

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
September 25, 2013**

A regular meeting of the Board of Trustees was held on Wednesday, September 25, 2013 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 10:20 a.m.

**TRUSTEES PRESENT**

Shirley Barnett  
Koné Bowman, Vice Chairman  
Janice Gaffney  
Robert Giddings  
Walter Moore  
John Naglick, Secretary (*arr. at 10:09 am*)  
Patrice Waterman

**TRUSTEES ABSENT**

Charlie Harrison, Chairman (*excused*)  
Leon Jukowski, Mayor (*absent*)  
Kevin Williams (*excused*)

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton  
Christopher Kuhn, Gray & Company  
Ellen Zimmermann, Executive Director  
Jane Arndt, Executive Assistant  
Gregory Prost, Ambassador Capital  
Brian Jeffries, Ambassador Capital  
Geraldine Hahn, Hospital Retiree  
Carol Hodges, Hospital Retiree  
Mary Ann Newcombe, Hospital Retiree  
Larry Marshall, City Retiree (*arr. at 10:08 am*)  
Billie Swazer, City Retiree (*arr. at 10:03 am*)

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**PUBLIC DISCUSSION/UNION REPS**

Vice Chair Bowman opened up the meeting to public discussion.

Retiree, Geraldine Hahn told the Board that she attended the meeting because she is concerned about the funding of the System with regard to what has been published in the newspaper.

Retiree, Mary Ann Newcombe told that retirees who worked at Pontiac General Hospital get together once each year. This year there were 105 in attendance. She thanked the Board for their efforts in the System's 150% funding ratio. She indicated that she is concerned after reading the article in the Sunday Oakland Press that there are individuals who are preying on the retirees' benefits.

Vice Chair Bowman told Ms. Newcombe that unfortunately the newspaper does not tell the full story. Since Gray & Company was voted in they have done a great job managing the System's assets and advising the Board on investments. He indicated that he wants the retirees to be put at ease knowing that the Board has followed the letter of the law.

Mr. Gray has had a stellar career and is revered in the industry and by his peers. He is considering taking legal action against those individuals that have slandered him in the press. He

cannot comment on the situation in Atlanta. However, Mr. Gray did disclose his management of the GrayCo Alts investment to this Board. The issue in Atlanta could have happened due to a missed communication. This Board's minutes include what transpires at the meeting. He is not sure that Atlanta's minutes do the same thing.

This Board is currently dealing with an audit issue associated with a real estate investment in the GrayCo Alts Fund. That issue is being addressed.

Mr. Kuhn explained that Parmenter is a real estate manager in the underlying fund. There is concern that this manager is not following the letter of the law because there was a qualified audit opinion from one of the fund's auditors.

Parmenter (the manager) received an unqualified audit opinion from Deloitte. However, the other auditor, McGladrey issued a qualified opinion (for GrayCo Alts). It seems that the two auditors have a different interpretation of a technicality when they conducted the audit. Deloitte is working with McGladrey to reconcile the matter.

Retiree, Billie Swazer indicated that she would not be shocked if she found out that John Naglick was responsible for escalating this issue. There has been a lot of coercion by the City because they want the Retirement assets to go to MERS. Mr. Naglick looks for anything to discredit the System. But, he does not point out issues with the Police & Fire Retirement System. He works those issues out. The City's intent is to get rid of the Retirement System.

## **AGENDA CHANGES**

Ms. Zimmermann distributed LaJuan Craft's retirement application to the Board.

Ms. Billings indicated that this issue should be discussed in closed session. The Board can vote after they come out of closed session.

