METROPOLITAN LIBRARY COMMISSION
OF OKLAHOMA COUNTY

LIBRARY RETIREMENT PENSION BOARD
AGENDA

Members:
- Nancy Anthony, Chair
- Judy Smith, Vice-Chair
- Allen Coffey, Disbursing Agent
- Tim Rogers, Executive Director
- Anne Fischer, Deputy Executive Director/Technology
- Lloyd Lovely, Deputy Executive Director/Finance & Support

Tuesday, May 3, 2016
3:30 p.m.

Downtown Library
300 Park Avenue
Oklahoma City, OK 73102

I. Call to Order and Establishment of Quorum – Nancy Anthony, Chair

II. Approval of Minutes of September 30, 2015 meeting

III. Discussion, Consideration and Possible Action: Liability Driven Investing Recommendation – InvesTrust Consulting

IV. Discussion, Consideration and Possible Action: Review recommendation for changes to the Investment Policy – InvesTrust Consulting

METROPOLITAN LIBRARY COMMISSION OF OKLAHOMA COUNTY

LIBRARY RETIREMENT PENSION BOARD

MINUTES

DATE: Thursday, September 30, 2015 TIME: 3:30 PM
MEETING PLACE: Downtown Library
300 Park Avenue
Oklahoma City, OK 73102
(405) 231-8650

Written public notice of the time, date, and place of this meeting was given to the County Clerk of Oklahoma County, September 23, 2015. Notice of the time, date, place, and agenda for this meeting was posted by the Secretary of the Commission in prominent public view at the Downtown Library, 300 Park Avenue, Oklahoma City, on September 28, 2015, in conformity with the Oklahoma Open Meeting Act § 311.

COMMITTEE MEMBERS PRESENT:

Nancy Anthony, Chair
Allen Coffey
Anne Fischer
Lloyd Lovely
Tim Rogers
Judy Smith

COMMITTEE MEMBERS EXCUSED:

COMMISSION MEMBERS PRESENT:

ESTIMATE OF OTHERS PRESENT: 8

I. The meeting was called to order at 3:30 p.m. by Ms. Nancy Anthony, Chair.

Roll was called to establish a quorum. Present: Coffey, Fischer, Lovely, Rogers, Smith, Anthony.

II. Ms. Anthony referred to Agenda Item II ~ Approval of Minutes of April 2, 2015.

> **Mr. Tim Rogers moved to approve the minutes of the April 2, 2015 meeting. Mr. Allen Coffey seconded. No further discussion; motion passed unanimously.**

III. Ms. Anthony referred to Agenda Item III ~ Discussion, Consideration and Possible Action: Defined Contribution Plan Report – Mark Thompson, Mass Mutual Financial Group

Mr. Mark Thompson provided a report on the Defined Contribution Plan. He also reported the changes he proposed at the last meeting have been implemented. Mr. Thompson has reduced his advisory fees and Mass Mutual eliminated its asset fee entirely. The changes are applicable to all plan participants. Additionally Mass Mutual raised the current interest rate credited to the guaranteed account from 3% to 3.2%. Questions and discussion followed.

IV. Ms. Anthony referred to Agenda Item IV ~ Discussion, Consideration and Possible Action: Review Recommendations for Large Cap Value Manager – InvesTrust Consulting

Mr. Peter Junkin reported on the search for a Large Cap Value Manager. The research was conducted using two different databases: PSN Enterprise and Morningstar. Handouts were provided which summarized the search. After all considerations, there were two products that stood out: Great Lakes Advisors Large Cap Value and PNC Capital Advisors Large Cap Value Advantage. Phone interviews with each manager were conducted. Mr. Junkin highlighted a brief summary of each manager and product. Questions and Discussion followed.

InvesTrust recommends to hire Great Lakes Advisors to manage the large cap value portion of the Plan's assets. The recommendation is based on: a more consistent performance pattern, strength and nature of the portfolio team and broader experience with pension clients. Discussion continued.

Ms. Anthony called for a motion.

> **Mr. Coffey moved to accept the recommendation from InvesTrust to hire Great Lakes Advisors as the Large Cap Value Manager. Ms. Judy Smith seconded. No further discussion; motion passed unanimously.**

V. Ms. Anthony referred to Agenda Item V ~ Discussion, Consideration and Possible Action: Review Recommendations for Changes to the Investment Policy – InvesTrust Consulting

Mr. Junkin stated in reviewing the investments for the portfolio, InvesTrust noticed some investments deviated slightly from the investment policy. BOK currently has an allocation to mid-cap equity mutual funds. The investment policy asset allocation provides for an allocation to small and large cap equities. There is no concern with mid-cap equities as an asset class. Therefore, InvesTrust recommends the investment policy asset allocation be revised to expand the Domestic Small Cap Equities allocation to include Mid-Cap equities. Discussion followed.

