MEETING MINUTES
EMPLOYEE PENSION & TRUST INVESTMENT COMMITTEE
CITY OF FRANKLIN, TENNESSEE
CITY HALL BOARD ROOM
MONDAY, AUGUST 19, 2013 @ 1:00 PM

Committee Members

Alderman Clyde Barnhill, Chair	P
Mayor Ken Moore, Vice Chair	P
Ed Cagle, Citizen	P
Marcia Williams, Citizen	P
Jessica Peach, Employee	P
David Edge, Employee	P
Shirley Harmon, Human Resources Director	P

Other Attendees

Barry Bryant, Dahab Associates	P
David Kays, Acuff & Associates	P
Andrew Elbon, Bradley Arant Boult Cummings	
Shauna Billingsley, City Attorney	P
Russ Truell, Finance Director	P
Eric Stuckey, City Administrator	P
Linda Fulwider, Board Recording Secretary	P

1. **Call to Order**
Alderman Barnhill, Chair, called the meeting to order at 1:00 p.m.

2. **Approval of the Minutes**
Ken Moore moved to approve the February 25, 2013 minutes as presented. Seconded by David Edge. Motion carried unanimously.

3. **Quarterly Investment Update**

Barry Bryant, Dahab Associates

Economic Statistics

	Current Qtr	Last Qtr
GDP	1.7	1.1
Unemployment	7.6	7.6
CPI All Items Year/Year	1.75	1.47
Fed Funds Rate	0.25	0.25
Industrial Capacity	77.8	78.2
US Dollars per Euro	1.30	1.28

Major Index Quarter Returns

Index	Performance
Russell 3000	2.7
S&P 500	2.9
Russell Mid	2.2
Russell 2000	3.1
MSCI EAFE	-0.7
MSCI Emg Mkts	-8.0
NCREIF ODCE	3.9
Barclays Agg	-2.3
90 Day Tbills	0.0

Equity Return Distributions

	QUARTER		
	VAL	COR	GRO
LC	3.2	2.7	2.1
MC	1.7	2.2	2.9
SC	2.5	3.1	3.7

	TRAILING YEAR		
	VAL	COR	GRO
LC	25.3	21.2	17.0
MC	27.6	25.4	22.9
SC	24.8	24.2	23.7

Market Summary

*GDP expanded at a rate of 1.7% in Q2
*Seasonally adjusted unemployment remained at 7.6%
*Domestic equity indices posted positive returns for Q2. Large Cap Value beat Growth, while Mid and Small Cap favored Growth over Value. Int'l stocks lost ground, with developed countries faring better than emerging markets
*CPI increased 1.75% year over year
*The US Dollar weakened relative to the Euro

Manager Performance Summary

Name	(Universe)	Quarter	YTD	Inception	
Total Portfolio *Manager Allocation Index*	(Public Fund)	0.8 (10) *0.3 -----*	6.2 (29) *7.2 -----*	3.5 (67) *4.2 -----*	12/07
Polen Capital *Russell 1000 Growth*	(LC Growth)	-2.2 (99) *2.1 -----*	4.0 (99) *11.8 -----*	8.4 (75) *11.3 -----*	06/11
CS McKee *Russell 1000 Value*	(LC Value)	4.3 (37) *3.2 -------*	14.3 (72) *15.9 -----*	3.9 (68) *3.3 -----*	12/07
SouthernSun *Russell 2500*	(Smid Cap)	4.0 (23) *2.3 -----*	18.4 (14) *15.4 -----*	36.1 (3) *25.6 -----*	06/12
Vanguard *Russell 2500*	(Smid Cap)	2.4 (53) *2.3 -----*	15.5 (50) *15.4 -----*	23.3 (38) *22.8 -----*	12/11
Schwab *MSCI Emerging Markets*	(Emerging Mkt)	-9.6 (82) *-8.0 -----*	-13.1 (94) *-9.4 -----*	0.6 (93) *4.9 -----*	12/11

Name	(Universe)	Quarter	YTD	Inception	
Westwood *MSCI Emerging Markets*	(Emerging Mkt)	-7.0 (45) *-8.0 -----*	-8.6 (64) *-9.4 -----*	5.5 (24) *1.3 -----*	12/09
Landmark *Cambridge US Private Equity*		0.0 ----- *0.0 -----*	5.3 ----- *4.5 -----*	22.3 ----- *13.8 -----*	03/10
Bailard Real Estate Inc. *NCREIF NFI-ODCE Index*		2.0 ----- *3.9 -----*	4.1 ----- *6.6 -----*	10.4 ----- *14.2 -----*	09/10
RMK *NCREIF Timber Index*		1.0 ----- *0.9 -----*	3.8 ----- *2.5 -----*	-0.1 ----- *2.9 -----*	12/07
RMS Forest *NCREIF Timber Index*		0.0 ----- *0.9 -----*	1.3 ----- *2.5 -----*	5.2 ----- *9.4 -----*	06/12
SSGA Fixed *Barclays Aggregate Index*	(Core Fixed)	-2.3 (34) *-2.3 -----*	-2.4 (51) *-2.4 -----*	5.0 (88) *4.9 -----*	12/07

