

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
June 21, 2017**

A meeting of the Board of Trustees was held on Wednesday, June 21, 2017 at the Pontiac General Employees' Retirement System Office located at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:00 a.m.

TRUSTEES PRESENT

Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman *(by telephone)*
Nevrus Nazarko, Secretary *(arrived at 10:06 am)*
Billie Swazer
Deirdre Waterman, Mayor *(arrived at 10:45 am)*
Patrice Waterman, City Council President
Kevin Williams, Vice Chair

OTHERS PRESENT

Lyndsey Kitson, Sullivan Ward
David Lee, Dahab Associates
Steven Roth, Dahab Associates
Manju Patnaik, Plante & Moran
Michelle Watterworth, Plante & Moran
Deborah Munson, Executive Director
Clarissa Cayton-Grigsby

TRUSTEES ABSENT

Koné Bowman *(excused)*

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

PUBLIC COMMENT - None

AGENDA CHANGES

Miss Munson noted that the Ordinance Language Cleanup under Unfinished Business is tabled.

Trustee Swazer questioned why Leroy Williams still appears on the disability procedures report and whether he was converted to a regular retirement.

Miss Munson indicated that Mr. Williams was converted and will be removed from the list.

PLANTE & MORAN: 2016 Audited Financial Statements Presentation

Ms. Watterworth thanked the Board and introduced herself and Ms. Patnaik to the Board. She indicated that they are presenting the results of 2016 audit. She said that they will review the draft reports today and – if there are no changes – finalize them after the meeting.

General Employees Retirement System
Regular Meeting
June 21, 2017

Ms. Patnaik provided an overview of the financial statements. Plante & Moran has issued an unmodified opinion which is the highest form of assurance they can provide as an auditor. The System has received an unmodified opinion before and is receiving it again.

The opinion also included an emphasis of matter regarding the new GASB 72 that was implemented which relates to how investments are valued and how they are reported. Their opinion is not affected by the emphasis of matter paragraph.

Ms. Patnaik reviewed the balance sheet and the income statement. The Balance Sheet is essentially a snapshot of the System's assets and liabilities as of December 31, 2016. Investments make up a significant portion of the balance sheet. Approximately \$465 million of the assets are investments which is normal for a retirement system. The total fiduciary Net Position of \$466.1 million.

The Statement of Changes in the Fiduciary Net Position reflects the changes that happened during the year that contributed to the \$466.1 million. These include total additions of \$34.6 million in investment income and gains and losses and deductions totaled \$27.8 million - which includes administrative expenses and benefit payments - resulting in a net change of \$6.8 million. The investments did well this year and the net result is that the Fund increased from \$459.3 million at the beginning of the year to \$466.1 million at the end of the year.

Trustee Nazarko arrived at 10:06 a.m.

Ms. Patnaik reviewed the Notes to the Financial Statements stating that most of the notes are similar to previous years. She referred to Note 4 which includes the GASB 72 implementation which categorizes the fair value measurement of investments including the disclosures. The disclosures walk through the types of investments the System has and their fair value measurement.

Trustee Giddings questioned why the language in Note 2 regarding the PGH Member-Trustee election was changed from the prior year. He stated that the election is conducted on behalf of the Hospital and is observed, monitored and reviewed by Hospital members.

Miss Munson indicated that she and Ms. Patnaik discussed the language and she felt it was accurate and clearly stated that the election process.

There was additional discussion of the language in Note 2.

It was determined that the language in the 2016 financial report would be changed to reflect that the election was conducted by the Hospital with the assistance of the Retirement Office.

Ms. Patnaik referred to the note regarding Subsequent Events. The note references the proposed settlement agreement regarding the retiree healthcare litigation and indicated that it needs to be disclosed as it does have a potential financial impact on the System.

Ms. Patnaik noted that this is the third year of reporting with GASB 67 which has added more reporting disclosures. GASB 67 uses the term Total Pension Liability in lieu unfunded accrued liability and gives a clearer understanding of how that liability changed during the year. The Total Pension Liability increased from \$252.6 million at the beginning of the year to \$264.6 million at the end of the year. The largest change of \$15.6 million was the result of changing certain actuarial assumptions. The largest increase resulted from the change in the assumed rate of return from 7.5% to 7.0%. The mortality table was also changed for 2016.

