

October 24, 2013  
10:00 A.M.  
Newport, Oregon

The Retirement Board of the City of Newport met on the above date in the Conference Room A of the Newport City Hall.

Staff present was Linda Brown, Rebecca Cohen, and JJ Scofield.

Others in attendance were Mike Schulz, Tim Johnson, Rick Wright, Rick Trout, Chris Magana, and Beverly Reichard.

### **CALL TO ORDER**

The meeting was called to order at 10:00 A.M.

### **APPROVAL OF MINUTES**

Prior meeting minutes was the first topic of discussion. A suggestion was made that there may be a need to make a minor grammar change to include the phrase 'equity allocation' to better understand the statement. A motion was made to approve the minutes of the last quarter meeting. The motion carried unanimously in a voice vote.

### **MARKET REPORT**

The first topic after the approval of the prior meeting minutes was the report presented by Rick and Chris. Rick announced that this would be his last meeting with the City as he would be retiring at the end of the year. Therefore, all responsibility for the next meetings will be given to Chris. He also mentioned that Beverly will still be available and coming to the meetings in the future. Rick made comments about Chris, his background, and his work with their company.

Chris then took over to present the market report for the quarter. The report being presented was the Investment and Wealth Management Third Quarter 2013 Investment Performance. Chris remarked that the market report was good for this quarter. Chris first explained about the layout of the report and where things will be found throughout the presentation. Chris first pointed out the Total Fund balance and the latest percentages.

Chris then pointed out some of the more important risks that his industry is looking for, which included capital losses and loss of purchasing power. He then mentioned that the beginning of this portfolio started right before the recession that occurred in 2008. Therefore, a lot of the results shown have been tied to that recession. He then pointed out that even so, the portfolio the City is on now has still made out above the inflation

mark, which is one reason why this report looks very good. He indicated some of the changes that have been made within this portfolio, which include adding more equity, adding another 5% in the future, and this will be done by closing one investment and opening another.

Chris then mentioned another issue that has been going on with many organizations across the country which is lower earnings. However, while earnings have been higher, stock prices seem to be increasing. He mentioned that this was an area of concern for them because of the risk of overvaluing. Due to this, they started looking at other options that may not have this current effect. One of the options is looking into international security markets.

He then turned his attention to bond funds and how they have been declining. Due to current events such as the government shutdown, they do not have much reason to believe this will bounce back relatively soon. Even with this outlook, Chris stated that he does not suggest selling bonds because of this decline. He talked about how they will likely take time to turn around, but they should. This is why they added more bonds to the portfolio during the last quarter. They were inexpensive and they should see a return in about two years or so.

A question was aimed at Chris about the energy position and how he feels about that. Overall, he feels as though it might be underpriced at the current time. However, he stated that in the next few years, it should be revalued and that is when it will likely see returns. However, another question was directed due to the fact that the price balance does not seem to match at the current time. He explained that there are many different aspects to the energy market, which can cause concern. He then brought attention back to international markets because of the fact that they can help balance out the energy market. This is why they will invest less in energy and more into the international markets. Another person asked about the merit of the energy market and why it does not meet the proper standards anymore. He explained that the price of oil does not necessarily match the present economic condition. Therefore, he does not see extreme benefit in it.

Chris continues to go through the report, talking briefly about the fund balance over time on page 2. Next, on page 3, Chris talked about the pie charts for the last four quarters of what the fund is made of. He explained that this shows how they've been adding to the equity fund over time. Chris then goes on to page 4 and 5, which is the consolidated statement. He specifically talks about the equity funds on page 4. He discussed each of the points under this fund. After speaking about them for a short time, he asked if there were any questions about these pages regarding any of the funds. After no questions were posed, he moved on to page 6, which shows the returns on the funds. When looking at this chart, someone asks the question of what is making the fund over benchmark. Chris explains that the international and large value have made the most

impact. With that, Chris moves onto pages 7 and 8 which shows the cash flows that are related to the fund. Someone asked about the cash inflow and whether or not that was the initial deposits plus any contributions by the City, and outflows are distributions, which was confirmed by Chris and Rick. On page 9, Chris explains the risks associated with the fund as seen in the chart. He was explaining that the fund is in a comfortable position and will continue to see better results with time.

