HOLYOKE RETIREMENT BOARD
SEPTEMBER 27, 2018
MINUTES

The regular Meeting of the Holyoke Retirement Board was called to order by Chairman John McCarthy at 2:00 P.M. Present were Michele Aubrey, and Bellamy Schmidt. Also present was CIO Raymond Depelteau, Executive Director, Cheryl Dugre, and Assistant Executive Director Melissa Melendez. Rory Casey and Anthony Dulude were absent.

I. Minutes of Board meeting held on August 22, 2018.

On separate motions made by Mr. Schmidt, seconded by Ms. Aubrey, it was voted unanimously (3-0) to accept Item I “Minutes,” Item II “Bank Reconciliation,” Item III “Statement of Financial Activities,” Item IV “Retirement Applications,” and Item V “Expenses.” Voting “yes” were Ms. Aubrey, Mr. McCarthy, and Mr. Schmidt.

II. Bank Reconciliation:
Peoples Checking account - as of August 31, 2018
Peoples Payroll account - as of August 31, 2018

III. Statement of Financial Activities:
The Board reviewed statements for August 2018.

IV. Retirement Applications:
Jesuan Quinonez Fire Department ADR 09/10/2018
Kathleen Blanchard Council on Aging Superannuation 10/20/2018

V. Expenses:
A. Bills.......................................................... $3,354.23
   Office Payroll........................................ 25,776.37
   Refunds and Transfers .......................... 124,672.61

B. Pension Payroll ................................. $1,847,355.45
   Annuity Payroll.................................... 364,071.93
   Total Payroll..................................... $2,211,427.38

VI. Issues-Request-Policy:
A. PERAC Memos and Correspondence:
   Memo #25/2018 Allowable Earnings Determination, pursuant to G.L.c.32§91A
   Memo #26/2018 Regular Compensation Status of Payments Made in Lieu of Unused Leave Time
   Memo #27/2018 Direct Deposit Scam
   Memo #28/2018 Mandatory Retirement Board Member Training - 4th Quarter 2018

B. Pension Appropriations FY2019:

<table>
<thead>
<tr>
<th></th>
<th>Total Due</th>
<th>Total Paid</th>
<th>Balance Due</th>
</tr>
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<tbody>
<tr>
<td>City</td>
<td>$11,894,294.00</td>
<td>$3,964,764.68</td>
<td>$7,929,529.32</td>
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<tr>
<td>Gas &amp; Electric</td>
<td>3,933,325.00</td>
<td>983,331.24</td>
<td>2,949,993.76</td>
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<tr>
<td>Water</td>
<td>531,980.00</td>
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<td>531,980.00</td>
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</table>
C. **Disabilities:**
Mr. McCarthy asked the Board to go into Executive Session under Purpose 7 of the Open Meeting Law: "To comply with, or act under the authority of, any general ... law ...", that law being Exemption (c) of the Public Records Law (G.L. c. 4, s. 7(26)(c)) exempting personnel and medical files or information and other materials or data relating to a specifically named individual, the disclosure of which may constitute an unwarranted invasion of personal privacy. A roll call vote was taken to go into Executive Session. Voting "yes" were Ms. Aubrey, Mr. McCarthy, and Mr. Schmidt.

<table>
<thead>
<tr>
<th>Housing</th>
<th>900,302.00</th>
<th>225,075.47</th>
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<tr>
<td>Waste Water</td>
<td>28,211.00</td>
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<td>28,211.00</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$17,288,112.00</strong></td>
<td><strong>$5,173,171.39</strong></td>
<td><strong>$12,114,940.61</strong></td>
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</table>

**EXECUTIVE SESSION ..................... 2:12 P.M.**
**EXECUTIVE SESSION adjourned ...... 2:17 P.M.**

No votes taken.

D. **Pension Obligation Bonds:**
Mr. Schmidt informed the Board that the subject of issuing pension obligation bonds has resurfaced. He said that though the Mayor is in favor of issuing the bonds, Bond Council has advised that it is a long process. Mr. Schmidt will continue to meet with Bond Council to ascertain if this is something that would be feasible for the City.

