

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
JANUARY 31, 2019**

A meeting of the Board of Trustees was held on Thursday, January 31, 2019 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, Vice Chair  
Chad Chandler  
Janice Gaffney  
Robert Giddings  
Walter Moore, Chairman (telephonically)  
Billie Swazer  
James Walker  
John White (telephonically)  
Patrice Waterman, City Council (telephonically)

**OTHERS PRESENT**

Cynthia Billings-Dunn, Sullivan, Ward, Asher & Patton  
David Lee, Dahab & Associates  
Deborah Munson, Executive Director  
Kristy Neumann, Executive Assistant  
Linda Watson, City Retiree  
Francine Finnegan, City Retiree

**TRUSTEES ABSENT**

Deirdre Waterman, Mayor

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Chairman Moore opened the meeting at 10:00 a.m. and requested that Vice-Chair Albritton serve as acting Chairman.

**PUBLIC COMMENT**

There were no comments.

**AGENDA CHANGES**

Miss Munson requested that approval for her to attend the MAPERS One-Day conference on March 1, 2019 and for she and Trustee Giddings to attend the IFEBP Investment Institute in April be added to the Consent Agenda. She requested that Trustee Patrice Waterman's IFEBP Certificate be added to the Reports section of the agenda and that the certificates and scores for her and Phillip Moore online QuickBooks Training be added to the Executive Director's Report section.

Trustee Patrice Waterman requested that approval of her attendance of the NCPERS Legislative conference be added to the Consent Agenda.

**APPROVAL OF CONSENT AGENDA**

- A. Approval of the Minutes of the Special Board Meeting held November 15, 2018
- B. Approval of the Minutes of the Regular Board Meeting held November 28, 2018
- C. Approval of the Minutes of the Special Board Meeting held December 14, 2018
- D. Ratification of Retiree Payroll and Staff Payroll

Retiree Pay Date December 12, 2018 <b>TOTAL PENSION PAYROLL</b>	<b>\$2,061,125.64</b>
Retiree Pay Date January 30, 2019 <b>TOTAL PENSION PAYROLL</b>	<b>\$2,069,032.75</b>
Staff Pay Date December 6 & 20, 2018 <b>TOTAL PENSION PAYROLL</b>	<b>\$21,029.19</b>
Staff Pay Date January 3, 17 & 30, 2019 <b>TOTAL PENSION PAYROLL</b>	<b>\$32,962.25</b>

E. Communications

- Correspondence RE: FOIA Request from/to Public Funds IQ – January 15, 2019
- Correspondence from Robins Geller RE: Big Lots Legal Fees and Expense Reimbursement
- Correspondence First Eagle RE: Change in Fund Administrator
- Correspondence from First Eagle RE: Removal of Soft-Close Limitations
- Correspondence from Loomis RE: McDonnell Investment Management Combination
- Correspondence from Systematic RE: Staff Changes
- Correspondence from Wellington RE: Emerging Markets Dealing Terms Update
- MAPERS One-Day Seminar: March 1, 2019 (Novi, MI)
- IFEBP Advanced Investment Management: April 2 – May 2, 2019 (Philadelphia, PA)
- IFEBP International & Emerging Markets: July 22 – 24, 2019 (San Francisco, CA)
- IFEBP Trustee and Administrator Institute: June 24 – 26, 2019 (San Francisco, CA)
- NCPERS Legislative Update Conference: May 20 – 21, 2019 (Washington, D.C.)

F. Financial Reports

- Accounts Payable: December 2018 and January 2019
- Dahab Associates Preliminary Report: November & December 2018
- Attucks Manager-of-Manager Summary: November & December 2018
- Statement of Changes: November & December 2018

G. Private Equity Capital Calls & Distributions

- GrayCo Alternatives I Distribution: December 27, 2018 \$229,886
- Invesco Fund V Distribution: December 20, 2018 \$57,361
- Mesirow Fund IV Distribution: November 30, 2018 \$48,824
- Mesirow Fund IV Distribution: December 28, 2018 \$100,000
- Mesirow Fund VI Distribution: December 28, 2018 \$29,785

H. Retirement Benefits

1. New Retirements

<b>RETNO</b>	<b>Name</b>	<b>Amount</b>	<b>Effective</b>
2826	Brady, Rochelle		1/1/2018 (BENEFIT REINSTATED)
2839	Ledwell, Billie		1/1/2018 (BENEFIT REINSTATED)
2889	Bannan, Heather		6/1/2018
2891	Croskey, Renee		1/1/2018
2890	Luther, David		1/1/2019

