

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JULY 27, 2016**

A regular meeting of the Board of Trustees was held on Wednesday, July 27, 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 10:01 a.m.

TRUSTEES PRESENT

Sheldon Albritton (*arrvd @ 10:03 am*)
Jane Arndt
Koné Bowman (*arrvd @ 10:03 am*)
Robert Giddings
Walter Moore, Chairman
Nevrus Nazarko
Billie Swazer
Kevin Williams, Vice Chair

OTHERS PRESENT

Matt Henzi, Sullivan Ward Asher & Patton
Deborah Munson, Interim Executive Director
David Lee, Dahab Associates
Steven Roth, Dahab Associates
Clarissa Cayton-Grigsby
Kathi McNally, Hospital Retiree
Twila Setla, Hospital Retiree
Darlene Wummel, Hospital Retiree

TRUSTEES ABSENT

Janice Gaffney
Deidre Waterman, Mayor
Patrice Waterman, City Council President

Chairman Moore opened the meeting at 10:01 a.m.

Chairman Moore opened the meeting. He noted that Trustee Patrice Waterman was under the weather and would not be in attendance.

Trustee Albritton and Bowman arrived at 10:03 a.m.

He noted that the System has continued to meet its goals and objectives despite staff and other professional turnover. He believes that the System is on the right path and we will do whatever we need to do to ensure that that this System continues to be one of the top retirement systems in the country.

PUBLIC COMMENT – None

AGENDA CHANGES - None

APPROVAL OF CONSENT AGENDA

General Employees Retirement System
Regular Meeting
July 27, 2016

A. Approval of the Minutes of the Regular Board Meeting held June 29, 2016

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: July 27, 2016

TOTAL PENSION PAYROLL \$1,958,815.73

Staff PPE July 7 & 21, 2016

TOTAL STAFF PAYROLL \$ 13,694.40

C. Communications:

1. FOIA Request from/to Linda Hasson June 27, 2016
2. FOIA Request from/to Claudia Filler (CPREA): July 8, 2016
3. Correspondence from Kennedy Capital Re: Q2 2016 Small Cap Core Letter
4. IFEBP Trustee Masters Program: November 12-13, 2016 (Orlando, FL)
5. Public Pension Funding Forum Conference: August 21-23, 2016 (New Haven, CT)

D. Financial Reports:

1. Accounts Payables – July, 2016
2. Dahab Associates Flash Report June, 2016
3. Attucks Asset Management, Manager of Managers Report – June, 2016
4. Statement of Changes – June, 2016

- E. 1. Invesco Fund V Distribution: \$192,987 – June 29, 2016
 2. Mesirow Fund IV Distribution: \$75,000 – June 30, 2016
 3. Mesirow Fund VI Capital Call: \$90,000 – July 19, 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
2791	Martinez, Michael	7 – 0	PPMA	60	Option II		08/01/2016

**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.*

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.
700613	Myers, Joan	05/14/2016		Local 2002
1004	Sherrod, James	05/17/2016		NOMC
1733	Stewart, Jean	07/04/2016		NOMC
1713	Waters, Helen	06/19/2016		NOMC
700959	Waters, Helen	06/19/2016		NOMC

700785	Williams, Paul	06/26/2016		NU
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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
1696	Hack, Chancy	05/26/2015	Duty Disab. Conversion @ 65		

**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

Miss Munson indicated that there are changes to the minutes that were received after the agenda packets were sent to the Trustees. She noted a change to page four where the word discount rate should be removed with regard to Ms. Billings' comment. On page seven "with the exception of the Giarmarco Letter" was added to Resolution 16-096. Included in the Trustee handouts are the revisions highlighted in blue that need to be made to the normal retirement age safe harbors section on page twenty-three. And, on page twenty-four Trustee Giddings' vote on Resolution 16-109 should be changed from nay to yea.

RESOLUTION 16-116 By Nazarko, Supported by Williams

Resolved, That the Board approves and ratifies actions described in the Consent Agenda for July 27, 2016 with corrections.

Yeas: 8 – Nays: 0

CONSULTANT

Re: Dahab Associates

Mr. Roth reviewed the preliminary performance summary for Q2. He noted that they calculated the Q2 performance using their systems and numbers obtained from the custodian and that numbers beyond that were numbers received from Gray & Company. They are still in the process of getting data from Northern Trust. For Q2 they hope to provide the three-year performance as calculated by them at the August, 2016 meeting. The five-year performance numbers will be provided with Q3.

The portfolio was up 1.9% for the quarter. He explained that the shadow index is a way to measure the costs of benefits for active management. The shadow index takes a snapshot of the portfolio's allocation at the beginning of the quarter and calculates the return based on that allocation using passive indices. The one-year return was -0.1% and the five-year was 7.4%. He also noted the lag of reporting for private equity returns and noted how those returns would be reported going forward.

