

**CITY OF PONTIAC MICHIGAN**  
**GENERAL EMPLOYEES RETIREMENT SYSTEM**  
**Manager Review Meeting**  
**March 26, 2019**

A special meeting of the Board of Trustees was held on Tuesday, March 26, 2019 at the Marriott Centerpoint, 3600 Centerpoint Parkway, Pontiac, MI 48321. The meeting was called to order at 9:00 A.M.

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**TRUSTEES PRESENT**

Sheldon Albritton, Vice Chair  
Janice Gaffney  
Robert Giddings  
Walter Moore, Chairman  
Billie Swazer  
James Walker  
John White  
Patrice Waterman, City Council

**TRUSTEES ABSENT**

Chad Chandler  
Deirdre Waterman

**OTHERS PRESENT**

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

**MANAGERS**

Ram Gandikota, Ativo Capital  
Les Bond, Attucks  
Cathy Sweeney, Attucks  
Pat Silvestri, Attucks  
Joe Stelmaszek, Attucks  
John Robinson, Consequent  
Ademir Zeco, Consequent  
Randall Eley, Edgar Lomax  
Chuck Bryant, Kennedy Capital  
Don Cobin, Kennedy Capital  
Joseph Beauparlant, Loomis Sayles  
Jeff Schwartz, Loomis Sayles  
Nili Gilbert, Matarin Capital  
Pete Cahill, Northpointe  
Mike Hayden, Northpointe  
Paula Mikrut, OakBrook Investments  
Janna Sampson, OakBrook Investments  
Anthony Brooks, Sawgrass  
Brian Monroe, Sawgrass  
Andy Jones, Seizert  
John Van Gorder, Seizert

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Chairman Moore opened the meeting by welcoming everyone and reviewed the format of meeting and presenters.

Steven Roth reviewed the Manager Preliminary Performance Summary Report as of February 2019. The Portfolio reflected a Market Value of \$488, 288,668 and returned 2.7% for the month; 8.4% QTD; 3.6% for the 1-year, 10.7% for the 3-year; 6.5% for the 5-year and 8.2% since inception. He highlighted that these are long term assets and that traditionally - in times of volatility - investors take the opportunity to invest more. However, however the markets have rebounded so quickly, they didn't have the opportunity to do so.

**Sawgrass Asset Management**

Brian Monroe and Anthony Brooks

Mr. Monroe thanked the Board for their time and introduced Anthony Brooks and announced that Mr. Brooks was a new equity stakeholder in the firm. He provided an update on the firm. Mr. Brooks summarized their approach to investing as well as their performance report across negative markets, positive markets and strong positive markets. The portfolio performance returns as of December 31, 2018 was -10.44% QTD; 3.27% 1-year; 9.5% 5-year and 8.08% since inception versus 8.72% for the Russell 1000 over the same period.

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**OakBrook Investments**

Janna Sampson and Paula Mikrut

Ms. Sampson introduced Paula Mikrut, who was newly appointed to management in September 2018 and briefly reviewed the firm overview, IPS compliance reports, investment team and process. She summarized how OakBrook's dual quantitative model and strict risk controls capitalize on market inefficiencies. Ms. Sampson discussed contributing factors such as tariff threats and trade threats which contributed to the down market in the third quarter of 2018 and the difficulty everyone experienced.

**Ativo Capital**

Ram Gandikota

Mr. Gandikota reported that his firm has \$1.8B in assets under management as of 2/28/19. He provided staff updates noting that the original founder, Dennis Aust has begun a soft retirement and will be slowly fading out over the next three years. Mr. Gandikota reviewed accounts which were lost and gained in 2018 and reported that the firm remains profitable and is 100% employee owned. He reviewed their investment process and quantitative models which goal is to capitalize on assets which are undervalued. Since inception the portfolio has returned 13% for City of Pontiac.

**Matarin Capital**

Nili Gilbert

Ms. Gilbert thank the Board for their business and provided an overview of the firm highlighting they are a certified women-owned business, almost 2/3 of assets come from direct mandates and - since January 2011 – they have gone from \$1.5M to \$1.45B in assets under management as of 2/28/19. They have 32 institutional account five of which are in the large cap strategy. Ms. Gilbert reported that since their presentation as this meeting last year, they have hired a new Chief Compliance Officer, Melanie Mendoza. She indicated that Matarin views markets as inefficient in the intermediate term because people get emotional which results in behavioral biases and those can sometimes push stocks prices far away from the true fair value. She said that Matarin discusses this first and what they believe will drive the stocks fair value over the long run and then develop ways to quantify those ideas. She reviewed the four fundamental voncepts and how they are scored against their alpha model, risk and transaction cost. Ms. Gilbert stated the since inception of May 2016, they have beat the benchmark by of 1.04% net of fees.

