

CENTER LINE POLICE & FIRE RETIREMENT COMMISSION
MINUTES
REGULAR MEETING
September 22, 2022

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The regular meeting of the Center Line Police and Fire Retirement Commission was called to order at 2:42 p.m. by Chairperson Stys.

Members Present: Richard Stys, Gregory Suma, Jorge Bermudez and Gregory Pearl who entered at 2:39 p.m.

Members Absent: Bernadette Helkowski.

Also, Present: Tim Brice from Morgan Stanley and Thomas Michaud from Van Overbeke, Michaud & Timmony, and Neil Russel and Kelly McMahon from Neuberger Berman.

AGENDA ITEM 2A. – Approval of the Agenda:

A. Motion by Trustee Pearl to approve the agenda was supported by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

AGENDA ITEM 3 – Public Comment

Seeing there was no one in the audience this item was closed.

AGENDA ITEM 4 – Approval of the minutes

A. Approval of the Regular Meeting minutes held on August 9, 2022.

Motion by Trustee Suma to approve the August 9, 2022 minutes supported by Trustee Pearl.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

AGENDA ITEM 5 – Remembrances:

A. Survivor Beneficiary – Helen Meduvsky (Anthony) deceased: August 29, 2022.

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Motion by Bermudez and seconded by Pearl in recognition of the passing of Helen Meduvsky.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski

AGENDA ITEM 6 – Presentations:

**A. Presentation from Neil Russel and Kelly McMahon of Neuberger Berman.
Strategy of Long/Short.**

Mr. Brice said as the commission has been diversifying the portfolio he wanted to educate the commission with a new option of long/short strategy. Mr. Russel introduced himself and said his firm is a New York investment bank with over \$ 400 billion of assets under management with offices in 36 cities around the world. Neuberger Berman has been scrutinized by the due diligence process of Morgan Stanley.

Mr. McMahon said the long/short strategy is not to hit home runs but to hit singles and doubles and over time. The long strategy is to buy stocks that will continue to grow over a long period and on the short side are to buy equities that may have inefficiencies in the market. The firm may see a company who they believe will miss earnings and will short a stock for a possible gain. Another term is sensitivity, If Neuberger owns a stock with a Beta of .40 and the market has a Beta of 1.00 if the market moves up 10.00% then the stock should move up 4.00%. This strategy was modeled by Charles Kantor, senior portfolio manager, and has been run since 2008. Mr. Michaud asked if he could ask a question through the Chairperson and was granted permission. Mr. Michaud asked Mr. Brice if he has educated the Commission of what is short selling a stock. Mr. Brice said he has. Mr. McMahon said they use a strategy of risk management and liquidity management when they short stocks. The portfolio is 80.00% long strategy. The firm's top short stocks are CarMax, Western Union, Lamar Advertising, Campbell Soup and Burlington coat factory. Mr. Michaud asked Mr. McMahon if they have a investment policy when to hold or sell a short position. He said on the downside they get out after a 30.00% loss and sell a gain to get those singles and doubles and not stay in it for the long-term. Trustee Suma asked what is the capitalization size of the stocks that are shorted. Mr. McMahon said generally in the midcap to small cap market. Trustee Pearl asked if they look at any of the small stocks that are shorted by the Reddit short seller's army. Mr. McMahon said no. Mr. Brice said, as an alternative investment with mitigating risk how has the fund performed versus the S & P 500? Over a five year period the fund has returned annually 5.90% with a standard deviation of 7.8 while the S& P 500 has returned 11.30% with a standard deviation of 16.8. Since

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inception of the fund on December 31, 2011 through June 30, 2022 the fund has returned annually 6.30%. Trustee Pearl asked who manages Neuberger Berman. Mr. Brice said Morgan Stanley does the due diligence on them and he will report performance quarterly. Trustee Suma asked how many professionals are in the team. There are 10 in the team with another 60 sector analysts. Trustee Suma asked what differentiates Neuberger Berman's strategy over another firm that employ the same practice. Mr. McMahon said consistency and experience. The firm's short positions may seem risky but is not as they take smaller positions in them. Trustee Suma asked what is the fee structure. It would be 1.29% covering management and administrative fees. Mr. McMahon this is a hedge strategy with no performance fees. Trustee Pearl asked how did the fund perform in the 2008/2009 markets. The fund was down 4.5% in 2011 when the Euro debt was tanking. Most hedge funds were down around 10.00% but this fund was up 2.50% and in 2020 this fund was down 5.00% while the market was down 20.00%. In the quarter after that the markets were up 20.00% while this fund was up 10.00%. And as of this morning September 22, 2022, the market is down 20.00% and the fund is down 7.50%.

