

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
AUGUST 26 2015**

A regular meeting of the Board of Trustees was held on Wednesday, August 26, 2015 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 10:08 a.m.

**TRUSTEES PRESENT**

Jane Arndt  
Koné Bowman  
Robert Giddings  
Charlie Harrison, Chairman  
Walter Moore  
Nevrus Nazarko (*arrvd. @ 10:23 am*)  
Deirdre Waterman (*arrvd. @ 10:47 am*)  
Patrice Waterman

**TRUSTEES ABSENT**

Shirley Barnett (*excused*)  
Janice Gaffney (*excused*)  
Kevin Williams (*excused*)

**OTHERS PRESENT**

Cynthia Billings, SWAP, PC  
Laurance O. Gray, Gray & Company  
Cecelia M. Carter, Executive Director  
Nancy Lange, ICMA  
Kathleen Mahoney, ICMA  
Chris Dell, Northern Trust  
James Dominguez, Northern Trust  
Patrick Flanagan, Northern Trust  
Billie Swazer, Retiree  
Linda Watson, Retiree  
Carol Wilkins, Retiree

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*Chairman Harrison opened the meeting at 10:08 a.m.*

**PUBLIC COMMENT**

Retiree, Billie Swazer read a statement to the Board with regard to her investigation into the calculation of the COLA benefit including the \$400.00 temporary increase.

Retiree, Linda Watson expressed her concerns regarding the appointment process for replacing Trustee Kevin Williams on the Board.

She also expressed her concerns that the Board was not defending the former Retirement Administrator with regard to the inflated COLA issue. The Emergency Manager knew about the COLA calculation on the temporary increase because Ms. Zimmermann could not have processed the cost study without the City's awareness or prior approval. The study was also paid for by the City.

Ms. Watson also raised the question of when the next Board election was scheduled to take place, her question initiating from her concern that Trustee Barnett has missed board meetings recently.

*Trustee Nazarko arrived at 10:23 a.m.*

Ms. Swazer asked Trustee Nazarko whether he has found any information regarding the COLA issue including minutes from the August, 2013 public hearing.

**AGENDA CHANGES**

**APPROVAL OF CONSENT AGENDA**

A. Approval of the Minutes of the Regular Board Meeting: July 29, 2015

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date: August 26, 2015

**TOTAL PENSION PAYROLL** \$2,141,286.46

Staff PPE August 1st and August 15<sup>th</sup> and August 29th

**TOTAL STAFF PAYROLL** \$ 33,186.72

C. Communications:

1. 2014 MCLS §38.1133e Disclosure Reports
2. Pontiac GERS 2014 Audited Financials filed with Pontiac City Council and the Mayor.
3. MI State Treasurer Approval of \$400 extension to Aug 2016 (dated August 5, 2015)
4. Letter from Mayor Waterman to Retirees regarding \$400 (dated August 21, 2015)
5. Notice to Retirees from GERS Board regarding \$400 (dated August 31, 2015)
6. Capri Capital Partners – Investor Conference – Board & Staff
7. MAPERS – Fall Conference – Board & Staff

D. Financial Reports:

1. Accounts Payable: July, 2015
2. Gray & Company SEC Update (August 17, 2015)
3. Gray & Company Emerging Manager of Manager for Period Ending June 30, 2015
4. Gray & Company Michigan LC Value Manger of Manager for Period Ending June 30, 2015

E. Private Equity / Capital Calls & Distributions

1. Ratify receipt of Mesirow Financial PE Fund IV, LP – Distribution – August 21, 2015  
\$8,173

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

1. New Retirements
2. Terminated Retirements (Deaths)

Ret No.	Name	Date of Death	Member or Beneficiary	<i>If Beneficiary</i> Member Name	Union or Dept.
616	Frailey, Clifford	07.26.2015	Member		SAEA
813	Clawson, Leona	08.12.2015	Member		Hospital

3. Continued Retirements
4. Recalculated Retirements
5. Suspended Retirements
6. Refunds of Employee Contributions

**RESOLUTION 15-067** By Moore, Supported by P. Waterman Resolved,  
That the Board approve the consent agenda for August 26, 2015.

Yeas: 7 – Nays: 0

Chairman Harrison noted the committee structure has assisted the Board while simultaneously becoming the employer. The Committees have been diligent and worked hard to streamline and not hinder the process.

