

CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
March 25, 2015

A regular meeting of the Board of Trustees was held on Wednesday, March 25, 2015 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 10:03 a.m.

TRUSTEES PRESENT

Jane Arndt
Shirley Barnett
Koné Bowman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore
Nevrus Nazarko (*arrived at 10:05 a.m.*)
Deirdre Waterman, Mayor (*arrvd at 10:32 am*)
Patrice Waterman
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Cecelia M. Carter, Executive Director
Laurence O. Gray, Gray & Co.
Dustin Blitchok, The Oakland Press
Billie Swazer, Retiree
Linda Watson, Retiree
Debra Woods, Retiree (*arrived at 10:40 a.m.*)

Chairman Harrison opened the meeting at 10:02 a.m.

PUBLIC DISCUSSION/UNION REPS

Retiree, Billie Swazer told the Board that she read an AARP article regarding amendments to the Multiemployer Pension Plan Act of 2014 that was included as part of the sequester legislation. One amendment would allow multiemployer plans to cut pension benefits.

Ms. Billings indicated this does not affect this System and will only affect a small number of pension plans.

AGENDA CHANGES

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Special Meeting: February 24, 2015
- B. Approval of the Minutes of the Regular Meeting: February 25, 2015
- B. Ratification of Retiree Payroll & Staff Payroll

Pay Date: March 25, 2015

Service Retirements

Beneficiaries

Disability

TOTAL PENSION PAYROLL

\$2,183,995.38

PPE February 28th & March 14th

TOTAL STAFF PAYROLL

\$ 22,124.50

C. Communications:

1. Loomis Sayles – Key Personnel Change (March 6, 2015)
2. Gray & Co – Client Letter dated February 19, 2015
3. Wealth Management – Republicans Question Fairness of SEC...(March 19, 2015)
4. State and Local Fiscal Facts: 2015
5. SLGE: Successful Strategies for Well-Funded Pension Plans (February 2015)
6. Piedmont Investment: What Will Happen When The Fed Increases Rates? (1Q 2015)
7. Robinson Capital: Short-Term Bond Strategies (March 2015)

D. Financial Reports:

1. Accounts Payable: (January & February reported at February Board Meeting)
2. Mesirow Financial – Distribution - \$100,000 (February 19, 2015)
3. Mesirow Financial – Capital Call - \$45,000 (February 24, 2015)
4. GrayCo Alternative Partners I, LLC – Capital Call - \$638,887 (March 13, 2015)

E. Applications for Retirement, Final Calculations, Refunds, Re-examinations

1. New Retirements

Ret No.	Name	Years/Months of Service	Union	Age	Retirement Option	Effective Date (2015)	Monthly Benefit
2775	Samples, Andrea G	14 – 10	MAPE	58	Regular	April 1	
2773	Stockwell, Mary J	0 – 5	Hospital	65	Option IV	April 1	
2776	Heitkamp, Brigitte L.	0 – 1	Hospital	61	Option II	April 1	
2772	Baldwin, Elizabeth	1 – 2	Hospital	66	Option III	March 1	
2769	Vettrano Jr., Anthony	4 – 7	Hospital	62	Regular	March 1	
2771	James, Cresithia	10 – 6	Teamsters	60	Option III	March 1	
2767	Asker, Lynn	11 – 0	Non-Union Agree Holder	60	Regular	February 1	

* Retiree is eligible for the temporary two-year \$400.00 per month supplemental benefit per Executive Order No. S-307 dated August 1, 2013 that terminates effective September 1, 2015

2. Terminated Retirements (Deaths)

Ret No.	Name	Date of Death	Member or Beneficiary	If Beneficiary Member Name
787	Higdon, Della	02.20.2015	Member	
898	Aho, Margaret	02.24.2015	Beneficiary	William Aho
70918	Birnkrant, Bernice	03.05.2015	Beneficiary	Sherwin Birnkrant

3. Joint & Survivor Continued Retirements

Ret No.	Retiree's Name	Date of Death	Survivor's Name	Joint & Survivor Option
956	Chesney, James H.	03.02.2015	Annabell Chesney	100% J&S
1455	Cooley, Jr., Allen	03.16.2015	Susan Cooley	100%

4. Employee Contribution Refunds

Ret No.	Retiree's Name	Union or Department	Dollar Amount of Refund
	Engler, Janet S.	Hospital	

RESOLUTION 15-017 By Gaffney, Supported by Waterman
 Resolved, That the Board approve the consent agenda for March 25, 2015

Yeas: 10 – Nays: 0

CONSULTANTS

Re: Gray & Company – Report from Investment Consultant

Mr. Gray provided an overview of the System’s performance as of February 28, 2015.

