

**MINUTES OF THE REGULAR VIRTUAL RETIREMENT BOARD MEETING
HELD MARCH 12, 2021**

The meeting was called to order at 8:19 A.M.

PRESENT: Matthew Bartalino, Birmingham, MI
Pierre Boutros, Birmingham, MI
Christopher Conti, Birmingham, MI
Bruce Johnson, Birmingham, MI
Therese Longe, Birmingham, MI
John VanGorder, Birmingham, MI
Jeffrey Whipple, Troy, MI

ABSENT: Thomas Markus

ALSO PRESENT: Mark Gerber, Finance Director/Treasurer; Thelma Golden, Treasury Consultant; Ruth Rowland, Retiree Health Care Fund Investment Committee; David Gasper, Matt Lasko, Megan Smith, Meredith Farber, and Maureen Mendoza, UBS; Frank Pisano, Library Board; John Hoffley

01-2021

Chris Conti announced that the City received seven responses to the RFP for Investment Consultant Services in February. The Investment Committee will be meeting and reviewing the proposals and will provide updates in the months ahead. The committee had previously agreed to bring back the top five proposals to the Board. Because there were only seven proposals, the Committee may want to bring all seven to the Board for its consideration.

02-2021

Motion by Longe:
Second by Boutros:

To approve the Consent Agenda:

To approve the Birmingham Employees Retirement System Bills/Retirement Roll of \$1,991,225.74 for the period from December 1, 2020 through February 28, 2021;
To approve Pension Administration Expenses of \$122,575.82, for the period from January 1, 2021 to March 1, 2021;
To grant final approval of the deferred retirement of Marina Neumaier from the Finance Department;
To grant final approval of the retirement of Carlos Jorge from the Building Maintenance Department;

To receive the Summary of Assets for the period ending January 31, 2021, with a total market value of \$107,071,172.

ROLL CALL VOTE:

Bartalino: Aye
Boutros: Aye
Conti: Aye
Johnson: Aye
Longe: Aye
Markus: Absent
Whipple: Aye

03-2021

Matt Lasko reviewed the Quarterly Market Review that was presented and reviewed at the Retirement Investment Committee at their meeting held March 3, 2021.

For the full year, interest rate sensitive Treasuries performed well. Those performance figures started to falter as interest rates rose. J. P. Morgan did a study that projected returns for a 60-40 portfolio of 4.2% for the next full market cycle, before taxes, inflation, and fees. This is below the actuarial assumed rate of 6.75%. Investment grade and high yield corporate bonds are spread-driven products that will pay more than no risk bonds. Strong performance since March 2020 was pulling back in the 4th quarter.

Equities had a strong year because of the stimulus and the Federal Reserve lowering interest rates. The 4th quarter was incredibly strong for equities. Value started to outperform growth stocks. Interest rate sensitive and economic sensitive stocks are starting to outperform. Stock selection, manager selection, and asset allocation of the portfolio are going to be critical for positive performance.

The \$1.9 trillion Federal stimulus was approved. Before the stimulus, consumers had approximately \$1.6 trillion in cash on the sidelines. Consumers may have a great deal of money to spend. This could be a huge boon for the economy. Job recovery is spiking. Starting in April, one million jobs may be added each month. Unemployment could be below pre pandemic levels by January.

They think the S&P will go higher. Interest rates can be a drag on the fixed income portfolio and can also be a drag on the equity side. Interest rates and liquidity go into the S&P multiple. As interest rates go up, that multiple goes down; but there is still room for growth. The market is moving from a valuations driven market to a quality, earnings driven market. Indexing will not work as well as active management. They are very pleased with the current managers.

The asset allocation of the portfolio is within state and investment policy guidelines with the exception of fixed income, which is slightly below the target. At December 31, the portfolio was at \$105,062,104.

