

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
April 26, 2017**

A meeting of the Board of Trustees was held on Wednesday, April 26, 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 9:59 a.m.

TRUSTEES PRESENT

Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman (*by telephone*)
Nevrus Nazarko, Secretary
Billie Swazer
Deirdre Waterman, Mayor (*arrived at 10:09 am*)
Patrice Waterman, City Council President

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan Ward
David Lee, Dahab Associates
Steven Roth, Dahab Associates
Louise Gates, Gabriel Roeder Smith & Co.
Kurt Dossan, Gabriel Roeder Smith & Co.
Deborah Munson, Interim Executive Director
Clarissa Cayton-Grigsby
Larry Marshall, City Retiree
Linda Watson, City Retiree

TRUSTEES ABSENT

Koné Bowman (*excused*)
Kevin Williams, Vice-Chair (*excused*)

Chairman Moore *opened the meeting at 9:59 a.m.*

PUBLIC COMMENT - None

ACTUARY REPORT – 2016 Valuation Report Draft

Louise Gates introduced her associate Kurt Dossan who works with her on the System's account.

The valuation is an assessment of the Retirement System's liabilities and the determination of a contribution that is sufficient to fund those liabilities along with investment income for the life of the plan. The valuation date of December 31, 2016 is the date as of which the calculations are done.

Ms. Gates reviewed the Executive Summary with the Trustees.

Even though the valuation is performed on December 31, 2016, the contribution rates correspond to the City's budget year beginning July 1, 2018. The Plan is in a strong funded position and the contribution rate is zero.

General Employees Retirement System
Regular Meeting
April 26, 2017

Ms. Gates reviewed the recommended changes on page A-1.

The first change is the wage inflation assumption was because public employers have not had significant pay increases for the past few years. The other changes are to the mortality assumption and the investment return assumption which will decrease from 7.5% to 7.0% for the 2016 valuation. These assumption changes resulted in a net increase in the Plan's liabilities of approximately \$16M which is consistent with their expectations.

Ms. Gates also noted that there is a change in the retirement benefit structure for MAPE members hired after July 1, 2016 – of which the City had one - and the net change to the liability is negligible - approximately \$2.00.

Ms. Gates reminded the Trustees that during the audit of the 2015 valuation, GRS found that the prior actuary had picked up an incorrect number when they developed the smoothed value of assets. She clarified that most public plans do not use the market value of assets for their actuarial calculations. Most use a market-related value of smoothed value of assets in order to mitigate contribution and - for the purpose of this Plan - funded ratio volatility. Most public plans use an asset smoothing method. In order to correct the error, GRS would need to reset the value of assets to equal the market value of assets. The impact of this change is significant - it increased assets by over \$42 million. She mentioned that GRS is also recommending a change to the smoothing method.

Trustee Deirdre Waterman arrived at 10:09 a.m.

She reviewed the summary of Plan assets or the revenue and disbursements for 2016. The market value of assets as of January 1, 2016 was \$459.3 million. There was an audit adjustment of (\$50,487.00.) which is fairly common in plans that have assets that are difficult to value. This means that at the date the financial valuation is released the value of the assets was not available so they have to be estimated. Once the audit is complete the asset value is assigned and it is common to see small adjustments.

The net investment income generated by the Plan was \$34.5 million net of management fees. The expectation was that the Plan would generate \$30 million in investment income. Disbursements included pension payments and stipend payments totaling \$27.7 million as well as administrative expenses leaving the asset value at year end of approximately \$466M.

The smoothed value of assets at the beginning of the year was \$417.1 million. Due to mark-to-market, the actuarial value of assets went from \$417.1 million to \$466.1 million. She noted that income minus disbursements was \$6.8 million and there was a release of \$42 million of unrecognized investment gains. The mark-to-market was one of the reasons why the System saw the increase in growth of the assets of the Plan.

