

**MINUTES OF THE RETIREMENT COMMISSION**  
**Thursday, July 21, 2016**

A meeting of the Retirement Commission was held on Thursday, July 21, 2016 at 8:30 a.m., at the Talmer Building, 2<sup>nd</sup> Floor Finance Department Conference Room, located at 120 North Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Vice-Chair Gary Cutler, Carol Grant, Bob Hoepfner, Derek Miller, Matthew Murphy, George Brumbaugh

Excused:

Chair David Flynn, Mark Deldin

Also Present:

Stephen Smigiel, John Schapka, Stephanie Dobson, John Kravitz, Tom Michaud, Mike Holycross

**1. Call to Order**

There being a quorum of the committee present, the meeting was called to order at 8:33 a.m. by Acting Chair Cutler.

**2. Adoption of Agenda**

*A motion was made by Trustee Grant, supported by Trustee Murphy to approve the agenda as presented. The motion carried.*

**3. Public Participation**

None

**4. Approval of Minutes**

*A motion was made by Trustee Grant, supported by Trustee Hoepfner to approve the minutes of the June 30, 2016 meeting as presented. The motion carried.*

**5. Approval of Invoices**

*A motion was made by Trustee Hoepfner, supported by Trustee Murphy to approve the invoices as presented. The motion carried.*

## **6. Retirement Administrator Report**

### **-- Proposed Retirement Commission Website Timeline**

Ms. Dobson presented the Board with a proposed timeline for updating the Retirement Commission website. She advised that she and her staff had a very productive meeting with the County IT Department. The entire County is transitioning into a new website layout and she cautioned that there may be a bit of a delay on achieving some of the goals listed, as IT has communicated that the transition to the new layout is to be completed by the "end of summer". When she asked for clarification on when exactly that would be, they could not be more specific. This would likely only affect the "Development & Design" portion of the timeline slated for September and October because IT will have everyone locked out of the segment of the software used for making updates and no changes will be able to be made during that transition.

There has already been some additional information posted including the 2014 Finance reports. A list of the policies that have been made available on the website was also provided on the timeline. Ms. Dobson and her staff will be receiving training on the current and the new website design software. She requested the members review the website and provide her with any other suggestions for items they would like to see posted, so she is aware of any other priorities that the Board may have in addition to those on the timeline provided.

## **7. Disability Retirements**

### **-- Frank Delise (Appeal)**

*A motion was made by Trustee Murphy, supported by Trustee Grant to have MMRO proceed with their standard protocol when an appeal is requested. MMRO will assign Mr. Delise's previous medical information and any new medical information he provides to another case manager who will review it and determine if another IME is warranted. The motion carried.*

Trustee Murphy inquired whether it would be possible to ask MMRO to assign the review of this appeal to a practitioner who is familiar with the risks associated with compromised immune systems and exposure to infectious diseases. Ms. Dobson indicated she would express this concern to MMRO.

### **-- Eric Pugh (Appeal)**

Mr. Pugh was present and joined the meeting to express his desire to appeal the termination of his disability retirement to the Board. Mr. Michaud explained to him that today's procedure merely involves the Board accepting his request for appeal and directing it to be processed. He would be given an opportunity to provide additional medical information to Ms. Dobson's office for MMRO to review as part of the appeal, but nothing is required of him today.

Trustee Miller requested additional clarification on what the appeal process entails. Mr. Michaud reviewed the process for him.

*A motion was made by Trustee Hoepfner, supported by Trustee Miller to have MMRO proceed with their standard protocol when an appeal is requested. MMRO will assign Mr. Pugh's previous medical information and any new medical information he provides to another case manager who will review it and determine if another IME is warranted. The motion carried.*

**-- Sheila Sinclair (Opinion)**

Trustees were in receipt of the Medical Director's confidential medical documents regarding the independent medical examination of Sheila Sinclair. The Medical Director has certified based on the independent medical exam that Sheila Sinclair is not mentally or physically totally incapacitated for duty in the employ of the County, and therefore does not meet the requirements for a disability retirement.

