

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 24, 2015**

A regular meeting of the Board of Trustees was held on Wednesday, June 24, 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 10:04 a.m.

TRUSTEES PRESENT

Jane Arndt
Koné Bowman (*arrived @ 10:20 a.m.*)
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore
Deirdre Waterman, Mayor (*arrvd. @10:17 am*)
Patrice Waterman (*arrvd. @ 12:15pm*)

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Nevrus Nazarko (*excused*)
Kevin Williams (*excused*)

OTHERS PRESENT

Cynthia Billings, SWAP, PC
Laurance O. Gray, Gray & Company
Cecelia M. Carter, Executive Director
Beth Bialy, Plante & Moran
Manju Patnaik, Plante & Moran
Les Bonds, Attucks Investment Mgmt.
Cathy Sweeney, Attucks Investment Mgmt.
Pat Sylvestri, Attucks Investment Mgmt.
Billie Swazer, Retiree
Linda Watson, Retiree
Debra Woods, Retiree

Chairman Harrison opened the meeting at 10:04 a.m. without a quorum

PUBLIC COMMENT

Retiree, Billie Swazer stated she has filed FOIA requests with the City to obtain tapes from the City's public access channel and minutes from the public hearings held from June, 2013 through September, 2013. These hearings were held during the time the Emergency Manager approved a temporary \$400.00 increase to the retirees and indicted that the increase would be included in the PRIF (post retirement increase factor) or the cost of living adjustment.

The City has partially denied her requests stating she needs to include more detail and the purpose of her request. She questioned what information is required when filing a FOIA request.

*Trustee Deirdre Waterman arrived at 10:17 a.m.
Meeting quorum established at 10:17 a.m.*

Trustee Deirdre Waterman told the Board she would have to leave at approximately 10:43 a.m. She also introduced an Executive Office intern from Oakland University.

Trustee Bowman arrived at 10:20 a.m.

AGENDA CHANGES

Chairman Harrison indicated he would like to add the Attucks Asset Management to Unfinished Business.

RESOLUTION 15-048 By Gaffney, Supported by Moore

Resolved, That the Board approve to add Attucks Asset Management under Unfinished Business on the agenda.

Yeas: 7 – Nays: 0

Chairman Harrison requested the Chairman’s Report be moved to the front of the agenda after the consent agenda in order to accommodate Mayor Waterman’s need to depart early.

RESOLUTION 15-049 By Gaffney, Supported by Moore

Resolved, That the Board approved to move the Chairman’s Report after the Consent Agenda.

Yeas: 7 – Nays: 0

APPROVAL OF CONSENT AGENDA

A. Approval of the Minutes of the Regular Meeting: May 27, 2015

B. Approval of the Minutes of the Special Meeting: June 5, 2015

C. Ratification of Retiree Payroll & Staff Payroll

Pay Date: June 24, 2015

Service Retirements

Beneficiaries

Disability

TOTAL PENSION PAYROLL

\$2,086,864.65

PPE June 11th and June 25th

TOTAL STAFF PAYROLL

\$ 22,124.48

C. Communications:

1. IRS to Halt Issuing Certain Determination Letters, Pensions & Investments (June 15 2015)

2. Plante Moran Government Client Training (June 10, 2015)

3. FOIA Requests

a. Request #5 – Linda Hasson (Pontiac Resident) Received via fax June 2, 2015

b. Request #1* – Linda Hasson (Pontiac Resident) Received via fax June 15, 2015

c. Request #2* – Linda Hasson (Pontiac Resident) Received via fax June 15, 2015

d. Request #3* – Linda Hasson (Pontiac Resident) Received via fax June 15, 2015

e. Request #6 – Linda Hasson (Pontiac Resident) Received via fax June 15, 2015

f. Request #7 – Linda Hasson (Pontiac Resident) Received via fax June 15, 2015

* Follow up to previous FOIA Request

D. Financial Reports:

1. Accounts Payable: May, 2015

2. Gray & Company SEC Update (June 9, 2015)

3. Gray & Company Emerging Manager of Manager for Period Ending April 30, 2015

4. Gray & Company Michigan LC Value Manger of Manager for Period Ending April 30, 2015

E. Private Equity / Capital Calls & Distributions

1. Ratify receipt of Mesirow Financial PE Fund IV, LP – Distribution – May 29, 2015
\$200,000.00

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*
2782	Vine, Robert J	5 – 2	Hospital	55	Regular	June 1	
2783	Smith, Susan M	12 - 9	Hospital	55	Option IV	August 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 terminates effective September 1, 2015

Bold type entry indicates reciprocal service credit with another municipality or governmental unit in accordance with State of Michigan Reciprocal Retirement Act 88 of 1961

