



Trustee Gaffney - Yea  
Trustee Giddings - Yea

Trustee Swazer - Yea  
Vice Chair Williams - Yea

**APPROVAL OF CONSENT AGENDA**

A. Approval of the Minutes of the Regular Board Meeting held June 21, 2017

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: June 28, 2017  
**TOTAL PENSION PAYROLL** **\$1,955.935.93**

Retiree Pay Date: July 26, 2017  
**TOTAL PENSION PAYROLL** **\$1,953.099.68**

Staff PPE Pay Date: July 26, 2017  
**TOTAL STAFF PAYROLL** **\$ 18,524.09**

C. Communications:

1. Gabriel, Roeder, Smith Report Re: Early Retirement Reduction Factors
2. Correspondence from Victory Capital Re: Commissions
3. IFEBP Advanced Investments Management: Sept. 24-28 (Philadelphia, PA)
4. NCPERS Public Pension Funding Forum: Sept. 10-12 (San Francisco, CA)

D. Financial Reports:

1. Accounts Payables – July 2017
2. Dahab Associates Preliminary Report: June 2017
3. Attucks Manager of Manager Summary: May & June 2017
4. Statement of Changes: June 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
2816	Cayton, Clarissa		07/21/2017
2814	Rollinson, Delores		07/01/2017

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

2. Terminated Retirements (Deaths)

Ret No.	Member's Name	Date of Death	Benefit Amount
1407	Chancy, Donald	06/25/2017	

2805	Paruch, Steven	Term 06/01/2017	
701950	Pickering, Stuart	06/16/2017	

3. J&S Continued Retirements

Ret No.	Name	Date of Death	Survivor's Name	Amount
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4. Recalculated Retirements

Ret No.	Name	Effective Date	Reason For Change	New Amount
2806	Gracey, Ronald	03/07/2017	Final Benefit	
2807	Sumler, Jimmie	03/01/2017	Final Benefit	
1629	Woods, Esmo	11/11/2014	Pop-Up	

5. Disability Medical Re-Exams/Benefit Continuation

Ret No.	Name	Reason	Benefit Amount
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6. Refunds of Employee Contributions

Ret No.	Name	Reason	Benefit Amount

**RESOLUTION 17-089** By Gaffney, Supported by Williams

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

Yeas: 9 – Nays: 0

**CONSULTANT**

**Re: Dahab Associates**

Preliminary Performance Summary/Preliminary Market Values

Mr. Lee provided the preliminary performance report as of June 30, 2017. As of June 30, 2017 the total Fund value was \$483.686 million. The Fund is up 0.8% for the month; 2.7% quarter-to-date and 6.9% year-to-date gross of fees. Trailing one-year return is 11.9%; five-year trailing return is 10.1% and since inception return is 8.2% all gross of fees. The markets were good overall for the month despite what is happening in Washington, D.C. He does not expect a lot of changes in the market through the end of the year.

As of July 24, 2017 the market value of the Fund was \$487.992 million. Dahab does not have updated numbers for the illiquid private equity assets in the portfolio which would likely increase

the Fund's current market value. He noted that the Fund assets increased approximately \$4 million despite paying June pension benefits.

#### Periodic Rebalancing Recommendation

Mr. Lee reported that it is time to raise cash to pay for System benefits and expenses. They have recommended a \$3 million transfer of assets from mid-cap manager Systematic and a \$3 million transfer of assets from global equity manager WCM. This will balance them to the other managers.

Trustee Giddings asked if the consultant's strategy is to rebalance every two to three months.

Mr. Lee indicated that by rebalancing more frequently the Fund can keep less cash on hand and more invested.

Chairman Moore noted that the resolution to approve the periodic rebalancing is under New Business.

### **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 July 20, 2017.

#### Attendance Policy / By Laws

Miss Munson reported that the committee finalized the By-Laws and Attendance Standards Policy and did recommend Board approval. The finance committee would like additional time to review them.

#### Executive Assistant FLSA Status

The committee reviewed the FLSA status for the Executive Assistant position and determined that the position will continue to be classified as nonexempt.

