CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
MARCH 28, 2017

A special meeting of the Board of Trustees was held on Tuesday, March 28, 2017 at the Marriott Auburn Hills Pontiac Hotel on CenterPoint Parkway, Pontiac, Michigan. The meeting was called to order at 8:45 a.m.

TRUSTEES PRESENT
Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Nevrus Nazarko *(arrvd. @ 11:06 am)*
Billie Swazer
Patrice Waterman
Kevin Williams, Vice Chair

TRUSTEES ABSENT
Koné Bowman
Deirdre Waterman, Mayor

OTHERS PRESENT
David Lee, Dahab Associates *(arrvd. @ 9:03 am)*
Steven Roth, Dahab Associates
Cynthia Billings, Sullivan Ward
Deborah Munson, Interim Executive Director
Adan Galvan, Ativio Capital
Andrea Koch, Attucks Asset Mgmt.
Pat Silvestri, Attucks Asset Mgmt.
Cyril Theccanat, Consequent Capital Mgmt.
Jim Kelts, Incore Capital Mgmt.
Don Frank, Kennedy Capital
John Rackers, Kennedy Capital
Joseph Beauparlat, Loomis Sayles
David Cooke, Loomis Sayles
Peter Cahill, NorthPointe Capital
Mike Hayden, NorthPointe Capital
Janna Sampson, Oakbrook Investments
Anthony Brooks, Sawgrass Asset Mgmt.
Brian Monroe, Sawgrass Asset Mgmt.
Paul Seizert, Seizert Capital Partners
John VanGorder, Seizert Capital Partners
Robert Crosby, Victory Capital
Andrea Leistra, Victory Capital
Linda Watson, Retiree

The meeting was called to order at 8:49 a.m.

Dahab Associates – Performance Review
Mr. Roth provided a brief overview of the Fund's 2016 fourth quarter performance report.

He described the current economic condition of the country and globally noting that the 2017 outlook for GDP is 2% to 2.5%.

Total Fund value as of December 31, 2016 was 1.6% ranking in the 15th percentile outperforming 85% of its peers. One-year performance was 8.4% ranking in the 22nd percentile.

He explained that there were some discrepancies in the performance numbers for First Eagle regarding cash flow that has no material effect and does not affect their performance.

Mr. Roth referenced the page depicting the private equity quarterly performance summary. He noted that the drop in performance in 2011 was due to the write off of Onyx and Nexos by Gray & Company which was minor.

He referred back to the performance summary page reviewing the Fund's five-year performance of 10.1% ranking in the 7th percentile and the ten-year performance at 6.5% ranking in the 5th percentile.

The Fund's private equity performance for the quarter; one-year; three-year; five-year and ten-year periods were reviewed and measured versus the Cambridge Private Equity (Lag) benchmark was reviewed. He explained that private equity performance lags by one quarter.

Mr. Roth described the graphical depiction of the Fund's experience from 2008 through 2016. He noted the Fund's ability to achieve the 7.5% actuarial rate of return. The beginning and ending values for the fourth quarter of 2016 and the period December 2007 through December 2016 were reviewed. The beginning value for the fourth quarter of 2016 was $468.8 million with net contributions of -$9.4 million and investment returns of $7.3 million resulting in an ending value of $466.8 million. The beginning Fund value as of December 2007 was $487.8 million with net contributions of -$209.9 million and investment returns of $188.9 million resulting in an ending balance of $466.8 million.

He reviewed the System's current asset allocation versus the target allocations by asset class.

He also provided a report of the System's investments based on the parameters of Public Act 314 as of December 31, 2016 noting that the System is in compliance. Currently equity investments represent 70% of the System's portfolio with an allocation limit of 70%; real estate represents 0% and the basket clause represents 14.5% with an allocation limit of 20%. He also noted that not one equity investment represents more than 0.2% in the portfolio.

He noted that there were three managers out of compliance based on their allocation including fixed income managers Victory Capital (InCore) and Robinson Capital for the period ending December 31, 2016.

He assessed the manager performance summary including performance gross and net of fees and percentile ranking. He pointed out international equity manager WCM's negative performance for the quarter but referenced their three-year performance of 2.5% net of fees versus the benchmark at -1.6%.

The Attucks manager-of-manager portfolio has a number of underperforming managers which will be addressed.

David Lee arrived at 9:03 a.m.

Mr. Roth reviewed the top ten equity holdings report. It was noted that most of the large cap equity managers were investing in a number of the same securities.

He reviewed the top twenty fixed income holdings report and informed the Board that it is customary for the top holdings to be U.S. Treasuries.

Mr. Roth then provided an overview of the February 28, 2017 Fund performance. The total Fund value was $478.6 million. There has been a slight downturn in the market the reducing the current Fund value to approximately $475.6 million.

Economic Overview/Markets Roundtable

Chairman Moore welcomed the investment managers. He informed everyone that he and Trustee Patrice Waterman have a prior commitment and would need to leave early which is why we are moving forward ahead of schedule.

Mr. Lee provided suggestions for the discussion including the current economic markets; interest rates and the current situation regarding the Affordable Care Act and Congress's attempt to repeal and/or replace it.

