

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
FEBRUARY 24, 2015**

A special meeting of the Board of Trustees was held on Tuesday, February 24, 2015 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:00 a.m.

TRUSTEES PRESENT

Jane Arndt
Koné Bowman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman

Walter Moore
Nevrus Nazarko (*arrived @ 10:05 am*)
Patrice Waterman
Kevin Williams

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Deirdre Waterman (*absent*)

OTHERS PRESENT

Robert Hubbard, Gray & Company
Cynthia Billings, Sullivan Ward
Cecelia M. Carter, Executive Director
Linda Watson, Retiree
Ricardo Bekin, Ativio Capital
Evan Jaysane-Darr, Invesco
John Rackers, Kennedy Capital
Joseph Beauparlat, Loomis Sayles
Gavin Hayman, Victory/Munder Capital
Gregory Oviatt, Victory/Munder Capital

Andrea Leistra, Victory/Munder Capital
Peter Cahill, NorthPointe Capital
Mike Hayden, NorthPointe Capital
Janna Sampson, Oakbrook Investments
David Desmond, Peritus Asset Mgmt.
Tim Gramatovich, Peritus Asset Mgmt.
Martin LaPrade, Sawgrass Asset Mgmt.
Brian Monroe, Sawgrass Asset Mgmt.
Charles Schmidt, Seizert Capital Partners
John VanGorder, Seizert Capital Partners
William Orke, WCM Investment Mgmt.

The meeting was called to order at 9:02 a.m.

Chairman Harrison introduced Bob Hubbard to the Board and welcomed everyone to the manager review meeting.

Gray & Company – Fourth Quarter 2014 Performance Review

Mr. Hubbard gave an overview of the Fund's performance.

The Fund's total market value as of December 31, 2014 was \$491.76 million. The Fund had a return of 3.07% for the 4th Q 2014 and a return of 7.03% for the twelve month period ending December 31, 2014 (all gross of fees). Over the long range, the Fund's performance was as follows:

	Value \$ (000)	% of Fund	Periods Ending December 31 2014						
			Current Quarter	1 year	3 years	5 years	7 years	10 years	15 years
Total Plan	491,764	100	3.07	7.03	14.11	11.43	6.96	7.49	6.56
Net of Fees			2.95	6.44	13.49	10.71	6.37		
Policy Index			3.41	7.75	14.92	11.98	6.93	7.55	6.54

Domestic Equity, valued at \$280,636 million, representing 57.1% of the portfolio, returned 5.69% for the previous quarter and 10.15% for the year ending December 31, 2014 (gross of fees).

Non-US Equities, valued at \$76,334 million, representing 15.5% of the portfolio, returned 38 basis points for the previous quarter and 2.33% for the twelve month period ending December 31, 2014 (gross of fees).

Domestic Fixed Income, valued at \$105,857 million, representing 21.5% of the portfolio, returned 1.5% for the previous quarter and 2.14% for the year ending December 31, 2014 (gross of fees).

Private Equity valued at \$12,704 million, representing 2.6% of the portfolio, returned 10.07% for the year ending December 31, 2014 (gross of fees).

Cash Composite, valued at \$16,233 million, representing 3.3% of the portfolio, returned 11 basis points for the previous quarter and 45 basis points for the year ending December 31, 2014.

Meeting Break at 9:30 a.m.

Meeting Resumed at 10:00 a.m.

Economic Overview/Markets Roundtable

Chairman Harrison welcomed the managers and began the introductions around the table.

The Chairman reminded the managers their compliance with the System's Directed Brokerage Policy will be closely monitored by Gray & Company going forward. Some managers are doing better than others and the Board respectfully reminds the managers the policy is an adopted policy of this Board.

Mr. Hubbard explained the format of the roundtable sessions to the managers.

To open the discussion, the question was posed on whether this will be the year interest rates are raised, the impact to the portfolio and what pension plans should be looking for to weather the impact of changing rates.

There was comprehensive discussion amongst all who were present concluding a strong sentiment that rates will ease upward in small increments; however, the U.S. stock market remains attractive.

Trustee Nazarko arrived at 10:05 a.m.

Chairman Harrison asked who benefits from the market/currency manipulation.

There was much discussion amongst all who were present with a sentiment that trillions of dollars have been infused into the market and there are economic consequences to these actions both domestically and internationally. The theory of “too big to fail” is hitting its limit.

Trustee Nazarko stated with interest rates low for so long and investors having to learn how to trade again based on the new environment he questioned what will happen to private equity investments that are locked in for three to five years.

There was extensive discussion with a sentiment that the commitment to private equity might not be the most prudent decision at the moment given the likelihood of rising interest rates – especially private equity programs with a vintage 2015 fund.

Chairman Harrison asked if alpha can be achieved in the fixed income world without using derivatives.

There was a limited discussion amongst all who were present with a sentiment that given the amount of unfunded liabilities and the national deficit, those in need of yield are having to turn to alternative yield producing instruments in order to fund their obligations.

Mr. Hubbard asked the managers what is the biggest factor to increasing oil prices.

Chairman Harrison asked if ISIS is being funded by someone that has their hands on the oil based on the overall dynamics.

