CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
MARCH 27, 2018

A special meeting of the Board of Trustees was held on Tuesday, March 27, 2018 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
Robert Giddings
Walter Moore, Chairman
Nevrus Nazarko *(@ 10:15am)*
Billie Swazer
Patrice Waterman
Kevin Williams, Vice Chair

TRUSTEES ABSENT

Koné Bowman *(excused)*
Deirdre Waterman, Mayor *(excused)*

OTHERS PRESENT

David Lee, Dahab Associates
Steven Roth, Dahab Associates
Cynthia Billings, Sullivan Ward
Deborah Munson, Executive Director
Phillip Moore, Finance Officer
Ram Grandikoto, Ativo Capital
Andrea Koch, Attucks Asset Mgmt.
Pat Silvestri, Attucks Asset Mgmt.
Cathy Sweeney, Attucks Asset Mgmt.
Ademir Zeco, Consequent Capital Mgmt.
Don Cobin, Kennedy Capital
Don Frank, Kennedy Capital
Joseph Beauparlat, Loomis Sayles
Jeff Schwartz, Loomis Sayles
Nili Gilbert, Matarin
Peter Cahill, NorthPointe Capital
Mike Hayden, NorthPointe Capital
Janna Sampson, Oakbrook Investments
Isaac Green, Piedmont Investment Advisors
Clarissa Parker, Piedmont Investment Advisors
Amit Sanyal, Piedmont Investment Advisors
Anthony Brooks, Sawgrass Asset Mgmt.
Brian Monroe, Sawgrass Asset Mgmt.
Andy Jones, Seizert Capital Partners
John VanGorder, Seizert Capital Partners

The meeting was called to order at 8:45 a.m.

Chairman Moore welcomed everyone and asked that the Trustees, staff and managers introduce themselves around the table.

Mr. Lee asked that the managers excuse themselves from the meeting for the Board agenda and performance review.

Dahab Associates – Performance Review

Mr. Roth began the overview of the Fund’s 2017 fourth quarter performance report. He told the Board that the U.S. economy has been strong. The European and emerging markets have also been strong but are two to three years behind the U.S. markets.

Mr. Roth reviewed the market summary and described the current economic condition in the U.S. The current quarter GDP is 2.6% versus 3.2% for the last quarter. Unemployment is currently 4.1% down from 4.2% during the last quarter. Overall the performance is up with average returns in the 6% range for equities. Technology was responsible for 40% of the performance during the quarter which included facebook, Amazon, Netflix, Google and Microsoft. Those stocks were up 50% through January but their performance went down in February.

He described the equity return distributions comparing large cap growth at 13.6% versus large cap value at 30.2%.

There was a selloff in the market at the end of February based on the labor status statistics. There was no deterioration of the economy or the market. Wage inflation went up 2% based on the weather related employment issues in January. February was back to normal. In March the trade war spooked the market fundamentals. He noted that there are trade wars going on behind the scenes with a lot of news and theatrics. The data breech at facebook hurt the market along with the Google sharing information issues along with tariffs in the European Union.

He told the Board that the Fund is still over allocated in equities and that equity and fixed income provided the performance during the quarter. He stated that the Fund invested in real estate in 2017 to diversify the portfolio away from equities.

He noted that even with the 2008 returns the System has averaged returns of 7.2%.

Chairman Moore questioned the rankings of the System's fixed income managers.

Mr. Roth noted that fixed income rankings are not the same as equity rankings; they include various duration bonds and high yield. He told the Board that the System only invests in investment grade bonds. You do not want to take risk in your fixed income portfolio.

Mr. Lee explained that the System's fixed income portfolio is split by duration. He explained short, intermediate and long duration. The System's fixed income portfolio's duration is more conservative.

Victory is a core fixed income manager and their portfolio's average duration is 8.03 years. Robinson Capital's portfolio average duration is 4.67 years.

There was discussion regarding the quartile rankings and the Fund's performance. Mr. Lee stated that the managers will be reevaluated going forward.

Trustee Albritton questioned whether the managers' stock holdings in FANG affected the overall Fund rankings.

Mr. Lee explained that the asset allocation in large cap will be trimmed back which will cause the rankings to come down. It is important to preserve the assets so the System can continue to pay benefits.

Piedmont Investment Advisors – Large Cap Core
Isaac Green, President, CIO, CEO, Portfolio Manager
Amit Sanyal, Portfolio Manager
Clarissa Parker, Vice President, Investor Services

Mr. Green introduced himself, Ms. Parker and Mr. Sanyal to the Board.

Ms. Parker provided the firm overview. Piedmont was founded in August 2000. This year will be their eighteen year anniversary. This will also be their ten-year anniversary managing assets for the Retirement System.

They currently have $6.8 billion in assets under management from forty-six clients. They are 100% employee owned and 87% minority and women owned. There is $906 million invested in their active equity strategy.

Last year was a good year. They added $682 million in assets under management from the State of Michigan which included the City of Detroit Police & Fire Retirement System and AAA.

They were also awarded $1 billion from the State of Illinois in their passive equity strategy. They have already added $1.4 billion in assets under management in 2018.

She referred to their written statement of compliance.

She told the Board that their investment team has an average tenure of twenty-four years of investment experience with an average tenure of twelve years with Piedmont in good core fundamental strategies.

