

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
FEBRUARY 26, 2014**

A regular meeting of the Board of Trustees was held on Wednesday, February 26, 2014 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 10:07 a.m.

TRUSTEES PRESENT

Jane Arndt
Shirley Barnett
Koné Bowman, Vice Chair
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore *(By Phone)*
Nevrus Nazarko
Deirdre Holloway-Waterman, Mayor *(arr. at 10:21 a.m.)*
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Laurance Gray, Gray & Company
Deborah Munson, Interim Executive Director

Dustin Blitchok, Oakland Press
Larry Marshall, Retiree
Billie Swazer, Retiree
Linda Watson, Retiree

TRUSTEES ABSENT

Patrice Waterman *(excused)*

Chairman Harrison opened the meeting.

PUBLIC DISCUSSION/UNION REPS

Chairman Harrison opened the meeting to public discussion.

Retiree, Linda Watson questioned whether the Onyx issue is still ongoing.

Ms. Billings indicated that the Onyx issue is still open.

AGENDA CHANGES - None

APPROVAL OF CONSENT AGENDA

A. Approval of Minutes of Regular Meeting: January 29, 2014

B. Communications:

1. Correspondence from Ambassador Re: February 2014 Market Update
2. Correspondence from Ambassador Re: February 2014 Status Update
3. Correspondence from AMBS Re: February 2014 Newsletter
4. Correspondence from First Eagle Re: January 2014 Client Statement
5. Correspondence from Gray & Company Re: February 2014 Newsletter

6. Correspondence from Munder Capital Re: Fixed Income Market Composite
7. Correspondence from Munder Capital Re: Dec 2013 Mid-Cap Core Market Composite
8. Conferences:
 - a. Retirement & Healthcare Plan Management – UCS – May 4-7
 - b. Annual Conference – NCPERS – April 26 – May 1
 - c. Washington Legislative Update – IFEBP – May 5-6
 - d. Protecting Securities Portfolios Against Fraud – BLB&G – March 31 – April 1
 - e. Spring Conference – MAPERS – May 18-20

Financial Reports:

1. Statements of Changes: January 2014
2. Accounts Payable: February 2014
3. Ratification of Capital Calls:
 - a. GrayCo PE Capital Call \$218,391
- C. Applications for Retirement, Final Calculations, Refunds, Re-examinations
 1. Remove from the Rolls:
 - a. Goldie Dhondt (deceased 10/25/13)
 - b. William Allan (deceased 11/13/13)
 - c. Ellen Zimmermann (deceased 01/05/14) : Option II benefit of \$1,691.91 to Cameron North
 2. Applications for Service Retirement:
 - a. Anthony Guerra – Teamsters 214 16 years, 3 months Age 60 (Off Deferred)
 - b. Tenley Lawrence – Hospital 14 years, 10 months Age 55 (Off Deferred)
 3. Final Benefit Calculations:
 - a. Anthony Guerra #2752
 - b. Tenley Lawrence #2751
 - c. Mark E. Lewis (Revised Final) #2719
 - d. Daniel Miller (Revised Final) #2490
 4. Request for Refund of Accumulated Contributions:
 - a. Teresa Stayer – Hospital

RESOLUTION 14-017 By Moore, Supported by Gaffney
 Resolved, That the Board approve the consent agenda for February 26, 2014.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company

Mr. Gray congratulated the Board on the System's 2013 performance. He indicated that the System's overall performance for the year was 22.57%. The Fund has performed in line with the policy index for the one-year,

He stated that the System's investment managers have provided solid risk adjusted returns except for Kennedy Capital. The System outperformed CALPERS, CALSTERS and the University of North Carolina and is well ahead of most public institutions.

Chairman Harrison asked Mr. Gray to compare the System's performance to the performance in the public fund universe.

Mr. Gray noted that last year's performance was in the 4th percentile, the three-year performance was in the 8th percentile, the five-year performance was in the 5th percentile and the ten-year performance was in the 13th percentile. The System's performance has consistently ranked in the top decile in the public fund universe.