Mr. Lee noted that the Board can make changes to the format of the report. The current quarter returns for private equity would always be null because most private equity managers do not report return data in the same timeframe as equity and bond managers. However, Dahab will also provide the Trustees a supplemental report that reflects the prior quarter's return for private equity. He continued to explain the chart and indicated that the performance is also measured against its peer universe. He explained that the lower the number the better when looking at the percentile measurement.

He used the example of global equity manager First Eagle that outperformed their benchmark in the second quarter 2.8% versus 1.2% MSCI-ACWI and ranked in the 19th percentile. The chart also shows the current market value and what percentage of the Fund is allocated to each manager.

Trustee Giddings asked about Attucks's performance reporting. He indicated that they have been managing the portfolio for one year and are only reporting their returns. He questioned whether the previous returns reported by Gray & Company could be included in the report versus four years of dashes.

Mr. Lee stated that Attucks would not want to use another manager's performance number in their report.

Mr. Roth stated that they could create a hybrid report that shows the historical performance numbers.

Trustee Bowman asked why Mesirow and Invesco did not report their quarterly performance numbers.

Mr. Roth explained the private equity performance reporting lag.

Trustee Giddings confirmed that private equity returns do not provide percentile rankings.

Mr. Lee stated that they will provide the prior quarter private equity returns for the Board's reference.

Mr. Roth stated that there was market turmoil near the end of the second quarter due to "Brexit."

Trustee Giddings asked whether the consultants anticipate anything happening in the market with the S&P currently sitting at 2170.

Mr. Roth indicated that market consolidation would be helpful. He also noted that the second quarter earnings performed better than expected which supports earnings estimates for 2017.

Trustee Giddings asked if the trend would continue through the third quarter.

Mr. Roth explained that it is hard to predict based on the market volatility during the past couple of years. He believes - based on the U.S. economy and other factors - that the growth could be sustainable.

Chairman Moore asked what their analysis of their first month on the job is in terms of the quarter end returns.

Mr. Roth indicated they plan to present the full performance book at next month's meeting. They also issued a Real Estate RFP which is available on their and the System's website. They anticipate having finalists in September or October.

Mr. Lee noted that they are working to get the performance books for the next meeting and have started the real estate search. They will also have the results of the asset allocation study and issues to address in the IPS for the Board's review at the September meeting. They have been doing a lot behind the scenes to get these things ready for the Trustees.

Chairman Moore asked if they have received any real estate proposals.

Mr. Lee indicated that they have received some but most come in the day of or just prior to the deadline date.

Mr. Roth reviewed the preliminary market values as of July 25, 2016. The System has added \$8 million to the Fund's market value since the end of the second quarter.

Re: Real Estate Overview

Mr. Roth provided an overview with regard to investing in real estate. He noted that real estate offers bond-like properties. He indicated that there are three primary styles of real estate investments: core which is the least risky; value-added which is a little further up the risk spectrum and opportunistic which is the most risky.

Some of the pros of investing in core real estate are that real estate investments provide greater return and capital appreciation potential than fixed income. Real estate does not have an upper limit to capital appreciation as opposed to the par value of a bond. Real estate offers inflation protection in two ways. The first is with respect to the appraisal process. Labor and material costs typically rise in an inflationary environment and those factors drive the replacement costs of real estate. Shorter-term leases also will provide some inflation protection. The other is that the yields on real estate are generally higher than fixed income. Core real estate yields approximately 4% - 6% annually versus ~1.2% yield on Treasuries.

Mr. Roth went on to describe some of the cons of investing in real estate. One of them being that real estate is more economically sensitive than fixed income. In a market downturn, real estate will generally follow equities and the market down, although not as aggressively whereas fixed income provides downside protection. The other con is fees. Real estate investing typically involves higher investment fees than fixed income. A third con is that real estate is less liquid than fixed income and the liquidity ranges by investment vehicle.

He continued that they view real estate between equity and fixed income: there will be muted volatility relative to equities and a better return compared to fixed income which makes it a good diversifier.

Most institutional quality funds are commingled investment vehicles that are benchmarked against the NCREIF ODCE or NCREIF Property Indexes.

There are four investment vehicles; open-end funds, public REITs, direct ownership and closed-end funds. Open-end funds and public REITs are more liquid and direct ownership and closed-end funds are less liquid. He reiterated that they would be reviewing the three investment styles: core, the most conservative, value-added and opportunistic which has the most associated risk. Mr. Roth reviewed each style of real estate investment in more detail. He also discussed the different levels of liquidity associated with each investment vehicle.

Chairman Moore asked that Mr. Roth explain “commingled fund”.

Mr. Roth explained that a commingled fund is similar to a mutual fund that is not traded. Investors purchase shares of the entire fund similar to a mutual but the commingled fund is not publicly traded. So, it is a fund of collective investors but it is a private fund.

Mr. Roth described the difference between mutual funds and open-ended commingled funds indicating that the System’s current investment managers First Eagle and Brandywine are commingled funds. Real estate open-end commingled funds typically allow investors to periodically withdraw funds, however, during times of market stress firms can limit or halt withdrawals to protect the fund from selling assets at steep discounts, whereas mutual funds need to maintain their daily liquidity.

