

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

April 12, 2016

The Board convened in Training Room 2 in the Human Resources Department at 9:00 a.m. with President Fisher presiding.

PRESENT: John Fisher, Shawn Wells, Irv Lowenberg and Duane Garth

ABSENT: Audrey Harvey

ALSO

PRESENT: Michael VanOverbeke/Legal Counsel, George Vitta/Investment Consultant, Megan Battersby/Retirement Program Administrator, Lauri Siskind/Human Resources Director, Jeff Tebeau/GRS, Chris Chard and Pranav Jaiswal/Brandes

R.B. 16-047 **MOTION** by Garth, supported by Lowenberg, to approve the March 8, 2016 regular meeting minutes. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-048 **MOTION** by Wells, supported by Garth, to acknowledge receipt of the Cash & Asset Statement as of February 29, 2016 in the amount of \$181,194,036.52. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-049 **MOTION** by Wells, supported by Lowenberg, to approve payment of invoices as follows: Invoices from GRS for Collins EDRO calculation in the amount of \$1,300.00 and \$400.00; Invoice from Chase Card Services for MasterCard charges for the period 02/03/16 – 03/02/16 in the amount of \$1,408.73; Invoice from Villages of Avignon CDD for March, 2016 management fees and legal fees in the amount of \$4,076.41; Invoice from Asset Strategies for investment consulting services for March, 2016 in the amount of \$8,570.10; Invoice from The Northern Trust Company for total services for the period ending 03/31/16 in the amount of \$19,624.78; Invoice from Chase Card Services for credit charges for the period 03/03/16 – 04/02/16 in the amount of \$1,259.08; Invoice from Livingston York Advisors, LLC for Avignon property management for the period 1/1/16 – 3/31/16 in the amount of \$1,987.50; Invoice from Morgan Dempsey for asset management services for the period 1st Qtr 2016 in the amount of \$25,456.00. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-050 **MOTION** by Wells, supported by Garth, to acknowledge receipt of the Informational Items including YTD 2015/2016 Budget and Correspondence received during the period March 8, 2016 through April 11, 2016. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-051 **MOTION** by Wells, supported by Garth, to acknowledge receipt of Retirement Application from M. LaBrosse and age 55 recalculation for T. Moore. **MOTION CARRIED UNANIMOUSLY**

R.B. 16-052 MOTION by Wells, supported by Garth, to acknowledge receipt of DROP Distribution Elections from W. Pylkas and M. LaBrosse. MOTION CARRIED UNANIMOUSLY

R.B. 16-053 MOTION by Wells, supported by Lowenberg, to acknowledge receipt of Annuity Withdrawal Distribution Elections from T. Moore and M. LaBrosse. MOTION CARRIED UNANIMOUSLY

Legal update indicated that House Bill 5438, which proposes the enactment of a new law to be known as the “public employee retirement benefit calculation act” which would prescribe the compensation utilized to calculate pension benefits for employees of certain public employers, was introduced in March. It is of concern because it involves the definition of final average compensation for all public pension systems. MAPERS feels that it is an intrusion on local governments.

The Avignon update letter was discussed. One Broker’s Opinions of Value letter has been obtained so far while another should be received shortly. The letter is consistent with what has been said in the past: a fast close, cash buyer is likely to bring in a price of around \$3 million while a longer closing sale to a developer or homebuilder (up to 2 years in entitlements) might yield over \$5 million. Florida legal counsel is currently working on establishing SFPRS Avignon, Inc. to do business in FL in order to secure necessary water permits. Regarding Lauris tax sale litigation, the bondholders have elected to appeal the judgment that awarded Lauris to the Manatee County Tax Collector. The net effect on the CDD and SFPRS Avignon is that they remain in a holding pattern until the case is resolved.

R.B. 16-054 MOTION by Fisher, supported by Wells, to accept the legal report as presented. MOTION CARRIED UNANIMOUSLY

R.B. 16-055 MOTION by Wells, supported by Garth, to adopt the (DRO) Resolution Burkeen v. Burkeen. MOTION CARRIED UNANIMOUSLY

R.B. 16-056 MOTION by Wells, supported by Garth, to adopt the (EDRO) Resolution Palmer v. Palmer. MOTION CARRIED UNANIMOUSLY

R.B. 16-057 MOTION by Wells, supported by Garth, to adopt the (DRO) Resolution Melzer v. Melzer. MOTION CARRIED UNANIMOUSLY

Irv Lowenberg exited the meeting at 9:25 a.m.

Discussion regarding RIE distributions followed and questions about eligibility and distribution timing were contemplated. Legal counsel will revise the current RIE Policy and provide a draft at the May meeting.

Gabriel Roeder Smith (GRS) presented a draft report of the Experience Study for the Period July 1, 2010 through June 30, 2015. A single set of actuarial assumptions are not suitable indefinitely and, therefore, should be monitored. If assumptions are unrealistic, plan costs can be understated or overstated. As a result, an experience study is done approximately every five years. Key findings and recommendations of GRS in the report were as follows:

