CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
April 6, 2017

A special meeting of the Board of Trustees was held on Thursday, April 6, 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 10:07 a.m.

TRUSTEES PRESENT
Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Billie Swazer

TRUSTEES ABSENT
Kone Bowman *(absent)*
Nevrus Nazarko *(absent)*
Deirdre Waterman, Mayor *(absent)*
Patrice Waterman, Council Pres *(excused)*
Kevin Williams, Vice Chair *(absent)*

OTHERS PRESENT
David Lee, CFA – Dahab Associates *(by phone/arrvd @??)*
Steven Roth, CFA – Dahab Associates *(arrvd. @ ??)*
Deborah Munson, Int. Executive Director
Clarissa Grigsby
Laier DeCosta, Invesco
Michelle Foss, Invesco
Keri Hepburn, Invesco
John Berg, Principal
Michelle Fang, Principal
Peter Palandjian, Intercontinental
Devin Sullivan, Intercontinental
Robert Bartlett, Sentinel
Nicholas Stein, Sentinel
Paul Canning, UBS
Julie Pierro, UBS

Chairman Moore *opened the meeting at 10:07 a.m.*

Re: Core and Core-Plus Overview
Miss Munson stated that the Board that will hear presentations from the real estate manager finalist - two Core managers and three Core-Plus managers. The core managers are Invesco and Principal. The Core-Plus managers are Intercontinental Real Estate Corporation, Sentinel and UBS.

Mr. Lee noted that one of the presenters from UBS will be calling in during their presentation. The System's target allocation to real estate is 10%.

He reviewed the each Core managers' characteristics including firm size and geographical and property distribution. Both firms that are presenting are good sized firms with assets over $5 billion but less than $10 billion and they both have diverse property types, locations and low leverage.

Mr. Lee reviewed their performance and compared it to the NCREIF ODCE Index.

Each manager has been allocated thirty minutes for their presentations and Q&A. He cautioned that the Core managers will have similar presentations.

Chairman Moore asked how many managers responded to the RFP.

Mr. Lee responded that the pool of seventeen Core managers was narrowed down to the two finalists.

Invesco Core Real Estate – U.S.A.
Laier DeCosta, Managing Director, Invesco Real Estate
Michelle Foss, CFA, Director Portfolio Mgmt.
Keri Hepburn, Managing Director

Ms. Hepburn introduced herself and Mr. DeCosta and Ms. Foss to the Board. She expressed to the Board their desire to expand their current relationship with the System.

She provided an overview of Invesco Real Estate. The firm has four hundred and forty-seven employees worldwide in sixteen countries and twenty-one offices. They currently have ~$67.8 billion in assets under management with $28.6 billion under management in North American direct real estate. This shows the depth and stability of Invesco. Their management teams have an average of sixteen years of experience. Having twenty-one global offices gives them boots on the ground which provides more insight. Their large platform allows them to see all opportunities.

Invesco's Core open-ended fund has $5 billion in U.S. real estate transactions and offers a wide range of strategies across the risk spectrum.

Ms. Hepburn reviewed the members of the portfolio management team and committees. The steering committee - headed by Bill Grubbs - is located in San Francisco. She noted that Ms. Foss has been working with Mr. Grubbs for three years. The team is supported by three committees including an investment committee; steering committee and the North American Direct Investment Strategy Group. The investment committee approves the transactions.

Ms. Foss told the Board that Invesco is a diversified portfolio of high quality assets in thirty-two institutional markets. They invest in industrials, office, apartments and retail. Their portfolio is designed to be income-oriented with a durable income stream as well as having the ability to grow.

They take a conservative risk posture that is in line with the ODCE index. There is a small number of joint ventures and value-added transactions in the portfolio.

The objective of their Core real estate strategy is performance. Their property type allocation determines their long-term property type strategic ranges and their property specific selection works with their on the ground real estate expertise and market coverage to meet their objective.

Ms. Hepburn reviewed their sector allocation as of December 31, 2016. She described their current tactical target based on sector allocation which marries their research and portfolio managers together that provides a robust target range.

They took a defensive position in apartments at 38% to 39%. Due to income growth, they have dialed back their office position. They captured growth with their balance of office and multi-family positions.

Miss Munson asked how often and under what circumstances is their tactical target reviewed.

Ms. Foss indicated that they look at their tactical target view twice per year. There are no big swings: they adjust the targets gradually.

Mr. DeCosta stated that there is a formal review twice each year. He continued that other funds will move into hotels, student housing and mezzanine, however, Invesco sticks to Core sector investments.

Ms. Foss reviewed their asset profile as of December 31, 2016. She told the Board that they invest in exceptional, high-quality properties which are more resilient through the cycle. She indicated that based on industrial constraints in California, they built a new best-in-class building near ports and population centers in California. They also invest in retail centers anchored by high-end market chains.

Trustee Albritton asked what is being put in place to compensate for the growing number of retail buildings which are going away.

