

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SEPTEMBER 24, 2014**

A regular meeting of the Board of Trustees was held on Wednesday, September 24, 2014 at the Pontiac General Employees' Retirement System Office located at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:10 a.m.

TRUSTEES PRESENT

Jane Arndt
Shirley Barnett
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore
Nevrus Nazarko
Deirdre Holloway-Waterman (*arr. at 10:34 a.m.*)
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Deborah Munson, Interim Executive Director
Dustin Blitchok, The Oakland Press
Linda Watson, Retiree
Debra Woods

TRUSTEES ABSENT

Koné Bowman (*excused*)
Patrice Waterman (*excused*)

PUBLIC DISCUSSION/UNION REPS

Retiree Debra Woods indicated that she has been contacted by Vida Twum who was recently laid off by United Water. Ms. Woods stated that prior to retiring she had been working in her capacity as Union representative to help Ms. Twum to obtain her service credit for her temporary time with the City. She has been retired for three years and thought that this grievance settlement had been taken care of prior to her retirement. Ms. Twum has continued to contact her and she has continued to advise her on this issue.

Ms. Billings stated that the cost study for Ms. Twum's additional service credit has already presented to the Retirement Board. The last step is to present it to the City Council which is a formality.

Chairman Harrison confirmed that Arthur Brown was also part of that cost study.

Ms. Woods stated that she was contacted by Larry Marshall who received a notice requesting that he pay for his monthly copy of the agenda packet. He is still working as a Union Rep and doesn't believe that he should have to pay for the packet. The agendas were always provided free of charge to Union Reps. He asked her to ask if others had received the notice.

Miss Munson stated that requests for information are covered under FOIA and the Retirement Office has been trying to tighten up the process. She indicated that Mr. Marshall was one of a small group of people to whom the office had been providing copies outside of the FOIA policy. She indicated that she discussed it with the Finance Sub-Committee and they agreed that the equitable thing to do would be to treat all requests for information in the same manner. She indicated that Mr. Marshall was not singled out as he was not the only member to have received information free of charge. The cost for a seventy page packet would be approximately \$5.00.

Trustee Moore stated that the Finance Sub-Committee wanted to alleviate any discrepancies in how information requests are being handled.

Ms. Woods indicated that Mr. Marshall indicated that he would be willing to accept an electronic version instead of paper copy.

Chairman Harrison stated that the Committee wanted to make the process more uniform so everyone adheres to the same practice.

Trustee Moore indicated that it should not require any additional staff or resources to provide an electronic copy.

Ms. Billings noted that Mr. Marshall must still request the information. She agreed that there should be no copying charges if the package is sent electronically.

Trustee Nazarko stated that posting the agenda packet on the website would make the information available to all members and solve the issue.

Ms. Woods noted that Union Officials have always received a packet and that Mr. Marshall is still involved in open litigation.

Trustee Giddings asked for the Union to provide a letter to the Retirement Office requesting the packet.

Trustee Moore stated that he does not feel that everything needs to go through FOIA.

Chairman Harrison told the Board that the Committee is working with Ms. Billings to make the process more uniform and to streamline the process.

It was determined that if the packet is provided in an electronic format there would be no charge.

Ms. Billings stated that if the information was posted on the website it would have to be thoroughly scrubbed to make sure that no confidential information was posted. The Board has to be very cautious about posting information.

Retiree, Linda Watson asked about agenda items C-4 regarding Russian sanctions correspondence and C-5 with regard to a FOIA request.

Miss Munson stated that the correspondence from Northern Trust is confirmation that they in compliance with the United States' and other countries sanctions on certain Russian entities.

The FOIA request was for information regarding the System's private equity investments.

Ms. Watson told the Board that at a recent meeting Joseph Sobota did not want to provide information to the TAB. The information would have helped the City to obtain additional federal funds.

