

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
April 25, 2018**

A meeting of the Board of Trustees was held on Wednesday, April 25, 2018 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
Nevrus Nazarko, Secretary
Billie Swazer
James Walker
Deirdre Waterman, Mayor (*arrived @ 10:26 a.m.*)
Patrice Waterman, City Council

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan Ward
David Lee, Dahab & Associates
Louise Gates, Gabriel, Roeder, Smith & Co.
Deborah Munson, Executive Director
Phillip Moore, Finance Officer
Phil Brown, City Videographer
Kathi McNally, Hospital Retiree
Linda Watson, City Retiree

TRUSTEES ABSENT

Kevin Williams, Vice-Chair

Trustee Patrice Waterman was the designated Chair for the meeting. She opened the meeting at 10:00 a.m.

PUBLIC COMMENT

Retiree Kathi McNally reminded the Board that at last month's meeting, Miss Munson reported that there is a deferred Hospital member who is eligible to retire early at age 55 but has not yet been set up because her additional service credit with the Hospital has not been verified. She expressed her concern that some of these members may be penalized because of the inability of staff to verify their service credit with the Hospital.

She asked about the progress that Trustee Nazarko and the City's Human Resources Department have made in working with the Hospital to verify the service credit. She also volunteered her services as an officer of the Pontiac General Hospital Retirees Group to assist the City with the process. She felt it would be best to verify service credit for all remaining deferred Hospital members at the same time.

Trustee Nazarko responded that the City has begun work on the matter and that there are currently two deferred Hospital members whose service credit must be verified. He confirmed that the City is looking to verify service credit for all of the remaining deferred Hospital members.

Trustee Giddings provided a contact - a senior member of the the Hospital's Human Resources Department.

Trustee Patrice Waterman thanked Ms. McNally for her efforts and willingness to assist with the matter.

Retiree, Linda Watson asked about two vendor payments included in the April accounts payables report - Centronics and Wells Fargo.

Miss Munson explained that the payment to Centronics is the annual payment to the alarm monitoring company and the Wells Fargo payment is the lease payment for the new copier.

VALUATION 2017 DRAFT PRESENTATION

Miss Munson introduced Louise Gates from Gabriel, Roeder, Smith & Company to present the draft of the 2017 Valuation Report.

Ms. Gates reported that as of December 31, 2017 the System's market value of assets were \$506M and the funding status is at approximately 178%.

Each year they prepare an actuarial valuation which determines the System's liabilities and the City's required contribution. The calculation of the funding percentage is a ratio of the assets to the liabilities. The System's funding ratio of 178% is one of the highest in the State of Michigan.

She explained that the valuation report is based on the System's value at the end of the calendar year but that any required contribution would be part of the City's 2019-2020 budget year.

She referred to Plan Changes included in the report. The early retirement payments created \$7.2 million in additional liability for the System. The early retirement allowed members who were as young as age 43 to begin collecting their pension immediately instead of waiting until age 60. The additional pension payments caused the System to incur additional costs. She also noted that the Plan extended the \$400.00 per month stipend which added \$3.5 million in additional liability for the System.

Trustee Gaffney remarked that even with the additional payments the System is still approximately 179% funded.

Ms. Gates noted that the System's total plan obligations – including the plan changes - are \$267 million. Ms. Gates reviewed the market value of assets ending December 31, 2017. At the beginning of 2017 the market value of assets was \$466.1 million. Net investment income for 2017 was \$67.8 million and pension payments were \$27.6 million resulting in a market value of assets as

of December 31, 2017 of \$506.4 million. She noted that the City is not making contributions into the System; benefits and expenses are being paid out of the revenue that the assets are generating.

She provided an overview of the asset smoothing method explaining that it smooths in gains and losses over a specified period. The current method smooths in the difference of the actuarial expected rate of return and the actual return. The market return on assets was 14.84% but the investment income that was recognized in the valuation is 8.57%. She explained that if the Fund achieves its actuarial rate of return over time, the actuarial value and market value will converge. She believes that this method is less volatile than the old method.

Trustee Giddings asked Ms. Gates if she is aware of a new state law regarding healthcare funding.

Ms. Gates was not sure to which law Trustee Giddings was referring. She did note that Public Act 202 requires specific reporting duties from the City to report pension and healthcare benefit liability information to the State.

Trustee Patrice Waterman noted that Trustee Nazarko has broached this matter with the City Council.

There was additional discussion regarding the recent changes in state law.

Chairman Moore asked about establishing a funding policy.

Ms. Gates explained that a funding policy would address such issues as the frequency with which the System would conduct experience studies as well as the policy for amortizing the funding surplus

Trustee Deirdre Waterman arrived at 10:26 a.m.

It was determined that Ms. Gates would work with Miss Munson and the Board to come up with a funding policy.

Chairman Moore also asked Ms. Gates to explain GASB 67 and 68.

Ms. Gates responded that the Governmental Accounting Standards Board sets the accounting standards for how units of governments prepare their financial statements and how they perform their accounting functions. GASB 67 created responsibilities for the System to report certain information in the financial statements related to the pension plan. GASB 68 includes additional reporting requirements for the City.

