledge receipt of the Cash & Asset Statement as of October 31, 2014 in the amount of \$199,345,481.42. MOTION CARRIED UNANIMOUSLY

R.B. 14-156 MOTION by Wells, supported by Garth, to acknowledge payment of invoices as follows: Invoice from MAPERS for 2015 membership renewal in the amount of \$100.00. MOTION CARRIED UNANIMOUSLY

R.B. 14-157 MOTION by Wells, supported by Garth, to acknowledge receipt of the Informational Items including YTD 2014/2015 Budget and Correspondence received during the period November 19, 2014 through December 5, 2014. MOTION CARRIED UNANIMOUSLY

Audrey Harvey entered the meeting.

R.B. 14-158 MOTION by Wells, supported by Garth, to acknowledge receipt of Annuity Withdrawal Distribution Election from G. Stirling. MOTION CARRIED UNANIMOUSLY

There was no legislative update to report for the month, although the current lame duck session may be interesting and will be reported next month. The monthly Avignon update letter from Livingston York Advisors was accepted.

R.B. 14-159 MOTION by Wells, supported by Harvey, to authorize one of the SFPRS Avignon officers to execute the County affidavit/authorization form, after review and approval by general counsel, which will extend for two years two existing development entitlements for one of the parcels that comprise the property, and to authorize payment of the related fee of \$425. MOTION CARRIED UNANIMOUSLY

R.B. 14-160 MOTION by Wells, supported by Harvey, to direct Livingston York to respond to the existing \$700,000 offer with the following “take it or leave it” counter offer: purchase price of \$3.5 million in cash with closing to occur within 30 days of contract execution (30 days includes a 20 day due diligence period). MOTION CARRIED UNANIMOUSLY

Matt Byron was called to discuss strategy for removing the property from the market and holding for a period of time. Matt was asked to submit a fee proposal for a monthly retainer fee arrangement rather than an hourly rate as is the current arrangement. He was also asked to provide a copy of the estimated annual operating budget that was drafted in August.

R.B. 14-161 MOTION by Wells, supported by Harvey, to direct Livingston York to de-list the Avignon properties if the purchaser rejects the counter offer. MOTION CARRIED UNANIMOUSLY

R.B. 14-162 MOTION by Fisher, supported by Wells, to approve payment of the invoice from the Villages of Avignon CDD in the amount of \$1,959.83 for normal, approved management costs and notice requirements. MOTION CARRIED UNANIMOUSLY

R.B. 14-163 MOTION by Fisher, supported by Wells, to approve payment of the invoice from Warren & Grant, P.C. in the amount of \$100.00 for procurement of the title commitment for the Avignon Property. MOTION CARRIED UNANIMOUSLY

Frank Judd revisited the Designation of Option I Beneficiary for In-Service Non-Duty Death form which was previously presented and discussed. The form will be sent to Police and Fire members with greater than 10 years of service and Police Command with greater than 20 years of service who do not have a spouse on record as their beneficiary. Frank will revise the cover letter to better explain why it is being sent in an effort to alleviate questions and confusion.

R.B. 14-164 MOTION by Fisher, supported by Wells, to accept the new Designation of Option I Beneficiary for In-Service Non-Duty Death form and direct the Retirement Program Administrator to send to Police and Fire members with greater than 10 years of service and Police Command with greater than 20 years of service who do not have a spouse on record as their beneficiary. MOTION CARRIED UNANIMOUSLY

Jeff Tebeau from Gabriel Roeder Smith & Company presented the draft June 30, 2014 actuarial valuation. The employer contribution rate decreased to 29.28% from 31.68% last year. The ratio of present assets to actuarial accrued liability increased to 85.6% from 82.2%. Overall, fund experience was more favorable than assumed during the year ended June 30, 2014, producing an experience gain of approximately \$5.7 million. The market value rate of return during the fiscal year ending June 30, 2014 was 17.39% for the pension only fund value which is more than the assumed rate of 7.75%. As of June 30, 2014, the funding value of assets is approximately \$8 million less than the market value. Recognition of investment gains from prior years will continue to put downward pressure on contribution rates in the future. For the June 30, 2014 valuation, changes in some member contribution rates and reinstatement of the DROP for Police Officers resulted in a moderate decrease to the calculated required contribution.