Mr. Lee added the example of the system investing \$10M into a commingled fund. Our \$10M would be grouped together with investments from a group of other institutional clients and given to a fiduciary who would manage those assets on our behalf. He further explained that in a commingled fund the investors do not own the buildings/assets directly. The investors own shares of the fund that own the assets and their ownership of the assets is proportionate to their share ownership. He noted that these types of funds generally have quarterly liquidity. He noted that because the System is a long-term investor it may be more beneficial for the System to invest in a less liquid investment which will provide a greater long-term return.

Chairman Moore noted that Mr. Roth and Mr. Lee work well together and stated that he appreciates the education that they provide to the Trustees.

Mr. Roth stated that publicly traded REITs are registered with the SEC and trade like stocks on the stock market and have daily liquidity. One of the negative aspects of this investment vehicle is that they have a high correlation to and trade in line with the equity markets. They consider REITs an equity substitute because of the high correlation.

Mr. Lee interjected that he did not want the Trustees to confuse the REITs that are being referred to in the presentation and some private label REITs that have received some bad press recently. He noted that they are only proposing institutional products with million dollar minimum initial investments.

Mr. Roth continued that in the long run public REITs and private REITs will generally end up at the same place with the long-term return being driven by the terminal value of the underlying properties. Public REITs will have much bumpier returns over the course of the holding period because they are traded like equities on an exchange and the returns will reflect changes in the stock price. The returns of private REITs will be based on appraisal value of the underlying properties which should result in smoother returns compared to publicly traded REITs.

Mr. Roth explained the less liquid investment vehicles. Direct ownership or private ownership would involve the System owning a building or portfolio of buildings directly. The other is a closed-end commingled trust. This is more like private equity where the System commits a certain amount of capital and that capital is called down over a period of so many years. This type of vehicle also generally involves a “lock-up” where the capital is committed for a certain number of years – typically 10 to 12 years – during which there are no liquidity events other than distributions at the discretion of the investment manager. You generally see these vehicles used in conjunction with value-added and opportunistic investments.

Mr. Roth then described various real estate property types including multi-family (apartments) properties which include garden, Class B and high-rise multi-family apartments in major cities.

Industrial properties include warehouses. These types of investments are normally located in port cities where there is a steady demand for warehouses.

Office property investments – if you are in core – are generally Central Business District (CBD) in primary markets of the coasts.

Chairman Moore asked about real estate market in the Detroit area.

Mr. Roth indicated that the core strategies will tend to focus on Chicago in the mid-west. He stated that there are funds that invest in the Detroit area.

Mr. Lee stated that open-ended funds tend to focus on areas that have the best stabilized rents. The value-added and opportunistic managers would be the kind that focused on cities like Detroit. He indicated that Dahab is sensitive to the regional sensitivities of Trustees.

Mr. Moore asked a question about local projects dealing with real estate that we know of that perhaps the managers might not necessarily be up to speed on. He wondered what is the process of bringing those to the attention of managers that the System may hire for real estate.

Mr. Lee indicated that we want to be careful to not short-circuit the managers due diligence process. He reminded the Trustees of the separate account vehicle but stated that it may not make sense for a fund this size to have a separate account. Separate accounts start at between \$75M and \$100M to ensure diversification and institutional quality real estate starts at \$10M to \$20M.

Trustee Williams confirmed that that type of investment would be a direct ownership investment.

Mr. Lee added that he believes the size of the allocation relative to the entire fund would be too large.

Mr. Roth continued the presentation. Retail property investments are usually grocery store-anchored strip malls. They have low return volatility and returns tend to be more stable than office due to longer leasing terms.

Mr. Roth mentioned hotel property investments which are highly volatile. They are comprised of hotels, motels, etc... This property type has high operating expenses. Self-storage is another property type with moderate return volatility. This would be a very small part of a core portfolio. He reviewed the information regarding lease duration by property type including hotels at one to two days; self-storage at one day to six months; apartments at one to two years with inflation rolled into the lease amount; warehouses at three years to seven years that can include inflation step ups; office buildings at five years to ten years and retail at ten years to fifteen year. He also reviewed the volatility of returns of the different property types.

Chairman Moore inquired as to how single-family housing would fit into the portfolio.

Mr. Roth noted that institutional investors typically do not invest in the single-family market but that some hedge funds have been stepping into this market recently.

Mr. Roth reviewed some of the risks associated with investing in real estate. Economic or valuation risk is the change in the underlying value of the property most associated with core and core plus investments. Demographics is another key risk. It indicates there are less people which causes lower occupancy rates. This risk is also associated with core, core plus and value added investments. Improvement risk is when properties are modified to improve their attractiveness with the intention of increasing leasing percentage or raising rents. This type of risk is generally associated more with value-added and opportunistic investments. Completion risk is finishing a partially completed property and obtaining the necessary permits. Development risk is creating a project from the ground up or a ground floor build up. Completion and Development risks are associated with opportunistic investments and to a lesser extent value-added and core. Mr. Roth added that one can expect the risk type to increase as you ascend the risk spectrum from core to value-add to opportunistic.