Ms. Foss said that they focus on necessity and the ‘exceptional’ retail experience.

Ms. Hepburn indicated that they look at retail properties in areas that can provide the peak retail experience. Their industrial properties are catering to companies like Amazon.

Chairman Moore asked about their investments in properties in the Midwest noting the one property in Birmingham, Michigan.

Ms. Foss indicated that this product is a Core real estate fund. This fund cannot invest in gateway properties due to liquidity. They look for offerings with strong prospects for performance. They have a strong bias to areas that provide performance like New York, Los Angeles and San Francisco. She said that it is difficult to develop competing products in the Midwest.

Chairman Moore asked whether they have looked into properties in the Detroit market.

Ms. Foss indicated that it is not an investment for a Core fund from a real estate perspective. Institutional investments are in more liquid markets. She noted that Invesco does offer other real estate investments that take more risks.

Ms. Hepburn added that they have other product offerings that could invest in the Midwest.

Trustee Giddings confirmed that private money and investments is not attractive to Core fund investments.

Ms. Hepburn explained Core real estate investments and noted investors in this type of fund want liquidity to be able to get their money out of the investment. There are opportunistic funds that take on more risk but are less liquid.

Mr. Lee explained that Core real estate is the first step of institutional investing and focuses on quality real estate investments that offer liquidity.

Mr. Lee asked if they could share their experience during the financial crisis.

Mr. DeCosta told the Board that during the financial crisis there was no money or liquidity. He believes Invesco went two quarters with no liquidity and no money to send to their clients. A number of clients were asking to be put in the queue. But as the market improved and Invesco was able to reinstate distributions, their clients indicated they did not want the money they just wanted to make sure that they were in the queue.

Ms. Foss reviewed their top ten markets and their allocations to apartments; industrials; office and retail. Their performance is determined by income durability which depends on growth and liquidity.

She reviewed the portfolio profile as of December 31, 2016. The gross asset value is $11.3 billion with a net asset value of $8.1 billion. There are ninety-one investments with an average investment size of $127.6 million. These properties have a strong occupancy rate with a lease percentage of 93.1% and 95.1% in the Core portfolio.

The durability of their income stream is defined by portfolio's fundamentals. She noted that 35% of the fund's revenue is from their apartment portfolio which is a low volatility sector. No tenant is more than 3% of their total revenue.

Their fundamentals also define how they grow their income stream. She reviewed their actual growth in 2016 to the budgeted growth in 2017. Their core real estate product delivered net operating income growth of 7.4% during 2016. This is the third consecutive year of 7% or more growth. The fund is projected to generate 7.0% net operating income growth in 2017.

Their balance sheet as of December 31, 2016 had a loan to value ratio of 25.5%. She explained that they took advantage of the low interest rate environment. It helps having financial flexibility throughout the market cycles and having properties with no debt.

Their investor composition of the portfolio showed 84% of their investors are from the United States; 9% are in Asia and 7% are in Europe. The investor pool by type was also reviewed.

The valuation summary statistics showed what investors should expect with the high value nature of the portfolio. The total core portfolio net operating income yield for one-year was 4.11% and the stabilized net operating income yield was 4.61%.

Their performance as of December 31, 2016 showed a strong absolute and relative performance across multiple market cycles. They have had twelve years of performance since inception at 8.31% versus the NFI-ODCE EW Gross at 7.69% and the NFI-ODCE – Cap Gross of 8.03%. They have the portfolio positioned to deliver performance going forward.

The looking forward estimated performance numbers for the next five quarters were reviewed. They expect significant income growth and will manage and reposition the core portfolio assets as needed to preserve long-term income streams primarily their industrial and apartment properties. The expected annualized quarterly income yield for the first quarter of 2017 is 3.81%; second quarter 3.89; third quarter 3.82%; fourth quarter 3.98% and the first quarter of 2018 at 4.89%.

The manage-to-core portfolio is expected to contribute $12 million of additional net operating income over the next twelve months.

Ms. Hepburn told the Board that they could get into areas where they use a value added piece in the portfolio. They are currently doing one value added piece.

Ms. Foss stated that in southern California they purchased land in a good industrial area to develop an advanced manufacturing industrial park. This was cheaper than buying an old industrial building and refurbishing it because properties can easily become obsolete.

Chairman Moore indicated that the Board has had some negative experiences with real estate he asked for the manager to speak to the Board’s concerns.

Ms. Foss stated that the System may have invested in value added or opportunistic real estate which is an illiquid asset class. Core real is less volatile and has liquidity.

Miss Munson questioned a core fund building versus purchasing a property.

Ms. Hepburn indicated it is cheaper to build a new building in a good location versus buying an old industrial building.

Ms. Foss stated that this is within the context of their overall portfolio with the goal of delivering an income stream.

Mr. DeCosta indicated that they have never built an office building.

Miss Munson indicated that it is included in the strategy.

