

**CITY OF PONTIAC
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES
JANUARY 14, 2016**

A regular meeting of the Board of Trustees was held on Thursday, January 14, 2016, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan.

Trustees Present

Craig Storum, Chairman
Nevrus Nazarko, Secretary
Matt Nye
Lon Britton, (phone-in)
Deirdre Waterman, Mayor

Others Present

Matt Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, The Bogdahn Group
Randy Gomez, Nyhart
Heath Merlak, Nyhart
Liz Edwards, BeneSys, Inc.

Trustees Absent

Chairman Storum declared that a quorum was present and called the meeting to order at 10:18 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Minutes of Regular Meeting – December 3, 2015
- B. Financial Reports
 - 1. Financial Reports – November 30, 2015
 - 2. Bills for Ratification as of December 2015
- C. Remove from Rolls: N / A
- D. Final Benefit Calculations: N / A

RESOLUTION 16-001 By Nazarko, Supported by Waterman

Resolved, That the items on the Consent Agenda for January 14, 2016, be approved.

Yeas: 5 - Nays: 0

CONSULTANTS

A. The Bogdahn Group

Mr. Kuhn reviewed the Fund's position as of December 31, 2015. Fund assets are just over \$225,000 million. He noted that WHV performance has struggled. He received notice that the lead performance manager will retire. He noted that if he leaves, we will need to move money out, and that this comes at the worst possible time, since energy and materials are the two worst sectors. They do have another equity team that is the old Munder team, or we can go out and do a search. WHV has offered to continue to manage at 50 basis points for the first quarter of 2016, until we figure out what to do. Trustee Nye suggested they be put on watch, if they are not already. It was then

RESOLUTION 16-002 By Nye, Supported by Nazarko
Resolved, That the WHV fund be put on watch if it is not already.

Yeas: 5 – Nays: 0

Mr. Kuhn then reviewed the new manager Clarivest. We had to use the Basket Clause for them, but prefers not to have them in the Basket Clause. He looked at others but it would be hard. Aberdeen is closed, but is a possibility. Fisher is a possibility, but has no mutual fund offering. There really is no easy solution. He suggested that perhaps he and Attorney Henzi could review and find another platform. Chairman Storum asked if we are getting to the point where Aberdeen, Bloomfield, Mesirow, and Wells Fargo could exceed the Basket Clause as well, and what should we do going forward? Mr. Kuhn stated that he just wants to be sure that it is okay, and he and Attorney Henzi will review this further. Trustee Britton asked if there has been any thought of the current manager buying emerging market ETFs? They had a little with Burgundy and Thornburg, but it is a last solution, as active management can out-perform. It was then

RESOLUTION 16-003 By Nye, Supported by Nazarko
Resolved, To postpone funding Clarivest until Mr. Kuhn is able to further research the issue.

Yeas: 5 – Nays: 0

B. Nyhart Actuarial Services

Mr. Merlak of Nyhart Actuarial Services discussed the fund's actuarial position. They came in within 1% of the liability amount compared to the prior actuary. He noted that the GASB 67 report is prepared by the City, so they will need to provide it. The GASB 68 report comes from the fund, so Attorney Henzi will look for it. He then reviewed the assumptions study. The average return over the past 23 years is just over 9% which is very good. Overall he feels very good about it. When compared to peers, the fund's historical returns have been very good. He then discussed future expectations. He expects a 6.8% - 7.5% increase over the next few years. If using a lower interest rate assumption, the annual contribution would increase over \$508,000. He is comfortable staying at 7.5% for now.

He then reviewed the mortality table. The table the prior actuary used was outdated, so he updated it for 2014. It takes into account the longer lifespans. He recommends going with Option 3, the Social Security projection table. Option 2 is the Blue Collar table, but does not include the public sector. After discussion it was then

RESOLUTION 16-004 By Nye, Supported by Nazarko
Resolved, To use Mortality Table Option 2.

Yeas: 5 – Nays: 0

Mr. Merlak then reviewed the actuarial assumptions. He recommends lowering the amortization period to twenty years – a “closed amortization”, then it drops every year. Trustee Nazarko stated he does not see the benefit in changing the amortization at the same time and increasing contributions that much. Trustee Nye stated that if we do both, there will not be that much of an increase, and we were always told that using thirty years was a bad idea. Chairman Storum asked if we make these changes, do you think this will catch us up to 100%, or will we have a level amount going forward? Mr. Merlak stated that there would be a level amount. We could do a projection that shows the options projected out over 5 – 10 years, then we will know what we are looking at. Trustee Britton agrees with Table 2 and the twenty year amortization, following the new actuary’s recommendations.

RESOLUTION 16-005 By Nye, Supported by Britton
Resolved, To use Mortality Table Option 2, along with a twenty year amortization period.

