

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
NOVEMBER 28, 2018**

A meeting of the Board of Trustees was held on Wednesday, November 28, 2018 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
Jane Arndt (*telephonically*)
Janice Gaffney
Robert Giddings
Walter Moore, Chairman (*telephonically*)
Billie Swazer
James Walker (*arrived @ 10:20 a.m.*)
Patrice Waterman
John White

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan, Ward, Asher & Patton (*telephonically @ 11:25 – 11:40 a.m.*)
Phillip Brown, City Videographer
Deborah Munson, Executive Director
Kristy Neumann, Executive Assistant
Steven Roth, Dahab & Associates
Linda Watson, City Retiree

TRUSTEES ABSENT

Deirdre Waterman, Mayor (*excused*)

Chairman Moore opened the meeting at 10:00 a.m. and welcomed new Trustee John White.

PUBLIC COMMENT –

Retiree Linda Watkins remarked that Trustee Patrice Waterman did an excellent job acting as Chair of the special meeting on November 14, 2018.

AGENDA CHANGES

Miss Munson stated that the Board will need to authorize the purchase of one additional iPad since Trustee Williams did not upgrade his in 2017.

Chairman Moore indicated he would just like to add the handout regarding the CPREA lawsuit to Communications section of the agenda so the trustees would have a copy and hoped that the Board would agree to refer the matter to the Personal and Finance Committee for further discussion.

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Regular Board Meeting held October 31, 2018.
- B. Ratification of Retiree Payroll & Staff Payroll
- C. Retiree Pay Date November 14, 2018

TOTAL PENSION PAYROLL

\$4,620,088.86

General Employees' Retirement System
Regular Meeting
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D. Staff Pay Date November 8 & 22, 2018

TOTAL STAFF PAYROLL

\$21,660.78

E. Communications

- Correspondence from Michigan Eastern District Court RE: CPREA Lawsuit
- Correspondence RE: FOIA Request from/to Public Funds IQ – Nov. 2, 2018
- Correspondence to/from L. Marshall RE: Whifers
- Correspondence from Kennedy RE: CCO Resignation
- Correspondence from Systematic RE: AMG Restructuring
- Correspondence from Loomis RE: New Board Member
- Correspondence from Victory Capital RE: USAA Asset Management

F. Financial Reports

- Accounts Payable: November 2018
- Dahab Associates Preliminary Report: October 2018
- Attucks Manager-of-Manager Summary: October 2018
- Statement of Changes: October 2018
- Unaudited Financial Statements:

G. Private Equity Capital Calls & Distributions

- a. Mesriow Fund IV Distribution: October 30, 2018 - \$125,000

H. Retirement Benefits

1. New Retirements

RETNO	NAME	AMOUNT	EFFECTIVE
2886	Peet, Roland		11/1/18

Bold type entry indicates Reciprocal service credit.

2. Terminated Retirements

RETNO	NAME	Date of Death	Benefit Amount

3. J&S Continued Retirements

RETNO	RETIREE'S NAME	DATE OF DEATH	SURVIVORS NAME	AMOUNT

4. Re-calculated Retirements

RETNO	MEMBERS NAME	EFFECTIVE DATE	REASON FOR CHANGE	NEW AMOUNT

2883	Geeter, Sammie	1/1/18	Final	
2843	Thomas, Anthony	1/1/18	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

RETNO	Member’s Name	Reason
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6. Refunds of Employee Contributions

RETNO	Member’s Name	Reason	Amount
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RESOLUTION 18-135 By P. Waterman, Supported by Gaffney

Resolved, That the Board Approves and ratifies the actions in the Consent Agenda for November 28, 2018 as amended.

Yeas: 8 – Nays: 0

Trustee Swazer indicated her concern regarding the recording of the minutes and would like the October minutes and all minutes going forward to reflect that the minutes are recorded by Kristy Neumann and reviewed and edited by both Legal Counsel and Executive Director.

CONSULTANTS

Performance Report – Quarter 3 2018

Mr. Roth reviewed the performance for the third quarter of 2018. He reported that the preliminary third quarter GDP data was 3.5% and that there will be a final revision in one month. This is just down from the previous month at 4.2% which is exceptionally high. Mr. Roth stated that looking to fourth quarter projections, we’re still looking at a very healthy US economy with GDP growth at about 2.9 – 3%. The unemployment rate decreased from 4.0% to 3.7% during the third quarter. Inflation was up 2.3% over the last year and the US dollar all indicate that the U.S. economy is still very strong. He said globally it is a slightly different story. Europe and China are softening a little bit and going forward the U.S. may soften slightly but should still be relatively strong going forward as it relates to economic data. Mr. Roth stated it was a very good quarter for equity markets. The equity markets maintained growth across all capitalization sizes and larger names outperformed mid and small sized stocks in the third quarter.