Chairman Moore indicated that the election was a significant occurrence in 2016 and it appears that the country is still in election mode. He asked what affect the transition to the Trump presidency has had on the economy and markets.

Anthony Brooks of Sawgrass Asset Management responded that with Trump being considered pro-business - less regulations and taxes - certain sectors of the market have benefitted and the value of stocks is up. The election came with uncertainty. A number of stocks led performance after the election but are no longer outperforming. We are now seeing more volatility in the market with the market seeming to pull back.

Pete Cahill from NorthPointe Capital told the Board that Donald Trump is not a conservative, which seems like a setback and potentially nothing will get done in Congress. There is a chance that Trump will take on tax reform. Mr. Trump likes to build things which could help him move to the center and could create opportunities for the economy.

Janna Sampson from OakBrook Capital stated that the Republican Party does not know what they want. There was a feeling of hope and opportunity from the election which created the interest rate hikes. Many looked for strong economic markets but performance is around 7% year-to-date. With no change in the Affordable Care Act the market has seen a downturn. The biggest fear is that he will institute trade protection that would weaken the economy.

Cyril Theccanat from Consequent Capital indicated that there is an issue with interest rates and risk. He believes that the Fed could be looking to reset the yield curve which would result in further hikes to interest rates which could put us on a path to generate the type of growth seen in the past. You would not see the risk premium value dislocations in the past going forward.

Trustee Albritton stated that when Trump was running for President he ran on "America first". Trustee Albritton's question is 'why not Pontiac First'? He questioned whether it is feasible to invest in developments in Pontiac noting that a significant amount of pension income is spent in the City. He asked if the managers have ever considered helping bring Pontiac back.

Mr. Lee told the Board that the investment managers have a mandate and strategy to which they adhere. The investment managers were hired by the Board to adhere to that strategy. He explained that each manager has a specific mandate such as large-cap growth stocks and it would not be easy for these managers to support any particular local economy.

Brian Monroe from Sawgrass Asset Management stated that real estate could be an indirect way to invest. He noted that in the past his firm participated in the System's directed brokerage program. He told the Board that 29% of his firms' commission recapture program went to Michigan-based firms in 2015. He also indicated that the program was stopped in 2016 and his firm has received no further direction from the System. He stressed the importance of utilizing the directed brokerage program as a way to invest in minority and women-owned firms and in the local community.

Mr. Theccanat described a real estate program Consequent Capital is undertaking. There is not enough affordable housing in Atlanta and there are fourteen acres of land located near the stadium where the Atlanta Falcons play. They are partnering with the City of Atlanta to develop an affordable housing real estate venture. They are also looking at the same types of ventures in other parts of the country including Los Angeles.

Patrick Silvestri from Attucks Asset Management indicated that some of their clients in Wisconsin, Michigan and Chicago grapple with the same issue of trying to reinvest in their local communities. He mentioned creating regional real estate portfolios that could be included in the managers' portfolios.

Mr. Lee questioned the managers of whether it to discuss active versus passive management and each strengths and weaknesses in light of how strong the indices have performed.

Ms. Sampson told the Board that OakBrook straddles between active and passive management with their strategy hugging the benchmark. There is no way to have a market that functions correctly without active managers. They help keep the market healthy and functioning. She stated that we are in the last stages of a long bull market. With respect to active versus passive in the long-term, when the market turns there will be a move toward active management. Investors will be buying value and there will be a flight back to safety. The recent negative market returns are the longest stretch on the Dow since 2012. It's time to takes some bets on the market which should provide some value.

Mr. Brooks explained his thoughts on active versus passive management. He discussed what the Fed has done during the bull market by interjecting capital into the market and keeping interest rates low. When the Fed increases rates the markets will be driven by corporate earnings versus Fed intervention. It has been difficult for managers - with stocks being so highly correlated - due to the Fed interference. It is time for the market to get back to normal mode. The index contains a lot of active shares with managers providing more returns and adding value.

Robert Crosby of Victory Capital indicated that the Fed drove the market with policy which caused a few stocks to outperform. There are more opportunities but the stocks have poor fundamentals. Stocks with good earnings and cash flow are not being rewarded. He believes that this environment will create opportunities.

Mr. Lee asked if it is more advantageous for active versus passive management. He noted that buying index funds is a cheap method of buying all stocks. The presumed advantage active managers have is that they can buy stocks cheaper and outperform and protect on the downside.

Mr. Silvestri stated that Attucks is looking forward with regard to healthcare and the government. The S&P is experiencing its longest losing streak since 1978 but is still up 10%. They believe that government interaction will impact the market.

Trustee Patrice Waterman requested that the other managers participate in the discussion. She noted that not all of the managers were participating and she would like to hear their views on these topics.

John Rackers from Kennedy Capital told the Board that small-cap managers have seen a lot of down days in the market. They do not have concerns for the near-term markets. Their one-year performance beat the benchmark. They are not overthinking on how to position the portfolio or tilting their portfolio by being reactive to the economy in the short-term. They are looking at what companies and sectors to invest in over the next three to four years versus six months. They are looking to create outperformance.

