

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
March 29, 2017**

A meeting of the Board of Trustees was held on Wednesday, March 29, 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  
Koné Bowman  
Janice Gaffney  
Robert Giddings  
Walter Moore, Chairman  
Nevrus Nazarko, Secretary  
Billie Swazer  
Deirdre Waterman, Mayor  
Patrice Waterman, City Council Pres.  
Kevin Williams, Vice-Chair

**OTHERS PRESENT**

Cynthia Billings-Dunn, Sullivan Ward  
David Lee, CFA – Dahab Associates  
Kevin Beardsley, Gabriel Roeder Smith & Co.  
Louise Gates, Gabriel Roeder Smith & Co.  
Deborah Munson, Interim Executive Director  
Karen Barner, Hospital Member  
Kathi McNally, Hospital Retiree  
Linda Watson, City Retiree

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

**PUBLIC COMMENT**

Retiree Linda Watson commented on the manager review meeting held on Tuesday, March 28, 2017. She told the Board that she had a lovely time at the meeting. She questioned whether the System's legal counsel would be providing details regarding Gray & Company at today's meeting.

Ms. Billings-Dunn indicated that the Gray & Company issue is part of her legal report and will be discussed and reviewed later in the meeting.

Ms. Watson stated that she believes it is time for the System to terminate that relationship at this point.

**ACTUARY REPORT**

Ms. Gates reminded the Trustees that at the last meeting they had made a decision to change some of the assumptions and methods used in the valuation. She explained how factors are used in calculating optional forms of payment for retirees. She explained that the prior actuary had recommended changes for the 2015 valuation. She noted the Ordinance requirement that optional

forms of payment be actuarially equivalent to the single life annuity amount and indicated that GRS is recommending an update to the factors at this time.

Ms. Gates reviewed the three Alternatives from her letter dated March 13, 2017. Alternate I would result in a blended rate being using for all future retirees. She explained that actuarially equivalent option factors must account for the COLA. Under Alternate one the factors for COLA-eligible retirees and non COLA-eligible retirees would be combined to create one set of factors. Under this scenario, the group as a whole and on average would meet the System's definition of 'actuarially equivalent'.

Alternate II would create separate option factors for COLA-eligible and non COLA-eligible retirees. Under this scenario, those retirees who are not eligible to receive COLA would receive a larger optional payment amount because they do not have to take as large a reduction to account for the COLA. These factors are actuarially equivalent.

Alternate III would create factors for retirees eligible for COLA that would be based on current assumptions and methods. However, it would tie to option factors for Hospital retirees to the old factors that currently reside in the member data software. The advantage is that this would be a less costly alternative to the other two; however, these factors do not result in actuarial equivalence.

Trustee Gaffney stated that Alternate I is not fair to Hospital retirees and they should not be required to pay the cost of a benefit for which they are not eligible. She suggested that the Board remove from consideration Alternate I.

The Trustees concurred.

Trustee Swazer noted that Alternate III would require an amendment to the Ordinance and suggested that this Alternate be removed as well.

The Trustees concurred.

Chairman Moore confirmed the \$20,000.00 cost to update the factors and the \$7,000.00 cost to update the software for the MAPE union retirement benefit.

There was additional discussion regarding updating the factors for optional forms of payment.

**RESOLUTION 17-031** By P. Waterman, Supported by Gaffney

Resolved, That the Board approves updating the member data software to include the Alternate II scenario for Optional Forms of Payment as well as the new MAPE retirement benefit.

Yeas: 11 – Nays: 0

## **AGENDA CHANGES**

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Miss Munson requested that the Board approve her attendance at the Spring MAPERS Conference being held in Traverse City in May 2017.

**RESOLUTION 17-032** By Gaffney, Supported by Swazer

Resolved, That the Board approve Interim Executive Director, Deborah Munson's attendance at the 2017 Spring MAPERS Conference being held May 21 through May 23, 2017.

Yeas: 11 – Nays: 0

Trustee Arndt requested that the Board approve Trustee Nazarko's attendance at the 2017 GFOA Annual Conference being held in Denver, Colorado from May 21 through May 24, 2017.

**RESOLUTION 17-033** By Gaffney, Supported by P. Waterman

Resolved, That the Board approve Trustee Nazarko's attendance at the 2017 GFOA Annual Conference being held in Denver, Colorado from May 21 through May 24, 2017.