Trustee Nazarko asked Attorney Henzi why the City has no say in adopting these changes. In other places, this would be City Council’s decision. He expects that these changes will increase costs by \$1 million, and that he will need to present it to City Council. Chairman Storum stated that we are being conservative, but should change the assumption rate from 7.5% to 7.25%. Attorney Henzi commented that the Board has the sole authority to change the assumptions according to PA 314 MCL 38.1140, and if we go against the actuary’s advice, then we risk being sued. Trustee Nazarko asked how many clients have chosen to drop amortization? Mr. Merlak stated that in the last two years maybe two have, since it is a recent trend. Mayor Waterman asked if we could whittle it down and blend it for one year extra, going from 27 to 25. Mr. Merlak stated that the goal is to secure the fund, and you can only afford what you can afford. If there is a funding deficiency, it will show up in the financials. Attorney Henzi stated that in Michigan, the City is compelled to fund as the actuary states. Trustee Nye asked if he should withdraw the motion? Trustee Britton stated that we should not withdraw the motion, and that we go through this every time we try to make a change. The motion was voted upon as follows:

Yeas: 3 – Nays: 2

Mr. Merlak asked if the Board wanted multi-year projections. Chairman Storum said yes we do. Mayor Waterman stated that the issue is discussion and other factors. Chairman Storum asked Mr. Merlak if he could do a projection with different morality tables as well. Mr. Merlak replied that yes, they can make it dynamic from interest rates as well and they should be able to model it. Trustee Nazarko asked how would the assumptions change based on the timing of the payment to the fund? Mr. Merlak stated that the timing of the payment would have very little impact. Chairman Storum asked what if the payments were made bi-weekly? Mr. Merlak replied that it would be making it half, but it would catch up. Mr. Kuhn commented that he thinks putting funds in equity now would be a good idea. Attorney Henzi commented that many municipal funds do it monthly. Trustee Nazarko stated that he will make the payment next week.

12:00 p.m. Mayor Waterman leaves the meeting. The meeting takes a break.

12:15 p.m. The meeting reconvenes.

Mr. Merlak then discussed the Projection Modeling at \$4,000 and \$2,500 annually.

RESOLUTION 16-006 By Britton, Supported by Nye

Resolved, That the actuary's preparation of the Projection Modeler report for an annual fee of \$4,000 and \$2,500 be approved.

Yeas: 4 – Nays: 0

REPORTS

- A. Chairman
- B. Secretary
- C. Trustees Committees
- D. Legal, Attorney's Report, Sullivan, Ward, Asher & Patton, P.C., Matthew Henzi

ATTORNEY'S REPORT

Attorney Report – General Matters:

Application for IRS Determination Letters for PFRS – Exhibit A

Attorney Henzi stated that the IRS is going to stop issuing Determination Letters. We will consider the plan as qualified, and will amend the Ordinance accordingly.

Nyhart Actuarial Services Contract

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Metropolitan Real Estate Equity Management LLC Subscription Agreement – Exhibit B

Attorney Henzi presented the fully executed investment agreement. The fund is waiting for the capital call.

Dessir Burroughs – Exhibit C

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Charles Johnson IRS Levy – Exhibit D

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Delores Hereford – Power of Attorney – Exhibit E

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Deferred Buyout – Archer

Attorney Henzi addressed this issue for the Board in the Attorney Report.

12:40 p.m. Trustee Nazarko leaves the meeting.

2016 Internal Revenue Mileage Rate – Exhibit G

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Revised Amendment to Open Meetings Act

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Litigation Report

Approval of the December 3, 2015, closed session minutes.

RESOLUTION 16-007 By Britton, Supported by Nye

Resolved, That the Board approve the December 3, 2015, closed session minutes.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

A. Emergency Manager Order #308 Review

Attorney Henzi discussed this in the Attorney's Report.

B. OPEB Medicare Listing, August 2015

Ms. Edwards reviewed the report of the OPEB retirees who are covered under the City's Blue Cross Blue Shield plan, and the amount of premiums they paid for the period of April, 2014, through August, 2015, and the amounts to be repaid to them from the fund.

NEW BUSINESS

A. Robert Ludd, Request for Redeposit Review

Attorney Henzi reviewed the request for redeposit letter sent by Mr. Ludd to the Board on January 12. Can he apply for the redeposit now that the deadline has expired? If he can, we will need to forward it to the actuary. Trustee Britton stated that the original deadline already was extended, and he feels that it should not be accepted for review now. It was then

RESOLUTION 16-008 By Britton, Supported by Nye
Resolved, That the request by Robert Ludd for a Redeposit Review be denied.

Yeas: 3 – Nays: 0

CORRESPONDENCE

- A. Metropolitan Real Estate Partners VII Distribution, December 28, 2015, \$58,150.28
- B. Wells Fargo Capital Call, December 28, 2015, \$1,864,800.00
- C. Victory Capital to Acquire RS Investments
- D. American Realty, Research In Brief, January, 2016
- E. American Realty, Winter 2015 Newsletter

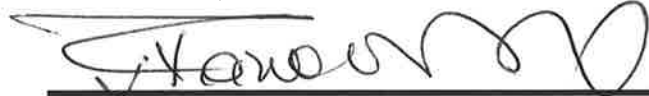
NEXT MEETING DATE: February 25, 2016

ADJOURNMENT

RESOLUTION 16-009 By Britton, Supported by Nye
Further Resolved, That the meeting be adjourned at 1:02 p.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the Police and Fire Retirement System held on January 14, 2016.



Nevrus Nazarko, Secretary
As recorded by BeneSys