#### Final Average Calculation / General Ledger Processes

Miss Munson reported that the committee had reviewed the final average calculation process and the general ledger process. She reminded the Board of the recommendation from the auditor that a review process be put in place until the office has a full staff. The committee suggested that – given their backgrounds in finance - Trustees Giddings and Nazarko review the final average calculations and general ledger.

#### Service Provider Questionnaire

Miss Munson noted that the Auditor Professional Services Questionnaire had been emailed to the Trustees and are due by August 9, 2017.

#### Lease Agreement

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Both committees reviewed the lease renewal agreement and are recommending it for approval. The relocation ad hoc committee's report and the lease agreement are located under New Business.

#### IRC Distribution Rules

Both committees reviewed the legal opinion regarding the applicability of the IRC minimum distribution rules to the Zimmermann benefit. The benefit data has been forwarded to the actuary. The member has been setup on payroll and once the actuary has computed the final benefit, the member will be paid retroactively to January 4, 2014.

#### M&K Market

Both committees reviewed the M&K Market update. The hearing was scheduled for July 12, 2017 but was dismissed when the 50<sup>th</sup> District Court Judges recused themselves from the case. The case will be moved to another District Court.

#### **Finance Sub-Committee**

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

#### Periodic Rebalancing

Miss Munson indicated that the committee reviewed the consultant's recommendation for the periodic rebalancing and is recommending it for approval.

#### IPS Preliminary Revision Review

Miss Munson reported that the committee reviewed the IPS revisions and hope to have a final draft in August 2017.

#### Real Estate Investment Agreements

The committee reviewed the status of the real estate investment agreements.

#### GrayCo/Consequent Capital Audited Financial Statements

Miss Munson reported that the committee reviewed the audited financial statements received from Consequent Capital Management on June 30, 2017. She noted that the audited financials were late according to the Limited Partnership Agreement and were received after the System's audited financial statements had been approved and issued.

The audited financial statements reflected a net unrealized loss of approximately \$1 million. She discussed with the auditor whether it was necessary to reissue the System's financial statements. The auditor concurred with the Board's decision not to restate the 2016 financial statements because the \$1 million loss is not material to the Net Plan Position of \$466 million.

Trustee Giddings remarked that a \$1 million loss is material in light of the Net Change in Plan Position of \$6 million and that it would be material if the System was doing a 420 Transfer.

Miss Munson reiterated that it is the Board's decision whether or not to restate the financial statements.

Trustee Gaffney stated that the auditor can only advise the Board but it is not their decision whether the financial statements are restated.

Vice-Chair Williams stated that the Board has the auditor's support in whichever decision they make.

Chairman Moore requested that the auditor provide their concurrence in writing.

Trustee Giddings confirmed that the unrealized loss will be reflected in the next interim statements.

Trustee Nazarko asked how much the System lost.

Chairman Moore indicated that the System has invested \$5.3 million. The latest financial statements indicate the System's investment is valued at \$5.8 million which is a \$500,000.00 gain.

Miss Munson explained that - excluding Southeastern Global Partners (SEG) - the other underlying investments generated \$6 million of income into the fund in 2016. Almost the entirety of the \$6 million was reinvested into Southeastern Global Partners. At year end, there was an unrealized loss of approximately \$5.8 million report for SEG. She referred the Trustees to page 4 of the audited financial statements which shows the cost versus the fair value of each investment. She also noted that the System has never received a distribution from the GrayCo Alternatives investment.

Trustee Nazarko confirmed that SEG was owned by Larry Gray.

Trustee Nazarko questioned the due diligence of the manager and could not understand how \$6 million could be invested and lost within six months.

Trustee Giddings informed the Board that there are also related parties involved in the fund.

Trustee Nazarko noted his displeasure and suggested a forensic audit be conducted on this manager.

Trustee Gaffney questioned why the returns were only invested in SEG.

Trustee Bowman noted the relationship between Earl Robinson and GrayCo Alternatives indicating that Earl Robinson sits on the Board of Ebony Media.