He noted that the Board has worked hard to stay at this level and return this type of performance for the Fund.

Chairman Harrison indicated that the Consultant has also contributed to the outstanding performance. He stated that the day before, Mr. Kuhn provided the trustees with the performance based on dollar amounts versus percentages.

He explained that in 2008 after the market decline the Plan's total assets were approximately \$338 million. At the end of 2013 total Plan assets were approximately \$490 million. During that period the System earned \$237.1 million in net investment income and paid out \$85 million in retirement benefits, management fees and expenses.

Trustee Moore stated that it is important that we know where the System ranks in the public fund universe. He expressed the importance of reporting the System's out-performance as well as it ranks among it's peers. There seems to be a mean spirit in the City that paints the Board as the bad folks. Reporting this information is real reporting.

Trustee Giddings stated that the System's performance takes pressure off the City because they do not have to make contributions. He noted that the investment manager predictions for 2014 were all over the map.

Mr. Gray stated that he believes the economy will continue a path of slow growth in the short term. The current global macro events will also have an effect on the markets. Janet Yellon will help the economy to stay on track by stopping the purchases of treasuries. The Fed is currently buying \$75 billion in treasuries per month but it will continue to steadily decline by \$10 billion each month. This will present challenges both globally and domestically. The BRIC nations are not faring well due to the impact on commodity-based exports and the slower economic growth in China.

GDP growth in the fourth quarter was over 4% but the markets seem to ignore that factor. There does not seem to be a broad rationale for market performance. We are seeing a lot of global money flowing into the domestic markets.

GrayCo Alternatives Audit Opinion

Mr. Gray explained that previously the GrayCo Alternative investment received a qualified opinion on their audit. There seems to be a communications issue between the two audit firms. Both sides should be issuing unqualified opinions going forward.

Trustee Moore asked what the difference is between a qualified and unqualified opinion.

Mr. Gray explained that a qualified opinion means that the auditor found something they did not like. An unqualified opinion is given when there are no issues with the audit. He further noted that they are not managing these funds. There was an appraisal and pricing issue in one of the funds. He has been told that the matter has been resolved.

Chairman Harrison questioned whether the issue has been cleared up with the System's auditor. He also asked if Miss Munson is expecting something from Plante & Moran.

Miss Munson indicated that she will follow up with Plante & Moran.

There was a discussion regarding an extension of the private equity performance reporting. Beth Bialy from Plante & Moran has asked that they receive the information by April 30, 2014, so it can be included in the audit.

Ms. Billings stated that she just forwarded that information to Bob Hubbard on Monday. She did not expect a response for this meeting.

Mr. Gray explained that private equity performance reporting is always behind standard investment reporting. There are also tax returns to file and Schedule K-1's to issue that make it more difficult this time of year.

They are looking at a compromise somewhere between 120 days and 180 days.

Asset Liability Study

Mr. Gray asked the Board when they would like conduct the special education session.

Trustee Giddings indicated that the Board could possibly meet one evening.

Mr. Gray stated that if the meeting is not held soon he would like to freshen up the numbers before the presentation.

Chairman Harrison told Mr. Gray that the Board is looking at dates to hold the session. They could potentially break up the sessions and hold them on a weekday evening or on a Saturday.

He thought it might be best to break up the sessions since there is a lot of information to digest.

Ambassador Capital Management

Mr. Gray told the Board that Ambassador is still dealing with the SEC issues. They received a formal performance report from Ambassador with their performance to date annualized at 3.72% versus the benchmark at 2.0%. They are still doing what they were hired to do.

Trustee Nazarko questioned the System's performance as of January 27, 2014 noting a loss of \$14 million.

Mr. Gray told the Board that there was a market correction and the System gave back some of its prior performance gains.

REPORTS

Re: Chairman

Chairman Harrison told the Board that he would like to read a resolution of service for Ellen that was written by Deborah Munson.