The next third of the statement is the Plan's Fiduciary Net Position. If you take the System's Total Pension Liability of \$264.6 million and net it with the Plans' Fiduciary Net Position of \$466.1 million you come up with the Net Plan Asset amount of \$201.5 million. This amount will be reported in the City's financial statements.

Trustee Patrice Waterman confirmed that \$201.5 million is the overfunded amount on a GASB basis.

Trustee Giddings asked about the unrated corporate bond. He questioned why the System would have an unrated corporate bond.

Miss Munson indicated she would provide the issuer of the bond after the meeting.

Trustee Nazarko asked concerning Note 4 whether the audited financial statements for GrayCo Alternatives had been received and how the investment is being valued.

Ms. Patnaik and Miss Munson explained that the GrayCo investment is included in Note 5. The value included for GrayCo Alternatives was calculated using the roll forward method.

Ms. Kitson referenced the letter to Consequent and stated that Ms. Billings-Dunn has sent several letters to Consequent Capital requesting the audited financial statements.

Ms. Watterworth reviewed the Management Letter. Section One covers internal control issues identified during the audit which they required to communicate to the Board. The main item has three areas but all fall under the heading of Segregation of Duties. During the year the System had a change in staff from three people involved in the internal control process to two people. As a result, there are certain reviews that are no longer being performed because of the lack of that third person. They would like the System to consider how to put these processes in place to ensure that there is an independent review of these processes. It is difficult to do when you have a smaller accounting staff. She opined that Miss Munson does a great job but the Board must ensure that there is a segregation of duties to double check the work that is done.

Trustee Patrice Waterman noted that Miss Munson brings the financial statements to the finance sub-committee meetings and inquired whether Trustees could provide the review that is required.

Ms. Watterworth responded that a Board member could perform the review as long as the items in the note are being reviewed in detail.

Trustee Giddings indicated that he spoke with Ms. Patnaik regarding this issue and asked how they accounted for this issue during the audit.

Ms. Watterworth indicated that they did additional testing of the investment reconciliations and the benefit calculations. However, their review does not replace an internal control function.

Trustee Swazer questioned whether they are recommending that the benefit calculations be reviewed and tested by another individual.

Miss Munson noted that the System does have a detailed written process to calculate final average compensation and that there is an in-depth review process with two people reviewing that level of detail when there is a three-person office.

Chairman Moore asked whether the fact that their testing did not find any issues with the benefit calculations or investment reconciliations is reflected in the audit report.

Ms. Watterworth noted that that fact is inherent in their unqualified opinion.

Ms. Watterworth referred to Section Two of the letter and noted the most important piece of this section is the significant estimates in the audited financial statements. These continue to be the value of the harder-to-value investments and the assumptions that the actuary uses to calculate the pension liability. The two most important assumptions are the assumed rate of return and the mortality assumption. Section Three notes legislative updates. The System will be required to file their 2016 with the State of Michigan Department of Treasury.

Miss Munson thanked Ms. Patnaik and her team. They were very professional and were very instrumental in providing their assistance in implementing GASB 72.

Chairman Moore asked what is needed to finalize the report.

Ms. Watterworth indicated that the edit to the language in Note 4 will be changed and once they receive the representation letter they will forward it all to their processing department for completion.

Trustee Patrice Waterman asked if her comment regarding the finance committee would be included in their report.

Ms. Watterworth noted that would be included in the 2017 audit report.

Ms. Patnaik and Ms. Watterworth left at 10:30 a.m.

Vice-Chair Williams asked if a resolution is in order to approve the report.

Trustee Nazarko did not believe the report could be approved until the changes are made.

Trustee Giddings felt that the audit report could be approved subject to the changes.