**Bold type entry indicates Reciprocal service credit.**

2. Terminated Retirements

<b>RETNO</b>	<b>Name</b>	<b>Date of death</b>	<b>Benefit amount</b>
2056	Drahner, Wayne	11/22/2018	
701124	White, Nina	12/26/2018	
1509	White, Nina	12/26/2018	
1074	White, Samuel	1/6/2019	
701388	Sumner, Karla	12/30/2018	
923	Ball, Edith	12/7/2018	
721	Bell, Troy	1/15/2019	
2126	Hicks, Antoinette	12/19/2018	

3. J&S Continued Retirements

<b>RETNO</b>	<b>Name</b>	<b>Date of Death</b>	<b>Survivor's Name</b>	<b>Amount</b>
2190	Kelof, Sandra	11/18/2018	Kelof, Tony	
1871	Thorne, Gary	12/27/2018	Curcio, Susan	

4. Re-calculated Retirements

<b>RETNO</b>	<b>Member's Name</b>	<b>Effective Date</b>	<b>Reason for Change</b>	<b>New Amount</b>
2846	Mason-Cooper, Shirley	1/1/2018	Final	
2856	Youngquist, Timothy	1/1/2018	Final	
2855	Brown, Andrew	1/1/2018	Final	
2854	Bowie, John	1/1/2018	Final	
2853	Burkett, Timothy	1/1/2018	Final	
2852	Pennerman, Larry	1/1/2018	Final	
2845	Kilburn, Tracy	1/1/2018	Final	
2844	McNeary, Michelle	1/1/2018	Final	
2842	Thompson, Jerlisa	1/1/2018	Final	
2848	Fugate, Gary	1/1/2018	Final	
2838	Poplar, Andre	1/1/2018	Final	
2889	Bannan, Heather	6/1/2018	Final	
2867	Walker, James	1/1/2018	Final	
2863	Breeze, Sharon	1/1/2018	Final	
2872	Molett, Sandra	1/1/2018	Final	
2868	Losee, Kathryn	1/1/2018	Final	

*Pop-Up Benefit: When beneficiary dies before retirant, monthly benefit "pops-up" to what would have been the monthly Regular benefit amount (plus applicable COLA).*

5. Disability Medical Re-Exams/Benefit Continuation

<b>RETNO</b>	<b>Member's Name</b>	<b>Reason</b>
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6. Refunds of Employee contributions

RETNO	Member's Name	Reason	Amount
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**RESOLUTION 19-001** By Gaffney, Supported by Moore

Resolved, that the Board approves and ratifies actions described in the Consent Agenda for January 31, 2019 as amended.

Yeas: 9 – Nays: 0

**CONSULTANTS**

Debt and Value-Add Real Estate

David Lee confirmed that everyone had a chance to review the real estate summaries which provided an overview of American Strategic Value Realty Fund, Bloomfield Capital Management, Sound Mark Horizons Fund and Terracap Partners IV (Institutional) and solicited questions.

Trustee Gaffney began with her questions regarding TerraCap. She asked whether the System would be required to pay the management fees retroactive to the initial close date.

Mr. Lee confirmed that the System would owe an 8% per annum catch-up management fee.

Trustee Gaffney noted that – with the CPREA settlement pending – the size of the fund as well as the cashflow needs of the System could change dramatically and she would like to wait until that all settles before moving into these types of investments. She noted that the term of the TerraCap agreement is eight years and could be extended. Trustee Gaffney asked what the impact of any outstanding loans would be as noted in the summary.

Miss Munson responded that the reason loans to the fund are noted in the summaries is because three of the agreements allow the General Partners (GP) and/or affiliates to make loans to the funds. In certain scenarios, the loans would have priority of payment over the return of investors' capital.

Trustee Gaffney confirmed that the agreement allows for the manager to make in-kind distributions and that capital may be recalled by the GP.

Mr. Lee stated that the investment agreements are always written in the favor of the manager.

Trustee Gaffney reiterated that she does not believe that now is not the best time to be getting into these investments with the CPREA matter outstanding especially because – if the System cannot get the terms changed – the System may not be able to transfer these assets to the new Fund.

Ms. Billings-Dunn noted that this is a concern that she and Miss Munson tried to address in the summary by suggesting that the Board get pre-approval of such a transfer prior to investing. She continued that it is important for the Trustees to review and understand the investments into which they are getting. She reiterated that the agreements are written in the favor of the managers and that what they have tried to do is put together suggestions for the Trustees to counter so that the System have an agreement which everyone can live with. She said that she always requires that managers acknowledge their fiduciary status in all agreements. She also discussed the importance of not being limited to arbitration.

She cautioned the Trustees that there are going to be terms in the agreement that the System is not going to be able to change due to the small size of the investment.

Trustee Gaffney commented on a prior System investment and noted that – even if a manager signs off as a fiduciary – that is not a guarantee that they will live up to that standard. The manager can't lose; they get their money regardless of what happens.

Chairman Moore concurred with Trustee Gaffney and added that when he and some other Trustees attended a recent Legislative Conference, they heard from an attorney who also expressed how important it is that the Board never give the up right to require the fiduciary standard.