Mr. Bryant commented that relative to others, it was a good quarter. He was pleased with the allocations.

4. Consideration of Changes in Fixed Income Allocation and Managers

Barry Bryant, Dahab Associates

Firm	Bradford	Loomis	PIMCO
Product	Core Plus	Core Plus Fixed Income	Total Return Fund
Location	Los Angeles, CA	Boston, MA	Newport Beach, CA
Contact	Mary Yablonsky	Gene Guevara	Marta Bezoari
Affiliation	Independent	Subsidiary of Natixis Global Asset Management	Subsidiary of Allianz SE
Founded	1984	1926	1971
Total Assets	$4.7B	$188B	$20T
Assets in Product	$2.5B	$8.8B	$529.2B
Investment Style	Sector Security Approach, Other	Sector Security Approach	Interest Rate Anticipation, Sector Security Approach
Philosophy	They believe that the global, macro-economic environment is the primary driver of returns within the fixed income marketplace, and that understanding the trends within this environment provides the best opportunities to add value	The believe that in-depth fundamental research and intensive bottom-up investment analysis combined with a top-down macroeconomic and market perspective is the best way to deliver excellent performance	Their investment philosophy revolves around the principle of diversification. They believe that no single risk should dominate returns
Number of Securities	150-200	75-125	6,087
Turnover	120%	74%	388%
5 year/Current Quality	A+/A2	A/Baa1	-/A+
5 year/Current Maturity	7.29/7.32	8.88/9.62	6.43/6.70
5 year/Current Duration	4.65/5.54	5.84/6.78	4.87/4.70
5 year/Current Coupon	5.44/4.42	5.44/5.01	4.14/3.40
5 year/Current High Yields	10.42/11.63	13.50/19.00	3.19/3.00
Inception	April 1, 1985	January 1, 1986	May 11, 1987
Benchmark	Barclays Aggregate	Barclays Aggregate	Barclays Aggregate
Fee Schedule	Separate Account: 39 bps on first $10mm 32 bps on next $40mm Minimum: $5k	Comingled Fund: 50 bps on first $10mm 35 bps on next $10mm Minimum: $5mm Mutual Fund: 58 bps Minimum: $100k	Mutual Fund: 46 bps Minimum: $1mm

Performance Information 2003-2013 reviewed:

	Bradford	Loomis	PIMCO	Barclays Aggregate
1Q2013	0.28	0.67	0.72	**-0.12**
2Q2013	-2.51	-3.28	-3.49	**-2.33**
3 Year	5.67	7.18	5.15	**3.53**
5 Year	7.72	9.33	7.75	**5.20**

Mr. Bryant explained the makeup of Barclay's Aggregate Funds noting that Index Fund returns are not great and are increasingly tied to government funds. Going forward he doesn't expect interest rates to rise soon. When interest rates rise, bond returns fall.

Bradford is a smaller firm comparable to a boutique type firm. Money would be in an individual account not comingled with anyone else. Loomis is a large firm; however, PIMCO is the largest bond fund. Bradford and PIMCO numbers relatively similar. Loomis is higher and takes more risks. During the phone presentations he will ask each manager the same four questions.

Bradford (Core Plus) Mary Yablonsky, Director of Marketing and Sales, and Jeffrey Brothers, Senior Portfolio Manager.
Interest rates could move up modestly to around 3% within the next year. Economy sluggish, inflation low and still falling. Fiscal worries regarding debt ceiling near term modestly higher. Three to five years heading to as high as 4% on 10 year treasury bills. Feds are cautious.

Barclays Aggregate. Could see negative price performance from interest rate. Active managers rotate between sectors for opportunity to outperform. Almost 75% in federal securities; very low yielding and will probably increase over time. Index portfolio 75% in low yield. Active managers move to less correlated high yield investment grade. International funds not correlated. Currency possibilities with International experience.

Referred to page 16 in their presentation book for Core Plus Strategy and yield.

