

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
JUNE 29, 2016**

A regular meeting of the Board of Trustees was held on Wednesday, June 29, 2016 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 10:02 a.m.

**TRUSTEES PRESENT**

Sheldon Albritton  
Jane Arndt  
Koné Bowman (*arrvd @ 10:09 am*)  
Janice Gaffney  
Robert Giddings  
Walter Moore, Chairman  
Nevrus Nazarko, Secretary (*excused*)  
Billie Swazer  
Deirdre Waterman, Mayor (*arrvd @ 10:10 am*)  
Patrice Waterman, City Council Pres.  
Kevin Williams, Vice Chair

**OTHERS PRESENT**

Cynthia Billings, Sullivan Ward Asher & Patton  
Deborah Munson, Interim Executive Director  
David Lee, Dahab Associates  
Steven Roth, Dahab Associates  
Manju Patnaik, Plante & Moran  
Jake Schramski, Plante & Moran  
Spencer Tawa, Plante & Moran  
Shirley Barnett, Former Trustee  
Bob Barnett  
Sherrie Berg, Hospital Retiree  
Clarissa Cayton-Grigsby  
Larry Marshall, City Retiree  
Kathi McNally, Hospital Retiree  
Linda Watson, City Retiree  
Debra Woods, City Retiree  
Darlene Wummel, Hospital Retiree

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*Chairman Moore opened the meeting at 10:02 a.m.*

**PUBLIC COMMENT** – None

**BARNETT PRESENTATION**

Trustee Giddings told the Board that he has known Shirley Barnett since 1982. It has been a pleasure serving with her on the Board. He presented a plaque and read the resolution inscribed thereon which was passed unanimously by the Board at their April 27, 2016 meeting.

Trustee Barnett thanked the Board and expressed how much she enjoyed being a Trustee on the Board. She stated that when she first became a member of the Board the System's assets totaled \$72,000.00. She served when the System's assets reached half a million and when they reached half a billion. She is happy to have been part of it.

Chairman Moore thanked Trustee Barnett and acknowledged her service to the System.

*Trustee Bowman arrived at 10:09 a.m.  
Shirley and Bob Barnett left at 10:10 a.m.*

## **AUDIT PRESENTATION**

### **Re: Plante & Moran – 2015 Financial Report**

Manju Patnaik introduced herself, Spencer Tawa and Jake Schramski to the Board. She noted that Mr. Tawa conducted the audit and worked directly with Miss Munson during the process.

Mr. Tawa explained that their report includes the financial report and a letter which includes the required communications, other recommendations and related information.

He reviewed and explained the Independent Auditor's Report. It is their responsibility to provide an opinion on the financial statements based on their audit. He reported that they have issued an unmodified opinion indicating that the financial statements were materially correct and fairly stated.

The management's discussion and analysis is an overview of the financial results.

The statement of plan net position is the System's balance sheet. It includes the value of the investments based on asset class. The net position as of December 31, 2015 was \$459.3 million which was a decrease compared to \$491 million as of December 31, 2014.

The statement of changes in plan net position is the System's income statement. It indicates the additions and deductions to the System's net position. The net investment income was -\$3.4 million based on investment performance of -1% compared to last year's investment performance of 7%. The System's performance was similar to their other clients. Retiree pension benefit deductions totaled \$28 million which was similar to last year. Total net change in plan net position was -\$32 million.

Chairman Moore asked how much the additional \$400.00 per month benefit costs the System annually.

Miss Munson indicated that the temporary \$400.00 per month benefit costs \$4.6 million annually on a cash basis.

Mr. Tawa reviewed the notes to the financial statement. He reported that there were no new GASB standards for reporting year 2015. In 2014 GASB 67 was a significant change which expanded upon disclosures.

He reviewed the Plan Sponsor financial condition. He indicated that the State has restored much of the City Charter powers to the Mayor and City Council. Based on the System's funded ratio, no employer contributions are required.

Chairman Moore stated that the State has restored some powers back to the City, but the big powers are still controlled by the State.

Trustee Deirdre Waterman stated there is still some State oversight on certain specific issues including the budget. The City passed their budget on June 28, 2016 which was a watershed moment for the City and elected officials. It was the first budget that City Officials have passed in 10 years. The State has recognized that the City has restored financial best practices and has returned the day to day authority back to the elected officials. That will be announced at the “State of the City Address” later this evening. She noted the City is also currently involved in two specific issue lawsuits.

Mr. Tawa indicated that Note 2 is the disclosure that states the purpose of the Retirement System including the plan administration, plan membership and plan benefits provided.

He also reviewed the net pension assets of the City based on the annual actuarial valuation calculations as of December 31, 2015. The System had a total pension liability of \$252 million and a net position asset of \$206 million and a Plan fiduciary net position as a percentage of 181.83%.

Chairman Moore asked what the difference is between the 181.83% versus the 165% funded ratio.

Miss Munson explained that the 165% funded ratio is based on the actuarial five-year smoothed method. The 181.83% is the funded ratio based on the market value of the assets.

Chairman Moore asked which funded ratio should be used if the Board is asked what is the funded ratio.

Ms. Patnaik indicated that GASB requires that the actuarial smoothing method be used for funding purposes. The 165% would be used with regard to the City’s funding of the Retirement System. But this is not an issue due to the overfunded status.

Trustee Bowman asked which mortality table was used for the actuarial valuation.

Miss Munson indicated that the Board approved the RP2014 mortality table.

Mr. Tawa reviewed the discount rate used to measure the total pension liability. The System currently uses a 7.5% discount rate. Based on the sensitivity of the net pension liability the actuary is required by GASB 67 to calculate the net pension liability using a discount rate one percentage lower than the discount rate currently used (6.5%) and one percentage higher than the discount rate currently used (8.5%).

Ms. Patnaik discussed the discount rate assumption and its effect on the Plan.

David Lee of Dahab Associates explained that if you increase the discount rate the net asset increases, if you decrease the discount rate the surplus decreases.