Miss Munson noted that the finance committee in 2017 had committed to drafting a funding policy based on GRS' recommendation. She asked whether the City or the System is required to adopt the funding policy.

Ms. Gates responded that it is the System's obligation to adopt the funding policy.

Trustee Giddings asked about the Board's adoption of assumptions and whether the actuary is comfortable with the current assumptions.

Ms. Gates indicated that since the Board changed the asset allocation of the Plan and is lowering its equity position, there could be a future impact on the rate of investment return. It may be better for the Board to take a more conservative position.

Mr. Lee stated that the reduction in equity should translate into less volatile but more muted returns.

Ms. Gates stated that she would like to take a look at the rate of return assumption next year.

Trustee Giddings asked what other plans use as their rate of return assumption and how often they change the assumption.

Ms. Gates indicated that most plans are at 7.5% or below and evaluate their rate of return assumption every four to five years.

Trustee Giddings asked about the assumption related to Hospital retirees and the timing for when they will retire.

Ms. Gates referred to the page indicating the pension benefits for Hospital retirees was calculated based on that group retiring at age sixty.

Miss Munson explained that most Hospital deferred retirees are eligible at age sixty but some are eligible at age fifty-five if they continued to work at the Hospital post-privatization and have twenty-five years of service credit total.

Trustee Giddings noted that the valuation may have under-reported the liability if additional members are eligible to begin collecting at age 55. He and Ms. Gates agreed that the additional liability is immaterial.

Miss Munson concluded by indicating that the Board will be asked to approve the 2017 Valuation at their May meeting. She requested that the Trustees send her any questions or changes prior to the May meeting. She also reminded the Board that there is usually a slight difference between the assets reported in the valuation and the assets reported in the audited financial statements due to the timing of the receipt of the audited financial statements from the private equity managers.

Trustee Patrice Waterman thanked Ms. Gates for the presentation.

AGENDA CHANGES

Miss Munson referenced the handout reflecting a correction to the February 28, 2018 minutes with regard to the Mitchell pension benefit amount.

APPROVAL OF CONSENT AGENDA

A. Approval of the Minutes of the Special Board Meeting held March 27, 2018

General Employees Retirement System
Regular Meeting
April 25, 2018

B. Approval of the Minutes of the Regular Board Meeting held March 28, 2018

C. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: April 25, 2018

TOTAL PENSION PAYROLL **\$2,029,449.34**

Staff PPE Pay Date: April 12 & 26, 2018

TOTAL STAFF PAYROLL **\$ 21,305.44**

D. Communications:

- 1. FOIA Request from/to Public Plan IQ – April 9, 2018

E. Financial Reports:

- 1. Accounts Payables – April 2018
- 2. Dahab Associates Preliminary Report: March 2018
- 3. Attucks Manager of Manager Summary: March 2018
- 4. Statement of Changes: March 2018

F. Private Equity Capital Calls & Distributions

- 1. Mesirow Fund IV Distribution – March 28, 2018 \$ 50,000.00
- 2. Mesirow Fund VI Capital Call – April 20, 2018 \$150,000.00

G. Retirement Benefits

1. New Retirements

| Ret. No. | Member's Name | Amount | Effective |
|----------|-------------------|--------|------------|
| 2850 | Dowsett, Marjorie | | 05/01/2018 |
| 2851 | Nelson, Donald | | 05/01/2018 |

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 |
|---------|---------------|---------------|----------------|
| | | | |

3. J&S Continued Retirements

| Ret No. | Name | Date of Death | Survivor's Name | Amount |
|---------|------|---------------|-----------------|--------|
| | | | | |

4. Recalculated Retirements

| Ret No. | Name | Effective Date | Reason For Change | New Amount |
|---------|-------------------|----------------|-------------------|------------|
| 2850 | Dowsett, Marjorie | 05/01/2018 | Final | |
| 2849 | Hall, Deborah | 04/01/2018 | Final | |
| 2823 | Locher, Robert | 01/01/2018 | Final | |

| | | | | |
|------|----------------|------------|-------|--|
| 2851 | Nelson, Donald | 05/01/2018 | Final | |
| 2818 | Ochoa Jose | 10/01/2017 | Final | |
| 2824 | Toney, Helena | 01/01/2018 | Final | |

5. Disability Medical Re-Exams/Benefit Continuation

| Ret No. | Name | Reason |
|---------|------|--------|
| | | |

6. Refunds of Employee Contributions

| Ret No. | Name | Reason | Benefit Amount |
|---------|------|--------|----------------|
| | | | |

Trustee Giddings asked that the March 2018 preliminary performance report be pulled from the agenda to allow the Trustees more time to review the performance.

Trustee Deirdre Waterman asked that the Attucks Manager-of-Manager Summary report for March 2018 be pulled from the agenda for further discussion.