2. Terminated Retirements (Deaths)

Ret No.	Name	Date of Death	Member or Beneficiary	<i>If Beneficiary</i> Member Name	Union or Dept.
1364	Denham, Frances	01.29.2015	Member		Hospital
1283	Cunningham, Robert	05.24.2015	Member		Non-Union Court

3. Continued Retirements

Ret No.	Retiree's Name	Date of Death	Survivor's Name	J & S Option	Amount	Union or Dept.
1672	Hutchinson, Wayne	05.22.2015	Hutchinson, Sandra	100% J&S		Local 2002
1717	Compton, Richard	05.15.2015	Compton, Janice	100% J&S		SAEA

4. Recalculated Retirements

5. Suspended Retirements

6. Refunds of Employee Contributions

Trustee Giddings questioned whether the FOIA requests under Communications had been updated or were they original requests.

Miss Carter explained request numbers one, two and three were follow-ups to an original request and requests number five, six and seven were new requests.

Trustee Moore asked what information was being requested in the new FOIA requests.

Miss Carter indicated request number five requested a copy of legal counsel's engagement letter. Request number six asked for the list of the sixty-nine members who were requesting eligibility for the early-out. Request number seven asked for a copy of the Letter of Determination submittal regarding the 420 Transfer.

Trustee Moore questioned why the request was not made to the City.

Miss Carter indicated the FIOA request was made to GERS and she provided the information based on the attorney's review. She further indicated she did not know why the requestor turned to GERS rather than the City.

Trustee Deirdre Waterman stated the affected former employees/members was discussed at the City Council meeting. Human Resources has generated a list of three hundred members who could be eligible for the early out.

Trustee Arndt interjected the City Council resolution included specific eligibility criteria which resulted in the sixty-nine members on the list. She also noted the overall total number of deferred City members for the General Employees Retirement System is much less than three hundred.

Trustee Deirdre Waterman stated the information supplied by the City's Human Resources Department may have also included the Police & Fire Retirement System.

RESOLUTION 15-050 By Gaffney, Supported by Moore

Resolved, That the Board approve the consent agenda for June 24, 2015 as amended

Yeas: 7 – Nays: 0

Re: Chairman

Chairman Harrison told the Board there were a number of interesting topics discussed at the NASP Conference. The general consensus is that the Fed fund rate will be increasing later this year and a shift in the market will occur. The rising rates have been in the general discussion for the past several years. It is important for the System to get ready for the rate hike which is why the Board is looking at global bonds. He questioned whether there are any limits on the amount of bonds in the portfolio.

Ms. Billings stated outside of alternative investments there is no limit on the percentage of fixed income in the portfolio only equity investments under Public Act 314.

Chairman Harrison stated he presented his thoughts to the Finance Subcommittee. He has been thinking about the rising interest rates and feels the Board should be prudent in finding alternatives to safeguard the assets. As a Board member and City resident he is looking for ways to build the City back up. There have to be opportunities or ways to invest in the City. He has given this task to the Investment Consultant (Gray & Company) to determine if there is a way the System can help the City. But, it would have to make economic sense. He noted as a Board it is not the Trustees' job to spread good will.

He indicated the Mayor would know what the City's hard assets are and could work with the Investment Consultant (Gray & Company).

Trustee Deirdre Waterman stated it is an enticing idea but there would have to be a specific purpose and protection. She recently sat down with the Police & Fire Board to discuss the retiree healthcare issues and looked at the City's assets. She noted the Board's long-term interest is to protect the System's assets adding that this is one of only two cities in Michigan that have an overfunded retirement system.

Trustee Giddings asked if Chairman Harrison is aware of any models or basic concepts being done.

Chairman Harrison stated this was his idea and he has his own thoughts on how it could be done.

Miss Carter suggested a task force be established to flush ideas through to see if this could work.

Trustee Deirdre Waterman left at 10:45 a.m.

Trustee Moore indicated that he attended the NASP Conference where there was a session and panel discussion regarding the Detroit bankruptcy including persons instrumental in the bankruptcy proceedings: Chief Judge, Gerald E. Rosen; a director from rating agency Standard & Poors and a member of the Detroit Financial Review Board. He felt the panel did not allow those in attendance to participate in the discussion. There seemed to be a disconnect between the panelists and the attendees. It would be helpful to have more trustees participate as panelists.

Les Bond the CEO of Attucks Asset Management and the President of NASP (National Association of Securities Professionals) – who was present at the meeting for other purposes, stepped forward to discuss NASP's governance, composition and mission.