Yeas: 11 – Nays: 0

**APPROVAL OF CONSENT AGENDA**

A. Approval of the Minutes of the Regular Board Meeting held February 22, 2017

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: March 29, 2017

**TOTAL PENSION PAYROLL** **\$1,945,410.12**

Staff PPE Pay Date: March 2, 16 & 30, 2017

**TOTAL STAFF PAYROLL** **\$ 21,291.06**

C. Communications:

1. Callan Periodic Table of Investment Returns: 1997-2016
2. Correspondence from Loomis Sayles Re: Board of Directors Update
3. City National Liquidation Trade Report: March 2016
4. IFEBP Annual Conference: October 22-25, 2017 (Las Vegas, NV)
5. NCPERS Annual Conference: May 20-24, 2017 (Hollywood, FL)
6. MAPERS Spring Conference: May 21-23, 2017 (Acme, MI)

D. Financial Reports:

1. Accounts Payables – March 2017
2. Dahab Associates Preliminary Report: February 2017
3. Attucks Asset Management, Manager of Managers Report: February 2017
4. Statement of Changes: February 2017

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E. Private Equity Capital Calls & Distributions

1. Mesirow Fund VI March 31, 2017 Capital Call: \$120,000.00

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

1. New Retirements

| Ret. No.    | Member's Name               | Amount | Effective         |
|-------------|-----------------------------|--------|-------------------|
| 2808        | Alaszewski, Lydia           |        | 03/01/2017        |
| <b>2810</b> | <b>Fitzpatrick, Patrick</b> |        | <b>03/01/2017</b> |
| <b>2809</b> | <b>Story, Michael</b>       |        | <b>04/01/2017</b> |
| 2811        | Shults, Bradley             |        | 04/01/2017        |
| 2807        | Sumler, Jimmie              |        | 03/01/2017        |
| <b>2805</b> | <b>Paruch, Stephen</b>      |        | <b>03/01/2017</b> |

**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 |
|---------|-------------------|---------------|----------------|
| 702060  | Davenport, Denise | 01/28/2017    |                |
| 2779    | Harper, Rodney    | 01/20/2017    |                |
| 701056  | Trumpour, Rose    | 03/01/2017    |                |

3. J&S Continued Retirements

| Ret No. | Name            | Date of Death | Survivor's Name | Amount |
|---------|-----------------|---------------|-----------------|--------|
| 2745    | Perazzo, Eugene | 03/04/2017    | Perazzo, Enric  |        |

4. Recalculated Retirements

| Ret No. | Name          | Effective Date | Reason For Change | New Amount |
|---------|---------------|----------------|-------------------|------------|
| 2804    | Martin, Ken   | 03/01/2017     | Changed Option    |            |
| 1282    | Seibert, Rose | 03/01/2017     | Pop-Up Benefit    |            |

5. Disability Medical Re-Exams/Benefit Continuation

| Ret No. | Name | Reason | Benefit Amount |
|---------|------|--------|----------------|
|         |      |        |                |

6. Refunds of Employee Contributions

| Ret No. | Name | Reason | Benefit Amount |
|---------|------|--------|----------------|
|         |      |        |                |

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Trustee Nazarko asked that item six on the consent agenda be pulled.

Trustee Deirdre Waterman asked that the minutes for February 22, 2017 be pulled from the consent agenda.

Item 6 – Refund of Employee Contributions

Trustee Nazarko indicated that there are two retirees who passed away prior to receiving in monthly payments all of their contributions in the System. He indicated that he disagrees with the computation of how much of a refund is due. He noted that the \$400.00 supplemental payment is included in the amount of the monthly payment and deducted from the contribution balance to determine the refund amount. He does not believe that the \$400.00 supplemental payment is part of the retirement allowance and should not be deducted from the retirees’ contribution balances.

Miss Munson noted that the Ordinance states that if at the time of death, a retiree has not received in retirement allowances an amount equal to their contribution balance, the retiree/estate is due a refund of the difference.

Trustee Giddings noted that the Board would be changing precedent of how the supplemental payment is treated if it were to change it today.

Miss Munson confirmed that this did not impact the Lloyd estate because Ms. Lloyd passed away prior to the implementation of the \$400.00 temporary increase.

Trustee Gaffney confirmed that the Ordinance language does not indicate ‘base’ pension amount.

Trustee Patrice Waterman suggested that the matter be referred to the finance sub-committee for further review.

There was additional discussion on whether the temporary supplemental benefit is included in the base retirement allowance.

Miss Munson concurred with Trustee Swazer that there are two different positions being put forward. She noted that the retirement allowance as defined in the Ordinance is a retiree’s monthly payment not excluding the temporary supplement. Excluding the temporary supplement from the definition of retirement allowance would fit Trustee Nazarko’s definition and concurred that this matter should be sent back to committee for review.

Trustee Deidre Waterman stated that this matter is back before the Board because it was not previously fully resolved.

Chairman Moore indicated that he concurred with other Trustees that the Board should obtain a legal opinion.

Ms. Billings-Dunn confirmed that her charge is to determine whether or not to take into account the temporary benefit when processing refunds of remaining contributions.