In addition, the investment policy was last updated in 2001. Since then, the fixed income environment has undergone some dramatic changes. As a result, there are fewer available AAA rated investments. InvesTrust recommends the average rating requirement of the portfolio be changed from AA to A. Also the minimum rating be set to match the definition of investment grade which is BBB- or better. Discussion followed.

Lastly, the investment policy asset allocation provides a broad target allocation to fixed income. The policy does not specify how the allocation can be broken down into sub-asset classes. InvesTrust provided recommended change to the wording of the Fixed Income Securities section in the investment policy. Questions and Discussion followed.

Concerns were expressed related to the suggested wording change. Mrs. Anthony suggested the policy be reworded to include specific criteria other than the discretion of the managers. The board will defer taking any action on the investment policy revision. InvesTrust will revise the wording and bring back to the board for approval.

VI. Ms. Anthony referred to Agenda Item VI ~ Discussion, Consideration and Possible Action: Review of Investments and Money Manager Performance – InvesTrust Consulting

Mr. Junkin handed out and reviewed the 2nd Quarter Investment Report for the period ending June 30, 2015. He highlighted the Total Fund Performance and reviewed the current asset allocations for the plan compared to the target allocations. Discussion followed.

VII. Ms. Anthony referred to Agenda Item VII ~ Discussion, Consideration and Possible Action: Metropolitan Library System's Contribution to the Pension Fund for FY 2015-2016 – Lloyd Lovely, Deputy Executive Director/Finance & Support

Mr. Lovely reported the contribution to the pension fund for FY 2015-2016 is $761,765.00 compared to last year's contribution, which was $812,823.00. Discussion followed

Ms. Anthony called for questions.

VIII. There being no further business, the meeting was adjourned at 5:09 p.m.

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Maria Watkins
Executive Assistant

MEMORANDUM

To: **Metro Library System**

From: **InvesTrust Consulting, LLC**

Date: **February 19, 2016**

Subject: **Liability Driven Investing Recommendation**

Since our last meeting, we have undertaken some research on the prospect of adding a liability driven investing (LDI) strategy to the portfolio for the retirement plan. LDI strategies are used to mitigate risk, and to match the maturities and duration of bonds (assets) in the portfolio to the liabilities/future cash distribution (benefit payments). For instance, if you have $2 million of benefit payments in 2017 there would be $2 million of bonds scheduled to mature in 2017 to match the payouts.

This approach is driven by the funded status of the plan. The higher the funded status, the more benefit from LDI as more of the plan can be "immunized." As a public plan, the Library calculates its funded status based on GASB 67/68, which uses a fixed discount rate of 7%. This shows the Library as being well funded. Corporate plans use a current bond yield curve (e.g. Citigroup Pension Discount Curve) to value the liabilities, which is usually lower (e.g. 3.9%) to calculate the funded status, also known as "mark-to-market." Using this method, the Library plan is not well funded.

Using a fixed discount rate leads to a higher volatility of funded status which makes it difficult to effectively "hedge" liabilities through LDI. This strategy is best utilized with a mark-to-market methodology. Since the Library and all of its accounting is based on the GASB 67/68 approach, it doesn't make sense to use the mark-to-market approach for just this purpose. *A full LDI approach to the portfolio, therefore, is not recommended.*

Our recommendation, however, is to match a portion of the expected liabilities with the fixed income portfolio. The cumulative present value of the next five years of liabilities is roughly equal to 40% of the total portfolio (the same as the current allocation to fixed income). Each year, new bonds would be added to match the next year's liabilities.

By matching the next five years of liabilities to the fixed income portfolio, the funds to make benefit payments would be available without having to sell equities or bonds at inopportune times. (Equities would have to be sold to replenish the maturing fixed income securities, but there would be more flexibility in the timing of those transactions.) Due to the short term nature of this portfolio, the duration of the portfolio would be lower which would be more advantageous during a rising rate environment.

If this short term matching strategy is adopted, the fixed income portion of the portfolio should not be viewed with an eye towards total return, as with the current portfolio. Since the bonds are to be held until maturity, fluctuations in price – and return – are not going to affect the ultimate outcome and are not material. Total return of the fixed income portion of the portfolio is not the main goal.