Miss Munson referred the Trustees to the Note to the Financial Statements regarding Related Parties. Marc Hard, the CFO of Gray Financial at the time, received a loan of \$800,000.00 March Hardy through CVG Group and another entity.

Trustee Bowman also noted that Linda Johnson-Rice - who has returned to be CEO of Ebony - was married to Michael Farr's father, Mel.

The Board directed the consultant to make a request to Consequent Capital Management to provide a copy of the investment theses for underlying investments of Southeastern Global Partners.

Chairman Moore asked that Mr. Lee send his findings to the Board which will help determine how to proceed in this matter.

Trustee Giddings indicated that it appears that when Consequent Capital unwinds the GrayCo Alternatives product, the limited partners will bear the brunt of the losses.

Mr. Lee indicated that as an investor in an investment a risk of loss always exists with this type of investment.

Trustee Gaffney stated that she understands and accepts gains and losses in the context of investing but has concerns with the relationships of the parties involved in this investment.

Trustee Swazer pointed out that Ebony is up for sale.

Miss Munson stated that Ebony was valued at \$2 million and is now valued at \$900,000.00.

Trustee Nazarko asked if there is language in the partnership agreement that determines how distributions are handled.

Miss Munson noted that the Limited Partnership Agreement gives discretion to the general partner to redirect distributions back into any of the underlying funds.

**RESOLUTION 17-090** By Giddings, Supported by Nazarko

Resolved, That the Board - with concurrence of its auditor - will not restate the System's 2016 Audited Financial Statements to reflect the December 31, 2016 decrease in the value of the GrayCo Alternatives investment because of the immateriality of the adjustment in relation to the December 31, 2016 Net Plan Position;

And, Further Resolved that the Board will reflect in its next monthly unaudited financial statements the Fourth Quarter 2016 write-down in the value of the GrayCo Alternatives investment.

**Roll Call:**

Trustee Arndt – yea

Trustee Bowman – yea

Trustee Gaffney – yea

Trustee Giddings – yea

Chairman Moore – yea

Trustee Nazarko – yea

Trustee Swazer – yea

Vice Chair Williams - yea

**Re: Trustees** - None

**Re: Chairman** - None

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## **EXECUTIVE DIRECTOR**

### Annual Fee and Political Contribution Disclosure Notices

Miss Munson reported that most of the disclosure statements have been received. She will provide an update next month.

### Temporary Increase Continuation Notice

Miss Munson reported that notice of the continuation of the \$400.00 temporary increase was mailed to the members on July 18, 2017.

### Summary Annual Report

Miss Munson reported that the summary annual report was filed with the State of Michigan on July 18, 2017. The report was mailed to the members on July 20, 2017.

### Asset Transition Update/Invesco Real Estate Investment

Miss Munson reported that a partial liquidation of the Brandywine fund was done to fund the \$8 million capital call from Invesco Real Estate.

### Executive Assistant Appreciation Letter

Miss Munson distributed a letter from a survivor beneficiary member expressing her appreciation for the way Ms. Arndt handled the process with efficiency and compassion.

### GERS Annual Meeting/October Board Meeting Dates

Miss Munson reported that the recommendations for the October Board meetings are Monday, October 30, 2017 for the Annual Meeting and Tuesday, October 31, 2017 for the regular Board meeting.

### **RESOLUTION 17-091** By Gaffney, Supported by Swazer

Resolved, That the Board approves to reschedule the Wednesday, October 25, 2017 meeting to Tuesday, October 31, 2017 and to schedule the annual meeting for Monday, October 30, 2017.

Yeas: 8 – Nays: 0

### Real Estate Investment Updates

Trustee Giddings asked about the updated real estate booklet provided by the consultant.

Mr. Lee indicated that the System is currently invested in four real estate managers with two core managers and two core plus managers.

Miss Munson indicated that the booklets for the value-added and opportunistic real estate managers were sent to the Trustees and will be added to the finance committee agenda.

### Disability Procedures Report: As of July 14, 2017



Miss Munson reported that the 2016 disability income verifications have been returned by the members. The forms have been faxed to the IRS and we are awaiting their response.