*A motion was made by Trustee Miller, supported by Trustee Grant that based on the Medical Director's certification, to deny Sheila Sinclair a disability retirement and adopt the following resolution:*

**WHEREAS**, the Retirement Commission is vested with the general administration, management and operation of the Macomb County Employees Retirement System ("Retirement System") and has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

**WHEREAS**, the Retirement Commission is in receipt of an application for disability retirement from Sheila Sinclair dated February 23, 2016 and

**WHEREAS**, Section 28 of the Retirement Ordinance provides that upon the application of a member, or his/her department head, a member who (1) is in the employ of the County, (2) has ten or more years of credited service, and (3) has become or becomes totally and permanently incapacitated for duty in the employ of the County, may be retired by the Retirement Commission: provided, that after a medical examination of the member made by or under the direction of the medical director, the medical director certifies to the Commission (1) that the member is totally incapacitated for duty in the employ of the County, (2) that such incapacity will probably be permanent, and (3) that the member should be retired, and

**WHEREAS**, the Retirement Commission has previously acknowledged receipt of said application and directed the processing of said application in accordance with the Retirement System provisions, and

**WHEREAS**, on April 4, 2016, Dr. Norman S. Miller, M.D., conducted an independent examination and reviewed all the records provided and concludes Sheila Sinclair is **not** totally incapacitated for duty in the employ of the County, and further indicates that Sheila Sinclair should **not** be retired, and

**WHEREAS**, a second independent examination was conducted on June 29, 2016 by Dr. James Blessman, M.D. and concludes Sheila Sinclair is **not** totally incapacitated for duty in the employ of the County, and further indicates that Sheila Sinclair should **not** be retired, and

**WHEREAS**, the Retirement Commission is in receipt of a certification from the Medical Director, dated July 13, 2016, which states that Sheila Sinclair is physically able and capable of resuming employment with the County in the same or similar job classification in which said individual was employed at the time of the disability, and

**WHEREAS**, the Retirement Commission has discussed this matter and has determined that Sheila Sinclair has **not** met the eligibility requirements for disability retirement from the Retirement System, therefor be it

**RESOLVED**, that the Retirement Commission hereby **disapproves** the disability retirement of Sheila Sinclair and further

**RESOLVED**, that a copy of this resolution shall be provided to Sheila Sinclair and all other appropriate parties.

*Motion Carried.*

## **8. International Equity Interviews**

Three International Equity managers were interviewed individually. Acting Chair Cutler and Mr. Holycross advised each organization of the time restrictions. Each was allowed a 20 minute presentation and 10 minutes for follow-up and questions from the Board.

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Cambiar Investors:

Ms. Katherine Minyard, Ms. Molly Cisneros

Ms. Cisneros began their presentation with an introduction of their firm. They are 100% employee owned and have approximately \$17 billion in assets under management. She also covered how they manage their portfolio with an analyst led investment team. Ms. Minyard discussed their investment process, their philosophy and reviewed past performance. She provided an example of one particular stock and detailed its story and progress through the portfolio. Ms. Minyard also discussed their disciplined sell process.

In closing, Ms. Cisneros also examined how their firm and the current fund managers (EARNEST Partners and WAM) might fit together. She compared their similarities and described their differences and suggested the increased likelihood of a dampening of overall volatility throughout the portfolio with the joining of their firm to the current two.

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HGK Asset Management:

Mr. Matthew Kosara, Mr. Joe Caretti, Mr. Sean Landers

Mr. Kosara started the presentation with an introduction of their firm. They are 100% employee owned with approximately \$2.5 billion in assets under management. HGK Asset Management owns a minority equity interest in Trinity Street Asset Management. Trinity is 90% employee owned with approximately \$3.5 billion in assets under management and would be overseeing the portfolio. Mr. Landers described Trinity's investment team (with two experienced portfolio managers) and their investment philosophy and process. The portfolios are constructed evenly and are concentrated with approximately 30-35 stocks. He described Trinity's risk controls which include position, sector and country limits. Mr. Landers provided a few examples of Trinity's experience with specific stocks (including one that did not work well for them). He also briefly discussed Brexit and the effect it had on their portfolio.

