

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
January 25, 2017**

A meeting of the Board of Trustees was held on Wednesday, January 25, 2017 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 10:00 a.m.

TRUSTEES PRESENT

Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Nevrus Nazarko, Secretary
Billie Swazer
Patrice Waterman, City Council Pres. (*arvd. @ 11:45 am*)
Kevin Williams, Vice Chair

TRUSTEES ABSENT

Koné Bowman (*excused*)
Deirdre Waterman (*excused*)

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan Ward
Deborah Munson, Interim Executive Director
David Lee, CFA - Dahab Associates
Steven Roth, CFA - Dahab Associates
Mary Brower, Hospital Retiree
Claudia Filler, City Retiree
Kathi McNally, Hospital Retiree
Linda Watson, City Retiree

Chairman Moore opened the meeting at 10:00 a.m.

Chairman Moore indicated that Trustee Patrice Waterman had sent notice that she may be late to the meeting due to official business. It was also noted that the Mayor may be late due to the same matter.

PUBLIC COMMENT – N/A

AGENDA CHANGES

Miss Munson asked that the Board amend the agenda in order to ratify Resolution 17-003 from the special meeting held on January 13, 2017.

RESOLUTION 17-005 By Swazer, Supported by Nazarko
Resolved, That the Board amend the consent agenda to add an amendment to ratify Resolution #17-003 from the special meeting held on January 13, 2017.

Yeas: 8 - 0

RESOLUTION 17-006 By Gaffney, Supported by Swazer
Resolved, That the Board ratify the actions taken at the special meeting in Resolution 17-003 approving Trustee Giddings request to attend the IFEBP Investment Institute being held from March 13, 2017 through March 15, 2017.

Yeas: 8 – Nays: 0

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Regular Board Meeting held November 30, 2016
- B. Approval of the Minutes of the Special Board Meeting held January 13, 2017

C. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: December 14, 2016
TOTAL PENSION PAYROLL **\$1,959,254.20**

Retiree Pay Date: January 25, 2017
TOTAL PENSION PAYROLL **\$1,955,285.87**

Staff PPE Pay Date: December 8 & 27, 2016 and January 5 & 19, 2017
TOTAL STAFF PAYROLL **\$ 28,260.72**

D. Communications:

- 1. Correspondence from Kathi McNally Re: PGH Member-Trustee Election
- 2. Correspondence from Karen Barner Re: PGH Member-Trustee Election
- 3. Correspondence from Gabriel, Roeder, Smith & Co Re: Actuarial Services Agreement
- 4. Correspondence from Gabriel, Roeder, Smith & Co Re: Data Request to Nyhart
- 5. Correspondence from Loomis, Sayles Re: Non-Transferrable Instrument
- 6. Correspondence from Systematic Financial Re: IPS Change Request
- 7. Correspondence from/to Gray & Company Re: Request to Consent to Assignment
- 8. Correspondence from/to Zack Cziryak Re: FOIA Request
- 9. Correspondence from/to IQ Re: FOIA Request
- 10. IRS Standard Mileage Rate
- 11. IFEBP Washington Legislative Update: May 22-23, 2017 (Washington, DC)
- 12. IFEBP Certificate Series 2017: Various Dates and Venues
- 13. Pensions & Investment Global Future of Retirement: June 25-27, 2017 (New York)
- 14. Pensions & Investment Low Yield Environment Returns: February 28, 2017 (Chicago)

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- 15. IFEBP Investments Institute: March 13-15, 2017 (Phoenix, AZ)
- 16. IFEBP/Wharton Investment Programs: Various Dates and Venues
- 17. IFEBP 2017 Trustees and Administrators Institutes: Various Dates and Venues

E. Financial Reports:

- 1. Accounts Payables – December 2016 & January 2017
- 2. Dahab Associates Flash Report November & December 2016
- 3. Attucks Asset Management, Manager of Managers Report – November & December 2016
- 4. Statement of Changes – November & December 2016

F. Private Equity Capital Calls & Distributions

- 1. Mesirow Fund IV November 30, 2016 Distribution: \$ 73,720.00
- 2. Mesirow Fund IV December 30, 2016 Distribution: \$225,000.00
- 3. Mesirow Fund VI December 12, 2016 Capital Call: \$135,000.00

G. 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
2800	Kilburn, Terrence	11 – 9	SAEA	60	Option II		02/01/2017

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

2. Terminated Retirements (Deaths)

Ret No.	Member's Name	Date of Death	Benefit Amount	Union or Dept.
1534	Coney, Rosa	01/15/2017		Local 2002
1038	Gilbert, Kirby	12/05/2016		NOMC
2754	Medlock, Shelby	12/18/2016		Local 2002
701918	McKeever, Margaret	11/14/2016		Local 2002

3. J&S Continued Retirements

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

4. Recalculated Retirements

Ret No.	Name	Union	Effective Date	Reason For Change	Old Amount	New Amount
1740	Majors, Kenneth	Local 2002	01/13/2017	Disability Age 65 Conversion		

5. Disability Medical Re-Exams/Benefit Continuation

Ret No.	Name	Reason	Benefit Amount	Union or Dept.