Mr. Sanyal told the Board that they are core style agnostics that identify stocks that are reasonable with improvement that will always stay ahead of the curve. They are value driven and look to identify the trends in the market and the stocks that are undergoing sustainable and positive fundamental changes. They look for a range of opportunities but look to protect performance on the downside.

He reviewed the System’s performance noting that 2017 was a good year at 23.22% gross of fees; 22.79% net of fees versus the benchmark at 21.83%. He reported their underperformance in 2016 of 3.63% net of fees versus the index at 11.96%.and but highlighted their outperformance in 2015 net of fees at 5.18% versus the benchmark at 4.16%.

Their current cumulative performance since inception gross of fees is 105.64%; net of fees 98.47% versus the benchmark at 127.27%. Their growth of assets for the Fund since inception is $7.0 million.

He reviewed the strategic core trailing twelve months performance as of December 31, 2017. The IT sector was the winner in 2017 with total returns of 44.01% versus the benchmark at 38.87%. This performance brought back a sizable amount of capital.

Their other outperforming sectors in the portfolio included: consumers staples at 26.74% versus 12.86%; healthcare at 29.79% versus 21.93% and materials at 29.26% versus 23.25%.

There were some issues with their financial holdings which forced changes in their financial portfolio and synchronized growth for 2017.

Mr. Sanyal described the fiscal policies that have extended the business cycle along with the repatriation of cash from overseas. Without the FANG (facebook, Amazon, Netflix and Google) stocks in the portfolio it would have been impossible to beat the S&P benchmark.

He provided an overview of their strategic core holdings by sector.

He also reviewed their top ten outperformers and underperformers as of December 31, 2017. They had a tough go with their energy company positions.

He highlighted the top ten outperformers including Electronic Arts. He noted two of their key portfolio transactions during the fourth quarter of 2017 including energy company Valor and consumer discretionary company Michael Kors. They also made some significant changes in their financial positions.

He described their portfolio profile by sector weight, top ten holdings, top ten active industry over weights and top ten active industry underweights. The active contribution from their top ten holdings was 6.26%.

Mr. Green stated that the macro environment is positive. The economic expansion is ten years old and the recovery has been slow. He discussed the effect of debt ceiling prices and economic spending programs on the economy. He also described the growth of the economy in 2017 and the rising interest rates.

The tax cuts will be a fiscal stimulus as well as the increase in infrastructure spending which will keep the existing cycle going longer.

Interest rates will rise but there is cause for concern with no price or wage inflation. This will cause the Federal Reserve to tighten their policies.

He indicated that the market will continue to be strong and with the yield curve inverting at the end it will not be the end of the cycle.

Miss Munson congratulated Mr. Green on the recent $1B investment into Piedmont's R1000G index fund and asked him to discuss the differences in returns and fees the Trustees could expect were they to consider moving the System's assets into Piedmont's passive strategy.

Mr. Green responded that they have managed the passive strategy since 2001 and are looking for another manager to help with the management of their index product. They had a positive response to the market and matching the benchmark returns with that strategy. The fees are much lower on passive strategies than active strategies and one would expect to receive the same returns as the market.

Miss Munson noted that Northern Trust statements indicate that the Lazard Ltd investment is an MLP. She asked Mr. Green's opinion of the potential Dell/VMWare combination.

Mr. Green indicated that the Dell acquisition of VMWare is fine but the reverse would have been a risk. The investment met their fundamentals. He noted that the company is performing very well.

Trustee Albritton stated that Piedmont's 2017 performance was a lot different from their 2016 performance. He asked what they did differently.

Mr. Green indicated that what they did was push their losers out and narrowed their positions versus the broad market which pushed the portfolio.

Mr. Sanyal also added that their outperforming sectors are working which increased performance.

Oakbrook – Large Cap Growth
Janna Sampson, CFA, Co-Chief Investment Officer & Managing Member

Ms. Sampson reported that there have been no changes at the firm and everything is steady. Oakbrook manages large cap growth assets. They are excited to see what happens with regard to economic growth in 2018. They currently have $1.6 billion in assets under management. This year will be the firm's twentieth anniversary.

They are in compliance with all the System's policies and there are no conflicts.

They use a quantitative strategy model and manage to the Russell 1000 benchmark. The benchmark looks at market efficiency with regard to the distribution of market information. They look at market inefficiencies with how investors process the market information and their reactions.

She told the Board that they normally see a performance decline at the beginning of the quarterly cycle but did not lose momentum this quarter which is the first time since 2009. Normally the loss of momentum in February would cause a trigger response in their model to make a change.

She reviewed the System's performance for 2017. Their performance net of fees for 2017 was 30.53% versus the benchmark at 30.21% or 32 basis points of performance. Their performance since inception net of fees is 17.12% versus 16.49%.

She described their chart depicting their cumulative performance, noting that they look a lot like the index but outperform and add value over the long run.

She discussed their underperformance around Thanksgiving due to the passage of the tax bill. The markets were tough for a couple of weeks but it did not erase their out performance for 2017.

Information technology and consumer discretionary were their best performers. Their underweight to healthcare distracted from their performance. During the period they did switch to an overweight of the healthcare sector but it did not compensate for the underperformance. There were a lot of concerns whether the Affordable Healthcare Act would be repealed or not repealed. There were a lot of risk characteristics but their beta did well.

Mr. Lee indicated that their quantitative strategy did not tell the story of why they performed so well.