AGENDA CHANGES - None

APPROVAL OF CONSENT AGENDA

- A. Approval of Minutes of Special Meeting: August 26, 2014
- B. Approval of Minutes of Regular Meeting: August 27, 2014
- C. Communications:
 - 1. Correspondence from Ambassador Re: August 2014 Market Update
 - 2. Correspondence from Ambassador Re: August 2014 Status Update
 - 3. Correspondence from First Eagle Re: August 2014 Client Statement
 - 4. Correspondence from Northern Trust Re: Russian Sanctions Compliance
 - 5. Correspondence to/from S&P Capital IQ Re: FOIA Request
- D. Financial Reports:
 - 1. Statements of Changes: August 2014
 - 2. Accounts Payable: September 2014
 - 3. Northern Trust Gray & Company Performance Reports – August 2014
 - 4. Directed Brokerage Report: 2013
 - 5. Directed Brokerage Report: January – June 2014
 - 6. Ratification of Private Equity Capital Calls:
- E. Applications for Retirement, Final Calculations, Refunds, Re-examinations
 - 1. Remove from the Rolls:
 - a. Alphonse Leibert (deceased 08/21/14)
 - b. Felicia McGuire (deceased 08/23/14)
 - c. Bernadine Phillips (deceased 05/30/14)
 - d. William Vidmar (deceased 08/28/14)
 - 2. Applications for Service Retirement:
 - a. Sandra Spankie – Hospital 14 yrs. 2 mos/ Age 55 (Off Deferred)
 - 3. Final Benefit Calculations:
 - a. Cheryl J. Gilchrist #2761 \$
 - b. Elaine K. Smith #2759 \$
 - 4. Disability Re-exams
 - a. Joan Haag #1140 \$

Trustee Nazarko asked that item C-2 on the agenda with regard to Ambassador Capital be pulled until the Board received an update on the manager's case involving the SEC.

Mr. Kuhn indicated that he will be providing an update with regard to the litigation under the Consultant Report. The communication in the consent agenda is Ambassador's monthly performance status update.

Mr. Nazarko withdrew his request to pull item C-2 from the consent agenda.

Trustee Nazarko also requested that the minutes for the Special Meeting held on August 26, 2014 reflect that he arrived at the meeting at 10:00 a.m.

RESOLUTION 14-086 By Gaffney, Supported by Williams
Resolved, That the Board approve the consent agenda for September 24, 2014 as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company

Gray & Company ADV

Mr. Kuhn told the Board that Gray & Company has submitted their updated ADV. This will be discussed further during closed session.

Peritus Asset Management

High yield manager Peritus has shifted over 10% of the portfolio in international equities over the last nine months. The Board put Peritus on watch and Mr. Kuhn had recommended that the Board ask for a reduction in fees based on comparable managers in the space. Peritus has agreed reduce its fee from 150 basis points to 125 basis points. Mr. Kuhn indicated that he was hoping for more of a reduction.

Trustee Barnett asked whether Peritus had done a good job.

Mr. Kuhn indicated that they have done a good job over the last five years, but had not beaten their benchmark since inception.

The Finance Sub-Committee has directed the Consultant to perform a search for other managers in the high-yield space.

Kennedy Capital Small Cap Growth

The Kennedy Capital Investment Agreement is being reviewed by Ms. Billings. The System is investing \$10 million in the new strategy and leaving \$15 million in the old strategy.

Ambassador Capital Management

Mr. Kuhn indicated that the SEC ruling did not go in Ambassador's favor. They were fined \$700,000.00 and barred from working in the mutual fund space. They have not worked in that space since 2009. The Judge did not find overwhelming evidence but it was determined that

they did not perform proper stress testing. The process was changed in 2009 and they were told that their testing in 2008 was inadequate. They had not labeled their testing properly.

Chairman Harrison asked how many of their clients were effected.

Ms. Billings stated that Washtenaw County and the City of Detroit General Employees' System held 65% of the investments in the fund. She restated that Ambassador Capital has been forbidden from working in the mutual fund space. Derek Oglesby was fined but no other firm members were. She asked how the penalty will affect the firm.

Mr. Kuhn stated that Ambassador has three options. They can appeal the decision which Tal Gunn has said is unlikely or they can claim hardship and ask for a reduction in the fine and it will be business as usual.

Ambassador has been on watch for more than six months and has provided monthly status and performance reports. They currently have just over \$1 billion in assets under management. Anything less than that could be detrimental to the firm and their ability to continue as a going concern. Mr. Kuhn recommended that the Board maintain Ambassador on watch for another six months

Chairman Harrison noted that the System was not involved in that asset class in the SEC matter.

Mr. Kuhn told the Board that the mutual fund in question was closed in 2009 and none of the clients in the fund lost money. This issue has caused no impact to this System. Mr. Oglesby is no longer with the firm and was never involved with the System's account. He stated that the System's assets are custodied at Northern Trust.

Ms. Billings stated that Ambassador has twenty-one days to appeal. If they do not appeal they will have to pay the fine once the SEC issues a final decision.