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6. Refunds of Employee Contributions

Trustee Gaffney indicated that she was not present at the special meeting held on January 13, 2017 but was noted as supporting the resolution to adjourn the meeting.

Miss Munson noted that the correction will be made to the minutes.

Miss Munson submitted corrections to the special meeting minutes dated January 13, 2017. She indicated that legal counsel Matt Henzi submitted his corrections for the minutes of the special meeting held on January 13, 2017 after the agenda packets had been sent out. She reviewed the changes with the Board.

Chairman Moore requested that the information regarding the revised terms of the actuarial services agreement be explained further.

Ms. Billings-Dunn explained that GRS is requesting that they be reimbursed for any legal fees they incur when they are not a party to the litigation. If they are required to testify, provide documents or respond to subpoenas on behalf of the System, GRS would like for the client to pick up those fees. She noted that GRS would not strike the clause but did agree to limit the fees to \$5,000.00.

Miss Munson also noted that Trustee Deirdre Waterman's last name was spelled incorrectly in the special meeting minutes.

RESOLUTION 17-007 By Gaffney, Supported by Swazer

Resolved, That the Board approves and ratifies actions described in the Consent Agenda for January 25, 2017 with corrections.

Yeas: 8 – Nays: 0

CONSULTANT

Re: Dahab Associates

Mr. Roth indicated that he will provide a brief overview of the System's preliminary performance as of December 31, 2016. A full report will be provided at the February 2017 meeting with net of fees analysis.

He reviewed the System's preliminary performance summary and noted that it was a good year for the Fund. The Fund returned 8.4% gross of fees year-to-date and 8.1% per year gross of fees since 1995. This exceeds the Fund's 7.5% actuarial rate of return.

Mr. Roth indicated that a deeper analysis will be provided at the February 2017 meeting.

He noted that the current market value of the Fund as of January 23, 2017 was approximately \$467.8 million which is net of the \$2 million that was withdrawn to pay benefits.

Mr. Roth remarked that the markets continue to be kind. The economy is continuing to get stronger with companies posting good earnings and positive forecasts going forward.

COMMITTEE REPORTS

Re: Chairman - None

Chairman Moore stated that the Board has been doing a great job in doing some of the things they wanted to do. The upcoming retreat will give the Trustees an opportunity to set additional goals and objectives for moving forward. It is important to have continuous and positive forward momentum.

He is looking forward to 2017 and the opportunities for the Board to improve and set higher standards.

Re: Trustees - None

Re: Committees

Miss Munson gave the reports from the Personnel and Finance Sub-Committees

Personnel Sub-Committee

Retirement System Administration

Miss Munson reported that both committees discussed the administration of the System and what will be done on a permanent basis. The personnel committee conducted an onsite due diligence visit at BeneSys on January 24, 2017.

Trustee Gaffney noted that BeneSys was a bigger operation than she expected. The committee will need to follow up with more specific questions. Benesys appeared to be very interested in working with the Board on a hybrid plan that would allow the System to maintain its own staff and office but the committee still needs to define which services they would like BeneSys to provide. She believes that we are making progress.

2017 Retirement System Budget

Both committees reviewed the 2017 proposed budget. No changes have been made to the budget as originally presented. The committees are recommending that the Board approve the proposed expense budget for 2017.

Workman's Compensation Insurance Policy

Both committees reviewed the Workman's Compensation quote. The estimated premium is \$586.00. Miss Munson explained that this amount may change as a result of the annual audit and noted the premiums average approximately \$600.00 per year.

2017 Holiday Schedule

Miss Munson reported that there are thirteen holidays for staff during 2017, unchanged from 2016.

Personnel Leave Report

The personnel committee reviewed the monthly personnel leave report and a request for a cash-out that is included in the agenda. Miss Munson asked if the Board had any questions regarding the cash-out.

