

**CITY OF PONTIAC  
POLICE AND FIRE RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING MINUTES  
DECEMBER 3, 2015**

A regular meeting of the Board of Trustees was held on Thursday, December 3, 2015, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan.

**Trustees Present**

Craig Storum, Chairman  
Nevrus Nazarko, Secretary  
Lon Britton, (phone-in)  
Deirdre Waterman, Mayor

**Others Present**

Matt Henzi, Sullivan, Ward, Asher & Patton  
Chris Kuhn, The Bogdahn Group  
Liz Edwards, BeneSys, Inc.

**Trustees Absent**

Matt Nye

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*Chairman Storum declared that a quorum was present and called the meeting to order at 10:43 a.m.*

**AGENDA CHANGES**

**CONSENT AGENDA**

- A. Minutes of Regular Meeting – October 29, 2015
- B. Financial Reports
  - 1. Financial Reports – September 30, 2015
  - 2. Bills for Ratification as of October, November 2015
- C. Remove from Rolls:
  - 1. Dorothy Duby, DOD 10-17-2015; Surviving Spouse of Harry
  - 2. Thomas Hereford, DOD 11-02-2015; Dolores, Spouse / Annuitant
- D. Final Benefit Calculations:
  - 1. Renee Stevens, PPOA #81188, DOR 12-01-2015, \$1,715.83

**RESOLUTION 15-057** By Nazarko, Supported by Waterman  
Resolved, That the items on the Consent Agenda for December 3, 2015, be approved.

Yeas: 4 - Nays: 0

## CONSULTANTS

### A. The Bogdahn Group

Mr. Kuhn reviewed the Fund's position as of November 21, 2015. Fund assets are just over \$227,500 million. He then reviewed the third quarter performance report as of September 30, 2015. He reviewed each manager against the Compliance Checklist. The Fund is exceeding in all areas except for several composites. He noted that both WHV and Aberdeen did not meet many of their objectives. The asset allocation was very close to the target allocation. There were some losses in the equity market, as shown on the financial reconciliation exhibit. The Fund lost just over 5% in the third quarter. Several of the real estate managers had not reported, mostly due to timing. Munder was still using its name, not Victory, on this report. The resignation of Christopher Ohmacht, president of Victory Capital, has no real impact on the group. Trustee Britton asked if the 2010 policy index is that policy or the updated policy. Mr. Kuhn stated that it is the policy in effect for that year.

Mr. Kuhn then noted that the decline in oil has hurt the WHV portfolio and performance. They picked bad sectors but they are not wavering on it. Chairman Storum stated he thinks we should stick with it for a while, and not sell low. Mr. Kuhn agrees with this. It is sector-driven underperformance. Trustee Britton stated he supports sticking with WHV as the manager has come through over and over again.

Mr. Kuhn stated that Thornburg is on its way out, and that we just funded Bloomfield Capital with its assets. They had a great deal of turnover, but now they are recouping. Garcia Hamilton had a good quarter; they were patient and were rewarded. With Aberdeen, global opportunities have given them more choices, but for the last couple of years, the U.S. has outperformed the international market. Mr. Kuhn then noted that we have not received all the real estate quarterly statements as of yet so some of the month-end and quarter-end values are blank. Neuberger Berman was just added to the Fund in April, so they are experiencing the "j-curve" which means the Fund will underperform in the first couple of years due to fees. He reviewed the schedule of investible assets, and the Fund started many years ago with just over \$200 million, the net cash flow was \$100 million, and is still at \$200 million. He noted that Rhumblin is not up to date as it had the COLA payout in November.

Attorney Henzi commented that Clarivest is a permissible investment for the Retirement System but would be classified as a Basket Clause investment under PA 314. The reason is that the investment is a limited partnership, which is not registered as an investment advisor under the U.S. Investment Company Act of 1940, as required by PA 314. Nevertheless, the Board of Trustees may utilize the Basket Clause, Sections 20(d) and 20(k), governing global securities of PA 314 to invest in a limited partnership. Mr. Kuhn noted that there is not much room left in the Basket Clause for the System. Trustee Britton directed the consultant to examine whether there is an alternative investment for the Board to consider. Mr. Kuhn noted that the Metropolitan co-investment and secondary fund was scheduled to be added to the Fund. Attorney Henzi confirmed that the Metropolitan investment that was previously approved by the Trustees will be ready for execution before the deadline date of December 18, 2015.

## REPORTS

- A. Chairman
- B. Secretary
- C. Trustees Committees
- D. Legal, Attorney's Report, Sullivan, Ward, Asher & Patton, P.C., Matthew Henzi

## ATTORNEY'S REPORT

### Attorney Report – General Matters:

#### Application for IRS Determination Letters for PFRS – Exhibit A

Attorney Henzi stated that the IRS is going to stop issuing Determination Letters. We will consider the plan as qualified, and will amend the Ordinance accordingly.