Advantage of Bradford over Loomis and PIMCO? Different philosophy. Bradford doesn't use derivative products. Operate in cash markets. Client sees what they own. Biggest advantage is size; being smaller they are nimble and move quickly in these sectors. They don't need $250 million or a billion. Client's account managed as separate account; can customize the guidelines within Core Plus sectors. Attention from Client Servicing and Portfolio Management. Team has worked together over 19 years.

Loomis (Core Plus Fixed Income) Gene Guevara
Barclays Aggregate has changed over the past year because of government intervention. Today over 70% in government related securities. Overweight in credit. Opportunities outside aggregate in high-yield non-dollar emerging market.

Core Plus invested in all sectors of US Market up to 20% high yield, up to 10% in non-dollar, Spanish bonds. Have taken full advantage of that sector. They are close to 10%. Ability to invest in plus sectors, limits on plus sectors, ability to manage from experience, ability to look like benchmark in times of stress, to move around benchmark. Allows flexibility to take advantage in tactical as well as shifts in marketplace.

Why Loomis? In this strategy $9B-$10B can be nimble and quick. No heavy derivative usage. Transparent portfolio and recognizable names and items. Broad experience. Comingled and mutual fund.

Marcia Williams asked about derivatives. The response was that it is not a primary strategy; they don't use them much. Not for alpha generation.

PIMCO (Total Return Strategy) Marta Bezoari
Interest rates are on hold for the near future. With short term Federal Reserve controls unlikely a hike until at least 2015. (I don't understand the previous sentence.) Ms. Bezoari explained how the unemployment rate and inflation play into this. 41% of the CPI is related to housing. It is fragile and it is hard to get mortgages. Interest rates up 1% since January. Refinancing and new issuance both down by 50%.

Interest rate Core Bond tied to Barclays Aggregate. The structure creates a problem in future; 75% exposure to treasury bonds and agency mortgages. Interest rate risk is 5.5 years now (I don't understand this statement), and strategy has 75% exposure. If interest rates increased by 1% would have 4% loss tied to Barclay; 2% mitigated.

PIMCO Core Plus Strategy an advantage over Index. Referred to page 3 of their presentation book. The manager has flexibility around the benchmark; not to duplicate the benchmark completely. Mr. Bryant asked if this is the best strategy within the PIMCO family to which they responded that it depends on what is wanted from passive to active. Unconstrained Bond Fund is different from Total Return Fund; doesn't track Barclays Aggregate.

Mr. Bryant noted the other two firms do not use derivatives and are more agile than very large firms. PIMCO's perspective on derivatives is they look at the cheapest way to get the product. It is more expensive to buy cash bond than derivative sometimes. It doesn't happen regularly just when derivatives offer better liquidity. They have 30 years of experience and have the resources in-house. Smaller companies cannot afford to do derivatives. PIMCO has in-house risk management and in-house attorneys. The risks must be monitored every day with derivatives. An intensive process.

The summary Mr. Bryant gave the committee reflects a very large turnover rate of 388%. This was somewhat explained; however, Mr. Bryant said he could have pulled the wrong number. He will check.

Marcia Williams asked if there were any parameters on the type of derivatives; long or short. Ms. Bezoari responded that PIMCO doesn't go short. It needs to be completely like buying a bond. An unconstrained portfolio is more opportunistic with the ability to go short. Both in cash market and derivative market.

Discussion following presentations:

- Interest rates are not going up. The basic idea to add a Core Plus Manager hasn't changed.
- Mayor Moore was intrigued with Bradford. With PIMCO the number of securities is much higher. We're leaving money on the table by not having an active manager. Alderman Barnhill was partial to Bradford and having the separate account.
- Marcia Williams complimented Dahab on the choice of these three managers, any one of which could do what the committee wants. Loomis beats the others in performance in all years. Historically, excellent performance.
- Ed Cagle: This money is 21% of the portfolio. It is important to pick a manager.
- Eric Stuckey asked if it would be advantageous to pick two managers.
- $13 million is enough to meet the minimum on Bradford and Loomis.
- Jessica Peach: Bradford has no minimum account size; PIMCO minimum is $1 million; Loomis at $100,000
- Mayor Moore asked if $5 million to Bradford and $5 million to Loomis, with the balance left in Index would be an option.
- Mr. Bryant discouraged a three-way split and said originally he was planning on an International manager and splitting the money with the Core Plus. He asked if the committee wished to engage an international manager.
- Russ Truell advised against leaving anything in the Index Fund as it has a minimum fee; at $3 million paying the minimum.

Mayor Moore moved to invest with Bradford and Loomis investing 50% of the money in each. Seconded by Marcia Williams. Motion carried unanimously.