Trustee Barnett stated that she is nervous given the amount of our assets that are invested with Ambassador.

Mr. Kuhn stated that Ambassador's performance has been good the last six months and they have continued to be focused on managing the assets.

Miss Munson asked if Gray & Company will provide a full write-up from beginning to end of this episode and whether the judgment is publicly available. Mr. Kuhn indicated that he would provide a full-write up once he has received Ambassador's update which he expects by the end of the week.

Ms. Billings stated that she believes the judgment is publicly available.

Trustee Giddings asked Mr. Kuhn how Ambassador's other clients are viewing this issue.

Mr. Kuhn stated that he does not know and that they will be providing the same update to their two clients that are invested with Ambassador. He again reminded the Board that Ambassador has done a good job managing the assets and has been very transparent throughout the process.

Chairman Harrison said that the Board could watch the process as it unfolds and can call a special meeting if needed.

Mr. Kuhn said that this is an active investment space with which Gray & Company is very familiar and that if Ambassador closes its doors tomorrow Gray & Company could have a search book ready within a couple of weeks to determine a replacement.

Ms. Billings asked if the assets could be parked in an index fund if necessary.

Trustee Holloway-Waterman asked if Ambassador has an inside public relations group that they can use as a stop-gap measure.

Mr. Kuhn stated that Ambassador is not a large firm and they do not have a public relations department. The investment managers act as client relationship managers for the firm he further confirmed that an index fund could be used if necessary.

GERS Annual Meeting

Mr. Kuhn stated that Bob Hubbard - the CEO of Gray & Company - will be representing their firm at the Board's annual meeting.

Market Values

Mr. Kuhn reported that the market value of the fund as of September 23, 2014 was \$494.4 million.

REPORTS

Re: Chairman – None

Re: Trustees/Committees

Personnel Sub-Committee

Trustee Gaffney reported that the Personnel Committee sent out a revised RFP for the Third Party Administrator and posted the job for the Executive Director's position. The RFP's and résumés were due on September 5, 2014. The Committee met on September 11th and 19th to review the information. They received a total of five RFP's and eighteen résumés. They will be meeting on September 25, 2014 to continue the process. They hope to make a recommendation at the October, 2014 meeting or call a special meeting prior to then in order to complete the process.

Finance Sub-Committee

Trustee Moore reported that Tony Saunders came before the Finance Sub-Committee and was well-received. He came to the meeting with no preconceived notions. He is the point person for the Mayor on retiree healthcare. It was a very productive meeting.

He reported that the 2015 Budget has been finalized and is being recommended to the Board.

They have reviewed the IT process and found everything in order and cost effective.

They reviewed the Peritus issue which was reported under the Consultant's Report.

The FOIA request issue will be referred back to the Sub-Committee for resolution.

The actuarial assumptions were discussed and will be discussed by the Interim Executive Director.

The Sub-Committee has approved the purchase of a piece of software to complete the digitization of the Retirement System member records.

The Retirement Office shredder has died and the Sub-Committee has approved the purchase of a replacement.

Trustee Moore noted that it had been reported by one of the retirees that City sent out tax notices to retirees who began collecting their pension benefit prior to age 59-1/2. He indicated that Mr. Nazarko explained to the Sub-Committee that the City had sent out approximately 17,000 tax notices to residents who have not filed tax returns in the past three years. The City is working from the state's report of tax returns filed and retirees were not singled out – they were just included in that overall effort to collect unpaid taxes. Pension income is still exempt from Pontiac income tax. Mr. Moore questioned whether the City had also sent notices out to non-residents who work in the City.

Trustees

Trustee Holloway-Waterman stated that Mr. Saunders was engaged through the City's Attorney at a previous meeting regarding retiree healthcare and the 420 Transfer issue. Mr. Saunders has identified other options that could be used. He is working out the numbers and researching other options. He was encouraged after meeting with the Finance Sub-Committee. The Board has been told by the Treasury Department that their only option is to go to MERS.

Trustee Holloway-Waterman noted that Mr. Saunders has no responsibility for negotiations. She inquired if the Mr. Saunders presentation could be sent to the full Board.

Trustee Nazarko stated that ~ 17,450 notices were sent out to residents but that the City doesn't have the ability to request non-resident data from the state.

Trustee Nazarko stated that the question was raised regarding the income tax bills. He noted that retirees felt that they were targeted. Since 1980 the City has had an agreement with the State of

Michigan to receive copies of income tax returns to compare with the City's records. The last time the City actually utilized that service was in 2006.