Trustee Bowman asked what type of investment a wastewater treatment plant would be considered.

Mr. Lee responded that it would be more of an infrastructure investment. He discussed some of the drawbacks of investing in those types of projects including that they are capital intensive and that the returns are modest and regulated.

Chairman Moore confirmed that the RFP that was issued only covered core, core plus and value-added managers.

Mr. Lee confirmed and added that core may be a bit overpriced but he believes that there is a place for it in our portfolio because it does still provide a fair amount of current income and price appreciation.

Chairman Moore confirmed the range of the investment will be up to \$45M.

Mr. Roth reviewed how risk varies by property quality. Core real estate has less leverage at 20% up to approximately 30%; core plus leverage is 40% up to 55%; value added leverage can go from 55% to 65% and opportunistic is more risky with leverage around 70%. He reviewed the real estate returns and the S&P.

Mr. Lee explained the historical correlation of real estate and S&P 500.

Mr. Roth summarized that real estate can play the role of a fixed income substitute, offering stable principal and an income stream with a low correlation to equity. Real estate continues to be a strategic part of the capital structure for institutional investors. On average, institutional portfolios have a target allocation of 9.86% for real estate based on a study by Cornell University. Real estate has advantages to bonds with return and risk somewhere between debt and equity. There is some economic sensitivity but values can rise in an inflationary environment. He indicated that real estate is not a perfect substitute for fixed income.

Management fees for open-end funds can be from 1% to 1.3% usually with no carried interest. Closed-end funds are like private equity vehicles with management fees on committed capital at 1% to 2% and some additional performance-related fees.

Mr. Lee noted that closed-end funds have better return expectations with more associated risk.

COMMITTEE REPORTS

Re: Chairman

Chairman Moore stated that the idea of having a Trustee retreat has been talked about for several months. He asked that the Trustees compare their calendars to determine a date. This would allow the Board to set goals and provide an opportunity for the Trustees to get to know each other better. It would also help if the Board looks at where it has been and what is needed going forward. He asked that the Trustees look at the calendars through the end of the year.

The administration issue is important to the Board and continues to be pushed down the road. The issue was referred to the finance sub-committee but there was not an opportunity to discuss it at their meeting. There has been some direction discussed and where the Board would like to go in a more permanent way.

Chairman Moore indicated that charters and by-laws have been discussed. The Board should adopt by-laws. He also indicated that we need to review the Ordinance to ensure that current practices are consistent with that document. He stated that a fiduciary is an individual who has the responsibility for taking care of and managing someone else's money and that it is important that we do that in a responsible, prudent manner.

Chairman Moore reminded the Trustees of the August investment manager review session. He believes it is important that we sit down with our financial managers for these discussions so that everyone understands the direction in which we need to go.

Re: Trustee/Committees

Personnel Sub-Committee

In Trustee Gaffney's absence, Miss Munson provided the personnel sub-committee report.

Miss Munson reported that the committee discussed the administration of the Retirement Office including hybrid third party option. The committee is open to considering other options.

The committee reviewed the proposed by-laws. They agreed that neither the charters nor the Police & Fire Rules and Regulations were practical for this System. The sub-committee accepted the recommended model of by-laws that will incorporate institutional investor best practices.

The personnel sub-committee deferred to the finance sub-committee the selection of a law firm to provide a second legal opinion in the Zimmermann matter. The finance sub-committee selected VanOverbeke, Michaud & Timmony.

Miss Munson reported that she had just received the attorney's list of resolutions from April 1, 2014 through March 16, 2016 that may need to be ratified. She will reconcile that list to her own and the matter will be referred back to both committees for review and recommendation.

Miss Munson reported that the company that leases the member data software to the System will no longer lease that software to us after September 30, 2016. She noted that the firm provided a quote of between \$15,000 and \$20,000 to update the software with the new mortality tables and – even if we were to agree to the update – we would still not be able to continue leasing it after the deadline. She noted that there is a request for software or alternatives included in the RFP for actuarial services and that she would also try to determine if something is commercially available that the System could adapt to its needs.

Finance Sub-Committee

Chairman Moore deferred to Miss Munson to provide the finance sub-committee report.

Miss Munson reported that Attucks presented a proposal at the finance sub-committee meeting in which they would transition the two manager-of-managers domestic equities portfolios into a single global equity portfolio. Attucks was directed to provide their information to Dahab Associates who will make a determination as to whether this would be an appropriate investment within the framework of the new asset allocation.

Miss Munson reviewed the monthly asset transition update report. She indicated that Oppenheimer sold ~\$600,000.00 of the Peritus securities for ~\$170,000.00 resulting in a loss of ~\$430,000.00 since last month. She stated that she would be transferring approximately \$190,000 cash from the Peritus account to Brandywine.