RESOLUTION 17-079 By P. Waterman, Supported by Nazarko

Resolved, Resolved, That the Board approves to receive and file the 2016 Audited Financial Statements as presented by Plante Moran provided the proposed change to Note 2 regarding the Hospital Trustee election has been made, and, further

Resolved, That the Board directs the Executive Director to provide a copy of the 2016 financial statements to the City’s Finance Director.

Yeas: 9 – Nays: 0

APPROVAL OF CONSENT AGENDA

A. Approval of the Minutes of the Regular Board Meeting held May 31, 2017

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: June 28, 2017

TOTAL PENSION PAYROLL **AMOUNT TO BE PROVIDED AT JULY MEETING**

Staff PPE Pay Date: June 8 & 22, 2017

TOTAL STAFF PAYROLL **\$ 14,146.86**

C. Communications:

- 1. Communication from/to Zack Cziryak: June 2017
- 2. Communication from/to S&P Global Market Intelligence: June 3, 2017
- 3. FOIA Request from/to Public Plan IQ: June 6, 2017

D. Financial Reports:

- 1. Accounts Payables – June 2017
- 2. Dahab Associates Preliminary Report: May 2017
- 3. Statement of Changes: May 2017

E. Private Equity Capital Calls & Distributions

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

- 1. New Retirements

Ret. No.	Member's Name	Amount	Effective
2813	Russell, Joyce		07/1/2017

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
1673	Austin, Peggy	06/09/2017	
701121	Taylor, Marian	05/18/2017	

3. J&S Continued Retirements

Ret No.	Name	Date of Death	Survivor's Name	Amount
2244	Babin, Joseph	05/19/2017	Escobar-Babin, Maria	
1367	Shelly, James	06/10/2017	Shelly, Gwendolyn	
1411	Runyon, Raymond	05/30/2017	Runyon, Oneta	

4. Recalculated Retirements

Ret No.	Name	Effective Date	Reason For Change	New Amount
2804	Martin, Kenneth	03/01/2017	Final Benefit	
1461	Moore, Sandra	06/01/2017	Pop-Up	

5. Disability Medical Re-Exams/Benefit Continuation

Ret No.	Name	Reason	Benefit Amount

6. Refunds of Employee Contributions

Ret No.	Name	Reason	Benefit Amount

RESOLUTION 17-080 By Gaffney, Supported by P. Waterman

Resolved, That the Board approves and ratifies the actions described in the Consent Agenda for June 21, 2017.

Yeas: 9 – Nays: 0

CONSULTANT

Re: Dahab Associates

General Employees Retirement System
 Regular Meeting
 June 21, 2017

Preliminary Performance

Mr. Roth provided the preliminary performance returns as of May 31, 2017. Year-to-date, the Fund is up 6% on a gross basis. Quarter-to-date performance including April and May is up 1.8% gross of fees. For the five-year period, the Fund has returned 10.5% gross of fees and the ten-year performance of 6.3% is slightly behind the actuarial assumed rate of return of 7.0%. Since inception, the Fund has returned 8.2% gross of fees. As of the end of the market close on Monday, June 19, 2017 the total Fund value was \$488.9 million.

Trustee Giddings noted that the market has not responded to the Fed rate hike.

Mr. Roth indicated that the rate increase was well telegraphed and noted how the Fed has flip-flopped on raising rates. Fundamentals continue to be strong. There have been some weak spots in the market including financials and energy and the leaders continue to be technology and consumers.

Mr. Lee explained that legal counsel noticed a stipulation in one of the real estate investment agreements regarding UBIT relative to UBTI (Unrelated Business Taxable Income). He noted that the investment has not yet generated UBIT; however, there is a possibility that the investment may generate UBIT for the Fund in the future. There is no clear guidance on whether or not public funds are subject to UBIT but the Board needs to be aware of the potential. He believes that the concern is de minimus and Dahab Associates is still comfortable with the investment.

Trustee Nazarko asked which fund has the exposure and asked what is the maximum exposure.

Mr. Lee responded it is the Invesco Core Real Estate fund at he estimated the potential exposure as less than \$10,000.00

Ms. Kitson indicated that it is normal to see UBIT language in real estate investment agreements but and concurred that the odds that the investment would generate UBIT are minimal.