Ms. Sampson indicated that their performance based on their holdings is more informative when reporting on a quarterly basis. Based on their strategy it is too difficult to display their attribution stats on an annual basis. She noted that momentum added some value; however their momentum overlay negated performance due to the passage of the tax bill.

Trustee Albritton asked about their holdings in Rite Aid and questioned how they decide to sell a stock.

Ms. Sampson indicated that they look at the stock's style and sector. Their model factors in the sector and style weights as well as risk controls. They held a small percentage in Rite Aid.

Trustee Albritton asked if Walgreen's buyout of Rite Aid played into their decision.

Ms. Sampson indicated that they rely on their investment model to make those decisions.

Trustee Patrice Waterman asked if their investment in Wynn created any problems after shooting in Las Vegas.

Ms. Sampson indicated she is not sure if they held the position at the time of the shooting. They clearly held the position at the right time based on the outperformance but they may have pulled back.

Mr. Lee explained that Oakbrook's model does not have love for any one particular stock.

Ativio Capital – Large Cap Core (Emerging Manager)
Ram Gandikota, Principal, Sr. Portfolio Manager & Associate Director of Research

Mr. Gandikota introduced himself to the Board.

He provided an overview of the firm. As of February 28, 2018 they have approximately $2 billion in assets under management. They have averaged annual growth of approximately 35% since 2010. They are part of the emerging manager fund of funds.

He reported that they are in compliance with the System's IPS and Ethics Policy.

He reviewed their organization structure noting that they have added two new employees with a total of sixteen employees in the firm.

Trustee Nazarko arrived at 10:15 a.m.

He described their investment process noting their factor calculation and ranking of positions with regard to valuations; operating momentum; price momentum and volatility. Their mandate filter looks for positions with good cash flow and those that generate value for stockholders and can add alpha. Their risk management model helps to narrow down the number of positions by looking for high active shares to add to the portfolio to beat the benchmark and generate alpha. Those positions that meet the criteria are added to the portfolio.

He told the Board that their firm has been managing money for the System since 2014. He reviewed their performance since inception versus the benchmark. Their gross of fees performance is 15.04%; with net of fees performance of 14.30% versus 15.11%. Their excess returns since inception are -0.81%. He also indicated that their year-to-date performance net of fees was strong at 23.56% versus the index at 21.83%.

He attributed the poor performance in 2016 to the market favoring of value stocks and their portfolio being caught in a bad position. They try to stay disciplined and true to their strategy.

He reviewed their cumulative performance since inception. Performance net of fees as of February 28, 2018 was 125.46% versus the benchmark at 135.32%.

He also provided an overview of their attribution based on twelve month trailing returns. The average portfolio weight was underweight to energy; financials and healthcare versus the benchmark. They outperformed the benchmark in a number of sectors.

He described their top ten contributors and detractors. They had a good number of healthcare companies in the portfolio. They were overweight to financials with positions in Key Bank, Wells Fargo and J.P. Morgan.

Home Depot was a detractor from performance. They reduced their exposure to the position. They also sold their position in AT&T during the fourth quarter.

He went over their portfolio characteristics as of February 28, 2018. They have a concentrated portfolio with thirty-eight holdings. He explained that they have low exposure metrics to the benchmark. He talked about the thirty year low in market risk and correlations and how the markets drape risk in the benchmark which has increased the active risk in portfolios.

They did not take the additional risk. They feel that their factors should provide performance returns versus the benchmark. If there is a drop in the market their over capture should take advantage and perform well. He added that they do not invest in low price to earnings or low valuation names. They have added exposure to the portfolio to more valued stocks.

Trustee Nazarko asked about their 63% turnover for the year. He questioned if this is the industry average and the correlation to fees.

Mr. Gandikota indicated that their average turnover is 40% to 50%. There is very little market impact with regard to trading costs which are very low.

Mr. Roth questioned whether they quoted fees of 70 basis points in the presentation materials because they are the highest fees they charge.

He explained that they reported 70 basis points which is in compliance with GIPS.

Matarin Capital Management – Large Cap Core
Nili Gilbert, Co-Founder, Portfolio Manager

Ms. Gilbert provided an overview of the firm. Matarin was founded in 2010 by a team with extensive institutional investment experience. The firm is 100% employee owned and was seeded with their own money. She also stated that the principals of the company are invested alongside their clients.

They have grown from Managing Principal, Valerie Malter's investment of $1.5 million from her 401k in January 2011 to $1.35 billion in firm assets under management with thirty institutional client accounts as of February 28, 2018. They use various diversities to build their prospectus. The firm has seen growth each year adding six new institutional clients each year. She noted that some clients are making their second and third investments with the firm.

She confirmed that their firm is in compliance with the System's IPS and Ethics Policy. She noted that compliance and ethics is close to their hearts.

Many people ask why they left their big firms. She told the Board that they left because they felt there was more to be done in the industry with regard to client stewardship.

They do not utilize soft dollars. They charge reasonable fees and have a strict no policy with regard to political contributions, gifts, etc. They want their clients to know how their money is being used.

She reviewed their organizational chart explaining that the investment team has been together for a long time. Stuart Kaye was the CIO at Invesco and recruited her to that firm.

She explained the three components of their investment process. They use three models: alpha; risk and optimized that takes expectations of alpha, risk and transaction costs into account. Their philosophy goes back to 1980 and has evolved over time.