Miss Munson directed the Trustees attention to the marked-up version of the RFP for Actuarial Services in their handouts. She indicated that this version includes suggestions from Dahab and the committee is recommending that the Board approve the issuance of that RFP as well as a budget of approximately \$4,000 to advertise the RFP in Pension & Investments magazine.

Miss Munson described the optional forms of payments and the need to have Nyhart calculate those benefit amounts since the GRS software has not been updated with the 2014 mortality table. Miss Munson explained that the mortality tables are not only generational but that they are sex distinct. The IRS prohibits the use of sex particular tables for particular participants (i.e. male tables for males and female tables for females). This is considered discriminatory because the female tables incorporate longer mortality and result in a lower benefit amounts for women. Until now, the System has used the 100% female table. Chairman Moore suggested that we begin using a 50%/50% blended table. Miss Munson reviewed the 240 active and deferred members and determined that there is an approximate 50/50 split between males and females. She reiterated that

either table can be used as long as the same table is used for all members. The committee is recommending a 50% male/50% female blend for benefit calculations. Nyhart will charge \$250 for each calculation.

Miss Munson reported that there is a disability conversion included in the consent agenda.

Miss Munson described pop-up benefits and explained that there is a case where a member recently died. It was determined subsequent to his death that his beneficiary had pre-deceased him. Because the member had selected a pop-up benefit at the time of his retirement, his benefit should have increased to the regular amount at the time of the beneficiary's death. The estate is due the additional amount. Upon discovering this, she had a letter sent to all members who elected a pop-up benefit at retirement. The letter states that our records indicate that their beneficiaries are still alive and that the pop-up benefit doesn't occur automatically; notice must be provided to this office. She reported that they have received seven responses of deceased beneficiaries.

She said she would add this notice to the official office Production Calendar so that this doesn't occur in the future. The retroactive payments will be processed upon receipt of the death certificates.

Trustees

Trustee Nazarko reported that he attended the GFOA Conference in Toronto, Canada. He thanked the Board for allowing his attendance. He attended a number of sessions pertaining to pensions, finance and investments and ethics. He was proud to be one of three people out of a room of four hundred whose pension system was over 120% funded.

He asked that new retirements containing reciprocal service be identified by being bolded in the consent agenda. He also asked to review the new retiree's benefit calculation.

Vice Chairman Williams thanked the administrative staff and commended the Board for a well run meeting.

Trustee Bowman asked if there had been any feedback on his request for a legal opinion regarding his appointment to the Board.

Chairman Moore indicated that Trustee Bowman's request is included in the agenda.

EXECUTIVE DIRECTOR

Miss Munson reiterated that the manager review meeting is scheduled to be held at the Marriott at CenterPoint on Tuesday, August 30, 2016. She noted that since Lombardia Capital will no longer be supporting the strategy in which the System is invested after December 31, 2016, they are not being required to attend the manager review.

Miss Munson reminded the Trustees that a different letter would be mailed to active members this year regarding their pension. The letter included in their handouts will be sent to the active members and includes an Option II reminder and form.

Miss Munson reported that the committees had tentatively scheduled the annual meeting for October 3, 2016 or October 5, 2016. She will send an email to all of the Trustees to confirm.

The annual Fee and Political Disclosures notices were sent out on July 7, 2016. They are due August 8, 2016.

Miss Munson reported that she will be updating the Trustee handbooks. She requested that she be allowed to work in conjunction with the consultant. She will revise the handbooks after the Board adopts its new asset allocation and amends their Investment Policy Statement.

Miss Munson reported that the Pontiac City Council approved the \$400.00 extension of the temporary increase. This action still requires approval by the Transition Advisory Board.

Mr. Henzi confirmed that the temporary increase would continue through August, 2017.

Trustee Nazarko stated that the temporary increase could terminate earlier based on resolution of the healthcare issue.

UNFINISHED BUSINESS

NEW BUSINESS

Re: Resolution to Approve Trustee Request for Legal Opinion

Chairman Moore stated that Trustee Bowman has asked to get a legal opinion on the appointment terms for him and Trustee Harrison. This issue pertains to the methodology used to obtain legal opinions.

There is currently a policy in place that allows Trustees to go directly to legal counsel. However, there have also been recent concerns about legal costs.

Miss Munson clarified by referring to sections of the System's Legal Opinion Policy that indicate that Trustees can go directly to the attorney for small matters, matters that can be responded to an email or phone call. However, if a formal legal opinion is required the request for an opinion must be signed off on by the Chair, the Executive Director or the Secretary.

Chairman Moore indicated that he believes that the policy leaves discretion to the Trustee as to whether it is a minor or major issue. He also noted that Attorney John Clark was carbon copied on the request as was the Mayor which put up a red flag to him.

He stated that the policy was put in place a number of years ago when the System was located in City Hall and that - as a Board - we need to make sure these policies are relevant today. The Board has a fiduciary responsibility to review the Ordinance and policies. After reading the current policy he felt that Trustee Bowman's request was reasonable.