## **APPROVAL OF CONSENT AGENDA**

- A. Approval of Minutes of Special Meeting: August 27, 2013
- B. Approval of Minutes of Regular Meeting: August 28, 2013
- C. Communications
  - 1. Correspondence from AMBS Re: September 2013 Newsletter
  - 2. Correspondence from Ambassador Capital Re: September, 2013 Newsletter
  - 3. Correspondence from First Eagle Re: August 2013 Performance Summary
  - 4. Correspondence from Herndon Capital Re: August Performance Summary
  - 5. Correspondence from Northpointe Capital Re: August Performance Summary
  - 6. Correspondence from United Healthcare Re: Staff Insurance under ACA
  - 7. Correspondence from John Naglick Re: Retiree Healthcare Notice
  - 8. Conferences:
    - a. 2013 Client Conference – Mesirow Private Equity – October 16-17, 2013
- D. Financial Reports
  - 1. Statement of Changes: August, 2013
  - 2. Accounts Payable: September, 2013
  - 3. Ratification of Capital Calls:

E. Death Audit

F. Applications for Retirement, Final Calculations, Refunds, Re-Examinations

1. Remove from the Rolls

- a. Harry Dakesian (deceased 09-12-13)
- b. Betty Jones (deceased 08-30-13)
- c. Cora M. Jackson (deceased 07-24-13)
- d. Mary M. Lyons (deceased 08-12-13)

2. Application for Service Retirement:

3. Final Benefit Calculations:

- |                        |       |                        |
|------------------------|-------|------------------------|
| a. Heather Webb        | #2695 | Early Out - Settlement |
| b. Sheryl Stubblefield | #2729 | Early Out              |
| c. Pamela Fladger      | #2734 | Early Out              |
| d. Phyllis Long        | #2736 | Early Out              |
| e. Lee Johnson         | #2737 | Age/Service            |
| f. Michael Wilson      | #2739 | Early Out              |

Trustee Moore indicated that in the special minutes dated August 27, 2013 it was noted that he left the meeting but his return was not noted. Ms. Zimmermann stated the special meeting minutes will be revised with the time he returned to the meeting.

**RESOLUTION 13-082** By Moore, Supported by Waterman

Resolved, That the Board approve the consent agenda for September 25, 2013 as amended.

Yeas: 7 – Nays: 0

**CONSULTANTS**

**Re: Gray & Company**

Mr. Kuhn distributed a letter from Larry Gray regarding the recent slanderous articles published in the Atlanta Journal Constitution and Oakland Press. The letter addressed the matters indicated in the newspapers. He reviewed the System's issue pertaining to the unqualified opinion received by a manager in the GrayCo Alts fund.

Trustee Barnett asked why Mr. Gray is not at today's meeting.

Mr. Kuhn explained that Mr. Gray has been busy with meetings and is speaking at a conference today.

Trustee Bowman indicated that the Investment Subcommittee has requested that Mr. Gray come in and speak to the Board.

Mr. Kuhn reassured the Board that from a consulting standpoint they are working hard to support the Board and to do a great job managing the assets with honesty and integrity.

Trustee Waterman asked how many clients Gray & Company has.

Mr. Kuhn indicated that Gray & Company has been advising the System since 2005. They have thirty-five consulting clients. Georgia public funds represent the largest percentage of their clients (20% to 30%); 15% to 20% of their clients are Michigan public funds. They also represent clients in Chicago, Dallas, New Jersey, New York, Connecticut and Alabama.

Trustee Waterman asked how many assets Gray & Company manages.

Mr. Kuhn reported that Gray & Company advises on \$10 billion in assets.

Trustee Bowman asked how much the System has invested in GrayCo Alts.

Mr. Kuhn stated that the System has \$3.5 million currently invested. The current market value is \$3.7 million representing an internal rate of return of 7%. When the System invested in Invesco and Mesirow their two-year performance numbers were negative. It is surprising to find this type of investment returning positive performance at this stage of the investment.

Trustee Naglick stated that these are illiquid investments, which is why the audit is so important.

Mr. Kuhn explained that private equity investments are carried at cost. The performance is due to the hedge funds in the portfolio which are liquid.

Trustee Naglick asked about the audit issue with regard to the investment in Parmenter.