David Cooke from Loomis Sayles indicated that the markets will adjust whether it's about healthcare or Donald Trump. The market brushed of the delay in healthcare reform and has been more optimistic. Earnings should be better. The price-to-earnings has increased but there has been so-so earnings growth. With regard to active versus passive management, managers work better in a market based on free cash flow and earnings criteria. He would not suggest moving to 20% cash which would cause underperformance with regard to the market.

He described how the market can go down for any number of reasons using various examples including the report that Ronald Reagan had a heart attack. Managers use these market events for 'buy' opportunities and stick with what makes sense. David Sowerby has always said that when the market goes down you have to look for opportunities.

Ms. Sampson stated that she feels this administration will add volatility to the market.

Meeting break at 10:04 a.m.
Meeting resumed at 10:08 a.m.

Sawgrass Asset Management – Large Cap Growth
Brian Monroe, Principal, Director of Marketing & Client Service
Anthony Brooks, Equity Portfolio Analyst

Mr. Monroe introduced himself and Mr. Brooks. He noted that he is a partner and co-founder of the firm.

He confirmed they are in compliance with the System's Investment Policy Statement and Trustee Disclosure Statement. He noted they have not been directed by the Board with regard to the commission recapture program.

He provided an overview of the firm. Sawgrass is an employee-owned firm. Mr. Brooks have been with the firm for five years. Their investment team has been together for twenty years. There have been no departures from the equity team since inception. He told the Board that 60% of their clients are public funds.

Sawgrass looks for outperformance with less risk. He said that they protect in times of market volatility: they loses less performance in a down market which is a good recipe for success.

Mr. Brooks told the Board that he works with the nerds at the firm.

He stated that in the growth universe, you take on too much risk if you look for stocks with outstanding returns. Risk is often mispriced in the market. They look for stocks with consistent growth profiles. Stocks with less of a bumpy ride outperform over the full market cycle. When you look to buy low and sell high you are not punished as much in growth cycles and the stocks have not been overpriced.

He provided a recap of 2016 and a portfolio review. 2016 began with a 12% sell-off in the market in January. That was followed by a sharp rally in June and volatility later in the month due to Brexit. Then, there was the market sell-off of 3% going into Election Day and a surprise in the post-election market with a rise of almost 7%.

Mr. Brooks stated that Sawgrass did not own Amazon and Facebook which were large decliners and that helped their performance. Their financial stock selections also did well. What hurt their performance was their underweight to industrials which did not have enough cyclical exposure. Their exposure to CVS also hurt their performance.

Their beginning market value in 2016 was $38.9 million with cash withdrawals of $4 million and investment gains of $2.0 million with an ending market value of $37.0 million. This resulted in an investment gain of 6.5 % in 2016 versus the benchmark of 7.1%. Their performance for her fourth quarter of 2016 was 1.5% versus the benchmark at 1.0%.

The market took a dramatic rebound after Brexit which kept them from outperforming the benchmark for the year. They did participate on the upside.

Mr. Brooks reviewed their equity peer rankings. He noted that there has been no full market cycle with eight years of a bull market. He reported their gross returns of 13.96% ranked in the 48th percentile; Sharpe ratio of 1.43% ranked in the 5th percentile; alpha of 1.53% ranked in the 7th percentile; standard deviation of 9.67% ranked in the 98th percentile and down market capture of 83.01% ranked in the 96th percentile.

Their portfolio is doing what it is designed to do with lower volatility and downside market capture. Overall their portfolio characteristics will allow them to outperform.

Mr. Brooks described how Sawgrass has provided consistent results across various market cycles. In negative markets they outperformed four out of four times. In positive markets they outperformed six out of eight times. In strong performance markets they lagged outperforming one out of seven times. It markets performing over 15% the market was not speculative.

He explained how their top ten holdings and bottom ten holdings contributed to their returns. He denoted that since 2007 to 2008 they have not seen this many bottom ten stocks torpedo in their portfolio.

He referred to a chart which showed the massive market rally since March 2009 to date. They have performed well but this is not your typical market. They do not believe that the current bull market can continue.

Mr. Lee explained Exchanged Traded Funds (ETF's) to the Board.

Mr. Brooks said that the market is overvalued and cannot support the continued valuations. They believe there will be a market pullback and the introduction of volatility. He also noted that cash levels in the market are at a historical low.

Mr. Lee noted that the manager's ten-year returns are under-performing. He asked why what makes Sawgrass' current active investment strategy good.

Mr. Monroe stated that in June their portfolio was outperforming based on the one-year; three-year and five-year returns. Then Brexit occurred and the portfolio underperformed during the third quarter which affected the overall returns.

Their firm was hired in 2007 just before the market downturn. He stated that 2009 and 2010 were their two worst years. They have had some of their best relative performance from 2011 through 2015. In 2016 returns were level with the market.

Trustee Patrice Waterman questioned Mr. Brooks' comments regarding Kroger and CVS.

Mr. Brooks stated that Kroger has had a good performance track record and after one bad quarter the market sold off. CVS has suffered from their pharmacy benefit management business. Many believe drug prices are too high. Sawgrass believes in market fundamentals which are not being appreciated in the market at this time.

