CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
NOVEMBER 15, 2018

A special meeting of the Board of Trustees was held on Thursday, November 15, 2018 at the Retirement Office at 2201 Auburn Road, Suite B, Auburn Hills, MI 48326. The meeting was called to order at 10:00 a.m.

TRUSTEES PRESENT
Sheldon Albritton
Janice Gaffney
Robert Giddings
Billie Swazer
James Walker
Deirdre Waterman, Mayor
Patrice Waterman, City Council *(acting Chairman)*
Kevin Williams, Vice Chair

TRUSTEES ABSENT
Jane Arndt
Walter Moore, Chairman

OTHERS PRESENT
Cynthia Billings-Dunn, Esq. - Sullivan Ward, Asher & Patton, PC
David Lee, CFA - Dahab Associates
Deborah Munson, Executive Director
Kristy Neumann, Executive Assistant
Jason Jarjosa - Bloomfield Capital
Renee Lewis – Bloomfield Capital
Mike Lucci - Bloomfield Capital
James Lange - Principal Real Estate Investors
Travis Shelton - Principal Real Estate Investors
Jenna Gerstenlauer - Sound Mark Partners
Parul Narain - Sound Mark Partners
Eric Cannon - American Realty
Todd Fowler - American Realty
Michael Haggerty - TA Realty LLC
Thomas Landry - TA Realty LLC
Stephen Hagenbuckle - TerraCap Management
Patrick Melton -TerraCap Management

VALUE-ADD & DEBT REAL ESTATE OVERVIEW

Mr. Lee provided an overview of each the six Funds whose managers are here to present to the Board.

BLOOMFIELD CAPITAL – Debt Real Estate Fund

Jason Jarjosa introduced himself, Renee Lewis and Mike Lucci to the Board. Founded in 2008, Bloomfield has investments totaling $680 Million within 28 states. Offices are located in Chicago, Denver, Portland and New York. Bloomfield's strategy focus is primarily on equity rich smaller loans of under $5 Million dollars, often with real world properties that serve the community, which larger firms overlook, providing the ability to seek higher returns in a less competitive market. The firm believes that investing in a lot of smaller investments helps mitigate risk, especially during a down turn. Due to unpredictability and uncertainty of trying to forecast out five (5) years, they remain transparent and proactive consistently evaluating the investments and reallocating investments which results in short-term investments averaging about 18 months.

Using a broad network, the firm stringently evaluates between 250-300 funding opportunities. After preliminary analysis, 20 – 30 opportunities are selected for further review with counsel, third-party service providers, finance and compliance vetting each one for risks, structure and market value. They close on 1-2 deals.

Mr. Jarjosa reviewed examples of Fund I, II, III and IV stating that all have had a net unleveraged IRR averaging 9-10% with the most recent Fund IV at 13.8% since inception. Mr. Jarjosa reviewed a real estate investment profile. In May 2017, Bloomfield Capital provided $5.9 million for the refinancing of a medical office building located in New Jersey. The investment was paid off in December 2017 resulting in a gross IRR in excess of 20%.

In closing their presentation, Mr. Jarjosa reviewed the summary of principal fund terms. As the contraction of small bank lending continues, Bloomfield's objective is to generate predictable returns by pursuing short-term debt opportunities in commercial real estate diversified by property type and geography, business credit, private credit and specialty finance. Investor returns are targeted at 7.5% and paid net of the 1.5% management fee and the 1% asset-level servicing fee. Fund-level leverage is limited to 25% and leveraged common equity is 0% of fund investments. The investment period is 36 months from first closing with an opt-out available after the first 24 months.

Trustee Albritton asked what happens when the investment or market goes bad.

Mr. Jarjosa responded that diversification and a short-term approach minimizes risk and that out of 140 investors and 340 loans, only 5 have been taken back.

PRINCIPAL REAL ESTATE INVESTORS – Debt Real Estate

James Lange and Travis Shelton introduced themselves and their firm to the Board.
Principal Real Estate headquarters is in Des Moines, Iowa. Principal has investments totaling over $447 Billion dollars spanning over 75 countries; $192.6 Billion in Fixed Income, $172.4 Billion in Equity, $74.5 Billion dollars in Real Estate and $7.2 Billion in Alternatives. Principal Real Estate manages assets across 9 countries and became an SEC Registered Investment Advisor in 1999.
The Principal Real Estate debt fund strategy focuses on 3 different product types - Subordinate Debt/Mezzanine Loans (60-70% of fund); Senior Mortgages, Higher LTV 1st Mortgages and Bridge Loans (30-40% of fund) and Construction loans or moderate use of leverage (asset level 40-75% and fund level 20-35%). Principal Real Estate prides itself on execution and high level of return for debt products.