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## UNFINISHED BUSINESS

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### NEW BUSINESS

#### **Re: Periodic Rebalancing**

Miss Munson requested that the Board approve the periodic rebalancing based on the consultant's recommendation.

#### **RESOLUTION 17-092** By Gaffney, Supported by Swazer

Resolved, That the Board approves the Investment Consultant's recommendation to rebalance the portfolio by transferring \$3 million from Systematic Financial and \$3 million from WCM Investment Management to provide for benefits and operating expenses.

Yeas: 8 – Nays: 0

#### **Re: Executive Assistant Compensation Package**

Miss Munson requested that the Board approve the resolution for the Executive Assistant compensation package.

Chairman Moore indicated that both the finance and personnel committees have approved the compensation package and are recommending Board approval.

#### **RESOLUTION 17-093** By Gaffney, Supported by Nazarko

Resolved, That the Board approves a 3% salary increase and a one-time bonus of \$2,000.00 in consideration of her increased workload.

Yeas: 7 – Nays: 0

Abstain: 1 (Trustee Arndt)

#### **Re: Extension of Retirement Office Lease**

Miss Munson reported that the real estate ad hoc committee met on July 10, 2017. The committee is recommending a 3-year extension of the current Retirement Office lease to allow more time to acquire a building in Pontiac.

Trustee Gaffney felt that the committee allowing more time to develop a plan is a good idea.

#### **RESOLUTION 17-094** By Swazer, Supported by Bowman

Resolved, That the Board approves the extension of the lease with Brenwar Properties and authorizes the Chairman's signature on the Agreement.

Yeas: 7 – Nays: 1 (Trustee Nazarko)

Chairman Moore suggested a new name for the real estate ad hoc committee.

Trustee Bowman suggested the relocation ad hoc committee which was well received by the Board.

**Re: Adoption of GERS By-Laws** – Tabled to August 30, 2017 Meeting

**Re: Adoption of Trustee Standards of Attendance** – Tabled to August 30, 2017 Meeting

**Re: Legal Report**

IRC Minimum Distribution Rules / Zimmermann Survivor Benefit

Ms. Billings-Dunn proved a copy of her July 6, 2017 legal opinion for the Trustees' information.

Retiree Compensation Package

Ms. Billings-Dunn read her opinion dated July 10, 2017 regarding Retiree Trustee compensation.

Mitchell EDRO

Ms. Billings-Dunn presented a copy of her correspondence regarding this Order for the Trustees' information.

Principal U.S. Property Account

Ms. Billings-Dunn presented and read excerpts of her opinion dated July 18, 2017 with regard to the Principal U.S. Property Account.

She stated that the Board of Trustees may qualify this investment under §16 and §19 of Public Act 314 and that she found no legal issues with the governing documents.

Trumbull Property Growth and Income Fund

Ms. Billings-Dunn reported that Trumbull agreed to the fiduciary standard, however, she has an issue with the requirements of an investment letter. She explained that Bank of America lends money to UBS through a line of credit. UBS funds their capital calls through Bank of America. If they want to fund an investment in the middle of the quarter they use the line of credit and will not call the capital until the beginning of the next quarter.

Bank of America is asking that the investor honor a capital call to fund the line of credit in the event of a default. The System would be committing the total capital call of \$5 million at one time.

Trustee Gaffney asked if the line of credit is charged interest.

Miss Munson asked if there is a copy of the letter.

Ms. Billings-Dunn indicated that she has not provided a copy of the letter because she is still negotiating it. One issue is whether the investor's investment is subordinate to Bank of America.

Mr. Lee explained that the GERS' \$5 million investment would be invested in the underlying fund, not just attributable to the line of credit. If there was a default, Bank of American can go back to the investors but the manager would still have the properties.

Trustee Bowman questioned what would happen if UBS defaults on the \$50 million loan.

Miss Munson added that another 2008 could occur.

Mr. Lee explained that if a 2008 event occurred, the manager would gate the properties and investments. It is likely that most investors would prefer to stay in the investment and not have their capital returned in that type of fire sale environment.

