

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

October 25, 2018

City Council's Conference Room/Tenth Floor

9:00 a.m.

Roll Call: JoAnn Armstrong (X), Jayne Di Vincenzo (X), Pax Goodson (X),
Art Gudikunst (X), Eddie Harrah (X), Philip Hatchett (Left at 9:32 am),
Frank James (X), Gregg Kubilins (X), Zoe Lumpkin (X)

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

Others Present: Retirees (3)
Disability Applicant 005584
Disability Applicant's Caretaker

1. Call to Order:

Mr. James called the Retirement Board meeting to order at 9:05 a.m. on October 25, 2018 in the City Council's Conference Room, 10th Floor.

2. Minutes of the Meeting of September 27, 2018:

Upon motion duly made and seconded, the minutes of the September 27, 2018 were unanimously approved.

3. Committee on Investments:

a. Assets as of August 30, 2018:

Ms. Di Vincenzo provided a review of the Funds for September.

Pension	\$979,358,585
Post Retirement	<u>34,579,339</u>
Total	<u>\$1,013,937,924</u>

The Fund has earned 3.1% gross of fees for the last quarter. Although the current quarter has been a little volatile, the economy is still looking good.

b. Bond Portfolio Discussion:

Ms. Di Vincenzo mentioned that the Committee was provided a handout summarizing the bond managers, CS McKee and Richmond Capital, and their portfolio characteristics. At the September meeting, a Board member asked the questions: Should we have more than one bond manager, was there any overlap in their portfolios, and do they both have the same strategy. Bill Dahab noted that both managers do have solid but different strategies. CS McKee is more heavily invested in mortgages while Richmond is more in Government/Credit. Bill mentioned that while you would expect some overlap since both are in the fixed income field, he would

suggest maintaining both managers as they are providing diversification within the fixed income asset class.

c. Regions Update:

Ms. Di Vincenzo advised that Jim Bates of Regions has performed review of the Fund's timber and reported that the properties located in North Carolina and South Carolina did not sustain any significant damage from Hurricane Florence or Hurricane Michael.

d. Investment Policy Review:

Ms. Di Vincenzo stated that the Committee was provided with a final draft of the NNERF Investment Policy and Guidelines for review. She advised that the draft policy had already served the Committee well as they worked through the new quarterly performance monitoring process last month. The Committee unanimously agreed to recommend that the Retirement Board approve the Investment Policy and Guidelines for the Newport News Employees' Retirement Fund as presented.

Approved *Upon motion duly made, the Board unanimously agreed to approve the Investment Policy and Guidelines for the Newport News Employees' Retirement Fund as presented.*

Ms. Di Vincenzo continued to state that the Committee was also provided with a final draft of the OPEB Investment Policy and Guidelines for review. The Committee, after a brief discussion at their meeting, unanimously agreed to recommend that the Retirement Board approve the Investment Policy and Guidelines for the Newport News Employee's Other Post-Employment Benefits Fund as presented.

Approved *Upon motion duly made, the Board unanimously agreed to approve the Investment Policy and Guidelines for the Newport News Employees' Other Post-Employment Fund as presented.*

e. OPEB Asset Allocation:

Ms. Goodwin informed the Retirement Board that the Committee discussed the OPEB asset allocation pertaining to City Code Sec. 31-144 Investment of Reserves for the OPEB fund which states: "The investments in equities, excluding equities in real estate investment trusts, shall not exceed sixty-five (65) percent of the market value of the assets of the fund as reported on a calendar quarterly basis. To the extent such percentage limitation is exceeded as of the end of any quarter, the board shall have the discretion to continue the percentage invested in equities as long as the value of the fund remains less than twenty-five (25) percent of the unfunded liability, the board shall take such action as may be necessary to reduce the equity allocation to the required percentage of sixty-five (65) percent, as soon as practicable."