(The benefit of the shorter duration in a rising rate environment is beneficial when valuing the portfolio for calculations that don't relate to investment performance – funded status, financial statements, etc.)

Adopting any type of LDI strategy will necessitate a fixed income investment manager that can calculate the structure of the portfolio in terms of the projected liabilities. These types of managers will, using information from InvesTrust Consulting and your actuary, calculate the specific cash flow needs of the portfolio each year and identify the specific bonds having the corresponding maturity profiles. InvesTrust has recently performed a search for an LDI manager for another client and after thorough due diligence and several interviews with the top three candidate firms, we recommended Sage Advisory as the LDI manager. We have seen no change nor challenge to our opinion of this firm since its hiring less than 12 months ago and therefore recommend they be selected as the fixed income/LDI manager for the Library.

Given the nature of an LDI strategy as the fixed income portion of the portfolio, the investment policy statement will need to be revised. Attached to this memo is a proposed revision to the investment policy statement for the Library. It also makes some revisions to the equity portion of the policy. The asset allocation was revised to reflect the addition of the large cap core allocation that was added last spring.

We have also added proposed language giving InvesTrust Consulting the authorization to ratify any mutual fund selections to ensure their compliance with the investment policy statement.

If these recommendations are approved, we will work with the Library and the related service providers to ensure a smooth and timely implementation.

METROPOLITAN LIBRARY SYSTEM
PENSION PLAN
INVESTMENT POLICY

The Metropolitan Library System Pension Plan (the Account) serves as an account for investing and maintaining funds attributable to the Library's pension plan. The Metropolitan Library Commission has appointed the Metropolitan Library System Retirement Pension Board (the Board) to provide oversight for these investments.

I. OBJECTIVE

It shall be the primary objective of the Account to achieve superior long-term growth of principal. ~~while, at the same time,~~ The secondary objective is to ensure~~ing~~ the Library's ability to meet all expected and unexpected cash flow needs by matching the structure (maturity and duration) of the fixed income portion of the portfolio with that of a portion of the Plan's future scheduled benefit payments.

II. PHILOSOPHY

Prudent management of the Account's assets requires a carefully conceived, conservative investment strategy designed to obtain a total return (aggregate return from capital appreciation and dividend and interest income) necessary to preserve and ideally enhance the principal of such funds, while at the same time, providing a dependable source of income at the highest possible yield.

Allocation of assets for investment in the Account may vary from time-to-time, as determined by the Board. Over time an appropriate balance will be sought among fixed income securities, equities, and/or cash equivalents.

III. DEFINITIONS

The Account is comprised of those assets which have a long to indefinite investment time horizon[1]. The Board will review the investment time horizon at least annually and may

[1] The Board has determined that its general investment time horizon for the Account shall be 5 to 10 years.

change as appropriate. The Board may, from time to time, invest in other assets for definite time periods with very specific expectations as to risk and return. However, the Account is intended to provide a reasonable return and protection against inflation. By definition, the Account will be comprised of various assets which, when taken together, are intended to achieve those goals.

IV. INVESTMENT MIX

As a general rule, the following limits are for the asset classes (in total) of the Account:

	Lower	**Target**	**Upper**
Domestic Large Cap Equities	40%	45%	50%
Large Cap Core	10%	15%	20%
Large Cap Growth	10%	15%	20%
Large Cap Value	10%	15%	20%
Domestic Small Cap Equities	6%	7.5%	9%
Small Cap Growth	2.5%	3.75%	6%
Small Cap Value	2.5%	3.75%	6%
International Equities	6%	7.5%	9%
International Large Cap Growth	2.5%	3.75%	6%
International Large Cap Value	2.5%	3.75%	6%
Fixed Income Securities	35%	39%	45%
Cash Equivalents	0%	1%	5%

Each portfolio does not have to conform to these guidelines, but rather to specific portfolio targets as established by the Board. Investment managers will, in consultation with the Board, structure their individual portfolios within these ranges (or others as set by the Board); however, managers may not shift their individual asset allocation by more than 10% within a twelve month period without permission of the Board.

V. APPROVED AND PROHIBITED INVESTMENTS

1. Short-term Investments

Short-term investments include all reasonable and prudent money market instruments available through banking and brokerage institutions, consistent with the investment philosophy, objectives and guidelines established by the Board.