Ms. Billings-Dunn asked if the default occurred after the capital call would it affect the investment.

Trustee Nazarko asked why this was not discussed prior to or during the presentation because the Board may have picked another fund.

Miss Munson explained that other investments have lines of credit but not with this Investor Letter requirement from the lender.

Trustee Nazarko asked if only our investment could be affected or if it would affect all the investors.

Mr. Lee indicated that all investors would be affected based on the valuation of the properties.

Trustee Nazarko asked why Bank of America is being so particular.

Mr. Lee stated that most real estate managers have a line of credit. There would only be a situation if there was a bankruptcy. Bankruptcy would create a default on the line of credit.

Trustee Giddings stated that in order to secure a line of credit, collateral has to be established with Bank of America.

Ms. Billings-Dunn stated that this is why she is still negotiating the letter.

Trustee Nazarko questioned whether any of the other real estate managers require such a letter.

There was discussion among the Trustees with some questioning why this issue regarding the investment being subordinate to Bank of America was not disclosed.

Trustee Gaffney indicated that Ms. Billings-Dunn is trying to change the letter.

Ms. Billings-Dunn and Mr. Lee explained that the System is still part of the investment regardless of whether the investment goes toward the line of credit or directly into the real estate fund.

Trustee Gaffney confirmed that depending on when the capital is called the System is still part of the investment group and that does not change.

Ms. Billings-Dunn confirmed that the System would still be invested in the fund.

Chairman Moore asked if Ms. Billings-Dunn would recommend that the Board move forward with the contract now as long as the terms are changed or should the Trustees wait for the next meeting.

Trustee Gaffney felt that the Board should wait until next month's meeting based on the manager calling capital at the beginning of the quarter.

Trustee Giddings stated that he has no issues. It is a \$1 billion fund with other investors.

Trustee Bowman stated that he would like to see the letter. He has a lot of concerns that Bank of America is requiring this Letter.

Chairman Moore confirmed that the Board would like legal counsel to continue negotiating the contract. The issue will be referred to the finance committee to determine whether to move forward. There should be an update at the next finance committee meeting.

Millman DB Digest – Fiduciary Responsibilities: Wanted Dead or Alive

Ms. Billings-Dunn reported that this article is regarding fiduciary responsibilities and IRS age 70.5 distributions.

CalPERS's Shareholder Litigation Stops IAC/InterActiveCorp Attempt to Entrench Management Control with Multi-Class Stock Signature

Ms. Billings-Dunn reminded the Board that this is the derivative action where IAC wanted to issue non-voting shares. IAC conceded the case and non-voting shares will not be issued.

Robbins Geller June 2017 Portfolio Monitoring Report

Ms. Billings-Dunn reported 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 17-095** By Swazer, Supported by Gaffney

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

**Roll Call:**

Trustee Arndt – Yea

Chairman, Moore - Yea

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Trustee Bowman – Yea  
Trustee Gaffney - Yea  
Trustee Giddings – Yea

Trustee Nazarko - Yea  
Trustee Swazer - Yea

*The Board moved to closed session at 11:40 a.m.  
Ms. Berg, Ms. McNally, Mr. Lee and Ms. Watson left at 11:40 a.m.  
The Board returned from closed session at 11:46 a.m.*

**RESOLUTION 17-096** By Gaffney, Supported by Bowman  
Resolved, That the Board approve the closed session minutes for the June 21, 2017 meeting.

Yeas: 7 - Nays: 0

**RESOLUTION 17-097** By Swazer, Supported by Bowman  
Resolved, That the Board ratify the Chairman’s signature in the L-3 Communications Holdings Declaration

Yeas: 7 - Nays: 0

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**SCHEDULING OF NEXT MEETING**

Regular Meeting: Wednesday, August 30, 2017 @ 10:00 a.m. – Retirement Office

**RESOLUTION 17-098** By, Supported by  
Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees’ System be adjourned at 11:48 a.m.

Yeas: 7 – Nays: 0

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

*As recorded by Jane Arndt*