B. Timothy Brice, Morgan Stanley Graystone Group discussion on:

- i. On the Markets for August 2022 – That Was Easy?**
- ii. Money Managers performances through June 30, 2022.**
- iii. Market value as of August 5, 2022 \$ 12,573,595.21.**

This item was tabled at the meeting of August 9, 2022.

A motion by Suma and seconded by Pearl to remove from the table items Bi, Bii and Biii.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski

C. i. On the Markets for September 2022 – Bear Market Realities.

- ii. Market value as of September 14, 2022 \$ 12,053,730.25. Discussion on rebalance.**

Discussion about cash flow drawdowns for monthly pension payroll.

Trustee Pearl left the meeting at 3:34 p.m. and returned at 3:39 p.m.

Mr. Brice said in the first six months of this year that this has been the worst bond in over 40 years. And it has been worst performance of a balanced portfolio in over 50 years. The FED intervention to raise interest rates to tamp down inflation and the war

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between Russia and Ukraine are some leading factors to the declines in all markets. Morgan Stanley believes we have seen peak inflation at 8.70% but has not come down as fast as the FED would like. There are four items to watch going forward, jobs reports, what the FED is doing, inflation and watch the 10-year treasury yield. Mr. Brice spoke of two recessions, one for the overall economy and one of earnings reports. In these volatile markets it is more important to be an active manager than a passive manager. Morgan Stanley believes inflation will be down to 3.50% in mid-2023.

Our portfolio is down 19.00% this year. We will be monitoring Western and Harding Loevner performances on a monthly basis going forward. Mr. Brice said in the future we will make a tactical asset rebalance when the markets recover. Trustee Pearl asked how should we be looking at bonds as the FED is increasing rates. Mr. Brice pointed out from the capital markets assumptions that Morgan Stanley feels bonds will be returning 2.00% to 2.50% in the longer time span. Mr. Brice said tactically is moving assets in the 3.00% to 5.00% range while moving 10.00% of a portfolio is market timing which can burn a portfolio.

Trustee Suma conveyed to Mr. Brice we need to develop some strategy to do monthly drawdowns to pay pension benefits after January 2023 which is running \$ 130,000.00 monthly. Trustee Suma said when he worked for a prior municipality he would look at the largest managers who have performed well and would take a percentage of their cash based upon their percentage of the entire portfolio and would move around \$ 750,000.00 monthly. Mr. Brice said at the next meeting he will present an example how we could draw down from the managers. He also stated that he will add the drawdowns of each manager on the monthly market value sheet we receive. Mr. Michaud said that the Commission should take action to adopt a policy or resolution upon a decision.

Trustee Pearl asked if we have any managers are on a watch list and Mr. Brice said Western, Harding Loevner and Clearbridge.

Mr. Brice will bring a list of some candidates to review for Western and Harding Loevner at the next meeting.

Trustee Bermudez left the meeting at 4:05 p.m. and returned at 4:31 p.m.

AGENDA ITEM 7 - For Your Information:

A. Memorandum from VanOverbeke, Michaud & Timmony, P.C. Dated: August 2, 2022. Re: State of Michigan Budget 2022 and state appropriations of up to \$ 750 million committed to local unit's underfunded defined benefit retirement

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systems.

Mr. Michaud said there were talks over a year ago that there would be \$ 1.5 billion to help communities with underfunded pension plans. That has been scaled down into the state budget with \$ 750 million now available for grants. It will be available for only retirement systems that are less than sixty percent funded. The restrictions have not been addressed yet and the state treasurer will be the facilitator.

A motion by Trustee Suma to receive and file Mr. Michaud's memorandum was seconded by Trustee Pearl.

AYES: 3
NAYS: None Motion carried 3 - 0.
ABSENT: Bermudez, Helkowski.