Trustee Giddings asked whether public plans have more leeway versus ERISA plans.

Ms. Patnaik indicated the range they see most often is a 7.2% to 7.5% discount rate.

Ms. Billings stated that most plans that use a rate of around 8.0% are diligently trying to decrease their rate.

Ms. Patnaik indicated that the Board would work in collaboration with the actuary, investment consultant and Executive Director if they are considering decreasing their funding rate assumption.

Mr. Tawa described the upcoming GASB No. 72 requirements. He indicated that this accounting standard expands on the investment disclosure.

Trustee Deirdre Waterman stated that GASB No. 72 hurts the Plan Sponsor. The new reporting disclosures do not allow the System's assets to be included in the City's balance sheet.

Ms. Patnaik indicated that the previous discussions the auditors had with the Trustees described their responsibility with regard to the audit. The Letter to the Board closes the loop on those pre-audit discussions. Section I of the letter is a required communication under the audit standards. Most of the language contained in this section is boilerplate language. Section II speaks to the accounting standards including other recommendations, related information and general observations during the conducting of the audit.

She referred to important information recorded under significant audit findings with regard to accounting estimates. Certain accounting estimates are sensitive and she highlighted three. The first is the harder to value investments. The valuation of these investments is based on audited financial statements. They were able to work around the issues and were comfortable with the investment estimates as reported. The second is the long-term rate of return/discount rate. The last one is the mortality table which the Board updated with the 2015 valuation.

The long-term rate of return/discount rate is a significant issue because of how sensitive the assets are to a change in that rate. They were able to work around it as well as the mortality table change.

Chairman Moore felt it was important for everyone to know how much it cost the System to change the mortality table assumption.

Ms. Patnaik indicated the System's liability increased \$9.1 million based on the mortality table update and the COLA miscalculation decreased the System's liability by \$24 million.

Chairman Moore asked that further explanation be provided regarding the System's liability based on the two issues.

Miss Munson directed the Trustees to the total pension liability on page 18 of the audited financial statements. She explained that the total pension liability is the total amount owed for all the promised benefits to-date. The change in the mortality table means that we expect people to live longer. That increased the liability by \$9 million. But there is a \$24 million reduction in the liability related to the COLA. She explained to the Board that beginning with the 2013 valuation the prior actuary had begun including a COLA for Hospital members. Hospital members are not entitled to COLA. She indicated that Nyhart – with Plante & Moran’s assistance – identified this error and corrected it with the 2015 valuation. The result of the correction is that the total pension liability was reduced by \$24 million because of the correction. She stated that the report shows that the total pension liability had decreased from \$270 million in 2014 to \$252 million in 2015 as a result of those changes as well as others such as interest on the liability and benefits paid during the year.

Ms. Patnaik indicated that they did not experience any difficulties conducting the audit. There were no corrected or uncorrected misstatements which mean that they did not identify any significant amounts missing from the trial balance.

She reviewed page 5 of the report. The second section of the letter brings items of information and recommendation to the Board’s attention. They reviewed the controls over the System’s census data and actuarial valuation process. They were party to a lot of the questions that Miss Munson sent to the actuary because she copied them to see if they had any input. While testing the census data, Plante & Moran noticed that there were five members who were included in both the retired and deferred populations. She went on to state that the number is insignificant and had no impact on the total pension liability. She confirmed that Nyhart made the correction in the final valuation report and that the original data that had been sent to Nyhart from the Retirement Office was clean.

Ms. Patnaik indicated that they tested and reviewed the segregation of duties in the Retirement Office with regard to the processes and procedures to ensure that the financial information is accurate and protected. She indicated that there is sufficient segregation of duties between what Miss Munson does and what Ms. Arndt does. She believes that the processes that Miss Munson has written up do a good job of focusing on the segregation of duties and that this is just an informational item that they are bringing to the Board’s attention. But the Board should continue to look to make improvements in this area.

She reviewed the audit comment regarding Board resolutions. She told the Board that they should make sure that directives made in resolutions should have some kind of tracking mechanism and be completed in a reasonable period of time.

She told the Board it was great working with Miss Munson.

*Ms. Patnaik, Mr. Tawa and Mr. Schramski. left at 10:42 a.m.*

## **AGENDA CHANGES**

General Employees Retirement System  
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Trustee Deirdre Waterman requested that the correspondence from Giarmarco, Mullins & Horton be pulled from the consent agenda.

Chairman Moore asked if the Board had any questions or objections with regard to the request.

**APPROVAL OF CONSENT AGENDA**

- A. Approval of the Minutes of the Regular Board Meeting held May 25, 2016
- B. Approval of the Minutes of the Special Board Meeting held June 6, 2016

C. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: June 29, 2016  
**TOTAL PENSION PAYROLL** \$1,974,622.17

Staff PPE June 9 & 23, 2016  
**TOTAL STAFF PAYROLL** \$ 13,694.40

D. Communications:

- 1. Correspondence from Gray & Company Re: Acquisition by Consequent Capital Management June, 2016
- 2. FOIA Request from/to Kathi McInally June, 2016
- 3. Correspondence from Dahab Associates Re: Relationships June, 2016
- 4. FOIA Request from/to Linda Hasson May 26, 2016
- 5. Correspondence from Kennedy Capital Re: CEO and Chairman Resignation May, 2016
- 6. Correspondence from Northern Trust Re: L-3 Communications Holdings May, 2016

E. Financial Reports:

- 1. Gray & Company Status Update: No May Update Received
- 2. Accounts Payables – June, 2016
- 3. Attucks Asset Management, Manager of Managers Report – Emerging Manager & Michigan LCV – May, 2016
- 4. Statement of Changes – May, 2016
- 5. Q1 Unaudited Financial Statements
- 6. Budget Activity through May, 2016

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

1. New Retirements

Ret No.	Member's Name	Years/Months of Service	Union	Age	Retirement Option	Monthly Benefit*	Effective Date

*\*Emergency Manager Order S-307 as amended July 2015: Retiree is eligible for the temporary \$400.00 per month supplemental benefit until sunset date of September 1, 2016.*

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***Bold type entry indicates Reciprocal Service Credit with another eligible agency or municipality.***

**2. Terminated Retirements (Deaths)**

Ret No.	Member's Name	Date of Death	Benefit Amount	Union or Dept.
701848	Winnie, Carolyn	05/18/2016	\$1,812.06	PMEA
1527	Shelton, Anne	05/11/2016	\$1,127.93	NOMC
1821	McTavish, Joanne	06/01/2016	\$761.10	NOMC
858	Wilson, Mabel	05/17/2016	\$620.95	NOMC

**3. J&S Continued Retirements**

Ret No.	Name	Date of Death	Survivor's Name	Member Benefit	Beneficiary Benefit	Union or Dept.