Mr. DeCosta stated that the key strategy of the portfolio is leases. He also asked how much money they plan to make and the expected returns in the near and median timeframe.

Ms. Foss stated that they have five great years of returns. Returns will revert to historical norms in the mid to high single digits. They are looking at returns around 8% to 9%.

Chairman Moore asked what the minimum investment amount is.

Mr. DeCosta indicated that the minimum investment amount is $10 million.

Trustee Albritton indicated that he housing market is back and asked how that affects their multi-family strategy in the portfolio.

Ms. Foss indicated that this depends on the market and the rent to own options.

Mr. Lee stated that young people want urban markets and asked if that continuing demand along with the demand from baby boomers wanting to live in urban markets will play a part in their strategy.

Ms. Hepburn indicated that the urban markets are geographic.

Chairman Moore thanked Mr. DeCosta, Ms. Foss and Ms. Hepburn for the great presentation.

The managers left at 11:02 a.m.

Miss Munson reminded the Board that you will not see many investments in the Midwest. The core and core plus managers manage their portfolios to the smile states including the east coast, south and west coast.

Mr. Lee provided insight into core managers picking up value-added real properties that require some updates to increase leasing power. Most core managers have put a small percentage of value added in their portfolios over the last five years. The numbers are starting to make sense to buy products, refurbish them and lease them up.

He also noted that they were conservative when they indicated the length of time before there was liquidity to allow investors out of their portfolio. It was more like six quarters versus two quarters.

This is completely understandable based on the stressed situation in 2008/2009 when only the vultures were buying up real estate at pennies on the dollar.

Principal Real Estate Investors – Core Real Estate
John Berg, Managing Director, Portfolio Management
Michelle Fang, Senior Director, Real Estate

Mr. Berg and Ms. Fang introduced themselves to the Board. Mr. Berg told the Board that he is the head of the Principal Real Estate Investors and Ms. Fang indicated that she has been a real estate product specialist for five years.

Their real estate team has six decades of real estate investment experience. They are active in all four quadrants of real estate. By dividing the team into client type makes for better decision makers in each group.

She reviewed the four real estate quadrants including private equity; public equity; private debt and public debt. They current have $71.8 billion in real estate assets under management. She noted that John Berg manages their core flagship product which has the largest portfolio.

They employ fifty acquisition managers and acquisition persons. The deals are done in house and are managed by the asset manager. They have a large support group.

She described their team approach to portfolio management including the management team; senior strategy committee; acquisitions/dispositions and asset management and investment committee. There is a lot of collaboration between the four quadrants. The research team provides top down management of the portfolio. Everything is focused on U.S. using their deep expertise. Within the U.S. property account they have sixty-five institutional investors with 55% being public funds.

She also noted that the System is really well funded which is not their experience with public funds.

Mr. Berg told the Board that they have strong performance results based on their fund positioning. Their investment philosophy is to place equal emphasis on risk management and income stream and risk management on the liability stream.

This is a large fund which is well diversified. Their U.S. property account portfolio has $9.3 billion in assets under management. Their leverage ratio is 21.3% which is at the low end of core management leverage. Their portfolio occupancy is 94.6% which means they are filling up properties with the right tenants.

They have a high quality urban infill of properties in the portfolio including an increase of the same-property net operating income. They have a limited amount of value added in the portfolio which is capped at 15%. The shift in the portfolio strategy is to reduce risk. There is more volatility in global markets and it is their duty to their investors to management the portfolio to the environment.

The de-risking of the loan to value ratio provides benefits from leveraging low stabilized properties with growth income and their investments in value-added properties.

They just completed construction in downtown Austin, Texas. It took two years to build and two years to lease the building. Today they are less competent in four years of risk taking but that's not to say they would not invest in value added again. It takes six months to build a warehouse.

Chairman Moore asked about the property in Austin, Texas.

Mr. Berg referred to the property in the presentation booklet. The property is currently 80% leased with 45% leased to Google and remaining leases with DeLoitte, King & Spalding, CBRE and Austin Fraser. There is a lot of high tech in that market. Other demand drivers are tech, education and student housing with the University of Texas nearby.

Ms. Fang indicated that their research group is doing a good job and their asset management group knows the markets and has a pretty good idea with regard to tenants.

Mr. Berg explained how they de-risk the portfolio based on property type. They added to the office sector because when the economy grows the office sector grows. Retail real estate is a challenge with the number of troubled retailers due to the threat of ecommerce. He indicated that 80% of their investments in neighborhoods are focused on grocery anchored retailers. Amazon is now delivering groceries.

They position the portfolio defensively in the retail sector. They look for property investments in necessity-based formats that people cannot get at home including restaurants, tanning salons and nail salons.

Over the last sixteen quarters they have been underweight to apartments with a fair amount of availability coming online. During that timeframe they have been overweight to industrials, which has been an outperforming property sector. They look for properties in the warehouse sub-sector.

Chairman Moore asked what attributed to the performance over the last sixteen quarters in industrials.

