

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SEPTEMBER 28, 2016**

A regular meeting of the Board of Trustees was held on Wednesday, September 28, 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
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Nevrus Nazarko
Billie Swazer
Deirdre Waterman, Mayor (*arrvd. @ 11:12 a.m.*)
Patrice Waterman, City Council President (*arrvd. @ 10:42 a.m.*)
Kevin Williams, Vice Chair

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan Ward Asher & Patton
Deborah Munson, Interim Executive Director
David Lee, Dahab Associates
Clarissa Cayton-Grigsby
Kathi McNally, Hospital Retiree
Lari Miracle, Hospital Retiree
Linda Watson, City Retiree

TRUSTEES ABSENT

Koné Bowman (*excused*)

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

PUBLIC COMMENT

Hospital Retiree, Kathi McNally, asked whether the Board would be addressing the Hospital Association's request for assistance with a mailing.

Chairman Moore indicated that Ms. McNally's request is included in the agenda.

City Retiree, Linda Watson asked a about a discussion that took place during the prior Board meeting.

Chairman Moore stated that protocol for public comment is intended for the Board to listen and not to respond to comments.

Trustee Giddings referred to an agenda item related to that prior discussion that includes Ms. Watson's name. He assured her that the Trustees were only concerned that all requests for information be treated equally. He stated that some Trustees feel that it is not appropriate for the

Retirement System to provide information without a FOIA request or at no cost. He noted that there is a legal opinion included in the agenda related to this matter that will be discussed later.

Ms. Watson stated that the Hospital employees negotiated away their benefits and that some Hospital members withdrew their contributions from the System at the time of privatization. She stated that the Hospital members have also asked for an increase in their pension benefits which she does not believe the Board has the authority to authorize. She also noted that all retirees are receiving the \$400.00 increase and commented on several other topics.

Ms. McNally stated that the Hospital members were never involved in the benefit negotiations until after-the-fact. She also noted that when a Hospital member withdraws their contributions they are no longer eligible to receive a pension benefit.

AGENDA CHANGES

Miss Munson noted that items A through D have been removed from the Consultant section of the agenda.

Chairman Moore noted that the finance sub-committee felt that they needed more time to review the information and have their questions answered before forwarding their recommendations to the Board.

Miss Munson also indicated that there is a correction to the benefit amount for deceased retiree James Sherrod that was recorded in the July 27, 2016 minutes.

Ms. Billings-Dunn stated that the correction to the minutes should be handled separately.

RESOLUTION 16-149 By Swazer, Supported by Williams

Resolved, That the Board approve the agenda change to include the correction of the July 27, 2016 minutes for deceased retiree James Sherrod.

Yeas: 8 – Nays: 0

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Special Board Meeting held on August 30, 2016
- B. Approval of the Minutes of the Regular Board Meeting held August 31, 2016
- C. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: September 28, 2016	
TOTAL PENSION PAYROLL	\$1,953,983.82
Staff PPE September 1, 15 & 29, 2016	
TOTAL STAFF PAYROLL	\$ 20,838.60

D. Communications:

1. FOIA Request from/to Hasson: September 14, 2016
2. FOIA Request from/to Hasson: September 16, 2016
3. FOIA Request from/to Cziryak: September 14, 2016
4. FOIA Request from/to Brightscope: September 18, 2016
5. Annual Returns of Asset Classes Chart
6. Correspondence from Robert Giddings Re: Disclosure of Information
7. Correspondence from Munder Capital Re: Staff Changes September, 2016

E. Financial Reports:

1. Accounts Payables – September, 2016
2. Dahab Associates Flash Report August, 2016
3. Attucks Asset Management, Manager of Managers Report – August, 2016
4. Statement of Changes – August, 2016
5. Unaudited Financial Statements: Q2 2016
6. Lombardia Liquidation Price Analysis

F. Private Equity Capital Calls & Distributions

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
2796	Dimercurio, Frank	10 – 10	NOMC	60	Option IV		11/01/2016
2795	Hyttinen, Theira	11 – 8	NOMC	60	Option IV		10/01/2016
2798	Martinez, Magdalena	2 – 8	NU	60	Option II		12/01/2016
2797	Wilson, Dee Ann	14 – 10	MAPE	55	Option III		10/01/2016

**All New Retirees are eligible for the temporary \$400.00 per month supplemental benefit until Sunset date of September 1, 2017*