Moving to tab 3, Chris talks about the pie chart further and the breakdown of the type of investments in the portfolio. There was some discussion about the format of the report, and the possibility of seeing some things together that were broke apart. It was agreed that in the future they would do this. He explained the reasons behind the type of investments and why they are able to keep these going forward. The group discussed the negative amounts and why that was occurring. One area that got attention was the market, and while it was doing poorly the fund balance still did better. This is also because the total fund is not completely tied to stocks.

For a moment, Chris talked about his past experiences with investing and advice that he's given over time. He mentioned that there are moments within an investment period where there are highs and lows, and that clients have to weather these moments.

Moving on to tab 4, he talks about the overview of the benchmark account. This is a different account than the total fund that they had been discussing before. Rick mentions that this part of the portfolio is closely tied to interest rates. Beverly brings up the issue of someone at the Library that has a retirement but also has access to healthcare and whether or not this will affect future retirements. Linda brings up the fact that everyone has access to health insurance, and especially with changes such as Obamacare, things may be different in the future. They then turn this question to Chris and whether or not he has seen issues on this front. Chris mentioned that the plans do not officially start until the beginning of 2014, and also that he has not seen any significant impact yet as far as this is concerned. Beverly again asks Linda whether or not retirees have the option to stay on the health insurance from the City or if they have the option to take other insurance. Linda assures that they do not have to accept this insurance, but that they do have this option until age 65. She also mentioned that with rising health care costs, some employees that are soon to retire have opted to stay employed longer instead of retire and have to pay higher health care premiums. Rick and Chris assured that this is happening in many different organizations, not just the City Of Newport. Someone asked about whether or not the City is prepared to fund the many employees that are going to be able to retire in the next few years. He explained that he wanted to ensure that the City could cover its employees if around half of the current staff were to retire within the next 10 years. The group agreed that they would look into the possibility of employees expecting their retirement at some time in the near future to make sure that was available. This will make sure their 5 year fund is capable

of producing all that the City needs. Rick and Chris assured that currently, the City has a good deal of liquid assets in this fund if they were to need to make a retirement payment. Specifically, Rick mentioned that this money is not at the mercy of the stock market. There was mention made that perhaps the City could designate more money into this fund instead of the fund that is tied to the stock market to ensure they have funds available that they need not worry about. The group mentioned that they recently had an employee retire, which is reflected in the cash flows seen earlier. This was more confirmation that the fund is capable of paying out retirement without worry.

Next, Chris moved onto tab 2 which is the contribution fund. He gave a quick overview of this report. Beverly mentioned that these figures were down slightly. Chris then argued that mutual funds usually trail. He again mentioned performing better than those performing poorly, which is the goal at times with certain investments.

Chris then mentioned that this concludes the summary of all the information in the report. Rick mentioned that on the 12/31 report, the City will be able to see the change from energy to international investments. Chris then pointed out which shares they would be selling. Someone posed the question about the change from West Coast Bank to Columbia Bank has made any difference in the funds. Rick assured that there have been no changes in the change of banks. He mentioned that their funds will merge in the near future, but this will have no impact. While he mentioned that there were a few more things that are needed as far as reorganization, but the majority of the merge is complete. Within their trust, Rick mentioned that he is retiring and the other person involved will be replaced. Rick made some comments on his past with the trust as well as working with the City.

After this, it was asked if anyone had any further questions. Chris then mentioned the liquidity position for an employee that will be retiring in January. Linda commented that this employee chose to take their retirement as an annuity. The question was then posed as to what happens to those funds since they will not be directly released at once. Linda claimed that it stayed in the fund and it is just dispersed as it is due. Beverly then poses a last question about the defined benefit trust, and what the withdrawals listed are composed of. Rick and Chris confirmed her question. It was agreed that everyone was comfortable with the report and where the City is in terms of its retirement fund. It was also mentioned that the City would have the actuarial in about two weeks from this meeting.

### **MEETING AJOURNED**

With no further business, the meeting was adjourned at approximately 11:00 AM.