Mr. Berg indicated that the depressed prices coming out of the financial crisis played a role. He also noted that industrials had greater favor with institutional investors. He told the Board that it takes six to eight months to build a new warehouse.

Ms. Fang indicated that some retail has moved to the industrial sector like Amazon.

Chairman Moore asked about the research area operations.

Mr. Berg stated that Indy Karlekar their managing director for global research and strategy looks at the themes and trends in the U.S. and what drives the macro factors. He also looks at how much new supply is in the market. When they consider buying a property Indy verifies the return forecasts and the total return forecasts of the investment.

He reviewed their cost of debt and indicated they are always focused on asset liability. They look for long-term floating rates borrowing at low rates and debt to maturity of not more than five years.

Ms. Fang indicated that their current interest rate is 3.49%. They do not want to have a big year for financing. By reducing leverage they can confirm the cap rates. They also look at leverage versus the line of credit.

Mr. Berg provided an overview of their performance summary. He reviewed their one-year performance versus two benchmarks including the NCREIF Fund Index – ODCE Equal Weight (Gross) and the NCREIF Fund Index – ODCE Value Weight (Gross). Their one-year performance as of December 31, 2016 was 4.97% versus 4.65% and 4.50%; their three-year performance is 5.14% versus 4.85% and 4.76%; their five-year performance is 5.39% versus 5.05% and 4.99% and their ten-year performance is 5.52% versus 5.31% and 5.32%.

He also reviewed their same-property net operating income growth. The operating income growth target for calendar year 2017 is 5.7%; the target for calendar year 2018 is 20.0% and for calendar year 2019 it is 11.6%.

Mr. Lee asked if their value rate depends on returns and income returns or future income returns.

Mr. Berg indicated that they look for the properties with the ability to demonstrate income growth and generate growth expectations. They are confident to generate performance from these same properties.

Miss Munson asked them about their disclosure regarding their investment management fees of one hundred fifteen basis points and asked if that is the highest rate PRE can charge.

Mr. Berg indicated that their investment management fees have a compounding effect and they are collecting fees more frequently. He stated that the higher the performance of the investment the higher the fees. He noted that historically fees can vary.

Miss Munson asked if there is a cap on fees.

Mr. Berg indicated that fees can go as high as 5%.

Chairman Moore asked if there is a minimum investment amount.

Mr. Berg stated that their minimum investment amount is $1 million.

Mr. Lee asked if they can confirm their investment liquidity.

Mr. Berg indicated that they offer daily liquidity.

Trustee Gaffney stated that the Board has had some bad real estate investment experiences. She asked the manager to speak to the Board's concerns.

Ms. Fang said that their investment is a core open-ended fund and that the Board would not have the same experiences as with a closed end fund. Core real estate uses much less leverage and are more stable. The same team has been in place since 2004 and weathered the financial crisis and has been through a few cycles.

Mr. Berg also added that core real estate diversified the assets in the portfolio.

Chairman Moore thanked Ms. Fang and Mr. Berg for their presentation.

Ms. Fang and Mr. Berg left at 11:50 a.m.

<u>Core Real Estate Wrap-up</u>
Chairman Moore indicated that the comparison between the System's prior real estate investments is apples and oranges to this proposed investment. Core real estate is more of a traditional investment and a more conservative approach for the portfolios. However, there are no guarantees with any investment.

Trustee Giddings indicated that real estate can be used to de-risk the portfolio as can value added investments.

Mr. Lee noted that everyone is using value added in their portfolio to position it as how their philosophy sees value added. They rate the properties by de-risking the overall risk posture of the portfolio.

There was discussion on how adding value added to the core real estate product can boost returns and de-risk the portfolio.

Mr. Lees provided a summary of core real estate versus value added real estate indicating that both are the same quality of investment. However, core has less leverage and a lower vacancy rate compared to value added. Managers are buying the same properties but at a different stage of the life cycle. Core buys in the middle of the life cycle. Value added buys near the end of the life cycle and invests in the refurbishing of the property.

The Board adjourned at 11:56 a.m. for lunch
The Board returned at 12:35 p.m.

Mr. Lee explained core plus real estate investments. All these investment managers have a little different flavor. Intercontinental is a midrange core plus manager. Sentinel invests in only one property type which is apartments looking at where and the quality of the properties. UBS has more value added with half core and half core plus investments. UBS is the most risky of the three managers. Intercontinental takes on more leverage.

Intercontinental Real Estate Corporation – Core Plus
Peter Palandjian, Chairman & CEO
Devin Sullivan, Director, Institutional Services

Mr. Sullivan introduced himself and Mr. Palandjian to the Board. He indicated that Mr. Palandjian is the CEO of the firm and has done a fair amount of speaking at the MAPERS conferences.

Mr. Palandjian provides an overview of the company and its history.

Intercontinental started out as a construction and development company fifty-five years ago in the late fifties and early sixties. In the late sixties they moved into real estate and started to raise cash.

