



**"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21<sup>ST</sup> CENTURY"**

## **EMPLOYEES' RETIREMENT SYSTEM OF THE Sewerage & Water Board OF NEW ORLEANS**

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April 11, 2018

The Pension Committee met on Wednesday, April 11, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 8:30 A.M.

### **Present:**

Director Joseph Peychaud, Chairman  
Mr. Christopher Bergeron  
Director Eileen Gleason  
Director Ralph Johnson  
Ms. Chante' Powell  
Mr. Marvin Russell  
Director Lynes Sloss  
Mr. John Wilson

Also in attendance: Mr. Jesse Evans of the New Orleans Municipal Employees' Retirement System ("NOMERS"), Mr. Cody Chapman, Ms. Karen Harris, and Mr. Weston Lewis of Callan LLC, Mr. Octave Francis III and Mr. Stephen Daste of FFC Investment Advisors of Raymond James; Mr. Mike Conefry of Conefry & Company; Ms. Janice Leaumont of Capital One; and the following Sewerage & Water Board staff - Mr. James Thompson, Office of Special Counsel; and Dr. Tim Viezer, Chief Investment Officer.

### **ACTION ITEMS:**

1. Resolution Assigning Contract to FFC Investment Advisors of Raymond James (R-048-2018)

Mr. John Wilson moved to recommend that the Board of Trustees affirm resolution R-048-2018 and the motion was seconded. The motion carried.

The Resolution listed above will be moved to the Board of Trustees for approval.

### **PRESENTATION ITEMS:**

Director Joseph Peychaud began the meeting by asking Dr. Tim Viezer to read the Employees' Retirement System mission statement into the record: "to prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner."

Director Peychaud also noted that Mr. Lewis Sterling III had completed the new trustee training as required by R-140-2017 and was eligible to vote. One more member of the Committee was being scheduled for new trustee orientation.

Dr. Viezer began his presentation by introducing an action item to assign the investment consultant agreement on a month-to-month basis. FFC Capital Management ("FFC") has been the investment consultant to the

Pension Committee for almost a decade. The Pension Committee felt it was prudent to rebid the contract and place FFC on a month-to-month contract until a competitive search was completed. However, Mr. Octave Francis announced on March 26, 2018 that his firm had joined Raymond James & Associates, Inc. and was now doing business as FFC Investment Advisors of Raymond James. As a result, the contract needed to be assigned on a month-to-month basis to the new entity name.

Dr. Viezer's second informational item was a draft policy for discussion by the Pension Committee. There were several reasons for creating a professional services procurement policy for the Employees' Retirement System ("ERS"). Dr. Viezer noted that while the search for the asset-liability study consultant followed the Sewerage & Water Board's ("S&WB") Professional Services Procurement Policy, the Pension Committee had followed a different process for hiring consultants in the past. Moreover, the Pension Committee had followed industry practice in hiring investment managers, (i.e., using recommendations from an investment consultant to bring candidates before the Pension Committee for selection), this process was different in that the S&WB's Policy and the ERS process was not written. At the November Board of Trustees' meeting, Mr. Chris Bergeron had asked counsel whether ERS was required to follow S&WB's Policy. Mr. James Thompson followed up and noted that S&WB and ERS were separate legal entities with different responsibilities. Therefore, it seemed appropriate that ERS have a separate procurement policy.

Dr. Viezer noted that he had met with Mr. Thompson and Mr. Willie Mingo – Director of Procurement – to start a review of the proposed policy. Director Eileen Gleason asked how the two policies compared. Dr. Viezer replied that the draft proposal contained elements that were: (1) the same as S&WB's existing policy, (2) codification of his understanding of ERS's past practice, and (3) new elements that attempted to clarify or streamline. Mr. Bergeron raised a concern about the number of members in the Proposal Selection Committee being reduced to three. Director Lynes Sloss asked Mr. Bergeron whether he had a preferred number of members. Mr. John Wilson recounted that Pension Committee members served on the Proposal Selection Committee in the past. Director Peychaud and Ms. Marcie Edwards had follow-up requested noted below.

The Callan team of Cody Chapman, Karen Harris, and Weston Lewis began by thanking the Pension Committee for the opportunity to work with them on the asset-liability study. Mr. Chapman noted that public defined benefit pensions are a big segment of Callan's business and that defined benefit pensions are something Callan feels strongly about and a defined benefit pension is a strong recruitment and retention tool that provides an effective, safe, and secure retirement. Mr. Chapman introduced asset-liability studies as an important tool that should be conducted every three to five years. An asset-liability study considers the interaction of three of the Board of Trustees' policies: (1) pension benefit policy, (2) funding policy, and (3) investment policy. Dr. Viezer interjected that ERS had a funding practice and needed an explicit, written funding policy.

