

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

May 10, 2016

The Board convened in Training Room 2 in the Human Resources Department at 9:05 a.m. with President Fisher presiding.

PRESENT: John Fisher, Shawn Wells, Irv Lowenberg (late arrival at 9:20 a.m.), Duane Garth (early departure at 11:45 a.m.), Audrey Harvey (via phone)

ABSENT:

ALSO

PRESENT: Michael VanOverbeke/Legal Counsel, George Vitta/Investment Consultant, Megan Battersby/Retirement Program Administrator, Lauri Siskind/Human Resources Director

R.B. 16-060 **MOTION** by Wells, supported by Garth, to approve the April 12, 2016 regular meeting minutes. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-061 **MOTION** by Wells, supported by Garth, to acknowledge receipt of the Cash & Asset Statement as of March 31, 2016 in the amount of \$187,365,982.46. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-062 **MOTION** by Wells, supported by Lowenberg, to approve payment of invoices as follows: Invoices from The Northern Trust Company for Indexed & Quantitative Services for the period ending 03/31/16 in the amount of \$1,626.91; Invoice from Loomis Sayles for large cap asset management services for the period January 1, 2016 through March 31, 2016 in the amount of \$20,841.06; Invoice from Loomis Sayles for core plus asset management services for the period January 1, 2016 through March 31, 2016 in the amount of \$17,469.01 (direct debit); Invoice from LSIA for asset management services for the period January 1, 2016 through March 31, 2016 in the amount of \$4,494.52; Invoice from 1607 Capital Partners for asset management services for the period 1/1/16 through 3/31/16 in the amount of \$34,509.33; Invoice from GRS for 5-year Experience Study for the period July 1, 2010 through June 30, 2015 in the amount of \$16,500.00; Invoice from GRS for Palmer EDRO calculation in the amount of \$1,300.00. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-063 **MOTION** by Wells, supported by Garth, to approve authorization of the payment of all future quarterly invoices from The Northern Trust Company for Indexed & Quantitative Services as a direct debit directly from the fund. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-064 **MOTION** by Wells, supported by Garth, to acknowledge receipt of the Informational Items including YTD 2015/2016 Budget and Correspondence received during the period April 12, 2016 through May 9, 2016. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-065 **MOTION** by Wells, supported by Garth, to acknowledge receipt of Retirement Application from N. Smiscik and P. West. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-066 MOTION by Wells, supported by Garth, to acknowledge receipt of DROP Distribution Elections from G. Conat, P. Theriault and D. Clifford. MOTION CARRIED UNANIMOUSLY

R.B. 16-067 MOTION by Wells, supported by Garth, to acknowledge receipt of Annuity Withdrawal Distribution Elections from N. Smiscik and P. West. MOTION CARRIED UNANIMOUSLY

In the legal update, House Bill 5438 was mentioned again. It is a huge piece of legislation that deals with the definition of final average compensation and vigorous involvement from all factions is necessary. MAPERS, unions and plan reps need to voice their opposition. While abuse exists, it should be dealt with on a local level.

Irv Lowenberg entered the meeting at 9:20 a.m.

House Bill 5421 was also mentioned. It deals with Detroit's VEBA and does not directly affect the Retirement System.

The monthly Avignon letter from Livingston York was discussed. Audrey Harvey suggested that the Board needs to get an analysis done to show at what point, by continuing to hold the property, the System no longer benefits. It is unknown what will happen with appreciation in the future and the Board needs to rely on the advisor's expertise in order to meet fiduciary standards.

R.B. 16-068 MOTION by Lowenberg, supported by Wells, to direct the Retirement Program Administrator to contact Livingston York Advisors and request they provide 1) a formal recommendation to the Board of a listing agent and price and 2) an analysis of the carrying cost vs. sale price including possible appreciation and loss of alternative investment income. MOTION CARRIED UNANIMOUSLY

R.B. 16-069 MOTION by Wells, supported by Garth, to authorize Angela Silva to act as SFPRS agent for permit application coordination. MOTION CARRIED UNANIMOUSLY

R.B. 16-070 MOTION by Wells, supported by Lowenberg, to recognize the Retirement System Board's approval of SFPRS Avignon, Inc.'s appointment of officers. MOTION CARRIED UNANIMOUSLY

The draft RIE Policy provided by legal counsel was discussed.