RESOLUTION 18-047 By Gaffney, Supported by Swazer

Resolved, That the Board approves and ratifies the actions in the Consent Agenda for April 25, 2018 as amended.

Roll Call:

| | |
|-----------------|-------------------|
| Albritton - Yea | Nazarko - Yea |
| Arndt – Yea | Swazer - Yea |
| Gaffney – Yea | Walker - Yea |
| Giddings – Yea | D. Waterman - Yea |
| Moore - Yea | P. Waterman – Yea |

Motion Passed: Yeas: 10 – Nays: 0

CONSULTANT

Re: Dahab Associates

Preliminary Report – March 2018

Mr. Lee reviewed the preliminary performance summary gross-of-fees as of March 31, 2018.

The Fund’s market value was \$498.6 million. Fund performance reported for the month was -0.4%; for the quarter-to-date it was -0.3%; year-to-date it was -0.3%; one-year performance was 11.2%; five-year performance was 8.8%; ten-year performance was 7.8% and since inception performance was 8.3%. These numbers are all gross of fees.

The fund's performance for March 2018 was hurt by the trade negotiations but nothing has happened to date. There was a lot of decline in the Treasury market in fear of rising rates that would affect loans. The yield curve looks at bonds across different durations and maturity.

Mr. Lee told the Board that the bulk of the System's assets are in stocks and stock-like risks. The real estate target allocation is 10% and there is currently \$37M allocated to this asset class. Fixed income will underperform in a rising rate environment so it was good for the System to go into real estate. He wanted to underscore what Ms. Gates briefly alluded to with respect to the new asset allocation. The Board will continue to trim its large cap allocation because of the over-allocation. The Board will also trim the international allocation in order to fund the emerging markets allocation.

Trustee Albritton asked if the System is still on target with respect to real estate. He questioned whether value-add real estate is still a good opportunity moving forward.

Mr. Lee stated that real estate was added to the new asset allocation and the Board has had education sessions regarding different types of real estate investments. The initial allocations were to core and core-plus. The Board has also talked about value-add and debt funds. The asset allocation commits 10% of the portfolio to real estate and the Board has committed a total of \$37M to date. Based on the current market value of the fund, there remains another \$13M that the Board could dedicate to real estate. He confirmed that he is comfortable with his recommendation to stay with real estate. Whether the allocation is to core, core-plus, value-add or debt is a conversation that the Board needs to have. The Board can choose to go further out on the risk spectrum.

Manager-of-Managers

Mr. Lee confirmed that Trustee Deidre Waterman's inquiry is with respect to the promised evaluation/due diligence that is to be performed on Attucks Asset Management.

Trustee Deidre Waterman confirmed that she has asked a number of times for an evaluation of the manager-of-managers. She would like to know when the Board will have that discussion and review.

Mr. Lee reminded the Board that as we have been discussing the manager-of-managers program, it came to light that the System did not have a written Emerging Manager Policy. He noted that a decision has not been made as to how the System will incorporate the manger-of-managers.

Chairman Moore confirmed that the matter is still before the finance committee and concurred with Mr. Lee that this is a policy decision that the Board will have to make. The committee will be bringing forth a recommendation so that we as a Board can determine whether we go the manger-of-managers route or not.

Trustee Deirdre Waterman reiterated that this matter has been pending for some time now and she would like a timeframe for consideration. This review of Attucks has been pending ever since we hired Attucks under exigent circumstances and it is still the responsibility of the Board. The Board

can delegate the matter to the finance committee but the committee should give the Board a timeframe.

Trustee Nazarko indicated that the finance committee has been talking about an evaluation of Attacks and it was delayed pending approval of the Emerging Manager Policy. The evaluation of the program and the manager-of-managers was to occur after the policy was approved.

Trustee Deidre Waterman reiterated that her unanswered question relates to the timeframe for the review.

Chairman Moore noted that he chairs the finance sub-committee and offered that Trustee Deidre Waterman could call him directly with her concerns.

Trustee Deidre detailed her concerns with regard to the hiring of the manager-of-managers in 2015. She stressed that it is important to handle this issue and insisted that a timeframe for the review be forthcoming.

Trustee Patrice Waterman confirmed that the finance committee will take up the matter of the timeline at their next meeting.

Ms. Gates left at 11:02 a.m.

Emerging Markets Manager Search

Mr. Lee provided a review of the Emerging Markets Manager search. They received sixty-seven responses to this publicly-posted RFP and noted that 10 of the firms were minority- or women-owned firms. The criteria the used to evaluate each firm included 1.) at least a 5-year track record in this product – although Dahab did add back in one of the managers as they were close to the 5-year period and they are 100% minority-owned 2.) performance – managers should be out-performing their benchmarks over different periods 3.) out-performance consistency over time – although the gave a little more latitude to one of the managers on this criteria because it is 50% women-owned 4.) qualitative factors.

There were seven managers left after their screening including ARGA Investment Management; Fred Alger Management; Lazard Asset Management; Northern Trust; Vanguard; Wellington Trust and Westwood Global Investments.