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.
648	Tiernan, Emily	09/14/2016		NOMC

3. J&S Continued Retirements

Ret No.	Name	Date of Death	Survivor's Name	Member Benefit	Beneficiary Benefit	Union or Dept.
2709	Aylsworth, Michele	08/17/2016	Aylsworth-Allen, Dustin			NOMC

4. Recalculated Retirements

Ret No.	Name	Union	Effective Date	Reason For Change	Old Amount	New Amount
2183	Connolly, Dan	Local 2002	09/10/2016	Social Security Offset		

5. Disability Medical Re-Exams/Benefit Continuation

Ret No.	Name	Reason	Benefit Amount	Union or Dept.

6. Refunds of Employee Contributions

RESOLUTION 16-150 By Gaffney, Supported by Swazer

Resolved, That the Board approves and ratifies actions described in the Consent Agenda for September 28, 2016.

Yeas: 8 – Nays: 0

CONSULTANT

Re: Dahab Associates

Miss Munson directed the Trustees attention to the Summary Statistics for Selected Mixes chart included in their handouts. She explained that this would be the framework for how the asset allocation data will be presented and - since it is a new format – she has suggested that David Lee again review the chart with the Board.

Mr. Lee reviewed the Summary Statistics for Selected Mixes chart. He noted that they provided a tutorial for the Board at the last meeting. The chart is a snapshot of some of the various asset mixes that Dahab is recommending for further consideration. In order to make an apples-to-apples comparison, the chart also shows the Fund’s target and current asset allocations.

He reviewed the various asset classes and different styles. He described the bottom portion of the chart which explains the differing results from the study. He explained that the ‘Chance to Beat 7.5%’ section indicates the percentage a particular mix will beat the System’s actuarial assumed rate of return of 7.5% over specific timeframe scenarios: the higher the percentage the better.

The mean is the theoretical return over the indicated timeframe using that particular asset allocation mix.

The standard deviation references how much volatility there is for the expected return. He explained that one standard deviation represents approximately two-thirds of the returns and two standard deviations represent approximately ninety-six percent of the returns. He noted that a smaller standard deviation is preferred because it means the returns are less volatile.

The 'Terminal Value at 75%' confidence level indicates that 75% of the time or better, the terminal value will be that which is indicated in the chart for the different mixes.

Mr. Lee reviewed the System's target asset allocation which is referenced in the Investment Policy Statement and the current asset allocation and noted the disparity between the two.

He reviewed the eight asset mixes and explained that they show how adjusting the asset allocation among the various asset classes changes the numbers in the bottom of the chart. Dahab's recommendation is for asset mix number three with the caveat that all of the mixes are based on probability or likelihood of the results but that there is no certainty. He continued that there isn't a best mix, per se. The goal is to select an asset mix that gets the Fund closer to achieving its actuarial rate of return with potentially lower volatility by spreading the risk around to more asset classes.

He compared mix number three to the target allocation. He explained that Dahab stress-tested the portfolio by looking at different historical periods because there has been a lot of variability in the markets for the past 10, 20 and 70 year periods.

Ms. Billings-Dunn asked about the twenty-year special scenario.

Mr. Lee explained that the twenty-year special scenario is the same as the twenty year scenario but with the return to bonds lowered. He explained that the returns to bonds over the next twenty years are not likely to be as robust as the prior twenty years, so they replaced the historical returns with a lower return to bonds for that scenario.

Mr. Lee continued contrasting mix number three with the target allocation and explaining the differing results. Mr. Lee stated that the fund has performed admirably but also questioned whether it is wise to maintain the same risk profile going forward. He explained that the portfolio – based on the funded status – is probably riskier than it needs to be and that by shifting into one of the other allocations, the Fund could reduce that risk but receive slightly lower returns. He stressed that all of the portfolios presented have less risk than the current one.

Chairman Moore asked how the various scenarios were defined. He also noted that Trustee Nazarko requested during the finance sub-committee meeting that a ninth mix be added.

Mr. Lee told the Board that it is not the consultant's role to decide which mix the Board should choose. The consultant should offer advice but this is a collaborative process with the Board. They will provide the results of the mix that Trustee Nazarko requested at yesterday's committee meeting.

The mixes are provided so the Board can see the differences with the intent of moving to a more conservative asset allocation but he is not trying to make too dramatic of a change to the portfolio.