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Lazard Asset Management:

Mr. Frank Sposato, Mr. Michael Powers

Mr. Sposato began with an overview of their firm which has approximately \$172 billion in assets under management. Their portfolio typically has between 40 and 60 stocks. They are bottom-up, fundamental stock pickers. Lazard has very low turnover because they buy companies that they like and hold them until they reach their target prices. They have investment teams all over the world and over 70% of the firm's total assets are in global/international equity. Mr. Powers discussed their investment philosophy, objectives and process. He covered their idea sourcing, fundamental analysis, portfolio construction, and risk monitoring. Mr. Powers also discussed an example of a specific stock in their portfolio. He also briefly covered the impact of the Brexit vote on their portfolio.

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At the conclusion of the last presentation, Acting Chair Cutler inquired whether the Board members would like to make a decision today or consider the information that had been presented and hold a vote at the next meeting. Trustee Murphy indicated he would like to hear the other Board members opinions of the presentations today, but would be willing to delay a vote until the August 11, 2016 meeting.

Trustee Murphy stated he was impressed by both Cambiar and Lazard, but was disappointed that the local representative from HGK did not speak at all during their presentation. Trustee Miller agreed and he stated Lazard's experience was appealing and that based on historical performance he thought that HGK had a leg up on Cambiar. Trustee Brumbaugh pointed out, though, that HGK is really reliant on just two portfolio managers and if something were to happen to one of them that might pose a problem. Acting Chair Cutler was concerned that all three people who appeared on behalf of HGK were sales/marketing people and none of them was actually a part of the investment team. He thought Cambiar's presentation was very solid and he appreciated their candor in explaining how the removal of staff is handled in an employee owned environment.

Trustee Murphy inquired about the ages of the two partners of HGK. Mr. Holycross indicated he would check his research and provide the ages of the HGK portfolio managers at the next meeting. Acting Chair Cutler indicated that a vote to select the new International Equity manager will be held at the next meeting.

*A motion was made by Trustee Hopefner, supported by Trustee Grant to receive and file the presentations from Cambiar Investors, HGK Asset Management, and Lazard Asset Management. The motion carried.*

#### **9. Maria Zardis Opinion (discussion only)**

Mr. Michaud reviewed the request the Board had received from Ms. Zardis regarding her eligibility for the 70-point plan. He provided the Board with a memo outlining his opinion as well as correspondence and several attachments from Ms. Zardis.

In 2001, the requirements to start service retirement were age 55 with 25 years of service or age 60 with 8 years of service. Ms. Zardis was hired in 2003 and at that time there was a "Rule of 75" in effect (which meant if an employee's age and years of service totaled 75, they could retire at that point).

In 2004, that "Rule of 75" went to a "Rule of 70" (if an employee's age and years of service totaled 70, they could retire at that point) and then in 2009, the Retirement Ordinance was amended (by the Board of Commissioners) to go back to age 55 with 25 years of service or age 60 with 8 years of service. When this change was implemented in 2009, it was effective for anyone that was hired after 2002 and was not vested before February 2009. Ms. Zardis was not vested in 2009 and therefore falls within the category of being eligible for a pension at age 55 with 25 years of service or age 60 with 8 years of service. The "Rule of 75" and the "Rule of 70" were no longer applicable to her.

Ms. Zardis had raised some questions in terms of her eligibility and the details are outlined in the written opinion Mr. Michaud supplied. In her correspondence, she indicated she did not know that the rule had changed in 2009 and Mr. Michaud indicated that the Ordinance version that is currently posted online and being worked on for restatement does not contain the 2009 revisions. He did point out, however, that correspondence was sent out to all union and non-union members by the Human Resources and Labor Relations Department in 2009 regarding this change. The "Rule of 70" is no longer in effect.