WHEREAS, Ellen Zimmermann has served as the Administrator and Executive Director of the General Employees Retirement System for over 16 years; and

WHEREAS, Upon her arrival in the Retirement Office, Ellen Zimmermann implemented a number of innovative ideas to modernize the Retirement Office processes, systems and policies; and

WHEREAS, During her tenure, Ellen Zimmermann has provided exemplary customer service to more than 3,000 active employees, former employees and retirees; and

WHEREAS, Ellen Zimmermann has provided the Board and the Staff with in-depth industry knowledge and a wealth of professional expertise; and

WHEREAS, Ellen Zimmermann has provided continuous stable leadership to the System through multiple periods of transition and consolidation; and

WHEREAS, Ellen Zimmermann's testimony in the nation-wide securities litigation trial against Lockheed Martin was instrumental in swaying the decision in favor of the Retirement System and other plaintiffs; and

WHEREAS, Ellen Zimmermann was a true champion for the retirement security of public sector workers everywhere; and,

WHEREAS, the Trustees, the members and beneficiaries of the Retirement System owe a debt of gratitude to Ellen Zimmermann for her service to the Retirement System; now, therefore, be it

RESOLVED, That the Board of Trustees, on behalf of itself and all concerned, hereby expresses its gratitude and appreciation to Ellen Zimmermann for her honorable and distinguished service as Executive Director; and, be it further

RESOLVED, That the Board of Trustees extends its deepest condolences and sympathy to the family of Ellen Zimmermann; and, be it further

RESOLVED, that the Board of Trustees, on behalf of all of the aforementioned parties, expresses its thanks for an outstanding job done with remarkable grace.

It would be befitting for this body to get this printed and to put a copy in the Retirement Office.

Trustee Moore asked that Mayor Waterman carry this resolution from the Board to the City Council.

RESOLUTION 14-018 By Moore, Supported by Gaffney
Resolved, That the Board adopt the Resolution of Service for Ellen Zimmermann.

Yeas: 10 – Nays: 0

Re: Trustees/Committees

Finance Committee

Trustee Moore told the Board that the Finance Committee is moving ahead. The members have offered a great deal of input. It is a new committee or a reconstructed committee.

The committee members feel that there is a need to refine the budget process. It is primarily an expense budget. Miss Munson will put together the budget.

They also feel that it is time that the Retirement Office moves into the modern age. In the past the Retirement Office was somewhat dependent on the City. They are looking to put together a technology plan or system to move into the future. It seems that too much money is being spent putting information on paper. They are looking at preparing Power Point presentations and discussed other technology areas.

He noted that by discussing these issues in Committee it speeds up the process and less time is spent in the Regular Meeting.

The committee also discussed trustee education. Some Trustees may be more knowledgeable than others which is why it is important to develop an ongoing educational plan. It would be helpful for Trustees who are looking at other educational areas to be covered.

He also indicated that they discussed holding an annual meeting for the members. Vendors could be invited to participate in the informational session. They have not selected a date but are looking at July or August, 2014.

Chairman Harrison noted that the driving force and rationale for the date of the meeting would be to include the presentations of the actuarial and audit reports.

Trustee Moore reminded the Board that at the last meeting the issue regarding the System owing the City money came up. He stated that if the System owes the City money it will be paid. However, the City will need to provide documentation. As fiduciaries of the System the Trustees need backup before they can approve payment.

He looks forward to the issue being resolved and the Sub-Committee will bring the issue back to the full Board for resolution.

Personnel Committee

Trustee Gaffney stated that at the last meeting there was a lengthy discussion regarding the pay increases. There was a discussion and the issue has been resolved. The Committee's current primary function is the filling of the vacancy due to Ms. Zimmermann's death.

They are looking at a two-pronged approach with possibly having a third party administrator and an Executive Director simultaneously. Instead of expanding the staff they would push some of the workload over to a TPA. They currently do not know what direction they will go. Ms. Billings is currently putting together the RFP's.

She told the Board that Miss Munson did a nice job putting together the job specifications and duties of the Staff.

Trustee Deirdre Waterman suggested that instead of looking at structure and job descriptions the Committee should look at the skillset instead of position.