There was discussion regarding how oil prices are being affected by the political climate in the Middle East and by the production capabilities of the United States as well as other oil producing countries. The group also expounded on the impact of natural gas prices on the price of oil.

Trustee Moore asked about performance in the emerging markets.

The manager for the Fund’s non-US portfolio indicated 2014 was not a good year in the non-US markets and the company was evaluating the new consumer oriented mindset currently underway in what was commonly referred to as emerging economies. There was some minor discussion among the other managers present.

Chairman Harrison told the group Warren Buffett has started to buy railroads.

The non-US markets manager commented that the rail industry appears to have surpassed the trucking industry.

Miss Carter asked if any managers are taking advantage of the frontier markets.

The sentiment indicated it is more efficient to take advantage of frontier markets through investments in established companies (i.e., the Coca Colas of the world).

Mr. Hubbard concluded the round table and explained the logistics for the manager presentations after the break.

Meeting break at 11:20 a.m.

Meeting resumed at 11:34 a.m.

Sawgrass Asset Management – Large Cap Growth

Brian Monroe, Principal

Martin LaPrade, Portfolio Manager

Mr. Monroe told the Board they are not interest rate or oil oriented. They look at the best way to grow assets and help the Board meet their performance obligations. Their one-year performance of 13.8% beat the passive index of 13.0%.

They understand commission capture is important to the Board. Their top three brokers have a relationship with the Retirement System. Currently 50% of their directed commissions are diverted to GERS directed brokers.

Trustee Giddings questioned their portfolio changes for the quarter.

Mr. LaPrade indicated they trimmed their allocations to some stocks but did not remove them from the portfolio.

Kennedy Capital Management – Small Cap Growth/Small Cap Core

John M. Rackers, Portfolio Manager

Mr. Rackers reported the System's allocation to Kennedy's small cap growth began on October 20, 2014, so there is not a lot of performance to talk about.

He reviewed firm changes in 2014 indicating the company added to their support staff.

Kennedy Capital is one of the only pure small cap managers in the industry.

He reviewed the performance of their growth strategy since inception.

Chairman Harrison confirmed Kennedy's growth strategy employs the same philosophy as their core strategy.

Trustee Nazarko questioned the underperformance of the System's portfolio performance versus the Kennedy portfolio.

Mr. Racker explained the System's performance in 2014 only included the ten-week period through the end of 2014. The performance in question included Kennedy's small cap growth portfolio since inception.

Trustee Giddings asked if they have an ETF product.

Mr. Rackers noted Kennedy is working on an ETF product.

Loomis Sayles – Small Cap Value

Joseph Beauparlat, CFA, Vice President, Client Portfolio Manager

Mr. Beauparlat referred to the compliance statement. He also stated he will look into their directed brokerage commissions. The System made their commitment to Loomis Sayles in 1994. There have been no changes to the team. They have consistently generated alpha for the System since inception. There has been some recent performance lag but their performance numbers for the year look good.

They expect good returns over the course of the coming year even with the volatile market.

WCM Investment Management – International Equity Growth

William Orke, Managing Director

Mr. Orke indicated the System hired his firm in September, 2013. This is his third opportunity presenting to the Board.

WCM is 100% employee owned. They recently hired Yan Gao a research associate and Greg Ise a business associate.

Since inception annualized one-year performance was 7.0% versus 4.5%. He told the Board 2014 was not a great year.

Meeting Break at 12:25 p.m.

Meeting Resumed at 1:34 p.m.

Oakbrook Investments – Large Cap Core (Emerging Manager)

Janna Sampson, Co-Chief Investment Officer

Ms. Sampson told the Board they currently manage \$1.89 billion in assets with \$1.47 billion in enhanced strategies.

There have been no organizational changes to their firm. They recently hired two new people in marketing and sales to assist in bringing in new business.

She reviewed their annualized returns with 19.11% versus the benchmark at 17.97% since inception. She noted 2014 was not an easy year in the large cap growth space but they did stay close to target. The perception of interest rate hikes made performance difficult during the fourth quarter.

Trustee Giddings asked if their 2009 performance was annualized.

Ms. Sampson indicated 2009 was not annualized because the investment only included six months and the number would be huge.

Ativio Capital – Large Cap Core (Emerging Manager)

Ricardo Bekin, Portfolio Manager

Mr. Bekin told the Board they have been managing assets for the System for approximately two years. Their performance for the first half of 2014 was weak. They are in compliance with the System's Investment Policy Statement and Direct Brokerage Policy.

They are reconstructing their portfolio to achieve better performance.

They are off to a good start in 2015.

Peritus Asset Management – High Yield

Tim Gramatovich, Chief Executive Officer

David Desmond, Chief Operations Officer

Mr. Desmond indicated there have been no major changes to the firm. They currently have \$500 million in assets under management.

Chairman Harrison asked about performance returns in the coal industry. There was discussion regarding the energy markets.

Mr. Gramatovich stated there were mark downs in the high yield market in the fourth quarter of 2014 but they should go back up in 2015. Market liquidity is strong. Cash flow yield is at 10% in the portfolio. Performance should be good in 2015 after a bad 2014.