Chairman Moore clarified that he is referring to the computer system that runs the simulations.

Mr. Lee indicated that they have a mini-super computer that goes through millions of computations to create a probabilistic graph of potentially likely outcomes. He stated that there is not a perfect asset allocation. The process should provide reasonable outcomes based on different historical returns as well as what potentially may happen in the future. The computer generates these different mixes and from there they create hurdles of what is realistic, discard outliers and focus on the asset mixes they believe are most reasonable.

Chairman Moore reiterated that the finance committee is reviewing the information and will bring a recommendation back to the full Board.

Trustee Swazer asked why mix number nine had not been included if it was one that had already been run.

Mr. Lee explained the selected mix options by using the analogy that there is not a lot of difference between regular vanilla ice cream and vanilla bean meaning that an adjustment to mix number three to reduce the allocation to private equity by 5% and adding that 5% to global equity, which is what Mr. Nazarko requested, may not significantly change the results.

Trustee Williams asked which numbers should be of most import to the Trustees.

Mr. Lee explained that it is best to look at the results for each mix in total and not try to separate one variable. He also mentioned that one should prefer a lower standard deviation.

Preliminary Performance Summary

Mr. Lee reported that as of August 31, 2016 the preliminary market value was \$470.6 million. The quarter-to-date performance includes returns from July and August 2016. Year-to-date the total Fund is ahead of the shadow index 6.5% versus 6.2%.

International equity manager, First Eagle has returned outstanding performance at 10.1% versus the benchmark at 6.4%.

Large cap growth manager, Sawgrass Asset Management slightly outperformed the index 5.8% versus 5.6%.

Both the Attucks portfolios have underperformed with the emerging manager portfolio returning 3.5% versus the index at 7.8% and the Michigan manager portfolio returning 6.6% versus the index at 10.2%.

Both mid-cap equity managers Victory Capital and Systematic underperformed the benchmark. Mr. Lee reminded the Board that the fund was overweight to mid-cap and – since the last meeting – the portfolio had been rebalanced to reduce the allocation to Victory Mid-Cap and Systematic Mid-Cap by \$10M each and shifting it to the fixed income managers, Victory and Robinson. This brings the portfolio more in line with the target allocation.

Small cap manager Kennedy Capital's growth product outperformed the benchmark 11.4% versus 5.9%. Their small cap core product underperformed the benchmark year-to-date 9.9% versus 13.2%.

Small cap value manager Loomis Sayles' year-to-date returns were slightly behind the index at 13.6% versus 14.6%.

International equity manager WCM outperformed their index 6.8% versus 0.5% year-to-date.

He reported that he does not have any performance updates for the private equity managers because these investments are valued quarterly and have a quarterly performance lag.

Fixed income excluding global bonds performance was in-line or slightly above the index year-to-date.

Trustee P. Waterman arrived at 10:42 a.m.

Mr. Lee reviewed the preliminary market values by asset class and style. The total Plan value as of September 27, 2016 was \$466.3 million. He told the Board that the markets have been somewhat tepid overall.

Trustee Giddings asked if the cash balance included the September 2016 retiree payroll.

Miss Munson reported that the cash balance reflected in the preliminary report has been reduced by the September 2016 retiree payroll payment.

Mr. Lee reported that the proceeds of the liquidation of the Lombardia Capital account is also reflected in the cash balance.

Mr. Lee left at 10:51 a.m.

COMMITTEE REPORTS

Re: Chairman - None

Re: Trustee/Committees

PERSONNEL SUB-COMMITTEE

Trustee Gaffney deferred to Miss Munson to provide the personnel sub-committee report.

Miss Munson reported that the personnel committee met on September 15, 2016.

Duty Disability Conversion Overpayments

General Employees Retirement System
Regular Meeting
September 28, 2016

Both committees reviewed the duty disability conversion overpayments that were initially discussed at the December 2014 Board meeting. The committees agreed that the information should be sent to the actuary to determine lifetime reduction amounts. This will give the committees a reasonable basis from which to begin the recoupment discussion. The cost is \$1,200 to prepare the calculations and a resolution is included in the agenda to authorize that payment.

Hytinen Nomination of Beneficiary

Both committees reviewed the beneficiary nomination of retiree Theira Hytinen and concurred that the definition of insurable interest has been met. They are recommending approval of Ms. Hytinen's beneficiary designation.