**4. Pop-Up Continued Retirements**

Ret No.	Beneficiary's Name	Date of Death	Retiree's Name	J&S Option	Benefit Amount	Union or Dept.

*When beneficiary precedes Retirant in death, the monthly benefit "pops up" to what would have been the monthly Regular benefit amount (plus applicable COLA).*

**5. Recalculated Retirements**

Ret No.	Name	Effective Date	Reason For Change	Old Amount	New Amount

*\*Member's benefit is split with Alternate Payee*

**6. Disability Medical Re-Exams/Benefit Continuation**

Ret No.	Name	Reason	Benefit Amount	Union or Dept.

**7. Refunds of Employee Contributions**

**8. Other Benefit Changes – Add COLA Payments**

Ret No.	Name	Reason For Change	Prior Amount	New Amount
1442	Williams, Leroy	Conversion @ Age 65	\$1,313.96	\$404.33

**RESOLUTION 16-096** By Gaffney, Supported by Swazer

Resolved, That the Board approves and ratifies actions described in the Consent Agenda for June 29, 2016 with the exception of the Giarmarco letter.

Yeas: 10 – Nays: 0

**Re: Giarmarco, Mullins & Horton Correspondence – June 21, 2016**

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Trustee Deirdre Waterman indicated she is concerned about issues that were addressed in the letter including the reputation of the Board. She felt that the Board members are obligated to address the issues described in the correspondence. She requested that the letter be read into the record.

Chairman Moore did not feel it was necessary to read the letter into the record. He asked that she address her specific concerns with the correspondence.

Trustee Deirdre Waterman expressed her concerns based on the issues brought up in the letter. She read excerpts of the correspondence sent to the GERS Board dated June 21, 2016 addressed to the Retirement System from John C. Clark of Giarmarco, Mullins & Horton.

The letter stated that Section 92-9 of the Retirement Ordinance, passed by the City Council, requires that the Board annually elect from its members a Chairperson and Vice Chairperson. According to the letter, the results of the research were that the election that occurred recently contesting the previous election had been the first one that occurred since 2011 and seems to be a direct violation of the Ordinance. She asked counsel to verify this. She read from the letter, "...an election was held and Trustee Giddings was elected as Chairperson by six votes of the Board, with a term to begin on January 1, 2016. However, despite this apparently valid election, the Board nonetheless held another election for Chairperson at the April 27, 2016 meeting and elected a different Chairperson. We are unaware of any ordinance (sic) provision that would permit such an election midway through the term of a sitting Chairperson." Trustee Deirdre Waterman believes that this also appears to be in violation of the City Ordinance. She stated that this is a particular concern to us as elected officials – the Mayor and the City Council – which were tasked with passing that Ordinance. She stated that any violation of the City Ordinance that involves this Board should come to the attention of the Board and that that is why this letter was sent.

Trustee Deirdre Waterman continued reading from the letter, "... in addition to violating the Ordinance – it may have been improper pursuant to Robert's Rules of Order. According to the minutes, the Chairperson at the meeting ruled that the motion to amend the agenda to include the election of the Chairperson and vice Chairperson was out of order. In order to overturn such a ruling there must be an appeal and a second at the time the ruling is made. The ruling of the Chair can only be overturned by a majority vote. After a review of the minutes, it appears that there was never an appeal of the Chairperson's ruling that the motion was out of order, no second, and no vote taken. Thus, any subsequent motion and/or vote taken on the subject matter would be improper.

"Additionally, it appears that at the April 27, 2016 meeting, a motion to rescind a legal RFP was brought by one of the Trustees. It is our understanding that, at the time of the motion, the RFP had already been sent out and that bids had been submitted pursuant to the RFP. If that is the case, then any motion to rescind the RFP would be contrary to Robert's Rules of Orders (sic) since an action that has already been taken cannot be rescinded." Trustee Deirdre Waterman stated that it was her understanding that – not only had the process gone on – but that there had also been applications submitted. She stated that some of the Trustee tried to raise this point at the last meeting.



She read the final paragraph from the letter, “Finally, we are informed that no steps were taken to resolve an actual or potential conflict of interest regarding Sullivan Ward and that firm’s involvement in providing legal assistance in the CPREA litigation, as required by the facilitator. Until such a requirement is met through the appropriate procedures, Sullivan Ward will not be considered to provide legal services in any further aspects of the on-going facilitation.”

Trustee Deidre Waterman stated that CPREA has pulled out of the mediation.

Chairman Moore indicated that the CPREA matter is not a Board matter and that the Mayor has been provided ample time to discuss her concerns. He stated that everyone has an understanding of the letter and knows that John Clark represents the City. He stated that if they were diligent in following the City Charter perhaps the City Council would have had their rights back long ago and that the City would not be violating the rights of the citizens. He indicated that the City’s attorney does not represent this Board; this Board has its own attorney.

Chairman Moore indicated that the Board has not resolved the matter of the resolutions that had been approved from April 1, 2014 through March 2016 based on the ineligibility of Koné Bowman and Charlie Harrison. What he is suggesting is that Ms. Billings and Miss Munson work together to address the resolutions where either Koné Bowman’s or Charlie Harrison’s votes were a determining factor and ensure that those actions are ratified by the Board.