The Fund’s total market value as of February 28, 2015 was \$500.4 million and \$503.0 million as of March 23, 2015. The Fund realized good performance on a risk adjusted basis.

	Value \$ (000)	% of Fund	Period Ending February 28, 2015							Since Inception
			Current Mo.	QTD	YTD	1 Yr	2 Yrs	5 Yrs	10 Yrs	
Total Plan	500,474	100	4.19	2.73	2.73	8.50	13.45	11.91	7.75	8.64
Policy Index			4.25	3.20	3.20	9.05	14.20	12.56	7.78	8.95

Domestic Equity one-year returns of 12.63% slightly underperformed the benchmark at 14.12%.

International equity manager First Eagle underperformed with year-to-date returns of 0.24% versus the benchmark at 3.92%.

Trustee Arndt asked how much of First Eagle’s allocation is currently sitting in cash.

Fixed income manager Munder Capital slightly underperformed for the month at -1.02% versus the benchmark at -0.94%.

Fixed income manager Robinson Capital slightly underperformed the benchmark for the quarter but has continued to return solid numbers.

High yield manager Peritus Asset Management one-year returns were -8.38% versus the benchmark at 2.84%. He told the Board they are looking to start the interview process to replace the manager. He also indicated there have been administrative issues with this manager.

Private equity performance was reviewed. GrayCo Alts one-year performance was 24.2% and is in the top percentile. There was a recent capital call for \$638,887.00.

Mesirow Private Equity Fund IV five-year returns were 14.33%. The Fund recently issued a \$100,000.00 distribution to the System. The manager also issued a capital call for Fund VI for \$45,000.00.

Invesco Private Equity five-year returns were 14.82%.

Trustee Moore asked about the letter from Gray & Company and the SEC issue.

Mr. Gray told the Board that Gray & Co has filed a lawsuit as plaintiff with the SEC as the defendant. The argument is whether the SEC's practice of using administrative law judges is unconstitutional. Since the lawsuit has been filed, there have been congressional hearings with regard to the enforcement division of the SEC. (note: Wealth Management – Republicans Question Fairness of SEC...(March 19, 2015)

REPORTS

Re: Chairman

Chairman Harrison reviewed the manager selection process with the Board. He noted that in the past the Board would interview five managers but has reduced the number to three managers. He questioned whether the Board would like to continue the process of interviewing managers or if they would like to review the performance numbers only when selecting a manager.

Trustee Gaffney stated she would prefer interviewing the managers in order to get a feel for who is managing the System's money.

Trustees Bowman and Arndt concurred with Trustee Gaffney.

Chairman Harrison told the Board that when selecting a manager the Board tends to gravitate toward the performance numbers. However, it may be best to look deeper into the manager's process. The best manager may be the one in the middle of the pack. Mr. Gray stated that chasing the hot stocks and managers is not always the best approach because there is always a tendency for regression toward the means.

Re: Trustees/Committees

Personnel Subcommittee

Trustee Gaffney reported the Personnel Committee met once in March. The Committee discussed the delay in checks being delivered to members. It is currently taking two days for local check delivery.

Miss Carter explained it is her understanding the delay was caused by a reduction in staff at the Post Office distribution center. Checks cannot be mailed earlier than the day before the check date because they could arrive prior to their negotiable date.

Trustee Gaffney told the Board the Committee reviewed the COLA overpayment which is also being reviewed by the Finance Committee.

A notice is also being sent out to the members reminding them the temporary two-year \$400.00 pension increase will be terminating at the end of August, 2015.

The first vendor review for the legal consultant is underway; however the Finance Committee wanted to weigh in on the review.

They are currently reviewing the Board Charter with particular emphasis on the Executive Director and Chairpersons sections.

The next Committee meeting will be held on April 17, 2015.

Finance Subcommittee

Committee Chair Trustee Moore deferred the Committee report to Executive Director Carter.

Miss Carter reported the Finance Committee met on March 18, 2015 including Trustees Giddings, Harrison, Moore, Nazarko and Patrice Waterman. Mr. Gray was in attendance as was Ms. Billings via telephone.

The Committee reviewed the overpayment issue including the overpayment reimbursement policy adopted in 2008.

The vendor review process is underway beginning with legal counsel. The survey was reviewed with suggested changes.

The portfolio investments and managers were reviewed. There was discussion and an overview of the System's alternative investments. The Committee discussed how extensive the portfolio should be invested in alternatives. They also discussed other alternative investments including real estate, timber, agriculture and commodities.

There was discussion regarding the plan demographics and plan design information shared with MERS.

Trustee Bowman asked what information was shared with MERS.