## **CONSULTANTS**

### **Re: Gray & Company – Investment Consultant Report**

#### Investment Policy Statement Review

Mr. Gray reviewed the changes to the Investment Policy Statement. He noted the inclusion of the global fixed income guideline language. The Finance Sub Committee has reviewed the changes.

Ms. Billings reviewed her changes which were not reviewed by the Committee. They included the notation in the regulatory environment section referring to Section 12b(4)(b) in the State of Michigan Public Act 314. She also reviewed her deletion to the investment management language in Section III.F.3.c. There had been the addition of a board induced penalty when a violation is discovered. Trustee Nazarko felt the language referring to the investment manager being placed on a 24/36/48 or 60 month prohibition from doing business with the System should not have been removed. In his opinion, the Board should have the discretion to determine the length of the manager's suspension/probation from doing business with the System based on the severity of the violation.

After discussion amongst the Board, legal counsel, the investment consultant and the Executive Director; the Board concluded to leave the sanction language in the revised Investment Policy Statement.

*Trustee Deirdre Waterman arrived at 10:47 a.m.*

#### **RESOLUTION 15-068** By Moore, Supported by Arndt

Resolved, That the Board approves and ratifies the Pontiac General Employees' Retirement System Investment Policy Statement revised August 26, 2015 as presented with the changes.

Yeas: 8 – Nays: 0

#### Business Development Companies Investment

Mr. Gray reported there are concerns regarding rising interest rate issues and the potential effect on the System's investments. They have identified three Business Development Corporations: Goldman Sachs BDC, Inc.; Blackrock Capital Investment Corporation and Parkview Capital Credit.

In order to protect the System's portfolio and mitigate risk, Gray & Company is recommending a 5% weighting of the portfolio be allocated to this investment; to be weighted evenly amongst the three named investment firms.

The firm profiles were reviewed with the Board.

Goldman Sachs BDC's focus is lending to middle market companies primarily in the U.S. through secured and unsecured debt; first and second lien debt, mezzanine debt and equity investments.

BlackRock Capital Investment Corporation provides flexible financing solutions to middle market companies using senior and junior secured, unsecured and subordinated debt securities and loans and equity securities.

Both Goldman Sachs and Blackrock are Exchange Traded Funds (ETF's).

Parkview Capital Credit is a middle to lower market, credit focused investment platform formed in 2015 that provides direct lending solutions through mezzanine debt and equity capital to companies.

Trustee Moore noted at the Manager Review Roundtable Meeting (held August 25, 2015) the managers discussed marketplace volatility and the importance of downside protection.

Chairman Harrison indicated the rising interest rate issue has been discussed for over a year. The Board needs to take action to protect the System's assets, "we cannot continue to kick the can down the road."

Mr. Gray noted he had a disclosure to make and disclosed that GrayCo Alternatives Fund II was the seed investor to give capital to Parkview Capital Credit.

**RESOLUTION 15-069** By Moore, Supported by P. Waterman  
Resolved, That the Board approves a 5% allocation of the System's portfolio into the Business Development Companies portfolio and the hiring of Goldman Sachs BDC, Inc.; BlackRock Capital Investment Corporation and Parkview Capital Credit to manage the assets of the portfolio pending legal review.

Yeas: 8 – Nays: 0

As of market close on August 25, 2015 the Total Plan value was \$455 million.

## **REPORTS**

**Re: Chairman** - None

**Re: Trustees/Committees**

### Personnel Subcommittee

Miss Carter reported the Committee met on Thursday, July 16, 2015.

They discussed the extension of the \$400.00 temporary increase to August 2016.

The Committee reviewed the disability exam appeal adopted in 2001. It has been rewritten to include the System's new relationship as the employer versus the City. She explained the changes to the disability appeal process.

A member's option to elect a non-spouse beneficiary was reviewed.

Copies of the 2014 audited financial statements were formally filed with the City Council and the Mayor's Office.

The Retirement Office Staff Policy Manual was updated in 2013 just before the passing of Ms. Zimmermann. Additional revisions are currently in the review process.

The next meeting will be held on Friday, September 11, 2015.

#### Finance Subcommittee

Trustee Moore deferred the Finance Subcommittee report to Miss Carter.