Trustee Bowman questioned whether his term began on April 1, 2014 or March 31, 2016. The attorney responded that she would need to go back and look at the wording of the minutes of the TAB.

Chairman Moore indicated that the Trustee terms are dictated by Charter. The term cannot be changed and Trustee Bowman’s term is a four-year term beginning on April 1, 2014 through March 31, 2018.

Trustee Bowman indicated that that goes back to the letter. If it is the case that his term begins April 1, 2014 then his vote over the period has been a valid vote. If we can’t change the term of how long he sits then we certainly can’t change the verbiage of when his term started and his vote would have actually counted. He also wanted to address a second issue. He referenced the 2011 election when Mr. Harrison was confirmed as Chair with only 5 votes. If you remove Trustee Bowman’s vote from the (December 2015) election, you would also need to remove Mr. Harrison’s which makes it a 5-4 vote. It doesn’t matter to him who is Chairman. He is talking about protocol and how things are supposed to be done.

Chairman Moore said that based upon the actions of the TAB - as well as City Council’s acceptance of the TAB’s authority – they determined that neither Trustee Bowman nor Trustee Harrison were properly seated on the Board from approximately April 2014 until March 2016.

Chairman Moore requested that – if the attorney is not in a position to answer the question right now – Trustee Bowman put his questions in writing which will then be submitted to legal counsel for an answer.

Trustee Bowman indicated that he had no problem submitting his questions in writing. However, they were told that they could not go to the attorney directly which is why he wanted his questions read into the record at the meeting.

Chairman Moore suggested that Trustee Bowman submit his information “...to the Executive Director to be submitted to the attorney.” He went on to state that it is his understanding that the Board can only operate with six votes and that he is not accountable for what may have happened in the past.

Trustee Arndt referenced the TAB resolution that approved Trustee Bowman’s appointment. The TAB approved the City Council’s resolution 14-454 which defined Trustee Bowman’s term as beginning April 1, 2014 and terminating effective March 31, 2018. At a subsequent TAB meeting a comment was made by the Chairman of that Board regarding the prospective nature of the appointment.

Trustee Arndt questioned whether a comment can negate or change a previously approved resolution. She stated – as an example - that if this Board passes a resolution and has discussion about it at the next meeting that discussion does not change what was resolved at the prior meeting. That is her point. They made a comment after the fact. That comment does not change what was voted on at the prior meeting. She noted her concern because it affects resolutions previously voted on and approved.

Trustee Patrice Waterman read the TAB Chairman’s statement regarding Trustee Bowman’s appointment indicating that it was prospective not retroactive.

Trustee Deirdre Waterman asked that the Board’s attorney address the issues raised in the letter.

Ms. Billings stated that what she would like to recommend is that she take the opportunity to respond to the letter. When you’re talking about a breach of fiduciary duty she doesn’t know if that is a breach. But she will take the time to go back and address this letter for the Board.

Chairman Moore indicated that the Board needs to move forward with the agenda.

Trustee Deidre Waterman requested that the matter of the email from the Interim Executive Director regarding a request to edit the prior meeting’s video also be included in the resolution to be addressed by counsel. She indicated that she objected to the request that anything be removed from the record. She would like the attorney to review this matter.

Vice Chair Williams stated that the Board makes decisions as one. They will not agree on all the issues brought before the Board. What everyone can agree on is that our conduct has been crazy.

He noted that Ms. Billings has offered to review the letter. The retirees in attendance are expecting the Board to be fiduciaries and conduct the business of the System. He felt that the Board needs to follow the agenda and respect everyone's time.

Vice Chair Williams made a motion that the attorney review and provide an opinion on the letter from Giarmarco, Mullins & Horton.

Trustee Deidre Waterman again requested that the attorney review the matter regarding the request for editing be reviewed along with the letter.

Chairman Moore ruled that there is a proper motion on the floor and that Trustee Deidre Waterman would need to make a separate motion for her request.

Trustee Giddings stated that there are members on the Board that want to do what is right. They understand their fiduciary responsibility and their person liability involved in their fiduciary responsibility. Trustee Giddings stated that "There are just certain things that have gone on and that may be going on that we are concerned about and we want to be on record as being opposed to some of these things or wanting them to be addressed." He mentioned how the roll call votes puts everyone on record and sees potential liability for some of the things that have been done.

Trustee Giddings agreed with the Chairman that the CPREA mediation is not a Board issue. However, he doesn't believe it is appropriate that the attorney billed the System 6.1 hours in March for work related to the conflict of interest response to the mediator

Chairman Moore ruled Trustee Giddings out of order.

Trustee Giddings responded that it is related to the attorney billing us for conflict of interest response to the mediator which the Chairman agrees is not a Board issue.

Chairman Moore stated that what he is ruling is that there is a proper motion on the floor.

Trustee Giddings interrupted that he did not want to be paying the attorney for work that the mediator is asking her to do.

Chairman Moore stated that Trustee Giddings could reflect that in his vote. He requested that the motion be read.

**RESOLUTION 16-097** By Williams, Supported by P. Waterman  
Resolved, That the Board direct the attorney to review the opinion from Giarmarco, Mullins & Horton and provide an opinion.

**Roll Call:**

Trustee Albritton - yea  
Trustee Arndt – yea

Chairman Moore - yea  
Trustee Swazer – yea

Trustee Bowman – yea  
Trustee Gaffney – yea  
Trustee Giddings – nay

Trustee Deirdre Waterman – yea  
Trustee Patrice Waterman – yea  
Vice Chair Williams – yea

Yeas: 9 – Nays: 1 (Giddings)

Chairman Moore stated that he is recommending on behalf of the Board that the Board take actions with respect to the resolutions that were passed. He asked if the Board had any objections that Ms. Billings and Miss Munson reviewing the resolutions in question.

Miss Munson stated that she has already pulled the resolutions in question.