Trustee Giddings asked Mr. Bond about the NASP organization, explaining he was not familiar with the organization.

Mr. Bond stated NASP (National Association of Securities Professionals) was founded thirty years ago. It is the largest minority financial services trade association in the world. It is comprised of minority and women-owned financial services firms and minority and women in majority owned financial services firms. The organization was founded by Maynard Jackson the former mayor of Atlanta. The organization has ten chapters with Detroit being one of the largest. The organization holds job fairs, posts resumes and job openings for its membership.

Chairman Harrison and Trustee Moore stated they were impressed with the diversity at the conference.

Trustee Bowman told the Board he engaged Orim Graves, the Executive Director of NASP to discuss their methodology with regard to the sessions and the interaction and participation with attendees.

CONSULTANTS

Re: Gray & Company – Report from Investment Consultant

Mr. Gray presented an overview of the System’s preliminary and unaudited performance as of June 22, 2015. The total Fund value was \$503.0 million.

The Total Plan value as of May 31, 2015.

	Value \$ (000)	% of Fund	Current Month	QTD	YTD	1 Year	2 Yrs	5 Yrs	10 Yrs
Total Plan	500,756	100	0.84	1.05	4.24	8.25	11.43	12.10	7.98
Net of Fees									
Policy Index			0.80	1.25	4.03	7.86	11.69	12.59	7.89

Large cap growth manager Sawgrass Asset Management is still on internal watch. Their performance will benefit from a correction in the marketplace.

The Gray Emerging Manager and Michigan-Centric Manager of Managers Program established in 2007 have performed efficiently in the large cap space. The program has returned good results versus the Russell 1000 since inception with returns of 11.65% versus 7.12%.

Mid cap manager Systematic returned one-year performance of 5.62% versus 10.09%. Their long-term since inception performance is better. Gray & Company sat down with Systematic last year to review their performance issues.

Small cap managers Loomis Sayles and Kennedy Capital have performed well.

Mr. Gray indicated that global equity manager First Eagle’s gold holdings have served them well.

Fixed income manager Victory Capital manages longer duration bonds.

Fixed income manager Robinson Capital manages shorter duration bonds which should protect better in a rising interest rate environment.

High yield manager Peritus Asset Management returned good performance relevant to the space. However, the Board has determined they will move on. He has brought the search booklet to the meeting for the Board’s review. He noted the Board will hear the manager presentations at the next meeting.

He indicated the private equity performance numbers are from the period ending December 31, 2014 because of the lag in performance reporting.

He reviewed the System’s performance ranking versus other public funds.

He recommended the Board take some positive actions before interest rates rise. The System could broaden its exposure from U.S. fixed income to global fixed income.

Chairman Harrison stated it is still the Board's fiduciary responsibility to meet the actuarial assumption.

Mr. Gray gave an overview of the global fixed income manager search process and criteria used by Gray & Company to identify potential managers appropriate and complimentary to the Pontiac GERS portfolio.

Gray & Company reviewed twenty-seven managers in the investment space and are recommending three managers for the Board's consideration: Brandywine Global Investment Management, LLC; Colchester Global Investors Limited and Mondrian Investment Partners Limited.

He reviewed the search materials including the index description; firm profiles and strategy profiles including preferred benchmark, duration and quality issues. Each manager's average quality issue was AA-rated.

There was discussion regarding investment opportunities for the System including private equity, REITS and mezzanine financing.

Ms. Billings stated any investments made would have to be compliant with Public Act 314.

REPORTS

Re: Trustees/Committees

Personnel Subcommittee – June Meeting Canceled

Finance Subcommittee

Miss Carter reported the Finance Committee met on June 19, 2015 including Trustees Giddings, Harrison, Moore, Nazarko and Patrice Waterman. Mr. Gray, Ms. Billings and representatives from Plante & Moran were in attendance.

The Committee discussed an article regarding the IRS announcement that they will halt issuing determination letters. The IRS will no longer issue determination letters, which will require self-auditing by the System. However, the IRS will continue to impose punitive damages when there is an issue.

The 2014 Audit Report was reviewed. There were recommendations with regard to segregation of duties and updating the accounting systems.

Miss Carter reiterated this supports her earlier raised concerns with the manner in which the System's accounting records are maintained. She has already informally met with one company and has investigated their recommendation for accounting software.

There was discussion regarding updating the mortality tables and adding it as a System policy. The Committee felt the System should use the most updated table recommended by the actuary.

The updated letter from the SEC regarding Gray & Company was reviewed.

The manager of managers' program transition from Gray & Company to Attucks Asset Management was reviewed.

There was a \$200,000.00 distribution from Mesirow Private Equity.