Miss Munson requested that the Board table this item indicating that a legal opinion from 2015 could be helpful in this matter.

Trustee Deidre Waterman indicated that the charge to the attorney could be broadened to also include addressing how the COLA provision is interpreted and the questions that were raised in the February 2, 2017 memo to the Board.

Trustee Patrice Waterman requested clarity on the mandate and indicated that the Board should adhere to the attorney's opinion.

Trustee Swazer noted that it is an interpretation of what is base pension. She recalls that the \$400.00 supplement increased the base and that is on what COLA should have been calculated. In 2015, there was a redefining of what is 'base' retirement allowance.

After additional discussion, Ms. Billings-Dunn reiterated that her charge is to revisit her 2015 legal opinion and provide another as to what is considered the base retirement benefit, e.g. does it include the \$400.00 temporary increase for purposes of COLA and contributions to be refunded to deceased estates.

Miss Munson pondered whether it is reasonable to expect a different opinion than the one given in 2015 that is authored by the same attorney.

**RESOLUTION 17-034** By Deirdre Waterman, Supported by Patrice Waterman  
Resolved, that the Board direct legal counsel to review her 2015 legal opinion and provide another opinion as to what is consider the base retirement benefit, whether it includes the \$400.00 temporary increase for purposes of COLA and contributions to be refunded to deceased retirees' estates.

Yeas: 11 – Nays: 0

**RESOLUTION 17-035** By Nazarko, Supported by Gaffney  
Resolved, that the Board approve the refund of contributions to the Estate of Janet Lloyd.

Yeas: 11 – Nays: 0

#### February 22, 2017 Minutes

Trustee Deidre Waterman requested that the minutes of the February 22, 2017 minutes be pulled to discuss whether there was a violation of the Open Meetings Act (OMA) when the Board went into

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closed session. She questioned whether the correct reason was stated and whether it was in compliance with the Open Meetings Act (OMA). She noted the lengthy discussion regarding the reason for the closed session and read excerpts from the draft minutes from the February 22, 2017 meeting. She indicated that it is the responsibility of the Board to act in accordance of the OMA.

She questioned why there were three stated reasons for going into closed session and continued to read excerpts from the draft minutes. She stated that she is not confident that what was discussed in closed session was covered by the stated reasons.

Miss Munson explained that the OMA requires the System to have a draft of the minutes available for public inspection eight days after the meeting. She continued that she reviews the final draft once they are prepared and often does another final review to ensure that the draft minutes are consistent with the video recording of the meeting. Miss Munson wanted to confirm that Trustee Deidre Waterman was reading the final draft and not the original draft.

There was additional discussion regarding the differences between the draft versions of the minutes as well as the reasons for the closed session.

Chairman Moore requested that Trustee Deidre Waterman clarify her concern.

Trustee Deidre Waterman indicated that she is bringing to the Board's attention that she believes there is a discrepancy in the minutes regarding the reasons given for closed session. She is bringing this to the Board's attention because we need to clearly state the reason for closed session in order to avoid a violation of the OMA.

Trustee Patrice Waterman stated that she understood the reasons that the Board went into closed session and asked whether there were any Trustees who did not understand the reasons.

Trustee Gaffney stated that she does not feel the minutes are contradictory and that – after the lengthy discussion - legal counsel clearly explained why the Board was going into closed session.

There was additional discussion.

Ms. Billings-Dunn stated that the OMA requires this body give the purpose of why it is going into closed session and read the reasons stated at the top of page 22 of the draft minutes. She believes this has been adequately addressed in the minutes and the Board is in compliance with the OMA.

Trustee Deidre Waterman indicated that Ms. Billings-Dunn's statement confirms the discrepancy because the person in question has to make the request to go into closed session for personnel issues. Her understanding is that the Executive Director requested the closed session to discuss the February 2, 2017 memo. She believes that this represents a violation of the OMA.

Miss Munson confirmed that her request for closed session, which was in the February 2, 2017 memo, specifically referenced the OMA evaluation provision.

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**RESOLUTION 17-036** By Swazer, Supported by P. Waterman  
Resolved, That the Board approves the minutes of the regular Board meeting held February 22, 2017.

Yeas: 10 – Nays: 2 (N. Nazarko; D. Waterman)

**RESOLUTION 17-037** By Gaffney, Supported by Swazer  
Resolved, That the Board approves and ratifies the actions for the balance of the items described in the Consent Agenda for March 29, 2017.

Yeas: 11 – Nays: 0

## **CONSULTANT**

### **Re: Dahab Associates**

Mr. Lee stated that he felt the manager review meeting went well but he would like to tweak the structure of the open forum. He suggested sending the managers a couple questions for the discussion forum prior to the next meeting which could help stimulate the conversation. He also believes that it would be more convenient to move the forum to the middle of the day. And, he would prefer that either a portfolio manager or analyst attend the meeting to represent the firms.