Personnel Policies

The personnel sub-committee discussed the Personnel Policies that have been previously reviewed by the Board and attorney. The committee will review those one last time prior to recommending approval at the October 2016 meeting.

The committee deferred the rest of their agenda.

FINANCE SUB-COMMITTEE

Miss Munson reported that the finance sub-committee met on September 27, 2016.

Financial/Investment Reports

The committee reviewed the monthly financial reports that are included in the agenda. With respect to the Oppenheimer liquidation of the Peritus portfolio, there were no sales since last meeting. There are two securities left in the portfolio that have a cost basis of ~\$467,000.

The Lombardia liquidation yielded approximately \$8.4M. She requested that Dahab provide a high-level cost analysis of the liquidation which is included in the consent agenda. There is some residual income in the account that she will transfer to the cash manager as soon as it has all settled.

Arndt Insurance Memo

Both committees reviewed the memo in the agenda regarding the insurance policy for Jane Arndt's husband. There is a resolution in the agenda to approve the method of reimbursement. She reminded the Board that they had previously approved the new policy which will save the System approximately \$10,000.00 per year. However, because it is an individual policy, the carriers will not accept payment from the employer. Ms. Arndt will need to pay the premium directly. The memo describes how the System will repay Ms. Arndt its' 80% portion through her bi-weekly payroll deduction. Miss Munson explained that by reimbursing Ms. Arndt over a bi-weekly period, this will protect this System were Mr. Arndt to die within a year.

Member Data Software

Miss Munson noted that she reported to both committees that she has participated in three online demonstrations for member data software and is awaiting quotes from two of the vendors. She

reminded the Board that she will compile this information, along with the recommendations from the firms that had submitted proposals to provide actuarial services.

Annual COLA Review/AUP Memo

The committee reviewed the revised procedures for the verification process for Plante & Moran's review of the COLA calculations. She explained that Plante & Moran cannot finalize the engagement letter until she provides them with the actual data for review which will not be prepared until the COLA is processed. She will provide the information to Plante & Moran no later than October 14, 2016. Plante & Moran will have their final report prepared for approval at the Board's October meeting. She stated that the Chairman will need to sign the engagement letter in the interim. The resolution in the agenda is to authorize the Chairman's signature on the engagement letter.

Chairman Moore noted that the committees must make a high priority of deciding which direction they would like to go with respect to the administration of the System.

He also felt it is important to move ahead with a Trustee retreat, the purpose of which would be to further refine the System's governance practices and set strategic goals. He solicited dates and suggestions from the other Trustees.

EXECUTIVE DIRECTOR

Annual Meeting

Miss Munson announced that the annual meeting is scheduled for October 25, 2016 at 3:00 p.m. at the Franco Communications Center at St. Joseph Hospital.

Reports Section of Agenda

Miss Munson referred to the correspondence received from GrayCo Alternatives indicating that it is a follow up from the manager review meeting.

She referred to the copy of the revised Definition of Insurable Interest Policy resolution. At the August 31, 2016 meeting, the Board adopted the policy with the caveat that the language "pursuant to a DRO;" be added to item 1.

She noted the correspondence between the City and the System's actuary regarding a question on amortization periods included in reports section.

Miss Munson noted that she had previously provided a status update on the annual disability income verification and re-examination process. The final two tax transcripts were received from the IRS and the process is now complete. The two members requiring re-exam in 2016 had been re-examined and the Board has approved their continuing disability benefit and no retiree exceeded their income limit for 2015.

She referred to the claims report from Chubb indicating that no attorney fees had been recovered in the Onyx matter.

Miss Munson reminded the Trustees that due to some deadline reporting changes, ADP will no longer file the federal W-2 and 1099R forms: the System will be responsible for filing those. ADP will provide an electronic copy for filing.

UNFINISHED BUSINESS

Re: Ordinance Language Clean-Up Recommendation – No Action

NEW BUSINESS

Re: Resolution to Obtain Actuarial Calculations

Trustee Giddings asked whether the actuarial calculation would be a lifetime reduction over the lives of the member as well as the beneficiary.

Miss Munson stated that the actuary is providing lifetime reductions over the lives of the member. She indicated that Ms. Billings-Dunn has previously opined that the System cannot collect the overpayment from the beneficiary. She will be sure to confirm this with the attorney. She continued that – at this point – we are just getting the lifetime reduction calculations to help determine a reasonable process by which to recoup the overpayments.

