

# FINAL

## CITY OF FARMINGTON RETIREE HEALTH CARE FUND

June 6, 2017

A regular meeting of the Farmington Retiree Health Care Fund Board of Trustees was held on Tuesday, June 6, 2017 at Farmington City Hall, 23600 Liberty Street, Farmington, Michigan. Notice of the meeting was posted in compliance with Public Act 267-1976.

The meeting was called to order at 3:00 p.m. by Chairman Galvin.

**PRESENT:** Galvin, Murphy, Weber.

**ABSENT:** None.

**OTHERS PRESENT:** Amy Cole, Vice President, MSSB Graystone; William Messner, Executive Director-Investments, MSSB Graystone, and Ian McCulloch, Senior Vice President, Wealth Management, Morgan Stanley; Sue Halberstadt, Recording Secretary.

### **MINUTES OF PREVIOUS MEETINGS**

MOTION by Murphy, seconded by Weber, to approve the regular meeting minutes of February 28, 2017 and special meeting minutes of March 17, 2017. MOTION CARRIED UNANIMOUSLY.

### **TREASURER'S REPORT**

a. **Financial Report: quarter ending March 31, 2017.**

MOTION by Galvin, seconded by Murphy, to accept the Treasurer's Report for quarter ending March 31, 2017 as presented. MOTION CARRIED UNANIMOUSLY.

### **ADMINISTRATOR'S REPORT**

a. **Summary Report – quarter ending March 31, 2017**

b. **Quarterly Report – quarter ending March 31, 2017**

c. **Fund Manager's Report: Morgan Stanley Smith Barney (MSSB), Graystone Consulting - Quarter Ending March 31, 2017**

Ian McCulloch discussed the recent departure of Michael Holycross from MSSB Graystone Consulting. He realized this is a significant change in the Retiree Health Care (RHC) board's relationship with Graystone. He assured the Board they can expect the same level of service that they have come to expect from Morgan Stanley. He stated a review of the accounts did not reveal any negative impact to the Retiree Health Care System's assets.

Responding to a question from Weber, McCulloch stated the audit of the RHC accounts included looking for any additions or withdrawals from the accounts which is typically where abnormalities would be found. They looked at contribution withdrawals, fee schedules and billing. He re-confirmed that in their comprehensive review of the accounts, they found nothing out of the ordinary. He stated they did

not think they would find any abnormalities, but out of an abundance of caution they conducted a thorough audit.

Responding to an additional question from Weber, he stated Morgan Stanley is comfortable with the investments selections in place for RHC fund.

Amy Cole advised she had been working with Mike Holycross on Farmington's accounts since October 2016. She stated the departure of Holycross had nothing to do with management of the RHC's account.

William Messner confirmed the decision to release Mike Holycross was made by the Morgan Stanley.

Weber requested a letter from Morgan Stanley stating they have reviewed the city's accounts and are comfortable with the transactions and asset selections.

At the request of Galvin, Weber discussed the evolution of the Retiree Health Care System and the issuance of bonds that created combined assets of ten and a half million. He stated the plan is for the trust to dwindle down to zero over time at which point the General Fund will start to pay again.

Messner discussed his history with Morgan Stanley and Graystone, noting he has been in the business for 29 years. He stated Graystone is dedicated to the institutional marketplace.

Messner stated in the next several days Graystone will provide a complete breakdown of fees the System is paying, including those to the investment managers and to Graystone.

Messner provided a report on investments through quarter ending March 31, 2017. Discussion ensued regarding markets, investment climate and factors to consider going forward.

Discussion followed regarding how fund managers are chosen. Messner stated Graystone likes to establish long term relationships with fund managers, noting the drag changing managers can have on a portfolio.

Cole spoke about the quantitative and qualitative time Graystone spends on each fund manager. She stated they are very proactive in rebalancing the RHC portfolio.

MOTION by Weber, seconded by Murphy, to receive and file the MSSB Graystone Consulting report for quarter ending March 31, 2017 as presented. MOTION CARRIED UNANIMOUSLY.

## **OTHER BUSINESS**

### **a. Redistribution of Investments**

For the investment rebalance, Messner recommended the board consider adding \$25K to Edgewood, \$40K to Navellier Emerging Markets and taking that combined amount of \$65K from Vanguard Fixed Income. For the bond rebalance, he suggested taking \$80K from Delaware and adding that amount to Navellier; and taking \$82,500 each from JP Morgan and Loomis Sayles and turning the combined amount of \$165,000 into cash. He stated this rebalance would meet the System's target allocation.

MOTION by Murphy, seconded by Weber, to approve the recommended rebalance of the portfolio as presented. MOTION CARRIED UNANIMOUSLY.

Cole reviewed the results of the Monte Carlo scenario run for the Health Care System. Messner stated the results show the System has a high probability of making an 8% return over the next twenty years. He stated in his business high probability is defined as 50.1%. He stated the System is at a 71% probability which is tremendous.

Cole went on to discuss the different stress tests applied to the RHC fund. She stated they have positioned the RHC portfolio to make it less interest rate sensitive.

Galvin pointed out investments are only 50% of the equation, cost containment being the other half.

### **MISCELLANEOUS**

#### **Public Comment**

No public comment was heard.

#### **Trustee Comment**

No trustee comment was heard.

### **ADJOURNMENT**

MOTION by Murphy, seconded by Weber, to adjourn the meeting. MOTION CARRIED UNANIMOUSLY.

Meeting adjourned at 4:12 p.m.

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Christopher M. Weber, Secretary

APPROVED: August 22, 2017