Acting Chair Cutler stated he understands Ms. Zardis' point-of-view and that he had gone through and checked both the Personnel Manual (which simply refers to the Ordinance) and the current Retirement Ordinance and neither has the language changing this rule. He sees fault with the Retirement System for not ensuring that the information available (in particular for non-union employees) was updated when changed. Trustee Murphy inquired as to what the financial impact would be if this were to be equilaterally addressed for everyone who may have been impacted by this communication issue. Mr. Michaud speculated that the impact would be

profound. Mr. Brumbaugh indicated that he had received a lot of questions regarding this and he sees that HRLR took care of this by sending out the letter to every employee. He concurs with Mr. Michaud's opinion and since this has been consistently applied there should be no question in Ms. Zardis' case – she must wait until she turns 60 to retire.

Trustee Miller inquired where the rules actually come from – a memo from Mr. Herppich in HRLR or the Retirement Ordinance. Trustee Brumbaugh and others indicated that this change was actually made by the Board of Commissioners and then the correspondence from Mr. Herppich was sent out pursuant to Board action. The change was made and communicated appropriately, but the Retirement Ordinance was not updated.

*A motion was made by Trustee Hoepfner, supported by Trustee Murphy to receive and file the opinion from Mr. Michaud. The motion carried.*

#### **10. Alidade Extension**

Acting Chair Cutler reviewed the letter from Alidade Capital requesting a one-year extension of the term of Fund II pursuant to Section 1.6(b) of the Limited Partnership Agreement. The initial term is set to expire December 31, 2016. They are requesting a one-year extension to expire December 31, 2017 in order to dispose of assets. Mr. Holycross indicated this is a fairly common request and Graystone sees no issues with it. Trustee Miller inquired about the likelihood that 2017 will come and they will ask for another extension to 2018. Mr. Holycross responded that their documents likely allow for the opportunity for “two one-year extensions” and this would be the first. Trustee Miller suggested the Board vote on a two-year extension instead, but Mr. Holycross indicated they have only asked for a one-year extension.

#### **11. Alidade Amendment - VOTE**

*A motion was made by Trustee Hoepfner, supported by Trustee Grant to extend the term of Alidade Capital's Fund II to December 31, 2017. The motion carried.*

#### **12. 2014/2015 Summary Annual Report**

Mr. Smigiel provided a financial report for the Pension fund for 2015 with a comparative balance sheet and income statement for 2014 and 2015. These are all audited numbers included in the County's Annual Financial Report that was issued in June. The fund actually lost equity of about \$55 million. At the end of the year, the fund balance of the Pension fund was \$885,452,503. The fund was approximately 97% funded at the end of 2014. There is one typographical error that needs to be corrected to the Funding Policy footnote on page 4. The County's required contribution for 2015 was \$21,281,612 (not \$22,152,820 as noted on the report – this was the 2014 contribution). That correction will be made prior to the report being published on the Retirement Commission website.

*A motion was made by Trustee Hoepfner, supported by Trustee Murphy to receive and file the 2014/2015 Summary Annual Report as amended. The motion carried.*

**13. MAPERS Fall Conference**

Acting Chair Cutler inquired which Board members would be attending the conference and requested a motion to name the two delegates.

*A motion was made by Trustee Hoepfner, supported by Trustee Miller to name Matthew Murphy and David Flynn as the delegates for the 2016 Fall MAPERS Conference. The motion carried.*

**14. Other Business**

Mr. Holycross presented the Board with a proposal for a cash rebalance to cover capital calls in the next few months. This rebalance involves moving \$13 million from Fixed Income to Cash (\$6.5 million from Franklin Templeton and \$6.5 million from WAM BC Aggregate).

*A motion was made by Trustee Murphy, supported by Trustee Hoepfner to follow the recommendation of Graystone for this cash rebalance (\$6.5 million from Franklin Templeton and \$6.5 million from WAM BC Aggregate for a total of \$13 million to Cash). The motion carried.*

Trustee Brumbaugh inquired about whether a meeting had been set for the review of the restatement of the Retirement Ordinance. A date has been chosen (July 28<sup>th</sup>), but that date may change as there are a number of Board members who are unable to attend that day.

**15. Adjournment**

*There being no further business before the Board, a motion was made by Trustee Hoepfner, supported by Trustee Murphy to adjourn the meeting at 11:18 a.m. The motion carried.*