

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES
APRIL 24, 2019**

A meeting of the Board of Trustees was held on Wednesday, April 24, 2019, at the Pontiac General Employees' Retirement System, 2201 Auburn Rd., Suite B, Auburn Hills, MI 48326. The meeting was called to order at 10:00 A.M.

TRUSTEES PRESENT

Sheldon Albritton, Vice Chair (*arr. @ 10:08 a.m.*)
John Balint (*arr. @ 11:15 a.m.*)
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Billie Swazer
James Walker
Deirdre Waterman, Mayor
Patrice Waterman, City Council (*arr. @ 10.20 a.m.*)
John White

OTHERS PRESENT

Cynthia Billings-Dunn, Sullivan, Ward, Asher & Patton
Louise Gates, GRS Retirement Consulting
David Lee, Dahab & Associates
Deborah Munson, Executive Director
Kristy Neumann, Executive Assistance
Linda Watson, City Retiree

TRUSTEES ABSENT

None

Chairman Moore opened the meeting at 10:00 A.M.

PUBLIC COMMENT

Retiree Linda Watson asked if anything would be mailed to the members regarding the Wal-Mart settlement.

Chairman Moore confirmed that a notice would be sent.

Ms. Watson requested that the Mayor provide a status update on the IRS filing related to the settlement of the CPREA lawsuit.

The Mayor provided an update.

Trustee Albritton arrived @ 10:08 a.m.

PRESENTATION OF DRAFT OF 2018 VALUATION – GABRIEL, ROEDER SMITH & CO

Miss Munson introduced Louise Gates of Gabriel, Roeder, Smith & Company who presented the draft of the December 31, 2018 Valuation Report.

Trustee P. Waterman arrived 10:20 a.m.

Ms. Gates summarized by stating that the valuation involves a measurement of the System's liabilities, a comparison of the assets and a determination of the funding surplus. She noted on page A-1 that there is no annual required contribution for the City for the fiscal year 2020 – 2021. She said 2018 was not a

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very good year for investors but noted that - although the return on assets was negative - the funding surplus grew due to other factors. She reviewed the report with the Trustees and explained how the accrued liability is calculated.

Ms. Gates explained the Smoothed Asset Value and how it differed from market value. She reviewed the Determination of Unfunded Actuarial Accrued Liability as of December 31, 2018 noting that the System has a total actuarial accrued liability of \$262,283,618 and valuation assets of \$478,099,013. The market value of assets at the beginning of the year was \$506,436,676 and \$454,185,173 at the end of the year. The market rate of return was (4.89%). The System's funding ratio is 182.3%.

Ms. Gates continued to review the report and noted that PA 202 requires the Plan Sponsor to have an experience study conducted every five years. From her perspective, it would be a good idea to have the experience study done prior to the transfer of any assets related to the settlement. As part of the study, the actuarial assumptions would be reviewed and – most importantly - the Board would be comfortable with the overall investment risk of the portfolio. She noted that the portfolio is 60% invested in equities and 25% in fixed income. Equities have more risk and higher returns than fixed income. As was seen in 2018, although the System had a large investment loss, it had excess assets to buffer the loss. The Board should consider how comfortable they are with the Investment Policy and how comfortable they are with the investment risk they are taking on. Because as soon as you transfer assets out of the fund, there is less of a buffer to absorb investment losses. Her recommendation is to have an experience study. But – even before that – the Board should decide how comfortable it is with the current investment policy and associated investment risk.

Ms. Gates described the process of conducting an experience study and said that the biggest impact would result from using updated mortality tables and changing the assumed rate of return. She said that after the experience study, the Board would better be able to make decisions of what assumptions are appropriate going forward and – perhaps - set a minimum funding percentage.

Ms. Gates reviewed the computed Employer Contributions Report (for the fiscal year beginning July 1, 2020) on page A-1. The difference between the reserves and the actuarial liability for members who have already retired is \$22,725,947 which they recommend be transferred to the retiree reserve.

Chairman Moore asked Ms. Gates when a logical time would be to consider making adjustments to the assumptions.

Ms. Gates responded that the best time is either before any money is transferred from the trust or at the time a decision is made about the amount to be transferred.