Chairman Moore directed that she review those resolutions with the attorney and bring the information back to the full Board.

Trustee Giddings provided information regarding Ms. Billings' invoices. He indicated that Ms. Billings billed 5.3 hours for research on Board meeting resolutions with regard to Trustees Bowman and Harrison. The research occurred five days prior the Board's April 27, 2016 meeting. That was the meeting where it was first revealed that there may be an issue with those resolutions. He indicated that the Board had never requested that she research the matter. He indicated that Miss Munson has already pulled the resolution information and he doesn't believe that GERS should pay \$795 for unauthorized services for research that the attorney did related to the resolutions.

Ms. Billings confirmed the charge from the April invoice and indicated that she had been working on the matter.

Trustee Giddings indicated that the Board did not request that she do that and that the work had already been done by the Interim Executive Director. He noted that attorneys do not create their own work or do things without approval. He reiterated that – before this was ever an issue with the Board – the attorney went and did work that wasn't authorized.

Chairman Moore wasn't sure that he understood Trustee Giddings and requested that he provide his information in writing. He questioned whether this is a matter for the finance sub-committee.

Trustee Giddings stated that he is just trying to do his fiduciary responsibility by ensuring we do not spend money that is not authorized.

Chairman Moore expressed his appreciation and support for Trustee Giddings fiduciary efforts.

## **CONSULTANT**

### **Re: Dahab Associates**

Miss Munson introduced David Lee, President and Steven Roth, Chief Investment Officer from Dahab Associates to the Board.

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Mr. Lee indicated that Mr. Roth will be conducting their presentation.

Mr. Roth described and walked through the rebalancing presentation column by column with the Board. He explained that mid-cap has been over allocated and was not adjusted during the last rebalancing. They are recommending taking \$3 million each from mid-cap managers Systematic and Victory Capital.

Trustee Gaffney stated that she liked the chart provided by Dahab. It was detailed and easy to understand.

Mr. Lee explained that they would like to adjust the rebalancing to every three to four months so the System is not holding as much cash since cash returns zero.

Trustee Deirdre Waterman asked how much cash is currently on hand. She asked if the System was down to fifteen to twenty-one days of cash.

Miss Munson indicated that the current cash on hand will pay expenses for two months.

Mr. Lee reported that they do not yet have access to our data at Northern Trust. He provided the investment oversight report as a way to get ahead of the curve. He noted the varying tenure of the Trustees and explained the snapshot of the System was provided as a high level educational piece for the Board.

Mr. Roth provided and reviewed an investment oversight report of the System which included broad issues for the Board to focus on. He explained that Boards spend too much time on little issues like active versus passive management and the hiring and firing of managers. They do not put enough focus on the big issues like their asset allocation and fees that impact the performance of the System's portfolio. He noted that 90% of the returns are based on the asset allocation.

Mr. Lee stated that 90% of the variability of returns is truly driven by the asset allocation. There are other important decisions that do modify the returns of the System.

Mr. Roth discussed passive versus active management and that both can play a role in the asset allocation. Active management can add value. There is a place for passive management. He also noted that fees are a permanent loss of capital. He discussed institutional fee schedules based on capitalization versus normal fee schedules. Currently, the System is paying 65 basis points for their large cap manager-of-manager's portfolio.

He discussed the hiring and firing of managers. Most Boards are quick to pull the trigger on managers. It should be rare because it can be costly to the System including transition costs, time out of the market and legal fees. Reasons for termination include long-term underperformance in multiple market types, significant changes in the manager's team, firm or strategy or a loss of confidence. The Board should not focus on short-term performance numbers.

The biggest issue is asset allocation. Over time stocks will outperform bonds because they are a riskier asset class. He noted that Public Act 314 limits the percentage of equity assets in the portfolio to 70%; illiquid assets including real estate at 10% and basket clause investments at 20%.

Mr. Lee told the Board that the asset allocation mix is an important discussion. He indicated that the Board should consider putting assets into illiquid investments based on the long duration nature of the System's liability. Pension systems can maintain a capitalization appreciation fund versus a capitalization preservation fund based on the long-term nature of the fund. There are plenty of assets to pay the pension liabilities and there is more

Mr. Roth indicated it will also remove some of the short-term variability.

He indicated fees are a permanent loss of capital. You want to reduce fees whenever possible.

In order to verify reality the Board should ensure that the projected return makes sense based on the risk. Know who is watching over the assets and where they are held in custody. Do not simply rely on the manager's reputation as verification.

Stick to the plan and do not get emotional with regard to performance returns. The world will not end and the markets will recover. When markets go down investors want to run from underperformance. Do not try to time the market.

Mr. Roth told the Board that as fiduciaries the Trustees need to recognize their fiduciary responsibilities; have the ability to understand and focus on the actuarial analysis; have the knowledge to understand modern portfolio theory; understand the investment environment and how to create and manage a portfolio. They offer educational modules to assist Trustees in these areas. The modules can be customized.

Mr. Lee stated the next step for them is to review the Investment Policy Statement and guidelines; monitor manager performance versus the benchmark; recalculate the returns for the past five years; provide the Board with education on real assets and produce an asset allocation study.

In July they will provide the flash report. They should have the three-year performance report for the August meeting.

They are recommending that the Board look at adding real estate to the portfolio. They would like to start a real estate search after this meeting. He explained their search process. This will give them a month or two to review the managers and bring the information to the Board.

Chairman Moore asked Mr. Lee if they would like formal Board direction to start the search.

Trustee Bowman confirmed they are looking at domestic real estate.

Mr. Lee stated that the System currently does not have a real estate allocation. Being conservative and starting with domestic real estate would make more sense. Real estate is currently in its seventh or eighth inning. There is still time to realize performance returns. It would have been best if the System had started a little earlier.

August will be a busy month. They will bring the real estate information to the September, 2016 meeting.

Chairman Moore recommended moving the approval of the Dahab contract up on the agenda.