Miss Munson noted that the Invesco agreement was different in that it was the only one that contained a clause specifically requiring the System to agree to the inclusion of investments that could generate UBIT as a condition of investing.

Chairman Moore stated that the finance committee considered this and felt that this should not keep the System from investing in that fund. As long as the System is making money it should not be seen as an obstacle.

Trustee Giddings asked if this is a way for Invesco to pass along the tax to the System or is it because there is the possibility for UBIT when making this type of investment.

Ms. Kitson responded that, generally, if you make an investment that generates UBIT, the tax will be passed on to you, whether or not you acknowledge it or not. However, she would like to see the agreement before providing a more formal answer.

Trustee Patrice Waterman asked when the System's investment in Invesco is scheduled to begin.

Miss Munson responded that Invesco would need to have the signed documents by June 30, 2017 in order for the Fund to participate in the July 1, 2017 capital call.

Trustee Nazarko indicated he is comfortable accepting the terms of the investment agreement.

COMMITTEE REPORTS

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 June 15, 2017.

By-Laws

The committee reviewed the proposed by-laws and drafted an attendance policy. These were also forwarded to the finance committee for review and comment.

Executive Assistant FLSA Status

Both the personnel and finance sub-committees reviewed the legal opinion regarding the exempt status of the Executive Assistant position and agreed to take another month to review the matter.

Employment Agreement

Both committees reviewed and are recommending for approval the employment agreement with the Executive Director.

Finance Sub-Committee

Miss Munson reported that the committee met on June 20, 2017.

Invesco UBIT

Discussed under consultant.

Consequent Capital Update

The committee reviewed the Consequent Capital update.

Directed Brokerage and Commission Recapture Program

The committee reviewed the Directed Brokerage and Commission Recapture program and is recommending for approval the three outstanding items: the policy itself, the initial list of participating firms and the appointment of Northern Trust as the recapture agent.

General Employees Retirement System
Regular Meeting
June 21, 2017

Trustee Deidre Waterman arrived at 10:45 a.m.

Conference Room Audio/Video Equipment

The committee reviewed the proposal from Ark Technology to provide and install audio visual equipment for the conference room. A copy of the proposal is included as a handout.

Summary Annual Report – 2016

The committee reviewed and is recommending for approval the 2016 Summary Annual Report.

RESOLUTION 17-081 By Giddings, Supported by P. Waterman

Resolved, That the Board approves the Directed Brokerage and Commission Recapture Program policy, and, further

Resolved, That the Board approves the initial list of participating brokerage firms, and, further

Resolved, That the Board approves the appointment of Northern Trust as the recapture agent, and the Chair's signature on the required documents, subject to legal review.

Yeas: 10 – Nays: 0

Trustee Nazarko confirmed that the equipment would be transferrable.

RESOLUTION 17-082 By Moore, Supported by Gaffney

Resolved, That the Board approves the proposal from Ark Technology for the purchase and installation of conference room audio and visual equipment.

Yeas: 10 - 0

Re: Trustees

MAPERS Certifications

The Board commended Trustees Giddings (Level II) and Swazer (Level I) on receiving their MAP certifications.

Re: Chairman - None

EXECUTIVE DIRECTOR

Annual Political Contributions and Fee Disclosure Forms

Miss Munson reported the annual notices were sent to service providers on June 16, 2017 and are due July 7, 2017.

Investment Manager Review Initial Notice

A 'Save-the-Date' notice was sent to managers attending the September 26, 2017 Manager Review.

Summary Annual Report

Miss Munson reminded the Board that the Summary Annual Report (SAR) must be filed with the State within thirty days of issuance. She also noted that state law also now requires the inclusion of the healthcare rate of inflation in the SAR.

Trustees Giddings and Gaffney acknowledged the staff for the timeliness of the preparation of the Summary Annual Report.