Mr. Gray provided an overview of the System's performance.

The current status of the Retirement COLA overpayment issue was reviewed.

There was an overview of the System's demographics.

The Committee's next meeting is scheduled for Monday, July 27, 2015.

Re: Executive Director

Miss Carter reported the Summer Manager Review Meeting will be held on Tuesday, August 25, 2015 from 8:00 a.m. to 4:00 p.m. She made one change to the upcoming meeting. She asked that the firm's economist or someone from their research team be present.

She will be working on the System's annual town hall meeting and will have more information to discuss at the July, 2015 meeting.

The ICMA presentation regarding the 401(a) plan will be held at the August, 2015 meeting.

Northern Trust has requested to meet with the Board. The Board agreed to meet at the August regular Board meeting.

Miss Carter attended the Plante & Moran Government Training on June 10, 2015. She created an online file of the training materials. The materials can be requested through Ms. Arndt.

UNFINISHED BUSINESS

Re: Attucks Asset Management

Chairman Harrison introduced Mr. Bond of Attucks Asset Management and stated the Board has hired Attucks Asset Management to facilitate the Manager of Managers Program.

Mr. Bond indicated including himself, three of the firm's top key personnel are in attendance. This is a wonderful opportunity for their firm. He has known Chairman Harrison for a number of years. Miss Carter was a client of theirs during her tenure with the City of Seattle Retirement System. He also indicated he has worked with Gray & Company in the past and it will be hard to beat the past performance.

CIO, Patrick Silvestri indicated the average experience of their investment team and portfolio team is more than thirty years.

He noted they manage \$125 million in assets for the State of Michigan Municipal Employees Retirement System. MERS has had a Michigan overlay program for many years.

Mr. Silvestri described their investment philosophy. They believe that small, independent and entrepreneurial investment firms possess the ability to generate superior returns. They feel smaller firms have more positive and dedicated employees which gives them a performance advantage over large major firms. He reviewed their seven step investment process.

He looks forward to working with Mr. Gray and the Pontiac GERS Board.

Ms. Cathy Sweeny, VP at Attucks introduced herself. She and Mr. Silvestri will be the primary contact persons on the account.

She referred to the emerging manager large cap portfolio and the Michigan large cap value portfolio performance including annual performance and inception date. They also included a statistical page for each manager that included the manager's strategy, actual performance, comparative performance results, product correlation and annualized standard deviation.

They have contracts with most of the managers in the Pontiac GERS manager of managers program(s). This is a great Michigan-based portfolio. They know most of the managers very well.

Miss Carter interjected to the Board, her experience with Attucks is that their entire team becomes an extension of the System's staff.

Mr. Bond, Ms. Sweeney and Mr. Silvestri left at 12:02 p.m.

NEW BUSINESS

Re: Disability Re-Exam – Rodney Parr

Miss Carter reported a disability determination form was received from the Medical Director for Board approval. Disability retiree Rodney Parr has been deemed fully and totally disabled.

RESOLUTION 15-051 By Gaffney, Supported by Arndt

Resolved, That the Board approve the continued disability retirement for Rodney based on the Medical Director's Independent Medical Exam.

Yeas: 6 – Nays: 0

Re: Plante & Moran – 2014 Audited Financials Report

Beth Bialy and Manju Patniak presented an overview of the 2014 Audited Financials Report.

Ms. Patniak explained it is their responsibility to issue an opinion based on their audit of the financial statements of the Retirement System. The only information included in the report that is prepared by the auditors is the Independent Auditor’s Report. All other information, financial results and data is prepared by the Retirement Staff.

She reported in the auditor’s opinion the financial statements and the plan net position of the City of Pontiac General Employees’ Retirement System as of December 31, 2014 were presented fairly, in all material respects and in accordance with accounting principles generally accepted.

She reported in 2014 the System adopted the new accounting guidance GASB Statement No. 67. This did not affect their opinion.

She reviewed the Management Discussion & Analysis prepared by the Plan's Staff which includes the current year's financial results. It is a summary of the balance sheet and income statement. She also explained that the Plan Sponsor Financial Condition is a new required disclosure.

She reviewed the Statement of Changes in Plan Net Position.

Net Change in Plan Net Position	\$ 1,253,908
Plan Net Position – Beginning of year	\$490,472,887
Plan Net Position – End of year	\$491,726,795

Trustee Moore questioned why the temporary \$400.00 payment is not segregated out or has its own line item.

Ms. Bialy stated it is included in the retirement pension and annuity benefits line item because it is part of the normal pension benefit. However, it could be broken out in future reports.

Trustee Moore asked that it be its own line item going forward.