**RESOLUTION 16-098** By Bowman, Supported by D. Waterman

Resolved, That the Board approve to move up the Dahab Associates Investment Consulting Agreement from Unfinished Business to Consultant.

Yeas: 10 – Nays: 0

Chairman Moore indicated this has been a long process and thanked the committee for a job well done and felt they hired an excellent consultant.

Trustee Gaffney confirmed that the contract was reviewed and accepted by the attorney.

Ms. Billings reviewed the changes she made to the agreement. Dahab Associates will monitor for compliance with Public Act 314. Dahab would include any other reports requested by the Board. There was a provision added to the agreement by Chairman Moore to include minority and women-owned firms in consideration.

Trustee Giddings confirmed that this provision is not included in the System's Investment Policy Statement.

Ms. Billings continued to review the changes. A provision was added to extend the fees for two additional years per the language in the RFP. She reviewed the termination and non-discrimination clauses of the agreement.

Trustee Patrice Waterman stated that she believes that this is a great contract and asked whether Dahab had any problems with the contract.

Mr. Lee noted that the contract is Dahab Associates' standard contract with the exceptions of the revisions noted by Ms. Billings.

Miss Munson reported that the annual fee would be \$135,000.00 based on the cost to increase the liability insurance from \$2 million to \$5 million.

Trustee Giddings indicated that the liability insurance increased from the System's former consultant who carried \$1 million.

Trustee Giddings questioned the absence of a dispute resolution clause

Ms. Billings stated that it is good that a dispute resolution clause was excluded.

**RESOLUTION 16-099** By P. Waterman, Supported by Bowman

Whereas, the Board of Trustees is vested with the general administration, management and operation of the Retirement System and has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

Whereas, the Board, in light of its fiduciary responsibilities, issued a Request for Proposals for Investment Consultant, and

Whereas, the Board has reviewed and evaluated the proposals of several qualified Investment Consulting firms, in light of those services required of the System and the fees offered by investment consultants, and

Whereas, the Board having completed its due diligence, is of the opinion that Dahab Associates meets the Board's requirements, therefore be it

Resolved, That the Board approves the insurance limits and annual fee of \$5,000,000.00 (five million dollars) and \$135,000.00 (one hundred thirty-five thousand dollars), respectively, and further

Resolved, that the Board approves the Chairman's signature on the investment consultant agreement, and further

Resolved, that Dahab Associates is requested to coordinate with the Interim Executive Director and all other necessary parties to facilitate a smooth transition.

**Roll Call:**

Trustee Albritton - yea  
Trustee Arndt – yea  
Trustee Bowman – yea  
Trustee Gaffney – yea  
Trustee Giddings – yea

Chairman Moore - yea  
Trustee Swazer – yea  
Trustee Deirdre Waterman – yea  
Trustee Patrice Waterman – yea  
Vice Chair Williams – yea

Yeas: 10 – Nays: 0

**COMMITTEE REPORTS**

**Re: Chairman**

General Employees Retirement System  
Regular Meeting  
June 29, 2016



Chairman Moore told the Board that they need to look at how the System will be administered. There needs to be a long-term discussion regarding the day-to-day working needs of the System and a more permanent solution in place. The finance sub-committee agreed that the issue should be referred to both the finance and personnel sub-committees.

Chairman Moore made his appointments to the committees. The finance sub-committee will consist of himself as Chair and Trustees Albritton, Giddings, Nazarko, and Patrice Waterman.

The personnel sub-committee will consist of Trustees Albritton, Gaffney, Moore, Swazer and Deirdre Waterman. Trustee Gaffney will chair the committee.

He noted that the Board needs bylaws and he believes the personnel sub-committee should take on that task. He noted that Miss Munson has done research on the bylaws.

He feels that the Board needs a team building retreat where they are removed from the day-to-day Board business in order to start talking about where we have been, where we are now and – more importantly - where we want to go. He feels the personnel sub-committee should work with the acting Executive Director to assist this Board to move forward in a more positive manner.

*Trustee Deirdre Waterman left at 11:53 a.m.*

Trustee Bowman indicated he spoke with Chairman Moore prior to the meeting about serving. However, he wanted to know if there were other committees on which either Trustees Arndt or Williams could serve.

Trustee Albritton felt that team building is needed in order to make everything less personal.

Trustee Bowman stated that he does not have an issue with the team building, but there are some Trustees that feel that they are being marginalized. He likened the Board to a family and indicated we need to be able to work together. He felt that the Board needs to be more inclusive.

Trustee Arndt expressed her disappointment that Trustee Bowman was not reappointed to the personnel sub-committee and that she was not reappointed to the finance sub-committee.

Trustee Bowman suggested that Trustee Arndt be the alternate for both committees in the event a committee member cannot attend a meeting. The Board agreed.

**RESOLUTION 16-100** By Swazer, Supported by Williams

Resolved, That the Board approve the appointments for the finance and personnel sub-committees as submitted by Chairman Moore.

**Roll Call:**

Trustee Albritton - yea

Chairman Moore - yea

Trustee Arndt – yea  
Trustee Bowman – yea  
Trustee Gaffney – yea  
Trustee Giddings – yea

Trustee Swazer – yea  
Trustee Patrice Waterman – yea  
Vice Chair Williams – yea

Yeas: 9 – Nays: 0

**Re: Trustee/Committees**

Personnel Sub-Committee – *The Committee Did Not Meet*

Finance Sub-Committee

Trustee Giddings deferred to Miss Munson to provide the finance sub-committee report.

Miss Munson reported that the investment consultant had participated in the committee meeting by phone.

The committee reviewed the financial statements for the first quarter of 2016 as well as year-to-date budget activity.

The committee reviewed the monthly Peritus transition data for the period of May 19, 2016 through June 22, 2016. The cost of the securities sold was \$706,722.89. They were sold for \$517,193.75 generating a loss of \$185,529.14. The remaining securities have a cost basis of \$1,753,047.59. She will send a wire transfer approximately \$1.9 million to Brandywine.