Mr. Kuhn said that Parmenter received a nonqualified opinion from their auditor Deloitte which is included with the letter from Mr. Gray. However, GrayCo Alts received a qualified opinion from McGladrey due to the Parmenter investment. These firms are looking at differences in accounting standards between how a real estate investment and a REIT are audited. They are currently working to rectify the issue.

Trustee Naglick questioned why Gray & Company did not bring these concerns up with their auditor during the draft review to avoid these issues.

Mr. Kuhn provided an overview of the total Fund value as of August 31, 2013 at \$455 million. The performance was not particularly good with quarter-to-date performance of 2.15%. As of September 23, 2013 the total Fund value is \$469 million which is a gain of \$15 million as of close of business.

Trustee Moore noted that you will not read about that gain in the press.

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** - None

**Re: Trustees/Committees**

Personnel Subcommittee

Trustee Gaffney indicated that the Personnel Committee met and reviewed the personnel policies. Some changes were made. Ms. Zimmermann was instructed to make the changes for the committee's review. They will bring the policies to the Board with the recommended changes.

Ad Hoc Committee

Vice Chair Bowman told the Board that the Ad Hoc Committee met to look into a search for a consultant to oversee certain investments of the Fund. They will narrow the scope of the list of consultants to bring in for the interview process. Legal counsel and the Executive Director were there to insure the Committee used the correct process.

**Re: Administrator - None**

**Re: Legal**

IRS Letter of Determination Submission for an IRC Section 420 Transfer

Ms. Billings reported that this item is pending. She will keep the Board informed of any changes with regard to this matter.

Request for Attorney General Opinion

Ms. Billings reported that this item is pending. She will keep the Board informed of any changes with regard to this matter.

Trustee Moore asked if there is anything the Board can do to speed up the 420 Transfer process.

Ms. Billings indicated that the request was made on an expedited basis.

Trustee Moore asked if it would help to work with elected officials. The 420 Transfer is affected the lives of retirees. He questioned whether the Attorney General and others are dragging their feet. There are ways we can expedite the process.

Ms. Billings stated that she will follow up with State Representative Tim Griemmel.

Trustee Bowman indicated that a representative from the White House will be in Detroit. He asked if the City Council has reached out.

Trustee Waterman told the Board that Council President Jones has been in contact with Representative Gary Peters and President Obama's office.

IRS Letter of Determination Submission for Qualification Under IRC Section 401(a)

Ms. Billings reported that this is the general qualification for the Plan under the Internal Revenue Code. This item is also pending. She will keep the Board informed of any changes with regard to this matter.

#### Remaining Membership in the Retirement System

Ms. Billings indicated that correspondence was received from Joseph Sobota with the list of names of the active employees left in the Retirement System. It indicated that there are five active City members left and approximately thirty-five District Court employees.

Trustee Waterman asked why the City Clerk's name is not included on the list. She was a member of the System. When she came back from being laid off she was no longer included.

Trustee Naglick stated that he believes Ms. Hawkins is an at-will employee and will have to look at her employee contract.

Trustee Waterman asked that Ms. Billings follow up regarding Ms. Hawkins' status in the Retirement System.

Mr. Kuhn indicated that the representatives from Ambassador Capital have arrived. The Board asked that they be put on the agenda at the last meeting to present an addition to their investment strategy. Ms. Zimmermann said she had not included them on the agenda as she was not advised that they would attend.

#### FOIA Request from Reporter Zack Czirvak

Ms. Billings reported that a FOIA was received from Reporter Zack Czirvak. The requested documents are subject to FOIA and were provided to Mr. Czirvak.

#### Employer of District Court Judges and the Payment of Pension Benefits

Ms. Billings reported that Judge Preston Thomas applied for his retirement benefit on July 13, 2013. He is now requesting a retroactive retirement benefit because he was eligible to receive his benefit when he turned age sixty. He indicated that he was not aware that he was no longer an employee of the City.