Ms. Gates referred to the Schedule of Funding Progress report on page E-1 which compares the actuarial value of assets to the accrued liability. She reported there were \$164.5 million of unfunded actuarial accrued liabilities and the smoothed value of assets of \$417.1 million as of the December 31, 2015. The System had accrued liabilities of \$252.6 million. Due to the marking to market the System now has a surplus totaling \$201.4 million. This change is a result of the actuarial value increasing by prior investment gains which had not been recognized due to the Plan's five year smoothing method.

She continued that under the old asset smoothing method, the System would immediately recognize interest and dividend income but smooth over five years realized and unrealized gains and losses. As of December 31, 2015 the unrecognized investment gains totaled \$42 million. By resetting the actuarial value of the assets to equal the market value, the System immediately recognizes those gains which were yet to be smoothed. Mark-to-market was done to correct the value error made by the prior actuary as well as to transition to the new smoothing method which will smooth interest and dividends over the same five-year period as investment gains and losses.

The mark-to-market is the primary reason the funding surplus improved.

She also noted that the stipend payments continued beyond what was expected in the 2015 valuation. The 2015 valuation assumed that the stipend payment would cease in August 2016. However, the stipend payments were renewed for an additional year. This continuation added \$5 million to the System's liability which would not have been anticipated in the prior valuation.

Ms. Gates indicated that there is language in the Plan Document that references the reserve transfers which is common in the State of Michigan. The language indicates that the actuary is to calculate liability for retirees and compare this to assets held in trust that are allocated specifically to retirees. The Ordinance does not mandate or dictate a transfer.

Miss Munson noted that a transfer is done annually – based on the actuary's recommendation – between the employer and retiree reserves as required by the Ordinance.

Ms. Gates stated that it is their understanding that the Board does not have a formal funding policy and recommended putting in place such a policy. The language could include details for funding the plan; the frequency of studies and requirements for an asset liability and for an experience study. It could also include objectives and goals as a Board. It could also document what would be done in the event the System does not have a surplus for a thirty-year period which is currently used to offset contributions. It is a common element of a funding policy.

Trustee Giddings referenced a GRS report on the proposed solvency liability disclosure for pension plans and the possible implications and requirements. He asked if the Board could request an actuarial analysis to determine the solvency liquidity of the System. He believes it is something the Board should consider given the current circumstances.

Ms. Gates and Mr. Dawson left at 10:42 a.m.

AGENDA CHANGES

Miss Munson requested the following agenda changes: The resolution for Item A under Unfinished Business be pulled; a resolution for Item C (Real Estate Manager Selection) under Consultants be added and the addition of Item E a request from the City for a supplemental actuarial analysis be added under New Business.

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Manager Review Board Meeting held March 28, 2017
- B. Approval of the Minutes of the Regular Board Meeting held March 29, 2017
- C. Approval of the Minutes of the Real Estate Presentations Board Meeting held April 6, 2017
- D. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: April 26, 2017
TOTAL PENSION PAYROLL **\$1,950,934.23**

Staff PPE Pay Date: April 13 & 27, 2017
TOTAL STAFF PAYROLL **\$ 14,146.86**

C. Communications:

- 1. Correspondence from Loomis Sayles Re: Board of Directors Update
- 2. Correspondence from First Eagle Re: DOL Matter – March 24, 2017
- 3. FOIA Request to/from Cziryak: April 18, 2017
- 4. CAPP 2017: Various Dates (CA, NV)
- 5. NASP Annual Conference: June 26-28, 2017 (Los Angeles, CA)

D. Financial Reports:

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

E. Private Equity Capital Calls & Distributions

- 1. Invesco Fund V March 31, 2017 Distribution: \$152,962
- 2. Mesirow Fund IV March 31, 2017 Distribution: \$50,000.00

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

1. New Retirements

Ret. No.	Member's Name	Amount	Effective
----------	---------------	--------	-----------