He described the four managers selected by the finance committee to make presentations: ARGA Investment Management; Northern Trust; Wellington Trust and Westwood Global Investments. He reviewed each manager's investment style; their five-year upside and downside market capture, total assets and fee schedules. He explained that the fee schedules for active management is higher than for passive managers.

Mr. Lee indicated that Wellington Trust is an all-cap, core, bottom-up fundamental manager. They have ~\$600M in this product. There are one hundred and seventy-one securities in the portfolio invested in twenty-one emerging markets. This is a composite product that is managed by 12 best-

of-breed ideas from 12 analysts. He reviewed the fee schedule - which he noted is the least of the active managers - and indicated that there is monthly liquidity.

Mr. Lee described Westwood Global Investment. He noted that this firm focuses on small-cap companies. This is a minority-owned firm in that it is 50% owned by a woman. They have ~\$800M in this strategy. They are specialists in international equities and the vast majority of their assets are in their large-cap emerging markets strategy.

Trustee Albritton asked about the lack of top 10 holdings report for this manager.

Mr. Lee responded that Westwood would not release that information without Dahab signing a Non-Disclosure Agreement (NDA). They did sign the NDA and they received the holdings report but they cannot disclose them due to the NDA. There are only 32 stocks in this portfolio and their turnover is very low – approximately 10%. They only have 12 emerging markets when the average is over 20. Small-cap stocks are typically defined as companies with a market capitalization of less than \$2B. Half of the portfolio is in small-cap stocks and the other half is in mid-cap stocks. The other managers may have a maximum of 25% in small- and mid-cap combined. He explained that you get a different exposure in the emerging markets with this manager. He noted that their fee is quite a bit more than Wellington and they require 60 days for a withdrawal.

Mr. Lee reviewed the selected managers' performance net-of-fees versus the Emerging Market indexes.

Trustee Nazarko stated that the committee had a lengthy discussion with regard to which managers to bring in and agreed to bring in the four chosen managers.

Trustee Arndt noted that all of the Trustees are fiduciaries and – in the past – the entire Board was presented with the information with enough time to review it and each Trustee was allowed to give their thoughts about which managers should come before the Board. She questioned why the Board was not involved in the decision with regard to which managers should come to the Board to make their presentations.

Chairman Moore explained that any information that is available to the committees or the Executive Director is available to all of the Trustees. And no decisions will be made on matters until the full Board has had an opportunity to consider the information.

Trustee Gaffney confirmed that the committee is recommending bringing in the four managers to make presentations to the Board. She asked if there is a possibility that the Board would hire all four managers. She also asked why the other managers were ruled out and what criteria were used.

Trustee Nazarko responded that we are not going to split \$25M among seven firms. Also, each manager is being given 30 minutes for their presentation. An all-day meeting would have been required to bring in all seven for presentations. He would be open-minded to bringing in all seven.

He said that different Trustees used different criteria. They looked at the performance, fees and overall fund structure and minority status among other criterion.

Trustee Deirdre Waterman stated that she realizes that the committees are doing more of the work. However, if the Board had written notes from the committees, it would help the Trustees who are not part of a committee to have more information to assist in making a more informed decision.

Trustee Arndt told the Board that she was speaking with Vice-Chair Williams and they believe that because this is the System's first investment into emerging markets they would prefer starting slowly and investing in index funds.

RESOLUTION 18-048 By Nazarko, Supported by Swazer

Resolved, That the Board will schedule a special meeting and bring in the following Emerging Markets Investment Managers: ARGA Investment Management; Northern Trust; Wellington Trust and Westwood Global Investments.

Roll Call:

| | |
|-----------------|-------------------|
| Albritton - Yea | Nazarko - Yea |
| Arndt – Yea | Swazer - Yea |
| Gaffney – Yea | Walker - Yea |
| Giddings – Yea | D. Waterman - Yea |
| Moore - Yea | P. Waterman - Yea |

Motion Passed: Yeas: 10 – Nays: 0

Finance Committee Report

Miss Munson reported that the finance committee met on April 24, 2018.

Emerging Markets Manager Search

Miss Munson reported that the committee reviewed the results of the search and has made their recommendation.

Investment Manager Fee Reductions

Miss Munson reported that the finance committee has been reviewing investment management fees and inquired of the investment managers whether a fee reduction was possible. Kennedy Capital agreed to reduce by 5 bps their fee on the small-cap core product. Sawgrass Asset Management reduced their fee on the first \$20 million by 5 bps. Both changes will save the System ~\$10,000.00 in investment manager fees.

She also confirmed that all of the investment managers will be reviewed as the Board continues to rebalance the portfolio to the target allocation.

Value-Add and Debt Fund Real Estate

Miss Munson reported that the finance committee has had continuing discussions regarding the real estate allocation and requested that Dahab bring additional information regarding value-add and debt fund real estate. The committee feels that they have enough information and are now requesting direction from the Board as to how to proceed with consideration of value-add and debt fund real estate. The committee would like the Board to resolve either to bring in the four real estate managers for presentations or to table further discussion of these types of real estate investments.