The markets are inefficient due to investor emotion and bias. Investors are also fearful, greedy and have egos. These emotions cause investors to be irrational. They had to find a way to get these emotions out of what is happening in the market and codify these beliefs and express them in the market. Their investment process gives that ability by combining the fundamentals with their best quantitative tools. This gives them the best advantage to zig when the other managers zag.

She described their four fundamental concepts which included good businesses that are highly efficient and have high cash flow generators. They also look for inexpensive valuations which are stocks with low expectation valuations that are out of favor. They also seek shareholder-friendly leadership at companies that have a record of adding value through capital to the company. They also look for drivers for near-term outperformance. This is based on their short-term forecast analyst that looks for changes that can be a catalyst or indicator for business momentum including price change or volume.

She explained that their optimization process generates a portfolio that delivers high expected returns and their risk controls provide them the given level of risk using output from each stage of the investment process. Their picking of stocks is based on return forecasts. They do not take sector or industry bets. Their beta looks like the benchmark.

She reviewed the System's monthly returns since inception. She told the Board that they have outperformed every year since 2016 ranking in the 7th percentile. They were 3rd in risk adjusted returns. They beat the benchmark based Annualized returns since inception showed gross returns of 15.85% versus the benchmark at 14.12% generating gross excess returns of 1.73%.

Annual gross returns for 2016 (beginning May 1, 2016) were 6.99% versus the benchmark at 10.06% with gross excess returns of -3.07%; 2017 returns were 28.11% versus 21.84% with excess returns of 6.27% and since inception 20.44% versus 18.52% with excess returns of 1.92%.

In 2018 portfolio drivers are similar to 2017 has been a challenge based on the level of risk based on sectors and industries.

Miss Munson noted that Valerie Malter had approached her after the September manager review and was very passionate about the firm's position on soft dollars. She asked Ms. Gilbert to elaborate on the firm's position.

Ms. Gilbert told the Board that soft dollars means the client pays firms like J.P. Morgan higher commissions. The commissions go toward paying for the data and research for the investment manager to manage their client accounts. Matarin views this as more akin to a kickback to the investment manager. Matarin decided that they would pay for the research tools needed to run their company. Internationally, there have been more crackdowns in Europe because of how this works.

Miss Munson reminded the Board that Matarin has been exempted from the System's Directed Brokerage and Commission Recapture program because obligating them to participate would have increased the commissions paid by the System.

Mr. Lee provided additional information regarded directed brokerage soft dollars. Europe is now separating the research and transaction costs. Soft dollars benefit the investment manager and tend to lower returns for the investor.

Soft dollars are monies that are paid out of the investor's account to a brokerage firm to cover the transaction fees for executing trades. These trades can cost four times more than the actual cost of the trade. The additional cost pays for the brokerage firm to cover the costs of research and other investment manager tools.

NorthPointe Capital - Large Cap Value
Peter Cahill, CIO, Portfolio Manager, Partner
Michael Hayden, CFA, Partner

Mr. Hayden introduced himself and Mr. Cahill to the Board. He also stated that Mr. Cahill is the portfolio manager for the large cap value.

He also indicated that the firm is compliant with the System's IPS and Ethics Policy.

Mr. Cahill told the Board that 2017 was a good year. They have managed assets for the System since 2009. Since inception their performance net of fees is 15.5% versus the benchmark at 14.6%. Net of fees performance since inception is 15.09% versus 14.29%. Their one-year performance gross of fees as of December 31, 2017 was 16.0% versus the index at 13.7%.

He highlighted their investment process noting that his retirement is invested alongside the System.

They are evidence based investors. As the students of the market they capitalize on three things: value; quality and momentum. It was a momentum driven market in 2017 which pushed cheap, safe and momentum stocks. They manage a highly diversified portfolio where volatility is not well received. Their large cap value portfolio is squarely positioned.

Mr. Lee questioned whether their losses in 2017 were based on their overweight to financials.

Mr. Cahill stated that traditionally they have excelled and added value from their financial positions since 2000. However, there were some interest rate sensitive signals in 2017 which caused one of their stocks to run into some issues. They exited that position during the second quarter of 2017.

Trustee Nazarko questioned their investment process and felt that value, quality and momentum are intertwined.

Mr. Cahill indicated that the value and momentum relationship can change overtime.

Seizert Capital Partners – Large Cap Value (Michigan Centric)
Andy Jones, Portfolio Manager
John VanGorder, Marketing & Client Services Manager

John VanGorder introduced himself and Andy Jones to the Board.

He indicated that they are in compliance with the System's IPS and Ethics Policy.

He reported that Gerry Seizert has stepped down as Chairman of the firm. David Collon has succeeded him as the Managing Partner of the firm in February 2018. Jerry stepped down in order to spend more time with his wife who is ill. He also told the Board that they are looking to bring younger people into the firm to keep it growing.

Their firm has been managing assets for the System since May 2009. He reviewed the portfolio's active summary since inception noting the beginning value of $6.25 million with net contributions/withdrawals of $2.61 million; realized gains of $6,265,682.00; unrealized gains of $5,587,748; income received of $2,226,891.00 which resulted in an ending value of $17.7 million.

Mr. Jones told the Board that he started with the firm in 2009 and became the portfolio manager in 2012. Their goal is to compound and preserve System capital. They concentrate the capital in names that focus on quality fundamentals including cash flow and valuations.