Vacation Policy

The personnel committee discussed potential revisions to the vacation policy including how the Board handles excess vacation accruals. Miss Munson noted that the Chair suggested looking into possibility of allowing employees to rollover excess vacation accruals into a retirement plan.

Duty Disability Age 65 Conversions

Both committees discussed the duty-disability age sixty-five conversions. A copy of the legal opinion is included and the attorney will review that in her report.

Both committees also reviewed the benefit recalculation for the duty-disability retiree scheduled to be converted in January 2017. This is the only duty-disability age sixty-five conversion for 2017.

Miss Munson explained that the Board will receive a full report each month beginning in February that will include a list of all disability retirees and their status with regard to re-examinations, income verifications and conversions.

Finance Sub-Committee

Loomis Sayles

Miss Munson referred the Trustees to the notice from Loomis, Sayles included in the Consent Agenda and noted that this as well as the other financial reports reviewed by the committee was routine with nothing requiring approval.

Beneficiary Designation

Miss Munson reported that a recent retiree nominated her grandchild as her beneficiary. The finance committee could not make a determination on insurable interest based on the information that was provided and directed that we request additional information from the retiree. The retiree has withdrawn her request to nominate her grandchild as beneficiary and nominated her daughter instead.

Chairman Moore stated that it is noteworthy to recognize Trustee Nazarko's persistence in making sure that this System is fine-tuned by putting safeguards in place. These safeguards ensure that the members get the benefits they deserve and to which they are rightly entitled.

EXECUTIVE DIRECTOR

Asset Transition Monthly Update

Miss Munson provided the monthly asset transition update. The two remaining securities in the Peritus portfolio were sold by Oppenheimer in December 2016. The portfolio has now been fully liquidated. She will transfer approximately \$567,000.00 to the cash account and residual income will be transferred as it is received. She directed the Trustees to the summary of the proceeds from the liquidation included in the agenda.

2016 1099R's

The 2016 1099R's were mailed to retirees on January 17, 2017.

Actuarial Software Agreement

Miss Munson directed the Trustees to the email and a copy of the software services agreement with Gabriel, Roeder, Smith & Company. GRS has requested that the System continue with this agreement under which the System currently licenses the software. The contract has no expiration date and the attorney has endorsed this approach.

Trustee Nazarko questioned whether the cost would increase.

Miss Munson explained that the actuarial proposal submitted by GRS included the annual licensing fee at \$3,500.00 per year. The proposal also stated that future fees could be increased based on the CPI (Consumer Price Index). She noted that GRS has not increased their licensing fee in the last few years.

Trustee Nazarko asked about the limited liability in the agreement.

Ms. Billings-Dunn indicated that the limit of liability in the software agreement is \$25,000.00.

UNFINISHED BUSINESS

Re: Ordinance Language Clean-Up Recommendation – Tabled

Chairman Moore asked that Miss Munson give the Trustees an overview of this matter.

Miss Munson explained that this process started in 2014 with a review of Retirement Ordinance. During her review, she noted language in the Ordinance that needed to be corrected. The items were mostly of a clerical nature. Examples of these included notes that were meant to be for the

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writer had been included as part of the codified Ordinance; a section that referred to a section that no longer existed, and other clerical errors. She provided a write up to Ms. Billings-Dunn for her review and Ms. Billings-Dunn responded with her suggestions. This matter was reported to the Board December 2014. It was put back on the agenda in 2016. Miss Munson indicated that she would provide this information again to the Board for their review. She stressed that this is only to clean up the language of the Ordinance and does not change any of the terms of the Ordinance.

Miss Munson continued that Ms. Billings-Dunn included in her June 2016 legal report to the Board an opinion on proposed regulations that the IRS was considering finalizing. The proposed regulations had to do with voluntary retirement age. Ms. Billings-Dunn suggested that the Ordinance may need to be amended to bring the language into compliance with the regulations. Miss Munson noted again that this would not be a change in the terms of the Ordinance. The regulations have not been finalized and this matter has been tabled so that we could include all of the language clean up in one amendment.

Ms. Billings-Dunn stated that just because the IRS regulations have not been finalized does not mean that the System does not need to comply with them

Miss Munson noted that Ms. Billings-Dunn's legal opinion indicated that Non-Union and MAPE – the only remaining union - voluntary retirement age guidelines are in compliance with the proposed regulations. She continued that the opinion indicated that the amendment proposed in the legal opinion would only be to clean up the voluntary retirement age language that – although it is not in compliance – is applicable to unions that no longer exist.

Ms. Billings-Dunn noted that Collective Bargaining Agreements supersede the terms of the Ordinance so from that standpoint the System would be compliant.