B. Confirmation letter to Mr. Sean O'Donnell on his payment of prior employee contributions withdrawn in 2017. Reinstatement of prior service credit.

Trustee Suma said Mr. O'Donnell had requested a formal letter stating that he made his full repayment of prior contributions withdrawn and will be reinstated with seven months of service credit. Trustee pearl asked if this affects his seniority and Trustee Suma said no that is a matter of his collective bargaining agreement.

A motion by Trustee Pearl to receive and file the letter sent to Mr. Sean O'Donnell was seconded by Trustee Suma.

AYES: 3
NAYS: None Motion carried 3 - 0.
ABSENT: Bermudez, Helkowski.

AGENDA ITEM 8 – Old Business:

A. None.

AGENDA ITEM 9 – New Business:

A. Memorandum from Thomas Michaud of VanOverbeke, Michaud & Timmony, P.C. dated: August 31, 2022 Re: Intervening Military Service.

Mr. Michaud said an active officer who is called to active military service is addressed in Public Act 345 of 1937 as amended. It is also addressed in federal law under the

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Uniformed Services Employment and Reemployment Rights Act of 1994 [38 U.S.C.s 4301 *et seq.*] (“USERRA”). Federal law states you have to treat the person as if they never left for military service and employment has not been interrupted and if they had been here, they would be making employee contributions to the plan. So, when the individual comes back to work, they could pay those contributions to be given service credit or they can choose not to make those contributions and will not be given service credit. If they choose to make, they contributions it will be based upon what the individual is earning at the time they left for military service and what they will be earning at the return of reemployment and averaged out. There is a time limit as to when they have to pay the contributions back to the plan. There is a federal rule on this. A certified letter will be sent to the individual letting him know of his options.

A motion by Trustee Suma to proceed accordingly was seconded by Trustee Pearl.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

AGENDA ITEM 10 – Retirements:

A. None.

AGENDA ITEM 11 – Annuity Withdrawals:

A. None.

AGENDA ITEM 12 – Approval of Pension Figures:

A. None.

AGENDA ITEM 13 – Vouchers:

A. August 25, 2022 pensions paid: Pay Report 473 ~ \$ 128,179.76.

A motion by Trustee Pearl to pay the August 25, 2022 pensions was seconded by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

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B. Gabriel, Roeder, Smith & Company Invoice # 471818, Dated: July 5, 2022 for December 31, 2021 annual actuarial valuation ~ \$ 10,000.00.

A motion by Trustee Suma to pay the GRS invoice # 47818 was seconded by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

C. Gabriel, Roeder, Smith & Company Invoice # 471817, Dated: July 5, 2022 For retirement benefit calculations in excess of four. ~ \$ 2,400.00.

A motion by Trustee Pearl to pay the GRS invoice # 471817 was seconded by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

D. VanOverbeke, Michaud & Timmony – Legal services from January 1, 2022 through June 30, 2022. Invoice # 111454 dated; August 5, 2022 ~ \$ 2,166.00.

A motion by Trustee Pearl to pay the VanOverbeke, Michaud and Timmony invoice # 111454 was seconded by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

E. Gabriel, Roeder, Smith & Company Invoice # 473088, Dated: September 12, 2022 for GASB Nos. 67 and Nos. 68 as of June 30, 2022 ~ \$ 7,000.00.

A motion by Trustee Suma to pay the GRS invoice # 473088 was seconded by Trustee Bermudez.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

14. Commission Members Comments:

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Chairperson Stys said our November 2022 commission meeting falls on election day and suggested we move the date. Trustee Suma will reach out to Tim's for open dates in November.

Motion by Trustee Pearl was seconded by Trustee Suma to look for an alternative date in November after checking with Mr. Brice's office.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.

Trustee Suma mentioned to Vice-chairperson Bermudez and Trustee Pearl to give a report on their MAPERS conference at the next meeting. Mr. Michaud said he can attest that they were both front and center at the sessions.

AGENDA ITEM 15 – Adjournment:

As there was no further business to discuss, a motion by Trustee Suma and supported by Trustee Bermudez that the meeting be adjourned at 4:40 p.m.

AYES: 4
NAYS: None Motion carried 4 - 0.
ABSENT: Helkowski.