The Kennedy Capital correspondence regarding the resignation of President, Randall Kirkland - which is a planned transition - and the resignation of the Chief Operating Officer was reviewed. The committee has recommended that Kennedy Capital be put on watch based on the leadership changes.

The committee discussed permanent staffing with regard to the administration of the System.

The committee recommended the purchase of a conference room phone.

Miss Munson informed the Trustees that an annual statement is sent to active members each year with information about their estimated benefit. There are approximately thirty remaining active members. Nyhart provided a quote for \$3,600.00 to produce those annual statements. The committee is recommending that Miss Munson provide a form letter to active members that will replace the annual statements offering a more current, personalized benefit estimate.

The committee discussed accounting software for the Retirement Office. The finance committee determined to defer this matter until a decision has been made with respect to the administration of the system.

Miss Munson reminded the Trustees that she had polled them to determine whether they would approve the City's request to have a supplemental actuarial analysis for the continuance of the \$400.00 temporary supplement. There is a resolution in the agenda to ratify this action.

She explained that the office uses the GRS software to calculate member benefits. The software calculates the optional forms of payment for member benefits. The Board recently approved an update of the software to incorporate the 2014 mortality tables. GRS has contacted the office and indicated they will not renew the software license because the System is no longer a client. They are willing to work with the System until we transition to a new actuary.

The committee reviewed the Myers benefit. Mr. Myers died in December 2015. The Board resolved at their January 2016 meeting to suspend the benefit because the beneficiary had not submitted her paperwork. There is a resolution on the agenda for the Board to reinstate the benefit.

Miss Munson reported that the committee discussed the beneficiary pension benefit for Cameron North. She indicated that Cameron's father, Ian, has officially become the guardian. The committee discussed whether the benefit is payable and is recommending a second legal opinion on Cameron North's eligibility for a pension.

The committee discussed the forthcoming RFP for actuarial services. The System entered into a one year agreement with Nyhart. There is a resolution in the agenda to begin the process and refer it to the finance sub-committee.

*Trustee Bowman left at 12:08 p.m.*

Mr. Moore indicated that the purchase of a conference room phone has been before the Board before. The cost is \$705.00 before installation.

Vice Chair Williams felt that this is a cost of doing business and questioned why the Board had to vote on it.

Chairman Moore and Miss Munson indicated that this is an out-of-the-ordinary expense for the System which is why the Board is being asked for their approval.

**RESOLUTION 16-101** By Williams, Supported by Giddings

Resolved, That the Board approve the purchase of a Polycom SoundStation 2W (Wireless DECT 6.0) for \$709.00.

Yeas: 8 – Nays: 0

Trustee Albritton asked when the current actuarial contract expires.

Miss Munson indicated that Nyhart's contract was for one year and is nearing termination.

**RESOLUTION 16-102** By Gaffney, Supported by Swazer

Resolved, That the Board approve the issuance of a RFP for actuarial services and to refer to the matter to the finance sub-committee to begin the process.

Yeas: 8 – Nays: 0

Ad-Hoc Sub-Committee

Chairman Moore described the investment consultant review team's on-site visit to the office Dahab Associates. There is a copy of the on-site report in the agenda packet for the Trustees' review.

Miss Munson and Chairman Moore discussed the recommendation of the finance sub-committee to put Kennedy Capital on watch for leadership concerns.

Trustee Giddings questioned whether Dahab has any information regarding the leadership change at Kennedy.

Mr. Lee stated that the departure of President/CEO, Randall Kirkland had been well telegraphed. Everyone knew he was leaving. Based on the System's Investment Policy Statement guidelines the Board should put the manager on watch.

**RESOLUTION 16-103** By Williams, Supported by P. Waterman

Resolved, That the Board approve to put small-cap investment manager Kennedy Capital on watch for two quarters due to the firm's change in the leadership team.

Yeas: 8 – Nays: 0

There was Board discussion regarding the second opinion for the Zimmermann beneficiary benefit.

Trustee Gaffney questioned who the Board would get to provide the second opinion.

Trustee Swazer questioned the purpose of the second opinion.

Trustee Giddings indicated that the Option II form was never signed.

Chairman Moore stated that he was not aware of the form issue. He indicated that Trustee Nazarko has questioned the benefit based on the cost of the benefit. The finance sub-committee felt that a second opinion should be secured based on the fact that there might be similarly situated members in the future.

Trustee Gaffney stated that she has no issue with securing a second opinion.

Trustee Swazer stated that Ms. Zimmermann was quite adamant that her grandson become her beneficiary.

Trustee Patrice Waterman indicated that Trustee Swazer will be on the personnel sub-committee and will have the opportunity to receive more information.

The Board determined that they would obtain a second opinion on whether the benefit is payable.

Chairman Moore also noted that a third opinion could be required to resolve the issue if there is a disagreement with the first opinion.

**RESOLUTION 16-104** By Gaffney, Supported by Giddings

Resolved, That the Board approve securing a second opinion on whether the Zimmermann beneficiary benefit opinion is correct.

Yeas: 8 – Nays: 0

**EXECUTIVE DIRECTOR**

Miss Munson reported that the manager review meeting is scheduled to be held at the Marriott at Centerpoint on Tuesday, August 30, 2016.

Miss Munson directed the Trustees to the summary of the ad-hoc committee history included in the agenda packet.

She reviewed the Peritus transition update noting that \$1.9 million in cash will be transferred to Brandywine Global.

She reported on the update regarding the Gabriel, Roeder, Smith member data software. They had indicated a cost of \$5,000.00 to update the software. She stated that if there is not a cost effective way to obtain the GRS software for benefit calculations, the System will have to contract with Nyhart to determine the optional forms of payment for new retirees going forward.

Trustee Giddings asked how many total members are left.

Miss Munson stated that there are approximately 213 deferred retirees. There will be approximately six more coming off deferred this year.

