

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

**August 13, 2019**

---

The Board convened in Council Study at 11:30 a.m. with Vice President Garth presiding. The Meeting was started at 11:35 a.m.

**PRESENT:** Duane Garth, Audrey Harvey, Irv Lowenberg (via phone), Brent Wilson

**ABSENT:** John Fisher

**ALSO**

**PRESENT:** Michael VanOverbeke, Legal Counsel/VMT; Brian Green, Investment Consultant/AndCo; Megan Battersby, Retirement Program Director/SFPRS; Allyson Bettis, Deputy Treasurer/City of Southfield

**R.B. 19-083** **MOTION** by Harvey, supported by Wilson, to approve Minutes of the Regular Meeting of Southfield Fire & Police Retirement System Board on July 9, 2019. **MOTION CARRIED UNANIMOUSLY**

**R.B. 19-084** **MOTION** by Harvey, supported by Wilson, to acknowledge receipt of Cash & Asset Statement as of June 30, 2019 in the amount of \$197,920,409.88. **MOTION CARRIED UNANIMOUSLY**

**R.B. 19-085** **MOTION** by Harvey, supported by Wilson, to approve payment of invoices as follows: Expense report from I. Lowenberg for June 11, 2019 meeting lunch; Invoice from Morgan Dempsey for asset management services for the period 04/01/19 – 06/30/19 in the amount of \$28,696.33; Invoice from 1607 Capital Partners for asset management services for the period 4/1/19 – 6/30/19 in the amount of \$62,553.99; Invoice from LSIA for asset management services for the period April 1, 2019 through June 30, 2019 in the amount of \$3,032.36; Invoice from LSIA for asset management services for the period April 1, 2019 through June 30, 2019 in the amount of \$5,401.26; Invoice from QMA for asset management services for the period Apr 01, 2019 – Jun 30, 2019 in the amount of \$27,456.68; Statement from Chase Cardmember Service for VISA charges for the period 07/03/19 – 08/02/19 in the amount of \$418.28. **MOTION CARRIED UNANIMOUSLY**

**R.B. 19-086** **MOTION** by Harvey, supported by Wilson, to acknowledge receipt of Informational Items including YTD 2018/2019 Budget, YTD 2019/2020 Budget, and Correspondence received during the period July 9 – August 12, 2019 including: FOIA response; Tortoise invoice memorandum; Loomis invoice memorandum. **MOTION CARRIED UNANIMOUSLY**

**R.B. 19-087** **MOTION** by Wilson, supported by Harvey, to acknowledge receipt and approval of DROP Application from G. Seidel. **MOTION CARRIED UNANIMOUSLY**

**R.B. 19-088** MOTION by Wilson, supported by Harvey, to acknowledge receipt and approval of DROP Distribution Election from K. Rochon. MOTION CARRIED UNANIMOUSLY

Legal Counsel had no formal comments. All is quiet in Lansing as the legislature is on summer recess.

Retirement Program Director indicated that there has been no response to the inquiry of whether the City intends to fund the remaining contribution shortage based on the final 2018-2019 Contribution Summary and Reconciliation that was sent to the City Fiscal Services Director last month. She was again directed to inquire about the remaining contribution shortage and note that the item will again be on the September 11 meeting agenda and if no response is received before or at the meeting, default may be declared as the Board of Trustees has an obligation to certify that employer contributions have been received as described in Section 20m of Michigan Public Act No. 728. Irv Lowenberg asked that Deputy Treasurer be copied on the communication.

Irv Lowenberg also noted that he has heard that the City is reconciling amounts due from the various Retirement Systems for retirement administrator salaries. While there has been discussion, no formal invoice or documentation of amounts owed has been received.