2. Equity Investments

The purpose of the equity allocation within the Account is to provide a total return consisting primarily of appreciation, with dividend income a secondary consideration, by investing in a well-diversified aggregate portfolio of common stocks.

The investment objective of the aggregate equity portfolio is to achieve a total return commensurate with the overall equity market. In order to maximize return opportunity while minimizing risk, the Account's equity allocation will be further allocated among a diverse group of equity managers according to such considerations as investment "style" and capitalization of equity investments.

Separate equity portfolios will be invested in companies whose securities have recognized marketability and quality, that are listed on all major U.S. and international stock exchanges and have ~~with~~ a market capitalization of at least $100 million.

Investment in any one company will not exceed ~~5~~8% of the total market value of a manager's equity portfolio and investment in any one industry will not exceed 35% of the total market value of each equity portfolio.

Stocks generally considered "speculative" in nature will not be purchased. Short sales, options, margin purchases, restricted stock purchases, futures or derivatives will be considered prohibited transactions unless specifically authorized (in writing) by the Board.

The Board, in recognition of the benefits of mutual funds or exchange traded funds (ETFs) as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may elect to invest in such funds from time to time. The Board recognizes that it cannot give specific policy directives to commingled or mutual funds with pre-established policies; therefore, the Board, with the assistance of the investment consultant, will seek to identify mutual funds that comply as close to the guidelines as is reasonable and assess and monitor the investment policies of any funds selected by the Board to ascertain whether they continue to be appropriate.

The Board may elect to utilize passive, or index, funds to implement the asset allocation described above. To do so, the Board should select low-cost index funds (either mutual funds or exchange traded funds) that attempt to track the performance of the benchmarks listed in the asset allocation.

Managers/funds' performance will be compared to the following benchmarks based upon the manager's particular investment style and capitalization range:

Large Capitalization Core:
- S&P 500
- Broad Universe of other Core Equity Managers

Large Capitalization Value Managers:
- Russell 1000 Value Index
- Broad Universe of other Large Cap Value Managers

Large Capitalization Growth Managers:
- Russell 1000 Growth Index
- Broad Universe of other Large Cap Growth Managers

Small Capitalization Value:
- Russell 2000 Value
- Broad Universe of other Small/Mid Value Managers

Small Capitalization Growth:
- Russell 2000 Growth
- Broad Universe of other Small/Mid Growth Managers

International
- EAFE Index
- Broad Universe of other International Managers

Investment managers will also be monitored regarding the level of risk they are assuming to achieve returns. Attention will be paid to rolling 3 and 5 year time periods as well as shorter time periods should the situation warrant.

The overall equity portfolio performance will be compared to a custom index made up of the indexes listed above in the corresponding weights of the target asset allocation.

3. Fixed Income Securities

The purpose of the fixed income allocation within the plan is to match the duration and cash flow characteristics of a portion of the future scheduled benefit payments of the plan. The specific amount of future benefit payments to be matched will be based on the plan's actuarial data and reviewed each year. The fixed income portfolio should be adjusted each year to reflect the additional years' future benefit payments.

Fixed income investments include debt securities issued or guaranteed by the United States Government or agencies, corporate bonds, debentures and notes issued by U.S. domestic corporations, asset-backed securities (such as automobile receivables and credit card receivables) and mortgage-backed securities (such as GNMA, FHLMC, and FNMA pass through securities).

All securities purchased will be investment grade (BBB- or higher by Standard and Poor's, Baa3 or higher by Moody's, or BBB- or higher by Fitch)~~and have a quality rating of no less than AA or better, by Standard and Poor's or an equivalent rating by another reputable institution~~ at the time of purchase. In the event a security in the portfolio falls below the acceptable purchasing standards, it is the responsibility of the manager to ensure the timely and prudent sale of the security or be prepared to justify its continued retention in the portfolio.

The dollar weighted average quality rating of the portfolio will not be less than A/A2 as measured by the ratings provided by Standard & Poor's or Moody's Investors Service or an equivalent rating agency~~AAA~~.

There is no minimum coupon limitation. Zero-coupon issues are permissible.

Securities will not be purchased unless the size of the issue is large enough to provide marketability, i.e. the ability to be sold and converted to cash within a period of not longer than five business days.

Investment in any one issuer, U.S. Treasury and Agency issues excepted, will not exceed ~~5~~8% of any one manager's bond portfolio market value.

Maturities will not exceed twelve years without approval by the Board. In cases where weighted average maturity is more appropriate than final maturity (e.g., mortgage securities and asset-backed securities), the weighted average maturity will not exceed ten years. Maturities should be such that they match the timing of the identified future scheduled benefit payments as closely as possible.