General Employees Retirement System
Regular Meeting
April 26, 2017

--	--	--	--

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

2. Terminated Retirements (Deaths)

Ret No.	Member's Name	Date of Death	Benefit Amount
1615	Washington, Theresa	01/10/2017	

3. J&S Continued Retirements

Ret No.	Name	Date of Death	Survivor's Name	Amount
1466	Snyder, Leslie	03/25/2017	Snyder, Pamela	

4. Recalculated Retirements

Ret No.	Name	Effective Date	Reason For Change	New Amount
1773	Mendoza, Ninfa	09/26/2012	Pop-Up Benefit	
1615	Washington, Theresa	06/01/2012	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

Trustee Gaffney asked why the same retiree information appeared in two places in the consent agenda.

Miss Munson stated that in one area the member's pop-up benefit was recognized and in the other the member's death was reported. She explained that the annual notice regarding the pop-up benefit was sent out to the member in 2014. The estate was owed the pop-up difference from the time the member's beneficiary passed away to the time of the member's death.

Miss Munson also reported that there was a change to the manager review meeting minutes that was added after the agendas were sent out.

Trustee Nazarko asked about the pop-up benefit and why the member's benefit amount prior to the pop-up was not listed.

Miss Munson referred to that the last page of the consent agenda which includes the spreadsheet which contains all of the requested information.

RESOLUTION 17-059 By Gaffney, Supported by Swazer

Resolved, That the Board approves and ratifies the actions described in the Consent Agenda for April 26, 2017.

Yeas: 9 – Nays: 0

CONSULTANT

Re: Dahab Associates

Preliminary Performance

Mr. Roth provided the preliminary performance returns as of March 31, 2017. He told the Board that the full Q1 performance report will be presented at the May 2017 meeting. The total market value of the fund was \$478.7 million. The quarter-to-date return is 4.0% gross of fees versus the benchmark at 4.5%. The one-year performance was 11.3% versus 12.0%; the five-year returns were 9.0% versus 9.4%; the ten-year returns were 6.6% and since inception returns (June 1995) were 8.2% gross of fees.

At the end of business on April 24, 2017 the total Plan value was approximately \$479 million.

Periodic Rebalancing

Mr. Roth referred the Trustees to the spreadsheet detailing the System's current asset allocation. They are recommending rebalancing the allocation by \$3 million for both large-cap manager Sawgrass Asset Management and mid-cap manager Victory Capital.

Trustee Giddings indicated that the consultant looked to enhanced cash account a few months ago and questioned whether that is still an option.

Mr. Roth indicated that any advanced interest for the account would take on more risk.

Real Estate Manager Selection

Mr. Lee reported that the Board heard five real estate presentations with two Core managers and three Core Plus managers and referred the Board to the handout summary.

The two Core managers - Principal and Invesco - are very similar and are both well-diversified. They invest in Class A buildings with about 15% value-added. The main difference between the two managers was the minimum investment amount.

The three Core Plus managers are Intercontinental; Sentinel and UBS. Intercontinental is the least aggressive of the three in terms of use of leverage and development. UBS is the most aggressive – they are a smaller fund, more tactical in nature and take on a little more development and try to be a

General Employees Retirement System
Regular Meeting
April 26, 2017

little more nimble than Intercontinental in selecting their property types. Sentinel's investment strategy is focused primarily on apartment properties.

Mr. Roth stated that all of these investments are open-ended funds. Principal has daily liquidity and the other managers have quarterly liquidity.

Chairman Moore indicated that the finance committee reviewed and discussed the manager presentations and investment information. He asked that Miss Munson share the committee's recommendation.

Miss Munson reported that the finance committee is recommending that the Board invest in four of the five managers: \$8 million to Invesco; \$4 million to Principal; \$5 million to Intercontinental and \$5 million to UBS.

Chairman Moore told the Board that the only manager that did not receive an investment was the firm that only invests in apartments. The committee's recommendation was to avoid a manager that is not diverse across property types.

