Retirement Plan Administration Commission Minutes

August 11, 2016 – 6:00 pm.
Human Resources Conference Room
City Hall, 1930 S. Germantown Rd, TN 38138

MEMBERS PRESENT: Daniel Dent (Chairman), Alderman Rocky Janda, Sammy Jobe, Matt Keathley, City Administrator Patrick Lawton and Mayor Mike Palazzolo and Finance Director Paul Turner

MEMBERS ABSENT:

STAFF PRESENT: None

ALSO PRESENT: ▪Bart Reid and Steven Francomaccaro (Gerber/Taylor)

CALL TO ORDER

Chairman Dent called the meeting to order.

ESTABLISHMENT OF A QUORUM

Mr. Turner called the roll and announced that there was a quorum.

CHAIRMAN COMMENTS

No comments.

Mr. Lawton introduced new Director of Finance, Paul Turner to everyone. He said that Mr. Turner started work with the City on July 1, 2016 and that he comes from Gwinnett County where he worked in the Accounting/Finance department there. Fellow commission members welcomed Mr. Turner to the City of Germantown.

APPROVAL OF MINUTES

Chairman Dent called for the approval of the minutes from the April 26, 2016 RPAC meeting.

****MOTION****

A commission member made a motion to approve the minutes from the April 26, 2016 RPAC meeting. Alderman Janda seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION:

Mr. Bart Reid of Gerber/Taylor stated that it was a good quarter in that the portfolio is up by 2.3% out pacing the 65/35% mix of stocks and bonds by a pretty decent margin (up by 1.6%) and also outperforming our composite index which is essentially each manager's index that shows whether a manager is actually adding value to the portfolio. This 2.3% translates to about $1,392,403 total earnings for the quarter; year to date, we are still a little behind that 60/40 with the one year number being down 4%. Mr. Reid said looking back for the year, the best performing asset class was bonds—the Barclays Aggregate is up 6% for the one year period, starting at a yield of 2.3%. Essentially, per Mr. Reid, your return should equal your yield over a long period of time; what has happened is bond yield has gone from approximately 2.4% down to about 1.5% today. On the other hand, things that have performed well over the last year are growth oriented stocks, utilities (up over 20% this year alone), telecom stocks and consumer defensive stocks. 1998 and 1999 was another period when the S&P was outperforming everything—the markets were going through the roof and nobody cared about valuations. Therefore in 1998, our portfolio underperformed the 65%/35% mix by 11.8% and in 1999 by 13.5%; after this, we outperformed the 65/35% 12 out of the next 14 years. Today, our portfolio has outperformed the past two years on a cumulative basis of about 5%.

Mr. Reid advised that the current yield on the City's bond portfolio is approximately 1.8% (Barclay's Aggregate); after applied attribution of 35% gives us a 4.5% expected return out of a 65/35% mix of stocks and bonds. He further advised that the transition to this more diversified model means that we can outperform and not be limited to this bond as part of the portfolio. Per Mr. Reid, this change so far has gone completely against us because the hedge funds have performed poorly. Since taking on Forester Diversified (2014), there has been a 0% return and since hiring Alternative Investments (2014), there has been a loss of -0.4%; Gotham Neutral (May, 2015) lost 3.3% as well. Essentially what's happened in this short period of time is the long positions have gone down or stagnated and the short positions have actually gone up. This is detrimental when long as it hurts performance, but it compounds everything when there are short positions.

Referring to the Manager versus Morningstar Domestic Fund Universe (60 month rolling chart and broken down by quartiles in 5 year increments), Mr. Reid advised for the past five years, the S&P was ranked in the top 6% while the HFRI (Equity Hedge Index) is ranked at the bottom 98 percentile. As the market has "run up" over the past 7 years, it is not a surprise that hedge funds ranked at the bottom. The percentage of time that the equity hedge was at the top of the Universe was during a time when hedge funds actually worked; times when they didn't work is reflected more towards the middle of the Universe. Per Mr. Reid, this is when being diversified really pays off. He feels that indexing like anything else, is a viable strategy that is driven by momentum and a somewhat growth oriented bias; companies that have done the best get bigger and better and drive for more performance. Mr. Reid advised with today's market, he does not feel that it is a good time to switch to this index oriented type strategy. He also advised that 2.5% be moved from Alternative Investments (17.5%) to Forester Diversified (15.0%) as Alternative Investments is a pure, long-short equity manager and Forester Diversified is a multi-strategy fund that can not only do long-short, but also relate to stress debt/arbitral type situations essentially by having a lot more leverage to work with.

****MOTION****

Alderman Janda made a motion to move 2.5% from Alternative Investments to Forester Diversified. An alternate commission member seconded and the motion passed unanimously.

Mr. Reid advised for this quarter, the performance for the hedge strategies is much better overall. However, the other end of the market has been frustrating due to the one year poor performance of MLPs (oil and gas lines). The fundamentals are in place for MLPs with a very attractive yield of approximately 8% today plus the ability to grow. Because this is not a demand issue but rather all on the supply side, a reasonable expectation is for oil prices to continue to increase as demand increases. Mr. Reid stated that he and group are pretty pleased with the rebound of MLPs and feel that it will be a considerable contributor in the City's portfolio going forward. As for Fixed Income, Metwest has underperformed the Barclay's Aggregate from inception of 3.6% versus 4.4% due to a lower duration for the portfolio of about 4.8 years compared to the Barclays of approximately 5.5 years; the reasoning behind this is the lower the duration, the less interest rate risk there is. Therefore, in a rising interest rate environment the portfolio is not expected to go down as much and be somewhat protective. Pretty much the same goes for PIMCO Short-term—the portfolio has 0 (zero) years duration (hedged out all duration risk) with a bit more credit risk and hardly any treasury exposure. Today's yield on this portfolio is 1.8% which is pretty amazing per Mr. Reid. And lastly, approximately $1.6 million of the 1607 Bond Fund was taken off the table last month for the discounts of closed-end bond funds (approximately 13% or 14%); the initial investment was made at about 6%, and the historical at 5%. The yield on this portfolio is actually approximately 4.5% and the duration is about 5.8%. A summary of cash flows show the Beginning Market Value of $1,044,100 plus $16,567,548 in contributions and $44,212,185 in Net Investment Change (total earnings), gives us an Ending Market Value of $61,823,833.

AMENDED & RESTATED RETIREMENT TRUST:

a) City Projected Cash Needs (6 Months)

Finance Director, Paul Tuner said as for projections/cash needs for the Amended and Restated Retirement Plan, currently there is a balance of approximately $1 million. Mr. Turner recommended that by the end of November, approximately $1.4 million will need to be added to the disbursement account to pay plan participants for the next six months.

b) Defined Benefit Plan (Cash Balance)

Mr. Reid stated currently, the Cash Balance has a balance of $288,817. Unfortunately, some of the hedge funds cannot be accessed yet due to the high minimums ($25 and $50 million). Liquid alternatives include Gotham Absolute Return or PIMCO All Asset (both included in OPEB as well). Also unavailable are the Eagle MLPs with a minimum of $250,000. Mr. Reid said other options that are being considered include a MLP fund called TORTUS with a minimum of $100,000. Per Mr. Reid, there are no recommendations for the Cash Balance Plan.

OTHER BUSINESS

There was no other business to discuss.

ADJOURNMENT

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