She reported that the Chair requested the total cost for the temporary \$400.00 benefit since inception. The cost to the System for the original two-year increase was \$9.9 million, the one-year increase through August 2016 was \$5 million and the additional extension which would run through August 31, 2017 would be \$4.9 million. This means that the total cost to the System is approximately \$20 million.

Miss Munson indicated that she included some information on disability conversions in the agenda. She noted that there is a disability pensioner whose benefit is being converted this month. She included the information in the agenda to make sure that Trustees understood how a benefit is

converted as well as the processes for ensuring that disability retirees have their income verified, are re-examined and have their benefit converted at age 65.

Trustee Patrice Waterman noted that the date in the supplemental actuarial analysis resolution included in the agenda package needs to be corrected.

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## **UNFINISHED BUSINESS**

### **Re: Resolution to Reinstate the Myers Benefit**

**RESOLUTION 16-105** By Gaffney, Supported by Swazer

Resolved, That the Board approve the reinstatement of the benefit payable to Joan Myers, the beneficiary of deceased member Richard Myers based on receipt of requested information.

Yeas: 8 – Nays:

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## **NEW BUSINESS**

### **Re: Semi-Monthly Rebalancing**

**RESOLUTION 16-106** By Arndt, Supported by P. Waterman

Resolved, That the Board approves the transfer of \$3,000,000 from Systematic Mid-Cap and \$3,000,000 from Munder Mid-Cap to the cash account as recommended by the Investment Consultant to provide for the payments of benefits and other System expenditures.

Yeas: 8 – Nays: 0

### **Re: Resolution for Supplement Actuarial Analysis**

Chairman Moore indicated that this is a formality by the Board to approve the request from the City to have a supplemental actuarial analysis processed.

**RESOLUTION 16-107** By Gaffney, Supported by Arndt

Whereas, The Board of Trustees is vested with the general administration, management and operation of the Retirement System and has responsibilities relative to the proper administration of the pension trust fund, and

Whereas, The Board, in light of its administrative responsibilities has previously resolved that it shall approve requests to the System's actuary for supplemental actuarial analyses, therefore be it

Resolved, That the Board hereby ratifies the Interim Executive Director's instruction to the actuary to proceed with the City's May 27, 2016 request for a supplemental actuarial analysis, and, be it further

Resolved, that the Board receive and file the supplement actuarial analysis of the cost of extending the \$400.00/month supplemental benefit payment from September 1, 2016 through August 31, 2017.

Yeas: 8 – Nays: 0

**Re: Resolution for 2015 Audit**

**RESOLUTION 16-108** By Gaffney, Supported by P. Waterman

Resolved, That the Board approves to receive and file the General Employees' Retirement System audited financial statements as of December 31, 2015 as presented.

Yeas: 8 – Nays: 0

**Re: Legal Report**

Proposed Investment Consulting Agreement with Dahab – Refer to Consultant

Normal Retirement Age Safe Harbors for Governmental Plans

Ms. Billings described the IRS proposed regulation for normal retirement age safe harbors for governmental plans. The Internal Revenue Service has issued proposed regulations providing safe harbors for governmental plans. She indicated that she will be recommending an amendment to the Retirement Ordinance to clean up the language with respect to the normal retirement age that is set forth in that document.

She indicated that going forward - when the City hires new employees – we need to make sure that the bargaining parties are aware of what those safe harbors are so that they are not violating the normal retirement safe harbors when they negotiate the agreements.

She further stated that you want to be careful when you rehire retirees, because if someone retires and is rehired immediately the IRS does not look at that as a legitimate retirement. It is considered an in-service distribution that may only be made when a retiree retires at his normal retirement age. Also, members vest under IRS rules upon attaining normal retirement age which isn't an issue currently unless the City were to hire new employees.

Portfolio Monitoring Reports

- Robbins Geller May 2016 Report
- Robbins Geller April 2016 Report
- Motley Rice First Quarter 2016 Report

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

**RESOLUTION 16-109** By P. Waterman, Supported by Williams  
Resolved, That the Board move to closed session to discuss pending litigation.

**Roll Call:**

Trustee Albritton - yea	Chairman Moore - yea
Trustee Arndt – yea	Trustee Swazer – yea
Trustee Gaffney – yea	Trustee Patrice Waterman – yea
Trustee Giddings – yea	Vice Chair Williams – yea

Yeas: 8 – Nays: 0

*The Board moved to closed session at 12:44 p.m.  
Mr. Lee, Mr. Roth, Ms. Watson left at 12:44 p.m.  
The Board returned from closed session at 12:50 p.m.*

**RESOLUTION 16-110** By Gaffney, Supported by P. Waterman  
Resolved, That the Board authorizes the Chairman’s signature on the L-3 Communications Affidavit and Verification.

Yeas: 8 – Nays: 0

**RESOLUTION 16-111** By Williams, Supported by Albritton  
Resolved, That the Board ratifies the Chairman’s signature on the Declaration and Certification in support of the class certification in the Big Lots securities litigation.

Yeas: 8 – Nays: 0

**RESOLUTION 16-112** By Gaffney, Supported by Swazer  
Resolved, That the Board ratifies the Chairman’s signature on the Michael A. Farr Proof of Claim

Yeas: 8 – Nays: 0

**RESOLUTION 16-113** By Gaffney, Supported by Arndt  
Resolved, That the Board ratifies the Chairman’s signature on the Qualcomm Affidavit and Verification

Yeas: 8 – Nays: 0

**RESOLUTION 16-114** By Albritton, Supported by Williams  
Resolved, That the Board approves the closed session minutes from April 27, 2016.

Yeas: 8 – Nays: 0

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**SCHEDULING OF NEXT MEETING**

General Employees Retirement System  
Regular Meeting  
June 29, 2016



Regular Meeting: Wednesday, July 28, 2016 @ 10:00 a.m. – Retirement Office

**RESOLUTION 16-115** By Giddings, Supported by Gaffney

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 12:53 p.m.

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on June 29, 2016

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*As recorded by Jane Arndt*