He felt that the additional time allotted to each manager was well received and allowed adequate time for explanations regarding their performance.

Trustee Gaffney felt that providing questions prior to the meeting would be counterintuitive. It may be difficult to process if the managers were cramming a lot of information into the discussion.

Trustee Patrice Waterman indicated that all of the participants should contribute to the roundtable conversation which would make for a much more informative exchange.

There was additional discussion regarding the structure of the manager review meeting.

Mr. Lee confirmed that Dahab will submit to the investment managers a standard format for reporting for the next manager review meeting. This will ensure that all managers provide certain basic data that can be easily compared and contrasted. He requested that the Trustees provide their suggestions for the next manager review meeting.

Mr. Roth provided a brief review of the performance summary as of December 31, 2016. One-year performance was 8.4% ranking the System in the 22<sup>nd</sup> percentile compared to returns net-of-fees at 7.8%. Five-year performance was 10.1%, which ranks in the 7<sup>th</sup> percentile and 9.5% net of fees. As of March 27, 2017 total market value was \$474.1 million which is down slightly from February 28, 2017.



Mr. Lee reminded the Board that there will be five managers who will have thirty minutes each for their presentations during the meeting next Thursday, April 6, 2017. He encouraged the Trustees to bring their real estate materials distributed at the last meeting.

Trustee Giddings asked whether the Board should be prepared to make a decision.

Mr. Lee indicated that the Board has approved an asset allocation model that allocates 10% of the portfolio to real estate. The allocation can be split among the Core and Core-Plus managers who will present next week at the Board's discretion.

## **COMMITTEE REPORTS**

**Re: Trustees** - None

**Re: Committees**

Miss Munson presented the reports for the personnel and finance sub-committees.

### **Personnel Sub-Committee**

The committee met on March 9, 2017.

#### Investment Policy Statement Revisions

The committee reviewed the IPS revisions. The revisions were previously approved and there are no changes.

#### Member Data for the Agenda Report

The member data report was approved and included as a spreadsheet under the Consent Agenda.

#### Email Policy

The committee discussed updating the Email Policy to include clear language that all records and technology belong to the System and are subject to inspection by the Board of Trustees at any time.

#### Member Reclassification

The committee reviewed Ms. Nelson's request that the Board rescind their prior vote which classified her as an active member of the System. The classification causes her accrued retirement benefit to decrease significantly and she is requesting that she remain classified as a deferred vested member of the System.

#### Monthly Disability Process Report

There were no changes to the disability report this month.

#### Monthly Employee Leave Balances

The committee reviewed the employee leave balances.

### System Administration

Trustee Nazarko inquired about the status of the System administration.

Trustee Gaffney noted that she had personally followed up with the Third Party Administrator. Unfortunately, there has been no response. She believes that this issue will be disposed of at the next committee meeting.

Trustee Nazarko stated that he and Trustee Deirdre Waterman would be happy to provide feedback on their experience with the TPA.

Trustee Bowman confirmed that Trustees Nazarko and Deirdre Waterman have more experience working with the TPA and can provide more insight to the committees.

### Finance Sub-Committee

The committee met on March 23, 2017.

#### Investment Policy Statement Revisions

The committee reviewed the IPS revisions and is in agreement with the personnel committee that they would recommend for approval the corrections contained in today's agenda. The remainder of the revisions to the IPS has been tabled.

#### Directed Brokerage/Commission Recapture Program

The committee had preliminary discussions regarding the DB/CRP program but tabled the topic until next month.

#### Consequent Capital Letter

The committee discussed the notice received from Consequent Capital. This will be discussed under the Legal Report.

#### Member Reclassification

The committee reviewed the request from Monica Nelson.

#### Audio/Visual Equipment

The committee would like to see the Retirement Office bring back the use of audio visual equipment during meetings.

#### One-Day MAPERS Reimbursement

The committee agreed to reimburse Miss Munson for attendance at the MAPERS One-Day conference.

### **Re: Trustees**

Trustee Nazarko indicated that he could not stay at the manager review meeting for the entire day but believes there was a lot of useful information.

Trustee Swazer commented that she served as Canvasser for the recent election and complimented the staff for the way it was conducted. She felt it was a great experience.

She also reported that she went to the “Lunch with the Actuary” session at Gabriel Roeder & Smith and gained a lot of valuable insight. They provided a flash drive with information she felt the other Trustees would find educational.

Trustee Albritton requested that Miss Munson provide a spreadsheet showing the retiree payroll by state and Michigan locality.