5. Consideration of RFP for Actuarial Services

Shirley Harmon, Human Resources Director

To be addressed at the next meeting.

6. Consideration of RFQ for Legal Services

Shauna Billingsley, City Attorney

Shauna Billingsley advised they are drafting the document and it will be posted within the next two weeks. Will address at the next meeting as well. Once the RFQ is ready, it will also be distributed to members of the Committee in case they want to notify contacts which they have.

7. Consideration of Pension Bond Issue

Barry Bryant & Russ Truell

Per Mr. Bryant, Pension Obligation Bonds are debt instruments issued by a state or local government to pay its obligation to the pension fund in which its employees are members. With public entities having more and more difficulty finding ways to fund pensions this trend is expected to continue in the coming years. They are typically issued by underfunded pension funds to raise money to pay benefits owed to their employees.

Interest rates are lower than they have been in this century. Mr. Bryant doesn't think they will go lower. If the City can borrow cheaply the chances of increased earnings are good. Borrowing at 3% gives the likelihood of earning 5%-8%. (I think the previous sentence needs to be reworked; doesn't seem correct as stated.)There is risk involved.

Mr. Truell had a list of eight questions for this discussion, with numbers 5, 6, and 8 needing outside advice from PFM. Although, Mr. Bryant did answer #6 regarding the estimated return on investment. Mr. Truell added that the City does have legislative authority to do this. He then called Lauren Lowe of PFM for discussion and questions.

Ms. Lowe answered the question regarding the estimated cost of Pension Obligation Bonds. Taxable market preliminary analysis assuming it is a taxable obligation for the City on a 10-year structure, 15 and 20 years based on credit rating. Approximate numbers at 10 years 3.05%, 15 years 3.67%, and 20 years 4.1%. Preserve flexibility for wiggle room to 50 bps.

Affordability is the first thing to discuss. The sooner it can be paid off the better. There are two parts to the equation. Mr. Truell asked the effect of adding $10 million liability to borrowing for coming projects. What about debt capacity? How do the rating agencies see that? Ms. Lowe didn't think it would have an impact. Debt capacity will count against because of the obligation to pay it back. This is not a problem with the rating agencies. It just exchanges one obligation for another. Pension obligation is soft debt.

Mayor Moore asked if going forward rating agencies would look harder at unfunded liability on pension plans. Ms. Lowe answered that they would be and suggested the City of Franklin's plan to be 100% funded. If the City was looking at this for immediate relief, in her opinion it would be different. Rating agencies say it is an obligation and how to fund and manage. On the positive side, the pension plan would be 100% funded. The City is 91% funded now. At 100% funded it would be a shorter procedure and it would eliminate the discussion of an underfunded plan. The process is the same as for any bond issue. It would go through BOMA by resolution, and to the state for approval. Typically, allow 2-3 months for the process with the standard cost of issuance applicable.

Discussion following consultation with PFM:

- Mr. Truell thought an initial resolution should go to the Budget & Finance Committee for review this month. There is a specific window in which to act on this.

Questions for David Kays, Actuary:

- If we were to issue pension bonds, what amount in the actuarial report should we use as the "unfunded liability?"
- Range of return for $1 million of reduction is $980,000 – hold debt service to $980,000 per year for a wash at 3%. (I don't understand this sentence.) The Discount Rate for this year would be 4.5%. At present rate, liability will count as $11 million instead of $7 million.

Marcia Williams made a motion to recommend to the Budget & Finance Committee, that we seek out $10 million of Pension Obligation Bonds to fund the Pension at 100%. Seconded by Shirley Harmon. Motion carried unanimously.

8. Other Business

Roth IRA for 457 Plan

Shirley Harmon related a vote was needed to make the Roth IRA a third option for the City's 457 Plan.

Mayor Moore moved to approve the recommendation to add the Roth IRA as a third option for the 457 Plan. Seconded by Marcia Williams. Motion carried unanimously.

Participant Statements
Ms. Harmon asked Mr. Kays when the participant statements would be ready to send. He indicated they would be ready within a week.

Next Meeting
The next meeting is scheduled for Monday, November 18, 2013 @ 1:00 p.m. in the Board Room.

9. Adjourn

Ed Cagle moved to adjourn. Seconded by Marcia Williams. Motion carried unanimously.

Meeting adjourned @ 3:04 p.m.

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Clyde Barnhill, Chair

Minutes prepared by Linda Fulwider, Board Recording Secretary, City Administrator's Office – updated 11/14/2012 3:43 PM