E. **Legal RFP:**
The Board reviewed an RFP for legal services to be submitted for the PERAC website. The Board is issuing the RFP to be in compliance with Chapter 176 of the Acts of 2011, which prohibits contracts extending beyond 7 years. Board Attorney, Thomas Gibson’s contract will expire in February 2019. Responses to the RFP will be due by October 26th.

F. **Hal Haberman Credit Service Adjustment:**
Mr. Haberman was a former City Councillor who moved from the City and was refunded his retirement deductions in 1988. Mr. Haberman subsequently became a member of the Hampden County Retirement System and is considering buying back his Holyoke creditable service. At the time of his refund, Mr. Haberman was granted 9 years of creditable service under the provision in G.L. c. 32, § 4(1)(a). However, that provision has been eliminated by Chapter 21 of the Acts of 2009.

On a motion made by Mr. Schmidt, seconded by Ms. Aubrey, the Board voted unanimously (3-0) to recalculate the creditable service liability accepted for Mr. Hal Haberman from 9 years to 8 years. Voting “yes” were Ms. Aubrey, Mr. McCarthy and Mr. Schmidt.

G. **Investments:**
1. **August Performance:**
The Board reviewed the cashflow and performance worksheets through August.

Year to date the Fund is 94 basis points ahead of the PRIT fund.

2. **Small Cap Search:**
The Board revisited the results of the small cap search last month. Mr. Depelteau suggested that as a hybrid of active and passive management, Wisdom Tree may be a good addition to
the portfolio, perhaps taking the place of the SSgA Russell 2000 Index fund. He said the Board was originally close to hiring all 3 finalists last month. The Board also discussed the difficulty in obtaining a side letter from incumbent, Fidelity. Mr. Depelteau suggested that the Board may want to hire Wisdom Tree, but not fund them at this time.

On a motion made by Mr. Schmidt, seconded by Ms. Aubrey, the Board voted unanimously (3-0) to hire but not yet fund Wisdom Tree for a small cap equity assignment. Voting “yes” were Ms. Aubrey, Mr. McCarthy and Mr. Schmidt.

3. PERAC/Schwab:
The Board is in receipt a letter from PERAC questioning/challenging the Board’s recent vote to re-hire Charles Schwab (CSIM) (Laudus Fund). PERAC expressed concern that the Board, in making the selection of Schwab, had not met the intent of Chapter 30B. PERAC suggested that Schwab was not rated Highly Advantageous based on the information submitted to them as part of the approval process. Mr. Depelteau reminded the Board of the lengthy discussion that took place regarding Schwab’s Laudus Fund performance and why, in fact, they did rate as highly advantageous.

Holyoke has employed CSIM for more than 10 years and over that period of time the performance of the Laudus Fund has been excellent. There was a period of time, however, where the Laudus Fund lagged its benchmark and peers when portfolio manager, Lawrence Kemp, left UBS (the sub-advisor for the Laudus Fund) to join Blackrock. Mr. Kemp was a highly successful portfolio manager for UBS, and by extension, Charles Schwab and Holyoke enjoyed great performance under his leadership. When Mr. Kemp left UBS (November 2012), UBS announced that the remaining investment team would be responsible for continuing the management of the fund. At that time, the Board decided to stay with Schwab to see if the remaining UBS group could continue to produce the exceptional performance produced under Mr. Kemp’s leadership. Performance for the Laudus Fund in the next few quarters lagged. CSIM, on October 4, 2013, decided to terminate UBS as the fund manager and replace them with Blackrock as the sub-advisor thereby bringing back Mr. Kemp as the portfolio manager for the Laudus Fund.