Today they have $6.5 billion in assets under management and like to play the small guy. The firm has offices in Boston, New York, Orlando, Denver, Los Angeles, Atlanta and Minneapolis.

They opened the office in Orlando because they have seventy-five public fund investments in the state of Florida.

They have one hundred employees and one fund compared to their peers with two to three funds.

He reviewed the biographies of the key professionals of the firm. Paul Nassar has been the CFO for seventeen years and prior to joining the firm he was a banker for fifteen years. Devin is the primary manager person for the twelve public funds in Michigan. They have over one hundred public funds invested in their fund.

He also noted that Alissa Crafa is the part of the senior team and is responsible for the financial modeling and analysis for the firm's investments.

He noted that they are real estate people through and through.

He reviewed the chart depicting equity diversification by investor type and dollar amounts.

He provided a synopsis of the advisory board.

Mr. Palandjian asked how much open-ended real estate the System is invested in.

Mr. Lee indicated that the System has no real estate investments at this time. They have had some bad experiences in the past.

Mr. Palandjian explained that Intercontinental is an open ended fund with liquidity in and out quarterly. They call all the money within ninety days with most managers taking more time to draw funds.

He talked about the redemption of investment assets and the issues in 2008 through 2009. He noted that it took six quarters starting in 2008 to redeem investments. It is still better than being stuck in an investment for seven to ten years in the private products. There is a good faith element with this type of real estate investment. They do not want to do harm to the Fund. Their portfolio is over diversified which adds stability with no gorillas.

They beat the core ODCE index by 100 basis points. They do not want to put all their eggs in one basket. They invest heavily in the major markets. They also have investments in Seattle, Birmingham, Michigan and Chicago. They do not invest in secondary markets but they do invest in tweener markets.

They apply more leverage at 42% than the benchmark. They also have their properties appraised quarterly based on income and appreciation. This helps them do better by marking their debt with the third party appraiser quarterly.

Chairman Moore asked why their properties are appraised quarterly.

Mr. Palandjian indicated that it helps them with how their properties are analyzed. They are looking for good income returns.

He told the Board that the employees of the firm are invested in the fund with more than $45 million in investments by the employees.

Chairman Moore asked if the employee investments are voluntary.

Mr. Palandjian indicated that it is voluntary and they would not put that condition on their employees.

Their performance fee can also be rolled over into the fund.

He reviewed the NCREIF historical returns noting that there have been only four years where they were not correlated to the stock market.

He told the Board that they are invested in core plus versus core because core investments are thinning out.

He explained the leverage borrowing; the average cost of debt and the debt maturity schedule. He listed the names of the top U.S. lenders. The weighted average cost of debt is 3.7% and the long-term value of debt is 42.4%. He talked about the smoothing out of leverage. He also noted the core leverage is up but still less than core plus and value added.

He described the lease expiration schedule by year with 7.2% in 2017; 5.5% in 2018; 7.5% in 2019; 8.1% in 2020 and 6.3% in 2021.

Miss Munson asked why the property type list is not listed in the lease expiration schedule. She asked about the office and industrials and where they would be listed in the lease expiration schedule.

He reviewed the fund's performance versus the ODCE index. The fund's one-year performance was 12.88% versus the index at 8.77%; the three-year performance was 13.67% versus 12.07%; the five-year performance was 14.66% versus 12.21% and since inception their performance was 5.57% versus 4.74%.

He described the diversification by property type and geographic diversification of the fund. They love assisted living and are overweight to apartments. In broad terms they are underweight to office. They are also more diversified than the index.

He provided an overview of their investment map noting they have made one hundred and fifteen investment deals on one hundred and forty properties.

Chairman Moore asked what their investment in Michigan is in.

Mr. Palandjian stated that they own a property in Birmingham that has leases with Google, Raymond James and Flemings Steakhouse.

He explained their fees and indicated that like most core funds they have an annual management fee that is paid on the drawn capital. If the investment is $40 million the fee is calculated on $40 million.

He also indicated that they have a performance fee. If the performance of the fund receives a preferred return of 8% per anunum, thereafter, 80% of the performance will be paid to the member and 20% to the manager. They will get half the fee up front and the other half at the end of the year. The fee is calculated and adjusted on an annual basis subject to a clawback.

Their performance has ranged from 7% to 12% but they have done better than 12%. For the next year or two they are looking at performance of 9% to 10.5%. They will do better on income with returns better than 5%. They do not look to forecast appreciation.

Mr. Palandjian and Mr. Sullivan left at 1:34 p.m.

Mr. Lee told the Board that they just met with the owner of the company. Intercontinental is a private company and right now they have only one fund.

Trustee Giddings asked if adding value added is a change to their strategy.

Mr. Lee indicated that value added is a closed-end fund.

Miss Munson was concerned about the leverage in their fund being 20% more than the other core managers.