Trustee Albritton requested that Mr. Lee speak on the four real estate firms that have been discussed in the committee. He reiterated that there is still \$13M that can be allocated to real estate. This matter has been in front of the Board for quite a bit of time and it is important that the Board decides which way it would like to go with respect to this investment. He questioned whether the Board needed more education or whether it would be fair to bring in the four managers and let them sell their own product.

Mr. Lee stated that as a continuation of the real estate conversation the Board has been having, Dahab was directed to look at value-add and debt fund firms. From the list Dahab had previously compiled, they narrowed the search to two value-add and two debt fund managers. The two value-add managers are Alidade Capital and TerraCap Management. Both are specialists in the sense that they have more modest-sized funds: Alidade's target fund size is \$150M and TerraCap's is \$300M. The core and core-plus managers with whom the System is currently invested typically have assets in the product in the billions. These are more surgical in how they are managing their money.

He continued the contrast with core and core-plus funds by noting that those funds are open-ended while Alidade and TerraCap are closed-end funds. The System would not be able to get the bulk of the investment back until approximately year 5 or year 6. Alidade and TerraCap have more of a focus on either property type and/or geography which is different from the managers the System currently has because they are more diversified. He continued by reminding the Board that value-add and debt funds are further out on the risk spectrum relative to core and core-plus and the way they typically generate their investment returns is based on making a surgical decision in property types or geographies.

Mr. Lee said that Alidade's property distribution is going to focus primarily in the south and mid-west while TerraCap is 100% in the south. Alidade doesn't have any exposure to apartments; their primary focus of interest is flexible R&D which is an industrial property type from which some larger REITs are stepping away. Alidade feels like they have an advantage because of that. TerraCap has more exposure to industrials and office relative to Alidade. Both have 60% - 65% targeted leverage. Both have specialization in the sense that they are a little smaller which they feel will allow them to be more nimble. The opportunity set tends to be on the smaller side – the target piece of property is \$5M - \$25M.

The two debt fund managers are Bloomfield Capital and Madison Capital. These firms differ in that they invest in the debt of property as opposed to equity. People will turn to firms like these because – for some reason or the other – they need access to debt on a shorter-term basis. And, because they need it on a shorter-term basis, the debt fund managers can charge higher rates. They would target

yields on the debt of 10% - 12% and the term is typically a year to two years. Bloomfield Capital plans to open up this debt product after a two-year lock-up. After the two year lock-up, the investment can be taken out over the next three years. Madison fund is a closed-end fund and the System is not likely to get the bulk of its investment returned until year 5. Madison has 80% of their fund targeted in the east and approximately 50% of the fund is in apartments. Madison's target fund size is \$1B. Madison's targeted leverage is 50% and Bloomfield's is 25%.

Value-add and debt fund managers are more expensive than core and core-plus managers with fee schedules of 150 bps plus 20% of excess returns over a certain percent. Again, these are further out on the risk spectrum because you are taking a bet on the closed nature structure of most of the managers and you are buying properties or lending money to investors for property types that are not fully leased or are located in lower quality cities or the property itself is not 'A' quality, etc.

Trustee Gaffney clarified that the Board made a commitment to real estate; it did not make a commitment to all of the different types of real estate. She wants to go on record to say that her opinion is that the Board should spend a little more time in core and core-plus before it considers moving into value-add or debt real estate. She suggested that the Board could allocate the additional \$13M to the current core and core-plus managers. She stated that she is not comfortable with these types of investment at this time.

Trustee Deirdre Waterman stated that she concurs with Trustee Gaffney's risk aversion to value-add and debt real estate and requested that Dahab's value-add and debt real estate presentation book be distributed to non-committee members.

Trustee Nazarko confirmed that the committee has been discussing these investments and are aware of the other Trustees' concerns. The committee determined at their meeting yesterday to bring the matter before the full Board for direction. He concurred with Trustee Albritton that the committee has been investigating this for a while and would like clear direction from the Board as to whether to proceed or should we take a pause. He stated that he also agrees with Trustee Gaffney.

Trustee Albritton stated that the Board is looking to invest in emerging markets. The Board needs to decide which direction we are going to go. He stated the Board could have more education on this subject. He recommended bringing in the four real estate investment managers so that the Board can get a clearer understanding about the market. And if the Board feels the same after that, the Board can move on.

Trustee Nazarko stated that the big difference between the real estate allocation and the emerging markets is that the System does have \$32M currently invested in real estate but no assets are yet invested in emerging markets.

Trustee Albritton responded that the Board just recently began work on the emerging markets allocation and – in a very short time - is prepared to bring in managers for presentations. The committee has been considering value-add for six months. He doesn't think we can beat this horse anymore. The Board may decide not go in this direction but a decision should be made.

Trustee Gaffney stated that she does not see the value in having the managers come in for a sales pitch. She clarified that she fully understands value-add and debt real estate. We have not yet seen the results of the core and core-plus products and she is not prepared to go into even riskier real estate products. Her opinion is a fully informed one and there is not one salesperson that could convince her differently. She is just not ready to go into these investments.

