

## USMS Convention — Atlanta, Georgia 2016

<b>Committee Name:</b>	Investment Committee	<b>Session #:</b>	
<b>Committee Chair:</b>	Phil Dodson	<b>Vice Chair</b>	Stan Benson
<b>Minutes recorded by:</b>	Phil Dodson	<b>Date/time of meeting:</b>	09/21/2016

### Actions Requiring Approval by the HOD:

- 1.

### Motions Passed:

1. To approve meeting minutes from 7/13/16. Moved by Jay Definis, seconded by Stan Benson. Passed unanimously.

<b>Number of committee members present:</b>	<b>Absent:</b>	<b>Number of other delegates present:</b> 0
<b>Committee members present (list all, including chair and vice chair):</b> Phil Dodson, Stan Benson, Guy Davis, Ralph Davis (Ex-officio), Jay Definis, Susan Kuhlman (Ex-officio), Homer Lane, Bill Sherman		
Not present: None		
Guests: Dawson Hughes, Elyce Dilworth and Jim Gregory our Northern Trust (NT) investment manager		

### Minutes

The meeting was called to order at 2:31pm EDT.

Meeting minutes from 7/13/16 were distributed pre meeting. There were two minor corrections. Motion to approve meeting minutes from 7/13/16 as corrected passed .

We conducted a discussion on adding High Yield Bond Funds as an approved investment vehicle to the USMS investment portfolio. For purposes of these minutes the discussion is presented as one continuous discussion. Guy Davis and later Jim Gregory pointed out that Hi Yield Bonds (HYB) as an asset class are a risk asset not a risk management asset like other fixed income securities. There are good reasons to include this asset class in the USMS portfolio: flexibility, increased diversification, highest performing asset class over last 10 years, income source in a low interest rate environment and more. Anticipating the need to develop specific written policy and investment guidelines for HYB, the committee asked Jim Gregory for his recommendations on HYB which were; maximum allocation of 5%, start with a 2-3% allocation, utilize funds with an average quality rating of B and emailed us two HYB funds which he recommends to other clients. The committee will discuss further these recommendations and any other issues regarding HYB at its Thursday meeting.

Jim Gregory, the Northern Trust investment advisor called in and presented a review of the US economy, global market outlook and USMS and SSL performance by asset classes. Market expectations are for slightly lower growth, with bond markets continuing to provide liquidity and central banks remaining accommodative resulting in lower interest rates for longer. Single digit returns in the 5-6% range are the high range of expectations. Our year-to-date performance as of 8/31/16: the USMS Investment Portfolio return was up 6.33%, or a gain of \$144,386 and since inception in March, 2011, up 6.06% or a gain of \$640,011. The SSL investment portfolio return was up 7.13%, or a gain of \$12,595. The SSL investment portfolio was initiated in November 2015 and is up \$12,911. The Committee noted that while the SSL portfolio slightly outperformed the USMS portfolio, on a risk adjusted basis the USMS portfolio outperformed SSL.

The Committee and Jim Gregory discussed whether there was a need to rebalance our asset classes now or soon and if we decided to rebalance which asset classes. It was decided that we are still within strategic and tactical ranges, albeit close to upper limits in some classes, and no action was needed now. We will continue to monitor our allocation with our monthly performance reports. It was also noted that if or most likely when we approve High Yield Funds as an investment vehicle, allocating an initial position into this asset class will effect a small rebalancing.

The next meeting will be Thursday 9/22/16 at 3:30 EDT in the Williams room. We will continue to discuss including High Yield Bond funds in our investment portfolio and our future meeting schedule for 2016 through convention 2017.

The meeting was adjourned at 3:55 PM EDT.

HY risk asset, NT under performed on way up, over on way down, most return this year in lower quality CCC, NT stayed away..  
Correlates more to equities than Fixed. Avg rating a B, outlook stable, credit fundies, most defaults commodities, energy done well,  
not much in lower quality

Highest allocation % for USMS recommended 5% no higher than strategic NT allocation. do less to start out, add to it., cn llocate  
either Equity or investment grade

Follow up, what lowest average grade rating acceptable lowest B level., avg B may be too high., maybe medium

Ralph recapped what Greg recommended

Guy: 1 decision flexibility of policy to invest in HY, good reasons case for yes

2 decision, how much when and what re; these 2-3 initial good, ulta and equities both if yes, then increasing risk assets net

all sensible, difficulty to be specific and control on rating ask about the mix of rating and profiles