The City ran the program for tax years 2010, 2011 and 2012 which has resulted in \$7 million in taxes being billed to the residents. The City was not targeting retirees. It is a long process to acquire the information and there is no way to distinguish the difference in income types based on the file received from the state. He told the Board that social security, pension and unemployment income is not taxable at the City level.

He indicated that non-resident income tax is not a big concern. The employer is required to withhold taxes. If they do not comply the City can go after the employer. He told the Board that 90% of employers are in compliance.

Finance Subcommittee – Resolutions

Miss Munson indicated that the 2015 budget is included in the packet and requires a resolution.

RESOLUTION 14-087 By Moore, Supported by Williams
Resolved, That the Board adopt the 2015 Budget for the System.

Yeas: 9 – Nays: 0

Miss Munson indicate that a resolution is required to accept the reduced fee from Peritus and to direct that the consultant instruct the manager to hew to the mandate to invest in domestic fixed-income bonds only.

RESOLUTION 14-088 By Gaffney, Supported by Barnett
Resolved, That the Board approve the Peritus Asset Management fee reduction to 125 basis points and direct the consultant to instruct the manager to maintain their high yield domestic fixed-income bond-only mandate.

Yeas: 9 – Nays: 0

She also noted that there are documents from Kennedy Capital including an IPO and Client Relationship form that requires the Chairman's signature and Board approval.

RESOLUTION 14-089 By Gaffney, Supported by Barnett
Resolved, That the Board authorize the Chairman's signature on the Kennedy Capital Small Cap Growth IPO and Client Relationship Forms.

Yeas: 9 – Nays: 0

Re: Executive Director

Actuarial Assumptions

Miss Munson reminded the Board that during the 2013 actuarial valuation presentation the actuary recommended changes to three of the actuarial assumptions. The first is the Group

Annuity Mortality Table. The System currently uses the 1983 GAMT but the actuary recommended using the 2014 GAMT table. That table is the most recent, reflects increased longevity and would slightly increase the actuarial accrued liability.

The projected salary increases are high compared to actual recent increases. The higher projected salaries is a conservative approach, but should be changed to better reflect reality.

Lastly, the actuary recommended that the percentage of active employees retiring at retirement age be changed to 100%.

There was discussion regarding the recommended changes to the actuarial assumptions. It was determined that these changes should be sent back to the Finance Sub-Committee.

Option II Form

Miss Munson indicated that the Option II form allows active employees to elect a beneficiary who would receive a benefit in the case that a member died while in active employment. The original Retirement Ordinance Option II language indicated that the beneficiary had to have an insurable interest in the life of the member. Sometime prior to 1997, the Ordinance was amended to require that the beneficiary be dependent on the member for 50% or more of their support. In 2007, the Ordinance was again amended to replace the 50% dependency language with the original insurable interest language. She informed the Board that the Option II election forms that were mailed to members in February still contained the 50% dependency language.

She reported that she is updating the form and will be sending it to active members along with their 2013 benefit statements.

ADP – Payroll Software

Miss Munson reminded the Board that ADP is requiring the System to migrate to their new product. The new payroll system is Cloud-based and payroll will be processed over the Internet. The payroll and reporting features are currently located in software maintained on her computer's hard drive, but that will no longer be the case. The entire payroll and reporting systems will be housed in the Cloud and the System will no longer have that physical possession of its data. The entire migration process will take approximately 8 – 10 weeks, ADP will provide training and she will have Jane go through the training process as well.

She indicated that she has reached out to other vendors including Northern Trust, Paychex and Intuit to find out what type of payroll services they could provide.

She told the Board that ADP is the largest and (by most accounts) the best payroll processing company in the country and that she has been satisfied with the service they've provided thus far.

Trustee Gaffney stated that since they are the largest company the other companies will probably follow their lead and move to the Cloud.

Trustee Holloway-Waterman recommended that Miss Munson stipulate that the System's Cloud be maintained in the U.S. and not off-shore.

Credit Union VISA

Miss Munson reported that Chairman Harrison’s VISA card was recently compromised for the second time this year. She indicated that the credit union offers a low interest rate but that she is looking at other potential vendors for our cards.

Chairman Harrison told the Board that the System used to keep a Certificate of Deposit at the Credit Union but that process has been discontinued. Recently, there has been a lot of trouble with their credit cards. The Credit Union also has a limit on the number of cards that can be issued on one account which means that Trustee Arndt is unable to get a Trustee credit card.