Trustee Patrice Waterman also asked why these stocks affected the third quarter performance.

Mr. Brooks stated that their stocks do not move in volatile markets.

Vice-Chair Williams asked about their allocation to Walgreens and why it was not affected like CVS.

Mr. Brooks responded that Walgreens has done well since they bought Rite Aid.

Trustees Moore and P. Waterman left at 10:28 a.m.

Trustee Albritton questioned why the manager did not provide their one-year; three-year; five-year; seven-year and ten-year performance returns.

Mr. Lee and Mr. Roth indicated that those returns are included in the manager summary handout that Dahab provided.

NorthPointe Capital – Large Cap Value (Michigan Centric)
Peter Cahill, CFA, CIO, Founding Partner
Mike Hayden, CEO, Founding Partner

Mr. Hayden told the Board that they created a charity to raise money for charity. They are keeping 80% of the money in Michigan. He indicated that they could include Pontiac charities in their giving.

He commented on active versus passive management. Their large cap strategy has been in place since 2000. Overall, by definition, passive wins based on a zero sum game; transaction costs and fees. Their goal is to build an all-weather portfolio that can respond to up and down markets. Trying to setup a portfolio to outperform is a challenge.

They were hired in May 2009. He stated that 2016 was a challenging year. Their performance was 12.79% versus the benchmark of 17.34%. They have consistently outperformed the benchmark over the three-year; five-year and since inception periods. The path of investing is to adhere to your discipline. They had a soft patch in 2009 through 2010. They realized out performance from 2011 through 2015. They are a very disciplined large-cap value manager.

He described the application of their investment process. The only path to sustain outperformance is the price you pay for stocks. You cannot just look at cheap. The quality of the company is important. You have to look for company momentum that is less expensive than the benchmark and which is selling at a discount to its value. They look for embedded alpha in the portfolio. They win with stock selection. You have to have a widely diversified portfolio with the best stocks.

He reviewed their performance attribution. During 2016 their stock selection in the portfolio contributed -3.81% and the active contribution was -3.92%. They outperformed based on their stock picks.

Mr. Lee explained sector selection versus stock selection.

Mr. Cahill noted that 2016 was a historically bad year for stock selection. The first quarter saw the worst five days in market history with the thought that the world was going into recession. They are following their discipline and added more financial holdings. During the second quarter oil and energy positions contributed 700 basis points of performance. They were not positioned in these companies to take advantage of the returns.

Leading up to the election there was a lot of volatility based on irrationality. The market was down eight straight days before the election and after the election the market outperformed through the end of the year.

Three years ago they made the decision to launch a large cap mutual fund. He told the Board that 100% of his retirement is invested in this fund. He expressed that they value the relationship with the System.

Vice-Chair Williams asked why their stock and sector selections are not displayed.

Mr. Cahill indicated that a large portion of the portfolio is allocated to larger financial names. Based on the anticipated changes to healthcare and taxes, they rebalanced their mega-cap names.

Mr. Lee asked about their allocation to Berkshire Hathaway.

Mr. Cahill indicated that they own the stock because it is a company that is selling cheaper than it is worth.

Miss Munson asked why there wasn't a difference between NorthPointe's gross and net of fees performance in the performance book.

Mr. Roth stated that there was not a big enough difference between the two to move the number.

Trustee Nazarko arrived at 11:06 a.m.

Seizert Capital Partners – Large Cap Value (Michigan Centric)
Paul Seizert, Product Specialist
John VanGorder, Marketing & Client Services Manager

John VanGorder thanked the Board for the eight year client relationship.

He provided an overview of their portfolio as of December 31, 2016 net of fees. The beginning value since inception was $6.2 million with $2.6 million in net withdrawals; $5.4 million in net gains; unrealized gains of $4.1 million and income received of $1.9 million resulting in an ending value of $15.0 million.

Paul Seizert explained their stocks and strategy and how they think. They are a bottom up value oriented equity manager. They look to be different than the benchmark and concentrate on names using a blend of quantitative and qualitative strategies. They look at three things: high quality, high profitability and lower debt levels. This includes companies with good balance sheets and great management teams that are undervalued: companies with the right stock prices and value. The third momentum is companies that are undervalued versus their intrinsic value.

As of March 27, 2017 the portfolio value was $15.5 million. The portfolio has grown because there have not been any withdrawals. The portfolio is fully invested with 5% in cash. They look at cash as transitional.

The portfolio performance looks positive with performance of 7.36% net of fees versus the benchmark at 6.68%. They have exceeded the benchmark five of the eight years during the relationship. Their strategy has low turnover levels. Their one- three- and five-year outperformance occurred in momentum markets. In 2015 their turnover was 20% which is low.

Mr. Seizert explained their quarterly portfolio attribution. They look at a quarter as a trading point. They outperformed in financials and underperformed in healthcare. Politics drove prices and pharmaceutical valuations brought down the sector.

The portfolio attribution for trailing one-year returns saw information technology names providing outperformance and the worst performers were healthcare names.

Mr. Lee asked if the Affordable Care Act (ACA) issue added to the underperformance in healthcare.

