LANSING BOARD OF WATER & LIGHT
PENSION FUND TRUSTEES MEETING MINUTES
November 19, 2019

The Pension Fund Trustees of the Lansing Board of Water & Light (BWL) met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:00 P.M. on Tuesday, November 19, 2019.

Board Chairperson David Price called the meeting to order at 5:01 p.m.

Chairperson Price provided some background information on how Commissioners serve as Trustees of the Pension Funds. Commissioner Price welcomed the new 3rd Ward Commissioner, Mr. Deshon Leek, and asked the Corporate Secretary to call the roll.

Present: Trustees Beth Graham, Deshon Leek, David Lenz, Tony Mullen, David Price, Ken Ross, Tracy Thomas (arrived at 5:08 p.m.), and Sandra Zerkle (arrived @ 5:15 p.m.)

Absent: None

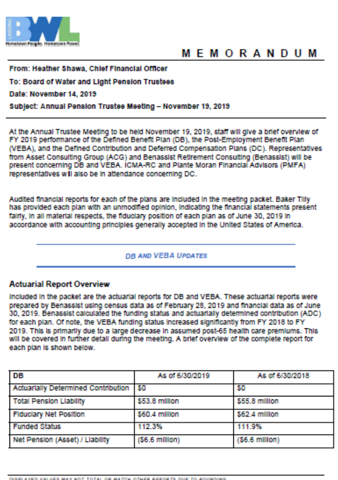
The Corporate Secretary declared a quorum.

<u>Public Comments</u>
None.

<u>Approval of Minutes</u>
Motion by Trustee Mullen and Seconded by Trustee Ross to approve the minutes from the November 13, 2018 Pension Fund Trustees' Annual Meeting.

Action: Motion Carried

<u>Pension Fund</u>
Chief Financial Officer Shawa reviewed and provided detailed information from the following Memorandum and Dashboard:



MEMORANDUM

From: Heather Shawa, Chief Financial Officer
To: Board of Water and Light Pension Trustees
Date: November 14, 2019
Subject: Annual Pension Trustee Meeting – November 19, 2019

At the Annual Trustee Meeting to be held November 19, 2019, staff will give a brief overview of FY 2019 performance of the Defined Benefit Plan (DB), the Post-Employment Benefit Plan (VEBA), and the Defined Contribution and Deferred Compensation Plans (DC). Representatives from Asset Consulting Group (ACG) and Benassist Retirement Consulting (Benassist) will be present concerning DB and VEBA. ICMA-RC and Plante Moran Financial Advisors (PMFA) representatives will also be in attendance concerning DC.

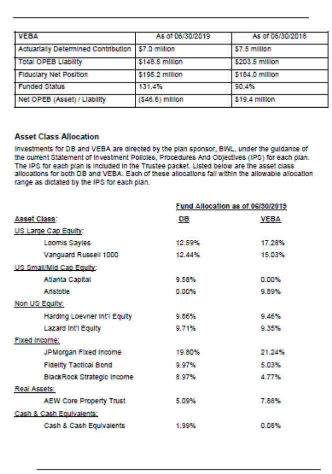
Audited financial reports for each of the plans are included in the meeting packet. Baker Tilly has provided each plan with an unmodified opinion, indicating the financial statements present fairly, in all material respects, the fiduciary position of each plan as of June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

DB AND VEBA UPDATES

Actuarial Report Overview
Included in the packet are the actuarial reports for DB and VEBA. These actuarial reports were prepared by Benassist using census data as of February 28, 2019 and financial data as of June 30, 2019. Benassist calculated the funding status and actuarially determined contribution (ADC) for each plan. Of note, the VEBA funding status increased significantly from FY 2018 to FY 2019. This is primarily due to a large decrease in assumed post-65 health care premiums. This will be covered in further detail during the meeting. A brief overview of the complete report for each plan is shown below.