Miss Carter explained MERS was looking to fine tune the data they have received. GERS has shared plan demographics and plan design information with MERS.

Trustee Deirdre Waterman asked how often the vendor review and investment policy statement are conducted.

Miss Carter explained the IPS and vendors should be reviewed annually.

The Investment Consultant vendor review is next and is scheduled for May.

Re: Executive Director

Retirement Application Benefit Amounts

Miss Carter indicated there are retirement applications contained in the consent agenda with benefits of \$1 or less which is a result of hospital retirees who were eligible to collect a benefit with less than one year of service credit. The cost of processing the benefit is more than the actual benefit payment to the member.

She is looking into whether a retirement application for a benefit less than \$50.00 per month has to be honored.

Ms. Billings indicated that the IRS allows for cash outs. This can be done automatically.

Trustee Moore commented on the effect of the Emergency Manager Order on retirement benefits.

Miss Carter noted these members will also receive the additional \$400.00 per month temporary increase per the Emergency Manager Order and noted its fiscal impact on the System.

Trustee Deirdre Waterman asked if the members can be cashed out.

Miss Carter stated quite a few deferred members could be cashed out now for a small lump sum rather than receiving a monthly benefit.

Ms. Billings also noted there could be similar situations based on the City's partial plan termination.

Trustee Giddings asked if adopted could it apply to members who are already collecting a pension benefit.

Ms. Billings stated an amendment to the Retirement Ordinance would have to be adopted. Anyone with an actuarial present value over \$1,000.00 who does not consent to the distribution; the Retirement System would have to roll over their cash out to an IRA.

Missing Retired Members / Pension(s) Suspended

Miss Carter reported that two members whose benefits had been suspended because their addresses were not kept current with the System have been found. One member had not received her retirement benefit since 2008. A number of her checks had been returned to the Office which is why her benefit was suspended. The other member was under the supervision of a conservator and the Letter of Conservatorship had not been updated in a number of years.

Miss Carter noted for the record: Ms. Antoinette Hicks was located. Her benefit payment included a number of non-negotiated checks past monthly pension payments. The total amount reimbursed to Ms. Hicks was \$59,429.44 covering the period of December 2009 through February 2015.

The conservator for Willa Hayes was contacted regarding the expired Letters of Conservatorship. Current Letters of Conservatorship were forwarded to the Retirement Office. Her benefit payment included four non negotiated checks and checks from April, 2011 through February, 2015 for a total amount of \$30,605.00.

Ms. Billings explained the conservator process.

Trustee Moore asked if there is a policy explaining how the process should work.

It was determined based on the conservator process a Board policy is not needed.

IRS 1042-S

Miss Carter reported that legal counsel was consulted on whether the System is obligated to file IRS Form 1042S based on two retirees of the Retirement System who receive a retirement benefit with an address of record outside the United States. It was determined the System does not have to file Form 1042S, however there are other tax withholding obligations the System must adhere to regarding these two retirees.

UNFINISHED BUSINESS

NEW BUSINESS

Re: Cost of Living Overpayments

Miss Carter reported there was an overpayment made to the cost of living adjustment. This was discovered while discussing the COLA calculations in relationship to the \$400.00 temporary increase. It has come to the attention of the Board the \$400.00 temporary increase should not have been included in the calculation. In 2013 the COLA calculation included four months of the \$400.00 temporary increase and in 2014 it included twelve months of the \$400 temporary pension increase.

There are approximately six hundred retirees affected by the overpayments. This does not apply to Hospital retirees as they are not eligible for a Cost of Living Adjustment. The range of overpayments is from \$8.00 to \$2,300. She explained that in addition to applying the COLA to the \$400 temporary pension increase, the COLA calculations were implemented using the retiree's collective bargaining agreement retirement escalator.

The System is required to recover the overpayments. The recovery will be done in stages starting with non-union members. There are one hundred and twenty-five non-union members. The most one member could owe is \$128.00 and the least is \$8.00. The overpayment will be recouped in two equal payments beginning April 2015.

We would prefer members do not write checks to the Retirement System as repayment, and that the overpayment be offset against future pension payments or against their 2015 COLA payment.

Trustee Patrice Waterman confirmed that a letter will be sent out to the members.

Chairman Harrison stated for the record the Board was never aware the COLA calculation included the \$400.00 temporary increase.

Miss Carter indicated it is important to note, in the past COLA calculations were not brought before the Board for discussion. The actuary should be asked to perform a cursory review and especially when there is a mass change to the expected demographics of an across the board sampling.

Trustee Deirdre Waterman asked why the actuary or auditor did not identify the error.

Miss Carter noted the actuary and auditor are being contacted. The previous administration instructed the actuary to include the COLA in the calculation. The actuary did calculate a 2% COLA into the cost study. The cost study was signed off by the City in 2013.