Their disciplined process relies on quantitative and fundamental analysis to help identify what they believe to be the most attractive opportunities. They identify stocks that are attractive on a relative basis within each sector. Their fundamental research analysis focuses on valuations; financial strength and management behavior. They use a reasonable range and team approach to build a concentrated portfolio.

He reviewed their annualized performance history. Since inception performance gross of fees as of December 31, 2017 was 15.65% versus the index at 14.48%; net of fees was 15.28% versus 14.48%. They continue to outperform the benchmark overtime and are able to provide returns.

He reviewed their trailing one-year portfolio attribution as of December 31, 2017. Their worst performers were still returning capital to stockholders and have good fundamentals. He discussed their up market of 106.32% and down market capture of 93.04% ratios. The average number of holdings in their portfolio is thirty-eight. He stated that they are patience and wait for the best opportunities and price targets.

He reviewed the best and worst performers. CVS has done a nice job for the portfolio for a long time noting their recent acquisition of Aetna.

He reviewed the trailing one-year sector performance noting with the exception of consumer discretionary and materials the rest of the sectors performed well for the period.

Mr. Lee asked about their investment in Discovery Communications.

Mr. Jones explained that overtime Discovery has seen their margins compress. In order to further stabilize the company they recently bought Scripps Broadcasting which has a large distribution in the European market. This should help them maintain and stabilize their returns and free cash flow generation for the long-term.

Trustee Giddings asked about their real estate holdings.

Mr. Jones stated that they do not own any real estate holdings in the portfolio.

Meeting Break from 11:25 a.m. to 11:40 a.m.
Trustees Nazarko and Patrice Waterman left at 11:25 a.m.

Manager Review – Roundtable

Mr. Lee discussed the roundtable format as free form making note that there will be no microphones and asked the managers to speak up.

He asked the managers with everything that is happening now how does it relate to market returns and the trading partners.

Mr. Cahill from NorthPointe Capital stated that there are a lot of headlines and back channeling. The Trump administration is different from other administrations. There is the likelihood that this is a threat to get people to the table to make trades more equal.

Ms. Gilbert from Matarin Capital indicated that small cap has more of a trading base in the U.S. with large and mid cap having more trade base in the international markets. She noted that micro cap is outperforming versus large cap. The question is how it will affect large cap and geopolitical risk. There are issues with China noting their new lifetime leader. China seems to be stepping forward as the new leader of global issues in the world. Strategically he may be using this to step and be a better leader and takeover the U.S.'s role in the world.

Mr. Lee also stated that China has certainly stepped up. If the trade alliance goes through is it a win for Trump. He believes in fair trade. He referred to China's investments outside of China particularly in Africa. The U.S. has more military presence than infrastructure.

Mr. Gandikota from Ativo Capital indicated that the U.S. used fake tariffs under Nixon to keep track of money and force other companies to come to the table.

Ms. Sampson from Oakbrook Capital indicated that the volatility has increased since the trade wars talk started. There has been a long cycle of large cap outperforming small cap. Maybe it is coming to an end.

Mr. Sanyal from Piedmont Capital stated that the tax cuts helped domestic investments. Smaller companies are more of a target in trade wars.

Mr. Jones from Seizert Capital indicated there has been large cap volatility due to the last three months. It could be a temporary blimp or an issue that will impact disciplines. He felt that the volatility would remain.

Mr. Lee asked the managers what will perform better domestic or international stocks.

Mr. Sanyal stated that European stocks are currently outperforming. With the dollar continues to weaken it puts pressure on the outside stock market.

Mr. Brooks from Sawgrass Asset Management stated that the emerging markets are outperforming the domestic markets due to consumer spending on necessities. There is more discretionary spending in the emerging markets.

Mr. Lee asked relative to investments are more investors looking to avoid investments in firearms.

Mr. Jones indicated that many people are looking at the retailers versus the manufacturers.

Mr. Silvestri from Attucks Asset Management stated that Environmental, Social and Governance (ESG) is at a turning point in more strategies. At first investors were hesitant because there was not a universe of managers that participated. There were some after Sandy Hook. ESG is different because there is the question whether it can add investment returns. There has been more interest in companies that are more socially compliant.

Mr. Frank indicated that they see more negative screening in portfolios. Socially Responsible Investing (SRI's) predates ESG.

Ms. Gilbert indicated there is no reason to debate it exists. It is a harder hurdle based on performance and the number of investments that exist. She referred to the David Rockefeller Fund that invests 95% of their assets in ESG and alternative investments that meet their goals. It is a return issue versus risk model. If you can minimize the risk it can have a huge impact on returns.

Mr. Green from Piedmont Investment Advisors stated that they work with a large pension plan in the northeast issue. He indicated that you normally get negative returns from negative screens. In passive investments you have to get out in front of the negative screens.

Mr. Lee stated that there are challenges defining what you are trying to accomplish. With large funds come bigger opportunities. There are various infrastructure based investments. The GERS System has no infrastructure plays. The challenge is finding the right solution, client type and size.

He asked the managers how you can tap in when the U.S. lags behind five to ten years versus the world. ESG is not represented in domestic portfolios.

Mr. Jones stated that some infrastructure investments have some exposure to a small segment of ESG.

Mr. Cobin from Kennedy Capital stated that some companies in the automotive space have ESG investments noting emission controls.