Trustee Gaffney thanked Trustee Waterman for the suggestion.

Chairman Harrison stated that Trustee Patrice Waterman has withdrawn from the Personnel Committee. He asked if Mayor Waterman would move from being the alternate to a permanent member of the Committee.

Trustee Deirdre Waterman felt that it is an excellent suggestion by the Finance Committee to hold an annual meeting. She stated that it could be presented in line with certain topics during town hall meetings. From the City's perspective, they could reach out and help go over the issues with Retirement Board members.

Chairman Harrison thanked Mayor Waterman and felt it would be a good idea to include Board members in order to provide updates and reintroduce themselves to the public. The Finance Sub-Committee talked about an annual meeting comparable to the State of the State, State of the City, etc. This would be the Board's version but they want it to be user friendly. They will come back to the Board with a format.

Trustee Moore stated that the people have to understand that the assets belong to the Retirement System. There is no need to bring others into it.

Trustee Barnett stated that last April the former Hospital employees held a lunch meeting with over one hundred in attendance. The Hospital members are interested in what is going on.

Trustee Moore stated that the members of the CPREA also fill the union hall for their meetings.

Trustee Barnett stated that holding the meeting in July or August would be perfect because most retirees are back home in Michigan during that time of year.

Trustee Gaffney agreed with Trustee Barnett that more members are home during that time of year.

Trustee Moore agreed that holding the meeting at that time would fit into the schedule for the audit and actuarial presentations to the Board.

He also commented that the City takes its audit to the City Council but it is not formally presented to the Council.

Trustee Deirdre Waterman told the Board that the City's audit is approved by the City Council and there is a copy available on the City's website.

Trustee Moore stated that it would be good to hear the City's audit presentation.

Ad Hoc Committee

Trustee Bowman stated that the Ad Hoc Committee was tasked with finding a consultant to manage the GrayCo Emerging, Michigan-Centric and the GrayCo Alternative investments. The Committee went through the RFP process but based on the proposed cost to oversee the investments the Committee contacted the System's Custodian - Northern Trust - to inquire as to whether they could manage those assets. Northern Trust indicated that they could oversee the investments for \$15,000.00 per year which is a reasonable cost.

The System's Auditor Beth Bialy from Plante & Moran has determined that it is acceptable for Northern Trust to manage those investments on behalf of the Retirement System.

Retirement Staff Pay Increases

There was continued discussion on whether a resolution was needed to approve the January 1, 2014 pay rate increases for the Retirement Staff.

Trustee Nazarko stated that during the Finance Committee Meeting the members determined a resolution was needed to approve the pay rate increases.

Trustee Moore confirmed that a resolution is needed.

Trustee Nazarko left at 11:02 a.m.

RESOLUTION 14-019 By Moore, Supported by Bowman

Resolved, That the Board approve the January 1, 2014 pay rates plus 10% for the Retirement Staff.

Yeas: 8 – Nays: 0
Abs: Trustee Arndt

Re: Executive Director

Miss Munson recommended an article to the Board contained in the Report Section of the agenda packet. The article is a reply from NCPERS to the Rockefeller Institute of Government's report on the Strengthening the Security of Public Sector Defined Benefit Plans.

iPad Training/Electronic Agendas

Miss Munson told the Board that she has contacted the System's IT contractor to hold a basic iPad training session for the Board. She suggested that the session be held one hour prior to the Board's next regular meeting.

Trustee Giddings asked if the Trustees are aware of a security update for the iPads. He also told them that there is free software that will allow the Trustees to put bookmarks in their electronic agenda packets.

Trustee Gaffney indicated that having bookmarks would make the agenda packet easier to navigate.

Miss Munson also indicated that Ms. Arndt will send an email to the Trustees asking whether they prefer to receive an electronic agenda versus paper for the meeting.

Chairman Harrison also noted that when the Trustees receive an email from Miss Munson requesting a response, he asked that the Trustees reply. It is Board is collectively better when the Trustees respond to time sensitive issues.