Ms. Harris noted that the asset-liability study will help determine which funding and investment policies complement each other. She explained how pension benefits plus expenses must be paid by investment returns and contributions. She also noted that more risk must be undertaken to achieve higher expected investment returns but that higher risk may result in lower actual investment returns. The investment policy of the pension is primarily focused on determining the broad asset allocation. Ms. Harris explained the "deterministic" modeling of investments and pension obligations ("liabilities"). In modeling the pension plan liabilities, Callan will work with our actuary to understand how to handle DROP. Director Sloss asked whether ERS would receive Callan's model to investigate "what if" scenarios. The answer was "no," but Dr. Viezer added that Phase II of the study would allow addition scenarios to be considered. Mr. Bergeron asked if employee turnover would be considered in the model and was told it was based on the actuary's analysis. Ms. Harris suggested that ERS should conduct an independent "experience study" every three to five years to examine S&WB's actual demographic experience versus the actuary's assumptions.

Ms. Harris continued by discussing the liquidity needs of the pension would be examined and that the cash flows of a pension might be forecasted over one hundred years because of the demographics of the workforce over time. She noted that about two-thirds of the liabilities were to inactives. Ms. Harris discussed the "stochastic" forecasts and simulations that are used to calculate probabilities. Turning to ERS's 7% discount rate, Ms. Harris noted it was a "healthy place to start" as it was at the low end of the range of public pension discount rates. Director Gleason and Director Sloss asked clarifying questions. Ms. Harris said there is a balancing act: lowering the discount rate might make achieving that return more likely, but it would increase liabilities, lower the funded ratio, and increase contributions.

The Pension Committee asked several questions about the simulations/scenario analyses. Director Johnson indicated he wanted worst case scenarios included. Director Peychaud inquired about a worst case scenario concerning maximum number of retirements. Ms. Chante Powell inquired whether Callan could consider the impact of a local natural disaster upon the fund. Callan did not include natural disasters but Dr. Viezer noted that a scenario stopped employer and employee contributions would be modeled by the actuary.

Ms. Harris then discussed capital market projections of risk, return, and correlations that would be used in the asset-liability study. Using Callan's capital market projections and ERS's current asset allocation, the expected ten-year expected return for the fund would be only 5.64% compared to the actuarially required rate of return (discount rate) of 7.00%. Reducing the allocation to fixed income by almost half to 20% would only raise the expected return to 6.30%. Conversely, ERS could keep a conservative portfolio but would have to increase contributions.

Ms. Harris mentioned that many public pensions have attempted to meet their required returns by seeking an "illiquidity risk premium." She reviewed asset allocations at other similarly sized pensions and noted that relative to peers, ERS had a low allocation to Non-U.S. equity and a high allocation to fixed income. Director Johnson and Director Gleason inquired about the make-up of peer pensions. Ms. Marcie Edwards asked if there was information about how peer funds handled environmental, social, and governance ("ESG") issues. Mr. Weston Lewis said Callan had recently investigated the issue of gun stocks. He noted that every public pension was different and had different risk tolerances. Ms. Harris noted that Callan was targeting to return in July to present Phase I of the asset-liability study. Director Peychaud stated that he wanted the asset-liability study to be a collaborative process.

#### **INFORMATION ITEMS:**

Information item(s) 5 through 7 were received.

#### **ANY OTHER MATTERS:**

The following questions and requests were raised for follow-up:

1. Director Peychaud requested that Dr. Viezer follow-up with Mr. Bergeron on the composition of the Proposal Selection Committee in the draft procurement policy.
2. Ms. Edwards asked whether there would be a conflict of interest if Pension Committee members served on its Proposal Selection Committee.
3. Director Johnson would like worst case scenarios included in Callan's asset-liability study.
4. Director Peychaud wants the asset-liability study to consider the impact of all eligible employees retiring.
5. Ms. Powell's question about the impact of a natural disaster upon the pension will be addressed by a special analysis by our actuary.
6. Director Johnson asked for profiles of public pensions similar to ERS.
7. Ms. Edwards asked for information on public pension handling of ESG.
8. Dr. Viezer will ask our actuary to model the pension impact of lowering the discount rate.
9. S&WB management will develop a workforce forecast for Callan to use in the asset-liability study.
10. Mr. Conefry will analyze the impact of lowering the discount rate to 6.00%.
11. Director Peychaud asked Dr. Viezer to distribute the reciprocity agreement between ERS and NOMERS.

**ADJOURNMENT:**

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 10:00 A.M.

Respectfully submitted,

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Joseph Peychaud, Pension Committee Chair