Mr. Seizert indicated that it was the pricing structure in pharmaceuticals that hurt Teva's profitability not the potential repeal of the ACA.

He also noted that they are bottom up investors and do not develop their portfolio with a macro view. He explained that with financials they use three scenarios including an optimistic scenario with rising interest rates. They do not use a trade or macro view. They use a method developed by Philip Tetlock called 'super forecasting' which uses developed biases. They do not make forecasts.

He reviewed their equity portfolio characteristics and explained their sector weightings and how they look for risk-adjusted returns. They look for lower debt-to-capital ratios. They also look for profitability based on return-on-earnings and return-on-capital.

Mr. Roth confirmed that they use a bottom up approach by picking stocks individually with no macro trends ahead of the market.

Mr. Seizert stated that the valuations are extended. They look at pockets of opportunities and expectations since election policies will need to be enacted. They will look at expectations that meet with reality. They are looking at volatility. As an equity manager, they look to over- and underweight where their stocks will do better in the market. Their recent turnover was 37%. They rotated out of names that were overvalued and overpriced compared to their target.

Mr. Lee confirmed that they do not use a specific target.

Mr. Seizert indicated they use individual analysis including three scenarios: a pessimistic scenario; a biased case scenario and an optimistic scenario. If there is market expansion, they generate three pricing scenarios. If the cost exceeds the optimistic scenario they will let it run but may trim the holdings.

He thanked the Board and expressed the firm's appreciation for the relationship.

Oakbrook Investments – Large Cap Core (Emerging Manager)
Janna Sampson, CFA, Co-Chief Investment Officer & Managing Member

Ms. Sampson told the Board that she is the founder and CIO of Oakbrook Investments. They currently have $1.6 billion in assets under management. They use a quantitative model for their large and mid-cap strategies.

They are in compliance with all the System's policies and there are no conflicts. They believe in women- and minority-owned firms.

They recently replaced a research analyst at the firm with Tolga Guger who came from Northern Trust. Mr. Guger graduated from DePaul University and has earned the CFA designation.

They straddle the active/passive management line and weight according to the benchmark. They monitor portfolio reaction to the markets. They believe that you cannot make money before you get the information from the next guy.

Managers do not all use the information the same way. Their model looks at difference of opinion using a range of opinions and size of range changes. The stock market is an auction market. It is not an average of what the stock is worth it is about the buying and the selling price. If the fluctuation of a range of opinions is really wide, the market will go back to normal or it will narrow with the opposite effect.

Oakbrook updates their model four times per year focusing on quarterly earnings. Return momentum focuses on the earning cycle. Underperformance usually comes early in the quarterly cycle. Momentum works best in the second half of the quarter. They continue to watch trends but are still firmly anchored to the quarter.

They just started to use momentum five to six business days before the second half of the quarter to get in before the earnings cycle starts.

Mr. Lee asked if they are always looking for the cheapest price possible.

Ms. Sampson indicated that the stock market is a complicated auction market. Buying today assumes that the stock has some place to go. But there is always someone out there shorting. There are still people who have the highest expectation that will buy today. The range fluctuates daily. Earnings rest on a quarterly cycle.

Anyone can buy stocks using a historical basis. The active versus quantitative model is based on history. They use an absolute set of risk controls that are plus or minus risk control of 75 basis points. They do not invest in utilities. They have to allow a variance or they will have gone back to a passive strategy.

Ms. Sampson stated that 2016 was a disappointment: their outperformance was not as strong as they would have liked. Long-term they have outperformed. They trailed the benchmark late in the year due to the Trump effect.

Dramatic Fed expectations in mid-February changed which stocks were favored. The first part of the year was quiet and there was a non-volatile market focus on fundamentals controlled by style bias. You do not add as much value in a style market. When opinions change on a company it helps their model.

Oakbrook is always trying to refine their model. Their model was overweight to cyclically sensitive stocks including financials, tech and materials. She reviewed the structure of their portfolio. She noted that they could make changes to the structure based on proposed legislative changes including tax reform and interest rate changes. Consumer staples had a good run in their fund prior to the election. They have reduced their weighting and it is now the most underweighted sector in their portfolio.

She thanked the Board for allowing their firm to manage assets on behalf of the System. They understand that there are people behind the assets of the Fund. She stated that based on their conservative risk control strategy they can provide diversification compared to the other managers.

Ativio Capital – Large Cap Core (Emerging Manager)
Adan Galvan, Principal, Senior Portfolio Manager

Mr. Galvan told the Board that he is the co-portfolio manager and has been promoted to oversee all domestic strategies at Ativo.

The year-to-date starting market value as of December 31, 2015 was $14.6 million. There have been redemptions or withdrawals of $2.3 million resulting in a market value as of February 28, 2017 of $13.6 million.

He provided an overview of their U.S. large cap core equity product. They seek to outperform by 200 to 300 basis points. They measure their performance against the S&P 500 and Russell 100 indexes. If your position is similar to the benchmark the client should move to an index fund. Their investable universe has approximately 750 stocks. Their active shares in the portfolio are from 85% to 95%. Tracking error is the measure of volatility noted as 3% to 6%. The portfolio is closer to 3%. Their annual turnover is 65% to 85% which shows how different they are from the benchmark. The minimum number of holdings in the portfolio is thirty and their currently hold thirty-nine.