Chairman Harrison asked if the System should see increased performance returns in 2015 and if they will maintain their strategy.

Mr. Gramatovich stated they expect outperformance in 2015. They came from a no bid market to a market with distress where market players are buying everything up. You will see securities react ahead of the price moves. Normally you do not see gold in high yield portfolios. They do have some nice gold exposure in their portfolio. China is continuing to buy up gold as a potential way to back their currency.

Trustee Moore asked about their performance.

Mr. Desmond explained in 2008 their performance dropped 43% due to the mortgage crisis.

There was discussion regarding the annualized returns versus the cumulative performance numbers. Mr. Hubbard indicated he would reconcile the Peritus performance numbers.

Mr. Desmond told the Board they have been forced into a market where there are no buyers. They are looking at companies that cannot be bought down. Their current names are providing guaranteed interest payments. There is an odd asset class and you have to make sure that you pick the right company.

Mr. Gramatovich said valuations are going up in the high yield world. You need to avoid defaults. They should see extreme up performance as valuations increase. Their duration exposure is low in their high yield portfolio.

Trustee Bowman left at 2:10 p.m.

Invesco – Private Equity

Evan Jaysane-Darr, Principal

Mr. Jaysane-Darr indicated they are a private equity fund of funds manager. They invest in other private equity funds or secondary investments in private equity.

To date 63% of the System's capital commitment has been drawn. Total value to cost currently stands at 1.78 times. They have a strong net diversified internal rate of return of 13.3% as of the third quarter of 2014.

This is a 2008 vintage fund. Approximately 90% of the aggregate fund commitments have been drawn by underlying partnerships. The average cost-weighted company life equals 3.4 years.

Victory/Munder Capital – Mid Cap Growth

Gavin Hayman, Equity Analyst

Andrea Leistra, Senior Investment Manager

Ms. Leistra reported Munder Capital was acquired by Victory Capital Management at the end of October, 2014. They are looking to roll out a full re-branding in April, 2015. Munder's mid cap product will be under the name Victory Munder. Fixed income is in the process of picking a name. To date their assets under management are \$35.5 billion.

She also reported mid cap manager Tom Mudie has retired.

Mr. Hayman provided an overview of the performance for the fourth quarter of 2014 at 5.93% gross of fees versus the benchmark at 5.94% and their total annual returns of 10.94% versus 13.22%. He explained their underperformance indicating 2014 was a difficult year for mid cap managers due to the strange performing equity markets. Relative to their peer group they ranked in the 40th percentile. It has been a long time since there was weakness in the mid cap market.

Munder Capital – Core Fixed Income

Gregory D. Oviatt, CFA, Senior Portfolio Manager
Andrea Leistra, Senior Investment Manager

Mr. Oviatt noted in 2014 investors anticipated interest rates rising but they finished the year 20 basis points ahead of the benchmark at 6.17% versus 5.97%. They have been pleased with their performance on a relative basis for the past few years. It is important to manage interest rate risk and they expect volatility to increase in the latter part of 2015 due to a rising interest rate environment.

Seizert Capital Partners – Large Cap Value (Michigan Centric)

Chuck Schmidt, Chief Financial Officer
John VanGorder, Client Service & Marketing Manager

Mr. VanGorder thanked the Board for their investment with Seizert Capital Partners. They are a Michigan based company.

He reviewed the portfolio's cash flows since inception as of December 31, 2014. The beginning market value as of May 11, 2009 was \$6.25 million including \$48,826.00 in contributions; \$2.66 million in distributions; an ending market value of \$13.05 million with appreciation/income of \$9.41 million.

Mr. Schmidt discussed their long-term performance. During 2014 the portfolio performed well until the fourth quarter. Long-term their performance numbers have been good with returns 2% over the benchmark net of fees. Since inception they have outperformed the benchmark.

NorthPointe Capital – Large Cap Value (Michigan Centric)

Michael Hayden, CFA, CEO, Founding Partner
Peter Cahill, CFA, CIO, Founding Partner

Mr. Cahill thanked the Board for their business and introduced the CEO of the firm Michael Hayden.

He told the Board 2014 was a challenging year. Their focus on information technology improved their performance. Consumer staples was a good performing sector and good names like Kroger and CVS in the portfolio helped to add 110 basis points of performance ahead of the benchmark year-to-date.

He indicated they are moving offices to the Woodward/Square Lake Road area.

Chairman Harrison told the group it is good to see Michigan centric portfolios perform well.

The managers left at 2:58 p.m.

Gray & Company Wrap-up

Mr. Hubbard asked whether the Board had any questions.

He explained 2014 was a difficult year based on geopolitical and macroeconomic issues. It was a tough environment for active management.

There was a more pronounced effect on mid cap that is now on par with large cap and facing the same challenges.

We may be facing a down market and need the protection active managers provide on the downside.

Chairman Harrison felt the managers complemented each other. We will see what happens when the time comes.

Miss Carter said she would like name tags for the managers at the next meeting. She also felt it would be beneficial for the managers to send their economist or director of research to the meeting in place of the client service representative.

The meeting adjourned at 3:18 p.m.