**Re: Chairman** - None

## **EXECUTIVE DIRECTOR**

### PGH Member Trustee Election

Miss Munson thanked Trustee Swazer for canvassing the election. She also congratulated Trustee Giddings on the election.

Chairman Moore congratulated Trustee Giddings.

Trustee Giddings stated that he feels privileged that the Hospital members put enough faith in him to re-elect him as Trustee.

Trustee Albritton recognized Karen Barner, the other candidate in this year’s Trustee election.

### Real Estate Manager Meeting

Miss Munson reported that all five real estate manager finalists have confirmed their attendance at the April 6, 2017 meeting.

### Audit Engagement Letter

Miss Munson reported that Beth Bialy was promoted to Managing Member of Plante & Moran. She is one of only two women to serve on the seven-member Board. Michelle Wattersworth was promoted to Beth’s former position and Manju Patnaik and Spencer Tawa will remain the lead auditors for our account. She congratulated Ms. Bialy on her accomplishment.

### Member Data for Agenda Report

Miss Munson solicited questions or comments from the Trustees about the member data report

### One-Day MAPERS Reimbursement

Miss Munson referenced the reports from the MAPERS One-Day that are available upon request. She commented on the proposed GASB 84 Statement. A summary of the Statement is included in the agenda.

### City National Liquidation

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Miss Munson reported that the City National liquidation was completed and approximately \$4.3 million was transferred to the cash account to cover benefits and expenses. There may be residual income to transfer but the liquidation is complete.

Monthly Duty Disability Processes Report

There were no changes to the disability process report this month.

Annual Pop-Up Benefit Reminders

Miss Munson reported that the annual pop-up benefit reminders have been sent out to the retirees.

Workers' Compensation Policy

There was an adjustment to the System's workers' compensation policy through The Hartford resulting in a credit of \$31.00.

Writ of Garnishment

Miss Munson reported that she was served a writ of garnishment involving a member of the System by a U.S. Marshall which was forwarded to Ms. Billings-Dunn for review.

Annual Checklist / Production Calendar

Miss Munson reminded the Board that there is a Trustee annual checklist and monthly production calendar included in the back of the agenda books for their information. Miss Munson informed the Trustees that she would provide an updated production calendar each month identifying those tasks which have and have not been accomplished.

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**UNFINISHED BUSINESS**

**Re: Ordinance Language Clean-Up Recommendation – Tabled**

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**NEW BUSINESS**

**Re: Resolution to Rescind Resolution on Member Status**

Miss Munson requested that the Board approve the resolution to rescind Resolution #17-022 with respect to Monica Nelson's status in the Retirement System that was adopted at the February 22, 2017 meeting.

**RESOLUTION 17-038** By Gaffney, Supported by Swazer

Resolved, That the Board hereby rescinds Resolution #17-022 with respect to Monica Nelson's employment status.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve Business Insurance Renewal**

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Miss Munson asked that the Board approve the renewal of the System's business insurance.

**RESOLUTION 17-039** By Nazarko, Supported by Gaffney

Resolved, That the Board approves to renew the Business Owners' insurance policy offered through The Hartford for the period April 1, 2017 through April 1, 2018 at the annual rate of \$720.00.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve MAPERS One Day Reimbursement**

**RESOLUTION 17-040** By Gaffney, Supported by Swazer

Resolved, That the Board approves to reimburse staff for the MAPERS One Day Conference registration fee of \$60.00.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve Investment Policy Statement Corrections 2015 - 2017**

**RESOLUTION 17-041** By D. Waterman, Supported by P. Waterman

Resolved, That the Board approves the attached Investment Policy Statement with corrections through February 2017.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve Engagement of Auditor for 2016**

**RESOLUTION 17-042** By Nazarko, Supported by Gaffney

Resolved, That the Board approves to engage Plante & Moran for the 2016 audit, the Chairman's signature on the Plante & Moran Audit Engagement Letter for 2016 and the expected fees not to exceed \$15,200.00.

Yeas: 11 – Nays: 0

**Re: Resolution to Certify PGH-Member Trustee Election Results: Giddings 2017 - 2021**

**RESOLUTION 17-043** By Gaffney, Supported by Swazer

WHEREAS, the Hospital members of the General Employees' Retirement System on March 23, 2017 did elect a PGH-Member Trustee for a term beginning April 1, 2017 and ending March 31, 2021; and

WHEREAS, by its own adopted rules and regulations, the Board of Trustees is required to canvass and certify the results of all elected Trustee elections; and

WHEREAS, two candidates timely filed and were nominated for the PGH-Member Trustee position for an election held on March 23, 2017; and

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WHEREAS, Trustee Billie Swazer has furnished a statement canvassing the returns of March 23, 2017 at which Robert Giddings was elected to the position of PGH-Member Trustee;