He explained that 2016 was a difficult year. The one-month performance in February 2017 was 3.45% net of fees versus the benchmark at 3.97%. Their one-year performance net of fees is 17.71% versus 24.98% and since inception 13.37% versus 14.72% and year-to-date performance is up 0.52%.

Mr. Galvan explained the causes of underperformance and stated that they have made some changes. He reviewed their performance for 2013 net of fees at 31.37% versus the benchmark at 32.39%; in 2014 7.96% versus 13.69% and 2016 at 5.24% versus 11.96%.

In 2016 macro events drove the market more than company fundamentals. Brexit proved to be an overreaction. The U.S. election provided confidence in the market with the expectation of deregulation and tax reductions. The election favored value stocks and the portfolio was caught in a bad position. Ativo tries to stay disciplined and true to their strategy.

Since 2008 growth stocks have outperformed value stocks. Their model pushed them to more of a growth bias.

Value became the driver of the market and outperformed growth by 6%. In value stocks financials drive the market along with Trump's agenda with regard to taxes and deregulations and increased interest rates. Their portfolio was not positioned that way.

Ativo has made some changes to their active exposure in the portfolio to reduce volatility. The biggest changes were in financials where Ativo was underweight to banks. They had no banks in their model. They looked for names using their risk management model and added Wells Fargo and U.S. Bank.

Mr. Lee asked if their model determined they should add banks and whether the outlook of their model allowed them to add banks.

Mr. Galvan stated that the model looked at these banks and determined they would add outperformance and reduce volatility in the portfolio. They do not look to underperform with one type of stock or outperform with another. The model is not trying to forecast which group of stocks will outperform.

He told the Board that there was a question regarding the Trump effect earlier and he noted the effect to the central banks and risk management.

Kennedy Capital Management – Small Cap Fundamental Growth
Don Frank, Director of Client Service
John Rackers, Portfolio Manager

Mr. Frank thanked the Board for the long-standing relationship since 1993. They currently manage two different strategies for the System, small-cap core and small-cap growth. John Rackers heads up the growth strategy team. The firm currently has $6 billion in assets under management with a small cap focus. They strive to deliver the best performance and have an alignment of interests with their clients. Their concern is the capacity constrained part of the market where it is difficult to make money.

Mr. Rackers reviewed passive versus their active management for the past ten years. They have added value versus the benchmark over that period.

He provided an overview of their investment team including team experience.

Their philosophy is that it is important to keep the recursive business model going. Operating cash-flow returns of a business provide a useful measure of corporate performance. Reinvesting cash-flow into high-return projects creates a powerful compounding effect which creates value for shareholders overtime.

He explained their philosophical approach including early growth; growth; peaking growth; fading growth; mature and restructure. It is important to have a lot of new business growth in the life cycle. He explained growth versus sustainable growth using healthcare as an example. They believe that if a company isn't growing its dying.

He reviewed their annual attribution rankings by sector noting their best and worst performers. He stated that you do not need a specific sector to outperform. Having diversity in the portfolio allows sectors to perform.

He described their sector weights as of December 31, 2016 and their top ten holdings. They did not have any big bets on stocks with allocations from 1% to 2%.

Trustee Giddings asked about their zero weighting to telecom and utilities.

Mr. Rackers indicated that the weightings to telecom and utilities were by choice. They have one fulltime person on their team that manages energy.

He reviewed their annualized returns and time-weighted performance since December 31, 2016. Since inception they have returned 11.5% net of fees versus the benchmark at 9.7% and one-year returns of 13.3% versus 11.3%. After the election there was some volatility and underperformance in the portfolio. They made some life cycle changes to the model.

Trustee Nazarko asked about the core product's underperformance to the benchmark and whether they will be recalculating.

Mr. Rackers stated that financials had a large impact on the underperformance in the core portfolio.

Mr. Frank stated that financials and their stock picks in industrials hurt the core performance. They will be looking at the positioning in their portfolio.

Loomis Sayles – Small Cap Value
David Cooke, CFA, CFP, V.P., Product Manager

Mr. Cooke thanked for Board for the twenty-three year relationship with their firm.

He provided an overview of the investment team headed up by Joe Gatz and Jeffrey Schwartz. They have five analysts. He told the Board that he has been with the firm since the 1980's.

He reviewed the trailing returns since inception. The last two years they matched the market. The fourth quarter 2016 market was sloppy with excess returns of -2.13%. Their performance was good until four days after the election when they lost 200 basis points. With Trump's 'U.S. First' speech promising lower taxes small-cap was a beneficiary of a massive amount of money being moved into the small-cap index. Regardless of the fundamentals people wanted exposure. Their performance since inception is up 230 basis points over the index.

Mr. Cooke described the recent factors that have prevented them from generating the returns the System has been accustomed to. In 2016, their performance in small-cap was strong but did not meet the returns of the index.

