

MINUTES OF THE RETIREMENT BOARD
Thursday, April 19, 2018

A meeting of the Retirement Board was held on Thursday, April 19, 2018 at 8:30 a.m., in the Administration Building, 9th Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Mark Deldin, Bryan Santo, Gary Cutler, Matthew Murphy, Larry Rocca, Bob Smith, George Brumbaugh

Excused:

Carol Grant

Also Present:

Stephanie Dobson, John Schapka, Stephen Smigiel, Joe Biondo, Larry Lee, Tom Michaud, Mike Holycross, Karen Bathanti

1. Call to Order

There being a quorum of the Board present, the meeting was called to order at 8:30 a.m. by Chair Deldin.

2. Adoption of Agenda

A motion was made by Trustee Smith, supported by Trustee Rocca to adopt the agenda as presented. The motion carried.

3. Approval of Minutes

a. April 5, 2018

A motion was made by Trustee Smith, supported by Trustee Rocca to approve the minutes of April 5, 2018 as presented. The motion carried.

4. Approval of Invoices

Chair Deldin advised the Board that he had been presented with one additional invoice this morning that also requires approval for payment. This invoice is for payment of disability review services to MMRO for the examinations of Harrell, Bratten, and Rowe (\$1,180.00).

A motion was made by Trustee Cutler, supported by Vice-Chair Santo to approve the invoices as presented with the additional one brought forward by Chair Deldin. The motion carried.

5. Public Participation

None

6. Retirement Administrator Report

Ms. Dobson distributed the monthly activity report with the numbers through March 2018. She advised that a conference call had been done between her office and Conduent at the beginning of the week and she is happy to report that progress is being made on the online estimator tool. Preliminary reviews are being conducted at this time and the “disclaimer” language has gone to both Corporation Counsel and Outside Counsel for review and approval. She is expecting the tool to be live sometime in late June, but she wants to make sure thorough testing is conducted beforehand. Conduent is also making progress on a “DROP calculator”.

Ms. Dobson also reported that she is still working with Martha T. Berry (MTB) to input their old pay history from ADP into the Conduent system. The delay in the availability of this data is putting the completion of the 2017 Actuarial Valuation behind schedule. Trustee Rocca inquired what the reason is for MTB being unable to provide the required information. Ms. Dobson explained that MTB cannot extract the data from the payroll system and import it the way it needs to be done. Chair Deldin suggested that at some point perhaps the County needs to take a firmer stance with MTB, so this data can be obtained. Ms. Bathanti added that she feels the next step would be to tell MTB that they need to put some financial resources behind this and work with ADP to find a fix to get the County the information. Up until this point, they have been very patient with MTB and they have had multiple meetings with their HR Director (Ms. Carol Tucker) and the facility Director (Mr. Kevin Evans) with little results. She and Ms. Dobson will put together a more strongly worded email today and again communicate the urgency behind the need for this information.

A motion was made by Trustee Rocca, supported by Trustee Smith to receive and file the Retirement Administrator Report. The motion carried.

7. Cramer Rosenthal McGlynn update

Mr. Brian Harvey and Mr. Harris Swenson joined the meeting to provide the Board with an update on the Cramer Rosenthal McGlynn (CRM) portfolio. Mr. Swenson provided some background information on the firm. They are a U.S. Equity Small Cap Value Manager and have been with the Retirement System since December 2009. With approximately \$6.5 billion in assets under management currently, they were pleased to report the promotion of Mr. Bernie Frojmovich as co-lead on the Small Cap strategy with Mr. Harvey.

Mr. Swenson reviewed performance as of December 31, 2017. Their investment philosophy revolves around “change, neglect and valuation.” Mr. Harvey reported that on a net basis, the account was up 14.5% relative to the benchmark which was up 7.9%. They are seeing broad contribution across all sectors. Mr. Harvey remarked that Energy has been the one area that has been a little more challenging for a lot of investors for the last couple of years. Mr. Swenson also directed the Board’s attention to the top 10 holdings and Mr. Harvey briefly discussed a few names.

Trustee Cutler inquired how CRM did in the first quarter of 2018. Mr. Harvey responded that they underperformed by about 100 basis points. They are trying to focus on the longer term and because it is still so early in the year, they do see a lot of opportunities out there.

A motion was made by Trustee Rocca, supported by Vice-Chair Santo to receive and file the Cramer Rosenthal McGlynn update. The motion carried.

8. Reinhart Partners update

Mr. Rick Plawecki and Mr. Brent Jesko joined the meeting to provide the Board with an update on the Reinhart Partners portfolio. Mr. Jesko reviewed performance through March 31, 2018 and the breakdown of change in value for the same period. He also reviewed performance by sector and noted that Energy and Health Care were two areas that were negative.

Mr. Jesko also briefly reviewed sector allocation relative to the benchmark and the characteristics of the portfolio. He also discussed their outlook for the portfolio moving forward in 2018 and examined the effect of higher interest rates, market volatility and corporate tax reform.