Miss Carter reported the Committee met on August 19, 2015.

The unaudited second quarter financial statements were reviewed.

There was discussion and review of the annual audit process. The Committee believes on a go forward basis; the use of an ad-hoc committee for the audit would be a prudent use of resources.

Chairman Harrison stated Trustee Giddings agreed to chair the Ad Hoc Committee that will monitor the audit process. Trustee Nazarko has also volunteered for the Committee. A third Trustee is needed for the committee and will be identified at a later date.

Miss Carter reported the System received an \$8,000.00 distribution from Mesirow Fund VI.

The Committee discussed the request from Joseph Sobota, City Administrator for the Board to adopt a COLA calculation policy. This stems from the recommendation of City Council to amend the City Ordinance to conform with the method used in 2013 and 2014 to calculate the COLAs.

The memorandum and RFP process were reviewed. Trustee Giddings and Nazarko have agreed to volunteer for the RFP Committee. A third Trustee is needed.

There was discussion regarding the option of a non-spouse beneficiary.

There were two terminated retirements in August, 2015 with no beneficiary.

Trustee Nazarko questioned the increase in the pension benefit total payroll from July to August, given there were no new retirements for the month of August. Miss Carter stated she would follow-up later with the answer.

#### **Re: Executive Director**

Miss Carter reported there are unclaimed benefits and contributions. Contributions for members who are not eligible for a retirement benefit are accruing interest at a rate of 4%. There is a member who is eligible to receive their pension benefit, has over \$10,000.00 of employee contributions in

the System and yet has failed to make application in spite of the System's attempts to contact this member via U.S. Mail and telephone.

Trustee Giddings indicated he will be attending a luncheon for retired hospital members. He will attempt to locate the members in question.

Miss Carter indicated she would reach out to legal counsel to determine whether contributions can be forfeited back to the Trust in order to stop the interest from accruing. There are some contributions where the interest outweighs the amount of the employee contribution.

She reported that examples of the annual disclosure statements were included in the agenda packet. The disclosure statements are required under Public Act 314. She explained the requested information on the forms. All of the System's investment managers and service providers have returned the disclosure statements. ADP is the only service provider that has not returned their statement.

The annual town hall meeting has been scheduled for Tuesday, October 13, 2015 from 5:30 p.m. to 7:30 p.m. at the Anthony Franco Communications Center at St. Joseph Medical Office Building.

She reported the manager review meeting went very well. There was a great deal of manager participation during the round table session held the day before.

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## **UNFINISHED BUSINESS**

### **Re: Selection of "Global Fixed Income Manager**

Mr. Gray indicated that the Board heard the presentations from the global fixed income managers including BrandyWine Global; Colchester Global Investors and Mondrian Investment Partners at the last meeting. The Trustees asked to have more time to review the presentation materials before making a decision.

Chairman Harrison asked if the Board had any questions. There being none.

### **RESOLUTION 15-070** By Giddings, Supported by Arndt

Resolved, That the Board approve the selection of BrandyWine Global as global fixed income manager pending legal review.

Yeas: 8 – Nays: 0

### **Re: City Council Ordinance Amendment (COLA Overpayment)**

Ms. Billings reported that City Council approved to amend the Retirement Ordinance to forgive the overpayment of COLA to City retirees. Joseph Sobota sent an email expressing concerns that internal controls are not in place. He requested that the Board put a formal policy in place to mitigate this type of error from occurring in the future.

She reviewed her email response to Mr. Sobota and read the proposed resolution which outlined the policy. There was discussion that the retirees would not be happy that their COLA payment was being deferred to December each year. It was determined that the benefit would be calculated by September 30<sup>th</sup> and reconciled by October 31<sup>st</sup> each year to provide ample time to process the payment with the November pension benefit payment.

There was discussion that other processes and procedures could be reviewed and added to the policy. Trustee Deirdre Waterman indicated that since this is a timely issue the Board should move on the current request and revisit the policy.

Miss Carter indicated that she is in the process of putting together a retirement benefit review process.

Ms. Billings noted that the TAB Board needs to approve the Ordinance amendment at their September 16, 2015 meeting or the System will have to start the overpayment recoupment process in order to be in compliance with IRS guidelines.

Trustee Patrice Waterman stated that it would be wise to glean whether Mr. Sobota has any other issues that need to be resolved. Miss Carter indicated that was her intent once the Policy was adopted and filed with the City Administrator.