DB	As of 6/30/2019	As of 6/30/2018
Actuarially Determined Contribution	$0	$0
Total Pension Liability	$53.8 million	$55.8 million
Fiduciary Net Position	$60.4 million	$62.4 million
Funded Status	112.3%	111.9%
Net Pension (Asset) / Liability	($6.6 million)	($6.6 million)

DISPLAYED VALUES MAY NOT TOTAL OR MATCH OTHER REPORTS DUE TO ROUNDING



VEBA	As of 06/30/2019	As of 06/30/2018
Actuarially Determined Contribution	$7.0 million	$7.5 million
Total OPEB Liability	$148.5 million	$203.5 million
Fiduciary Net Position	$195.2 million	$184.0 million
Funded Status	131.4%	90.4%
Net OPEB (Asset) / Liability	($46.6) million	$19.4 million

Asset Class Allocation
Investments for DB and VEBA are directed by the plan sponsor, BWL, under the guidance of the current Statement of Investment Policies, Procedures And Objectives (IPS) for each plan. The IPS for each plan is included in the Trustee packet. Listed below are the asset class allocations for both DB and VEBA. Each of these allocations fall within the allowable allocation range as dictated by the IPS for each plan.

	Fund Allocation as of 06/30/2019	
Asset Class:	DB	VEBA
US Large Cap Equity:		
Loomis Sayles	12.59%	17.28%
Vanguard Russell 1000	12.44%	15.03%
US Small/Mid Cap Equity:		
Atlanta Capital	9.58%	0.00%
Aristotle	0.00%	9.89%
Non US Equity:		
Harding Loevner Int'l Equity	9.86%	9.46%
Lazard Int'l Equity	9.71%	9.35%
Fixed Income:		
JPMorgan Fixed Income	19.80%	21.24%
Fidelity Tactical Bond	9.97%	5.03%
BlackRock Strategic Income	8.97%	4.77%
Real Assets:		
AEW Core Property Trust	5.09%	7.88%
Cash & Cash Equivalents:		
Cash & Cash Equivalents	1.99%	0.08%

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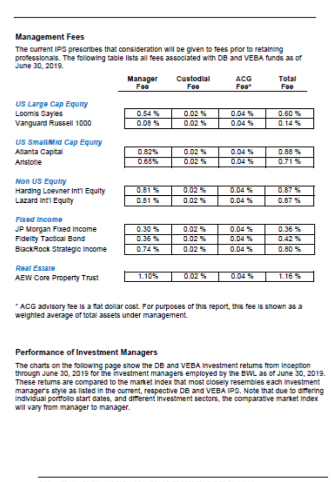

Management Fees
The current IPS prescribes that consideration will be given to fees prior to retaining professionals. The following table lists all fees associated with DB and VEBA funds as of June 30, 2019.

	Manager Fee	Custodial Fee	ACG Fee*	Total Fee
US Large Cap Equity				
Loomis Sayles	0.54 %	0.02 %	0.04 %	0.60 %
Vanguard Russell 1000	0.08 %	0.02 %	0.04 %	0.14 %
US Small/Mid Cap Equity				
Atlanta Capital	0.82%	0.02 %	0.04 %	0.88 %
Aristotle	0.65%	0.02 %	0.04 %	0.71 %
Non US Equity				
Harding Loevner Int'l Equity	0.81 %	0.02 %	0.04 %	0.87 %
Lazard Int'l Equity	0.81 %	0.02 %	0.04 %	0.87 %
Fixed Income				
JP Morgan Fixed Income	0.30 %	0.02 %	0.04 %	0.36 %
Fidelity Tactical Bond	0.36 %	0.02 %	0.04 %	0.42 %
BlackRock Strategic Income	0.74 %	0.02 %	0.04 %	0.80 %
Real Estate				
AEW Core Property Trust	1.10%	0.02 %	0.04 %	1.16 %

* ACG advisory fee is a flat dollar cost. For purposes of this report, this fee is shown as a weighted average of total assets under management.

Performance of Investment Managers
The charts on the following page show the DB and VEBA investment returns from inception through June 30, 2019 for the investment managers employed by the BWL as of June 30, 2019. These returns are compared to the market index that most closely resembles each investment manager's style as listed in the current, respective DB and VEBA IPS. Note that due to differing individual portfolio start dates, and different investment sectors, the comparative market index will vary from manager to manager.