- **Investment Return:** Lower the investment return assumption to 7.5% or below net of investment expenses. Lower assumptions would also be reasonable and more conservative and would increase the likelihood of meeting or exceeding the assumption.
- **Wage Inflation:** Decrease the wage inflation assumption from 4.00% to 3.25%. This reflects a decrease in the underlying price inflation assumption. In the near term, even this reduced growth rate may not be achieved.
- **Administrative Expenses:** Increase the contribution for administrative expenses from 1.5% to 2.0% of payroll.
- **Salary Increase:** Modify the current salary increase assumptions to reflect 3.25% wage inflation plus the service-based component for merit and seniority. No change to the merit and seniority increase assumptions is recommended.
- **Retirement Rates:** Increase the rates for the service-based retirement eligibility pattern.
- **Withdrawal Rates:** Maintain the current withdrawal rate structure.
- **Mortality Rates:**
 - **Post Retirement:** Change from the RP-2000 Combined mortality tables projected to 2015 to the RP-2014 Blue Collar Healthy Annuitant mortality tables with projected mortality improvement based on the MP-2015 2-dimensional improvement scale released by the Society of Actuaries. Further, use the RP-2014 Disabled Annuitant mortality tables with projected mortality improvement based on the MP-2015 2-dimensional improvement scale for disabled retirees.
 - **Pre-Retirement:** Use the RP-2014 Blue Collar Employees mortality tables with projected mortality improvement based on the MP-2015 2-dimensional improvement scale.
- **Disability Rates:** Maintain the current disability rate structure.
- **Actuarial Equivalence Basis for Optional Forms of Payment:** Update the assumptions used to calculate the factors for optional forms of payment. GRS recommends an 85% male/15% female unisex blend of the male and female RP-2014 Blue Collar Healthy Annuitant mortality tables projected 5 years with scale MP-2015 and a 6% interest rate.
- **Active Population:** Consider a study including active population projections to help the Board understand this issue. The current assumption is that the active population will remain constant. However, the active population has declined approximately 2% per year in the past ten years. Based upon GRS's understanding that the plan is still open to new hires, it is reasonable to expect that the active workforce will stabilize in order to support current City services. However, future declines in the short-term would adversely affect the level percent-of-payroll amortization of the unfunded liability.
- **Actuarial Cost Method:** No change in the actuarial cost method is recommended.

- **Asset Valuation Method:** Continue the use of the current asset valuation method (5-year smoothing), but consider a market value corridor of 20% or less.
- **Amortization Method:** In accordance with the Actuarial Funding Policy, the current amortization method is a 22-year closed percent-of-payroll amortization as of June 30, 2015 (for fiscal year 2017). This is less than the 30-year maximum in the Policy and under State law, yet may still result in negative amortization. A shorter amortization period would also be reasonable and would increase the funding percent of the System more rapidly. GRS recommends reviewing the current funding policy when the closed period reaches 15 years, in order to deal with contribution rate volatility associated with a decreasingly shorter amortization period. In addition, they recommend consideration be given to contributing the projected dollar contribution in order to avoid contribution shortfalls due to lower than expected wage growth and also to consider using level-dollar amortization, especially if the active population is expected to decrease in future years. The Actuarial Funding Policy calls for a review of the policy once every five years in conjunction with the experience study.

Ms. Siskind asked for any considerations to dampen or prolong the effects of assumption changes on contribution increases.

Irv Lowenberg reentered the meeting at 11:15.

GRS was asked to provide two additional alternative scenarios using 7.5% and 7.25% investment rates of return amortized over a 30 year period and to finalize the report.

Brandes representatives Chris Chard, Director – Institutional Group, and Pranav Jaiswal, Portfolio Manager, were present to meet with the Board. Mr. Chard provided an update on Brandes’ organization, assets under management, and the stability among key staff and investment professionals. Additionally, he gave an overview of the fund’s performance since inception and the Emerging Markets asset class in general, noting the difficult performance experienced since the account inception. Irv Lowenberg acknowledged the performance and noted that Brandes’ results were different than the benchmark, but performance would have been difficult even if the Retirement System had invested in Emerging Markets through a passive strategy. Mr. Jaiswal then discussed the Brandes Emerging Markets portfolio in more detail including a review of key overweight’s on a country and sector basis. This review continued with a highlight around areas of the portfolio that provide optimism moving forward. The Board had a variety of questions covering issues from the rationale for higher exposure in the portfolio to Brazil to correlation between Emerging Market equities and the volatility in commodity prices.

The March, 2016 Capital Markets Update was presented by George Vitta. There was a strong U.S. recovery for March which brought the quarter positive after a rough January and February. There was nothing noteworthy in the economic update and indicators are still positive.

Duane Garth exited the meeting at 12:10.

A liquidity update was presented with transfer recommendations to meet June, July and August benefit payment needs.

R.B. 16-058 MOTION by Wells, supported by Lowenberg, to approve the liquidity schedule for May 1, 2016 through August 1, 2016, as presented. MOTION CARRIED UNANIMOUSLY

Morgan Dempsey, who is currently on probation, provided investment results for the first quarter, 2016. They had a good current quarter as well as good fourth quarter, 2015. Brandes, who is also currently on probation, also had good performance for the current quarter as well as the fourth quarter, 2015. It will be recommended that both are removed from probation when the quarterly Investment Performance Analysis is presented next month.

The Board was informed of an ownership change at Bradford & Marzec by both Bradford & Marzec and Asset Strategies. It is felt that the change in ownership does not warrant a change in investment managers.

R.B. 16-059 MOTION by Lowenberg, supported by Wells, to acknowledge receipt of the correspondence from Bradford & Marzec dated April 8, 2016 and authorize the Board President to execute the consent agreement to assign the investment management agreement with Bradford & Marzec, LLC to Tortoise Credit Strategies, LLC under the terms and conditions of the current investment management agreement. MOTION CARRIED UNANIMOUSLY

Future meeting locations were discussed and it was decided that Training Room 2 in the Human Resources Department would be used for the remainder of 2016.

Meeting adjourned at 12:32 p.m.

Prepared by Megan Battersby
Retirement Program Administrator

Audrey Harvey, Secretary