**RESOLUTION 15-071** By P. Waterman, Supported by Bowman  
Resolved that,

**WHEREAS**, the Retirement Board is vested with the authority and fiduciary responsibility for the proper administration, management and operation of the Retirement System, and

**WHEREAS**, the Retirement Board recognizes that it is responsible for ensuring the appropriate staff and internal controls are in place to ensure accurate calculations and accounting is transpiring in the administration of the Retirement System, and

**WHEREAS**, through the collective bargaining agreement process the City of Pontiac entered into various collective bargaining agreements with various unions and management of the City, thus providing for certain current retirees and future retirees the eligibility for a Cost of Living Adjustment (COLA) to their respective retirement allowance, and

**WHEREAS**, the Retirement Board has determined that it is in the best interest of the Retirement System to establish a COLA calculation review process, therefore be it

**RESOLVED**, that annually when calculating the application of the annual COLA to eligible retirees and beneficiaries of the City of Pontiac General Employees' Retirement System, the calculation will first be processed internally by Retirement System staff, the calculation method and results to be reviewed and approved by the then presiding actuary to the Retirement System, and then reported to and formally received by the Board through a Resolution, before execution of the COLA is applied to the retirees' pension payment, and further

**RESOLVED**, in order to implement the annual COLA payment to eligible retirees, the process will be based on retirees in pay status as of September 30, with calculation processed and approved by the actuary before being presented to the Board at its October board meeting, with the implementation processed and paid after Board approval and subject to the Executive Director reconciling the retiree list to a current list as of October 31. Retirees must be in pay status on October 31, in order to receive the annual COLA payment.

Yeas: 8 – Nays: 0

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## **NEW BUSINESS**

### **Re: GERS Re-Examination Process for Disability Retirees - Tabled**

#### **Re: ICMA-RC Presentation (Establishment of 401(a) Defined Contribution Plan**

Ms. Kathleen Mahoney and Nancy Lange introduced themselves to the Board.

Ms. Mahoney provided a brief overview of their presentation materials including the draft of a typical 401(a) plan.

After discussion the Board determined that a special meeting will be held in conjunction with the Personnel Committee Meeting on September 11, 2015. Ms. Mahoney and Ms. Lange will present the materials for the Board's consideration.

*Ms. Mahoney and Ms. Lange left at 12:15 p.m.*

#### **Re: Northern Trust Presentation**

Miss Carter reported that Patrick Flanagan will be back in the office on August 27, 2015 to go over their new platform and reporting system with her and Ms. Munson.

James Dominguez, Chris Dell and Patrick Flanagan introduced themselves to the Board.

Mr. Dominguez indicated that Northern Trust provides asset management and asset servicing for institutional and private clients. As of June 30, 2015 they have \$945.6 billion in assets under management.

He provided an overview of their asset management leadership and public funds service team.

Mr. Dell gave an overview of the securities lending program and the issue that occurred in 2008 with the Lehman bankruptcy.

*Mr. Dell, Mr. Dominguez and Mr. Flanagan left at 12:51 p.m.*

*Trustee Moore left the meeting at 12:51 p.m.*

*Loss of quorum at 12:51 p.m.*



**Re: Legal**

Correspondence to Joseph Sobota Re: COLA Ordinance

Refer to Unfinished Business.

Correspondence Re: Duty Disability Members with Less than 10 Years Service Credit

Ms. Billings reviewed her correspondence to Ms. Carter dated August 12, 2015 and her opinion that duty disability members with less than 10 years of service credit must continue to be re-examined by the System's medical authority.

Portfolio Monitoring Reports

Ms. Billings reported that the portfolio monitoring reports are for the Trustees' information.

Governmental Plan Determination Letters

Ms. Billings advised the Board that the IRS intended to eliminate the Determination Letter process except for new and terminating plans.

**ADJOURNMENT**

**RESOLUTION 15-072** By Giddings, Supported by Arndt

Resolved, That the meeting be adjourned at 1:03 p.m.

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**SCHEDULING OF NEXT MEETING**

Regular Meeting: Wednesday, September 23, 2015 @ 10:00 a.m. – Retirement Office

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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 August 26, 2015

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*As recorded by Jane Arndt*