Trustee Swazer supported the attorney's comments regarding arbitration by noting that arbitrators are not judges.

Trustee Patrice Waterman stated that she understands Trustee Gaffney's point and doesn't want to be held accountable for not doing the due diligence as fiduciaries. She noted that we have a little time to negotiate before the April closing date and that GERS legal counsel needs to take more time to review the contracts.

Chairman Moore responded that even though staff and legal counsel have been asked to review the agreements, we as the Board will still be responsible to make the decision. He suggested that the attorney be allowed to go and negotiate with the managers and come back to the Board with the final agreement and the Board can decide whether to invest at that time. He said that if this is something that we want the attorney to go and negotiate, then this is something that can be brought back to the Board. He said that is the first decision that the Board needs to make.

Trustee Gaffney stated that she thought that the decision to move forward has been made. She said the Board can move forward however it desires but it is important to her to be able to voice all of her objections. She wants to voice her objections and make sure that everyone understands what we are getting into.

There was additional discussion.

**RESOLUTION 19-002** By Swazer, Supported by Walker

Resolved, that the Board will remove Sound Mark Horizons Fund, LP from consideration as an investment option at this time.

Yeas: 9 – Nays: 0

Miss Munson noted that there are recommendations for a Side Letter throughout the summaries and requested clarification that the Board is accepting that all of the recommendations in the summaries be included in the Side Letter.

Vice-Chair Albritton confirmed that all of the recommendations should be included in the Side Letter and the Board would need to decide whether to accept any terms that the managers reject.

Trustee Swazer suggested that everyone send their comments to both Miss Munson and legal counsel for their review when preparing the Side Letters.

Trustee Gaffney noted that the Advisory Committee for all three funds is selected by the GP and at least one of them did not have to include investors on the Committee. She noted that two of the managers will provide their audited financial statements within 120 days of the fiscal year end or as soon as possible thereafter and asked whether this would pose a problem for the System's audit.

Miss Munson responded that it would pose a problem for the System's audit if the audited financial statements aren't received by May 31 of each year.

Trustee Gaffney continued with her questions and comments. She noted the indemnification clause as well as the GPs ability to allow employees and affiliates to make co-investments on better terms than the System is receiving; the ability of the GP to form other entities that may compete for or be allocated deals that otherwise would have went to the fund/lost opportunities.

Trustee Giddings asked if the GP can be penalized for making a bad investment.

Ms. Billings-Dunn recommended reducing Gross Negligence to Negligence.

Trustee Gaffney continued. She noted that the GP determines the value of the assets and there is no requirement for an independent third-party appraisal.

Miss Munson confirmed that is true for both closed-end funds but noted that requiring an independent third-party appraiser is one of the recommendations for the Side Letter.

Ms. Billings-Dunn agreed and said it needed to be investigated further. She reiterated that the managers are going to be held to a fiduciary standard which means that they have to act in the best interest of the System

Mr. Lee said that the fiduciary standard trumps everything in the agreement.

Miss Munson commented that the agreements do not require the managers to provide enough information and detail to on the valuations and calculations for the Board to determine whether or not they violated the fiduciary standard. She noted that it is not likely that the manager is going to agree to provide that level of detail which is why one of the recommendations is to include at least an annual appraisal of the assets by an independent third-party appraiser.

Trustee Giddings remarked that to have to invoke rights would be rare and we would only do so if an issue arose and GERS lost money.

Trustee Gaffney asked Ms. Billings-Dunn to elaborate on the Attorney-in-Fact.

Ms. Billings-Dunn responded that the Power-of-Attorney is usually given for certain situations, but these clauses were broad and we would need to get clarification to make sure the System isn't giving the manager power to act in a way that would be detrimental to the System.

Trustee Gaffney wanted clarification that the manager would not be able to call more capital than what was committed.

Trustee Swazer asked if there were limits on the management fee and noted the potential for distributions of in-kind property. She reviewed some of the recommendations in the summary and said that wherever there is a recommendation, she would like for it to be included in the proposed Side Letter.

Miss Munson responded that that is the clarity she is seeking and thanked Trustee Swazer.

Ms. Billings-Dunn noted that a concern with the contracts is the confidentiality clauses because public funds are subject to the Freedom of Information Act and we would address this issue in the Side Letter. She noted the provision in TerraCap's agreement whereby certain information could be withheld from a Limited Partner or provided to them electronically in a non-downloadable, non-printable format and said this would be a deal-breaker, in her opinion.

Trustee Swazer asked about the clause that allows the management fee to be waived for certain investors and asked whether everyone will be treated equally.

