

**Police and Fire Pension Board
of the City of Sault Ste. Marie
8:00 a.m. Wednesday, December 20, 2017
Mayor's Conference Room at City Hall**

Board Members attendance:

Mrs. Oshelski – present
Mr. Boger - present
Mr. Henderson – present
Mr. Sheppard – present
Mrs. Collins – present

Members of the Public attendance:

Commissioner Liaison Twardy
City Manager Turner

The meeting was called to order by Mr. Henderson at 8:10 a.m.

Treasurer's Report, November 30, 2017

Schwab Value	\$15,858,853
Comerica Market Value	<u>64,529</u>
Total Market Value	\$15,923,382

Mrs. Collins had distributed the Schwab value as of the previous day, showing a balance of \$15,992,923, and it was good to see a gain. Mr. Sheppard made motion to accept the Treasurer's Report and minutes. There was support by Mrs. Oshelski. Mr. Boger made a correction to the minutes to add Graystone to the list of RFI applicant submissions. The motion carried unanimously with this correction to the minutes.

Matters Presented by the Board

1. Review Request for Information (RFI) Submissions

The group had taken the time to thoroughly review submissions of AndCo and Graystone. It was mentioned that Graystone's fees were significantly higher than AndCo. Mr. Sheppard said that at a balance of \$16 million, Graystone's rate of 45 basis points comes out to \$72,000. Mrs. Collins remembered that Mr. Michaud said to analyze other factors first, and wait until the end for the fees, given that until both parties have a better understanding of the service needs, it will be hard to pin down the fees. It was noted that AndCo's flat fee of \$25,000 may be at a different level of service. Mr. Boger said that when he reviewed both firms' proposals side-by-side, so much was identical. Mrs. Collins said that after his consulting services last year, Mr. Green of AndCo was somewhat familiar the Board's process, but she was unsure whether the fee was reflective of that. Mr. Henderson agreed that the two firms were very similar and also wondered about the cost. Mr. Boger said that AndCo has two or three managers that have worked on our account before. Mr. Sheppard said that once you take the fees out of the equation, all of the applicants were fairly similar. There was some discussion regarding the fees paid summarized on the MAPERS survey, and that they were difficult to compare due to a wide range of service levels.

Mr. Sheppard stated that his top pick would be Andco. Mr. Henderson agreed. Mr. Boger said that out of the six, Andco always stayed near the top. Mrs. Collins said that the customized approach with Graystone had her wondering if that level of complexity would be similar to the current investment strategy. She added that the simplified approach from AndCo appeared at first glance to be a better fit. Mr. Boger said that it looked as though AndCo would take a fresh approach to our asset allocation, whereas it looked as though Graystone would start with our current mix and adjust it. The group generally agreed that the idea of a fresh start on asset allocation was appealing but Mrs. Collins reiterated her concerns about the fund taking a loss if there were a dramatic transfer of assets.

The board generally agreed that it was time to make a move and this would preclude FEG from remaining in the mix of prospective advisors. Mr. Boger noticed that FEG's client list is full of foundations and other groups that may not have the performance pressure of our small and mature pension fund. Mr. Sheppard made a motion to move forward with the top two selections, AndCo and Graystone, and schedule formal interviews. There was support by Mr. Boger. Motion carried.

After interviews are scheduled, Mrs. Collins would let the other applicants know that the initial round has been selected, but evaluation of all proposals continues. All other applicants are outside of the running at this time, but final selection has not been made. Mrs. Collins would schedule interviews for two different days and allow for 1.5 to 2 hours and said that Mr. Michaud was planning to participate. The Board asked Mrs. Collins to see if Mr. Michaud has a good list of interview questions. Mrs. Collins said that some of the questions she had thought about were about the level of service, how the advisor manages the accounts (hands on or simply advisory) and how that service would be reflected in the fees. Mrs. Collins was also wondering if the accounts would be transferred out to Schwab. Mr. Henderson added that it may be we can keep Schwab but would this cause the fees to go up. The Board wondered if the funds would be held at Morgan Stanley if Graystone were selected. Mr. Henderson brought up ADR fees, and Mr. Boger said that AndCo wouldn't deal with that but would help the client.

Mr. Boger asked if we should contact references now or after interviews. Mrs. Collins said she thinks it would be good to make a few calls prior to the interviews. Mr. Boger said he has spoken with people who are with AndCo and they were happy with service. Mr. Boger said there is so little difference between the two it comes down to service and fees.

2. Actuarial Assumptions Change, Two Scenarios

Mrs. Collins summarized her conversation with Mr. Gano. His notes from last year showed that the Board approved the change to a revised generational mortality table. He said that there was discussion about moving the rate of investment return assumption down from 7.5% to 7.0%, but it wasn't officially approved. Mr. Gano said that the investment expectations have not improved, so GRS would still recommend 7% and he would show the effect of that change prior to finalizing the report. He also said that the amortization period is scheduled to be 17 years this year. He provided a brief history that the amortization period was 25 years open in 2013, and then the Board dropped it to 20 years closed in 2014. He suggested the Board can look at increasing it back up to 20 years, and possibly longer given the magnitude of the other assumption changes.

Mr. Sheppard asked about moving the assumption down gradually over a number of years, and Mrs. Collins said she thinks 7.0% has become generally accepted. Mr. Boger reminded the group that GRS's actuarial recommendations have been followed all along and the City has always made the recommended contribution. With that, he continued, the funding level is still under 60% so extra reporting to the state of Michigan is going to be required. Mrs. Collins agreed but said that the Board does have a corrective plan of action which will be shared and so she did not expect that changing the assumed rate of return would have a negative effect from a reporting perspective. Mr. Sheppard asked about the position of the MML and other City Managers. Mr. Turner responded that with declines in revenue sharing over many years, some locals were unable to maintain and improve contributions into their plans. Mrs. Collins asked the group if they'd like to have Mr. Gano bring the rate of return down to 7.0%, but bring amortization up from 17 to 20 years. Mr. Sheppard said we should request a report at 7.5% keeping 17 years amortization and compare it to 7.0% over 20 years. The Board was in agreement. There was a question of whether the board would have these two draft reports for the February meeting and if they would have an opportunity to approve the changes prior to an official meeting. Mrs. Collins said that she would forward these notes to Mr. Gano and would let the Board know when she had any news.

Other Matters Presented by the Board

No other matters were presented by the Board.

Matters Presented by the Public

No matters were presented by the public.

Scheduling of the Next Meeting

The next meeting was scheduled for Wednesday, January 17, 2018 at City Hall. See 2018 meeting schedule attached and posted to the bulletin board. Mrs. Collins said that she may ask Mrs. Goetz to help schedule the interviews using Doodle poll.

A motion to adjourn was made by Mr. Boger and supported by Mrs. Collins. The motion carried unanimously. The meeting was adjourned at 9:20 a.m.

Respectfully submitted,

Kristin M. Collins
Finance Director