Chairman Moore concurred with Trustees Albritton and Nazarko that the Board needs to provide definitive direction to the committee in this matter. He understands Trustee Gaffney's position and appreciates that she articulated her position so thoroughly. He indicated that he is neutral on the merits of the investment and could go either way. He does not believe that the consultant would have brought an investment to the Board if the consultant did not believe it provided an opportunity for the System to make money. He concluded by indicating that the finance committee needs the Board's direction.

Trustee Deirdre Waterman moved that – in light of the discussion –we handle any requests for information and education regarding the value-add and debt real estate to the portfolio managers and that we table any further presentations or further action in regards to this until we have settled and gotten our emerging markets portfolio handled.

Trustee Nazarko supported the motion.

Chairman Moore requested clarification on the motion.

Trustee Deidre Waterman explained that this isn't a 'table' motion it is a motion in terms of directing the action of the Board. She stated that she would change the word from "table" to "postpone". She further explained her resolution and believes that her resolution addresses all of the stated concerns of the other Trustees.

Trustee Albritton stated that we have already done the educational sessions and now is the time to determine whether this is an avenue we want to pursue or not.

Trustee Patrice Waterman acknowledged the concerns and comments shared by the other Trustees. She suggested that – given the discussion - it may be prudent to take the time to evaluate the results of the core and core-plus investments before deciding whether to move forward with the value-add and debt investments. She asked Mr. Lee whether this is something the Board had to get into right now.

Mr. Lee responded that it is not something the Board has to do right away. He said that his responsibility is to bring new ideas to the Board and provide the Trustees education and get them to a level where they feel comfortable about making a particular investment.

Miss Munson asked Mr. Lee to explain the insignificance of the returns on \$13M in a fund of this size.

Mr. Lee confirmed that investing in value-add and debt real estate would not move the needle in terms of return. The Board has made the big step by allocating assets to real estate. The additional \$13 million – which is less than 3% of the total fund – would only be a smaller incremental step and will not change the dynamic of the fund in terms of performance.

RESOLUTION 18-049 By Deirdre Waterman, Supported by Nazarko

Resolved, That the Board approves to postpone any further consideration or presentations or any requests for information or education regarding the value-add and debt real estate to come from our portfolio manager until after we have concluded the arrangements and review and policy program for the Emerging Markets.

Roll Call:

| | |
|-----------------|-----------------------|
| Albritton - No | Nazarko - Yea |
| Arndt – Yea | Swazer - No |
| Gaffney – Yea | Walker - No |
| Giddings – Yea | D. Waterman - Yea |
| Moore - Abstain | P. Waterman – Abstain |

Motion Failed: Yeas: 5 / Nays: 3 / Abstain - 2

RESOLUTION 18-050 By Gaffney, Supported by Nazarko

Resolved, That the Board directs the Finance Committee to leave the issue of debt and value-add real estate until the Board is more comfortable with it.

Trustee Nazarko asked Trustee Gaffney to define “leave”.

Trustee Gaffney responded that it means to stop taking it forward, just let it go for now. She said that the Board can revisit it at some point in the future if there is a sense that most of the Board is ready to go there.

Roll Call:

| | |
|-----------------|-------------------|
| Albritton - Abs | Nazarko - Yea |
| Arndt – Yea | Swazer - No |
| Gaffney – Yea | Walker - No |
| Giddings – Yea | D. Waterman - Yea |
| Moore - No | P. Waterman – Yea |

Motion Passed: Yeas: 6 / Nays: 3 / Abstain - 1

Mr. Lee left at 12:05 a.m.

Accounting Software Update

Miss Munson referred the Trustees to the memo regarding the accounting software.

Draft 2017 Valuation

General Employees Retirement System
Regular Meeting
April 25, 2018

Both committees reviewed the draft of the 2017 valuation and had no changes.

Pre-Audit Communication

Both committees reviewed the pre-audit communication from Plante & Moran.

Hartford Business Owners Insurance Invoice

Both committees reviewed the Hartford Business Owners Insurance Policy invoice. The cost increased from \$720.00 annually to \$753.00.

Personnel and Administration Committee Report

Miss Munson reported that the personnel and administration committee met on April 19, 2018.

Relocation Committee Report

Miss Munson reported that the relocation committee met on April 16, 2018.

Steve Cartier from Lee Industrial came to the meeting to discuss Bethune Elementary School. He described a cost estimate of approximately \$1.3 million to get the building up to code which includes a new HVAC system and cordoning off the portion of the building that is not usable. The costs he reported were from two to four years ago but did not include the interior construction, parking lot, grounds or other aspects of the site.

Trustee Deirdre Waterman asked if there is a written report from the meeting.

Miss Munson responded that she did request that Mr. Cartier provide a copy of his presentation but he did not have one. She continued that she does not take notes at committee meetings but that Phillip Moore had taken notes during this particular meeting. Miss Munson will forward a copy of his notes to the Trustees.