The Board, in recognition of the benefits of mutual funds or exchange traded funds (ETFs) as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may elect to invest in such funds from time to time. The Board recognizes that it cannot give specific policy directives to commingled or mutual funds with pre-established policies; therefore, the Board, with the assistance of the investment consultant, will seek to identify mutual funds that comply as close to the guidelines as is reasonable and assess and monitor the investment policies of any funds selected by the Board to ascertain whether they continue to be appropriate.

The Board may elect to utilize passive, or index, funds to implement the asset allocation described above. To do so, the Board should select low-cost index funds (either mutual funds or exchange traded funds) that attempt to track the performance of the benchmarks listed in the asset allocation.

The performance of the fixed income portion of the portfolio will be primarily judged on how well the cash flow needs of the portfolio are met by the portfolio. The returns of fixed income portfolio will be compared with a fixed income index with a term that closely matches that of the portfolio. The specific term may change as the amount of future scheduled benefit payments change over time.

4. Mutual Funds

The Board, in recognition of the benefits of mutual funds or exchange traded funds (ETFs) as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may elect to invest in such funds from time to time. The Board recognizes that it cannot give specific policy directives to commingled or mutual funds with pre-established policies; therefore, the Board, with the assistance of the investment consultant, will seek to identify mutual funds that comply as close to the guidelines as is reasonable and assess and monitor the investment policies of any funds selected by the Board to ascertain whether they continue to be appropriate.

The Board may elect to utilize passive, or index, funds to implement the asset allocation described above. To do so, the Board should select low-cost index funds (either mutual funds or exchange traded funds) that attempt to track the performance of the benchmarks listed in the asset allocation.

~~In the place of separate, discretionary accounts, the Board may, from time to time, use mutual funds as a way to obtain additional diversification. Funds considered should have demonstrable high performance and a consistent track record. Funds should be selected with an eye to, long-term investment performance, consistency of investment objectives and low fees.~~ Investment Managers may not use mutual funds or exchange traded funds without written authorization of the Board.

5. Prohibited Investments

The Board may, from time to time, place additional restrictions on the investments, and will inform each investment manager of any changes.

VI. INVESTMENT CONSULTANTS AND MANAGERS

The Board may consider it prudent to utilize an investment consultant to assist it with the overall management and guidance of the Account's investments.

Furthermore, the Board may select investment managers for active management of the Account's assets. The Board will select such managers. The investment consultant will have discretionary authority to approve the choice of mutual funds selected by investment managers. While investment consultant and/or managers may be granted discretionary authority within specified guidelines, the Board will at all times retain final fiduciary responsibility for all of its investments.

The fixed income investment manager should be capable of analyzing the actuarial data of the plan and be able to design and manage a portfolio that seeks to minimize the risk of not funding the future scheduled benefit payments by matching those benefits with the fixed income securities.

All managers will be provided a written copy of this Policy and asked to respond in writing whether they believe they can operate within its guidelines. When there are amendments to this Policy, all managers will be provided a written copy of the new policy and asked to respond in writing. Should investment managers desire modification of these policies, they should apply to the Board in writing, stating the requested change and rationale.

Subject to the parameters established by the Investment Policy (or to any other written directives of the Board), the investment manager will have full investment discretion.

The goal of each manager is to meet or exceed the market index, ~~or~~ specific style index~~es~~ or other criteria, established by the Board, which most closely corresponds to the style of investment management. Additionally, the overall level of portfolio risk should be consistent with the risk associated with the specified benchmarks. Risk will be measured by the standard deviation of quarterly returns.

Investment managers are expected to adhere to the investment management styles for which they were hired, and will be evaluated regularly for adherence to investment discipline.

VII. MEETINGS

There will be quarterly meetings of the Board to review the investments. Such reviews will include the recent performance of each portfolio, investment manager style analysis and adherence to the investment policy, the Account as a whole, as well as current and prospective investments. The Board may utilize an investment consultant to assist in the quarterly investment review, and may also invite the investment managers to report directly to the Board.

VIII. INVESTMENT POLICY REVIEW

To assure continued relevance of the investment guidelines, objectives, and expectations as established in this statement of investment policy, the Board will review the policy at least annually.

IX. INVESTMENT POLICY ADOPTION

This statement of investment policy is adopted on June 27, 2001 by the Oklahoma County Metropolitan Library Retirement Pension Board.