Trustee Giddings questioned whether retirees would have the option of paying back the System in a lump sum.

Miss Munson confirmed that a lump sum could be an option and that the committees are getting the calculations to determine what various arrangements could be offered.

RESOLUTION 16-151 By Gaffney Supported by P. Waterman

Resolved, That the Board approves to have Nyhart perform the calculations to determine lifetime reduction amounts for nine retirees.

Yeas: 9 – Nays: 0

Re: Resolution to Approve Reimbursement of Medicare Supplemental Insurance for Arndt Spouse

RESOLUTION 16-152 By Gaffney, Supported by P. Waterman

Resolved, That the Board approves to reimburse Ms. Arndt on a bi-weekly basis for 80% of the cost of her spouse's supplemental insurance plan.

Yeas: 8 – Nays: 0
Abstain: Trustee Arndt

Re: Approval of Insurable Interest

Trustee Nazarko stated that he believes this resolution brings up the need to revise the Retirement Ordinance. He feels that since the System has a large deferred population the issue of insurable interest could get out of hand.

He does not believe that two people sharing a mortgage necessarily equates to insurable interest. He believes that the Ordinance could be amended in order to prevent future losses. He believes that the retirement options could be changed to make this System comparable to other plans. He would like to bring that before the Board for consideration.

Chairman Moore stated that the Board is always open to change but any changes have to be made within the framework of the laws and Ordinance that govern the System.

Miss Munson added that the current and previous attorneys have all indicated that an insurable interest can also be one that is based on a pecuniary relationship as with a business partner and not necessarily a relationship based on affection.

Trustee Nazarko noted that a member has the option to purchase life insurance to otherwise provide for their beneficiary.

Chairman Moore encouraged Trustee Nazarko to bring other options or alternatives to the Board for further consideration.

RESOLUTION 16-153 By Gaffney, Supported by Williams

Resolved, That the Board approves the beneficiary nomination of retiree Theira Hyttinen.

Yeas: 8 – Nays: 2 (Trustees Nazarko & P. Waterman)

Re: Resolution to Remove First Eagle from Watch

Miss Munson noted that the Investment Policy Statement lists specific events that require a manager to be put on watch. The Board resolves to put a manager on watch when those events occur and must do another resolution to remove them from watch. She referenced the red-lined version of the IPS noting that one of Dahab's recommendations is to eliminate the concept of "watch". The Board will monitor its managers continuously and consistently underperforming ones will be terminated. She noted that because the Board did resolve to put First Eagle on watch they should now resolve to remove them from watch.

Trustee Swazer asked about First Eagle's performance and when they were put on watch.

Miss Munson indicated that they were put on watch in July 2015 and referenced their year-to-date outperformance as reported in Dahab's August 2016 performance report.

She reiterated that there will not be a need for this process of removing managers from watch going forward. She believes that the Board is doing things differently and is more engaged in reviewing the managers and that there is more oversight of performance.

RESOLUTION 16-154 By Nazarko, Supported by Arndt
Resolved, That the Board approves to remove First Eagle Investment Management, LLC from watch in accordance with the recommendation of its Investment Consultant.

Yeas: 9 – Nays: 0

Re: Legal Report

Hospital Retiree Association Request for Retirement System to Assist in a Mailing to all Hospital Retirees

Ms. Billings-Dunn read excerpts from her opinion regarding the Hospital Retiree Association's request for the Retirement System to conduct a mailing to the hospital retirees.

"I have been requested to provide a legal opinion as to whether or not the Board of Trustees for the City of Pontiac General Employees' Retirement System (Retirement System) would violate their fiduciary responsibility if they were to notify the hospital retirees (through a mailing) of the formation/existence of the hospital retiree association. It appears, for the reasons set forth below, that the Trustees could notify the hospital retirees regarding the formation of the association, provided no Retirement System assets are expended in this endeavor.

Background

Ms. Kathi McNally, the president of the hospital retiree association previously submitted a freedom of information act (FOIA) request for the hospital retirees' names and addresses, however, her request was denied in part due to retiree addresses being exempt from disclosure under FOIA. Michigan Fed'n of Teachers & Sch. Related Pers., AFT, AFL-CIO v. University of Michigan, 481 Mich 657 (2008). As a result, Ms. McNally has asked the Board of Trustees to forward a letter to the hospital retirees advising them of the existence of the association. Ms. McNally has stated that the hospital retiree association will pay for all costs associated with the mailing.