Trustee Bowman stated that it was never his intention to incur costs to the System. He thanked Chairman Moore for the consideration of his request.

He read his request to the Board.

"Trustee Moore asked that I submit my question for the Pension Board's attorney in writing, thus I am doing so now. My question is what methodology was used to arrive at the decision that she gave in her opinion at the April Pension Board's meeting in regards to the Chairman's seat being vacant. In past practices the former Chairman was elected with five votes (Chairman Harrison), and if you disqualify my vote, former Chairman Harrison's vote must be disqualified too. Thus Chairman Giddings is still the Chair. If we decided to change and not use past practice a memorandum of understanding must precede the change and it is not retroactive unless stipulated in the MOU, neither of which took place. I would like a response in writing within ten business days from today (July 5, 2016)."

Trustee Swazer asked if that was past practice.

Mr. Henzi stated that the response to John Clark's letter only partially responds to Trustee Bowman's request. He indicated that he would give an oral opinion and memorialize it in writing. Mr. Henzi stated that Trustee Bowman's email had been forwarded on July 5, 2016 to Cynthia (the attorney) who was on vacation. She began working on it when she returned from vacation. At that point, she had completed a two page draft opinion. He knows that she began working on it because he and she talked about it. On July 15th she began working on it. On July 19th she received an email from the Interim Executive Director advising that legal should stop working on it. Then Mr. Bowman requested an update from Tony Asher and gave Sullivan, Ward the 2001 policy. Chairman Moore then agreed that the request was within the policy parameters. Sullivan, Ward's position is if Trustee Bowman would like it memorialized in writing, they will. Mr. Henzi is happy to talk about the issue of past practice today.

Mr. Henzi stated that the way he understood Trustee Bowman's request is that at some point in time Charlie Harrison was elected chairman by five (5) votes. If the Board elected a chairman once with five votes, why could not Trustee Giddings have been elected 5 votes to 5 votes? In August 2011, Charlie Harrison was elected chairman and Debra Woods was elected vice-chairman, both by 8 to 0. In October 2011, Trustee Bowman was elected vice-chairman 8 to 1. He's not sure when prior to that Charlie Harrison was elected with five votes. But to the question of whether the prior votes represent past practice, the answer is no. Past practice can't be used to override a written rule. The Ordinance requires six votes for any action. Past practice is used from time to time when the Ordinance or CBA is silent on an issue.

Re: Calculation of Optional Forms of Payment by Nyhart

Miss Munson requested that the Board approve the optional forms of payment for retiring members at a cost of \$250.00 per member by Nyhart.

RESOLUTION 16-117 By Nazarko, Supported by Bowman

Resolved, That the Board approves the preparation by Nyhart of the optional forms of payment for retiring members at a cost of \$250.00/member.

Yeas: 8 – Nays: 0

Re: Sex-Distinct Mortality Tables for Optional Forms of Payment

Miss Munson requested that the Board approve the 50% male/50% female sex distinct mortality table for use in the calculation of options forms of payments.

RESOLUTION 16-118 By Bowman, Supported by Williams

Resolved, That the Board of Trustees approve the recommendation of the Finance Sub-Committee to incorporate the 50% Male/50% Female sex distinct mortality table for use in the calculation of optional forms of payment for retiring members.

Yeas: 8 – Nays: 0

Re: RFP for Actuarial Services

Miss Munson indicated that the finance sub-committee has recommended that the Board approve the RFP for Actuarial Services. The RFP was amended to add language that Intents to Respond are due on August 31, 2016.

Trustee Nazarko confirmed that not submitting an Intent to Respond would not preclude a firm from submitting a proposal.

RESOLUTION 16-119 By Nazarko, Supported by Bowman

Resolved, That the Board approve the issuance of the RFP for Actuarial Services as recommended by the Finance Sub-Committee and the cost of advertising the RFP in Pensions & Investments magazine for four weeks, and further

Resolved, that the Board directs that the RFP process be delegated to the Finance Sub-Committee provided that the following elements still require approval of the full Board: changes to the timeframe for the process, exceptions or changes to the terms of the RFP, finalists selection and final decision.

Yeas: 8 – Nays: 0

Re: 2015 Summary Annual Report

Miss Munson requested that the Board approve the 2015 Summary Annual Report.

RESOLUTION 16-120 By Swazer, Supported by Williams
Resolved, That the Board authorizes the issuance of the 2015 Summary Annual Report.

Yeas: 8 – Nays: 0

Re: Legal Report

Garland Domestic Relations Order

Trustee Arndt stated that Ms. Garland currently has power of attorney over her husband. She questioned whether Ms. Garland should be receiving more than 50% of the benefit based on the Domestic Relations Order.

Miss Munson indicated that the POA was forwarded with the Domestic Relations Order to Ms. Billings for her review.

Mr. Henzi stated that the order needs to be revised based on how Ms. Garland is being paid. This can be done in the DRO. The System needs to protect the member's benefit.