She has looked into the issue regarding whether or not judges are employees of the City. If they are still considered employees and they are receiving a retirement benefit, this could be impermissible under the Internal Revenue Code. According to IRS regulations, employees are not eligible for in service distributions while they are still employed by the municipality, unless they have reached normal retirement age and the retirement system allows for such a distribution. Her research however determined that once a judge is elected they are no longer considered employees of the municipality so they are not affected by this parameter.

Ms. Zimmermann explained that any member who is deferred receives a deferred statement which includes the estimated amount of their benefit and when they are eligible to retire. Judge Thomas would have received this notice. It has been the practice of the Board to deny a request for a retroactive benefit and is in their best interest to remain consistent.

Trustee Gaffney stated that historically the Retirement Offices does not send a card when a member turns age sixty letting them know that they can retire.

Trustee Naglick told the Board that he met with Judge Walker regarding this issue. All the judges believed that they were still active City employees. Judge Thomas felt that they have been wronged. Judge Thomas told him that when he was elected he had a discussion regarding what would happen when he was elected. This does not seem right to him.

Ms. Zimmermann indicated that she met with Judge Thomas when he was elected and explained that he would no longer accrue service credit in the Retirement System. She will look to see if she has any documentation regarding her meeting with Judge Thomas.

Trustee Barnett told the Board that there have been several nurses that had the same thing happen to them. She questioned who is in the better position to know the process.

Trustee Naglick stated that the judges feel that their employment with the City continued.

Trustee Gaffney pointed out that the nurses also continued their employment.

Trustee Moore stated that anyone that goes in front of a Judge cannot claim ignorance of the law as an excuse. It is incumbent of the member to know the information. He does not feel that the process should be altered. The name and position should be taken out of the equation. There is no way that the Board should go back and grant a benefit when a member did not adhere to the process.

Ms. Billings stated that she will pull the documents and review the issue.

Ms. Zimmermann stated that pulling the documents will not change anything. Judges are not accruing service credit.

Trustee Gaffney indicated that the Board should be consistent with past practice.

Trustee Waterman requested that everything is well documented in the letter to the judges.

Trustee Moore stated that the Board is not denying a benefit.

Vice Chairman Bowman stated that attorneys will do what attorneys do. He also noted that the letter sent by legal counsel should be well documented and should include the Board's past practice with regard to this type of issue.

**RESOLUTION 13-083** By Giddings, Supported by Barnett  
Resolved, That the Board deny Judge Preston Thomas's request for a retroactive retirement benefit.

Yeas: 7 – Nays: 0

Trustee Waterman asked that Ms. Billings clarify what will be included in the letter to Judge Thomas.

Ms. Billings indicated that she will draft a letter explaining the issues and the Board's position regarding this matter.

Bernstein Litowitz Portfolio Monitoring Report – Second Quarter 2013

Ms. Billings reported that this is for the trustees' information.

Mr. Kuhn indicated that the representatives from Ambassador will be presenting a negative duration strategy. This is a way to diversify fixed income exposure to rising interest rates.

Trustee Barnett asked if they are predicting a stock market slowdown.

Mr. Kuhn stated that he read an article regarding keeping pace with stock market performance. The System's one-year performance through June, 2013 was 20%. He foresees 8% to 12% returns going forward. Fixed income is a concern with 0% returns to -2% returns expected.

They are waiting on the cash flow accounting to be redone so they can complete the asset liability study for the System. The actuary has to recalculate the cash flow based on the two-year temporary increase given to the retirees.

Trustee Gaffney questioned why the actuary has to redo the cash flow accounting since this is a temporary two-year increase.

Trustee Moore was concerned that members would leave the meeting due to the closed session before all the non-closed session business had been conducted by the Board.

**RESOLUTION 13-084** By Gaffney, Supported by Waterman  
Resolved, That the Board move to closed session to discuss pending litigation.