Ms. Goodwin noted that the Committee was reminded that Sec. 31-79 Investment of Reserves, which codifies investment requirements for the pension fund, allows for investments in equities of up to 75% of pension fund assets. Now that the OPEB fund has reached a 29.2% funded ratio, Ms. Goodwin advised the Committee that they may want to recommend an amendment to this particular part of the code to align it with the pension code section, specifically replacing the

current 65% equity limitation and 25% of the unfunded liability exception with a 75% equity limitation. The Committee, after discussion, unanimously agreed to recommend that the Retirement Board recommend that City Council amend Code Section 31-144 to state "The investments in equities, excluding equities in real estate investment trusts, shall not exceed seventy-five (75) percent of the market value of the assets of the fund as reported on a calendar quarterly basis. To the extent such percentage limitation is exceeded as of the end of any quarter, the board shall take such action as may be necessary to reduce the equity allocation to the required percentage as soon as practicable."

Approved *Upon motion duly made, the Board unanimously agreed to recommend that City Council amend Code Section 31-144 to state "The investments in equities, excluding equities in real estate investment trusts, shall not exceed seventy-five (75) percent of the market value of the assets of the fund as reported on a calendar quarterly basis. To the extent such percentage limitation is exceeded as of the end of any quarter, the board shall take such action as may be necessary to reduce the equity allocation to the required percentage as soon as practicable."*

Ms. Goodwin mentioned that it was noted to the Committee that the OPEB fund currently has over 65% of assets invested in equities and now that the fund ratio is over 25%, the equity allocation needs to be reduced to comply with Sec. 31-144. To achieve the required allocation, the Committee felt it was necessary to change the recommendation approved by the Retirement Board in the September meeting. The Board previously approved terminating both Stoneridge, Large Cap manager, and Aberdeen, Emerging Market manager, for the NNERF OPEB fund and moving \$5 million into a Wellington Trust Post fund, and the remaining amount of approximately \$11.8 million into the Vanguard Large Cap fund. After discussion, the Committee unanimously agreed to recommend that the Retirement Board approve proceeding with the aforementioned terminations and approve modifying the previous recommendation and allocating approximately \$9 million or 25% of the OPEB fund assets to a Vanguard Short Term Bond Index fund and the remaining amount of the terminated assets to cash.

Approved *Upon motion duly made, the Board unanimously agreed to approve proceeding with the termination of Stoneridge, Large Cap manager, and Aberdeen, Emerging Market manager, and approve modifying the previous recommendation and allocating approximately \$9 million or 25% of the OPEB fund assets to a Vanguard Short Term Bond Index fund and the remaining amount of the terminated assets to cash.*

4. Committee on Administration:

a. Retiree Record Review:

Mr. Hatchett reminded the Board that staff is performing a review of retiree records to identify terminated vested members who are eligible for a retirement benefit based on age, but have not yet submitted an application for benefits. The initial review of the City's files was completed in the summer and staff was awaiting records from Schools in order to perform benefit calculations and notify School members of their eligibility. Ms. Armstrong's team has provided the requested files and staff has performed benefit calculations for approximately half of the files. Staff will continue to work through the remaining files, have them audited, and notify the members of

their eligibility. Schools has also agreed to begin sending over future terminated vested files, to begin with members who will be eligible in 2019, to ensure members are notified timely.

b. Cheiron Contract:

Mr. Hatchett mentioned that the current Cheiron actuarial services contract expired in 2014 and has been renewed on an annual basis since that time. Although this contract is exempt from procurement requirements, the Committee feels that an RFP for actuarial services should be issued in the future to ensure the Fund is receiving competitive pricing and the best possible service. Staff is recommending this RFP be issued after the RFP for investment consulting services is awarded in July 2019, to ensure continuity for the Fund. The Committee agreed the RFP should occur after the investment consultant RFP and recommend targeting January 2020 for issuance of an RFP in order to have a new contract in place for FY 2021.

c. Compensation Policy:

Mr. Hatchett advised that the Fund currently has a compensation policy that identifies which earnings are included and which are excluded from the average final compensation calculation. The policy generally excludes any new pay, however staff is recommending an update to the existing policy to add one new pay type created this year – Fire Field Training Officer pay – to the inclusion list to be consistent with the treatment of Police Field Training Officer pay. Staff is also recommending simplifying the existing policy with more general language regarding certain pay types such as acting pay and allowances, as well as updating the policy to include pay types not addressed specifically in the current policy to help staff ensure consistent treatment in the future. Other than Fire Field Training Officer pay, the revised policy does not change any current practices. Ms. Goodwin noted that the intent is to make interpretation easier and more straightforward for staff. The Committee unanimously agreed to recommend that the Board approve the revised Compensation Administrative Policy.