Ordinance Amendment for Compliance with IRS Normal Retirement Age Regulations

Miss Munson noted that the finance sub-committee has recommended not approving the Ordinance amendment drafted by the attorney with regard to the proposed IRS normal retirement age proposed regulation. She asked Mr. Henzi whether the proposed regulations had been finalized. She indicated that there is other language in the Ordinance that needs to be revised. There was no reason to send this one piece of the clean up as an amendment if the rules have not been made final. The committee could take the next month or so and review the all of the Ordinance language and send one amendment to the City Council.

Mr. Henzi agreed that it was reasonable to table the matter.

Chairman Moore agreed and directed that it be carried on the agenda until the rules are final and the other amendments are added. He indicated that Trustee Nazarko is the Secretary but does not take notes. He also indicated that the annual election for officers could be changed.

Trustee Giddings stated that the City Charter requires that the election of Chairman and Vice Chairman be conducted annually.

Chairman Moore stated that there are opportunities to make amendments to the Ordinance and forward them upon completion to City Council.

Mr. Henzi confirmed that the Board was not directing legal counsel to do any work with respect to Ordinance amendments.

Robbins Geller June 2016 Portfolio Monitoring Report

Mr. Henzi reported that this is for the Trustees information.

John Clark Letter Dated June 21, 2016

Chairman Moore stated that this was brought up in a public meeting and he believes that it is important that we respond to Mr. Clark's letter. He stated that Mr. Clark does not work for this Board. He asked that Sullivan Ward respond publicly to the letter submitted by Mr. Clark.

Mr. Henzi indicated that the City's legal counsel John Clark sent a letter to the Board dated June 21, 2016. He provided a copy of the response from Sullivan Ward regarding the five allegations made by Mr. Clark.

"Clark Allegation #1

We have been advised of several recent actions of the Board that may not be in compliance with the General Employees' Retirement System Ordinance ("Ordinance"). First, the section 92-9 of the Ordinance requires that the Board annually elect, from its members, a Chairperson and Vice Chairperson. It is our understanding, after a review of the minutes and (sic) meeting, that the last election for Chairperson and Vice Chairperson occurred in 2011. As this Board is aware, the Chairperson and Vice Chairperson have important responsibilities at the meetings and the failure to conduct these annual elections is a significant breach of the Board's duties.

Response

The Board of Trustees, at all times, has had a Chairman and Vice Chairman. While the Ordinance does not specify the responsibilities of these positions, Robert's Rules of Order essentially provides that the Chairman presides over the meetings and the Vice Chairman presides when the Chairman is unavailable. At no time, have the duties of the Chairman or Vice Chairman been compromised. We disagree with the statement that the failure to conduct these annual elections is a significant breach of the Board's duties. We are not aware of any harm that has been done to the System or its participants as a result of the Board maintaining its Chairman and Vice Chairman."

Mr. Henzi interjected at this point to editorialize. He stated that he defends retirement systems for a living. Lawsuits brought by participants usually are benefit denial cases or allegations that trustees breached their fiduciary duties by investing in improper investments causing loss to the system. He has never seen somebody file suit over the failure every year to conduct an election of officers. That's why he says that practice is not a significant breach of any duty.

He continued to read from the letter.

"Clark Allegation #2

Second, at the December 2, 2015 regular meeting of the GERS Board, an election was held and Trustee Giddings was elected as the Chairperson by six votes of the Board, with a term to begin on January 1, 2016. (Footnote: While we had previously opined that Mr. Bowman

and Mr. Harrison were not proper members of the GERS Board, the Board nonetheless continued to allow the individuals to participate in meetings, sit on the Board, and recognized their votes. As such, the Board cannot single out this action as improper based upon the timeline of TAB confirmation of their appointments.) 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 provision that would permit such an election midway through the term of a sitting Chairperson.

Response

As discussed at the April 27, 2016 meeting, section 92-8 of the Retirement System Ordinance provides in part that, "...at least six concurring votes shall be necessary for a decision by the Trustees." The minutes from the March 31, 2016 Receivership Transition Advisory Board ("RTAB") special emergency meeting provided in part,

Item II, Old Business: clarification of approval of GERS Board Appointee Koné Bowman's appointment to the GERS Board, which was made at our last meeting [March 16, 2016]. Koné Bowman was not properly seated prior to our approval of his appointment and so our approval was not, and I want to emphasis was not retroactive.

Furthermore, City Council Resolution 16-66 Adopted by City Council on March 10, 2016 states in part "Council recognizes that the Transition Advisory Board must approval all appointments..."

As a result, all votes taken by Mr. Bowman between April 1, 2014 and March 16, 2016 are not valid. Further, all votes taken by Mr. Charlie Harrison between April 1, 2014 and his resignation in December of 2015 are not valid. The Board resolutions at the December 2, 2015 GERS meeting for the Chairman and Vice Chairman did not pass because neither vote garnered the requisite 6 votes. Lastly, it is our recommendation that the Board revisits and ratifies all resolutions taken between April 1, 2014 and March 16, 2016 that did not garner the requisite six votes as a result of the RTAB action.