There was additional discussion.

Miss Munson requested that the Trustees review the 2018 Valuation Report and send any questions or comments to her within two weeks. The Board will be asked to approve the valuation report at the May Board meeting.

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Chairman Moore asked whether moving up the Board's approval of the valuation would help get the supplemental analysis required for the IRS completed sooner.

Ms. Gates responded that it could be completed sooner.

Trustee Giddings stated that he has a difference of opinion. We – as Trustees of the Plan – have taken an oath to protect the assets of the Plan. So, why the Board would we do something that would speed up taking the assets out of the plan. He said he has a problem speeding up the timeline. He believes it is our fiduciary responsibility to pass a resolution recommending to the IRS that the plan not be approved. He said some Trustees may have a conflict – for example, they may go to City Hall and vote the opposite - but attorneys will tell you that Trustees of the System - as fiduciaries - must vote in the best in the best interest of the members while functioning in the capacity of Trustees.

Ms. Billings-Dunn addressed Trustee Giddings concern regarding fiduciary responsibility by stating that terminating a plan and starting a new plan are Settlor obligations and the City is responsible for those functions.

AGENDA CHANGES

Miss Munson referred to the handouts and requested that the Consent Agenda be amended to include corrections to the minutes of the March 27, 2018 meeting; that the Reports section be amended to include IFEBP Certificates of Attendance for Trustee Giddings and herself as well as an email from the City Clerk regarding the new Finance Officer; that the New Business section be amended to include a resolution that would permit loans in the to the 457 Plan.

RESOLUTION 19 – 048 By Gaffney, Supported by P. Waterman
Resolved, That the Board approves the agenda changes.

Yeas: 9 – Nays: 0

APPROVAL OF CONSENT AGENDA

- A. Approval of the Minutes of the Investment Manager Review Meeting held on March 26, 2019
- B. Approval of the Minutes of the Regular Board Meeting held on March 27, 2019
- C. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date April 24, 2019 TOTAL PENSION PAYROLL	\$2,037,659.47
Staff Pay Date April 11 & 25, 2019 TOTAL STAFF PAYROLL	\$21,522.76

- D. Communications
 - Correspondence: FOIA Requests from/to Aidn, Inc. – April 4, 2019
 - Correspondence: FOIA Requests from/to Public Funds IQ – April 2, 2019
 - Correspondence: FOIA Requests from/to Financial Investment News – March 28, 2019
 - Correspondence from Systematic RE: Strategy Termination

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E. Financial Reports

- Accounts Payable: April 2019
- Dahab Associates Preliminary Report: March 2019
- Attucks Manager-of-Manager Summary: March 2019
- Statement of Changes: March 2019

F. Private Equity Capital Calls & Distributions

- Mesirow Fund IV Distribution – March 29, 2019: \$125,000
- Invesco Fund Distribution – April 18, 2019: \$81,290

G. Retirement Benefits

1. New Retirements

RETNO	NAME	EFFECTIVE DATE	AMOUNT
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Bold type entry indicates Reciprocal service credit

2. Terminated Retirements

RETNO	NAME	DATE OF DEATH	BENEFIT AMOUNT
2614	Shanks, Denise	3/15/19	
984	Hanewacker, Gentry	4/4/19	

3. J&S Continued Retirements

RETNO	RETIREE	DATE OF DEATH	SURVIVOR	AMOUNT
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4. Re-calculated Retirements

RETNO	NAME	EFFECTIVE DATE	REASON FOR CHANGE	NEW AMOUNT
1666	Penny, Shirley	5/1/19	Pop-Up	

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	NAME	REASON
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RESOLUTION 19 – 049 By Gaffney, Supported by P. Waterman

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Resolved, That the Board approves and ratifies actions described in the Consent Agenda as amended for April 24, 2019

Yeas: 9 – Nays: 0

CONSULTANTS

Debt and Value-Add Side Letters

Ms. Billings-Dunn summarized the red-lined Side Letters for the proposed debt and value-add real estate investments by stating that all three agreements are in an acceptable format and that all agreed to the critical provisions such as adhering to the fiduciary standard; governing laws; indemnification with a negligence standard; dispute resolution with no arbitration requirement and most favored nation status with respect to fees and liquidity. She believes that she has negotiated very good agreements and they are all in a legally acceptable format to be adopted by the Board. She offered to go through each one in detail.