PERAC’s observations that Schwab’s performance did not qualify as highly advantageous did not take into account the circumstances of the portfolio manager changes. Additionally, one other supporting document not submitted to PERAC that the Board used in its determination was the Segal Report which place Schwab’s Laudus Fund in the top percentiles over the last 1, 3, 5, and 10-year periods for all large cap growth managers in their universe. The actual rankings were 9th, 21st, 27th and 13th over the previously stated periods, respectively. Importantly, these rankings also included the periods of Mr. Kemp’s absence. Finally, Mr. Kemp had just recently been featured in Barons Magazine as one of the top growth managers in the country. Taken together all these things supported the Board’s highly advantageous rating.

On a motion made by Mr. Schmidt, seconded by Ms. Aubrey, the Board voted unanimously (3-0) to provide PERAC with the above stated information through their Legal Counsel, Tom Gibson. Voting “yes” were Ms. Aubrey, Mr. McCarthy and Mr. Schmidt.

4. RFP Schedule for 2019:
The Board reviewed a suggested schedule for RFPs in 2019. The Board will advertise for a Value-Add Real Estate mandate in February and a Consultant/overlay strategy in April.
H. **Actuarial Valuation for January 1, 2018:**

Kathy Riley and Andrew Luongo of Segal, Inc. presented the valuation to the Board. Overall the news was positive. The UAL was reduced by $13 million more than expected. Unrecognized investment gain of $16 million will be smoothed out over the next few years to mitigate any future investment losses. Gains in both more deaths than expected and less salary increases as well as the gains in investments contributed to the decrease in UAL. Ms. Riley and Mr. Luongo suggested the following assumption changes for the Board’s consideration:

- Decreasing the investment rate assumption from 7.625% to 7.5%
- Updating the mortality tables to RP-2014 & Scale MP-2017
- Update the disability rates for the Gas & Electric
- Lower the long term salary increase assumptions by 0.25% across all groups
- Increase the administrative expense

On a motion made by Mr. Schmidt, seconded by Ms. Aubrey, the Board voted unanimously (3-0) to accept the assumption changes submitted by Ms. Riley. Voting “yes” were Ms. Aubrey, Mr. McCarthy and Mr. Schmidt.

The funded ratio increased from 62.54% to 71.58% based on the market value of assets and to 67.71% based on the actuarial value of assets. Three funding schedules were presented to the Board; one with no change in assumptions and 2 which reflected the changes. Mr. Schmidt expressed concern with any increase in the annual appropriation paid by the City. He requested that Ms. Riley produce another schedule which would keep the appropriation level for the next few years, perhaps by extending the schedule out from 2032 to 2034. Ms. Riley will review with PERAC’s actuary and get back to us. The Board will not make a decision on the funding schedule until receipt of said new schedules.

Ms. Riley also said that Segal, Inc. would now produce the GASB report.

I. **October Meeting:**

The next regularly scheduled meeting of the Holyoke Retirement Board will be held on Tuesday, October 16, 2018 at 9:00 A.M.

There being no further business, a motion to adjourn was made by Mr. Schmidt, seconded by Ms. Aubrey, passing unanimously (3-0) on a roll call vote. Voting “yes” were Ms. Aubrey, Mr. McCarthy, and Mr. Schmidt.

MEETING ................................adjourned 4:05 P.M.

---List of Documents Reviewed at 9/27/18 Meeting:
Draft minutes of 8/22/18 meeting
Statement of Financial Activities as of August 2018
Cash Requirement Forecast
Appropriation FY2019 Worksheet
PERAC Memos #25-28/2018
Legal RFP and notice
Actuarial Valuation Report

---Regarding Investments:
- August Worksheets and Cashflow
- PERAC letter regarding Schwab/Laudus
- 2019 RFP schedule
Regarding Disabilities:
- PERAC remand letter regarding Mr. Tobin

Respectfully submitted,

Cheryl A. Dugre
Executive Director

ATTESTED TO:

John T. McCarthy (Chairman)
Elected Member

Michele Aubrey
Appointed Fifth Member

Rory Casey
Appointed Member

Anthony Dulude
Elected Member

Bellamy H. Schmidt
Ex-Officio Member