Miss Munson confirmed that not all investors will be treated equally and that is true for all three funds. She explained by noting that the cashflows of the fund – income from interest, profits on sales, etc. – are allocated to the investors according to the GPs determination. Before those cashflows are turned into distributions to the investors, the GP also allocates the management fees, incentive fees, expenses, etc. Those costs are allocated to the investors in whatever manner the GP determines, and it will not necessarily be allocated based on the System's per cent total of the fund. This is not likely going to be a term that any of the managers agree to change which goes back to her earlier point about the similarities to private equity funds. The Board will never know this level of detail of allocations.

Mr. Lee said that his firm has never had a bad experience of this type; they have seen where the returns were not what was expected; but that is more a result of the market environment or timing.

Trustee Gaffney noted that the Managing Member of the Bloomfield Capital fund is currently registered with the SEC and subject to SEC regulation; however, the agreement states that they don't need to remain registered with the SEC if they no longer want to and asked the Board if she is the only one concerned by that.

Trustee Swazer asked whether we can require Bloomfield Capital to remain registered with the SEC.

Ms. Billings-Dunn noted that she and Miss Munson had discussed this and will be sure to add a requirement that they notify us of de-registration in the Side Letter.

Trustee Gaffney said that that is a big deal for her. She noted the manager would continue to earn the full management fee even after the three-year Wind Down and the recommendation that the management fee reduced by 50% after that three-year period; the services that are provided by affiliates which don't reduce the management fees and no quarterly reports. She believes we should receive quarterly reports of some kind. She noted the recommendation to request a hurdle rate equal to the other fund. The most disconcerting clause for her is that the manager can pay themselves the incentive management fee prior to paying out investors in the case of a dissolution. This makes Bloomfield Capital an absolute 'no' for her.

Mr. Lee stated that he believes requesting a lower management fee or higher hurdle rate will be a non-starter.

Miss Munson reiterated that the agreements give the manager the discretion to charge any investor any management fee or none at all and allocate income as they determine. We do not know what any other investor has negotiated in their Side Letter. And – given the small size of this fund – it seems worthwhile to attempt to negotiate better terms for the System.

Trustee Giddings suggested that we ask to see the other Side Letters.

Trustees Swazer and Gaffney both questioned the reference to Sec. 10.8.2.

Miss Munson explained that Article 14 of the agreement allows the manager to dissolve the fund for any reason - including that it is too small. Sec. 10.8.2 says that – prior to the occurrence of a dissolution – the manager can make distributions in their discretion.

Trustee Gaffney questioned the ability of the manager to prohibit certain investors from participating in certain profits and losses.

Miss Munson responded that all allocations – including profits, losses, gains, etc. – are in the GP’s discretion. The agreements are clear on this point and the System will not know how these allocations are made.

Trustee Albritton stated that it is important that the Board does its due diligence. It is exactly the reason why it is so imperative when there are things we don’t understand that we ask and get clarification. If they can’t give GERS what we want, we need to have the sense to walk away.

Trustee Chandler added that he has a friend in the Attorney General’s office and they have been getting flooded with cases of fraud and a lot of the cases have to do with real estate and investments which ultimately affect us. There are so many changes happening in real estate that we have be cautious.

Miss Munson clarified that there is nothing illegal about these agreements. What she and the attorney did in the summary was show how much discretion the GP has given himself and there are certain things they are not going to give up. There are a lot of details of the financials that the Board is never going to know; we have to be comfortable with the manager and have confidence in Dahab’s investigation of the firm. These investments are similar to private equity: they are a little riskier and less transparent, but they are not illegal. The manger is disclosing their processes in the agreements.

Miss Munson followed up with an earlier comment about the Opt-Out clause of this investment. The clause allows the System to submit an Opt-Out letter after being in the investment for 21 months. However, the Opt-Out doesn’t go into effect for 90 days. Any distributions made by the fund during the 90-day period could be automatically rolled over into a new Series or Fund. There is a recommendation in the summary that a request be included in the Side Letter to not have any of the System’s assets rolled over and that the System’s interest in the Fund at the end of the Wind-Down period be determined by an independent third-party appraiser. She noted that as of December, this fund had approximately \$60M and 80% of that been rolled over from prior funds but it cannot be determined how much - if any – were involuntary rollovers.

Vice-Chair Albritton suggested that the Board inquire as to how much of the \$60M was voluntarily rolled-over by investors who were satisfied with the performance of the prior fund.



Ms. Billings-Dunn noted that the recommendation is that the Board would be given the option of whether to roll-over their investment into a new Series or Fund.

Vice-Chair Albritton suggested we table this discussion to move on to the rest of the agenda.

The Board concurred.

#### Periodic Rebalancing Recommendation

**RESOLUTION 19-003** By Gaffney, Supported by Walker

Resolved, That the Board approves the consultant's recommendation to rebalance the portfolio by transferring \$3M from Sawgrass and \$3M from WCM Asset Management to the cash manager to provide for benefits and operating expenses.