UNFINISHED BUSINESS

Re: Ordinance Language Clean-Up Recommendation – Tabled

Trustee Deirdre Waterman reported that the continuance of the \$400.00 temporary pension benefit will be presented for approval at the RTAB Meeting being held on June 30, 2017.

NEW BUSINESS

Re: Resolution to Approve Summary Annual Report

RESOLUTION 17-083 By Moore, Supported by Nazarko

Resolved, That the Board authorizes the issuance of the 2016 Summary Annual Report.

Yeas: 10 – Nays: 0

Re: Resolution to Approve Employment Agreement

Chairman Moore reported that - at the Board's direction – he and Trustee Gaffney negotiated changes to the agreement and they are recommending the same for approval.

Trustee Gaffney noted that the employment agreement has been reviewed by legal counsel.

RESOLUTION 17-084 By Swazer, Supported by Moore

Resolved, That the Board approves the employment agreement with the Executive Director dated May 31, 2017.

Yeas: 9 – Nays: 0
Abstain: 1 (Trustee Arndt)

Miss Munson reported that the Finance Officer position has been posted on the following websites: the Michigan GFOA; GFOA; the IFEBP; MAPERS; the Michigan Municipal League; the City of Pontiac and the Retirement System.

Trustee Gaffney noted that the position will be posted until it is filled. The personnel committee will screen candidates periodically.

Re: Legal Report

GrayCo Alternative Partners I

Ms. Kitson referred to Ms. Billings-Dunn's letters to Consequent Capital Management on May 26, 2017 and June 5, 2017 requesting 2016 audited financial statements due from the General Partner on May 31, 2017 as well as information substantiating Consequent Capital's financial wherewithal to fulfill the financial obligations of the General Partner pursuant to the Limited Partnership Agreement.

Michigan Legislation of Interest

- House Bill 4131
Ms. Kitson reported that HB 4131 amends the Public Employee Retirement Benefits Forfeiture Act. This amendment requires the forfeiture of an individual's retirement benefit if the individual is convicted of a felony arising out of their public employment service. The amendment would allow the beneficiary to receive their benefit, including healthcare, but not the defined contribution account.
- House Bill 4396
Ms. Kitson reported that HB 4396 increases the tax exemption amount for individuals born after 1945 and retired as of January 1, 2013. The bill would be retroactive to all those who retired on or after January 1, 2013.
- House Bill 266
Ms. Kitson reported that on May 24, 2017 the Senate passed HB 266. The bill was referred to the House Committee on Tax Policy on May 24, 2017. This bill is applicable to persons born after 1952 and who retired as of January 1, 2013. It would permit an increased deduction for retirement or pension benefits from governmental employment. The bill would be retroactive and effective for tax years beginning on or after January 1, 2013. It would also allow an individual who served in the armed forces who is receiving a pension from the armed forces to deduct those pension payments.

Robbins Geller May 2017 Portfolio Monitoring Report

Ms. Kitson referred to Exhibit B and reported that this is for the Trustees' information.

Ms. Kitson 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 17-085 By Swazer, Supported by Gaffney

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

Roll Call:

Trustee Albritton – Yea

Trustee Arndt – Yea

Trustee Gaffney - Yea

Trustee Giddings – Yea

Chairman Moore - Yea

Trustee Nazarko - Yea

Trustee Swazer - Yea

Trustee D. Waterman - Yea

Trustee P. Waterman – Yea

Vice-Chair Williams - Yea

The Board moved to closed session at 11:02 a.m.

Ms. Cayton-Grigsby, Mr. Lee and Mr. Roth left at 11:02 a.m.

The Board returned from closed session at 11:06 a.m.

RESOLUTION 17-086 By Gaffney, Supported by Swazer

Resolved, That the Board approve the closed session minutes for the May 31, 2017 meeting.

Yeas: 10 - Nays: 0

SCHEDULING OF NEXT MEETING

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

RESOLUTION 17-087 By P. Waterman, Supported by Gaffney

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' System be adjourned at 11:08 a.m.

Yeas: 10 – Nays: 0

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

As recorded by Jane Arndt

General Employees Retirement System
Regular Meeting
June 21, 2017