**Attucks Asset Management**

Les Bond, Cathy Sweeney, Pat Silvestri and Joe Stelmaszek

Mr. Bond introduced the team and thanked the Board for the opportunity to continue working with GERS. Ms. Sweeney reviewed the annual performance report stating they outperformed in three of the four benchmarks for core large cap. It was a tougher year for value managers which outperformed in two of the four quarters. She also reviewed the cumulative performance report noting the different inception dates.

**The Edgar Lomax Company**

Randall Eley

Mr. Eley provided a company overview stating that it was founded in 1986 with a staff of 11 and as of December 31, 2018 has approximately \$1.4 Billion in assets under management. He reviewed their investment process. He reviewed the performance summary highlighting that in 6 ½ months, both gross- and net-of-fees, they have performed well. He said that they will not always be able to achieve such results, but they did so because they stuck to their investment philosophy and good practices. Mr. Eley also reviewed the portfolio appraisal noting that it was compiled of common household names and that the goal was to continue with these types of stocks and capture the same type of returns.

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**Roundtable Discussion (1:05 pm)**

Mr. Moore stated that this is a good opportunity for everyone to use this as learning tool to grow from others experiences and that no financial topics are off limits.

Questions Answers and Comments

Chairman Moore noted that there has been a lot of discussion regarding active vs passive managers and asked what the benefit is to public pension systems to continue to work with active managers.

Mr. Cobin of Kennedy Capital replied that if managers are outperforming over time net-of-fees, it's basic and makes sense. The last 3-5 years have been difficult for active managers to perform. In the end, companies that generate higher returns on invested capital are going to generate more value to shareholders.

Ms. Sampson of OakBrook responded that when you buy a passive index, you're buying high and things that are valued at the peak because the largest holdings in the indexes are those that have run the hardest and longest.

Mr. Silvestri of Attucks responded that they have asked this and talked with a couple of their clients. Often, active managers are judged like you judge a bull market cycle. If you look at managers that go back at least 10 years or just before 2008, an index that was market-cap weighted will do fine and likely outperform. You hire active managers for the downside capture and risk management.

Mr. Schwartz of Loomis Sayles replied that as a small cap value manager, they understand and take advantage the value of inefficiencies in small cap stocks. For example, an investor buying a small cap index is buying an unmonitored performance.

Ms. Gilbert of Matarin answered that they believe their clients should hire a manager based on what they can do in the future and not solely based on past performance. Markets are constantly changing and the work that active managers do or should do is adapt their process and best thinking to the markets that are ahead of them.

Mr. Brooks of Sawgrass commented that when it comes to passive investing, it comes down to semantics. The only way to be a true passive investor would be to buy every stock in the index. A passive index is really an active bet with less oversight. The benefit when you use active management is that you have people that are regularly rebalancing to certain targets and not just randomly chasing after what has gone up the most.

David Lee of Dahab asked how we can talk to the membership or interested parties when they ask what a good market cycle is and be able to explain why active managers have earned a place besides just protection on the downside. If that doesn't show on a performance report, what is the justification.

Mr. Silvestri of Attucks replied that it can be indirectly compared to an insurance policy in any marketplace; when you need it, you have to have it, but you won't see the value until a down market.

Chairman Moore asked if this just a perception that the Board has or do you the managers hear the same thing in discussion. He also questioned whether other systems are now questioning the benefit of active management.

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Ms. Gilbert of Matarin responded that this is a conversation that comes up all around. We often say active management will outperform over the length of a cycle which includes a period of downturn. So, it is very important to acknowledge and understand the historic length of the current bull market cycle. In the past we used to say a cycle was 5-7 years and we are now going on 10 years. The way cycles usually end is at the top with the Federal Reserve overshooting and raising interest rates. We've just recently seen that slowing down and to avoid that mistake which has the potential to prolong this market cycle even more.

Mr. Jones of Seizert replied that it's important to look back and see who has performed during past down periods like 2008.

Chairman Moore asked what the thoughts were regarding tax cuts and trade wars and how are those affecting the financial markets.