Trustee P. Waterman noted that the System's target allocation to real estate is 10% or approximately \$45 million but that the committee chose not to invest the full allocation and requested that Mr. Lee elaborate on the committee's deliberations.

Mr. Lee stated that the System's target allocation to real estate is 10% of the portfolio or approximately \$48 million. One of the reasons that the committee decided to only commit a portion of the allocation is because there is currently some consideration of what will happen to the corpus of the Fund. In addition, this is the first step into real estate and only partially allocating to Core and Core-Plus will leave funds available for allocation to other real estate types in the future. Investing in Core and Core-Plus also helps balance the risks of the asset class.

RESOLUTION 17-060 By P. Waterman, Supported by Nazarko
Resolved, That the Board approves to retain the following Real Estate Investment Managers, pending legal review of the investment management agreements:

Core: Invesco Advisors - \$8 million; Principal Real Estate - \$4 million

Core Plus: Intercontinental - \$5 million; UBS - \$5 million

COMMITTEE REPORTS

Re: Trustees - None

Re: Committees

The reports for the personnel and finance sub-committees were deferred to Miss Munson.

Personnel Sub-Committee

Miss Munson reported that the committee met on April 13, 2017.

System Administration

Miss Munson stated that the committee discussed the administration of the System and has concluded that Benesys is not a viable option at this time.

Email Policy

Miss Munson indicated that the committee reviewed and is recommending the Board approve the revisions to the Email Policy.

Final Benefit Calculations

Miss Munson reported that the option factors for final benefit calculations will change effective May 1, 2017. However, there are a few members who retired between January 1, 2017 and April 30, 2017 whose option factors must be computed using the 2015 mortality tables and GRS will provide these calculations. Their fee to calculate the optional forms of payment for a member whose beneficiary is their spouse is \$400.00 and the fee a non-spouse beneficiary is \$700.00. The committee is recommending that the Board approve the fees to calculate the optional forms of payment for these members.

Monthly Employee Leave Balances

Miss Munson reported that the committee reviewed the employee leave balances.

Monthly Disability Process Report

Miss Munson indicated that there were no changes or activity to report this month.

Finance Sub-Committee

Miss Munson reported that the committee met on April 25, 2017.

System Administration

Mr. Moore reported that the committee has requested a complete package of information including job descriptions, salary ranges and other relevant information for presentation to both committees. He also stressed the importance of finalizing the By-Laws.

Re: Trustees - None

EXECUTIVE DIRECTOR

Transition Update

Miss Munson reported that there was no activity.

Real Estate Managers Requested Information

Miss Munson reported that the Board had requested additional information from some of the real estate managers and their responses are included in agenda.

General Employees Retirement System
Regular Meeting
April 26, 2017

GERS Pension Income by State and Michigan Locality

Miss Munson reminded the Board that Trustee Albritton requested a report on pension income by state and Michigan locality. The information is included in the agenda.

Actuary Presentations Available

Miss Munson reported that the Trustee Swazer had requested that the presentations that were distributed at the actuary Luncheon be made available to all Trustees. Those titles are included in the agenda and the presentations are available upon request.

Consequent Capital Update

Miss Munson referred to the chronology of the GrayCo Financial/Consequent asset purchase that is included in the agenda. This matter will be discussed under the attorney's report.

Temporary Supplemental Benefit Update

Miss Munson reported that the notice regarding the scheduled sunset of the \$400 temporary increase was mailed to retirees on April 17, 2017.

UNFINISHED BUSINESS

Re: Ordinance Language Clean-Up Recommendation – Tabled

This agenda item was removed for further investigation.

NEW BUSINESS

Re: Resolution to Approve Revised Email Policy

Miss Munson requested that the Board approve the revised Email Policy as recommended by the personnel committee. She noted that the committee wanted the revised language to be clear and concise for the Board and staff.

RESOLUTION 17-061 By Gaffney, Supported by Swazer

Resolved, That the Board approves the revised Computer, Email and Internet Use Policy.