R.B. 16-071 MOTION by Garth, supported by Wells, to adopt the revised Statement of Administrative Policies and Procedures – Reserve for Inflation Equity as presented. MOTION CARRIED UNANIMOUSLY

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

P O L I C Y R E S O L U T I O N

Adopted: June 5, 2006
Revised: May 10, 2016

Re: Statement of Administrative Policies and Procedures - Reserve for Inflation Equity

WHEREAS, the Board of Trustees of the City of Southfield Fire & Police Retirement System (“Board of Trustees”) is vested with the authority and fiduciary responsibility for the general administration, management and operation of the City of Southfield Fire & Police Retirement System (“Retirement System”), and

WHEREAS, the City of Southfield and the Southfield Fire Fighters Association, pursuant to the terms of their collective bargaining agreement effective July 1, 1999 through June 30, 2002, have negotiated the adoption of a “Reserve for Inflation Equity Program” for all members retiring after July 1, 1999 and their beneficiaries, and

WHEREAS, the City of Southfield and the Southfield Police Command Officers Association, pursuant to the terms of their collective bargaining agreement effective July 1, 2000 through June 30, 2002, have also negotiated the adoption of a “Reserve for Inflation Equity Program” for all members retiring after July 1, 2000 and their beneficiaries, and

WHEREAS, the Board of Trustees is desirous of adopting formal policies and procedures with regards to the Retirement System’s administration of the Reserve for Inflation Equity Program (“RIE Program”), and

WHEREAS, the Board of Trustees had discussed this matter with its Actuary who, in conjunction with the Board’s Legal Counsel, has developed and recommended procedures and software for use in this regard,

THEREFORE BE IT RESOLVED, that the Board of Trustees hereby adopts the following “Statement of Administrative Policies and Procedures Regarding the Administration of the Reserve for Inflation Equity (RIE) Program”, and

FURTHER RESOLVED, that a copy of this policy shall be provided to the Board’s Actuary and Legal Counsel as well as the appropriate employer and union representatives;

**Statement of Administrative Policies and Procedures
Reserve for Inflation Equity (RIE) Program**

A. Policy

1. The Reserve for Inflation Equity Fund (“RIE Fund”) is established within the Fire and Police Retirement System effective October 25, 1999 for the Fire Fighters and effective July 1, 2000 for the Police Command Officers.
2. All firefighters and their beneficiaries retiring after July 1, 1999 shall be eligible for participation in the program (i.e., the Firefighters’ Participation Eligibility Date).

3. All police command officers and their beneficiaries retiring after July 1, 2000 shall be eligible for participation in the program (i.e., the Police Command Officers' Participation Eligibility Date).
4. Election to participate in the Retirement System's Deferred Retirement Option Plan ("DROP") shall not be considered a member's retirement date for RIE participation eligibility. A DROP Participant's termination of employment shall be considered his or her retirement date for purposes of his or her RIE Participation Eligibility Date. Members on disability retirement must have an effective disability retirement date after their applicable Participation Eligibility Date. Members on a deferred retirement must have terminated employment after their applicable Participation Eligibility Date.
5. Accumulation Formula Each fiscal year, beginning July 1, 1999 for Firefighters and July 1, 2000 for Police Command Officers, the RIE Fund will be credited with funds in accordance with the following formula: 55% of the 5-year average of the funding value rate of return over a trigger value of 8.0% as of June 30, not to exceed 3.0%, multiplied by the system assets of retired members and members who have elected to participate in the DROP, who will be eligible to receive distributions from the RIE program either now or in the future (i.e., those individuals that have retired or elected DROP participation after their applicable participation eligibility date). The Retirement Board's actuary shall annually prepare and include in the Retirement System's Actuarial Report a Derivation of the Reserve for Inflation Equity Fund which shall provide calculations of the RIE Fund Balance as of the end of each fiscal year. The RIE Fund Balance shall be credited with interest at the actuarial assumed rate of return on the mean balance in the RIE Fund.
6. Eligibility for Distribution A covered member must satisfy the eligibility requirements on July 1 of the current fiscal year in which the distribution is to occur. In the event of the death of an eligible member or beneficiary on or after July 1st, but prior to the date of the RIE distribution, the RIE distribution when made shall be payable to the surviving beneficiary or to the member's estate in the absence of a surviving beneficiary. A covered member will be eligible for a distribution on the later of (a), (b) or (c) below:
 - (a) The first July 1st, which is at least five years after the member's retirement, defined as the later of the date that a member either separated from service or began to receive a pension.
 - (b) The year after the member's pension has lost 15% of its original purchasing power, defined as a 15% increase in the Consumer Price Index for All Urban Consumers (CPI-U), U.S. city average, all items 1982-1984 = 100.
 - (c) The member's accumulation of 35 points. Each covered member shall accumulate points in accordance with the following formula:
 - (a) One point for each full year of service, not to exceed 25, plus
 - (b) Two points for each full year of retirement as of the first day of the fiscal year in which the distribution will occur.