#### Revised Amendment to Open Meetings Act

Attorney Henzi addressed this issue for the Board in the Attorney Report.

#### Nyhart Actuarial Services Contract

Attorney Henzi addressed this issue for the Board in the Attorney Report.

#### Deferred Buyout – Archer – Exhibit C

Attorney Henzi addressed this issue for the Board in the Attorney Report. Mr. Archer is a participant and became a deferred vested upon partial plan termination since he had less than ten years' service at the time he separated employment from the City of Pontiac. He has expressed an interest in repaying his member contributions, which he withdrew upon separation from employment, under the belief that he would never reach ten years' service credit and, thus, qualify for a retirement benefit. The PFRS Ordinance was amended to allow for the repayment of withdrawn contributions. The Ordinance Amendment stated "the terms and requirements of such repayment shall be determined at the discretion of the Board of Trustees." The Board subsequently resolved to permit Mr. Archer to repay his withdrawn contributions at 7.5% annually, computed from his withdrawal date through February 1, 2012. Since the last meeting, this matter has been referred to the actuary for calculation of interest.

#### Larry McNeary – Exhibit D

Attorney Henzi addressed this issue for the Board in the Attorney Report. BeneSys verified that Mr. McNeary's surviving spouse received a 2014 COLA payment of \$14,200.11 in error. Legal will work with BeneSys to demand repayment. There was consensus among the Trustees to permit the surviving spouse to pay the full amount back in monthly installments, up to a period of twelve months.

#### Executive Order 308

At the October 29, 2015, meeting, the Trustees discussed, under New Business, the issue of whether to disburse to pre-August 22, 1996, retirees a \$400.00/month pension increase as set forth in former Emergency Manager Lou Schimmel's Executive Order 308. The Trustees resolved to pay the \$400.00/month pension increase as mandated by Executive Order 308 to the members affected by the Order, from September 2013 – August 2015, and as otherwise stated in Police & Fire Pension Minutes  
December 3, 2015

Executive Order 308. The Trustees directed BeneSys to compile a list of pre-1996 retirees and surviving spouses so as to identify the persons eligible for the pension increase. Further, the motion was subject to legal counsel's research of three issues regarding the legality of this retroactive payment of the Executive Order 308 benefit.

Attorney Henzi advised, that based on his research, he found no legal impediment for paying the pension increase as set forth in the Trustees' October 29, 2015, motion.

Trustee Waterman asked for an explanation for why the motion was made on October 29, 2015. There was significant discussion about this matter. Attorney Henzi stated that, at the October 29, 2015, meeting, there was discussion among the Trustees that the pre-1996 retirees and beneficiaries had their retiree health care eliminated effective September 1, 2013. The VEBA subsidized their health care from September 2013 – March 2014. However, the persons in this class have received no health care coverage or pension increase since that time. Attorney Henzi explained that Trustees stated at the October 29, 2015, meeting that such treatment could be viewed as unfairly singling out this specific class of retirees, especially when compared with their GERS retiree counterparts, who have been receiving a \$400.00 pension increase since September 1, 2013, through the present. Further, that benefit was extended for a third year by vote of City Council. Attorney Henzi explained that the Trustees never made a resolution to not pay the \$400.00 increase to pre-1996 retirees. Instead, the Trustees took several actions to try and convince the City to agree to amend the VEBA Trust such that the pre-1996 retirees would be included as members. Negotiations on this topic broke down and there has been no activity on the issue in many months.

Certain Trustees felt that this was the oldest, and most vulnerable, group of retirees and, as such, should be treated similarly to other retirees.

Attorney Henzi advised that there are some practical considerations for the Board to consider. First, the Board may want to revise the Motion such that the \$400.00/month pension increase will be paid to affected members only from the date on which the VEBA stopped subsidizing pre-1996 retiree health care (April 1, 2014) through August 31, 2015 (the expiration of Executive Order 308). This is because the VEBA did contribute money on behalf of certain of these members for health care during this five month period. Additionally, the Trustees should consider whether to make the payment by way of lump sum, or otherwise. Legal counsel recommended that a lump sum may be preferable, especially in light of the fact that a past due benefit is being paid. If the Trustees pay the benefit monthly from January 2016 – December 2018, a participant who dies before the expiration of that two-year period may be unfairly prejudiced.

Trustee Waterman asked whether Attorney Henzi would share his opinion with counsel for the City. Attorney Henzi advised that he could not provide counsel for the City a copy of the attorney-client privileged memorandum that he provided for the Trustees. However, Attorney Henzi advised that he has already been in contact with counsel for the City regarding the subject motion. Further, Attorney Henzi advised that he would follow up with counsel for the City and set forth the basis for his opinion that the Trustees' October 29, 2015, motion is lawful.