Trustee Deirdre Waterman noted there is cause for concern. She questioned the impact the overpayment has had on the investments. She also questioned how this loosely adheres to the Finance Director's responsibility in the matter.

Chairman Harrison indicated he made a statement regarding the Board. There are now several processes at the subcommittee level to ensure situations of this nature are addressed before implementation. The Board is not skirting their responsibility.

Trustee Nazarko stated this issue brings to the forefront why checks and balances are implemented in the Ordinance. Currently, the Executive Director is under the direct supervision of the Finance Director. He explained that as the Finance Director he currently oversees a number of City departments including Finance, Human Resources and Information Technology. His concern is the Executive Director of the Retirement System is no longer a City position.

Chairman Harrison noted with the change in governance and using the committee structure, specifically the Finance Committee, the Board should be able to mitigate future administrative errors.

Ms. Billings noted that the provision in the Retirement Ordinance would need to be amended in order to direct oversight of the Executive Director to the Board of Trustees and no longer with the City's Director of Finance.

This was determined to be an agenda item for the Finance Committee.

Trustee Arndt noted – to address Trustee Deirdre Waterman's concern, there should be limited effect on the System's investments since the bulk of the overpayment occurred in November, 2014 and only four months of the 2013 COLA included the \$400.00 temporary increase in the calculation.

Trustee Bowman left at 11:19 a.m.

Trustee Deirdre Waterman asked why the actuary and auditor did not find the errors. The primary responsibility of the Board is oversight. However, the Board should not be part of the checks and balances.

Chairman Harrison confirmed that the Board was comfortable with the recommended solution.

Trustee Giddings acknowledged the Board has recognized their responsibility and the committee structure is evolving. He is more comfortable with the current Executive Director and that these issues will not continue to occur.

RESOLUTION 15-018 By Moore, Supported by P. Waterman

Resolved, That the Board authorizes the Executive Director to implement a recovery plan in groups/stages and report back to the Board on a monthly basis the status of the recovery. The first group to undergo recovery is non-Union retirees (Hospital retirees excluded) with repayment through two monthly installments beginning April 2015.

Yeas: 10 – Nays: 0

Re: Legal

Pension Payments to Non-US Addresses and Banks

Ms. Billings reported there are two members who are receiving pension benefits that live outside the country. One member lives in France and other in the Philippines. Both members have social security numbers on file with the System and have their checks deposited into a U.S. bank. The System is not required to file IRS Forms 1042 or 1042-S since both members are considered U.S. citizens.

However, given both retirees have non-U.S. addresses on file with the System, each retiree is subject to federal tax withholding and may not opt out of tax withholding. Staff has been instructed to ensure both retirees have filed a federal tax withholding form with the System.

Proposed Bill Which Would Require the Use of English at Public Meetings and Public Documents

Ms. Billings reported there is currently a proposed bill that would designate English as the official state language for public meetings and documents.

Fee/Political Contribution Disclosure Statements

Ms. Billings reported that the enclosed fee disclosure statement is mailed out every year to the Retirement System's consultants, custodial bank and investment managers and the political contribution disclosure is mailed every year to all service providers.

Trustee Giddings asked if this includes individual contributions from employees of the company.

Ms. Billings indicated that employees are to advise the company of any political contributions they make.

Trustee Giddings questioned whether the fee disclosure statement makes it clear that it applies to the employees of the firm.

Ms. Billings indicated that the fee disclosure statement is required under Public Act 314.

Robbins Geller February 2015 Portfolio Monitoring Report

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

RESOLUTION 15-019 By Barnett, Supported by Williams
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 Deirdre Waterman - yea
Trustee Giddings - yea	Trustee Patrice Waterman - yea
Chairman Harrison - yea	Trustee Williams - yea

The Board moved to closed session at 11:40 a.m.
Mr. Blitchok, Ms. Swazer, Ms. Watson and Ms. Woods left at 11:40 a.m.
Trustee Nazarko left at 12:09 p.m.
The Board returned from closed session at 12:11 p.m.

RESOLUTION 15-020 By Moore, Supported by Gaffney
Resolved, that the Board ratify the Chairman’s signature to apply for lead plaintiff status in the Movado Group securities litigation.

Yeas: 9 – Nays: 0

RESOLUTION 15-021 By Giddings, Supported by Arndt
Resolved, that the Board approve the closed session minutes for February 25, 2015.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, April 29, 2015 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 15-022 By Gaffney, Supported by Waterman
Resolved, That the meeting be adjourned at 12:13 a.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 March 25, 2015

As recorded by Jane Arndt