2013 Actuarial Valuation

Miss Munson reported that she sent the required information and data to the actuary for the 2013 valuation report.

Owusu-Agyei (Twum)/Brown Service Credit Issue

Miss Munson reported that the cost study for Arthur Brown and Vida Owusu-Agyei (Twum) has not yet been presented to the City Council but that she would follow up on this matter.

Citizen Trustee Recommendation Resolution

Miss Munson reported that at the last meeting the Board approved two resolutions recommending that the City Council reappoint Chairman Harrison and Trustee Bowman as Citizen Trustees on the Board. The resolutions have not yet gone before the City Council.

Cost Study

Miss Munson reported that Larry Marshall has agreed to pay for a cost study based on the City Council's Resolution #13-286. Mr. Marshall is now asking that the cost study include reciprocal time for applicable deferred members in the parameters of the cost study. She indicated that the attorney had told her that because his request differs from what the City Council and the Board previously approved this would need to go back Board and possibly to the Council for an additional amendment. Ms. Munson requested direction from the Board.

Trustee Moore stated that he does not feel the Board needs the Council to revise the resolution to comply with Mr. Marshall's request.

Ms. Billings told the Board that Miss Munson brought the request back to the Board to ask for direction because the request was outside of the parameters of the Council's resolution.

Trustee Moore asked if the Board has to approve the amended cost study parameters.

Ms. Billings stated that from her legal perspective a third party can pay for the cost study. Legally, the parameter language comes from the resolution but the requestor is asking for something additional.

Chairman Harrison asked if the Council has to respond to this or can this request be treated as a separate item. He asked what the simplest way is to handle this issue.

Ms. Billings stated that the simplest way is for the Board to authorize the actuary to process the cost study with the additional parameters.

Trustee Barnett asked if the request includes the Hospital members.

Miss Munson indicated that the Council's resolution requested for a cost study to determine the cost to the System to give deferred City members of the System who were laid off between 2009 and 2011 with ten years of service credit an early out retirement retroactive to the date of their layoff.

Trustee Giddings told the Board that the Hospital members were kicked out of the System twenty-one years ago and they have their own money in the System and have waited until they turn sixty to receive their pension benefits.

Ms. Billings stated that Hospital members can pay for a cost study.

Trustee Moore indicated that there is always going to be a "me too" issue because the Emergency Manager chose to pick and choose who would get an early out.

Mr. Marshall wanted to confirm the history of his request and the resolution he authored on behalf of the City Council. He indicated that he asked to update the cost study in order to make sure that people that have reciprocal time are able to draw their pension.

Miss Munson stated that the statements that are sent to members includes reciprocal time for those members that have had their reciprocal time verified by the Retirement Office.

She also noted that the actuary reduced the price of the study because Mr. Marshall's initial request did not include the retroactive piece of the resolution.

Trustee Moore stated that there is no need to make more work than is necessary.

Trustee Nazarko indicated that he did not know that Mr. Marshall was going to pay for the cost study. There seems to be some confusion between what was passed by City Council and what is being requested. He stated that the Transition Advisory Board turned down the request from Council to pay for the cost study. He stated that he wants to be clear on what is being requested and who has the final authority.

Ms. Billings stated that any changes in benefits would have to be approved by the Council and the Transition Advisory Board.

Trustee Barnett stated that the deferred Hospital retirees would also like a retroactive early out retirement.

RESOLUTION 14-020 By Moore, Supported by Gaffney

Resolved, That the Board approve authorizing the actuary to prepare the modified actuarial cost study request which includes those members with reciprocal time.

Yeas: 9 – Nays: 1 (Trustee Nazarko)

Deferred Annual Letter

Miss Munson reported that the deferred annual letters were mailed on Friday, February 21, 2014.

Legal Report

The Board determined that they would formally change the order of the agenda putting the Legal Report at the end of the meeting.