Mr. Roth stated that the Russell 3000 and Russell 2000 were very good across the board. He stated if you look at it in context, this year has been like a bit of a roller coaster. We started out in January really strong and had a huge sell off in February and ended the first quarter slightly flat and the second quarter was up and down but finished slightly positive. Mr. Roth stated that if you look at the entire year return and you look at the calendar quarter, most of the returns were in that quarter. However - if you fast forward to today - it's flat, we lost most of these gains in October and November so with all of the ups and downs, this year is currently flat. He continued to say that it really isn't that bad. If you look at it compared to last year, we were up roughly 24% and the year before 12% and some consolidation is healthy; you can't go up 12% every year.

International equity gross of fees returned 1.7% versus the benchmark at 1.4% and ranked in the 20th percentile. The Real estate performance for the quarter was 2.6% gross of fees versus the benchmark at 2.1% resulting in the ending Fund value of \$510,986,531 million.

Mr. Roth said internationally, emerging markets showed the weakest and mostly because of the China and tariffs and currency that has been hurting the U.S market. It is good because emerging markets is still about a 30% discount to U.S. and we recently allocated to this area of equities and we're getting in at a good time.

Mr. Roth continued that with the up and down market and what really started it was the beginning of October the market started selling off on October 2 as a result of the increase in interest rates rising and the fear they will continue to rise. Generally speaking, bull markets get crushed by interest rates and put the fear into the market. Mr. Roth said that interest rates in the ten-year treasury, which is the bench mark of interest rates generally looked at, shoot up from 3% to 3.25% in roughly four days because of that fear. He said when you add on the concern for tariffs it creates and concern and that creates uncertainty and the equity markets hate uncertainty. Mr. Roth continued that when the third quarter earnings reports came out and they were good relatively speaking. Revenues were up 9%, earnings were up about 23%, guidance was in line, but expectations got a little ahead of themselves as the market was expecting big raises from corporations etc. but given the uncertainty of tariffs and interest rates, a lot of corporate management teams decided to stay and just reiterate their guidance.

Mr. Roth indicated he is remaining optimistic and despite the fear that the tariffs have created, the US economy remains strong. He reviewed how last time they spoke about yield curve inversion and how that historically has been a precursor to a recession. He said the yield curve hasn't inverted yet; it actually steepened and went the other way this past quarter which is a good thing. Mr. Roth said there is another statistic called the Real Yield, or real interest rates. A real yield is when you look at what the Federal Government has their interest rates and the Fed is the short end of the curve. He said interest rates are about 2% and inflation is about 2%, that means real yield is zero (the current short term interest rate minus short term inflation rate). For example, if interest rates are 3% and inflation is 2%, the real yield is 1% (which would

mean yielding above inflation). However, if inflation is at 2% and the short term interest rate is at 1%, it is called a negative real yield, because now you're losing money by holding it and not keeping up with inflation. Historically speaking there has never been a recession when the real yield is zero or negative and right now there is zero. Looking back, the tipping point has been about 3% or 300 basis points above inflation. We don't see that nowadays because everyone is so used to lower interest rates, it might be 1%. Mr. Roth said he believe that market has some stability moving forward.

Mr. Roth further stated that the caveat is that the equity markets become self-fulfilling prophecies. If the markets keep going down and the news reports insight more fear, companies see that and react accordingly and pull back capital spending which creates a slowdown which creates more news which creates more pull back and it becomes a downward spiral. He said they are and will continue to actively monitor the situation.

Trustee Patrice Waterman asked if the news of GM announcement to close plants will have an impact on us.

Mr. Roth responded that while it may have an impact on the auto industry and/or auto loans but generally something like that is not indicative of the US market as a whole and it would not but could have a small impact locally.

He reviewed the System's performance summary for the quarter. The portfolio gained 3.7% for the third quarter ranking in the 30th percentile versus its peers. The one-year returns were 9.9% gross of fees versus 9.3% net of fees ranking in the 24th percentile. The System's five-year performance ranked in the 31st percentile and the ten-year performance ranked in the 4th percentile.