**Roll Call:**

Trustee Barnett – yea	Trustee Moore - yea
Vice Chair Bowman – yea	Trustee Naglick – yea
Trustee Gaffney – yea	Trustee Waterman - yea
Trustee Giddings - yea	

*The Board moved to closed session at 10:52 a.m.*

*Ms. Arndt, Mr. Kuhn, Ms. Hahn, Ms. Hodges, Ms. Newcombe, Ms. Ms. Swazer and Mr. Marshall, left at 10:52 a.m.*

*The Board returned from closed session at 11:04 a.m.*

**RESOLUTION 013-085** By Moore, Supported by Gaffney  
Resolved, That the Board approve the closed session minutes for August 28, 2013.

Yeas: 7 – Nays: 0

**RESOLUTION 013-086** By Moore, Supported by Gaffney  
Resolved, That the Board approve LaJuan Craft's retirement application.

Yeas: 7 – Nays: 0

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## **UNFINISHED BUSINESS**

**Re: Remaining Members of GERS Determination** – Refer to Legal

**Re: Section 420 Transfer – Retiree Healthcare** – Refer to Legal

**Re: D. Miller Request for Consideration** - Referred to Legal Counsel

**Re: P. Thomas Request for Consideration** - Refer to Legal

### **Re: Revised Election Rules**

Ms. Zimmermann reported that the election rules have been revised to indicate that the election for the Active Trustee will be conducted by mail. There are approximately forty active employees left. She has also drafted an election calendar. The Retirement Ordinance indicates that the election to replace Trustee Stubblefield has to be conducted within ninety days. The current election calendar applies to both the Hospital Trustee and the Active Trustee.

Trustee Moore asked when Trustee Giddings' term was up.

Trustee Giddings indicated that his term was for an abbreviated period.

Ms. Zimmermann indicated that the election for Trustee Giddings' position should have been conducted in March.

Trustee Moore felt that based on the number of retired members versus active members the position should be changed to allow retired members to run for that position.

He also asked for the number of deferred members.

Ms. Arndt indicated that there are approximately 190 deferred members.

Vice Chair Bowman read an excerpt from the minutes of the last meeting regarding the Active Trustee position on the Board. At that meeting, the Board discussed the Board dynamic and the fact that there are more retired members than actives. They also reviewed the Retirement Ordinance which has designated that trustee position as an Active Trustee. The Board determined that they would leave the trustee position that way so active members have

representation on the Board. Eventually all the active members will be gone and the Board can change the position.

Trustee Giddings confirmed that the Active Trustee position will complete the term of the previous Active Trustee.

Trustee Moore confirmed that the term will end in March, 2015.

**RESOLUTION 13-087** By Gaffney, Supported by Barnett  
Resolved, That the Board approve the revised election rules allowing mail in ballots for the Active Trustee election.

Yeas: 6 – Nays: 1 (Trustee Moore)

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## **NEW BUSINESS**

### **Re: Trustee Election Schedule – Active & Hospital**

Trustee Waterman asked if the date the election materials would be mailed to members is indicated on the election calendar.

Ms. Zimmermann told the Board that the information would be mailed to members on October 1, 2013.

**RESOLUTION 13-088** By Gaffney, Supported by Barnett  
Resolved, That the Board approve the election calendar for the Hospital and Active Trustee elections.

Yeas: 6 – Nays: 1 (Trustee Moore)

### **Re: Electronic Agendas**

Vice Chair Bowman stated that the Board is interested in purchasing tablets and going green. Electronic agendas would offer an easier way to get the information.

Trustee Moore also added that hard copies of the agenda packets could still be requested.

Trustee Gaffney stated that she likes receiving an electronic agenda because it is quick and she has more time to review the material.

Trustee Giddings noted that it also saves on postage.

Trustee Naglick explained how the Police & Fire Retirement System meetings are conducted at BeneSys. Each member has an iPad with the agenda materials included. The only paper they receive is a hard copy of the agenda.

Ms. Billings stated that she could provide the general matters legal report electronically but not the litigation report.

The Board directed Ms. Zimmermann to get information regarding the purchase of iPads.

Trustee Gaffney noted that a policy should be drafted indicating that the iPads belong to the Retirement System.