Yeas: 9 – Nays: 0

#### Index Fund Education - Tabled

#### Kennedy Post-Trade Analysis

The Trustees received and filed the analysis.

### **REPORTS**

#### **Personnel & Administration Sub-Committee**

##### Re-Examination and Appeal Process for Disability Retirees Revision

Miss Munson report that both committees had reviewed the revisions for the Disability Re-Examination and Appeal Process. The Personnel & Administration committee didn't have a majority for recommendation, but the finance committee is recommending it for approval

##### Annual Professional Services Review

Miss Munson reported that both committees had reviewed the recommendation for the 2019 service provider review and are recommending that the Medical Director be selected as the provider.

##### Social Security Offset Option Policy

Miss Munson reported that both committees have reviewed the recommend policy and are recommending it for approval.

##### Workers Compensation Policy Renewal

Miss Munson reported that both committees had reviewed the policy renewal and are recommending it for approval.

##### Annual Disability Process

Miss Munson reported that both committees reviewed the Disability Annual Procedures update. Three members will be re-examined in 2019.

##### Trustee Retreat

Miss Munson reported that both committees had brief discussions about a Trustee retreat and deferred the subject to Chairman Moore.

## **Finance Sub-Committee**

### **Kennedy Post-Trade Analysis**

Miss Munson reported that the finance committee reviewed the Kennedy Post-Trade Analysis provided by Dahab.

### **Trustee Reports**

- IFEBP Certificate of Attendance: Albritton
- IFEBP Certificate of Attendance: Moore
- IFEBP Certificate of Attendance: Swazer
- IFEBP Certificate of Attendance: Patrice Waterman
- MAPERS Intermediate Fiduciary Exam: Swazer

### **Chairman**

Chairman Moore said he would be reaching out to the new Trustees to determine whether they would like to serve on one of the committees. He also highlighted some of the issues which were discussed at the Legislative Conference he and some other Trustees recently attended including Mandatory Social Security and potential repeal of the Windfall Elimination Provision/Government Pension Offset.

## **EXECUTIVE DIRECTOR**

### **2019 1099R Distribution**

Miss Munson reported that the 1099R statements were mailed to retirees on January 9, 2019.

### **2019 W-2 Distribution**

Miss Munson reported that the W-2 statements were delivered to employees on January 9, 2019.

### **2019 1099M Distribution**

Miss Munson reported that the 1099M were mailed and/or were included in today's meeting material.

### **2019 Form 945**

Miss Munson reported that Form 945 was filed on January 29, 2019.

### **Annual Notice to Deferred Members**

Miss Munson reported that the notices to deferred members who are eligible to retire in 2019 were mailed on January 29, 2019.

### **Production Calendar**

Miss Munson referenced the 2019 Production Calendar included in the agenda.

### **Election Notice of Vacancy**

Miss Munson reported that the Election Notices of Vacancy were mailed for the Active Member-Trustee and the Member-Trustee on January 25, 2019.

### **QuickBooks Online Training**

Miss Munson referenced the handouts of the certificates and scores she and Phillip Moore received for their QuickBooks online training.

Final Benefit Calculations.

Miss Munson reported that there are 14 final benefit calculations outstanding for 2018: ten are members who were allowed to participate in the early retirement and the remaining four are members who retired later in the year.

**UNFINISHED BUSINESS**

**RE: Resolution to Approve Increase for Executive Director**

Miss Munson requested a closed session to discuss her evaluation

**RESOLUTION 19-004** By

Roll Call:

Albritton – Yes	Swazer - Yes
Chandler – Yes	Walker - Yes
Gaffney – Yes	P. Waterman - Yes
Giddings – Yes	White - Yes
Moore - Yes	

The Board moved into closed session at 11:48 a.m.  
The Board returned from closed session at 12:10 p.m.

**RESOLUTION 19-005** By Gaffney, Supported by Albritton  
Resolved, That this matter will be tabled until the next meeting.

Yeas: 9 - Nays: 0

**RESOLUTION 19-006** By Gaffney, Supported by Albritton  
Resolved, That the Board hereby ratifies the Chair's signature in the McDermott matter.

Yeas: 9 - Nays: 0

**RESOLUTION 19-007** By Gaffney, Supported by Albritton  
Resolved, That the Board approves the minutes of the November 28, 2018 closed session.

Yeas: 9 - Nays: 0

**RE: Resolution to Ratify Action Taken at Special Meeting**

**RESOLUTION 19-008** By Swazer, Supported by Walker  
Resolved, that the Board ratifies the action taken at the December 14, 2018 special meeting in Resolution #18-149 approving attendance for all interested Trustees at the NCPERS Legislative Conference being held in Washington, D.C. January 27 – 29, 2019.