Mr. Lee explained that they manage their debt by using mark to market debt.

Trustee Albritton asked what the minimum investment is.

Mr. Lee indicated that the minimum investment is $2 million but they could get it reduced to $1 million.

Trustee Giddings asked if it is routine to perform quarterly evaluations.

Mr. Roth indicated that other managers like Invesco perform quarterly evaluations.

Trustee Giddings also asked if there is a lag in the performance reporting.

Mr. Lee indicated that sometimes there is a little lag due to dramatic changes or shifts in the marketplace. Intercontinental did not have an issue with regard to a reporting lag in 2008 to 2009.

Miss Munson asked if they were looking to raise or lower their investment in multi-family and the economic effect in the short-term.

Mr. Roth explained that a lot of apartments have shortened the terms of their leases which may we why they are looking to decrease their exposure.

Chairman Moore noted that Intercontinental beat the benchmark for the one, three and five-year periods.

Sentinel Real Estate Corporation – Core-Plus
Nicholas Stein, Portfolio Manager
Robert Bartlett, Client Services

Mr. Bartlett introduced himself and Mr. Stein to the Board. The firm was founded in 1969 and this is their flagship fund. The firm has acquired and managed $16.1 billion in direct real estate. Most of their investors are focused on cash flow. He told the Board that they payout 100% of the fund's net income every quarter. They use their own onsite property management people.

Mr. Stein provided more background information of their firm. The fund currently has investments in 31,000 apartment units and 8.5 million square feet of commercial real estate. They have 900 employees performing all phases of the investment process.

He stated that the apartment industry has changed based on lifestyle changes. They are a pure apartment fund. They do not develop or invest in the construction of properties. Their focus is to invest in fairly new properties to avoid construction and maintenance costs.

Everyone wants a piece of multi-family. Their current leverage is 32% but they will go up to 40%. Their average leverage is around 30%. Their annual average total gross returns are 8% to 9%.

He reported that more households are entering the renter pool and are looking to rent for longer than ever before in rental history. Households in the eighteen to thirty-two year range are prime renters and make up 60% to 70% of the renters. Older age Americans are also downsizing from single family homes.

Since peaking in 2004, the rate of rentership in the U.S. has increased to 36.3% as of the fourth quarter of 2016. Many have changed their view on multi-family housing based on credit standard changes, perceptions, flexibility of being a renter, life uncertainties, quality of management, location, transportation and value.

Debt from student loans has also impacted the ability for young adults to undertake a large financial commitment like home ownership. The average student loan debt has increased by 78% over the past ten years to a record high of $37,173.00 in 2016.

At one time you rarely saw children younger than ten in rental communities. However, today many multi-family communities are enlarging the apartment space as part of their strategy to accommodate for families with children and for those downsizing from a single family home.

He explained that their focus is not in the largest markets. It is hard to justify that type of cash flow so their focus is in the secondary markets. The secondary market has seen an increase of 20% moving into multi-family or approximately one million people.

Many have moved to multi-family for the quality of living opportunity. Many are also delaying life decisions which are pushing the length of rentership due to credit card debt, student loans and the fact that wages have been stagnant. He noted that there is an incredible barrier to move to home ownership with the percentage decreasing from 69.2% to 64%.

They look to buy in the markets with the best school systems. Many communities do not want a dense amount of multi-family because of the school tax issues. They are continually looking for places people want to live and to find these areas where multi-family is being built.

He noted that the past two to three years the demand has been high for downtown urban areas. This is consistent with where young people and retired baby boomers want to live. They are not aligned with demographics. He noted that they recently invested in a total of 18,000 apartments in Dallas and Atlanta.

They currently own twenty-eight rental properties with a gross asset value of $1.6 billion and a net asset value of $1.1 billion. Average rental rates are up at $1,200 with a lot of rent diversity. They own twenty-eight apartment communities dispersed across twenty different metropolitan statistical areas. They remain disciplined on their pricing.

The average asset size is $55 million with the average investment per investor at $21 million. They believe the value of their products should have the same quality in San Francisco and other properties. They are well setup in properties.

Mr. Bartlett stated that this is an open-ended core fund of multi-family properties. People need a place to live. They can take the investment and put it to work immediately. There continues to be a demand in multi-family.

Chairman Moore asked about the minimum investment amount.

Mr. Bartlett indicated that the minimum investment amount is $250,000.00.

Trustee Albritton asked about their involvement in the local communities and how long they keep the properties.

Mr. Stein indicated that each property is held an average of seven years. It is hard to justify selling some of their properties. Most communities have two hundred to four hundred units. They have approximately eight to ten Sentinel employees per property that get involved with most living in the same market. Their employees help them evaluate the local communities. They always have someone on site. They have twelve regional offices staffed with long-tenured employees of the firm.

Mr. Bartlett noted that they do not employ a lot of leverage and their focus is keeping tenants happy.

Trustee Albritton asked about their occupancy rate.