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DB	Inception Date	Return	Index
Loomis Sayles	01/13	16.82%	16.24%
Vanguard	05/17	7.70%	7.76%
Atlanta Capital	08/18	10.33%	-0.16%
Harding Loevner Int'l Equity	09/17	4.18%	2.82%
Lazard Int'l Equity	09/17	3.38%	3.26%
JP Morgan	01/09	4.32%	3.89%
Fidelity Tactical Bond	09/18	7.88%	7.15%
BlackRock Strategic Income	09/17	3.26%	3.25%
AEW Core Property Trust	01/19	2.67%	1.99%

VEBA	Inception Date	Return	Index
Loomis Sayles	01/13	16.42%	16.24%
Vanguard	05/17	7.71%	7.76%
Aristotle	08/18	-4.05%	-0.16%
Harding Loevner Int'l Equity	09/17	4.18%	2.82%
Lazard Int'l Equity	09/17	3.38%	3.26%
JP Morgan	01/09	4.35%	3.89%
Fidelity Tactical Bond	09/18	7.83%	7.15%
BlackRock Strategic Income	09/17	3.33%	3.25%
AEW Core Property Trust	01/19	2.67%	1.99%

DC Updates

During Q3 of Fiscal Year 2019, as recommended by PMFA, the BWL implemented various DC fund lineup and fee structure changes. The changes benefit participants in the following ways:

- Simplified investment menu using best in class fund managers
- Lowest cost version of each investment option
- Increased access to passive investments
- Consistent default age matrix for all plans
- Increased transparency of plan costs
- More equitable split of plan costs

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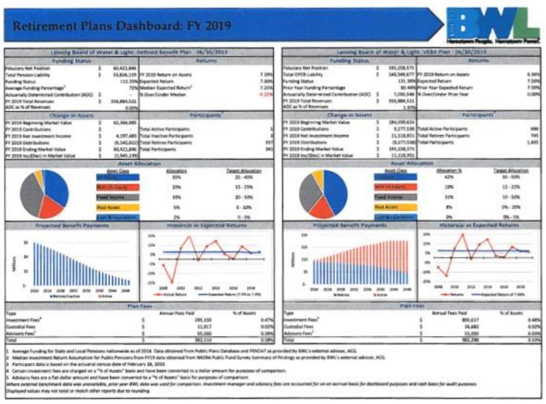
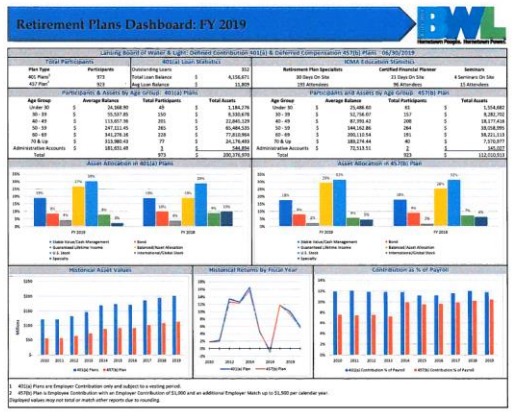
The investment options are continually monitored by PMFA. During the monitoring process, PMFA will recommend proposed changes to the Retirement Plan Committee as necessary. For reference below, Exhibit 1 shows the fund lineup, consisting of 40 funds, prior to the changes, and Exhibit 2 shows the fund lineup, consisting of 26 funds, after the changes.

Exhibit 1

Exhibit 2

DISPLAYED VALUES MAY NOT TOTAL OR MATCH OTHER REPORTS DUE TO ROUNDING





Ms. Shawa stated that there were no policy or plan document changes this year. Ms. Shawa informed that the memorandum summarized key plan information and the fund line-up changes. The Dashboard consisted of information from the DB Plan and the VEBA Plan. The DB Plan ended FY2019 with $60 million in assets and funded status held at 112%. The actual return was 7.39% which was slightly over the target of 7%; the expected return of 7% is just under the median return of 7.25% for other plans like this one. The primary reason the expected return is set lower at 7% is due to the plan being closed with five active participants, the maturity and funded status of the plan, and it is appropriate to be conservative and maintain the plan assets. The VEBA Plan ended FY2019 with $195 million in assets and the funded status increased from 90% last year to 131% this year. The actual return for the VEBA Plan was 6.36% which was slightly below the expected return of 7.5%.

