



CITY OF GERMANTOWN TENNESSEE

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Other Post Employees Benefits Commission Minutes

September 24, 2014 – 5:30 pm.

Administrative Conference Room

Municipal Building, 1930 S. Germantown Rd, TN 38138

MEMBERS PRESENT: City Administrator Patrick Lawton, Alderman Mike Palazzolo, Ralph Gabb and Frank SanPietro

MEMBERS ABSENT: Mayor Sharon Goldsworthy, Daniel Dent and Todd Proctor

STAFF PRESENT: None

ALSO PRESENT: Bill Pickens and Bart Reid with Gerber/Taylor Associates

CALL TO ORDER

Chairman SanPietro called the meeting to order and noted that there was a quorum.

APPROVAL OF MINUTES

Chairman SanPietro asked Board members to review and state any proposed changes to the minutes from the July 18th, 2014 meeting.

****MOTION****

Alderman Palazzolo moved that the minutes from the July 18th, 2014 meeting be approved as presented. Mr. Lawton seconded and the motion passed unanimously.

CHAIRMAN'S COMMENTS

No comments were made by Chairman SanPietro. Mr. Gabb asked if the Drake off-shore conversion will have an effect on the City's OPEB investment fund. Mr. Pickens stated that it should not have a large impact; Drake, which is currently a 3(C)(1) Hedge Fund (required to invest a minimum of \$25 million) is being converted to a 3(C)(7) Hedge Fund (must be a qualified purchaser and invest at least \$25 million). He further advised that it is a work in progress and that a new set of documents would have to be signed. Chairman SanPietro asked if during this transition, will there be a time at which our capital will be re-invested or will it be a straight transfer. Mr. Pickens said that it will be a straight transfer and for taxable investors it will be a tax free swap. Although the transition will be a mere re-papering of the account, Mr. Pickens stated that we must make sure there is enough capital and that the current manager line allocation will be the same in the 3(C)(7) fund so that the quality of the

funds are not disturbed. He advised that Gerber/Taylor will be monitoring the process very closely and will notify the City of any issues.

GERBER/TALYOR – CITY INVESTMENT POSITION

Mr. Reid said that the OPEB and Retirement account are very similar in how they are allocated. Both are up 4.9% year-to-date through June 30, 2014 and both are up 18.6% or 18.7% after one year. Per Mr. Reid, the transition worked out well for both portfolios as 4.9% equates to approximately \$250,000 in total earnings which brings the portfolio up to about \$5.8 million. Mr. Gabb mentioned that the actuary return is required to be 7.5% and the City's return at the present time is 6.8%; this shows that we are in fact "moving the needle" in the right direction so that the City does not have to contribute as much to the OPEB account.

Mr. Reid further explained that managers for OPEB are pretty much the same as those with the Retirement Plan. The one difference is in International is First Eagle Overseas. Although this account has lagged (recently and historically), it protects the capital significantly. The main reason for adding First Eagle to the portfolio was to give more exposure to Japan, similar to what is being done with the Nippon Value Fund in the Retirement Plan. Some of the major changes include Drake Capital (previously discussed) being up 3.5% versus 2.9% for the HFR Fund of Funds Strategic Index and Gotham Absolute Return (up by 4.5% versus 2.3% HFRI Strategic Index). Mr. Reid advised that this is a mutual fund structure for a long-short equity fund; the fact that it has "data liquidity" makes it very attractive. PIMCO All Asset Fund is actually a Fund of Funds that can invest in all of the different PIMCO Funds; it has the ability to invest in areas that aren't traditional stock or bond investments. As for Fixed Income, the 1607 Bond Fund did great being up 7.2% and Real Assets MLPs (oil and gas pipeline fund) did well and was up 20.8% and 16.3% (Alerian Index). Total Earnings from inception (4/1/08) is \$1,714,552 along with Contributions of \$3,512,375 and the Beginning Market Value of \$615,483 brings us to an Ending Market Value totaling \$5,842,410. Total performance was up by 5.2% year-to-date.

Chairman SanPietro asked if there were any proposed changes to the Asset Allocation. Mr. Reid said there are no proposed changes and recommended to maintain the current allocation. Also, there was a general consensus regarding the conversion to a 3(C)(7) Hedge Fund (Drake Capital Offshore) with the City's OPEB Trust Fund.

OTHER BUSINESS

Chairman SanPietro shared a concern regarding the OPEB Trust Fund. He said the fund is inflating much faster than the general economy inflation. Per Chairman SanPietro, the idea of having to pay for healthcare is disheartening and we should always be aware of any possible solutions. He wanted to know if there was anything pertaining to outstanding disbursements and/or issues. Mr. Gabb answered no and advised that the Cash Balance was sufficient to date; as we go forward something might change. With an OPEB environment, we do not see the members which can result in sudden changes that might just sneak up on us. He further advised that at the end of FY14, the Health Fund ended up with approximately \$1 million in savings. One half was put in the Health Fund to build the fund balance to about \$900,000 and the remaining portion (50%) was put back into the various departments. Savings through programs such as Stop-Loss and the new TPA have paid great dividends to the City and the Health Fund.

ADJOURNMENT

With all matters having been discussed and decided, Chairman SanPietro adjourned the meeting.