Miss Munson reviewed the previous resolution in which the Board approved to allocate \$4M each to American Realty, Bloomfield Capital and TerraCap pending the approval of the Side Letter Agreements.

Mr. Moore stated that the finance committee is recommending approval.

RESOLUTION 19 – 050 By P. Waterman, Supported by Walker

Resolved, That the Board approves to retain the American Realty Advisors, Bloomfield Capital and TerraCap and allocate \$4 million to each advisor, and further

Resolved, That the Board authorizes the Chairman's signature on all requisite investment documents and Side Letter Agreements.

Yeas: 8 – Nays: 1 (Gaffney)

Emerging Manager Program Updates: TABLED

Mid-Cap Portfolios Rebalancing

Mr. Lee referred to the rebalancing presentation. He reported that the Board was recently notified that Systematic Financial would be terminating its mid-cap value strategy. Dahab reviewed the System's two current mid-cap managers – this one which is mid-cap value and the other is mid-cap growth and discussed their since-inception performance versus the benchmark. Based on recent discussions with the Board, Dahab believes that the mid-cap portion of the portfolio is a good space for the Trustees to consider using index funds. He reviewed the presentation with the Trustees and continued to explain the rationale for considering index funds in the portfolio. He summarized by noting that the System would maintain its exposure to the asset class, earn benchmark-like returns and save over \$300K annually in investment management fees. The finance committee is recommending that the Board accept the consultant's recommendation to terminate Systematic and Victory Capital and invest in a separately-managed index fund account with Piedmont.

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RESOLUTION 19 – 051 By P. Waterman, Supported by Gaffney

Resolved, That the Board approves to retain the Piedmont Investment Advisors to receive the full mid-cap allocation currently held by Systematic Financial and Victory Capital pending legal review of all investment and transition management documents, and, further

Resolved, That the Board authorizes the Chairman's signature on all requisite investment documents

Yeas: 9 – Nays: 0

RESOLUTION 19 – 052 By Gaffney, Supported by P. Waterman

Resolved, That the Board approves to retain Northern Trust Investments, Inc. as the transition manager.

Yeas: 9 – Nays: 0

Periodic Rebalancing

Mr. Lee summarized the recommendation to raise cash to pay for benefits and expenses.

RESOLUTION 19 – 053 By P. Waterman, Supported by Gaffney

Resolved, That the Board approves the consultant's recommendation to rebalance the portfolio by transferring \$3M from Attucks Asset Management and \$3M from First Eagle to provide for benefits and operating expenses

Yeas: 9 – Nays: 0

Performance Summary

Mr. Lee presented the manager performance summary as of March 31, 2019. The Fund's market value was \$489,465, 214. Fund performance for the month was 0.7%; 9.3% QTD; 4.9% YTD and 8.2% since inception.

Trustee Balint arrived @ 11:15 a.m.

REPORTS

Personnel & Administrative Committee

Proposed Ordinance Language Clean-Up

Miss Munson reported that both committees reviewed the recommended changes to clean up the language of the Retirement System Ordinance. The attorney for the City who is working on the IRS filing has said that they are open to incorporating the ten recommended changes into the new GERS Ordinance. Both committees are recommending that the Board approve forwarding the changes to the City for consideration for inclusion in the new GERS Ordinance.

Conference Call with Actuary and City Attorney/Other Correspondence

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Miss Munson reported that both committees reviewed the correspondence with the city attorney regarding the IRS filing as well as the notes from the conference call with the actuary. Miss Munson commended the efforts of Miller Canfield to clean up the current GERS Ordinance.

Monthly Disability Annual Procedures Report

Miss Munson reported that both committees reviewed the disability annual procedures report. The retiree who was re-examined in March was determined to no longer be disabled and this report will be presented to the Board next month.

457 Plan Loan Amendment

Miss Munson reported that both committees reviewed and are recommending that the Board approve the resolution to allow loans in the System's 457 Plan.