The Trustees discussed these practical considerations, and the issue at whole, at length. There was consensus among the Board members to pay this benefit, pursuant to Executive Order 308 in a lump sum. Further, that the lump sum payment should only be from April 1, 2014 – August 31, 2015. The Board directed legal counsel and the administrator to prepare a list of eligible members, with a goal of making all members “whole.” Legal counsel and the administrator are to forward that list to Trustees Britton and Storum before the next meeting. There was an interest in paying the past due benefit to estates of recently deceased participants. Further that the entire Board will review the status of payment at the next meeting.

Trustee Nazarko indicated that some of the persons who will receive this benefit owe the City money for certain health care benefits that the City paid over the last two years. Trustee Nazarko asked whether the PFRS could offset the benefit and remit the owed sums to the City. Attorney Henzi advised that this is not possible since the \$400.00 pension increase is a pension benefit. As such, the PFRS cannot alienate the benefit without the participant’s permission. Therefore, if a participant agrees, in writing, that the PFRS may deduct a portion of that benefit and remit to the City, that would be acceptable. Otherwise, the City will need to collect this sum from participants.

*Charles Bowie Reconciliation of Service Credit – Exhibit E*

Attorney Henzi addressed this issue for the Board in the Attorney Report. Attorney Henzi advised that, after discussing the matter with the actuary and BeneSys and upon reviewing reports prepared by the prior administrator, he determined that, pursuant to the Ordinance, Mr. Bowie has 10 years, 0 months service credit and, as such, will qualify for a retirement benefit upon reaching age 50.

*Burroughs vs Burroughs EDRO – Exhibit F*

Attorney Henzi addressed this issue for the Board in the Attorney Report.

*COLA Payments to Estates of Deceased Surviving Spouses – Exhibit G*

Attorney Henzi addressed this issue for the Board in the Attorney Report. The payments should be pro-rated based on the participant’s date of death.

*Clarivest Investment Agreement – Exhibit H*

Attorney Henzi addressed this issue for the Board in the Attorney Report. Attorney Henzi provided an opinion letter and analysis for the Board. Based on this analysis, any investment in the Clarivest Limited Partnership would be an investment qualifying under Sections 20(d) and 20(k) of Public Act 214.

*Summary Annual Reports*

Attorney Henzi addressed this issue for the Board in the Attorney Report

*Robbins Geller October 30, 2015, Portfolio Monitoring Reports – Exhibit I*

Attorney Henzi addressed this issue for the Board in the Attorney Report.

*Miscellaneous Articles – Exhibit J*

Attorney Henzi addressed this issue for the Board in the Attorney Report.

**UNFINISHED BUSINESS**

A. Emergency Manager Order #308 Review

**NEW BUSINESS**

A. 2014 Summary Annual Report

Attorney Henzi reviewed the 2014 Summary Annual Report. Trustee Britton stated that the decimal point under expenditures be moved to remove the “cents” and to otherwise make the expenditures uniform. With that change, the report can be published.

**RESOLUTION 15-058** By Nazarko, Supported by Britton

Resolved, That the 2014 Summary Annual Report be approved as presented, pending removal of the cents from the dollar figures.

Yeas: 4 – Nays: 0

**CORRESPONDENCE**

A. Victory Capital Management, Notice to Clients, October 28, 2015

B. Dollar General Corporation Class Action Settlement, October 29, 2015, \$69.26

**NEXT MEETING DATE:** January 14, 2016

The tentative schedule for the 2016 meetings was presented and reviewed. After discussion, it was agreed to change April 26 to April 21, August 23 to August 25, and October 25 to October 27.

The 2016 meeting calendar is thus as follows:

**2016 BOARD MEETING CALENDAR**

January 14, 2016  
February 25, 2016  
March 31, 2016  
April 21, 2016  
Special Meeting / Manager Review: May 25, 2016 (Off Site)  
May 25, 2016  
June 30, 2016  
July 28, 2016 (Annual Meeting)  
August 25, 2016  
September 29, 2016  
October 27, 2016  
December 8, 2016

**RESOLUTION 15-059** By Britton, Supported by Nazarko  
Resolved, That the amended Notice of Board Meetings Calendar for 2016 be approved.

Yeas: 4 – Nays: 0

**ADJOURNMENT**

**RESOLUTION 15-060** By Britton, Supported by Nazarko  
Further Resolved, That the meeting be adjourned at 12:07 p.m.

Yeas: 4 – Nays: 0

I certify that the foregoing are the true and correct  
minutes of the meeting of the Police and Fire  
Retirement System held on December 3, 2015.



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Nevrus Nazarko, Secretary  
*As recorded by BeneSys*