Mr. Shelton reviewed Debt Fund I which was launched in 2013. Modeled similar to Debt Fund I, Debt Fund II introduced construction loans and allows a little more flexibility which has been very successful. He reviewed a summary of the proposed Fund Debt III (private debt real estate closed-end fund). The objective for the proposed fund is to seek long –term risk-adjusted returns with "BB+" credit characteristics, targeting 7-9% IRR, levered, net of fees and expenses. The strategy includes mezzanine debt, senior mortgages and participating construction permanent loans. Fund-level leverage will only be applied to the Fund's senior mortgage investments. Property type would include, office, medical office, retail, industrial, apartments, hotels, student housing, self-storage and mixed use focusing on major U.S. markets. A summary of proposed terms was also discussed. The manager will retain 50% of borrower-paid origination fees up to a maximum of 50 bps and will retain borrower-paid servicing fees and closing fees for transactions closed by internal closing staff. Extension fees, exit fees and prepayment fees are retained by the manager and the manager does not assess the Fund for dead deal costs.

Mr. Lee asked what the target date is.

Mr. Shelton responded that the first close is targeted for the end of the first quarter 2019.

Mr. Lee asked if there were any additional fees.

Mr. Shelton responded that the fee is all inclusive and that there are not travel or other additional fees.

SOUND MARK PARTNERS – Debt Real Estate

Jenna Gerstenlauer and Parul Narain introduced themselves and their firm to the Board.
Honesty, integrity, deep industry relationships and discipline are the backbone of their organization which is woman owned. They provide direct and personal access to the entire team. In 5 years, Sound Mark Partners investors have realized a 13.5% gross IRR and 10.4%

net IRR on 11 investments since inception. The Fund does not use leverage and is conservative in nature and has had 20 quarters of distributions.

Most of the LP's are pension plans. Fifty percent of their potential investments come from current banking relationships and the other 50% come from property owners both of whom understand what types of investments Sound Market partners are interested. Those investments are generally in the U.S. market and valued at $50 Million dollars or less which results in consistent returns. Things such as aging, geography and e-commerce are all carefully considered when considering opportunities. They screen about 200 opportunities a year, they make on-site visits, review tenants credit worthiness, verify revenue, review other third-party information and - if a risk is presented that can't be resolved - the deal is killed. After comprehensive legal due diligence, the cash flow and underwriting details are sent for a committee review and a vote.

Mr. Lee asked with the relationship was with the Missouri Local Government Employees Retirement System.

Ms. Gerstenlauer responded the Missouri System owns a 10% non-controlling ownership in Sound Mark Partners.

Miss Munson asked how many employees there are.

Ms. Gerstenlauer responded that there is a total of 5 employees all of whom are on the investment team. Administrative things are outsourced.

AMERICAN REALTY – Value-Add Real Estate

Eric Cannon and Todd Fowler introduced themselves and their firm to the Board. American Realty Advisors was founded in 1988, is privately held and 100% employee owned. They were registered with the SEC in 1990 and are headquartered in Los Angeles, CA with 8 offices throughout the United States. They have a 30-year history of transparency, legal compliance and integrity, proudly acknowledging that in those 30 years they have never been sued.

Strategically, American Realty Advisors seeks structured finance, mezzanine debt, development and preferred equity focusing on high-quality offices, industrial, retail, multi-family and mixed-use properties targeted in the top sub-markets of major metropolitan areas nationwide. As a result, they create or restore broken or transitional assets to core. He reviewed a snap shot of the American Strategic Value Realty Fund which has a gross fair value of $1.5 Billion. Inception-to-date net returns is 13.12%. There are 73 investors, 8 of which are Michigan Pension Plans. They have had zero losses on a total of 21 investments.

Mr. Fowler provided a portfolio composition and stated that their first strategy is geographic diversification in the US with a breakdown of 20.7% Midwest, 39.2% East, 20.6% West and 19.5% in the South. The second strategy is sector diversification with the majority at 43.6%

Office, 26.0% Multi-Family, 25.6% Retail and the remaining 4.8% Industrial. He continued that only 1 out of the 13 current investments has underperformed and they do not invest in construction that will take 6-12 months start-up time; they only invest ones that will start away. He reviewed acquisition highlights; underwritten gross IRR for Multi-Family is 14%, Office 14%; Retail 12-13%; Industrial 13-21% and Mixed-use 11%. An average investment size is approximately $124 Million gross asset with $52 Million of equity.

Mr. Fowler stated that they oversee all asset management in house. They do outsource leasing to a third-party broker. There are two types of leasing companies; ones that search for empty real estate to lease and ones that manage tenant leasing. As a result, competition is created resulting in better services. The fund is structured as open-ended with the return objective of net leveraged internal rate of return of 11-13% annually over a 3 - 7 year investment cycle. Maximum leverage is 65% at the portfolio level with a target leverage of 40-50%.

Deirdre Waterman, Mayor left at 12:30 p.m.