RESOLVED, that the Board of Trustees hereby certifies that the candidate listed below, having received the highest number of votes, was elected PGH-Member Trustee for the term beginning April 1, 2017 and ending March 31, 2021:

Certified Elected Trustee

Robert J. Giddings

FINALLY, that the election of March 23, 2017 to the General Employees' Retirement System PGH-Member Trustee position was conducted in accordance with election rules and regulations adopted by the Board.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve Northern Trust GASB 72 Reporting Agreement**

Miss Munson referenced the GASB 72 Statement Summary as well as the Northern Trust Reporting Service Agreement included in the agenda. She explained that GASB 72 will require the System to include additional detail in their audited financial statements regarding the System's assets. She noted that the accurately valuing the assets in the financial statements remains the System's responsibility but Northern Trust can provide the additional reporting at no charge.

**RESOLUTION 17-044** By Gaffney, Supported by Swazer

Resolved, That the Board approves the Northern Trust Level Determination Reporting Service Agreement to assist in the preparation of the 2016 Financial Statements in accordance with GASB 72 and further authorizes the Interim Executive Director's signature on the agreement.

Yeas: 11 – Nays: 0

**Re: Resolution to Approve Request for Access to System Actuary**

Miss Munson reported that the System received a request from the City requesting direct access by their financial consultant to the System's actuary. She explained that requests for information from the actuary are typically made through the Retirement Office after receiving approval by the Board. This would be an exception to the process.

Chairman Moore wanted to make a correction to the written request. He stated that the request in the agenda was not made by CPREA.

Trustees Deidre Waterman and Nazarko explained how the request for information is related to the CPREA matter in that the cost of providing the benefit under consideration will have an impact on the amount of assets available to resolve the CPREA matter.

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There was a lengthy discussion regarding the process for obtaining information from the System's actuary. The Trustees acknowledged that the System is not responsible for any costs incurred in obtaining the information.

**RESOLUTION 17-045 By D. Waterman, Supported by Nazarko**

Resolved, That the Board authorizes access by Mr. Tony Saunders to the benefit and other actuarial data regarding the sixty-four (64) deferred members and that the information gathering process shall be coordinated through the Executive Director. And, further

Resolved, that all communications regarding this matter shall be in writing and Mr. Saunders shall not have direct access to the actuary.

*Trustee Deirdre Waterman left at 12:25 p.m.*

Roll Call:

|                             |                                |
|-----------------------------|--------------------------------|
| Trustee Albritton – Abstain | Chairman Moore – Nay           |
| Trustee Arndt – Yea         | Trustee Nazarko – Yea          |
| Trustee Bowman – Yea        | Trustee Swazer – Nay           |
| Trustee Gaffney – Yea       | Trustee Patrice Waterman – Yea |
| Trustee Giddings – Yea      | Vice-Chair Williams – Nay      |

Yeas: 6 / Nays: 3 / Abstain: 1 (Albritton)

*Trustee Nazarko left at 12:31 p.m.*

**Re: Legal Report**

GrayCo Alternative Partners I, Correspondence

Ms. Billings-Dunn delivered a report on the correspondence to/from Consequent Capital Management regarding the System's investment in GrayCo Alternative Partners Fund I.

Ms. Billings-Dunn began by reminding the Board that the System received in December 2016 a notice from Larry Gray advising that Gray Financial Group, Inc. and Larry Gray had entered into an asset purchase agreement with Consequent Capital whereby Consequent would acquire substantially all of the assets of Gray Financial. The sale would close on or about January 17, 2017 and requested the System's consent to the sale. She reviewed the notice and was of the opinion that the sale is not applicable to the System's investment in the GrayCo Alternatives fund. The System's investment in the GrayCo Alternative fund is governed by a Limited Partnership Agreement (LPA). She sent a letter on January 10, 2017 indicating that if the intent were to transfer the General Partners' interest to another entity, they would need to provide evidence that the transfer is being done in compliance with the LPA. She referenced Section 11.1 of the LPA. She sent a follow-up letter on February 13, 2017 requesting the same information.

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Ms. Billings-Dunn reminded the Board that Mr. Gray called her during the Board's February 2017 meeting and indicated that his attorney would respond and give us the information. All of the System's investment managers are required to sign an Acknowledgement of receiving the Investment Policy Statement. This year, Consequent Capital signed the Acknowledgement on behalf of the GrayCo Alternatives fund. This prompted her next letter dated March 21, 2017 which is included in today's legal report. She read the letter.