Mr. Roth reported that the trailing twelve months, the System has beat 76% of other funds and while asset allocation always is a factor, the Real Estate helped this quarter which was up at 10.2% which was 1.5% above the benchmarks 8.7% return. Mr. Roth stated that page 9 (the asset allocation as of September 2018) has a mistake. During the quarter the targets were changed to private equity as well as domestic small cap and domestic mid cap and apologized that it's not reflected on the report. The private equity has a target of 10% and should be 5%, the Domestic Mid Cap has 15% and should be 17.5% and the Domestic Small Cap has 10% and should be 12.5%. Mr. Roth stated that the allocations are in line and he is not making any recommendations at this time.

Mr. Roth directed the Trustees' attention to the handout of the Preliminary Performance report as of October 2018 stating October has not been a good month and November has been relatively flat at this point. October's total portfolio is \$475,284,556 down a little from just over \$500,000,000 in September; for the month the portfolio returned a -5.5% and -3.6% quarter to date.

REPORTS

Finance Committee

Fiduciary Liability Insurance Renewal

Miss Munson reported that the committee reviewed the quote for the insurance renewal and is recommending it for Board approval.

Employee Dishonesty Insurance Renewal

Miss Munson noted the carrier is offering the System a discount if the Board renews this policy for a three-year period.

Disability Annual Procedures Report

Miss Munson reported that - with the exception of disability re-examination which is scheduled for December - the disability annual procedures have been completed for 2018.

Board Meeting Audiotapes

Miss Munson reported that the committee discussed staff's request to audiotape the Board meetings in order to assist with the minute-taking process. The committee suggested that the Board refer this matter to the Personnel & Administration Committee for further review.

Debt and Value-Add Real Estate

Miss Munson reported that the committee reviewed the information which had been emailed to the Trustees and is suggesting that the attorney, the consultant and she conduct their review of the investment agreements and come up with proposed Side Letter terms for the Board to consideration.

Mr. Moore clarified that what the committee is recommending is that the three advisors – the attorney, consultant and the Executive Director – review these documents and crystalize those concerns they have and bring the entire thing to the Board. The Board will then decide based upon the information that they provide.

Trustees Giddings and Swazer agreed that it would be good to have the attorney at the table from the beginning since her firm has worked with these investment managers in the past.

Chairman Moore noted that none of the funds under consideration will close before April 2019 and getting language that protects the System is more important than the going through this process quicker than necessary. He believes that having the three advisors working together may give the attorney even more insight.

There was additional discussion about the purpose and process of reviewing the investment agreements and the timeframe for moving forward.

Trustees

Annual Election of Chair and Vice-Chair

Chairman Moore requested that Trustee Patrice Waterman serve as Chair for the purpose of the annual election of the Board Chair and Vice-Chair.

Acting Chair Patrice Waterman opened the floor to nominations for Board Chair.

Trustee Swazer nominated Trustee Moore for Chair. Trustee Gaffney seconded the motion.

Patrice Waterman closed the floor to nominations hearing no other.

RESOLUTION 18-136 By Swazer, Supported by Gaffney
Resolved, That the Board approves the election of Trustee Moore as Chairman.

Roll Call:

Albritton – Yea	Swazer - Yea
Arndt – Yea	Walker - Yea
Gaffney – Yea	P. Waterman - Yea
Giddings – Yea	White - Yea
Moore - Yea	

Acting Chair Patrice Waterman opened the floor to nominations for Board Vice-Chair.

Trustee Swazer nominated Trustee Albritton for Vice-Chair. Trustee Walker seconded the motion.

Trustee Arndt nominated Trustee Gaffney for Vice-Chair.

RESOLUTION 18-137 By Swazer, Supported by Walker
Resolved, That the Board approves the election of Trustee Albritton as Vice-Chairman.

Roll Call:

Albritton – Yea	Swazer - Yea
Arndt – Nay	Walker - Yea
Gaffney – Nay	P. Waterman - Yea
Giddings – Yea	White - Yea
Moore - Yea	

Chairman Report

Chairman Moore stated that he looks forward to the retreat. He also reported that he and Trustee Gaffney, Chair of the Personnel & Administration Committee had performed the annual review of the Executive Director. The next step is to bring that before the entire Board during the month of January.

EXECUTIVE DIRECTOR

Miss Munson reminded the Board that this is Trustee Arndt's last meeting; the election will be held on November 29, 2019. She thanked Trustee Arndt for her service to the System.