There was strong performance for the 4th quarter at 11.7%. Asset returns for every time period were above the actuarial assumed rate of return of 6.75%. Earnings will be critical drivers. Polen and Westwood will be good for this. Fixed Income started choppy and ended strong. Bonds will be challenging

Maureen Mendoza reported that Graham came back after a rough start. At February 5, Graham was up just under 5% and up 4.96% YTD. Whitebox was up 4.8% through the end of February. Both are positioned to do well in 2021. The REITS should return over 5%.

The Investment Monitoring Grid illustrates that the vast majority of the managers were in good standing. Fiera improved over the previous quarter from a formal watch to an informal watch. They are pleased with the managers and the position of the portfolio for the market environment going forward.

Matt Lasko stated that there are three things that affect the funding level of the Retirement Fund: interest rates, mortality tables, and asset returns vs. expected returns. We have no control over interest rates and mortality tables. He referred to Joe Valentine's mention of a benchmark done by Plante and Moran that revealed that the Birmingham Retirement and Retiree Health Care plans were better funded than the State plan and other Oakland County plans. They are also better funded than many plans across the country.

Megan Smith referred to the Investment Solutions Portfolio Analysis that was projected on the screen. She reviewed the Scenario Assumptions, Scenario Returns and Risk Assumptions with built in restraints of the investment policy to see what would happen if we removed alternative investments from the portfolio. She reviewed the Efficient Frontier that illustrated that, with the current allocation, the portfolio would earn 5.3%. With the removal of the alternative investments, the portfolio would earn 4.49%. They are very confident in the structure of the plans. They will provide an analysis of what needs to be done in order to earn 6.75%.

In answer to a question from John Hoffley regarding the advantage of using Polen versus a passive approach, Matt Lasko stated that Polen has outperformed the index over time. Their downside protection is very good. They are exactly the kind of manager the fund would want to have in this market environment.

The Investment Committee has addressed indexing over the years and has considered active versus passive funds. The Board has moved to some passively managed funds over the past 3-5 years for more balance in the portfolio.

04-2021

Chris Conti stated that due to a lack of a relationship between Blackstone and Comerica, we have been unable to invest in the Blackstone Real Investment Trust (BREIT). We are left with three outcomes. 1. Blackstone and Comerica can reach an agreement that would allow Birmingham to transfer funds into the BREIT. 2. We would have to transfer funds into the BREIT through UBS, bypassing our custodian. 3. We would transfer the funds previously allocated to the BREIT into the Starwood Real Investment Trust (SREIT).

Mark Gerber will be working with Comerica after this meeting and will pass information on to the Board. In the event that Comerica and Blackstone cannot reach an agreement, we want to have authorization to transfer the allocated funds into the SREIT. We do not want to wait until the June meeting for authorization.

Motion by Conti:
Second by Boutros:

To concur in the recommendation of the Retirement Investment Committee and the investment consultants to rescind the previous authorization to enter into an agreement with Blackstone Securities Partners, L.P., if an agreement cannot be reached by March 31, 2021, and to transfer the funds previously allocated to the Blackstone Real Estate income Trust (BREIT) into the Starwood Real Estate Income trust (SREIT).

ROLL CALL VOTE:

Bartalino: Aye
Boutros: Aye
Conti: Aye
Johnson: Aye
Longe: Aye
Markus: Absent
Whipple: Aye

05-2021

Motion by Conti:
Second by Whipple:

To authorize Secretary-Treasurer, Mark Gerber, to execute new agreements with Westwood and to transfer the funds from the City's current Westwood commingled account vehicle into the Westwood separate account vehicle; to authorize Comerica Bank to open a new bank account for the new account.

ROLL CALL VOTE:

Bartalino: Aye
Boutros: Aye
Conti: Aye
Johnson: Aye
Longe: Aye
Markus: Absent
Whipple: Aye

06-2021

Mark Gerber referred to a previous discussion regarding representation on the Retirement Board when there are no longer any active police member employed by the City. He will forward the attorney's opinion to Board members and bring it back for further discussion at the next Board meeting.

Meeting adjourned at 9:22.

Respectfully submitted,

Thelma Golden
Treasury Consultant