Ms. Zimmermann stated she drafted a policy when the Police & Fire Retirement System purchased their iPads.

Trustee Moore stated that these could be used as an educational tool for trustees.

Trustee Bowman asked the Board if the Executive Director should move forward with the purchase.

Trustee Naglick stated that he will not need one.

Trustee Bowman stated that no closed session materials should be put on the iPads.

### **Re: Ambassador Capital- PARR (Protection Against Rising Rates) Presentation**

Mr. Jeffries told the Board that Tal Gunn had a scheduling conflict, so he could not attend the presentation. He noted that he is President and CEO of Ambassador Capital. He thanked the Board for the opportunity to present their new strategy.

They are excited about their PARR (Protect Against Rising Rates) product. Ambassador currently offers seven investment strategies. This strategy will help to lower volatility and perform well when interest rates rise.

He explained that in a rising interest rate environment fixed income does not perform well. Typically, boards allocate assets to fixed income in order to protect their portfolios. This strategy will offer a level of protection for the System's portfolio when interest rates rise.

Mr. Prost indicated that they are proposing to lower volatility when rates rise by shorting bonds. He reviewed the historical bond market returns from 1950 through 2010. The charts indicate that when interest rates fall, prices rise which is good for bonds. When rates rise, prices fall which is bad for bonds. Bonds do not produce a lot of income when prices fall. Markets are more volatile when rates rise.

He described the ten-year treasury average annual returns and yields based on the year and the historical decade returns.

Historically, the economy would go into a recession every four years; now it is every eight years. If the economy falls into another recession at the beginning of the year there is nothing the Fed can do because they cannot lower rates any more.

He reviewed the cumulative bond market returns since 1981. When interest rates fall returns go up for long-term bonds. When interest rates rise you shorten the duration from long to intermediate to shorter term bonds to protect the portfolio.

He explained that lack of income is as big of a concern as principal loss. The recent rise in interest rates produced the worst total returns since the early 1980's. The income from the bonds could not make up for the drop in prices. Historically, income has made up nearly 75% of the total return of ten-year treasuries even when interest rates were falling. They are not getting paid a lot of yield or protected from a recession.

Lack of income is even a larger problem for credit risk. It is costing around 6% to buy high yield bonds but the yield on those bonds remains well below historical averages. Managers are not getting paid enough to take on the risk and want to protect the portfolio.

The next recession will be worse than the one in 2008. The Fed has no room to move. The portfolio might not be protected based on which way the rates move. He showed the impact of credit index return estimates under different economic environments including the Great Recession II, an unchanged market and strong growth assumptions.

The Fed does not know what to do. There was speculation that interest rates would rise based on Ben Bernanke's recent comments. However, the Fed is unable to raise rates based on the recent market reactions.

*Ms. Swazer left at 11:42 a.m.*

He reviewed the varying impact on a fixed income portfolio from falling rates and rising rates. You can lose a lot on the wings. A lot of investors are buying TIPS to protect against inflation but they do not protect against rising rates.

They think there will be more volatility so they are recommending that investors move to a negative duration position, betting on negative maturity. PARR smooths out the downside risk but there is a cost associated with doing this. This can be done without credit risk by buying treasury futures.

There will be more risk in the bond indices. That may not be the best option going forward since treasuries are now a large part of the index. As rates rise investors need shorter duration.

They are in the business to protect the portfolio. In the current rate environment they do not believe investors are being paid enough for interest rate and default risk. The downside cost of investing in PARR is 3% in yield. The portfolio will be giving up that yield every day until the recession arrives or rates rise.

Trustee Gaffney asked if the Board decided to invest in this strategy could they lengthen the duration at a later date since bonds are used to offset risk in the portfolio.

Mr. Prost confirmed that the Board could lengthen the duration later.

He reviewed the fee schedule of 35 basis points for investments of \$25 million to \$100 million. The fee schedule drops to 25 basis points for investments more than \$100 million. This is a hedge type position so it is not as costly.