RFP for IT Administration

Miss Munson reminded the Trustees that it is the Board's policy to review one of their strategic service providers each year and this year the IT Administrator was selected. Both committees have reviewed the RFP and made suggested changes. Miss Munson referenced the Procurement Schedule and noted that it requires that the RFP be approved at the May 2018 meeting. Miss Munson reviewed the lay-out of the RFP, minimum qualifications and certifications, insurance requirements and other aspects of the RFP.

She also explained that the Retirement Office did not have a process in place when they originally moved to this location. The current IT Administrator did a great job getting the office up and running within four days and has done an admirable job since then.

Trustee Giddings asked how the RFP will be distributed.

Miss Munson responded that the RFP would be posted to the following websites: MAPERS; Michigan Municipal League; MGFOA and the City of Pontiac. In addition, staff has identified some firms to whom the RFP will be sent directly.

Trustee Nazarko felt that the liability insurance requirements were too high.

Ms. Billings-Dunn suggested removing the reference to liability insurance from the RFP and making it a point of negotiations.

Trustee Albritton asked how the 7 year minimum number of years in business was determined.

Miss Munson responded that she believed that a 7 year minimum combined with a certain level of clientele would attest to the stability of the firm and provide a reasonable level of assurance that a firm would be around 3 – 5 years in the future.

Chairman Moore suggested a 3 or 5 year minimum.

Trustee Gaffney felt that negotiating the insurance is a good idea.

Trustee Nazarko felt that five years is a more reasonable timeframe to be in business.

Chairman Moore confirmed that the System will get references from the respondents.

Miss Munson told the Board that she would like to have the final version of the RFP completed at least one week prior to the May 2018 meeting so that the Trustees have time to review prior to approving it and solicited additional comments.

Re: Chairman Report

Chairman Moore told the Board that Trustee Bowman should be recognized for his years of service to the Retirement System. He formally welcomed new Trustee James Walker to the Board. He told the Board that he checked out Mr. Walker's resumé and believes he will do a good job.

Trustee Patrice Waterman indicated that Trustee Walker is a City Council-appointed Trustee. She agreed that the Board should do something to commemorate Trustee Bowman's years of service.

Re: Trustees Report

Trustee Deirdre Waterman addressed the notice sent to retirees regarding the scheduled August 31, 2018 expiration of the \$400.00 temporary supplemental payment. She has made a pledge to continue that payment and will send the notice to Council at the appropriate time.

Trustee Nazarko confirmed that he will be contacting Miss Munson to request the required supplemental actuarial analysis.

Trustee Deirdre Waterman explained that - as Mayor - she is committed to continuing the payment until the retiree healthcare settlement is completed.

She said the next step in the litigation is a fairness hearing which is scheduled for June 6, 2018. It is an open session in federal court and anyone can attend. She will keep the Board informed.

Trustee Deidre Waterman also addressed the Council resolution regarding the healthcare waiver for the early retirement-eligible members. The waiver was sent out and the Human Resources Department is handling the process.

Trustee Nazarko indicated that sixty-four waivers were sent out and eleven have been returned to date. This is a resolution that was passed by the City Council. It does not in any way threaten their pension payments but it clarifies that they are not eligible for healthcare benefits until they turn sixty.

There was additional discussion regarding the healthcare waiver, the City of Pontiac and other civic activities.

EXECUTIVE DIRECTOR

\$400.00 Supplemental Benefit

Miss Munson confirmed that the notice regarding the expiration of the supplemental payment is a routine part of the staff's responsibility and was mailed on April 18, 2018. She thanked Trustee Deidre Waterman for the clarification regarding the intent to continue the \$400.00 supplemental benefit. She noted that the request for the supplemental actuarial analysis must be approved by the Board and suggested that the Board consider approving the request today as she would be unable to authorize the request to the actuary absent that approval.

Trustees

Miss Munson welcomed Trustee Walker and reported that both he and Vice-Chair Williams have taken their Oaths of Office. She noted that the Trustees and Staff Contacts list has been updated and is included as a handout.

Systematic Asset Management

Miss Munson reported that the portfolio manager for Systematic has taken a temporary sick leave. The consultant is not recommending any action at this time.

GFOA Conference Attendance

Miss Munson reported that Trustee Nazarko had requested to attend the GFOA Annual Conference and had to cancel his attendance due to extraordinary circumstances. His notice of cancellation came in the day after the period that registrations could be canceled without penalty. The cost to cancel the registration is \$125.00 which is 25% of the original registration cost. Both committees have recommended that the Board waive the reimbursement of the cancellation charge.

RESOLUTION 18-051 By Deidre Waterman, Supported by Patrice Waterman

Resolved, That the Board approves to waive the reimbursement of the registration cancellation fee of \$125.00 by Trustee Nazarko which was incurred as a result of the cancellation of his attendance at the GFOA Annual Conference.

Yeas: 10 – Nays: 0

Deferred Member Early Retirement Update

Miss Munson reported that the Retirement Office has received the information from MERS verifying service credit for the last eligible member for the early retirement. He has been contacted and should be set up on the payroll in May 2018.