Mr. Stein noted that their average occupancy rate is 91% with Kansas City being their lowest with 81% occupancy.

Miss Munson asked how their capital is called.

Mr. Bartlett indicated that they draw all the capital at one time but their focus is that it is the investor's capital.

Mr. Lee asked if during the financial downturn they had a twenty-seven month redemption period.

Mr. Bartlett stated that during the financial downturn it was difficult paying the redemptions. Their clients wanted them to deploy their

Trustee Giddings asked about the ownership structure of the firm.

Mr. Stein indicated that John Streicker is the Chairman of Sentinel. There was a management buyout of the firm Smith Barney Real Estate Corporation which became Sentinel Real Estate Corporation.

Trustee Giddings confirmed that John Streicker owns 100% of the firm and there is a succession plan in place.

Mr. Bartlett and Mr. Stein left at 2:21 p.m.

UBS – Core Plus
Paul Canning, Sr. Portfolio Manager
Julie Pierro, Portfolio & Client Service *(by telephone)*

Mr. Canning thanked the Board for the opportunity. He referred to the firm's U.S. experience and mission.

They have over thirty-nine years of real estate investment experience with $31.7 billion of assets for over six hundred institutional investors. They manage four hundred and ninety-one real estate investments including multi-family; office, retail, hotels, industrial and farmland. They have two hundred and nine employees and offices in San Francisco, California; Hartford, Connecticut and Dallas, Texas.

He provided an overview of the history of the firm. The firm started as Aetna Realty Investors in 1978 and was sold and renamed Allegis Realty Investors, LLC in 1996. Allegis Realty Investors was acquired by UBS in 1999. He has been with the firm since 1991. They develop a lot of their talent within the firm.

They are a very client focused firm and a multidiscipline organization. Their investment committee has an average of thirty-three years of investment experience and their senior investment professionals have an average of twenty-eight years of investment experience. They hold an annual investor meeting where they review the macro information and investment information of the fund.

They invest in major U.S. markets in all major property types and hotels. They could not execute this strategy if they were not a manager. They are a tactful U.S. real estate investor. They employ a bricks and mortar real estate strategy. They seek to invest in properties to hold and create new net operating income. Their underwriting holds properties with a five-year horizon. When they invest it takes two to three years to execute their strategy. Sometimes they hold the assets and additional two to three years to realize the income. Their target leverage is 50% and they are always looking and targeting growth oriented markets.

He provided a summary of the Trumbull Property Growth and Income Fund. As of December 31, 2016 it had a gross asset value of $922 million and a net asset value of $535 million. The leverage ratio was 39% with twenty-one investments and an income distribution option of 3.2%. They are an institutional investment real estate sustainability fund and are respectful of the environment.

He reviewed their performance versus the benchmark. Their one-year performance was 17.0% versus the NFI-ODCE at 8.8%; three-year performance was 17.5% versus 12.1%; five-year performance of 18.8% versus 12.2% and ten-year performance of 7.0% versus 5.8%. The NFI-ODCE is not a great index to measure a core plus performance.

Their fund leverage is 39% and they have not added any additional leverage. Their average interest rate is 3.3%. There has been a longer period of economic growth. When speaking with their economists they are seeing continued growth for the next two to three years. They protect the investment by never having leverage inhibit the investors or the investment.

Miss Munson asked about their average interest rate cap with each having a slightly different buyout of the market against interest rate increases.

Mr. Canning indicated that the net operating income growth was 22% in 2016.

He reviewed their portfolio distribution including property type and strategy. Tactically they look for the best strategies. One year ago the portfolio had 50% invested in apartments. They have reduced that allocation with home ownership and people shifting where they want to live they sold the apartments and bought office. Office tenants are the least likely to leave.

They also have a value component to their strategy. They look at leasing when they are looking at the acquisition of a building. They might development joint ventures or construct new ventures. They rely on their partners and let them take the series of risks and near the end of the process they will consider the investment. Rent and assumption will add value and capture income.

He described a number of their properties including a development, a renovation, a stabilized and a sold property. They are in the process of developing a LEED certified master-planned development located in Dallas, Texas with office, apartments, retail and hotels. This area is growing and is adding 100,000 new jobs per year. The building is two million square feet and has a DART in the center of the development. It is also located near intersecting freeways. The project will be finished later this year. They currently have a tenant proposal for 200,000 square feet and the building is 50% constructed.

He also provided an overview of a high visibility, corner urban retail location one block from Union Square in San Francisco, California. The property is being expanded and renovated including a national pharmacy on the first floor and a Landry's Steakhouse on the third floor with rooftop seating.

He also indicated that there are no Hilton properties in the downtown Los Angeles, California area. They bought a Doubletree Hotel property that they have stabilized in 2011. They have renovated the rooms and common areas. The hotel adjoins a municipal center and Little Tokyo.