"I am again reaching out on behalf of my client, the City of Pontiac General Employees' Retirement System regarding its investment in the GrayCo Alternative Partners I, LP. You had indicated when you called me the morning of February 22, 2017 that your office would be responding to my letters dated January 10, 2017 and February 13, 2017 regarding whether or not the asset sale of Gray Financial Group to Consequent Capital Investments would have any impact on the GrayCo Alternative Partners I, LP Fund. As I indicated in my earlier correspondence, the consent that you had requested the Retirement System agree to, was not timely received nor did it contain any reference to its investment in GrayCo Alternative Partners I. At that time, I had requested that if it was your intent to transfer the General Partner interest in GrayCo Alternative Partners I to another entity, that you provide information to establish compliance with §11.1 of the Limited Partnership Agreement. Although on February 22, 2017 you called me to say that a response to my letters would be forthcoming, to date I have received no response.

On January 30, 2017, however, Kenneth O. Simon, the Chief Compliance Officer for Consequent Capital Management, LLC signed the Retirement System's Investment Manager Acceptance of the Investment Policy Statement and acknowledged its fiduciary relationship with the City of Pontiac General Employees' Retirement System. Clearly, Consequent believes it has some type of relationship with the System.

At this time, I am requesting that you confirm in writing who the General Partner is for the GrayCo Alternative Partners I, LP limited partnership and if in fact it is your intent that Consequent is now the General Partner please provide information to establish compliance with Sec. 11.1 of the limited partnership agreement."

Ms. Billings-Dunn indicated that she received the following email on March 23, 2017 from Chandra Ridley, the Chief Operating Officer of Consequent Capital:

"Hello Ms. Billings-Dunn,

Regarding your question concerning Section 11.1, the "Transferability of the General Partner's Interest" section of the Limited Partnership Agreement:

The General Partner, which is GrayCo Investment Management, LLC, will not be transferring any portion of its general partner interest. It will continue to hold its interest and



remain general partner of GCAP I. Consequent is acquiring ownership of GrayCo Investment Management, LLC from Gray Financial.”

Ms. Billings-Dunn explained that the General Partner is a limited liability company and Consequent purchased that interest and – now – Consequent is essentially GrayCo Investment Management, LLC (e.g. they purchased the interest). That is still an indirect change in the General Partner in her opinion. She referred the Trustees to the letter dated March 23, 2017 from Consequent Capital which states the following: effective February 1, 2017, Consequent Capital acquired substantially all of the assets of Gray Financial Group; GrayCo Investment Management, LLC (the “General Partner”) is now a wholly owned subsidiary of Consequent Capital Investments, LLC (CCI); CCI is the new investment manager of GrayCo Alternatives; and CCI intends to change the name of the Partnership to Consequent Multi-Strategy Alternatives Fund I LLP and the name of the General Partner to Consequent Investment Management LLC.

She indicated that the letter states that there has been a Key Person Event pursuant to Section 6.1(d) of the LPA. This is not the same provision as a transfer of the interest of the General Partner because their position is that the General Partner has not changed – someone has purchased the General Partner. She read the Key Person Event clause of the LPA and explained the Commitment Period, which was scheduled to run through November 30, 2017 per the LPA.

Ms. Billings-Dunn summarized by saying that what is being asked of the Board is to recognize the Key Person Event - Larry Gray is stepping away from the investment – and that the Board approve reinstating the Commitment Period so that the General Partner can continue to make capital calls from the Limited Partners and approve a replacement of the Key Person, Larry Gray with Earl G. Robinson, Chief Executive Officer of CCI.

Miss Munson noted that the Consent does not seek approval of the replacement of the Key Person and asked whether the System is obligated to acknowledge that change.

Ms. Billings-Dunn responded that the Board would not be in a position to vote to reinstate the Commitment Period without accepting the replacement of the Key Person. The Consent does not request the Board’s approval of the Key Person replacement.

Trustee Gaffney indicated that the Board does not have enough information to approve to reinstating the Commitment Period. She would like to know what options may be available prior to approving to reinstate the Commitment Period.

Chairman Moore asked whether there are other options and whether the other Limited Partners are in favor of approving the reinstatement.

Ms. Billings-Dunn indicated that the Board could approve the request. However, the Board would need to do some due diligence on the new Key Person prior to approving it. The Board could also vote to withhold consent; however, if sixty-six and two-thirds of the other Limited Partners consent, the System would remain in the investment unless something is done proactively to get out of it.

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She believes it would be difficult to exit the investment without proof of fraudulent activity. However, she has not had an opportunity to fully review the LPA since this notice was received on Monday. She believes that the Board should perform some due diligence on Consequent Capital, at the least.

Miss Munson asked the attorney to discuss the difference between the Key Person Event clause and the Transfer of the General Partners' Interest clause. Consequent Capital was formed in 2016 and may not have audited financial statements.

