



CITY OF GERMANTOWN TENNESSEE

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Retirement Plan Administration Commission Minutes

September 13, 2018 – 5:30 pm.
Administrative Conference Room
City Hall, 1930 S. Germantown Road

MEMBERS PRESENT: Ralph Gabb, Alderman Rocky Janda, Matt Keathley, Patrick Lawton, Gena Wolbrecht

MEMBERS ABSENT: Mayor Mike Palazzolo

ALSO PRESENT: Bart Reid--Gerber/Taylor Representative

CALL TO ORDER

Mr. Gabb called the meeting to order.

ESTABLISHMENT OF A QUORUM

A quorum was present.

CHAIRMAN COMMENTS

None.

APPROVAL OF MINUTES

Mr. Gabb then called for the approval of the minutes from the June 5th, 2018 RPAC meeting.

****MOTION****

Alderman Janda made a motion to approve the minutes from the June 5th, 2018 RPAC meeting. Mr. Lawton seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION

A) Retirement Trust/Amended & Restated Pension Plan (Old Plan):

Mr. Reid began with a quick overview of the market environment. He said every asset class that we invest with is reviewed based on its historical range. The "Very Unattractive" range usually includes most traditional investments (U.S. Equity, Large to Small Cap US Stocks, Corporate Bonds, Government Bonds, etc.).

Mr. Reid then explained the "Best Guess" for Asset Class Returns; he said our outlook (based on the "Unattractive" asset category for U.S. Equities) are best guessed (7-10 years) to yield a 4% return. Other anticipated returns include: International (5.5%), Emerging Markets Equities (7.5%), Hedge Fund of Funds (4.5%), Fixed Income (2.75%), Private Equity (7.0 %), Value Add RE/Real Assets (7.0%), MLPs (8.5%) and Inflation (2.25%). Mr. Reid said that diversification is critical going forward as it has been a headwind here in the past several years.

Mr. Reid further advised that with U.S. Equity Valuations, P/E ratios and a number of metrics are looked at when valuing the market. With a timeframe going back from 1926 to present time, stocks are very expensive based on a number of metrics relative to history (9th and 10th deciles). As for MLPs, it has been a bit of a roller coaster for the past several years with some big ups and also some big downs. For the first quarter they were down by 12% and now they are up and in positive territory. Along with some overlapping, there has been a lot of consolidation within the MLP space. There was also a .45% difference in charged fees (Eagle 1.41% and Tortoise .96%)—so why pay an additional 45 basis points if there is no diversification or no real difference in the portfolio? Essentially, one (Tortoise) is outperforming the other (Eagle). Mr. Reid made a recommendation to liquidate Eagle and move its portion of 1.7% to Tortoise which will now include the total/entire MLP allocation.

****MOTION****

Alderman Janda made a motion to liquidate Eagle MLP Strategy I and move 1.7% to Tortoise MLP Pipeline. Ms. Wolbrecht seconded and the motion passed unanimously.

CITY PROJECTED CASH NEEDS (6 MONTHS) – Amended and Restated Retirement Plan

Mr. Gabb addressed the City's Pension cash needs as follows:

Cash on Hand as of 8/30/18	\$ 262,520
Less: Payments/Outflows for September	(365,675)
Plus: Employee Contributions for September	<u>54,697</u>
Cash on Hand as of September 2018	(48,458)

Projected Cash on Hand as of 8/30/18	\$ (48,458)
Sold Investments 9/7/18	100,000
Early Contribution	1,000,000
Retiree Payments (Oct., Nov. & Dec)	(1,097,025)
Employee Contributions (Oct., Nov. & Dec.)	64,091
City remaining contributions ADC (City's total ADC per actuary)	<u>\$1,980,665</u>
Cash Balance in December, 2018	\$2,099,273

Mr. Gabb advised that cash on hand less retiree payouts along with employee contributions leaves us with a negative balance in September which is not acceptable. To stay within our target allocations, investments were sold to put us back in the positive. In December, the City will make its ADC (Actuarial Determined Contribution) of \$2,980,665; also, \$1 million will be needed to cover the next several months. Mr. Gabb said since this is the longest bull market, the City could either take \$1 million from earned profits or we could take a million from the ADC amount to be received in December.

****MOTION****

Alderman Janda made a motion for the City to make an early contribution of \$1 million to the Retirement Plan. Ms. Wolbrecht seconded and the motion passed unanimously.

Mr. Reid further advised for the quarter, we are essentially right in line with the 65/35% mix of stocks and bonds and slightly ahead year-to-date (up .5%). Wedge Small Cap is down by -4.2%, S&P 500 is up 2.6% and Harbor is up 10.9% year-to-date. Emerging Markets are down -7.9% for the quarter; Hedge Funds are doing very well with the exception of Gotham; it's been a very frustrating ride for Gotham with the "Growth vs. Value" dynamic hitting them hard. Mr. Reid advised that Gotham Neutral Fund has 543 long holdings and 535 short holdings (market neutral strategy) with 15% net long today:

B) Defined Benefit (Cash Balance Plan):

Mr. Reid said that performance was not as good in the Cash Balance Plan mainly due the portfolio size and because there are many of the same managers (except for the Hedge Fund space). As stated earlier, Gotham was hit pretty hard with the growth vs.

value dynamic while Pimco All Asset was hurt by emerging market exposure (20%). Mr. Reid advised that the portfolio is up by 1.5% year-to-date (through August, 2018). He recommended that 7% cash be re-allocated (based on target allocations).

****MOTION****

Chairman Keathley made a motion to re-allocate cash (7%) in the Cash Balance portfolio based on target allocations. Alderman Janda seconded and the motion passed unanimously.

CASH BALANCE FUNDING POLICY

Mr. Lawton explained that a few years back the State Comptroller/Treasurer's office required that local governments that have their own Defined Benefit Plan come up with a funding policy. Mr. Gabb and others then published a funding policy for the Amended and Restated Plan. We now have the Cash Balance Plan which on the surface is a defined benefit plan—because we didn't think we needed it, there's no separate funding policy. After being notified by the State, Actuary Frank Carney prepared a funding policy that has been reviewed and approved by the State comptroller. Mr. Lawton said there are no concerns however, he would like for the members of this body to consider and vote on the policy, prior to presenting it to the BMA in October, 2018.

****MOTION****

Alderman Janda recommended that the Funding Policy for the Cash Balance Plan be approved and thus presented to the Board of Mayor and Aldermen. Chairman Keathley seconded and the motion passed unanimously.

OTHER BUSINESS

No other business.

ADJOURNMENT

Having discussed all items on the agenda, the meeting was adjourned.