Yeas: 9. – Nays: 0

Re: Resolution to Approve Rebalancing

Miss Munson requested that the Board approve the rebalancing recommended by Dahab Associates to provide for benefits and operating expenses.

RESOLUTION 17-062 By Gaffney, Supported by P. Waterman

Resolved, That the Board approve the Investment Consultant's recommendation to rebalance the portfolio by transferring \$3 million from Sawgrass Asset Management and \$3 million from Victory Capital Mid-Cap to provide for benefits and operating expenses.

Yeas: 9 – Nays: 0

Re: Resolution to Approve Fees for Optional Forms of Payment Calculations

Miss Munson requested that the Board approve the GRS fees for optional forms of payment calculations. She explained that the cost for the optional form of payment calculating for those who have nominated as beneficiary their spouse is \$400.00 and for non-spouse nominees the cost is \$700.00. Trustee Nazarko stated that he believes the fee for non-spouse nominees is too high.

RESOLUTION 17-063 By D. Waterman, Supported by Gaffney

Resolved, That the Board approve the Gabriel, Roeder, Smith & Company fees to calculate the optional forms of payments for members who retired between January 1, 2017 and April 30, 2017.

Yeas: 8 – Nays: 1 (Nazarko)

Re: Resolution to Approve Effective Date of Updated Option Factors

RESOLUTION 17-064 By Gaffney, Supported by Swazer

Resolved, That the Board approve that the optional forms of payment factors adopted by the Board for use in the 2016 valuation be incorporated into the member data software effective for retirements on or after May 1, 2017.

Yeas: 9 – Nays: 0

Re: Resolution to Approve Supplemental Actuarial Analysis

Miss Munson requested that the Board approve the City's request to have GRS perform a supplemental actuarial analysis.

Trustee Nazarko asked if GRS provided a cost for the supplemental valuation. He indicated that the City could have a problem with the amount.

Chairman Moore and Trustee Gaffney concurred that the Board is voting to allow the City's request for a supplemental actuarial analysis. The cost of the valuation is an issue between the City and Gabriel, Roeder, Smith and Company.

RESOLUTION 17-065 By P. Waterman, Supported by Gaffney

Resolved, That the Board hereby approves to forward the City's request for a supplemental actuarial analysis to the actuary.

Yeas: 9 – Nays: 0

Re: Resolution to Reschedule June 2017 Board Meeting

RESOLUTION 17-066 By Swazer, Supported by P. Waterman

Resolved, That the Board approves the rescheduling of the June Board meeting from June 28, 2017 to June 21, 2017.

Yeas: 9 – Nays: 0

Re: Legal Report

GrayCo Alternative Partners I

Ms. Billings-Dunn read her correspondence to the Board regarding Consequent Capital Management's acquisition of GrayCo Alternative Partners I, LP.

She stated that this correspondence serves to confirm and summarize the Trustees' discussion at the March meeting regarding the recent acquisition of Gray Financial and its impact on the Retirement System's investment in GrayCo.

Chairman Moore indicated that the finance committee discussed the investment at their meeting. He asked the consultant to provide the performance information to the Board.

Mr. Roth indicated that returns have been positive at 9%. However, 25% of the fund is allocated to Southeastern Global Partners (SEG) which is a fund managed by Larry Gray. Currently the investment in SEG is going through an independent third-party appraisal. Consequent Capital's CIO reported to the Board that they expect write-downs on that portfolio.

Mr. Roth indicated that Dahab has performed due diligence on each fund within the GrayCo Alternatives fund that are managed by third parties and they are comfortable with those managers – it is Southeastern Partners from whom they are still trying to get additional information.

Mr. Lee indicated that what is important to ascertain is who is making the investment decisions and what financial wherewithal does CCI have to acquire GrayCo.

Chairman Moore questioned whether this matter is time urgent and questioned whether the System is in a vulnerable position.