Trustee Gaffney noted that there should not be an issue with regard to the interest rate since the bills are paid in full each month.

Annual Meeting

Miss Munson indicated that the annual meeting is being held on October 7, 2014. She put reminders on the August and September pension checks and will be sending one more reminder notice.

Chairman Harrison told the Board that this meeting was the brainchild of Trustee Moore.

UNFINISHED BUSINESS

Re: Personnel Policies (Referred to Personnel Committee) – Pending

Re: Fiduciary/Dishonest Insurance (Referred to Finance Sub-Committee) – Pending

NEW BUSINESS

Re: Legal

RESOLUTION 14-090 By Giddings, Supported by Barnett

Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

| | |
|-------------------------|---------------------------------|
| Trustee Arndt – yea | Trustee Moore - yea |
| Trustee Barnett – yea | Trustee Nazarko - yea |
| Trustee Gaffney - yea | Trustee Holloway-Waterman - yea |
| Trustee Giddings - yea | Trustee Williams - yea |
| Chairman Harrison - yea | |

The Board moved to closed session at 12:08 p.m.

Trustee Holloway-Waterman, Mr. Blitchok, Ms. Woods and Ms. Watson left at 11:25 a.m.

*Trustee Holloway-Waterman returned at 11:44 a.m.
The Board returned from closed session at 12:34 p.m.*

RESOLUTION 14-091 By Gaffney, Supported by Moore
Resolved, that the Board direct Gray & Company to provide additional documentation and reporting.

Yeas: 9 – Nays: 0

RESOLUTION 14-092 By Gaffney, Supported by Moore
Resolved, That the Board direct legal counsel to follow up with the grievance filed on behalf of LaJuan Craft.

Yeas: 9 – Nays: 0

Kenney Capital Management Proposed Investment Agreement

Ms. Billings reported that Kennedy Capital has adopted all her legal amendments into their investment agreement. She asked that the Board approve the agreement as amended.

RESOLUTION 14-093 By Gaffney, Supported by Williams
Resolved, that the Board adopt the Kennedy Capital Management Small Cap Growth Investment Agreement.

Yeas: 9 – Nays: 0

Correspondence Re: Andrea Samples Retirement Data

Ms. Billings reported that the correspondence was in regards to confirming deferred retiree Andrea Samples' retirement date.

S&P Capital FOIA

Ms. Billings reported that this is additional information for the Trustees' information.

Robbins Geller August 2014 Portfolio Monitoring Report

Ms. Billings reported that this is for the Trustees' information.

Finance Director's Memorandum Re: Letter of Determination

- Pages 3-5 November 21, 2013 Letter of Determination
- Pages 6-8 – Legal Counsel's Correspondence to IRS re: November 21, 2013 Letter of Determination
- Pages 9-11 – Restated Letter of Determination dated January 30, 2014
- Page 12 – Excerpt from §401(b) Regulations
- Page 13 – Excerpt from IRS §420
- Pages 14-16 – Excerpt from 5300 Instructions

Ms. Billings provided the details regarding the Letter of Determination process. She also provided the documentation and timeline with regard to the City's application to the IRS for both the Letter and the 420 Transfer request and how it pertained to Trustee Nazarko's conversation with Ms. Chen of the IRS.

In November, 2013 the Letter of Determination was approved by the IRS, however, there was an error in the Letter which she pointed out to the IRS. The issue was closed at that time and the System would have to reapply in five years including a copy of the Letter of Determination and documentation showing that the amendments were adopted in a timely manner.

She explained that the Letter of Determination is contingent on the adoption of the two amendments. The IRS does not expect the amendments now but in five years they will want the documentation to substantiate that the amendments were adopted within their timeframe.

She reviewed the various documents provided to and received from the IRS. She reviewed the language which states that the Letter of Determination is contingent on the adoption of the amendments. She explained that Ms. Chen would have assumed that the amendments had been adopted when speaking with Trustee Nazarko.

(Trustee Arndt left at 1:24)

SCHEDULING OF NEXT MEETING

Special Meeting: Tuesday, October 7, 2014 @ 3:30 p.m. – SJMH Franco Auditorium
Regular Meeting: Wednesday, October 29, 2014 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 14-094 By Nazarko, Supported by Moore
Resolved, That the meeting be adjourned at 1:30 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on September 24, 2014

As recorded by Jane Arndt