

**MINUTES OF MEETING OF BOARD OF TRUSTEES OF THE
CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND**

April 26, 2018

City Council's Conference Room/Tenth Floor

9:00 a.m.

Roll Call: JoAnn Armstrong (X), Art Gudikunst (X), Pax Goodson (X),
Philip Hatchett (X), Frank James (X), Gregg Kubilins (X),
Zoe Lumpkin (E), Eddie Harrah (X), Jayne Di Vincenzo (X).

Patrick Murphrey (X), Marty Eubank (E), Bill Keeler (X),
Cathy Matthews (E), Susan Goodwin (X), Virginia Lovell (X),
Brian Sypolt (X), Jen Etcher (X).

Others Present: Retirees (5)
Carol Villegas, Labaton Sucharow
Eric Belfi, Labaton Sucharow
Rick Elofson, Investment Committee
Thomas Brooks, Investment Committee
Robert Lanier, Investment Committee

1. Call to Order:

Mr. James called the Retirement Board meeting to order at 9:01 a.m. on April 26, 2018 in the City Council's Conference Room, 10th Floor.

2. Minutes of the Meeting of March 29, 2018:

Upon motion duly made and seconded, the minutes of March 29, 2018 were unanimously approved.

3. Committee on Investments:

a. Assets as of March 31, 2018:

Mr. Gudikunst provided a review of the Funds for March.

Pension	\$942,365,349
Post Retirement	<u>33,030,567</u>
Total	<u>\$975,395,916</u>

The Fund has earned -.03% gross of fees for the last quarter and has earned 7.8% gross of fees for the fiscal year.

b. Manager Performance as of December 21, 2017:

Mr. Gudikunst explained that Rich Dahab continued his discussion with the Committee on the NNERF quarterly performance report for December 2017. Mr. Dahab provided the Committee with two reports to review, discuss, and decide if those reports are ones they would like to see in the quarterly performance reports going forward. The first report was the "Manager Performance Summary – Net of Fees" report, which compared the managers performance

compared to their respective indices for the current quarter, current fiscal year to date, and over 1,3, and 5 year terms. The second report was the “Manager Value Added – Net of Fees” report. This report illustrated how many percentage points the manager either outperformed or underperformed compared to their respective indices. Mr. Gudikunst noted that the Committee asked Mr. Dahab if, based on the information presented, he would recommend any changes. Mr. Dahab advised the Committee that he recommended no changes at this time. The Committee also asked Mr. Dahab what criteria he uses to determine when it is time to terminate a manager. He advised that after a period of underperformance, he or the Committee will talk to the manager and make a determination based on the reason for the underperformance. He noted they consider a variety of factors, including whether they are managing funds in accordance with their stated strategy, their value added over the stated benchmark, and their performance relative to their peers but that Dahab Associates does not have a structured criteria that determines exactly when a manager should be terminated. Mr. Gudikunst advised the Board that the Committee asked Mr. Dahab to prepare a recommendation to better define parameters for monitoring managers.

c. **Asset Allocation Peer Comparisons:**

Mr. Gudikunst mentioned that the Committee continued its discussion as it relates to the existing allocation and whether it is aggressive for the stated target rate of return of 7.35% and the allocation to domestic equity and fixed income compared to other public funds. The Committee was presented with several charts comparing the asset allocation to other funds. All charts pointed to the fact that NNERF was heavily invested in equities and under allocated in fixed income relative to peers. Mr. Dahab noted that the Fund had 26.1% of its funds allocated to fixed income prior to May 2011 when the Committee decided to lower its allocation to 15% which it is currently underweight at around 13%. Mr. Dahab also pointed out that by increasing the Plans allocation to equities, the Plan added approximately \$100 million in value compared to staying where it was in fixed income. Mr. Gudikunst indicated that the Committee also discussed whether the asset classes of real estate and timber serves as a substitute to fixed income. In the March meeting it was noted that alternative investments such as real estate and timber have a much higher standard deviation, or risk, and some Committee members did not agree that the portfolio was mitigating its volatility with these asset classes. Mr. Dahab was of the opinion that both real estate and timber serve as an alternative fixed income and provided the Committee a handout that compared the two asset classes in relation to fixed income. Mr. Dahab also noted that, over the past 40 years, real estate, timber, and bonds have all provided beneficial diversification to stocks. He mentioned that historically low bond yields suggest that real estate and timber may both be stronger asset classes for achieving diversification and lower volatility for the intermediate-term future. Mr. Gudikunst advised the Board that the Investment Committee would continue its review of the asset allocation at future meetings.

4. Committee on Administration:

a. **Next Meeting:**

Mr. Hatchett took a moment to welcome Ms. Jayne Di Vincenzo as the newest Retirement Board member and also to inform the Board that the Committee has a meeting scheduled for next

month. He expects to come to the Board with an updated service agreement following next month's Committee meeting.

5. Benefits and Welfare Committee:

a. Informational Presentations:

Mr. Harrah noted that the Committee did not meet since last month's Retirement Board meeting; however, he did provide an update on several information presentations that have been held for active NNERF employees. The first presentation was held on April 13, 2018 for Public Safety employees and there were approximately 40 attendees. The second presentation was held April 25, 2018, for General employees and there were approximately 108 attendees. Two additional presentations are scheduled. One will be held April 27, 2018, at Public Works for General employees and one will be on May 10, 2018, at City Center, also for General employees. Mr. Harrah also reminded the Board that two Humana information sessions (called Bringing Humana to You meetings) are scheduled for May 22, 2018, at 9:00 am at Midtown Community Center and May 22, 2018, at 1:30 pm at Denbigh Community Center. Humana representatives will be present to provide information to retirees on the Humana Medicare Advantage plan. Humana enrollees and those on Anthem who are approaching age 65 will receive an invitation in the mail. Mr. Harrah advised the next Benefits and Welfare Committee meeting is scheduled for April 27, 2018, at 9:00 am and that all Board members are encouraged to attend as the Committee will be discussing Pre-65 health insurance.