Trustee Gaffney left at 12:40 p.m.

Asset Transition Update

Miss Munson reported that UBS Realty has advised her that they expect to call the full \$4M commitment in Q3 which will be funded by the continued liquidation of the Brandywine account.

Principal Real Estate: Miss Munson reminded the Board that it had committed an additional \$7.5M to Principal real estate and – due to the size of the investment – the management fee is being reduced from 110 bps to 100 bps.

First Eagle Global Fund: Miss Munson reminded the Board that the System is converting its investment with First Eagle from its Global Fund to its International Fund as part of the asset allocation rebalancing. The documents have been signed and she received an email confirmation that the assets will be transferred effective May 1, 2018.

Invesco: Invesco Real Estate called the additional \$7.5M commitment in April 2018. It was funded with a partial liquidation of the First Eagle fund.

RESOLUTION 18-052 By Nazarko, Supported by Albritton

Resolved, That the Board approves the City’s request for a supplemental actuarial analysis and authorizes the Executive Director to forward it to the actuary upon receipt.

Yeas: 9 – Nays: 0

UNFINISHED BUSINESS

NEW BUSINESS

Re: Resolution to Receive and File 2017 Pre-Audit Communication

RESOLUTION 18-053 By Moore, Supported by Swazer

Resolved, That the Board hereby receives and files the Plante & Moran 2017 Pre-Audit Communication to the Board of Trustees.

Yeas: 9 – Nays: 0

Re: Resolution to Ratify the Chair’s Signature: Kennedy Fees

RESOLUTION 18-054 By Nazarko, Supported by Swazer

Resolved, That the Board hereby ratifies the Chairman’s signature on the Amendment to Exhibit C Fee Schedule reducing to 95 basis points the investment management fee paid to Kennedy Capital for the small cap core portfolio effective April 1, 2018.

Yeas: 9 – Nays: 0

Trustee Gaffney returned at 12:43 p.m.

Re: Resolution to Ratify the Chair’s Signature: Sawgrass Fees

RESOLUTION 18-055 By Nazarko, Supported by Swazer

Resolved, That the Board hereby ratifies the Chairman’s signature on the Appendix “B” Exhibit C Fee Schedule reducing to 55 basis points on the first \$20 million the investment management fee paid to Sawgrass Asset Management.

Yeas: 10 – Nays: 0

Re: Legal Report

Cole Domestic Relations Order

Miss Billings-Dunn reported that she reviewed and provided a response to the DRO and provided her opinion to the Executive Director.

Congressional Research Service: When the City Goes Broke: Pensions, Retirees and Municipal Bankruptcies

Ms. Billings-Dunn provided a Congressional research on how pensions are treated in municipal bankruptcy cases.

Robbins Geller March 2018 Monitoring Report

Ms. Billings-Dunn reported that this is for the Trustee’s information.

RESOLUTION 18-056 By Deirdre Waterman, Supported by Gaffney

Resolved, That the Board moved to closed session to discuss pending litigation.

Roll Call:

Albritton - Yea

Nazarko - Yea

Arndt – Yea

Swazer - Yea

Gaffney – Yea

Walker - Yea

Giddings – Yea

D. Waterman - Yea

Moore - Yea

P. Waterman – Yea

Motion Passed: Yeas: 10 – Nays: 0

General Employees Retirement System
Regular Meeting
April 25, 2018

*The Board moved to closed session at 12:45 p.m.
Ms. McNally, Ms. Watson and Mr. Brown left at 12:45 p.m.
The Board returned from closed session at 1:02 p.m.*

RESOLUTION 18-057 By Swazer, Supported by Albritton
Resolved, That the Board approve the proposed settlement of \$35 million in the Big Lots, Inc. securities class action litigation.

Yeas: 10 – Nays: 0

RESOLUTION 18-058 By Nazarko, Supported by Gaffney
Resolved, That the Board authorize Robbins Geller to apply for lead plaintiff status on behalf of the System in the Camping World securities fraud litigation.

Yeas: 10 – Nays: 0

RESOLUTION 18-059 By Nazarko, Supported by Gaffney
Resolved, That the Board authorize Robbins Geller to pursue a pr-filing demand and – if necessary – a derivative action on behalf of the System in the Equifax, Inc. shareholder derivative claims.

Yeas: 9 – Nays: 0
Abstain: 1 (Nazarko)

Ms. Billings-Dunn explained the securities litigation and that there are no legal fees charged to the System.

Trustee Deirdre Waterman asked for a monthly report of the fees that Sullivan, Ward, Asher & Patton receives for their work on System-related securities litigation.

Trustee Swazer recommended the report be done on a quarterly basis.

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, May 30, 2018 @ 10:00 a.m. – Retirement Office

RESOLUTION 18-060 By Gaffney, Supported by Swazer
Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' Retirement System be adjourned at 1:10 p.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 25, 2018

As recorded by Jane Arndt