Finance Committee – SEE CONSULTANT

Trustees – NO REPORT

EXECUTIVE DIRECTOR REPORT

Request for Information from City Attorney

Miss Munson reiterated that the City has been requesting that the System's attorney respond to questions that will assist them with the cleaning up the current GERS Ordinance. She has sent a notice to the City requesting that they acknowledge that any work performed by the System's attorney with respect to the IRS filing is a City obligation and that Sullivan, Ward will bill the City directly. Once the City acknowledges responsibility for those legal fees, Ms. Billings-Dunn will send a retainer letter.

Annual Notice RE: \$400 Temporary Supplemental Benefit

Miss Munson reported that the annual notice regarding the scheduled sunset of the temporary supplemental payment was mailed to the members on April 15, 2019.

Office Suite Open/Close Log for 2018

This is for the Trustees' information.

Real I.D. 2020: Travel Alert

This is for the Trustees' information.

UNFINISHED BUSINESS

None

NEW BUSINESS

RE: Resolution to Forward Proposed Ordinance Language Clean-up

RESOLUTION 19 – 054 By Gaffney, Supported by Swazer

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Resolved, That the Board authorizes the Executive Director to forward the proposed Ordinance language clean-up memo to the City Attorney and City Council for consideration.

Yeas: 10 – Nays: 0

RE: Amendment to Permit Loans in the 457 Plan

RESOLUTION 19 – 055 By Gaffney, Supported by P. Waterman

WHEREAS, the Employer has employees rendering valuable services, and

WHEREAS, the Employer has established a retirement plan (the “Plan”) for such employees which serves the interest of the Employer by enabling it to provide reasonable retirement security for its employees, by providing increased flexibility in its personnel management system, and by assisting in the attraction and retention of competent personnel; and

WHEREAS, the Employer has determined that permitting the participants in the retirement plan to take loans from the Plan will serve these objectives;

RESOLVED, That the Board will permit loans.

Yeas: 8 – Nays: 1 (Swazer)

LEGAL REPORT

Side Agreements for Value-Add and Debt Real Estate Managers – See Consultant

Correspondence to City Attorney regarding Retirement System Ordinance and Amendments Thereto

Ms. Billings-Dunn reported that Miller, Canfield Attorney Samantha Kopacz was concerned that the City had not timely adopted the amendments required by the IRS in conjunction with the System’s most recent determination letter. Ms. Billings-Dunn provided documentation to attorney Kopacz demonstrating that the Council did timely adopt the amendments.

Robbins Geller March 2019 Portfolio Monitoring Report

For the Trustees’ Information

Detroit Free Press Article RE: Wal-Mart - See Reports

Bernstein Litowitz Portfolio Monitoring Authorization

Ms. Billings-Dunn reported the Bernstein, Litowitz is one of the law firms which monitors the System’s portfolio for losses related to securities litigation. Bernstein, Litowitz has retained WealthTechs, which is a technology firm specializing in normalizing custodian data. WealthTechs will provide a direct pipeline to Bernstein, Litowitz by downloading all of the System’s trading data directly from Northern Trust.

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Bernstein, Litowitz is requesting that the Board approve to give WealthTechs direct access to its trading data at Northern Trust and permit them to download the information and provide it to Bernstein, Litowitz.

Chairman Moore suggested that this matter be referred to the finance committee for further review.

Fees Received by Sullivan, Ward from Securities Litigation Matters

No change since last month.

RE: Resolution to Approve Closed Session Minutes: March 27, 2019

RESOLUTION 19 – 056 By Gaffney, Supported by P. Waterman

Resolved, That the Board approves the minutes of the Closed Session of March 27, 2019

Yeas: 10 – Nays: 0

SCHEDULING OF NEXT MEETING/ADJOURNMENT

Regular Meeting: Wednesday, May 29, 2019 10:00 a.m. – Retirement Office

RESOLUTION 19 – 057 By Gaffney, Supported by P. Waterman

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees Retirement System be adjourned at 11:48 A.M.

Yeas: 10 – Nays: 0

I certify that the forgoing are the true and correct minutes of the meeting of the General Employees Retirement System held on April 24, 2019

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