Mr. Lee indicated they have an east coast plan that has divested of carbon generating companies due to global warming.

Chairman Moore asked the managers about the interest rate discussion and whether this will support businesses and tax cuts.

Mr. Silvestri stated that if you are going to buy a home you should do it quickly because mortgage rates will be increasing. Savings accounts rates will go up but not as quickly.

Ms. Sampson stated that as Treasury yields start to rise retirees will not be buying homes. There is potential to get income by not taking risk.

Mr. Cobin stated that rates will go up and down but individual and business tax cuts are coming and will help businesses to compete.

Ms. Gilbert stated that the tax cuts for individuals will sunset and interest rates will continue to rise the next few years which will cause deleveraging. She also stated that the average savings level is back to the level it was at the beginning of the crisis.

Mr. Sanyal stated that investors will use cheap money to buy back stocks.

Ms. Sampson indicated that the tax cuts will eventually hit the U.S. stock market and as that phases stock pickers will come back out. Picking stocks will become more attractive.

Ms. Gilbert referred to the rising rates and government issuance of new debt.

Mr. Gandikota stated that inflation is the key to borrowing. Tax cuts will have benefitted some consumers and businesses but will not offset tariffs on steel and aluminum.

Ms. Sampson stated that tariffs do not cause inflation. If averages rise she would expect wages to rise.

Trustee Albritton indicated that unemployment in the African American communities is 8%. He asked how more jobs can be created in the African American community.

Mr. Gandikota indicated there are companies out there that are matching up jobs with young people coming out of high schools with businesses that do not require degrees.

Chairman Moore stated that there needs to be a mechanism in place or effort to create a system to provide opportunities and create a level playing field. He stressed that managers have the opportunity to help.

Mr. Silvestri talked about providing economic opportunities and they are driven in the State of Illinois by the communities as a whole. As far as investment goals, women and minorities in

California and New York cannot be recognized for being a woman or a minority owned business. By providing opportunities in general will open up other opportunities.

Ms. Sweeney from Attucks Asset Management stated that women need to hire women and minorities need to hire minorities to help make this work.

Ms. Gilbert stated it is amazing that job creation sees so few minorities in white collar jobs versus manufacturing jobs. There is a huge discrepancy. Matarin helps to train and empower by their volunteerism in the community.

She also stated that the numbers aren't moving because in addition to education you have to learn to put yourself out there which is the key.

Trustee Albritton told the group that he is involved in career days at Pontiac high school. He would like to see managers share their knowledge and help the students learn what they need to do to move into this field.

Mr. Green stated that their firm believes in being role models which can help young people achieve their goals. They support the local community. They are open to giving back. He thinks it makes a difference. The new tax code and mortgage deductions can also provide incentives.

Chairman Moore asked about the manager's investments in banks and if there are associated benefits.

Mr. Schwarz stated that since bank reform, banks have been paying the highest rates since the Community Reinvestment Act of 1977 was enacted. It made sure that banks put money back into their local communities.

Chairman Moore also asked how the managers can capitalize on the recent budget that was put in place with regard to military spending.

Mr. VanGorder from Seizert Capital indicated that Williams International recently announced they will be adding six hundred jobs.

Meeting Break at 12:55 p.m.
Meeting Resumed at 1:45 p.m.

Attucks Asset Management – Manager of Managers
Andrea Koch, Analyst
Patrick Silvestri, Chief Investment Officer
Cathy Sweeney, Managing Director

Mr. Silvestri provided an overview of the firm. As of December 31, 2017 they had $1.5 billion in assets under management with $419.5 million in large cap.

He reported that the firm is in compliance with the System's IPS and Ethics Policy.

He reviewed their organizational chart indicating that they did have an analyst leave the company.

He explained their investment process including their investment policy including establishing program guidelines and analyzing benchmark components. Their portfolio structure screens managers using a bottom up manager research, risk review and portfolio construction. Their process includes ongoing portfolio monitoring which monitors sub-advisor performance and risk profile and confirms the investment guidelines.

Ms. Sweeney reviewed the managers' annual performance for large cap core and the Michigan centric portfolios. Both portfolios outperformed the benchmark by 4%. All managers also outperformed their relative benchmark. Large cap core outperformed due to its growth bias.

She indicated that 2016 was a tough year for managers because most were not positioned for the Trump bump. They have continued to outperform in January and February. Their five-year rolling period returns are slightly behind the benchmark.

She described the managers' attribution. Large cap core were over weighted to healthcare, IT and industrials. The value portfolios also outperformed in those sectors. The growth portfolio had a higher concentration of financials.

She described the core portfolio statistics noting the average number of holdings for the last five years at 421 versus the benchmark at 1,003. The average number of holdings in the value portfolio is 144 versus 700. The average core portfolio turnover was 0.80 versus 0.71 and the value portfolio was 0.69 versus 0.60.

She told the Board that the fees in 2017 increased due to the performance returns.

She reviewed the current asset allocation based on manager and portfolio. She indicated that they encourage funds and managers to hire firms from the local neighborhoods. Ninety percent of the firms they manager are emerging managers.

She referred to the holdings in the portfolios.

Trustee Albritton asked what Ms. Koch does at Attucks.

Ms. Koch indicated that she is a first contact with the managers.

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.

The currently have approximately $4 billion in assets under management with $1.9 billion in their large cap growth product.