Governmental retirement systems are recognized as trusts both under the Internal Revenue Code, 26 USC 401(a) and the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965 as amended; MCL 38.1133(8) ("PA 314")."

Ms. Billings-Dunn continued that under the Internal Revenue Code (IRC), trustees are required to act in the best interests of the members, retirees, and beneficiaries of the system and the assets of the retirement system must be used for the exclusive purpose of providing benefits to the members, retirees and beneficiaries of the system. Similarly, trustees are fiduciaries under PA 314. She stated that both the IRC and ERISA – which covers private sector plans – have prohibited transactions. Prohibited transactions are certain actions that trustees cannot take. The Retirement System is not subject to ERISA. The prohibited transactions under the IRC related to public sector plans are not relative in this particular case. The System is subject to prohibited transactions contained in PA 314.

“PA 314 prohibits investment fiduciaries from engaging in specific transactions as follows:

“with respect to a System, an investment fiduciary shall not cause the System to engage in a transaction if he or she knows or should know that the transaction is any of the following, either directly or indirectly:

...

(d) The furnishing of goods, services, or facilities from the System to a party-in-interest for less than adequate consideration, or from a party-in-interest to the System for more than adequate consideration.” ”

Ms. Billings-Dunn explained that PA 314 definitions of parties-in-interest would include an organization, any of whose members are covered by the System. This recognizes that there is a commonality between parties, such as unions and retiree associations, and the System. Therefore, as long as the System is receiving adequate compensation for the goods, facilities, etc... that it is providing to these parties, there is no prohibited transaction. She reminded the Board that they still have the fiduciary obligation to act in the best interest of the members.

She continued to read from her opinion:

“Thus, PA 314 appears to contemplate furnishing services to a party in interest, such as the hospital retiree association, however, for no less than adequate consideration. While "adequate consideration is not defined in the PA 314, Black's Law Dictionary, Sixth Edition defines adequate consideration in part as, "...such as is equal, or reasonably proportioned, to the value of that for which it is given...fair and reasonable under the circumstances ...reasonably just and equitable...”

In exercising its fiduciary responsibilities, the Board shall act for the exclusive benefit of the plan's participants and their beneficiaries and shall exercise the care, skill, prudence, and diligence under the circumstances then prevailing that an individual of prudence acting in a like capacity and familiar with such matters would use in a conduct of an enterprise of like character and similar objections

Section 92-7 of the Retirement System Ordinance provides in part,

All assets of the Retirement System shall be held and invested for the sole purpose of meeting the legitimate obligations of the Retirement System and shall be used for no other purpose...

Clearly, the Internal Revenue Code, PA 314 and the Retirement System Ordinance require the Trustees to act in the best interest of the participants and the beneficiaries. Furthermore, they prohibit the use of Retirement System assets for anything other than the legitimate obligations of the Retirement System. Lastly, PA 314 prohibits the Trustees from furnishing services to a party-in-interest for less than adequate consideration. Therefore, if the Trustees approve the request of the hospital retiree association to conduct a mailing to hospital retirees to advise them of the formation/existence of the association, no assets of the system should be expended for this endeavor.”

Trustee Giddings confirmed that it would be proper for the System to comply with the Hospital Associations’ request based on Ms. Billings-Dunn’s opinion.

Ms. Billings-Dunn confirmed that it would be proper.

Trustee D. Waterman arrived at 11:12 a.m.

Trustee Giddings referred to correspondence he sent that is included in the consent agenda and asked whether those information requests are in compliance with the law as she just outlined it.

Ms. Billings-Dunn responded this they are in compliance. She stated that the Board held a special meeting on October 21, 2014 at the request of the federal mediator in the litigation matter between CPREA and the City. It was requested that there be a free flow of information between the Retirement Office and the City and the retiree association in the hopes of settling that matter. She continued that the Board did authorize the release of that information at that meeting.

Trustee Giddings questioned whether there was anything in writing with respect to that request for the information exchange.

Ms. Billings-Dunn responded that the Board held a special meeting at which she advised the Board of what the mediator told her.

Trustee Giddings clarified that he is interested to know if it is common to not have something in writing when it caused pension money to be spent for something that doesn’t affect all of the retirees.