There was a distinct chase for yield with high performing REITs and utilities leading the equity market. However, those sectors and industries do not traditionally present many opportunities in their strategy so they were underweight to those sectors.

He also indicated that the markets rallied during a risk-on rotation in the market which favored early cyclical sectors. There was also a sharp recovery in growth sectors which included technology and healthcare. The risk-on nature of the third quarter also saw the market's leading performers being those stocks with the less profitability or no profitability. The stocks that did best in the third quarter would not be ones they would buy based on their low quality. This was a mismatch of their investment style. It is difficult to explain why you had a bad year when you had performance returns of 27%.

He explained that big picture macro items like mergers, spin-offs, etc. have a tendency to drive the market and are highly correlated in nature. This is what they refer to as special situations. They do look for these special situations like C&J Energies which was coming out of bankruptcy. He told the Board that fracking requires lots of sand. They invested in U.S. Silica last year and their prices are up 225%. The hardest part is getting the sand to the fracking site.

He indicated that it is tough when you are underperforming the market. You have to stay with what you're doing and look for good stocks to pick. It is hard to guess where everything is going. You have to look for a catalyst of growth.

Trustee Albritton asked if they look at the management team when deciding what companies they make investments in.

Mr. Cooke stated that they do look at the management team which is a very important factor.

Trustee Albritton also asked how what makes a good management team.

Mr. Cooke gave the example of the Ford Motor Company management team with regard to the automotive bailouts in 2008. The Ford management team had realigned the business so they did not require bailout money like General Motors and Chrysler. He told the Board that they do seven hundred site visits per year. He also noted that free cash flow is an important factor

As long-term investors it is important to be patient. In a market where interest rates are low and there is no recession these bad companies stay in business. The last eight years we have seen a faux economic recovery. They feel that active management will come back next year with returns of 1.2% over the benchmark.

Munder Capital – Mid Cap Growth
Robert Crosby, Senior Portfolio Manager
Andrea Leistra, Director, Institutional Markets

Ms. Leistra thanked the Board for the long-standing relationship with their firm. She told the Board that the mid-cap strategy retained the name Munder Capital and the fixed income strategy took on the name Incore Capital Management. She explained that the 'IN" in in the name stands for independent; the 'CO" stands for comprehensive and the "RE" stands for repeatable. There have been no major changes in the firm.

Mr. Crosby provided an overview of the market value of the investment. As of December 31, 2016 the market value of the investment was $35.9 million. As of February 28, 2017 the market value was $38.5 million. The System is fully invested in the portfolio. They do not try to time the market.

Over the past twelve months the market has been the tale of two markets. Their performance was consistent and reliable through 2015. Market forces and near zero interest rate policies have made stocks move outside of their fundamentals.

He reviewed the equity characteristics of the portfolio. The portfolio is well diversified with no large over- or underweights. They want outperformance to come from stock selection which is more likely to repeat and minimize other biases. Their average weight in the mid-cap portfolio is close to the benchmark. They are not taking any big sector bets.

It helps their performance to not try to time the sectors. Financials were the worst performing sector until the election when they increased by 47%. Energy was down in late 2015 and went up in early 2016 by 43%. They have seen some attractive earnings growth.

He reviewed the annualized compounded rates of return gross of fees breaking five-year returns into two periods. Since inception returns are 11.51% versus the Russell Midcap Growth Index of 6.97%. The ten-year performance was 8.24% versus 7.83%. Annualized total returns from January 1, 2012 through June 30, 2015 were 19.51% versus the benchmark at 18.89%. Total returns from July 1, 2015 through December 31, 2016 were -0.58% versus 1.87%. They would have outperformed the benchmark in 2015 but dividend-earning stocks drove the market. Since the beginning of the year that performance has returned.

He referred to their history of consistency which measured the percentage of rolling periods their strategy has outperformed the benchmark gross of fees. They measure the performance versus the Russell Midcap Index and the Russell Midcap Growth Index. Since inception the number of rolling three-year periods from January, 1999 through December 2016 they outperformed the benchmark was 181 times; five-year periods was 157 times and ten-year periods 97 times.

Incore Capital Management – Core Fixed Income
James R. Kelts, CFA, Senior Portfolio Manager
Andrea Leistra, Director Institutional Markets

Mr. Kelts told the Board that the same team has managed the System's fixed income portfolio for the past twenty years. Incore is an independent investment team from Victory Capital led by CIO, Ed Goard. They use the Victory Capital emblem and back office to have more access to distribution, operational and technology platforms. They have three principles: independent, consistent and repeatable. Their top-down and bottom-up approach has helped them outperform their peers on a risk-adjusted basis.

He provided a review of their investment philosophy. Their proprietary sector allocation model is top-down and looks for where the market is in the cycle which helps them allocate appropriately. Their independent proprietary credit model uses a bottom-up approach and quantitative model to look at performance in the later cycles. Their proprietary duration-curve model is a more defensive quantitative model that looks at duration and curve positioning.

A lot of things that have traditionally worked to produce performance are not working. They are looking to put duration back into the portfolio.

