



CITY OF GERMANTOWN TENNESSEE

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Retirement Plan Administration Commission Minutes

September 23, 2015 – 6:00 pm.

Administrative Conference Room

Municipal Building, 1930 S. Germantown Rd, TN 38138

MEMBERS PRESENT: Ralph Gabb, Alderman Rocky Janda, Sammy Jobe, City Administrator Patrick Lawton and Frank SanPietro

MEMBERS ABSENT: Mayor Mike Palazzolo and Daniel Dent

STAFF PRESENT: None

ALSO PRESENT: Bart Reid and Steven Francomaccaro with Gerber/Taylor Associates

CALL TO ORDER

Mr. Gabb called the meeting to order at 6:00 p.m. Chairman SanPietro called the roll and announced that there was a quorum.

APPROVAL OF MINUTES

Chairman SanPietro called for approval of the minutes from the June 17, 2015 RPAC meeting.

****MOTION****

Mr. Jobe moved to approve the minutes as presented from the June 17, 2015 RPAC meeting. Alderman Janda seconded and the motion passed unanimously.

CHAIRMAN COMMENTS

No comments.

GERBER/TAYLOR—CITY INVESTMENT POSITION: Amended & Reinstated Employee Retirement Plan

Mr. Bart Reid of Gerber/Taylor opened by stating that performance was good through the second quarter with the portfolio being up by 3.7% and almost in line with the City's Actuarial Assumption of 3.9%. He said on a dollar basis, this equates to approximately \$2.3 million in total earnings for the year bringing the market value up to almost \$66 million. Unfortunately, the market was off in the months of July and August by about 5.5%; also, international stocks were off by 9%, emerging markets and MLPs were both off by 16% and 15%, respectively. Per Mr. Reid, this caused a bit of a rollercoaster throughout the year.

Mr. Reid then spoke on the City's portfolio in comparison to the universe. He advised that for the year, the City of Germantown ranked in the top 34th percentile; for 3 years the top 15th percentile, 5 years the top 50th percentile, long-term the top 16th percentile and from inception the top 25th percentile. Mr. Reid said the portfolio compared to our peer group has performed very well and has done good on a risk performance basis. Based on a calendar year, Mr. Reid further advised that since 2000, the City has only underperformed the 65/35% index three years out of the past sixteen years (2006, 2011 and 2014).

As for performance update, Mr. Reid stated that it was pleasing to see the portfolio with only a 15% target allocation to bonds is actually protecting capital very well in a difficult market. The portfolio is down .3% versus 1.1% for the index showing that the diversification is working out despite an allocation to MLPs (down significantly this past year). Mr. Reid said that he and his team like how the portfolio is allocated and is glad to see the relative performance. He said that all managers are essentially on par with or outperforming with their respected indices so far this year.

Mr. Reid advised that hedge strategies actually performed well. Forester is flat, Alternative Investment Group is up by 2.6% and Gotham has protected capital pretty good for the month. He also advised that the Eagle MLP fund is down by 8.2% for the month, down almost 17% for the year and down 13.5% fiscal year-to-date. MLPs historically has had fairly low correlations to energy prices but has changed in the last year or two due to falling energy/oil prices. Per Mr. Reid, there are three basic components when looking at the return generation from MLPs: 1) Income or Distribution, 2) Growth in Distribution and 3) the price of the actual MLP. Over a ten year period, the distribution growth and distribution yield has been pretty much consistent; the price component has done very little long-term in generating the return (17.2% over 10 years). These significantly depressed prices has done little for our actual return—most comes from our yield (6.5-7%) and distribution growth (5 or 6%) which is believed to be still intact.

Mr. Gabb asked about hedge funds versus allocations. He said the hedge funds are up by 3.9% over target taking a drop in real assets, Eagle MLP. He wanted to know if there should be a recommendation to move some of the profits off hedge to Eagle MLP. Mr. Reid said not at this time—the max target for MLPs right now is 5% due to the volatility of the space. He explained that since it is a very small part of the market, it would not be wise to invest too much of the City's portfolio in this space; we don't want MLPs to be too big of a component in a diversified portfolio. Mr. Reid said going forward, he would like to diversify the City's portfolio to more international exposure. He said the Harbor has done a great job however, it makes sense to add a more defensively positioned and diversified portfolio like First Eagle. With that, Mr. Reid recommended that the allocation remains unchanged.

****MOTION****

Mr. Gabb made a motion to approve that the allocation remains the same with no changes. Alderman Janda seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION: Defined Benefit Plan—"Cash Balance Plan"

Mr. Reid said both plans are allocated in a similar fashion with the difference being the smaller asset size of the cash balance plan. Because this plan is fairly new, there's no ability to invest in hedge funds or Eagle MLP. Performance through August is pretty much in line with what we saw in the Retirement Trust. Mr. Reid advised that although the portfolio is down by .09 year-to-date versus a negative 1.1% for the 65/35% mix of stocks and bonds, capital is still being protected on the down side. The return for the month is down by 3.6% and in the international space, First Eagle Overseas is down by 2.4%. Most frustrating to date are the two managers,

Gotham Absolute Return and the PIMCO All Asset Fund. These are quasi hedge fund returns that are being used since the LP structured hedge funds cannot be accessed. Mr. Gabb reminded everyone that this fund has only been around about two years now. This is the reason for the low cash amount and the availability to invest in certain funds and not others. Mr. Reid said investments for this fund just started in January of this year resulting in a very short period of time to fully evaluate performance. He is somewhat pleased in that the portfolio has protected capital. Mr. Reid recommended that allocations remain as is and that proceeds be invested in line with the target allocation.

FUNDING POLICY DOCUMENT

Mr. Gabb advised that as of June 30, 2015, there are 44 active participants in this Cash Balance Plan and that the City's actuarially determined contribution for the year is \$82,455. With that, Chairman San Pietro moved that a motion be made.

****MOTION****

Mr. Jobe made a motion that the allocation be unchanged and that \$82,455 be invested per the current allocation. Alderman Janda seconded and the motion passed unanimously.

OTHER BUSINESS

Chairman SanPietro asked that Mr. Steven Francomaccaro of Gerber/Taylor please stand and introduce himself to the commission. Mr. Francomaccaro stated that he studied Finance and Accounting at the University of Tennessee. As a native of Memphis, Mr. Francomaccaro moved back in December, 2013 and started work with Gerber/Taylor Associates in January, 2014 where he prepares performance reports, does tracking and research, input cash flows, and assist managers.

ADJOURNMENT

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