Yeas: 9 - Nays: 0

Trustee Albritton left at 12:15 p.m.  
Chairman Moore requested that Trustee Gaffney serve as acting Chair.  
Trustee Albritton returned (telephonically) 12:18 p.m.

**NEW BUSINESS**

**RE: Resolution to Amend the Re-Examination and Appeal Process for Disability Retirees**

Trustee Gaffney explained that the language in the policy is being amended to reflect language in the Ordinance that the Board may suspend a disability retirees' pension if they refuse to submit to re-examination. The current policy states that the Board shall suspend the pension and the revision will allow the Board more flexibility in assisting members who are not refusing to submit but may have other reasons for not attending a re-examination.

**RESOLUTION 19-009** By Giddings, Supported by Walker

Resolved, That the Board approves the revision to the Re-Examination and Appeal Process for Disability Retirees.

Yeas: 9 - Nays: 0

**RE: Resolution to Approve United Healthcare Insurance Renewal**

Miss Munson reported that since the ACA was passed, UnitedHealthcare eliminates the current plan each year and offers a substantially similar one in its place. The recommended plan provides the same coverages, deductibles and out-of-pocket terms as the prior plan. She reminded the Trustees that the staff insurance costs have decreased by approximately 2% over each of the last two years because of the arrangements made for the former Executive Assistant's spouse's coverage. The renewal policy premiums represent a 6% increase over the prior year.

Trustee Gaffney noted that the Miss Munson will work with the insurance company so that all policies renew during a time of the year to that doesn't conflict with the Board's year-end break in meetings.

**RESOLUTION 19-010** By Swazer, P. Waterman

Resolved, That the Board approves the election of the Plan B Health Plan through UnitedHealthcare beginning February 1, 2019.

Yeas: 9 - Nays: 0

**RE: Resolution to Certify Active-Member Trustee Election Results: Chad Chandler**

**RESOLUTION 19-011** By Swazer, Supported by Walker

Whereas, a General Election for the Active-Member Trustee to the Board was conducted on November 29, 2018, and

Whereas, the official results of the election have been certified and canvassed, now therefore be it

Resolved, That the office election results are hereby certified by the Board of Trustees.

Yeas: 9 - Nays: 0

**RE: Resolution to Renew Worker's Compensation Policy**

**RESOLUTION 19-012** By Swazer, Supported by Walker

Resolved, That the Board approves to renew the Workers' Compensation insurance policy offered through The Hartford for the period February 1, 2019 – February 1, 2020 at the annual rate of approximately \$600.00.

Yeas: 9 - Nays: 0

**RE: Advisor and Consultant Review 2019**

**RESOLUTION 19-013** By, Swazer, Supported by Walker

Resolved, That the Board approves to select the Medical Director for review in 2019 pursuant to its Advisor and Consultant Reviews Policy.

Yeas: 9 - Nays: 0

**RE: Resolution to Approve Social Security Offset Option Policy**

**RESOLUTION 19-014** By, Walker, Supported by P. Waterman

WHEREAS, the Retirement Board is vested with the authority and fiduciary responsibility for the proper administration, management and operation of the Retirement System and for making effective the provisions of the Retirement Ordinance, and

WHEREAS, Sec. 92-18 of the Retirement Ordinance provides an optional form of payment – the Social Security Offset Option - whereby a member may elect to have their retirement allowance actuarially adjusted and coordinated with the member's age 65 estimated Social Security benefit, and

WHEREAS, the normal retirement age for Social Security has been increased from age 65 to age 67 with no concurrent amendment to Retirement Ordinance's Social Security Offset Option age of 65, and

WHEREAS, the Board has received the recommendation of the actuary and has considered the improbability of the Social Security Offset Option resulting in a permissible post-age 65 retirement allowance for certain members of the System, and

WHEREAS, the Ordinance authorizes the Retirement Board to adopt rules and regulations related to members' election of the Social Security Offset Option, now, therefore be it

RESOLVED, That in order for a member to elect the Social Security Offset Option he/she must have an accrued benefit in the Retirement System that exceeds their estimated Social Security benefit.

Yeas: 9 - Nays: 0

**RE: Resolution of Appreciation: Jane Arndt**

**RESOLUTION 19-015** By Swazer, Supported by Gaffney

Whereas, Jane Arndt has faithfully served as an employee of the City of Pontiac since October 2003, as an employee of the General Employees' Retirement System since July 2005 and as a Trustee on the City of

Pontiac General Employees' Retirement System since November 2013 until her retirement in October 2018, and

Whereas, Jane Arndt has displayed an understanding of the fiduciary responsibilities a Trustee must have to serve the members and beneficiaries of the Retirement System, and

Whereas, Jane Arndt carried out her fiduciary responsibilities with a sense of dedication, scholarship and hard work on the behalf of the Board and the members of the Retirement System, and

Whereas, in service to the members of the System, Jane Arndt has shown leadership and diplomacy while serving as a Trustee and Executive Assistant, and

Whereas, Jane Arndt had a strong passion for tending to the needs of members, looking out for their best interest, and speaking on their behalf now, therefore be it

Resolved, that the Board of Trustees, on behalf of itself and all concerned, hereby expresses its gratitude and appreciation to Jane Arndt for her years of commitment and service as an employee and as a Trustee, and be it further

Resolved, Jane Arndt shall be forever remembered for the numerous contributions she has made to the Retirement System and the community, and be it further

Resolved, that the Board of Trustees, on behalf of all the aforementioned parties, says "Thank you for the years of service on behalf of the Retirement System and its members."