Ms. Billings-Dunn noted that the mediator advised her that her client was to call a special meeting and either the System was to authorize the release of the information or the System would be subpoenaed and possibly sanctioned if the information was not provided. (She noted that as a lawyer she is also an officer of the court.)

Trustee Giddings reiterated that that he wanted to know whether it was common to do that without written instruction.

Ms. Billings-Dunn offered that she does not see a legal issue with the way that it was handled.

Chairman Moore indicated that the City requested that all of the information be sent to MERS. He believes that the reason the mediator requested the free flow of information was because the City had everything and CPREA had nothing.

Trustee Deirdre Waterman stated that she is not familiar with the information being provided to MERS. She stated that the Mediator did clarify in an email to all of the parties in mediation exactly what he was requesting of counsel to do. She continued that although it was not directed to this Board it is in writing and can be produced.

Trustee Giddings inquired again why the entire Board wasn't aware of the information being provided.

Trustee Deirdre Waterman responded that the mediator's request was not addressed to the Board: it was addressed to the parties in the mediation based upon a request made by her and other parties on behalf of the City. Those City-related parties did not know that the GERS Board had given authorization to its' counsel to proceed in the manner that she had. They thought it best that the Board knew how its' counsel was proceeding in the name of the Board. She said that that is why the mediator did ask the Board's attorney to tell the Board how she would have been involved in the proceedings. She reiterated that she was not aware of any information being provided to MERS.

Chairman Moore and Trustee Gaffney indicated that a request had been made that information be provided to MERS so that they could perform their own actuarial calculations.

Trustee Deirdre Waterman indicated that the City had worked with a number of different financial consultants and MERS may have been one of them.

Trustee Nazarko stated that there was no information provided to MERS or requested of the Board to MERS under his tenure. He stated that there may have been an actuary that was providing services to MERS, although he cannot confirm that. He indicated that "we" provided information to an actuary that was totally separate from MERS as part of the litigation.

Chairman Moore believes that it would be prudent to establish a policy to address similar requests in the future.

RESOLUTION 16-155 By Gaffney, Supported by P. Waterman

Resolved, That the Board approve the request by the Hospital Retirees' Association to have staff assist in notifying members of its formation.

Yeas: 10 – Nays: 0

Deceased Member Doris Ballagh

Ms. Billings-Dunn referred to her letter to the son of deceased retiree Doris Ballagh requesting repayment of the pension benefits that were paid to her after she passed away.

Trustee Arndt questioned whether the System has any further recourse.

Ms. Billings-Dunn gave a brief cost-benefit analysis of pursuing the matter with an attorney. She also reminded the Board that the committees had investigated companies that provide debt recovery services.

Miss Munson indicated that no research had ever actually been done; one firm was selected and there was a question of how that firm was selected.

Trustee Patrice Waterman wanted to confirm that the notices to the son were sent via certified mail.

Both Trustee Arndt and Ms. Billings-Dunn confirmed that their respective notices were sent via certified mail and regular first class mail.

Asset Transition – Lombardia

Ms. Billings-Dunn noted that the Board recently passed a policy regarding the transition of System assets. She opined that the Board should clarify the policy if the intent of the policy is that it only applies when a third party is involved.

Robbins Geller August 2016 Monitoring Report

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

Fiduciary Liability Insurance/Onyx Matter

Ms. Billings-Dunn reported that at the last meeting a request was made to provide a summary of the legal fees that were covered by the System's fiduciary liability insurance relative to the Onyx matter. She stated that no legal fees were recovered through the insurance. The insurance provides coverage for breaches of Trustees' duties.

On May 11, 2011 the insurance company was notified that Trustees Harrison and Bowman received subpoenas from the SEC related to the Onyx matter. The System notified the insurance company again on July 29, 2012 regarding a possible claim when Mr. Dixon filed a counter-complaint against the Board alleging that certain Trustees breached their fiduciary duty. In both instances the insurance company denied coverage. With respect to the SEC subpoenas, the insurance company denied coverage based on the fact that no wrongful act had been alleged against the Trustees. With

respect to the counter-complaint, the insurance company denied coverage but acknowledged that the circumstances could give rise to a claim under the policy. However, that matter became moot because the counter-complaint was not timely filed and was never acknowledged by the Court.

Resolution Ratification Question

Trustee Giddings referred to the 2014 through 2016 resolutions that were ratified at the last meeting and stated that his concern is that there are people who are not properly seated on the Board based on the City Charter. He sent an email and wanted to know if Ms. Billings-Dunn has a response to it.