Ms. Sampson of OakBrook responded that in addition to extremely low interest rates, one other reason for this longer bull market cycle is because of the corporate tax cuts.

Mr. Cobin of Kennedy Capital referred to the US being on a timeframe because of elections while China is not.

Chairman Moore stated that when there's tax cuts, usually some that benefit while others don't. He asked whether the managers believe that the cuts are doing what they were intended to do for the entire economy.

Ms. Gilbert of Matarin said to look back further and think about the Trump effect on the global economy. There are some issues to think about from an economic perspective, not only what does it mean for the government, but also for long-term economic growth. She believes that a lot of globalism and market risk is coming from outside the country. In the U.S. growth is strong, however Europe is seriously facing the probability of a recession. She said that we're starting to see the effects of immigration policies. Not only is economic long-term growth something every country looks at; population growth is becoming a concern.

Ms. Mikrut of OakBrook replied that the Trump effect has impacted market uncertainty. In 2016 we knew where things stood after the election; we knew who the President was and what policies he favors and where things are likely to go which created some certainty and the markets went up. But in the third quarter of last year the potential trade war between US and China created uncertainty.

There was additional discussion.

Chairman Moore thanked all the managers for their time and the discussion.

Round table concluded at 1:55 p.m.

**Northpointe Capital**

Pete Cahill and Mike Hayden

Mr. Hayden thanked the Board for their time. They are proud that in 3 months it will be the 10-year anniversary that they have been doing business with GERS. Mr. Cahill presented the performance report noting that the second half of 2018 was a challenge with the portfolio down -10.7% vs the Russell 1000 at -8.3%. He continued to discuss how fees were determined and part of the reason active managers must

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defend questions about fees is that most are not price-friendly, so the value isn't there. Mr. Hayden discussed studies done that an active Manager with business older than 15 years, has a 90% chance of having three bad consecutive years. Their focus is not always about making big profits but rather being consistent.

**Kennedy Capital**

Don Cobin and Chuck Bryant

Mr. Cobin said that generally about 25% or 30% of the portfolio companies have international exposure. Even if it is not directly China, there are a lot of links to China and a lot people don't know that the European economy is very tightly tied with China. So, we can't ignore what is going on and they are paying a lot of attention to what is happening there. China has a long-term plan and the U.S. runs on 4-year election cycles. He said they're also factoring in wage pressures and debt levels for 2019. He discussed the upcoming Democratic debates and believes that the markets are going to be buffeted some and that there's going to be talk about drug prices. Mr. Cobin reviewed the second quarter of 2018. Mr. Cobin stated how proud Kennedy Capital is that GERS was their first public fund and they really appreciate the relationship.

**Seizert Capital**

John Van Gorder and Andy Jones

Mr. Van Gorder reviewed their investment process and portfolio performance which was 12.53% net-of-fees for the year. He reviewed the best and worst performers and noted that information technology and healthcare were the factors in the fourth quarter which contributed the most to their underperformance. Mr. Jones stated that there are 34 positions in the portfolio which continue to trade at a discount.

**Loomis, Sayles & Company**

Joseph Beuparlant and Jeff Schwartz

Mr. Beuparlant presented a company overview stating they currently have \$250B in assets. He reviewed the IPS and Ethics Compliance statements noting that there were no violations. He introduced Mr. Schwartz who is now based in Bloomfield Hills, MI with the rest of the value team. Mr. Schwartz reviewed the small cap value team highlighting their investment process and strategy. He reviewed the investment results report and performance attributions report.

**Consequent Capital**

John Robinson and Ademir Zeco

Mr. Zeco presented the performance report summary. He stated that \$5,253,443 of the \$6,000,000 commitment had been called and he does not anticipate that more will be called since the investment period ended late last year. As of September 30, 2018, the cumulative distributions made to the fund were a total of \$689,655 and since December 27, 2018 the fund distributed another \$229,886 to GERS. He reported a net gain of \$684,399 and a Net IRR Since Inception of 2.24%. He then reviewed the fee summary report. Mr. Zeco presented the fund summary of the portfolios report. He concluded his presentation with an overview of the underlying investments of the Southeastern Global Partners which includes CVG Group, Partners Select, ClearRock Investments, Ebony Media and Algodon Wines & Luxury Development.

**Wrap Up**

David Lee reviewed highlights of the meeting with the Trustees.

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I certify that the foregoing are the true and correct minutes of the special meeting of the General Employees Retirement System held on March 26, 2019

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