*Trustee Bowman left at 1:00 p.m.*

Ms. Billings-Dunn read an excerpt from the Section 11.1 of LPA:

“The General Partner ... may make a Transfer of all or any portion of its GP Interest (i) to an Affiliate or to a Person which succeeds to the private equity business of the General Partner as an entirety, provided that such transferee is then financially capable of satisfying the General Partner's financial obligations under this Agreement...”

Ms. Billings-Dunn stated that she would argue that it is part of the System's due diligence process even under Section 6.1 to ensure that the person stepping in as the Key Person has the financial wherewithal to satisfy the General Partner's obligations. Consequent's position is that there has not been a transfer of the General Partner's interest. Whether we rely on Section 6.1 or 11.1 comes down to due diligence; is the entity or person capable of running the investment and is the Board comfortable with them.

Miss Munson noted Consequent now owns the interest that belonged to the GrayCo Alternatives Partners and the cover letter states that the name of the General Partner will be changed as well. She stated that the General Partners' interest in the investment is being transferred - whether directly or indirectly – but Consequent is not using Section 11.1 of the LPA to make the transfer.

Chairman Moore and Trustee Gaffney expressed the need to move forward with the due diligence.

Trustee Giddings suggested that the Executive Director contact the Plan Administrators of the other Limited Partners to see if we can gather additional information.

Chairman Moore agreed that that should be included in the due diligence.

Trustee Gaffney noted that the due diligence will give the Board insight into Consequent as a firm, their client base, etc.

Mr. Lee reiterated that the original letters were to determine whether GrayCo was adhering to Section 11.1 of the LPA. The Board needs to understand the financial wherewithal of any company that takes over that interest. Consequent's position is that they do not need to address that at all

because there is a change in the Key Person pursuant to Section 6.1 – not a transfer of interest pursuant to Section 11.1.

Mr. Lee also noted that he and the attorney have been in communication with the GrayCo since January and the acquisition of General Partner by CCI became effective February 1, 2017 but the System just received the notice on March 23, 2017. One of the questions asked of Consequent at yesterday's manager review was who are the employees of the firm. A significant number are former Gray & Company employees as well as others who started Consequent – none of whom have private equity experience of which he is aware. He would need to follow up to understand who is the investment management team and what is their experience in private equity and hedge funds.

Mr. Lee noted that Consequent reported that they are going through a valuation process for the underlying investments which usually occurs prior to an acquisition.

Trustee Swazer questioned whether there is an exit option if the Board is not satisfied.

Mr. Lee responded that the Board is asking the right questions and following a process to protect the investment. Dahab will review the valuation to make sure they understand how it is calculated.

There was additional discussion regarding the investment and the due diligence process.

Chairman Moore reiterated that the Board should move forward with the due diligence process and confirmed that the attorney would reach out to the attorneys of the other Limited Partners, the Executive Director to the other Plan Administrators and the Consultant to the other Consultants.

#### Portfolio Monitoring Reports

- Robbins Geller February 2017 Portfolio Monitoring Report
- Motely Rice Fourth Quarter 2016

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).*

Ms. Billings-Dunn stated that she has a brief closed session report.

Miss Munson requested that Item C. under Legal Report be removed from the agenda. The information has been forwarded to Council and there is no further action the Board can take at this time.

#### **RESOLUTION 17-046** By Gaffney, Supported by Swazer

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Resolved, That the Board approves the minutes from the February 22, 2017 closed session.

**RESOLUTION 17-047** By Giddings, Supported by Gaffney

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

**Yeas:**

**Roll Call:**

Trustee Albritton – Yea

Trustee Arndt – Yea

Trustee Gaffney - Yea

Trustee Giddings – Yea

Chairman Moore - Yea

Trustee Swazer - Yea

Trustee P. Waterman - Yea

Vice-Chair Williams - Yea

*The Board moved to closed session at 1:33 p.m.*

*The Board returned from closed session at 1:42 p.m.*

**RESOLUTION 17-048** By Swazer, Supported by Gaffney

Resolved, That the Board ratifies the Chairman’s signature on the Verification filed with the Plaintiffs’ Response to the Defendants’ First Set of Interrogatories in the Dell, Inc. securities litigation matter.

Yeas: 8 - Nays: 0

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**SCHEDULING OF NEXT MEETING**

Special Meeting: Thursday, April 6, 2017 @ 10:00 a.m. – Retirement Office

Regular Meeting: Wednesday, April 26, 2017 @ 10:00 a.m. – Retirement Office

**RESOLUTION 17-049** By Swazer, Supported by Gaffney

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees’ System be adjourned at 1:46 p.m.

Yeas: 8 – Nays: 0

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I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on March 29, 2017

*As recorded by Jane Arndt*