UNFINISHED BUSINESS

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

Re: Electronic Agendas – Refer to Executive Director’s Report

Re: Personnel Policies – Refer to Personnel Committee

Re: Schedule Special Education Session/Ambassador Presentation – Refer to Consultant

NEW BUSINESS

Re: Legal

IRS Letter of Determination Submission for an IRC Section 420 Transfer

Ms. Billings reported that the IRS has issued a revised Favorable Letter of Determination. The original letter had an error that she indicated needed to be corrected. The letter was revised on January 30, 2014 and is required to be incorporated into the Retirement Ordinance and adopted by City Council within ninety-one days or by May 1, 2014.

Ms. Billings stated that the favorable letter of Determination is dependent upon the adoption of the proposed amendments. She described the required amendments that would have to be incorporated into the Retirement Ordinance for compliance with the overall tax exempt status of

the Retirement System under IRC Section 401(a) and Section 401(a) (2) of the IRC as modified by Section 420 for certain transfers of Plan assets. She also indicated that because no one has healthcare today a 420 Transfer could not be processed just by adopting this amendment. Changes would have to be made, an actuarial study performed, and both the City and the Retirement Board would have to vote to approve a transfer, among other legal requirements.

Trustee Moore confirmed that prior to a 420 Transfer healthcare has to be restored.

Trustee Gaffney questioned whether a motion is needed to send the IRS Letter of Determination to Council for adoption.

Trustee Moore asked if this needs to be done in order to move forward with a 420 Transfer.

Trustee Deirdre Waterman indicated that it would have to be approved by the City Council and forwarded onto the TAB Board for final approval.

Chairman Harrison stated that it is important to have this piece in place in the event the Board can move forward with a 420 Transfer.

RESOLUTION 14-021 By Gaffney, Supported by Nazarko
Resolved, That the Board forward to City Council for adoption, the proposed amendments to the Retirement System Ordinance, as required by the Internal Revenue Service to effectuate the favorable IRS Letter of Determination dated January 30, 2014.

Yeas: 10 – Nays: 0

Request for Attorney General Opinion

Ms. Billings reported that there is nothing new to report. She is still waiting for the Attorney General's opinion.

Robbins Geller January 2014 Portfolio Monitoring Report

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

Bernstein Litowitz Fourth Quarter 2013 Portfolio Monitoring Report

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

GrayCo Alternative Partners I, LP First Amendment of Limited Partnership Agreement

Ms. Billings reported that she is working on an amendment to the GrayCo Alternative Partners I Limited Partnership Agreement to change the requirement for the audited financial statements from 120 days to 180 days. The auditor Plante & Moran has indicated that this is not enough time and they are trying to work out something in the middle.

RESOLUTION 14-022 By Bowman, Supported by Arndt
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Arndt – yea
Trustee Barnett – yea
Vice Chair Bowman – yea
Trustee Gaffney – yea
Trustee Giddings – yea

Chairman Harrison - yea
Trustee Moore - yea
Trustee Nazarko - yea
Trustee Deirdre Waterman - yea
Trustee Williams - yea

*The Board moved to closed session at 11:39 a.m.
Mr. Gray, Mr. Blitchok, Mr. Marshall, Ms. Swazer and Ms. Watson left at 11:39 a.m.
The Board returned from closed session at 11:54 a.m.*

RESOLUTION 014-023 By Gaffney, Supported by Bowman
Resolved, That the Board approve the closed session minutes for January 29, 2014.

Yeas: 10 – Nays: 0

Chairman Harrison submitted rental car expenses for the 2014 Opal Public Funds West Conference. The Trustees discussed situations where one trustee may rent a car to transport other trustees on the Board, when attending an educational conference and the fact that this is more cost effective than each individual trustee obtaining separate transportation.

RESOLUTION 14-024 By Williams, Supported by Barnett
Resolved, that the Board approve rental car expenses submitted by Chairman Harrison for the 2014 Opal Public Funds West Conference.

Yeas: 10 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, March 26, 2014 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 14-025 By Gaffney, Supported by Bowman
Resolved, That the meeting be adjourned at 12:00 p.m.

Yeas: 10 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on February 26, 2014

As recorded by Jane Arndt