Hi Yield discussion, NT over model port targets, Guy more like a risk asset equities, not fixed income in traditional sense

total allocation to risk assets in SSL than USMS portfolio, where should USMS be

What about rebalancing bumping up to 62% equity, no automatic warning, discussed history of allocations set up flexibility vrs SSL

Portfolio has grown faster than designed due to many years NOT utilizing the spending, allowing for a bigger compounding, originally  
budgeted \$60k spending now up to greater than \$80k

The case for diversification

Policy changes ETF and HI Yield wehn ready will be presented at one time for BOD approval, not yet submitted

JG presentation, Fed metg, no increase more hawkish, Nov out, Dec more likely, Fed to watch stats

Japan watch calming market, trying to steepen yield curve

Lower rates for longer continuing, post Brexit basically nothing

GDP: Growth started anemic, 3rd Q better 2.9 maybe alittle lower, consumer good shape

Business economy: slight concern investment slow, low right now, consumer making up for it, employment holding good

Mfg still in a recession fundamentals, world wide not just US

Asset class returns, past underperformers top performers this year

Continued expectation of single digit return 5-7%

Asked if any rebalance for us, equities high because no HY, no Nat resources, reallocate if over 62%, really this is a 60/40 allocation

Typically during a GFed tightening cycle, economy on good footing, can handle, if approach it correctly mkts should move higher,  
wrong reason and impacts economy fundies, then mkt down turn

NT bases its asset allocations on economy outlook not a fed outlook

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The meeting began with a presentation of the 2016 investment outlook by Jim Gregory. In brief: the market has shaken off the BREXIT surprise and rebounded strongly past quarter end through all time S&P 500 market highs today. As a result of BREXIT, market expectations are for slightly lower growth, with bond markets continuing to provide liquidity and central banks remaining accommodative resulting in lower interest rates for longer.

The US Equities market remains one of the best global markets for investments. There remain concerns in the market which should continue volatility, though no recession is in the outlook. NT still expects single digit returns for the S&P 500 for 2016 with market improvements in the second half.

Jim Gregory briefly reviewed our portfolio performance. Equities are at 61%, high but still within the recommended allocation range. Our 3 year average performance was 6.5% which is within the portfolio's strategic design of 5-7%.

Jim Gregory briefly reviewed the SSL portfolio and reminded the committee that it is invested according to the NT recommended growth and income model portfolio and returned a .86% higher return in the 1st eight months of 2016 as a result. But USMS portfolio better return on a risk rated basis.

The committee members discussed rebalancing the USMS portfolio both between equities and fixed assets and within equities. It was decided to .....

redeploying cash into a short term fund as a result of our CFO (Susan) stating there is no plan to utilize cash from the portfolio into the operating funds this fall as budgeted. This led to the passed motion to invest \$80,000 cash into the Ultra Short Fund.

The committee members continued its July discussion of changes to the Investment Policy to permit investments in High Yield bonds. However, the committee members assigned to present information and recommendations need more time to complete their assignment so the discussion is deferred until the next meeting after convention.

The next meeting will be Thursday 9/22/16 at 3:30 EDT in the Williams room.

Future meetings 2016 to convention 2017;

The meeting was adjourned at 3:30 PM EDT.

Ask Jim about NT strategic/tactical targets in model portfolio vrs SSL actual, not complaining, just wondering who is doing the tactical tweeking

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. This lead to a recommendation for adding "exchange traded funds" as an approved Investment Vehicle to the Policy which Ralph Davis is to present as a recommendation to the Board for approval in the July board meeting. A second change to permit investments in High Yield bonds led to a strong consensus that such a change is desirable. However, the Committee members need additional education as to the shape, structure and history of the High Yield bond market so as to make the proper recommendations. Ralph Davis, Guy Davis and Phil Dodson will work on gathering information and recommendations from our NT advisor and develop language for the Investment Policy for presentation to the Committee at our convention meetings.

Next two meetings will be at Convention: Wednesday September 21, 2016 at 2:30PM EDT and Thursday, September 22, 2016 at 3:30PM EDT, with accommodation for members who are not attending convention to call in.

The meeting was adjourned at 8:48PM EDT.