Ms. Shawa also provided information on the Defined Contribution 401a Plan and Deferred Compensation 457 Plan. The 401a plan ended FY 2019 with $200 million in assets, and the 457 Plan ended with $112 million. Ms. Shawa noted that there were 304 loans outstanding totaling $6.8 million with an average loan balance of $22,514 included on the dashboard, but an error was found and corrected to 352 outstanding loans totaling $4.1 million with an average loan balance of $11,800.

Trustee Mullen asked how many participants are in the Defined Benefit Plan. Ms. Shawa responded that there are 345 participants of which 5 are active.

Trustee Ross requested confirmation that the Defined Benefit Plan is a traditional pension plan for any active employee pre-1997; that the Defined Contribution 401a Plan is funded by employees through an annual contribution post-1997 and that, generally, there is a 15% annual contribution for employees pre-1997 and a 9.5% annual contribution for employees post-1997; and that the 457b Plan is a voluntary employee contribution plan which is matched to a certain amount by the BWL. Ms. Shawa confirmed. Trustee Ross asked what the process was for selecting financial advisors, how frequently bidding processes are made, and how reasonable fee charges are set. Ms. Shawa responded that the Retirement Plan Committee (RPC), which consists of herself as Chair, Executive Director of Human Resources, Michael Flowers, and Finance Manager, Scott Taylor, was delegated responsibility for the investment plans. Ms. Shawa responded that the RPC works with BWL General Counsel, BWL Financial Analyst and outside financial advisors to fulfill fiduciary responsibilities.

Trustee Ross asked for information regarding the benchmarks and returns of the DB and VEBA Plans and how they are tied to asset indexes. Ms. Shawa responded that there are quarterly reviews and additional information will be provided by Plante Moran, LLC and Asset Consulting Group. Trustee Ross also asked about the 9.5% contributed by post 1997 employees and how additional voluntary contributions were encouraged. Ms. Shawa responded that the process is being reviewed but there is no formal recommendation at this time.

David Houser, BWL Finance Supervisor, introduced the financial advisory panel. The Panel provided financial information and engaged in a question and answer session. The Panel consisted of Information:

1) Nathan Burk, Vice President at Asset Consulting Group (ACG); ACG was selected by RFP in 2017 and they provide recommendations for the DB and VEBA Plans including developing, reviewing, and complying with investment policies and portfolios;

2) Mark Miller, Principal and Actuary at Benassist Retirement Consulting, LLC; Benassist was selected by RFP in 2018 and they provide actuarial services for the DB and VEBA Plans which includes employee benefit calculations and annual state filing requirements;

3) Steven Gibson, Relationship Manager and Consultant with Plante Moran Financial Advisors, LLC; Plante Moran Financial Advisors, LLC are co-fiduciaries and DC Plan advisors, which includes plan analysis to ensure the highest benefits to participants, and the preparation and compliance with investment policies; and

4) Lisa Burks-Wilson, Director of Relationship Management from ICMA, the DC Plan administrator, which includes account access, participant communication and participant education.

Mr. Nathan Burk gave a market update for the past year. Mr. Burk stated that in the 4th quarter in 2018 the Federal Reserve was committed to raising interest rates resulting in equities being sold and an increase in investing in bonds. In 2019 the Federal Reserve cut interest rates and equities rebounded. Mr. Burk also gave an update on the results for FY 2019 for the DB and VEBA Plans. He stated that the biggest contributor to the lower return on the VEBA Plan was US large cap stocks within the portfolio. The plan had a strategic asset allocation that wasn't quite at full target for the fiscal year but the final funding brought the allocation to its strategic goal YTD. Mr. Burk stated that the DB Plan performed better as it had a more conservative rate of return with a larger bond allocation. Mr. Burk defined the difference between active and passive investment management and when each one should be implemented. Active management is paying an investment manager to actively try to outperform a benchmark after fees and passive management is paying a more modest fee to replicate a benchmark from a return and risk prospective. ACG analyzes 40,000 different products from 10,000 different firms globally in 3-, 5- and 7-year returns evaluating whether a fee should be paid to outperform a benchmark.