Approved *Upon motion duly made, the Board unanimously agreed to approve the revised Compensation Administrative Policy.*

5. Benefits and Welfare Committee:

- a. The Committee did not meet; however, Mr. Harrah explained that retiree open enrollment is November 1-30. Open enrollment postcards notifying retirees of the open enrollment window and new rates were mailed during the week of October 9th. Pre-65 retirees received additional communication detailing the plan changes during the same week. Mr. Harrah mentioned that ten (10) meetings were scheduled for Pre-65 retirees. The first two were held on Tuesday, October 23, two are being held today (Thursday, October 25), and there are six (6) more scheduled over the next month: Wednesday, October 31 at 10:00 AM and 1:00 PM at the Midtown Community Center Room 104, Friday, November 16th at 10:00 AM and 1:00 PM at the Denbigh Community Center Room 149 and Monday, November 19th at 10:00 AM and 1:00 PM also at the Denbigh Community Center Room 149. Four (4) meetings are scheduled for Post-65 retirees: Wednesday, November 14th at 10:00 AM and 2:00 PM at the Denbigh Community Center Room 149 and, finally Thursday, November 15th at 10:00 AM and 2:00 PM at the

Midtown Community Center Room 104. Mr. Harrah reported that retirees have been receptive to the Pre-65 plan changes and appreciative of the decrease in rates for all Anthem and Humana plans.

6. Disability Review Committee:

a. Administrative Rules and Regulations:

Ms. Armstrong mentioned that the Committee has been reviewing the Administrative Policy. At their October meeting, the Committee discussed concerns regarding timeframes given to disability applicants and agreed on what they felt to be a reasonable timeframe in which an applicant should provide all necessary medical documentation to Finance Staff in order for the disability application process to proceed. The Committee agreed upon 60 days from application to provide all documentation (doctor's records, etc.) and 30 days from referral to complete an IME with Dr. Lee, the City's physician. The Committee hopes to finalize the policy at its next meeting.

b. Case #005584:

Ms. Armstrong stated that, with Case #005584, it was the opinion of Dr. Lee that the applicant is 24% disabled. Sec. 31-58 Occupational and Non-Occupational Partial Disability Benefits states that the Board shall increase the initial disability percentage at the rate of 2% per full year of credited service, to no more than 2 times the initial percentage. The applicant had 24 years of service. Therefore, the Committee unanimously agreed to recommend the Retirement Board approve 48% non-occupational disability based on Section 31-58 occupational and non-occupational partial disability benefits.

Approved Upon motion duly made, the Board unanimously agreed to approve 48% non-occupational disability based on Section 31-58 occupational and non-occupational partial disability benefits.

7. Old Business:

a. Securities Litigation Update - Closed Session:

Mr. James moved 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:

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. For the purposes of this subdivision, "probable litigation" means litigation that has been specifically threatened or on which the public body or its legal counsel has a reasonable basis to believe will be commenced by or against a known party. Nothing in this subdivision shall be construed to permit the closure of a meeting merely because

an attorney representing the public body is in attendance or is consulted on a matter.

Approved Upon motion duly made and seconded, the Board unanimously agreed to 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.

Mr. James made the motion in an Open Meeting, pursuant to Section 2.2-3712D of the Code of Virginia, 1950, as amended, certifying a Closed Meeting at the conclusion of same, 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.

Approved Upon motion duly made and seconded, the Board unanimously agreed to 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.

8. New Business:

a. Timber Update:

Ms. Goodwin mentioned that the timber deal discussed at last month's meeting fell through due to not all property owners being willing to sell.

b. Cheiron FY18 Pension and OPEB Valuation:

Ms. Goodwin advised that Cheiron will be in attendance at the next Committee on Administration meeting to discuss FY18 Pension and OPEB valuation. The meeting will be held on November 14, 2018 at 9:00 am in the Engineering Conference Room on the 7th Floor at City Hall. Ms. Goodwin invited all Board members to attend if they are available.

c. Next Meeting:

November Meeting will be **Thursday, November 29, 2018, at 9:00 a.m.**

d. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 10:30 a.m.

A true copy, attest:



Susan Goodwin, Secretary
Board of Trustees