He described a property in Tampa. Florida they acquired in June 2012. The location of the property adjoined a primary business district and dominant regional mall. The construction of the three hundred unit Class A apartment building was completed in the second quarter of 2014. They sold the property in October 2016 with a cost basis of $44.2 million and a sale price of $69.0 million to a Canadian REIT.

He explained their tactical investment outlook for 2017 going into 2018. They are looking at light industrial developments or leasing. They are cautious regarding retail investments because the risk is not priced in. They believe it is time to increase their allocation to apartments in niche locations. They are currently acquiring an investment in apartments near Wrigley Field.

They are also looking to add five or six office properties during the 2017 to 2018 timeframe.

They will be a net seller of hotels in 2017.

Trustee Albritton asked about their process to gain tenants.

Mr. Canning indicated that they engaged a third party leasing firm that are leasing experts in the Union Square area. They knew this was a good restaurant space and it fit in their specific merchandising plan. This is how they make decisions on these properties.

Chairman Moore asked about their large commercial buildings under renovation and their business philosophy with regard to using local and minority and women-owned firms.

Mr. Canning commented that they typically buy a building that needs cosmetic renovations and they add amenities. They typically do not get involved in the tenant spaces. Their budget is designed with that in mind. He also explained their flexible employment policy and that they receive three bids from the providers for these services.

Ms. Pierro stated that they have a responsible investor policy that she will forward to the Trustees. She also noted that their urban assets hire union workers that are the most capable and least expensive firms.

Chairman Moore thanked Mr. Canning and Ms. Pierro for their presentation.

Ms. Pierro and Mr. Canning left at 3:08 p.m.

<u>Meeting Wrap-up</u>
Miss Munson

Chairman Moore indicated that he feels that the Board needs to consider their process for making this decision with regard to the amount of assets that will be available for allocation to real estate investments based on tomorrow's announcement with regard to the tentative agreement of the lawsuit. There could be some significant changes to the assets of the Fund. However, the System needs to continue to operate as we have in the past and we need to move forward as a full Board. It would be best if the finance committee looked at the issue. He does not believe the Board is obligated to make the decision at this time.

Mr. Lee indicated the only problem with investing in the managers from today's group is Invesco based on their minimum investment of $10 million.

Mr. Roth felt that Invesco may waive the $10 million minimum based on the prior relationship.

Trustee Giddings asked if there is a reason to delay the Board's decision from moving forward.

Chairman Moore felt that the settlement agreement could be a reason to delay the Board's decision. He did note that the decision could be made based on using a funding level of 130% as a starting point.

Trustee Gaffney indicated she has no issues with these real estate investments because they are all open-ended.

Trustee Giddings felt that the Board should consider closed-end funds also.

There was discussion that the Board would work with the consultants through the finance committee to work out the kinks and gather facts and information to decide what portion of the System's assets can be allocated to this asset class.

Trustee Albritton felt that a timeline should be put in place to ensure a decision is made.

Mr. Lee indicated that the Board cannot control the variables. They can only control the real estate investment decision.

There was discussion that there does not seem to be a lot of minority or women-owned real estate management firms. He would also like to see these managers doing something for our community.

Trustee Gaffney agreed that the community could use the help but she explained that there are no investments in Pontiac that fit into core real estate.

Chairman Moore indicated that the System has a limited amount of funds to invest in real estate and we are looking for success stories. He understands that there are certain places that are safer to investment in than others. At some point we can move into value added investments. He questioned venturing into anything other than core plus to maintain a more conservative posture for the portfolio.

Trustee Gaffney felt that given the System's past history with real estate is a good reason to take a more conservative posture.

Chairman Moore asked that the consultant look into whether the managers are creating opportunities for everyone as a whole. He would like to know the racial makeup of the companies.

Mr. Lee indicated he would have to check with legal to see if that is something that can be provided.

Trustee Giddings indicated that as fiduciaries of the System we cannot take lower returns because of those types of factors. He recommended asking for the manager's policy of diversification.

Mr. Lee provided a recap of the meeting. He indicated that core managers are more conservative and have more diverse investments.

Only one of the core like products noted returns in the high single digits.

He provided his biggest takeaways with regard to the core plus managers.

Intercontinental Real Estate Corporation is more like core with some additional risk.

Sentinel Real Estate Investors invest only in apartments and underweight to all other markets. They are a fully integrated vertical company.

UBS is the most aggressive manager. They either build or buy renovations and hold for a five year cycle.

Chairman Moore asked about diversifying the allocations between all the managers.

Mr. Lee explained that that having multiple managers is a good idea. However, if you make a small minimal investment of $2 million in a manager it does not help the return performance of the Fund.

Trustee Giddings asked how investing in core managers helps derisk the portfolio.

Chairman Moore felt that the discussion should be taken back to the finance committee.

RESOLUTION 17-058 By Gaffney, Supported by Albritton
Resolved, That the special meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 3:40 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the special meeting of the

General Employees Retirement System held on
April 6, 2017

As recorded by Jane Arndt

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