Yeas: 9 - Nays: 0

Resolution of Appreciation: Kevin Williams

**RESOLUTION 19-016** By Swazer, Supported by Moore

Whereas, Kevin Williams has served as a Trustee on the City of Pontiac General Employee's Retirement System pursuant to the applicable Retirement System provisions from December 2003 through August 2015 and April 2016 through December 2018, and

Whereas, Kevin Williams has displayed an understanding of the fiduciary responsibilities a Trustee must have to serve the members and beneficiaries of the Retirement System, and

Whereas, Kevin Williams carried out his fiduciary responsibilities with a sense of dedication, scholarship and hard work on the behalf of the Board and the members of the Retirement System, and

Whereas, in service to the members of the System, Kevin Williams has shown leadership and diplomacy while serving as a Trustee and Vice Chair of the Board, and

Whereas, Kevin Williams has served the members and the citizens of Pontiac in other ways including as a minister and advocate in the community, now, therefore be it

Resolved, that the Board of Trustees, on behalf of itself and all concerned, hereby expresses its gratitude and appreciation to Kevin Williams for his years of commitment and service as a Trustee, and be it further

Resolved, Kevin Williams shall be forever remembered for the numerous contributions he has made to the Retirement System and the community, and be it further

Resolved, that the Board of Trustees, on behalf of all the aforementioned parties, says “Thank you for the years of service on behalf of the Retirement System and its members.”

Yeas: 9 - Nays: 0

## **LEGAL**

### Correspondence RE: Mitchell Domestic Relations Order

This is for the Trustees’ information

### Social Security Offset Option Policy Email

See New Business

### IRS 2019 Standard Mileage Rates

This is for the Trustees’ information

### Robbins Geller November and December 2018 Portfolio Monitoring Reports

This is for the Trustees’ information

### Fees received by Sullivan, Ward for Securities Litigation Matters

No change since last month

Chairman Moore and the Trustees agreed that it would be beneficial for the attorney and the Executive Director to schedule a 1-hour overview with the new Trustees to acquaint the legal and regulatory framework in which the System operates.

## **RESOLUTION 19-017** By Swazer, Supported by Moore

Resolved, That the Board approves the legal fees incurred with the attorney providing a regulatory overview of the System for new Trustees.

Yeas: 9 - Nays: 0

## **Debt and Value-Add Real Estate (cont.).**

Trustee Gaffney stated that one of her concerns with American Realty is the size of the fund. The System is much smaller fish in a fund of this size. But it is the most open-ended and easier to withdraw from. She noted the reinvestment of distributions are not automatic and can be addressed in a Side Letter. She liked that their half of their management fee is paid in shares so – even after receiving their fee – they have some of their earnings at risk. She noted that they are not required to have an Advisory Board. She noted that they do provide quarterly reports within 60 days of quarter-end.

Miss Munson noted that whether or not a fund has an Advisory Board – there is no obligation that the GP seek their advice and/or follow their recommendation. And there is nothing in the agreements that mandates that the Advisory Board report its activities to the other Limited Partners.

Trustees Gaffney and Swazer noted the clause regarding involuntary withdrawals.

Miss Munson went through the 3 provisions for an involuntary withdrawal. The first is if we were to make a material misrepresentation. She gave the example that when the System signs the subscription documents, we are certifying certain things such that we are a public plan and that we are tax exempt. If we were to make a material misrepresentation, we could be involuntarily withdrawn from the fund. The next is if we were to become incapacitated – which wouldn't apply to the plan. The third is if our continued involvement in the plan would cause them to violate the law. She gave the example that certain funds don't want to be deemed as holding ERISA plan assets. American Realty gives specific scenarios where the System could be involuntarily removed. The other two funds can involuntarily withdraw you for no reason.

Ms. Billings-Dunn confirmed that if our participation in the fund could cause them to violate the law, they can remove us.

Trustees Gaffney and Swazer noted and commented on the sections regarding transactions with affiliates/lost opportunity and placement fees. They confirmed that our Side Letter would include a requirement that the manager abide by the System's Placement Agents Policy disclosure requirements.

