



# CITY OF GERMANTOWN TENNESSEE

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## **Retirement Plan Administration Commission Minutes**

September 24, 2014 – 5:00 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 at 5:10 p.m. He then called the roll and noted that although there was not a quorum at the present time, the meeting would go on as we are expecting to have a quorum shortly and will defer any votes until that time.

### **CHAIRMAN COMMENTS**

Chairman SanPietro said that he was glad to see everyone and offered his congratulations to all commission members who recently became or who will soon become grandparents.

### **GERBER/TAYLOR CITY INVESTMENT POSITION — AMENDED & RESTATED EMPLOYEE RETIREMENT PLAN**

Mr. Bill Pickens of Gerber/Taylor advised that this performance report actually concludes the June 30, 2014 fiscal year; towards the end of last year the portfolio was re-vamped to make it more diversified and less dependent on the direction of stocks and bonds which thereby resulted in really solid and off-the-charts returns.

Mr. Bart Reid of Gerber/Taylor said it has been a good year. He reported that year-to-date, our portfolio has made us \$3,158,311 with a 4.9% return and at one year, we are up 18.7% which equates to almost \$10.3 million dollars. Mr. Reid compared these numbers to college endowments such as Cambridge (average of 16.2% return), Harvard (15.4%) and MIT (19.2%). Per Mr. Reid, this is really good performance versus a well-versed peer group such as this.

After Mr. Pickens spoke briefly on investment strategies, Mr. Reid discussed the index from a risk perspective. He advised that we had outperformed the 65/35 with about a 1% less standard deviation. In doing so, almost 90% of the upside, owing about 70% of the downside was captured. Compared to peer group Morningstar's balanced fund, the City of Germantown is at the very top of the universe; even over longer periods of time the City has ranked very well by being in the top quartile even after fifteen years. Mr. Reid further stated that the five year mark of performance is important as well and is usually compared to U.S. Equities since it is the best performing class of assets. International stocks had a significant drag, however looking forward today, they are priced more attractively/cheaper; U.S. stocks are up about 200% and international stocks have run up approximately 90%. Per Mr. Reid, having international stocks helps to diversify the different asset classes.

Mr. Pickens commented on the U.S. Equity portfolio. He said Wedge Large Cap had been underperforming a little bit over the cycle causing valued stocks to be somewhat left behind. Over the last twelve months Wedge is up 28.1% which makes them ahead of the S&P (24.6%) and the Russell 1000 Value (23.8%). Mr. Pickens advised that nothing has changed with their strategy; the markets have come back around and value has been added for the long-term. Wedge Small Cap has done well also adding a lot of value in a fairly short period of time resulting in good numbers at the one year and three year marks.

Mr. Reid said from inception, Forester was up 3.7% and Alternative Investments Group was up 3.1%. He highlighted some of the new strategies that had recently been implemented in order to lower volatility while reducing the bond exposure thereby making bonds the next best alternative. They outperformed the HFR Industries while equities were uncharacteristically large, being up by 11% during that period of time. He further explained that the 1607 Bond is a new fund of the Fixed Income portfolio. It is a closed-end bond fund that has done amazingly well at 7.2% versus 2.4% for the Barclays Aggregate. The Eagle MLPs (oil and gas pipelines) did very well also being at 25.1% since the strategy implementation. According to Mr. Reid, MLPs are not near as cheap today as they once were; returns such as this is not to be expected going forward. Black Rock Granite Fund is up 1.7% for the quarter and Nippon Value (Japanese Equities) are up 10.9% since inception which is almost 5% above the Japan index.

Chairman SanPietro noted that Alderman Palazzolo was present; now that there was a quorum voting matters could be attended to after the Retirement Plan presentation was concluded.

Mr. Reid directed everyone's attention to Market Value History (26 years and 5 months as of June 30, 2014). He explained that we started at \$1,044,100, contributed \$18,664,614 (2/1/88), and then added Investment Earnings of \$45,063,294 resulting in a total Ending Market Value of \$64,772,008. Mr. Lawton noted that City employees have much confidence in the work of this committee and the way Gerber/Taylor takes good care of our business. Mr. Gabb added that we now have a 9.1% return on investments since inception putting us ahead of the required 8% stipulated by our actuaries. This helps to well manage/monitor amounts contributed by the citizens and the City towards this pension plan. Mr. SanPietro commented that in the face of new Governmental Accounting Standards Board (GASB) regulations, this could potentially have had an effect on our bond rating; unlike many other municipalities who are underfunded, the City of Germantown *will not* have to spend additional money to borrow money.

Lastly, Mr. Reid touched on the Asset Allocation vs. Target through August 31, 2014. He said unlike last year, the City has had a lot of ups and downs this year with year-to-date performance lagging a bit at almost 5% versus 6.4%. However, overall performance has been good. Chairman SanPietro stated that upon his examination, it does not appear that any changes need to be made to the present Asset Allocation. Mr. Reid agreed and recommended that the current allocation be maintained.

### **GERBER/TAYLOR – INVESTMENT DEFINED BENEFIT PLAN – “CASH BALANCE PLAN”**

Mr. Gabb advised that the City will be investing approximately \$10,000 received from the FY14 year and since the inception of this plan. Mr. Reid said that this is essentially the same investment policy that is being used for Retirement Plan and OPEB. After speaking with Ms. Kim Strong at U.S. Bank, it was determine that there is no actual purchase or sale fee for implementing a portfolio; it's just a flat six basis point fee. Mr. Pickens stated that although smaller, the same mutual funds can be accessed for the Cash Balance Plan. He said like always, we will start off small and simply add it to the pension fund invoice without having to start over; a new addendum will be added to the existing contract. Mr. Gabb explained that this is a separate trust that needs an investment policy structure just as we have with the Defined Benefit Plan. Although there is only \$10,513.36 in the fund right now, \$17,924.64 (City contributions) will be added in the month of October.

### **FUNDING OF THE DEFINED BENEFIT PLAN PER ANNUAL REQUIRED CONTRIBUTION**

Mr. Gabb advised that an actuary report from Richard Ellis indicated that \$10,513.36 had been contributed by employees during the last fiscal year. The City now has to contribute \$17,924.64 which will be processed and sent to U.S. Bank this week.

### **OTHER BUSINESS**

Mr. Gabb reported that Mrs. Hollingsworth has sought new legal advice and therefore will be returning to this Commission for approval of her claim. Attorney Frank Carney will again work on this case and perhaps speak at our next meeting to bring us up to date.

### **APPROVAL OF THE MINUTES**

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

#### **\*\*MOTION\*\***

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

### **ADJOURNMENT**

Having discussed all items on the agenda, Chairman SanPietro called for the meeting to be adjourned.