He told the Board that they had a nice conversation regarding ESG and diversity investing in Detroit. The Board needs to get the idea out to the managers along with the awareness of diversity policies.

He is one of the co-founding principles of Sawgrass. They have been managing money for the System since 2007. Anthony Brooks is an equity portfolio analyst that has been with the firm for six years.

He indicated that the same Sawgrass team has been making every buy, sell and trade decision since 2007.

Since inception they have added $25 million in investment gains.

Mr. Brooks indicated that it has been a tough year relative to the benchmark due to the speculative rally which is not part of the Sawgrass style. They look for profitability and earnings to capture 90% of the up rally and do well in a stock picker environment. Their five-year annualized returns gross of fees are 15.6% versus 15.0% net of fees versus the benchmark at 17.3%.

Since inception annualized returns gross of fees are 131.1% versus net of fees 120.1% versus the benchmark at 158.9%.

Their thesis is to offer downside protection. They will outperform in the right market. They believe that risk is often mispriced and there is no consistency in the markets. They focus on lower volatility stocks. They provided strong returns in 2017. They have forty-five to sixty stocks in the portfolio. They are risk conscious managers.

He reviewed their portfolio attribution. He pointed out the fifteen stocks they did not own including facebook and NVIDIA. By not owning these stocks if hurt their performance by 780 basis points. They do not pick these stocks as growth managers. They are more risk conscious.

The market is transitioning and they are looking at how companies are going to recover. It is getting to be a more interpretive market. The market is strong as long as there is no pullback. They are comfortable with the way their portfolio is positioned.

Trustee Albritton asked what would have happened if they owned those fifteen stocks.

Mr. Brooks stated that those are value stocks that outperformed which are not in their risk profile. They look at stocks with good sales earnings and consistent growth. The facebook valuation is very high.

They have looked at Boeing, Lockheed Martin which is more consistent with their strategy and because of the military spending potential.

Kennedy Capital Management – Small Cap Fundamental Growth
Don Frank, Director of Client Service
Don Cobin, President, CEO, Small Cap Core Portfolio Manager

Mr. Frank thanked the Board for their business and the long-standing relationship since November 1993. The initial investment from the System was $5 million.

They are an employee owned firm with $5.4 billion in assets under management with $575 million in the core strategy and $460 million in the growth strategy.

They believe that investments in companies with strong fundamentals will outperform.

Mr. Cobin told the Board that he has managed the portfolio for over ten years and have outperformed the benchmark but there have been some ups and downs. They have a large investment team with a lot of research analysts helping. He noted that Chris McDonald and McAfee Burke also help him manage the portfolio.

His job as President will be to provide strategic vision, manage the portfolios and make sure nothing gets in the way from properly resourcing the needs of the company.

Last year was a good year. Their one-year performance gross of fees was 16.54% versus 15.38% net of fees and versus the benchmark at 14.65%. Their three and five-year performance underperformed the market. Since inception performance outperformed 13.30% gross of fees versus 12.18% net of fees versus the benchmark at 9.35%.

Really strong years in the market are tough for them but they still performed very well. The first seven quarters of the market have outperformed in small cap and helped them beat the benchmark. Times will be tougher in the market with the focus on quality high cash flow companies.

He reviewed the portfolio's attribution and statistics. They are not a fan of thematic investing. They average ninety to one hundred and five stocks in the portfolio. There are currently ninety-six stocks in the portfolio. They were overweight to healthcare investing in biotech companies which does not fit with their strategy. Despite this they outperformed in 2017.

He reviewed their top ten contributors and bottom ten detractors to their performance. He stated that you are not going to know everything about every company.

There are a lot of investment themes from taxes and cash flow returns. The reduction to the corporate tax rates and companies with substantial cash flows helps small cap. Mergers and acquisitions have benefitted from the low cost of debt by historical standards. They are looking forward and are not convinced about the resurgence of inflation. He also noted that companies are doing things more efficiently which is offsetting wages. He indicated that they believe inflation is priced in to the ninety-six stocks in the portfolio.

Miss Munson asked when the manager sold their position in Babcock & Wilson.

Mr. Cobin told the Board that Babcock and Wilson is a waste to energy company. They watched the manager project by project and bought the stock in 2016. However, there were some issues with a project in the U.K. resulting in cost overruns that they had to disclose. They sold the positions for around $10.00 to $11.00 per share.

Mr. Frank told the Board that they have been managing investments for the System for 25 years and started with $5 million. The past ten year time period has made things difficult for small cap managers.

He indicated that they currently charged 100 basis points on the System's assets under management and they are reducing that fee to 85 basis points.

Miss Munson asked for the start date of the fee reduction.

Mr. Frank indicated that is a contractual issue and they have to look into it.

John Rackers looks at growth in different ways. He looks at businesses that generate high returns. He also looks for companies that grow assets by adding other income streams.

He reviewed the small cap growth performance returns as of December 31, 2017. The one-year returns gross of fees are 20.05% versus 19.01% net of fees versus the benchmark at 22.17%. The Russell 3000 has outperformed over the past seven years with the market going up 5% per quarter. The index includes larger cap names with more momentum and style focus.

He indicated that there was a headwind in the biotech space but they were underweight. They make small investments in the companies in the space. There are far in away enough drugs developed in the space. They reduce the risk by making small investments. The tax reduction plan has benefitted small cap. The volatility in the market has played out for small cap.