Chairman Moore commented that these are routine changes that need to be made to the Retirement Ordinance. He also stated that this is not the same System that it was twenty years ago. He discussed Ordinance provisions related to the Finance Director's role in the System and related liability issues. He felt that there are changes that could be made to the Ordinance that would better reflect how the System operates today. He suggested reviewing the Ordinance at the Trustee Retreat.

Re: Adopt 2017 Expense Budget

Miss Munson requested that the Board approve the 2017 expense budget.

Chairman Moore noted that the 2017 budget is a 4.85% decrease from the 2016 budget.

RESOLUTION 17-008 By Gaffney, Supported by Swazer

Resolved, That the Board adopts the 2017 expense budget as presented.

Roll Call:

Trustee Albritton – Yes

Chairman Moore – Yes

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Trustee Arndt – Yes
Trustee Gaffney – Yes
Trustee Giddings – Yes

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

NEW BUSINESS

Re: Resolution to Renew Workers' Compensation Policy

Miss Munson requested that the Board approve the Workers' Compensation policy provided through The Hartford for the period February 1, 2017 – February 1, 2018.

Trustee Giddings asked if the insurance company does an audit of the number of employees covered and whether there would be a rebate for changes.

Miss Munson indicated that The Hartford does an audit each year and each year the premium is adjusted.

RESOLUTION 17-009 By Nazarko, Supported by Swazer

Resolved, That the Board approves to renew the Workers' Compensation insurance policy offered through The Hartford for the period February 1, 2017 – February 1, 2018 at the annual rate of approximately \$600.00 pending legal review of the policy.

Yeas: 8 – Nays: 0

Re: Resolution to Remove Kennedy Capital from Watch

Miss Munson noted that the Board resolved in June 2016 to put Kennedy Capital on watch as a result of management changes. She indicated that the IPS stipulates when a manager is put on watch and the Investment Consultant has recommended removing Kennedy from watch.

Trustee Nazarko recommended that the Board put Victory Capital on watch.

Chairman Moore recommended referring this recommendation to the finance sub-committee.

RESOLUTION 17-010 By Gaffney, Supported by Williams

Resolved, That the Board approves to remove small cap investment manager Kennedy Capital from watch.

Yeas: 8 – Nays: 0

Re: Legal Report

Correspondence Regarding Asset Sale of Gray Financial Group, Inc. to Consequent Capital Investment

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Ms. Billings-Dunn reported that she reviewed the Consent to Assignment received from Larry Gray based on the asset sale of Gray Financial Group, Inc. to Consequent Capital Management. Her opinion is that this is not applicable to the System's investment with Gray & Company. The System's investment is an alternative investment fund made pursuant to a Limited Partnership Agreement (LPA), not an investment management agreement. She referred to a copy of her letter in the legal report indicating the System's position is that the sale does not impact the System.

She spoke with Mr. Gray and asked him whether it was his intent to make changes to the alternative investment. She asked what impact this sale has on Pontiac's investment. Mr. Gray told her that there is no impact: he and Bob Hubbard are still there and managing the investment. He has brought in two large banks and wealthy families and they are putting together a consortium. But – at the end of the day – he is still handling the investment decisions. She went on that Mr. Gray did say that – pending the outcome of the SEC investigation – that could change but he is very optimistic that it won't. He has long-term agreements with Consequent and he wants to be part of that program. He also indicated that this is more like succession planning: he wants to have a company that lives beyond him. He also indicated that they are looking to launch Fund III but that it would not be marketed to Georgia clients until there is resolution in that matter. Ms. Billings-Dunn indicated that they go to trial on February 6, 2017. Mr. Gray indicated that they are confident in their expert legal opinion that they are in compliance with Georgia law.

Ms. Billings-Dunn commented on Mr. Gray's involvement in setting up the new company and one of its principals. Ms. Billings-Dunn noted that after inquiring about the impact of the sale on this Fund and reiterating that her opinion has not changed, Mr. Gray stated that the other investors in the alternative fund did sign the Consent to Assignment. She told him that it is her opinion that sale is not applicable to the System. Mr. Gray stated that his legal counsel advised him that the System's consent is not necessary, per se, because the sale does not impact the alternative fund: it would just be a more conservative approach to get everyone to sign the Consent to Assignment and getting everyone's consent to the asset sale.

Mr. Lee noted that Ms. Billings-Dunn referenced Section 11.1 of the Limited Partnership Agreement in her letter to Gray. He asked whether any financial information was provided.