Trustee Ross asked whether Aristotle in the VEBA plan with an index of 16 basis points (bp) below was a passive investment. Mr. Burk responded that Vanguard was passive and Aristotle was an active manager. Trustee Ross also asked how Atlanta Capital in the DB Plan was able to achieve 1,000 bp more than the index. Mr. Burk responded that Atlanta Capital is a concentrated manager who looks for high quality securities in the marketplace and have an excellent track record of finding the right broad-based selection of stocks. Trustee Ross added that since the framework is geared toward maximizing available opportunity for profit for the system are there any filters imposed on the money managers as it relates to social conscionability in investing. Mr. Burk responded that the objective of a public pension is to maximize return per unit of risk without regard to ESG (Environmental, Social and Fair Governance) factors, although this is factored in by many investment managers, and quarterly RFI's are sent out asking how ESG's are incorporated into the investment processes. Trustee Ross asked whether the information collected was placed into an evaluation process. Mr. Burk responded that unless there is a specifically mandated filter request, the entire set is evaluated and socially unacceptable practices would not be considered.

Trustee Mullen asked what the cost would be for less agnostic and more socially active investments. Mr. Burk responded that there are socially active investment managers with a specific focus but it depends on whether that would be the direction wanted for the plan. Trustee Mullen asked what kind of return would be obtained in a socially active investment. Mr. Burk responded that it varies depending on the asset class; a long term socially responsible equity manager would be selected and a similar return would be expected. He added that the gaps that would have occurred in the past with the social investments are no longer realized.
Mark Miller from Benassist Retirement Consulting, LLC spoke about the significant increase in the VEBA funding status. Mr. Miller stated that the increase in VEBA funding from a low 90% to 130% in the evaluation was attributed to three things:

1) A decrease in the premiums charged by the post-65 insurance company; the plan changed from Hartford to the larger company Humana resulting in the medical premium decreasing from $220 per month to $98 per month per person and the prescription drug decreasing from $305 per month to $213 per month; it is estimated that there would be $2 million in savings per year.

2) The healthcare trend assumption was adjusted down half a percent for each year starting at 9% as it was higher than what it is in industry and it is similar to what is required by Michigan uniform actuarial assumptions. This accounted for about 14% of the increase in funding.

3) Demographic experience due to the death of participants and spouses.

Steven Gibson with Plante Moran Financial Advisors, LLC spoke about the fund lineup changes from February and how it benefits participants. Mr. Gibson stated that Plante Moran reviewed the investments, decreased the number of funds from 40—as the best practice amount is 15-25, added passive investments, streamlined the fee structure, and removed the sector or specialty funds but allowed access through the self-directive brokerage option. As a result of the changes made, the average investment expense went down significantly from 51bp and 55bp to 36bp and 41bp representing a cost savings of more than $400,000 per year. Cost savings in a pension plan means a reduced contribution to the BWL, but this cost savings is directly to the participants.

Trustee Ross asked for a comparison of plans between BWL and other plans. Mr. Gibson responded that from a contribution standpoint of 250 plans and $6 billion in contribution assets, the company contribution of the BWL is in the top five, and the plan committee is very well designed.

Mr. Gibson continued that the next step is the plan design process, which will be determining the average participation rate for the plan, what the participants will receive, if there is a need and the process to meet the need. Automatic enrollment is efficient, but many committees will not force participants into the plan. The ICMA plan is cost efficient and there is a flat per participant fee as there is for Plante Moran. Plante Moran benchmarks fees on an annual basis using an independent third party that looks at other plans of similar size and they have implemented a couple socially responsible plans but the plans aren't as highly used.