Clark Allegation #3

Also, as we were reviewing the Board meeting minutes regarding the above concerns, it appears that the election at the April 27, 2016 meeting – in addition to violating the Ordinance – 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.

Trustees Bowman and Giddings left at 12:23 p.m.

Response

A majority of the Board ruled on this issue and we believe that the actions taken by the Board did not violate any law or fiduciary duty. Furthermore, we believe the action taken by the Board was compliant with Robert's Rules of Order. We disagree with Mr. Clark's assertion that the Chairperson properly deemed the motion of out order thus triggering a procedure to appeal his decision. Robert's Rules requires the Chairman to turn his chair over to another appropriate temporary occupant whenever a motion is made that refers only to the presiding officer in a capacity not shared in common with other members.

Clark Allegation #4

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 since an action that has already been taken cannot be rescinded.

Response

Robert's Rules provides prior actions of the Board may be rescinded upon majority vote when notice of intent to make the motion has been given. Under Robert's Rules actions that cannot be rescinded are those actions that are impossible to undue. In this instance, it was not impossible to rescind an RFP.

Clark Allegation #5

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 Giddings returned at 12:27 p.m.

Response:

As Mr. Clark is aware, the facilitator did not require Sullivan Ward to resolve an actual or potential conflict of interest. Rather, the facilitator stated in his February 29, 2016 email,

- 1. Cynthia and Matt are willing to promptly determine from the GERS Board whether that entity, their current client consented to the firm action on behalf of the City to see IRS approval of the plan to use the excess assets of the GERS Plan to fund retiree healthcare benefits through a combined VEBA... They have my permission, notwithstanding any prior agreements to maintain in confidence*

matters concerning this mediation, to inform the GERS Board of the general contours of the proposed settlement of this litigation.

2. ***Before seeking that consent, Cynthia and Matt will await word from John as to whether the City wants Sullivan Ward to pursue that effort, assuming the GERS Board would approve.***
3. *If the City says “yes,” Cynthia and Matt will arrange to call a special meeting of the GERS Board, ASAP to seek its consent.*
4. *Counsels who are meeting tomorrow in a further settlement session will report to me by email promptly following the end of that meeting as to progress made.*

Lastly, we rely on our memorandum in support of our position that Sullivan Ward does not have an actual or potential conflict of interest in this matter.”

Mr. Henzi wanted to add comments to number five. As a professional, he resents the persistent accusation by the counsel for the City (Mr. Clark) that his law firm failed to adhere to the facilitator’s directive. The way that this arose was that it was the City – with CPREA’s approval – that wanted Sullivan, Ward to do certain work and the word “conflict” came up. He wrote a letter to the facilitator stating that they needed a conference and they had one. He said there can never be a conflict if they (SWAP) don’t have a second client which would be the City. The facilitator agreed. The facilitator has written – as you can see in the letter he read – that Sullivan, Ward was only to seek consent if the City hired them. The City never even responded to that. He believes it is unfair for Mr. Clark to suggest that his law firm did something untoward and in violation of the facilitator’s directive because they absolutely did not; they did exactly what the facilitator told them to do.

Chairman Moore suggested that the correspondence be received and filed.

RESOLUTION 16-121 By Albritton, Supported by Williams
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Albritton - yea
Trustee Arndt – yea
Trustee Giddings – yea
Chairman Moore – yea

Trustee Nazarko - yea
Trustee Swazer – yea
Vice Chair Williams - yea

Yeas: 7 – Nays: 0

The Board moved to closed session at 12:32 p.m.

Mr. Lee, Mr. Roth, Ms. McNally & Ms. Setla left at 12:32 p.m.

*Trustee Nazarko left at 12:52 p.m.
The Board returned from closed session at 1:07 p.m.*

RESOLUTION 16-122 By Williams, Supported by Swazer
Resolved, That the Board approves the closed session minutes from June 29, 2016.

Yeas: 8 – Nays: 0

RESOLUTION 16-123 By Giddings, Supported by Williams
Resolved, That the Board take action as recommended by legal counsel in the Aerie Pharmaceuticals, Inc. litigation.

Yeas: 6 – Nays: 0

RESOLUTION 16-124 By Giddings, Supported by Swazer
Resolved, That the Board take action as recommended by legal counsel in the Alere Inc. Shareholder Derivative Action Litigation.

Yeas: 6 – Nays: 0

RESOLUTION 16-125 By Swazer, Supported by Albritton
Resolved, That the Board approve to pursue lead plaintiff status in the Ruckus Wireless Inc. Shareholder Derivative Litigation and authorize the Chairman to execute all necessary documents.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING

Special Meeting: Tuesday, August 30, 2016 @ 8:00 a.m. – Marriott at CenterPoint
Regular Meeting: Wednesday, August 31, 2016 @ 10:00 a.m. – Retirement Office

RESOLUTION 16-126 By Swazer, Supported by Arndt
Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 1: 12 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on July 27, 2016

As recorded by Jane Arndt