Mr. Lee told the Board that they can easily account for 75% of the money that has been called by GrayCo. However, they have not been able to get information on SEG or to determine the financial resources of CCI. The Limited Partnership Agreement requires that any firm acquiring the General Partner's interest demonstrate their financial wherewithal to do so. This outstanding issue was raised a few months ago and still needs to be resolved.

Mr. Lee reminded the Board that a representative of Consequent Capital attended the recent manager review in lieu of someone from GrayCo. It is not clear from their presentation that anyone

General Employees Retirement System
Regular Meeting
April 26, 2017

at the firm has any private equity experience. These are questions that they are asking as part of the due diligence under the larger umbrella of whether they have fulfilled their obligation under Section 11.1. It is important for the System to make sure all procedures have been followed. As the consultant, he needs clarity on whether Consequent needs to fulfill their obligation to demonstrate financial wherewithal pursuant to Section 11.1.

Ms. Billings-Dunn stated that, arguably, there has been a transfer per Section 11.1 and we could certainly make that argument.

Trustee Giddings stated that the Board should not sign off on a Key Person change if this is – in fact – a transfer.

Trustee Gaffney stated that even if it is only a small amount of capital remaining to be called, the Board needs to be comfortable with the manager and the investment.

Ms. Billings-Dunn stated that she would send a letter indicating that it is the System's position that this is an indirect transfer of ownership – not a Key Person event and requesting that Consequent provide our consultant with evidence of their capability to assume the obligations of the partnership.

Mr. Lee concurred that such a correspondence is needed and to have Consequent's response.

Trustee Deirdre Waterman stated that if the consultants are uncomfortable then she is uncomfortable with it as well. She questioned the timeframe.

Ms. Billings-Dunn indicated that there has been no timeline imposed and there is not one in the LPA.

Trustee Nazarko was concerned with the way Consequent played with the language on page three that stated: "Consequent is taking the position that GrayCo Investment Management LLC has not transferred any portion of its General Partner interest but that Consequent has acquired ownership of GrayCo Investment Management, LLC from Gray Financial." He stated that he wants to stop the commitment period so no additional money is flowing into this investment. He continued that if it is determined that Consequent Capital is not capable of managing the investment, the Board should look at alternatives for how to pull out of the investment. Trustee Nazarko felt that under the circumstances and with no cooperation or forthcoming from Consequent the System should be able to pull out of the investment.

Ms. Billings-Dunn went over the timeline of the correspondence sent and received with regard to Consequent's purchase of Gray & Company. There are a number of issues including the lack of information provided in their responses.

Chairman Moore again stressed the importance of the Board doing its due diligence with respect to this investment.

Ordinance Language Cleanup - Tabled

Charles E. Spann Writ of Continuing Garnishment

Ms. Billings-Dunn reported on the Charles Spann Writ of Continuing Garnishment.

Robbins Geller March 2017 Portfolio Monitoring Report

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

Ms. Billings-Dunn requested that the Board go into closed session to discuss litigation matters.

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

RESOLUTION 17-067 By Swazer, Supported by Albritton

Resolved, That the Board move to closed session to discuss the reasons stated above.

Roll Call:

Trustee Albritton – Yea

Chairman Moore - Yea

Trustee Arndt – Yea

Trustee Nazarko - Yea

Trustee Gaffney - Yea

Trustee Swazer - Yea

Trustee Giddings – Yea

Trustee D. Waterman – Yea

Trustee P. Waterman - Yea

The Board moved to closed session at 11:57 a.m.

The Board returned from closed session at 12:19 p.m.

RESOLUTION 17-068 By Gaffney, Supported by P. Waterman

Resolved, That the Board approve the closed session minutes for the March 29, 2017 meeting.

Yeas: 9 - Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, May 31, 2017 @ 10:00 a.m. – Retirement Office

RESOLUTION 17-069 By Arndt, Supported by Albritton

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 12:21 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on April 26, 2017

As recorded by Jane Arndt