Mr. Lee explained that the manager will be put on watch for two quarters due to the unexpected leadership change in the firm.

Consequent Capital Management – Private Equity
Ademir Zeco, Portfolio Manager

Mr. Zeco provided a summary of the System's investment in GrayCo Alternative Partners I Fund I.

He told the Board that State Street will be issuing the 4th quarter performance soon. It always takes longer at the end of the year to get the performance numbers because the underlying funds are going through their audits. Parmenter the real estate fund has not completed their reporting.

The System made a total commitment of $6 million and contributed $5.869 million. A $1 million distribution was made on March 8, 2018 to the limited partners.

He explained that most of the investment periods for the underlying funds have ended and that most of the underlying funds have matured. When they have cash available they will make another distribution to the Limited Partners. They expect the fund to be liquidated by 2021. He indicated that they do have the ability to extend the period for one to two years. The fees will be based on the investments that were made.

Miss Munson asked if Mr. Zeco has the information with regard to the fees that have been paid on this commitment. Since inception the fund has a net IRR of 2.5%. If you exclude the losses incurred for Southeaster Global Partners (SEG), the performance would be 10% higher.

Miss Munson asked about the investment to SEG. A total of $8 million had been invested in SEG mostly in May of 2016 and by December of 2016 the value of the investment had dropped to $1.6 million. The Board would like more information to get a better sense of what happened to the assets in that underlying fund.

Mr. Zeco indicated that Larry Gray was responsible for selecting the investments of SEG.

Miss Munson also asked about the investment in Ebony from underlying funds SEG and CVG.

Mr. Zeco stated that the investment from CVG is in common stock. Ebony is trying to turn the tide and are looking at an electronic platform online for both Ebony and Jet. SEG's focus was in minority-owned companies. SEG has a 10% preferred stock annual coupon in Ebony.

Trustee Swazer asked when the coupon will be paid.

Miss Munson confirmed that the dividend on this stock is accumulating and have not actually been paid out.

Mr. Zeco stated that they have secured legal counsel to investigate CVG.

Trustee Albritton asked about the $5.25 million invested.

Mr. Zeco indicated that there is a net gain on paper.

Trustee Swazer stated that she is concerned there is no way to determine the value.

Mr. Zeco explained how companies in private equity are valued and what the auditors base the valuations on.

Mr. Zeco stated that most of those funds invested by SEG were invested in real businesses that can have real value.

Ms. Billings-Dunn asked if there is a way to value those investments.

Mr. Zeco stated from a legal perspective they have checked and they are real investments. SEG does own preferred shares and we will have to wait and see.

Miss Munson asked about the earnings on the preferred shares.

Mr. Zeco indicated that is a question for Larry Gray.

Mr. Lee asked about the new organizational chart with the new CEO and Managing Director.

Ms. Billings-Dunn asked about the value of the investment to Partners Select.

Mr. Zeco indicated that it is valued at zero.

There was a question regarding the loan to ClearRock.

Mr. Zeco indicated that there was no security for the loan and 50% of the loan has been paid back.

Loomis Sayles – Small Cap Value
Joseph Beauparlant, CFA, Vice President, Client Portfolio Manager
Jeffery Schwartz, CFA, Vice President, Portfolio

Mr. Beauparlant introduced himself and Mr. Schwartz to the Board and thanked the Board for their investment with Loomis.

Their firm currently has $268.1 billion in assets under management.

He told the Board that they are in compliance with the System's IPS and Ethics Policy.

Mr. Schwartz provided an overview of the firm. Both their growth equity and fixed income side has outperformed due to their strong fundamental research and positive stock selection.

Loomis Sayles is owned by the French bank Natixis.

He has been managing the portfolio with Joe Gatz for the past six years since he returned to Michigan.

He told the Board that David Cooke will be retiring having more than twenty years with the firm.

There has been no turnover on the team.

He reviewed their performance attribution. The performance contribution from stock selection is 1.57% with a 1.08% contribution from sector allocation.

He told the Board that they look for market inefficiencies in companies that are often misunderstood, underfollowed/overlooked or in the midst of a special situation that creates an investment opportunity.

He reviewed their top ten contributors including Advansix, Inc.; Teradyne a semiconductor company, Churchill Downs, Inc. which is the location for the Kentucky Derby and is a gaming company and IAC/InterActive Corporation which is an internet business that includes Home Advisor and Angie's List. The bottom tend contributors included U.S. Silica Holdings, Inc. and Genesco, Inc. a shoe retailer.

Their year-to date performance has been good with outperformance of 62 basis points. Their performance has been strong with one-year performance gross of fees at 10.62% versus the index at 7.84%; three-year performance at 11.07% versus 9.55% and five year performance at 14.66% versus 13.01%. Their since inception performance gross of fees is 12.69% versus the benchmark at 10.38% providing 2.31% in excess returns.

He talked about the analysis of their holdings and how they rate ESG. They do not own gun companies.

They are more on the cutting edge of what is happening in Europe with regard to ESG.

The managers left at 3:35 p.m.

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<u>Dahab Wrap-up</u>

There was discussion regarding the Consequent Capital presentation.

The discussion included the Board's concerns with regard to the investment and whether System will be able to recoup some of their investment.

Ms. Billings-Dunn indicated that the System invested $5.25 million in GrayCo Alternatives and to date the System has lost $1.2 million.

The meeting adjourned at 3:45 p.m.