The Retirement Board's actuary has developed software to calculate those members eligible for a distribution from the RIE Fund and the amount of a distribution for those members satisfying the eligibility requirements. Upon receipt of the Derivation of the RIE Fund from the Board's actuary, the Board's Retirement Administrator shall annually perform the Distribution Calculation as of July 1st of the current fiscal year.

7. Domestic Relations Orders Payments of RIE benefits shall be subject to the terms of an Eligible Domestic Relations Order or Domestic Relations Order in effect and approved by the Board at least 10 days before the date of the RIE distribution. If the Board is in receipt of a draft domestic relations order; an entered order which has been rejected by the Board; or an entered order which has yet to be approved by the Board; the RIE distribution shall be withheld pending receipt of an entered order approved by the Board.
8. Distributable Reserve No more than 35% of the funds in the RIE Fund shall be distributed in any given year. The distribution of benefits under the program shall not be considered an increase in the rate of retirement allowances to be paid and shall not create a liability for their continuance. Distribution of any portion of the RIE Fund shall not be a permanent increase in pension payments.
9. Individual Distributions Each benefit recipient's share will be computed by dividing the benefit recipient's total points by the total points of all eligible benefit recipients and multiplying the result by the amount available for distribution in the RIE Fund (i.e., the Distributable Reserve). The maximum amount payable to any benefit recipient is the amount which would restore 85% of the member's original purchasing power. A surviving spouse of a member will receive 60% of the amount which would have been payable to member had the member survived.
10. Distribution Date The initial date for distribution of RIE Program benefit checks as determined by the Retirement Board shall be April, 2007.

B. Procedures

The following Procedures shall guide the administration of the RIE Program:

1. The Board's Actuary shall forward on an ongoing basis the CPI-U data which shall be imported by the Retirement Administrator into the RIE Distribution Calculation software.
2. The Board's Actuary shall annually determine the RIE Fund Balance and Distribution Reserve (i.e. the "Derivation of Reserve for Inflation Equity") as of July 1 of each fiscal year. Said calculation should be included in the Retirement System's annual actuarial report. It is the expectation of the Board that the calculations be provided to the Board on or before January 1st of each year. In the event the full actuarial report will be unavailable by that date, best efforts will be utilized to provide the Derivation of Reserve for Inflation Equity by separate cover letter.

3. Upon receipt of the Distributable Reserve from the Actuary, the Retirement Administrator shall perform an RIE Distribution Calculation as of July 1 of the current fiscal year. Best efforts are to be used to present the proposed RIE Distributions to the Board on or before its regularly scheduled meeting in September of each year.
4. The Board intends to make RIE Distributions to eligible members and beneficiaries around the first week of November of each year.

Gabriel Roeder Smith (GRS) provided a final Experience Study for the Period July 1, 2010 through June 30, 2015. Key findings and recommendations of GRS in the report were as reported last month. Two additional alternative scenarios were included in the final report.