Lisa Burks-Wilson, Director of Relationship Management from ICMA, the DC Plan administrator, spoke about the new technology that ICMA has provided for participants and how that impacts education. Ms. Burks-Wilson stated that the technology is award winning and that there are two approaches, the human approach and the self-service tools approach—which is also available through smartphones and Alexa. Ms. Burks-Wilson reviewed the tool "Am I on Track" which provides employees with a personalized retirement readiness score, takes into consideration money in the DC plan, DB plan, social security, and spouse's money. The retirement readiness score is determined by reviewing 500 market scenarios and it helps determine the savings rate and the age to retire. Ms. Burks-Wilson also reviewed the Account Aggregation tool which allows participants a comprehensive view of all types of accounts they have, and allows them to budget and fund specific goals. Ms. Burks-Wilson introduced the people that provide the on-sight education for employees, April Rose and Dan Stewart, retirement plan specialists who report to ICMA Regional Manager, Jason Ashline, and Nancy Lange, ICMA Financial Planner.

Ms. Shawa brought forward two additional items that the RPC will bring forward to the Commission. Updating the target return in the IPS, or discount rate, is being reviewed for both the DB and VEBA. A recommendation for a 7%-6.5% reduction for the DB plan which would be a 5% funded impact taking the 112% funded status to 107%. A recommendation for 7.5% -7% reduction for the VEBA plan which would be a 7% funded impact taking the 131% funded status to 124%. The two primary reasons for the update is that industry-wide the trend for plans like the BWL's is to lower returns and market experts are reducing expectations for long term investment returns.

Ms. Shawa added that a new funding policy recommendation will be worked on for the VEBA plan as there are different options available with the current funding status.

Trustee Lenz inquired what the average historical returns for the DB and VEBA types of funds are and if the historical average is higher than to what the expected returns for the future are being reduced, and what is the explanation for the reduction. Mr. Burk responded that it is a forward working analysis and that currently there are historical lows at 1.5% interest. Mr. Burk added that return expectations have come down for building block methods of looking into different asset classes-equity, fixed income, real assets; equity markets have rallied in 2019; valuations are expensive and forward returns are anticipated to be lower; bonds move inversely to rates and if the rates go higher the bond prices will go lower. Trustee Lenz asked if a low return is being protected why the ratio of funds allocated is being changed. Mr. Burk responded that will be reviewed with the committee and it is reasonable to achieve the rate of return with the current allocation.

Commissioner Zerkle commended Ms. Burks-Wilson and the BWL for having the ICMA at the BWL on a regular basis and asked how ICMA encouraged employees to put money aside, as it is their pension. Ms. Burks-Wilson responded that employees are instructed that a certain income placement ratio is needed to live on during retirement and that at least 10 years before retirement money should be set aside. Ms. Burkes-Wilson also informed that the plan includes a REA fund that can offer a guaranteed lifetime income.

Trustee Leek asked what security provisions were in place for smartphones and Alexa. Ms. Burks-Wilson responded that cyber security is at the forefront at all times and that additional provisions through Amazon are necessary to utilize Alexa and cyber security is comfortable with the vetted provisions.

RESOLUTION #2019-11-05

ACCEPTANCE OF 2019 AUDITED FINANCIAL STATEMENTS FOR DEFINED BENEFIT PENSION PLAN, DEFINED CONTRIBUTION PENSION PLAN, AND RETIREE BENEFIT PLAN

Resolved, that the Corporate Secretary receive and place on file the Defined Benefit, Defined Contribution, and Retiree Benefit Plan reports presented during the Pension Trustee Meeting.

Staff comments: All three Plans received clean audit reports.

Motion by Trustee Ross, Seconded by Trustee Mullen, to accept the 2019 Audited Financial Statements for Defined Benefit Pension Plan, Defined Contribution Pension Plan, and Retiree Benefit Plan.

Action: Motion Carried

Other

None.

Excused Absences

None.

Adjourn

There being no further business, the Pension Fund Trustees meeting adjourned at 6:19 p.m.