Trustee Barnett asked how many clients they have invested in this strategy.

Mr. Prost indicated that they have one client who will commit capital in a week and two more that should be invested soon.

Trustee Moore asked if the Police & Fire Retirement System has or will be investing in this strategy.

Mr. Prost stated that the Police & Fire Retirement System is investing in the PARR strategy.

*Mr. Prost and Mr. Jeffries left at 11:58 a.m.*

Vice Chair Bowman recommended that Mr. Kuhn bring back more information to the meeting next month.

Trustee Waterman suggested that Mr. Kuhn also bring information to the next meeting on how this would relate with the investments in the rest of the portfolio.

Mr. Kuhn explained that in the financial markets you can short treasuries but if you buy them you take on their duration. If yields move they affect bond prices. Bonds with five-year duration take on interest rate risk. Ambassador's PARR strategy would be on the negative duration side.

There has been a concern that interest rates would rise so Ambassador went with a shorter duration when rates moved up in May. The Fed has indicated that they will not be touching rates now. However, they are inclined to believe that interest rates will increase and this strategy would help protect the portfolio in that environment.

Vice Chair Bowman commented about Trustee Moore's question to Mr. Prost regarding the Police & Fire Retirement System.

Mr. Kuhn noted that currently the System is paying 22 basis points on their current allocation to Ambassador Capital. Investing in this strategy has to come down to whether the trustees feel comfortable.

Vice Chair Bowman asked if any other managers offer this strategy.

Mr. Kuhn stated that most managers that offer this strategy are looking for an allocation of \$50 million to \$100 million. These strategies have the ability to move the duration of the portfolio from a negative five-year duration to a positive eight-year duration.

Trustee Gaffney stated that this is the reason she asked whether the strategy can change duration when needed.

Vice Chair Bowman asked why the Board would want to swing for the fence with this strategy.

Mr. Kuhn stated that this strategy alleviates portfolio risk.

Trustee Moore stated that this strategy negates gains while protecting from loss.

Mr. Kuhn said that it protects from potential loss.

Vice Chair Bowman asked what percentage of the current investment are they recommending be put into the PARR strategy.

Mr. Kuhn noted that the current allocation to Ambassador in fixed income is 25%. They would allocate approximately 5% of the allocation.

Vice Chair Bowman asked in dollars what the allocation would be.

Ms. Zimmermann indicated that the allocation would be approximately \$21 million.

Mr. Kuhn told the Board that Ambassador will work with them. There is a minimum investment of \$15 million.

Trustee Moore asked why the Board has to invest 5%.

Mr. Kuhn stated that it would take away risk and keep protection in the portfolio.

Vice Chair Bowman asked Mr. Kuhn if Gray & Company is recommending that the Board invest in this strategy.

Mr. Kuhn told the Board that this is not an easy strategy to understand. It makes sense for the trustees to have more information prior to making a decision.

Vice Chair Bowman directed the consultant to provide more information for the Board's review.

Trustee Giddings noted that this is Ambassador Capital's first time managing this type of strategy.

Ms. Zimmermann asked how long this strategy has been around.

Mr. Kuhn indicated that this is usually a hedge fund strategy. This is a strategy that PIMCO manages. However, they move the strategy back and forth from a negative to intermediate duration based on rates.

Trustee Gaffney stated that this strategy would be used to protect the portfolio.

Mr. Kuhn told the Board that the only scenario where this strategy would make a lot of returns is if rates rise from 2% to 6%. This strategy would not hit a home run.

Vice Chair Bowman stated that the Board requires more information on this strategy.

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## **SCHEDULING OF NEXT MEETING**

Regular Meeting: Wednesday, October 30, 2013 @ 10:00 a.m. – Retirement Office

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## **ADJOURNMENT**

**RESOLUTION 13-089** By Moore, Supported by Gaffney  
Resolved, That the meeting be adjourned at 12:14 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on September 25, 2013

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Secretary, John Naglick  
*As recorded by Jane Arndt*