TA REALTY LLC– Value-Add Real Estate

Michael Haggerty and Thomas Landry introduced themselves and their firm to the Board. TA Realty was founded in 1982 and is headquartered in Boston, MA with additional offices in Newport Beach, California, Palm Beach Gardens, Florida and Dallas, Texas. TA Realty began managing real estate assets in 1987 focusing exclusively on multifamily, industrial, retail, office and mixed-use properties in the United States.

TA Realty has managed 12 value-add, closed-end, commingled. The average deal size is approximately $25 Million. With over 35 years of relationships, TA Realty is provided access to off-market deals and feels that remaining hands-on and proactive in management of multiple markets, the risk is spread to help mitigate downsides. TA Realty is proud to claim that in those years, they have never lost an investor and never missed a quarterly distribution with 50% of dividends paid in cash.

Mr. Haggerty reviewed Fund XII Summary. The approach will model the same strategy and execution as the 11 prior funds with consideration given to construction techniques, property type, geographic market, tenants and lease rollover. The portfolio is structured with a level debt and prudent LTV levels within 40-45% range. Fund XII has over $525 Million in closed and committed capital and a target gross IRR of 12-14%. Rolling closings will be conducted through the second quarter of 2019. The geographic breakdown is 40% West, 30% East, 20% South and 10% Midwest and the property breakdown is 45% industrial, 35% office, 15% multifamily and 5% retail. The capital commitment target is $1.25 Billion in aggregate commitments and a minimum of 1% of the total aggregate equity capital.

Mr. Haggerty reviewed an industrial property in Rancho Cucamonga, California which is scheduled to close in November 2018 and another Industrial property in Keasbey, NJ with an approximate 27% gain on cost and a gross unleveraged IRR of 14% which closed in May 2018. He stated that their fee is nontraditional and unique to align with investors. The manager does not receive acquisition, disposition or additional financing fees and does not employ joint ventures and investors do not pay fees to other real estate managers. The management fees are the same terms for all 12 funds. 0.50% in year one, 0.85% in year two, 1.15% in year three, all based on Capital commitments; then 1.20% in year four, 1.25% in year five, 1.20% in year six, 1.00% in year seven and 0.60% thereafter.

TERRACAP MANAGEMENT – Value-Add Real Estate

Stephen Hagenbuckle and Patrick Melton introduced themselves and their firm to the Board. TerraCap Management, LLC was founded 2008, began managing real estate in 2009 and was registered with the SEC in 2014. Their headquarters is in Estero, FL with additional offices in Georgia and New Jersey. They are 100% employee owned, have 9 co-investor employee partners and 64 institutional investors. TerraCap Management's investment focus is investments in deals of $5M – $25M dollars primarily in the Southeast and Southwest of the United States. The portfolio is comprised of 30-35% commercial office; 20 -25% multi-family; 10 - 15% hospitality and 15 – 30% industrial. TerraCap has $825M in assets under management assets and is currently raising its fourth value-add fund. Forty percent of their staff is female, and they are working with local metro Detroit areas such as Redford, Roseville, Dearborn and the organizations such as the Bricklayers Union.

TerraCap Management's focus and strategy is tactical and thematic; they invest in cities with historic growth and event-oriented buying with sellers who may currently be under pressure and are selling below replacement costs or by managers that have neglected the properties. They have avoided overpriced markets such as New York, Boston and Seattle and rather invest defensively in high-demand secondary markets where the cost-of-living is more affordable such as places like Atlanta, Dallas, Tampa, Nashville and Orlando. In addition, because of the 30-40% increase in building costs, they avoid new construction and markets that are dependent on specific industries or tenants. As a result of the increases, demand for leasing existing properties is outpacing new construction and TerraCap Management has closed on 100% of all assets without incident.

TerraCap reviews reports about demand markets, population growth rates and domestic migration by state which illustrates the significance of supply and demand geographically in the South. TerraCap Management then reviewed performance reports of Fund II that in a period of 6 years has a return 150% of invested capital. Fund III has made 7 distributions of $37.2 Million dollars and in January of 2017 generated a Net IRR of 31.43%.

Mr. Hagenbuckle reviewed the summary of key terms for Fund IV which has a target of $300M committed capital with $265 already committed. The management fee is 1.5% on invested capital only – there is no management fee on committed capital. Targeted returns are 14-17% net IRR and 25-30 targeted investments.

DISCUSSION AND WRAP-UP

The Board discussed the next steps and timeframe for a decision. The Board determined to narrow the selection to American Realty, Bloomfield Capital, Sound Mark Partners and TerraCap Management. Additional review of these managers will be done and be discussed at the next Board meeting.

The meeting was adjourned at 2:19 p.m.

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees' Retirement System held on November 15, 2018
As recorded by Kristy Neumann, reviewed and edited by Legal Counsel and Executive Director