Ms. Billings-Dunn responded that she had reviewed the matter. She does not have a written response; however she can address it verbally and follow up with a written opinion, if so desired. Her understanding is that the issue comes down to an amendment to the Retirement System that the Emergency Manager made in 2012.

Ms. Billings-Dunn provided some background by discussing the Hospital Trustee position. She compared the Ordinance amendment to change the qualification of the Hospital Trustee to the amendment to change the qualification and electors of what were the three Active Employee Trustees.

The composition of the Board at that time included one Retiree Trustee position, three Active City Employee Trustee positions and one Hospital Trustee position. It was determined that two of the Active City Employee Trustee positions would be changed to Member Trustee positions due to the reduced number of active City employees. She told the Board that the change to Board composition has always been a mandatory subject of collective bargaining. She has never seen any evidence that a change to the electors of those Member Trustee positions was ever collectively bargained by the unions. She will be happy to provide a written opinion.

Trustee Giddings stated that the Charter says that the two Member Trustees should have been elected by all of the retirees – not just City retirees - and the Hospital retirees could have run for those positions.

Chairman Moore suggested that the Board delay the discussion until a written legal opinion is provided.

RESOLUTION 16-157 By Swazer, Supported by P. Waterman

Resolved, That the Board direct legal counsel to provide a written legal opinion to determine whether hospital retirees were eligible to run and vote for the two Member Trustee positions and further,

Resolved, That staff is directed to work with and provide to counsel the historical records related to prior Ordinance amendments regarding Board composition.

Yeas: 10 – Nays: 0

Trustee Deirdre Waterman believes that the information that the Board is seeking is historical record and that the Board did not necessarily need to incur the cost of a legal opinion if the information can be found among the System's records. She questioned whether what the Board is seeking is a legal opinion or simply the history of the Ordinance provisions and election rules.

Chairman Moore responded that the Board is requesting through the resolution a formal legal opinion.

Trustee Deidre Waterman asked Trustee Giddings to clarify whether he is requesting a formal opinion.

Trustee Giddings stated that he does not believe the two elections complied with the way that the Charter is written. He is looking towards the future and questioned whether someone could challenge the elections.

Trustee Patrice Waterman stated that the elections have been ratified and were not challenged in the past. The Board is moving forward and has hired a new consultant and is in the process of an RFP. The Board needs to do what is necessary to move the System forward. She believes that if there was a problem it should have long ago been resolved.

Trustee Deidre Waterman asked that the resolution be read again.

Miss Munson indicated that the resolution was to obtain a legal opinion to determine whether hospital retirees were eligible to run and vote for the two Member Trustee positions.

Trustee Patrice Waterman requested clarification on whether the Board is asking for a legal opinion or whether historical records of the System will be provided. She stated that we should get a clear history of how this all came to pass so that we can move on to do the business of the System.

Trustee Nazarko requested of Ms. Billings-Dunn an estimate of the hours it would take to write her legal opinion.

Trustee Deirdre Waterman felt that staff could provide the historical records to mitigate the costs of obtaining the opinion.

RESOLUTION 16-156 By Nazarko, Supported by D. Waterman

Resolved, That the prior motion to obtain a legal opinion be amended to include direction to staff to work with and provide to counsel the historical records related to prior Ordinance amendments regarding Board composition.

Yeas: 10 – Nays: 0

Dell Securities Litigation.

The Court in the Dell Securities litigation ruled against the defendant's motion to dismiss. The parties will now proceed to discovery.

Onyx

Michael Farr filed for Chapter 11 Bankruptcy. On August 31, 2016 his case was converted to a Chapter 7 Bankruptcy. The Court has indicated that there does not appear to be any assets at this time and the System should not file a proof of claim until further notice.

Walmart Stores Securities Litigation

The Court approved the System's motion for Class Certification for the System to represent the class.

RESOLUTION 16-158 By P. Waterman, Supported by Williams,
Resolved, That the Board approve the July 27, 2016 closed session minutes.

Yeas: 10 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, October 26, 2016 @ 10:00 a.m. – Retirement Office

RESOLUTION 16-159 By Gaffney, Supported by Swazer
Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 11:55 a.m.

Yeas: 10 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on September 28, 2016

As recorded by Jane Arndt