They are currently overweight to BBB-rated bonds at 25.7% but underweighted compared to most of their peers. This is as low as they will go in quality in the portfolio. He reviewed the sector weights with the majority of the weightings in treasury; mortgage and industrials. He talked about the effect of quantitative easing and - in order to lower risk in the portfolio - they would reduce their allocation to Commercial Mortgage Backed Securities (CMBS) currently at 5.4%.

Their annualized five-year returns were 60 basis points higher than the benchmark at 2.83% versus 2.23%. He stated that 2015 was a disappointing year. Their outperformance in 2011 through 2014 was paid back in 2015 especially in the corporate bond space. It was a surprise that they were up 20 basis points at 3.13%. They have not been able to take lower bets in this portfolio. They are starting to catch up.

Mr. Lee asked Mr. Kelts what keeps him up at night.

Mr. Kelts indicated that one thing is President Trump's administrative policies, his presidency and its uncertainty and interest rate increases. There have been some issues in the energy market.

The Fed does not keep him up. There is no normalization. Rates had to go up. The global economy with Japan and China coming into the U.S. with waves of money takes care of some of the inflation.

Board/Dahab Associates GrayCo Alternatives Discussion

There was Board discussion regarding the recent acquisition of GrayCo Alternatives by Consequent Capital Management.

Ms. Billings-Dunn reviewed her correspondence with regard to the acquisition. She also provided an overview of her conversations with Larry Gray.

There was further discussion regarding Consequent Capital using the key person clause and the request to reinstate the Commitment Period.

Consequent Capital Management – Private Equity

Cyril Theccanat, CIO

Mr. Theccanat introduced himself to the Board. He reported that Consequent has acquired Gray & Company and all their assets as of February 1, 2017. They currently have approximately $4 billion in assets under advisement.

He told the Board that Consequent means to logically follow or that which follows another.

He explained who they are and their core beliefs. They are a Registered Investment Advisor; a multi-strategy investment management firm and a full-service investment consulting firm. Their investors include public and private pension funds; endowments for foundations and universities and large family offices. They are a minority-owned firm.

Their core belief is that there is untapped value in overlooked managers and strategies. And, those with the ability can discover and nurture uncapped opportunities.

He told the Board that he feels the investment managers overlooked their ability to invest locally by using real estate and where the opportunities can be found.

Mr. Lee asked if Consequent has raised any funds.

Mr. Theccanat indicated that they are in the process of raising funds.

He indicated that they are currently managing $1.3 billion in investments. This includes $100 million in alternatives and the combination of out-sourced CIO for small and undersized plans.

He provided an overview of their investment philosophy. He noted that they use a specific methodical application of their vetting process. They also believe that diversity is a source of their strength.

They are in the process of closing a large real estate project in Atlanta with one of the larger banks in the country. This type of investment could have a material benefit in cities like Detroit and Los Angeles.

They have beefed up their efforts on the investment management side. They place a lot of value on their risk controls.

He reviewed the members of the investment team which include himself and Earl Robinson.

Miss Munson asked how many employees are in the firm and asked when Consequent was founded.

Mr. Theccanat responded that there are currently fifteen employees and that the firm was founded in 2016.

Trustee Giddings asked if Marc Hardy, Larry Gray and Bob Hubbard are employees of the firm.

Mr. Theccanat indicated that Marc Hardy, Larry Gray and Bob Hubbard are not employees of the firm. Larry Gray and Bob Hubbard are advisors and consultants to the CEO Earl Robinson.

Trustee Albritton asked what does Consequent do to help invest in cities.

Mr. Theccanat stated that based on the experience Earl Robinson has had in real estate developments they are working to help people find affordable housing in Atlanta. There is a fourteen to fifteen acre development near where the Atlanta Falcons play football that is being developed. The development will include housing, retail and recreation.

Mr. Lee asked about the fund's performance.

Mr. Theccanat indicated that the fund have performed well. He told the Board that the investment in Third Point was redeemed last year.

Mr. Ross asked if there are any pending commitments to Southeastern Global Partners.

Mr. Theccanat indicated that there is $3 million in committed capital that has not been called. He also stated that Duff & Phelps will be performing a valuation on the investments in SEG.

SEG made a $1 million investment in Ebony where they have close visibility because Earl Robinson serves on the Board. Ebony has reduced its operating costs. They recently published a special edition on Barack Obama which cost $100,000.00 to produce and had proceeds of $900,000.00. Ebony is owned by the SEG Group with 25% of the company owned by other outside investors.

Miss Munson asked about the timeframe for the valuation.

Mr. Theccanat indicated they expect the valuation to be completed within three to four months.

Mr. Roth confirmed that there are currently five portfolio investments in SEG and asked whether there are other investments in the fund.

Mr. Theccanat indicated that there is a staffing firm and a motor coach company. He also noted that the System has contributed $5.25 million of the $6 million commitment. He noted that the investment is currently valued at $6.87 million.

Mr. Lee asked whether there was any information available on the underlying investments in the private equity portfolio.

<u>Dahab Wrap-up</u>

Mr. Lee asked whether the Board had any questions or suggestions to the format of the meeting.

There was also discussion regarding the Consequent Capital presentation.

The meeting adjourned at 3:45 p.m.