A motion was made by Trustee Rocca, supported by Trustee Murphy to receive and file the Reinhart Partners update. The motion carried.

9. US Large Cap Value Manager Search

Mr. Holycross reminded the Board that a replacement had been discussed in the Large Cap Value Manager area due to the changes and performance issues at Loomis Sayles that have resulted in lackluster performance. At the Board's direction, AndCo has performed a search for replacement candidates and is presenting information on five new, potential managers (Aristotle Capital Management, Dodge & Cox, Lyrical Asset Management, Seizert Capital Partners and Sound Shore Management) today. Aristotle is not on the AndCo platform, yet and the full review is not expected to be completed until June or July. They were included in the search based on conversations with a couple of Board members.

Mr. Holycross reviewed each firm's profile information, specifically touching on location, assets under management, percentage of employee ownership and number of holdings. He also examined the quantitative analysis prepared for the Board across the past nine years for all five candidates as well as the profile provided for each. He finds three of these five more intriguing (Seizert – a local manager with a great track record, Lyrical – possibly a good complement to the Seizert portfolio, and Aristotle – strongest track record). Mr. Holycross would recommend the Board bring these three in for interviews.

A motion was made by Trustee Cutler, supported by Trustee Murphy to bring in the three managers recommended by AndCo (Seizert Capital Partners, Lyrical Asset Management and Aristotle Capital Management) for interviews at the May 17, 2018 meeting. The motion carried.

10. Unfinished Business

a. Correction of Errors Overpayments/Underpayments Policy (DRAFT)

Ms. Dobson distributed an updated draft of the policy to the Board members for their review. She has added a few comments to the original draft. Mr. Michaud said that she has made it a bit more "user friendly" and taken out some of the legal terminology that could be confusing to members. Chair Deldin asked Ms. Dobson to go over the changes she has suggested.

Ms. Dobson summarized the revisions she had made to the document. In the "Underpayments" section, she and her team came up with the \$10,000 threshold to keep options for members and retirees to a reasonable minimum. Granting a lump sum over that amount may end up pushing someone into a higher tax bracket and result in undesired consequences. She also spelled out what

would happen in the event of the death of a retiree or beneficiary who was receiving installment payments in order to recoup an underpayment of a pension.

Trustee Smith inquired how often an underpayment might occur. Ms. Dobson said that these situations are fairly infrequent and it would be more likely for someone to have been overpaid than underpaid. Overpayments tend to occur when a retiree or beneficiary passes away and Retirement Services is not notified to stop the pension payments. Trustee Smith also inquired about why and when interest would be involved in calculating the payment of an underpayment or re-payment of an overpayment. Ms. Dobson said she is open to discussion on whether or not interest should be included in either calculation. Trustee Smith said that he thinks it would be fair to include interest when paying back a retiree or beneficiary if a clerical error had been made. Ms. Dobson suggested that adding 3.5% interest on the total of the underpayment would be fairly simple.

Moving on to the "Overpayment" section, Ms. Dobson indicated this is where things could get more complicated. She tried to simplify this section to make it easy to understand from a retiree and beneficiary perspective and also tried to correlate the procedures with what is done when an employee is overpaid on a paycheck. They do not want the re-payment amount to exceed a certain percentage of the pension check and cause hardship by reducing the check too much.

Chair Deldin reminded the Board about the situation that was just dealt with at the last meeting. It had been discovered that a beneficiary had been overpaid approximately \$14,800. Her husband (the retiree) had also been a state employee and there should have been an offset in his pension check. The overpayment was stopped as soon as it was discovered and at the prior meeting the Retirement Board had decided to collect \$100 from each subsequent monthly check until the full amount is paid back. While he understands the need for a written policy, he would like to see this Board (and any future Board) have the discretion to handle an overpayment the best way they see fit given the specific circumstances. Ms. Dobson asked Mr. Michaud if item #5 as listed under the Overpayment section would cover the Board and give them flexibility in any future instances. Mr. Michaud responded affirmatively.

Ms. Dobson will make the additional adjustments that were discussed today and bring a final draft back to the Board for approval at the next meeting. Chair Deldin expressed his appreciation for the work that Ms. Dobson and her team do to uncover things like overpayments and other errors. He believes things have improved since the Board made the decision several years ago to spend the money to employ a full-time Retirement Administrator (and staff) rather than leaving the work to be spread out across multiple people within the Human Resources and Labor Relations (HRLR) Department (as it had been for a period of time). He feels that many of the errors that Ms. Dobson has uncovered are the result of having too many individuals unfamiliar with the work trying to fill in during that period. Through her diligence, those errors are being corrected now.

11. New Business

None

12. Adjournment

There being no further business before the Board, a motion was made by Trustee Rocca, supported by Vice-Chair Santo to adjourn the meeting at 10:12 a.m. The motion carried.