Trustee Gaffney noted that in the case where American Realty pays an affiliate to provide a service, they will get at or below market rate. The other managers can pay whatever they want with no bid procedures etc. She confirmed with the attorney that this is the only fund that would be classified as real estate pursuant to PA 314: the other two would be considered basket clause investments. She noted that the fund isn't registered.

Miss Munson clarified none of the funds are registered securities. The managers are registered investment advisors.

Trustee Swazer asked about the investment manager being able to increase their fees unilaterally.

Miss Munson confirmed that the manager can amend the agreement to increase their fees, but the higher fee would only be applicable to investors who committed capital after the effective date of the amendment.

Trustee Swazer asked about the clause regarding failure to contribute a capital call.

Miss Munson explained that American Realty has the least onerous provision as far as repercussions of not making a contribution. If we are late on a capital call, they can charge us interest on that capital amount due. The other two funds can take some very draconian steps including giving away 30% - 50% of the Systems investment to other investors and there is no timeframe describing when they could implement those actions. She noted this this provision is one of the provisions that we are trying to mitigate in the Side Letter. She also noted that the System has never missed a capital call.

Trustee Swazer requested that we get confirmation that all share classes participate in profits and losses equally. She asked about the recalling of capital and Sec 5.4 Reinvestment in Additional Shares.



Miss Munson confirmed that the manager may recall capital that has been distributed. The system will receive distributions which are made up part of capital part income. The system has made a \$5M commitment so whether they ask for an additional contribution or they recall the capital portion of a distribution, they cannot call more than the \$5M we have committed.

Trustee Swazer asked about the Attorney-in-Fact provisions; the request of disclosure of related party loans and preapproval of a transfer of the System's interest. She and Chairman Moore requested clarity on the effects of a Most Favored Nations clause on the GP ability to waive or charge lower fees to certain investors.

Ms. Billings-Dunn responded that our Most Favored Nation (MFN) Side Letter clause would request that if the managers offer lower fees or more lucrative terms to an investor who makes a similar sized commitment, we would receive those exact same more favorable terms.

Chairman Moore asked whether this is a game change if we are not able to get that MFN clause.

Ms. Billings-Dunn responded that the Trustees would need to be aware of if someone were getting a better deal; the Trustees have to be comfortable with the deal they are getting.

Miss Munson cautioned the Trustees that – when it comes to the allocations, expenses and cashflows, etc. - the managers will probably not provide the System with the information to know whether they are receiving the best terms available pursuant to a MFN clause.

Chairman Moore noted that another thing that has been discussed is moving disputes to a Michigan court.

Ms. Billings-Dunn responded that with these agreements there are two areas. The first is under what state law the agreement is going to be governed and where any disputes will be resolved. As a general rule the law is what the law is, and these managers are not going to agree to have their agreements governed under 50 different state laws. She doesn't take issue with that because she can research the laws in the various states. But, if there is a conflict, we would like to have the conflict resolved in our state court. If not, the System would incur additional legal fees being represented out-of-state.

Ms. Billings-Dunn confirmed for Trustee Gaffney that the venue for an alleged breach of fiduciary duty for American Realty is any state and that American Realty has already acknowledged their fiduciary status.

Trustee Giddings suggested that the Board discuss moving forward. We want to get some cashflow and get a rate of return that exceeds our actuarial assumption. With respect to the potential settlement, this investment would comprise such a small percent of our total Fund.

Trustee Gaffney stated that with the CPREA settlement, the percentage of assets in closed-end funds would change dramatically and wondered whether the proposed new Super-VEBA would request a cash transfer so that it could select its' on asset make-up

Chairman Moore stated that the potential settlement was briefly discussed in committee it is something that needs to be looked into further. He said he shared Trustee Gaffney's concern that the assets should be kept as liquid as much as possible.

Chairman Moore stated that he would like to suggest investing \$4 Million equally among the three managers.

Trustee Gaffney stated that regardless of any split she is not comfortable with the lack of transparency.

Chairman Moore responded that he wants is to be clear that the motion is contingent on acceptance of terms of the Side Letter.

*Trustees Patrice Waterman and John White left at approximately 1:00 p.m.*

**RESOLUTION 19-018** By Moore, Supported by Walker

Resolved, That the Board approves an investment of \$4M each to American Realty, Bloomfield Capital and TerraCap pending Board approval of the terms of the Side Letter.

Yeas: 6 – Nays: 1 (Trustee Gaffney)

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#### **SCHEDULING OF NEXT MEETING**

Regular Meeting: Wednesday, February 27, 2019

**RESOLUTION 19-019** By Giddings, Supported by Albritton

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' Retirement System be adjourned at 1:13 p.m.

Yeas: 7 – Nays: 0

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I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on January 31, 2019

As recorded by Kristy Neumann, reviewed and edited by Legal Counsel and Executive Director