R.B. 16-072 MOTION by Lowenberg, supported by Harvey, to acknowledge receipt of the Experience Study for the Period July 1, 2010 through June 30, 2015 and adoption of the proposed demographic assumptions and the following economic assumptions: 7.50% investment return, 3.25% wage inflation and 30-year amortization, and that such assumptions be used for the June 30, 2016 actuarial valuation. MOTION CARRIED, FISHER AND WELLS OPPOSED

There was discussion regarding the recommendation of a study including an active member projection but no formal action was taken. The active member population will continue to be monitored with the next valuation.

The merger/acquisition of Asset Strategies by the Bogdahn Group was discussed. George Vitta informed the Board that he will continue as consultant to the Retirement System and has no imminent plans for retirement. He will retain his consulting freedom and a new Bogdahn office will be opening in Southfield. No Asset Strategies team members will be transitioning to Bogdahn and all backup to George Vitta will be located in Orlando, FL. John Fisher asked if this was an opportunity to address the fee structure and Mr. Vitta indicated that there was nothing in the contract that could be addresses now. Per legal counsel, there should be no problem with assignment of the contract to Bogdahn, but he indicated that he will seek a similar consent from Bogdahn that they accept the terms of the contract and will honor those terms.

R.B. 16-073 MOTION by Fisher, supported by Wells, to approve consent to assign the current service agreement with Asset Strategies to The Bogdahn Group. MOTION CARRIED UNANIMOUSLY

The Capital Markets Update as of April 30, 2016 was presented by George Vitta as was the March, 2016 U.S. Economic Update.

The quarterly Investment Performance Analysis as of March 31, 2016 was presented. Conclusions were as follows:

1. Total Fund return of +1.87% slightly trailed the Policy Index primarily due to underperformance from the Loomis Sayles large cap value portfolio and Nantucket (hedge fund manager).

2. In their fourth quarter of probation (4/01/2015 - 3/31/2016), Morgan Dempsey exceeded their benchmark by 6.32%. Removal of probation was recommended.
3. In their fourth quarter of probation (4/01/2015 - 3/31/2016), Brandes exceeded their benchmark by 8.03%. Removal of probation was recommended.
4. Loomis Sayles large cap value equity returns have deteriorated since Warren Koontz resigned in September 2014. Neither short-term nor long-term results met expectations. Six month probation from 4/01 - 9/30/2016 was recommended.
5. Avignon Holdings LLC - carried at \$3.42 million book value. No investment activity this period.
6. No violations of investment policies or guidelines were detected.
7. As of 5/04/2015, asset allocations were within policy ranges.

Duane Garth exited the meeting.

R.B. 16-074 MOTION by Lowenberg, supported by Wells, to approve the first quarter, 2016 investment rate of return of 1.8680%. MOTION CARRIED UNANIMOUSLY

R.B. 16-075 MOTION by Lowenberg, supported by Wells, to approve removal of Morgan Dempsey and Brandes from probation. MOTION CARRIED UNANIMOUSLY

R.B. 16-076 MOTION by Lowenberg, supported by Wells, to place Loomis Sayles Large Cap Equity on probation for the period April 1, 2016 through September 30, 2016. MOTION CARRIED UNANIMOUSLY

R.B. 16-077 MOTION by Wells, supported by Lowenberg, to acknowledge receipt of the letter dated May 2, 2016 from Invesco Trust Company regarding the resolution of the Department of Labor investigation relating to Invesco Trust Company. MOTION CARRIED UNANIMOUSLY

Loomis Sayles will be asked to present an update to the Board at the June meeting.

R.B. 16-078 MOTION by Lowenberg, supported by Wells, to approve payment of invoices from Villages of Avignon CDD for April, 2016 management fees and legal fees in the amount of \$5,969.82 and for reimbursement for McDermit Davis & Co FY15 Auditing Services in the amount of \$5,500.00. MOTION CARRIED UNANIMOUSLY

R.B. 16-079 MOTION by Lowenberg, supported by Wells, to designate John Fisher and Audrey Harvey as delegates for the MAPERS 2016 Spring Conference. MOTION CARRIED UNANIMOUSLY

Meeting adjourned at 11:11 a.m.

Prepared by Megan Battersby
Retirement Program Administrator

Audrey Harvey, Secretary