Hospital Service Credit Verification

Miss Munson reported that they continue to work with the CFO of the hospital on this matter. She reached out to Ms. McNally to try to get updated email and/or telephone numbers for the deferred members because it was noticed as they were preparing the list that 13 of the 20 or so deferred members are at or near age 55. Other than Ms. Allen, none of these members have contacted the office about an early retirement. Staff is going to contact the members to try to determine if the reason they have not contacted the office is because they know they do not have the requisite 25 years. They will continue working on this matter until it is resolved.

Asset Transition Update

Miss Munson reported that the System had been awaiting a distribution from First Eagle in order to fund the Northern Trust Emerging Markets Index Fund. That distribution was received, and the Index Fund was funded on November 9, 2018.

UNFINISHED BUSINESS

RE: Resolution to Approve the 2019 Board Meeting Schedule

RESOLUTION 18-138 By Gaffney, Supported by Albritton
Resolved, That the Board Approved the 2019 Board Meeting Schedule

Yeas: 9 – Nays: 0

NEW BUSINESS

Re: Resolution to Approve the 2019 Employee Holiday Schedule

RESOLUTION 18-139 By P. Waterman, Supported by Gaffney
Resolved, That the Board Approves the 2019 Employee Holiday Schedule

Yeas: 9 – Nays: 0

Re: Resolution to Approve the 2019 Active Member-Trustee Election Calendar

Miss Munson presented the 2019 Active Member-Trustee Calendar and summarized the election process.

RESOLUTION 18-140 By Gaffney, Supported by Arndt
Resolved, That the Board Approves the 2019 Active Member-Trustee Election Calendar

Yeas: 9 – Nays: 0

Re: Resolution to Approve the 2019 Member-Trustee Election Calendar

RESOLUTION 18-141 By Gaffney, Supported by Arndt

Resolved, That the Board Approves the 2019 Member-Trustee Election Calendar

Yeas: 9 – Nays: 0

Re: Resolution to Renew Employee Dishonesty Insurance

RESOLUTION 18-142 By Gaffney, Supported by Swazer

Resolved, That the Board Approves to Renew the employee crime/dishonesty insurance offered through Chubb Group of Insurance Companies for the period of January 1, 2019 – January 1, 2020, at the rate of \$1,530.00

Yeas: 9 – Nays: 0

Re: Resolution to Renew Fiduciary Liability Insurance

RESOLUTION 18-143 By Swazer, Supported by Gaffney

Resolved, That the Board Approves to Renew the fiduciary liability insurance offered through Chubb Group of Insurance Companies for the period of December 1, 2018 thru December 1, 2019 at the annual rate of \$61,319.

Yeas: 9 - Nays: 0

LEGAL REPORT

Correspondence Re: Garland Domestic Relations Order

Ms. Billings-Dunn reported that the System has a draft order and we are attempting to wrap-up this matter. The Order would award the alternate payee a portion of the member's temporary benefit.

Correspondence RE: Paruch Outstanding Debt

Ms. Billings-Dunn reported that this member has failed to remit his payments for August – October 2018. Trustee Swazer confirmed that he will receive periodic notice of the amount that he owes including the interest.

IRS 2019 Cost-of-Living Adjustments

Ms. Billings-Dunn reported that this is for the Trustees' information.

Robbins Geller October 2018 Portfolio Monitoring Report

Ms. Billings-Dunn reported that this is for the Trustees' information.

Fees Received by Sullivan Ward from Securities Litigation Matters

There has been no change in this information

Ms. Billings-Dunn requested a closed session to discuss Big Lots, Ryannair and Fitbits litigation matters.

RESOLUTION 18-144 By Swazer, Supported by Gaffney

Resolved, That the Board Approves to move to closed session to discuss the Big Lots, Ryannair and Fitbits litigation matters.

Roll Call:

Albritton – Yea	Swazer - Yea
Arndt – Nay	Walker - Yea
Gaffney – Nay	P. Waterman - Yea
Giddings – Yea	White - Yea
Moore - Yea	

The Board moved to closed session at 11:35 a.m.

Mr. Brown, Mr. Roth and Ms. Watson left at 11:35 a.m.

The Board returned from closed session and 11:40 a.m.

RESOLUTION 18-145 By Swazer, Supported by Gaffney

Resolved, That the Board Approves the minutes of closed session of October 31, 2018

Yeas: 9 – Nays: 0

RESOLUTION 18-146 By Gaffney, Supported by P. Waterman

Resolved, That the Board Approves the System filing as lead plaintiff in the FitBits matter.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, January 30, 2019

RESOLUTION 18-147 By Swazer, Supported by P. Waterman

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees' Retirement System be adjourned at 11:43 a.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees' Retirement System held on November 28, 2018

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