Ms. Bialy reviewed the letter which includes the required communications with those charged with governance; other recommendations and related information and informational item. She further gave an overview of her discussions with Miss Carter regarding the System’s current method of maintaining its accounting records and concurs with Miss Carter’s recommendation that the System investigate and invest in more robust accounting tools. However, she noted the System should not consider using a customized software solution due to technological cost and expertise.

Trustee Patrice Waterman arrived at 12:15pm

There was further discussion generated from Trustee Moore as to when the City last contributed to the Plan. After discussion and recollection it was determined, the last *major* contribution from the City was in 2003.

Mr. Moore further questioned why the report referenced the City of Pontiac in receivership rather than under a Transition Advisory Board.

Ms. Bialy indicated that is how it was represented to them by the City.

RESOLUTION 15-052 By Gaffney, Supported by Moore

Resolved, That the Board receives and files the audited financial statements for the City of Pontiac General Employees' Retirement System for the year ending December 31, 2014.

Yeas: 7 – Nays: 0

Ms. Bialy and Ms. Patnaik left at 12:21 p.m.

Re: Legal

Investment Management Agreement with Attucks Asset Management LLC

Ms. Billings reported that she reviewed the Investment Management Agreement (IMA) with Attucks Asset Management and they have agreed to all her changes.

She provided a brief overview of the changes made to the IMA.

Freedom of Information Act

Ms. Billings reported effective July 1, 2015, the Michigan Freedom of Information Act Public Act 442 of 1976 will be amended. She reviewed the changes with the Board.

The law now requires more detail in the procedures.

RESOLUTION 15-053 By Moore, Supported by Gaffney

Resolved, That the Board approve the amended Freedom of Information Act Procedures and Guidelines as presented adopted June 24, 2015, effective July 1, 2015.

Yeas: 7 – Nays: 0

RESOLUTION 15-054 By Gaffney, Supported by P. Waterman

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

Roll Call:

Trustee Arndt – yea

Chairman Harrison – yea

Trustee Bowman - yea

Trustee Moore - yea

Trustee Gaffney - yea

Trustee Patrice Waterman - yea

Trustee Giddings - yea

The Board moved to closed session at 12:43 p.m.

Mr. Gray, Ms. Swazer, Ms. Watson and Ms. Woods left at 12:43 p.m.

The Board returned from closed session at 12:54 p.m.

RESOLUTION 15-055 By Gaffney, Supported by Bowman

Resolved, that the Board ratify the Executive Director's signature on the Northern Trust plaintiff Declaration for Class Certification.

Yeas: 7 – Nays: 0

RESOLUTION 15-056 By Gaffney, Supported by Bowman

Resolved, that the Board authorize the dismissal of the lawsuit against the Movado Group, Inc., conditioned on the lack of any positive developments in the ongoing investigation by the deadline for filing the amended complaint.

Yeas: 7 – Nays: 0

RESOLUTION 15-057 By Gaffney, Supported by Moore

Resolved, that the Board approve the closed session minutes for May 27, 2015.

Yeas: 7 – Nays: 0

ADJOURNMENT

RESOLUTION 15-058 By Gaffney, Supported by Waterman

Resolved, That the meeting be adjourned at 12:47 p.m.

Yeas: 7 – Nays: 0

Trustees Bowman and Trustee Waterman left at 12:57 p.m.

The Trustees present continued with the Legal Report

Re: Legal (Continued)

Baldwin Domestic Relations Order

Ms. Billings reviewed the Baldwin Domestic Relations Order with the Board. The Alternative Payee will share 50% of the participant's regular benefit allowance going forward per the DRO. In the event the Alternate Payee predeceases the participant all benefits will revert back to the participant. If the participant predeceases the Alternate Payee, all benefits to the Alternate Payee will cease.

Timing of Beneficiary Designation/Trust as a Beneficiary

Ms. Billings reported a member recently applied for his regular retirement benefit. He questioned whether the beneficiary can be changed after retirement and if the Trust can be named the beneficiary. She indicated the beneficiary can be changed after retirement on a regular retirement for the remaining contributions in the System. And, the Trust can be named as the beneficiary if the terms of the Trust are adhered to.

Miss Carter indicated she consulted legal counsel on this matter given the member's initial question, which was whether his Trust could be named the beneficiary and given her unfamiliarity with Michigan trust law.

COLA Overpayment/Status of City Council Action

Ms. Billings reported she again attended the City Council Law Committee Meeting. The Committee discussed the overpayment issue and resolutions.

The meeting concluded at 1:10 p.m.

SCHEDULING OF NEXT MEETING

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

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on June 24, 2015

As recorded by Jane Arndt