Ms. Billings responded that no financial information had been provided. Mr. Gray told her that he has turned this over to legal and compliance for a response. She will continue to follow up with this. She reiterated that when she asked whether this would have any impact on the System's investment, Mr. Gray's response was 'no'.

Mr. Lee noted that Section 11.1 indicates that if there is a transfer of the parent company or the fund itself, the System as an investor has the ability to ensure that the purchasing company has the financial wherewithal to continue the business and he believes it is reasonable to request this.

Ms. Billings-Dunn indicated that it is her understanding that they will comply with the request.

Chairman Moore questioned whose responsibility it is to make the request to Consequent regarding compliance with Section 11.1.

Ms. Billings-Dunn noted that she included in her correspondence that they are to “...provide information to establish compliance...” with the limited partnership agreement. She will follow up with them requesting in writing what is their intent. She will also forward this information to the investment consultants.

Trustee Nazarko questioned whether the investment with GrayCo Alternatives Fund I has been incorporated into the investment consultant’s reporting system. He also questioned what methods are in place to ensure timely and accurate reporting.

Mr. Roth indicated that they have incorporated the investment data into their system including financial returns and cash flows.

Request for Legal Opinion Regarding Disability Retiree Conversion – Closed Session

Ms. Billings-Dunn indicated that this item will be discussed in closed session.

Industry Relevant Articles

- DOL Investigating Timely Payment of Pensions to Terminated Vested Participants Nationwide

Ms. Billings-Dunn reported that this System is not subject to the DOL or ERISA standards. However, the rule is applicable to the System. The rule requires that once a member attains age 70 ½, the System is required to start their minimum distributions. The DOL in the private sector is starting to audit plans to make sure that they are making reasonable efforts to locate those individuals and pay those benefits. This matters because if those individuals are not getting paid, the IRS is not receiving the taxes. The member could be penalized a 50% excise tax on those benefits if they are not paid timely. This is a plan qualification error but there is an exception if the System makes reasonable efforts to locate those lost participants.

Miss Munson indicated that this is something she intended to discuss with the Trustees at the Retreat. She reported that the System had approximately twenty members who were eligible to begin collecting their pension but had not made application. She reported that through 2016, the System had located eighteen of these missing participants and those members are now either collecting their pensions or requested a refund.

She indicated that the System performs routine death searches but that she would like to do an address search for the remaining missing participants. There would be a small additional cost but the System should do everything that it can to locate those participants.

Trustee Giddings confirmed that the missing participants are from the Hospital.

- Pension Plan Limitations and Other Applicable Limitations for 2017

Ms. Billings-Dunn indicated that this pertains to the limitations on the amount of the annual benefit paid from defined benefit plans. The limitation on the annual benefit under a defined benefit plan increased from \$210,000 to \$215,000. She noted that the benefit amount is actuarially reduced for people who retire at ages lower than the Social Security retirement age.

Robbins Geller November and December 2016 Portfolio Monitoring Reports

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

Robbins Geller on the Record 4th Quarter 2016

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

Judge Oks \$4.2 Million Northern Trust Settlement with Michigan Pension Systems

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

The Board reserves the right to enter into closed session to review matters in accordance with Michigan Public Act 267 of 1976 Open Meetings Act).

RESOLUTION 17-011 By Gaffney, Supported by Swazer

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

Roll Call:

Trustee Albritton – Yea	Chairman Moore - Yea
Trustee Arndt – Yea	Trustee Nazarko - Yea
Trustee Gaffney – Yea	Trustee Swazer – Yea
Trustee Giddings – Yea	Vice-Chair Williams - Yea

The Board moved to closed session at 10:45 a.m.

Trustee P. Waterman arrived at 11:45 a.m.

The Board returned from closed session at 11:50 a.m.

RESOLUTION 17-012 By Nazarko, Supported by Swazer

Resolved, That the Board ratify the Chairman's authorization to approve the Term Sheet in the L-3 Communications Securities Litigation.

Yeas: 9 - Nays: 0

RESOLUTION 17-013 By Gaffney, Supported by Williams

Resolved, That the Board approve the closed session minutes from November 30, 2016.

Yeas: 8 - Nays: 0

Abstain: Trustee Swazer

RESOLUTION 17-014 By Gaffney, Supported by Swazer

Resolved, That the Board direct legal counsel to discuss the duty-disability conversions with Council President.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, February 22, 2017 @ 10:00 a.m. – Retirement Office

RESOLUTION 17-015 By Nazarko, Supported by Swazer

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 11:53 a.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on January 25, 2017

As recorded by Jane Arndt