R.B. 14-165 MOTION by Wells, supported by Garth, to accept the June 30, 2014 actuarial valuation as presented, with plan provision edits as follows: add language on pages B-1, 3 and 4 of “who DROP on or after June 10, 2014” with regard to Police 2% DROP accumulation and change contribution rate to 5% for Police Chief on page B-3, and approve the computed employer contribution rate of 29.28% for the fiscal year beginning July 1, 2015. MOTION CARRIED UNANIMOUSLY

R.B. 14-166 MOTION by Fisher, supported by Wells, to approve the EDRO Resolution RE: Rata v. Rata. MOTION CARRIED UNANIMOUSLY

The capital markets and U.S. economic updates were discussed by Mr. Vitta. It should be noted that the S&P 500 index is up nearly 14% over the 11 months of 2014 while the International Emerging Markets index is up almost 3% during the same time period. Economic update indicators are all good.

David Durham and John Solecki from Morgan Dempsey were in attendance to present an investment manager review. They provided an update of the firm, investment philosophy and process as well as a portfolio review that touched on account performance, characteristics, sector allocation, attribution and market and portfolio outlook. Their outlook was summarized as follows:

Morgan Dempsey Small Micro Outlook:

- End of the year flat for 2014.
- If quality stocks (companies with sound balance sheets) continue to selloff, performance for the remainder of the year could be negatively affected.
- Earnings have been a little softer during the latter part of the year.
- Velocity of money is still a concern and will continue to be a concern – this has loosened up a little, but is countered by the cyclical sectors being hit (energy, industrials, etc.) which is an indication that the economy is weakening.
- The minimum wage debate, and issues with cap-trade and the Affordable Care Act will continue to weigh on the markets.
- The rising US dollar is a flight to quality and we see this continuing for some time as the rest of the world attempts to iron out their economic situations.
- Rising escalation in geo-political tensions; Russia/Ukraine, China/Taiwan Straits, Southern boarder crisis (insurgency), Ebola, ISIS, and various Obama administration scandals. At some point these real world geo-political tensions may cause severe impairment to ongoing economic conditions. The inability of the Obama administration to efficiently cope with these issues and the lack of political governance will not allow these situations to improve. It has become apparent that Washington has no sense of priorities. ISIS vs. renaming of the Washington Redskins for instance.

Our emphasis on companies with robust balance sheets and tangible assets provides our portfolio an additional level of protection during market downturns. We have a high degree of confidence in the companies that we own, given our level of due diligence; during downturns in the market, or an individual position, many times we see an opportunity to add to a position that the market has sold off due to a short term event, or events.

If the economy does improve:

- While the Federal Reserve may have ended their bond buying in October, we are not seeing any signs that the economy is improving enough to constitute raising interest rates in the near future. However, if the economy does improve:
- Over the last two years, debt laden companies have significantly outperformed healthy balance sheet companies. Currently, the Fed is exiting QE and re-entering a period of traditional monetary policy. While we do not at present see an economy improving enough to constitute the raising of interest rates, the end of the Fed's bond buying is most likely a precursor to the first wave of tightening should the economy heat up in 2015. A continued tepid recovery, the weakness in the Eurozone, and the softening of emerging markets would keep US interest rates low, but the risk of a high cost of capital environment emerging in the coming year(s) is real. Therefore, we believe an investment discipline that requires "fortress balance sheets", strong cash flow characteristics, and self-funding organic growth is preferable at this juncture (and always) to holding companies laden with debt and plagued by refinancing risk.

2015

- The political landscape has hopefully changed for the better. We are optimistic that the November elections will help end the stagnation that has plagued Washington for some time. Signs of passing a long-term highway bill and allowing the Keystone Pipeline project to begin are looking promising. Also tax reform and alterations to the Affordable Care Act could be expected.

The agenda item regarding unconstrained bond fund due diligence was tabled until January.

Meeting adjourned at 11:45 a.m.

Prepared by Megan Battersby
Retirement Program Administrator

Audrey Harvey, Secretary