6. Disability Review Committee:

a. The Committee did not meet and there was no business for discussion.

7. Old Business:

a. There was no old business for discussion.

8. New Business:

a. New Board Member:

Ms. Goodwin introduced Ms. Jayne Di Vincenzo to the Board as the newest appointed member. Ms. Di Vincenzo also serves on the Investment Committee and is the President of Lion's Bridge Financial Advisors in Newport News.

b. Labaton Sucharow Presentation:

Ms. Carol Villegas and Mr. Eric Belfi of Labaton Sucharow were in attendance to present to the Board an overview of fiduciary obligations and the services they provide to the Fund. Ms. Villegas and Mr. Belfi explained plan fiduciaries are responsible for acting in the sole interest of the plan participants and beneficiaries and that they must carry out their duties with the care, skill, prudence and diligence of a prudent person. They also provided several best practices for limiting fiduciary liability, including ensuring decisions regarding selection and retention of advisors and managers are thoroughly documented, using third party experts for an additional layer of oversight and expertise, and diversifying the investment portfolio. Labaton Sucharow

advised the Board to have training routinely to remain familiar with fiduciary trends. Ms. Villegas also discussed their role as the Fund's portfolio monitoring firm. She explained Labaton Sucharow monitors the Fund's portfolio for losses related to fraud and tracks related securities suits. The firm also files claim forms for recovery and represents the Fund in securities litigation. Labaton Sucharow has assisted the Fund with recovery of \$500,000 in the last three years.

c. Closed Session – Securities Litigation Update:

A motion was made by Mr. James of the Newport News Employees' Retirement Board, which was duly seconded and unanimously approved, that pursuant to Section 2.2-3711A. of the Code of Virginia, 1950, as amended, Subsection 7, that the Retirement Board hold a Closed Meeting on the subject of litigation, for the purpose of discussing the NNERF's involvement as a named plaintiff in a case. The closed meeting is authorized under:

Subsection (7) consultation with legal counsel pertaining to actual or probable litigation, where such consultation or briefing in open meeting would adversely affect the negotiating or litigating posture of the public body; and consultation with legal counsel employed or retained by a public body regarding specific legal matters requiring the provision of legal advice by such counsel.

After coming back into Open Session, Mr. James of the Board of Trustees of the City of Newport News Employees' Retirement Fund made the motion, which was duly seconded, and unanimously approved, that the members of the Retirement Board certify that to the best of each member's knowledge (1) only public business matters lawfully exempted from open meeting requirements under the Virginia Freedom of Information Act, and (2) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the closed meeting by the Retirement Board.

d. Closed Session – Engagement Letter Review:

At this time, due to a conflict of interest, Mr. Hatchett excused himself from the meeting. A motion was then made by Mr. James of the Newport News Employees' Retirement Board, which was duly seconded and unanimously approved, that pursuant to Section 2.2-3711A of the Code of Virginia, 1950, as amended, Subsection (29) that the Retirement Board hold a Closed Meeting on the subject of the NNERF for the purpose of discussing the possibility of engaging outside legal counsel to provide certain services. The closed meeting is authorized under:

Subsection (29) Discussion of the award of a public contract involving the expenditure of public funds, including interviews of bidders or offerors, and discussion of the terms or scope of such contract, where discussion in an open session would adversely affect the bargaining position or negotiating of the public body.

After coming back into Open Session, Mr. James of the Board of Trustees of the City of Newport News Employees' Retirement Fund made the motion, which was duly seconded, and unanimously approved, that the members of the Retirement Board certify that to the best of each member's knowledge (1) only public business matters lawfully exempted from open meeting requirements under the Virginia Freedom of Information Act, and (2) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the closed meeting by the Retirement Board.

Mr. James made the motion that the City Attorney be authorized, at the NNERF's expense, to engage the law firm of Kaufman & Canoles for the purpose of monitoring the tax law and regulatory changes that might impact the NNERF's tax qualification, to advise NNERF if and when any changes are required, to provide an annual written assurance of continued qualification, and to provide consultations and legal advice to the NNERF as needed and requested.

Approved Upon motion duly made and seconded, the Retirement Board unanimously, with the exception of Mr. Hatchett who had excused himself from discussion due to a conflict of interest, voted to approve that the City Attorney be authorized, at the NNERF's expense, to engage the law firm of Kaufman & Canoles for the purpose of monitoring the tax law and regulatory changes that might impact the NNERF's tax qualification, to advise the NNERF if and when any changes are required, to provide an annual written assurance of continued qualification, and to provide consultations and legal advice to the NNERF as needed and requested.

e. Electronic Participation Policy:

Ms. Goodwin reminded the Board that, with prior notification to the Chairman, Board Members are permitted to teleconference in to a meeting if they are unable to physically attend and provided Board members with a copy of the Individual Participation by Electronic Means Policy.

f. Next Meeting:

May Meeting will be Thursday, May 31, 2018, at 9:00 a.m.

g. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 10:36 a.m.

A true copy, attest:



Susan Goodwin, Secretary
Board of Trustees