The Investment Consultant presented Investment Performance Review for Period Ending June 30, 2019. The Executive Summary was as follows:

Broad asset class returns were positive during the 2<sup>nd</sup> quarter of 2019 with equity and fixed income markets building upon their 1<sup>st</sup> quarter gains. US stocks outperformed international stocks during a very volatile quarter. Equity indices rose during April as progress in global trade negotiations outweighed signs of weakening macroeconomic data. However, trade discussions between the US and China deteriorated in May, provoking additional tariffs and a sharp decline in equities. Softening economic data, stubbornly low inflation, and fear of a trade induced global slowdown drove the Federal Reserve (Fed) to communicate a shift in their position, favoring more accommodative policies. This change in central bank posture caused the equity markets to rebound strongly, ending the quarter in positive territory. Fixed income returns were also positive during the quarter as the prospect of more accommodative monetary policies pushed interest rates lower, increasing bond prices. Within the domestic equity markets, large caps outperformed small caps during the quarter; the S&P 500 Index returned 4.3% versus 2.1% for the Russell 2000 Index (proxy for small caps). US large and mid-cap stocks generated positive returns over the past year, returning 10.4% and 7.8% respectively; however, small caps posted a loss, falling 3.3%. Developed markets outperformed emerging markets during the quarter with the MSCI EAFE Index returning 3.7% versus a 0.6% return for the MSCI Emerging Markets Index. Both developing and emerging markets posted slight gains over the 1-year period ending 3/31, returning 1.1% and 1.2% respectively. Fixed income also provided attractive returns as a more dovish stance from the Fed and other global central banks pushed interest rates lower across the yield curve; the Bloomberg Barclays Aggregate Index returned 3.1% during the 2<sup>nd</sup> quarter. Corporate bonds outperformed due to greater interest rate sensitivity, higher yields, and tightening credit spreads.

- Total Fund return of +2.30% underperformed the Policy Index return of +2.35%. The primary drivers of underperformance were QMA and Morgan Dempsey.
- Within the Large Cap allocation, the Low Volatility allocation nearly matched the return of the broad S&P 500, the Equal Weight portfolio outperformed, and the more conservative Dividend Aristocrat lagged.

- QMA Mid Cap underperformed their benchmark, returning 1.51% vs. +3.05%.
- Morgan Dempsey (Microcap Equity) underperformed their benchmark, returning -1.08% vs. +1.10% for the quarter.
- 1607 Capital Partners outperformed their benchmark for the quarter, gaining 3.65% vs. 3.22% for their benchmark.
- Both Domestic Fixed Income managers, Tortoise Credit and Loomis Sayles outperformed their benchmarks for the quarter as investment grade corporate bonds rallied higher.
- Bloomfield Capital Fund V made their second capital call during the quarter, and is now 70% called. The first distribution of preferred return was received after the close of the quarter.
- Nantucket outperformed for the quarter as equity markets were in positive territory.
- KStone Partners underperformed their benchmark for the quarter.
- PRISA I, II and III were all ahead of their benchmarks for the quarter. Of note is the decline in retail property prices during the quarter.
- JCR Fund III made multiple distributions during the quarter and remains approximately 65% called. JCR Fund IV made another call during the quarter and is now just over 35% called.
- Landmark Fund VII had continued activity during the quarter and is now 26% called. IRR since inception is 29.9%.
- As of 6/30/2019, the Total Fund is in compliance with Public Act 314.

**R.B. 19-089** MOTION by Harvey, supported by Garth, to approve the quarterly market rate of return of 2.2981% for the quarter ended June 30, 2019. MOTION CARRIED UNANIMOUSLY

Investment Consultant indicated that small cap and international equity exposure harmed the Retirement System last quarter. While exposure to small and mid-cap stocks hurt, it was the allocation decision and not the specific fund managers that was to blame. He recommends trimming the allocation to Morgan Dempsey and QMA and adding another player for diversification. He recommends shifting approximately 4% of the portfolio, or \$7.75 mill, to the new manager. Three prospective fund managers were interviewed last month but a decision was tabled until this month. Discussion ensued regarding the pros and cons of each managers.

**R.B. 19-090** MOTION by Garth, supported by Harvey, to retain the services of Reinhart Partners for a \$7.75 mill allocation to be funded with \$6.00 mill from QMA and \$1.75 mill from Morgan Dempsey, upon the approval of Legal Counsel. MOTION CARRIED UNANIMOUSLY

Investment Consultant presented Large Cap Review to the Board. It was basically a review of the current allocations to large cap Domestic Equity and a refresher of exposure associated with each investment.

There being no further business to come before the Board, the meeting was adjourned at 1:16 p.m.

Prepared by Megan Battersby, Retirement Program Director

Approved by Board Motion on September 11, 2019