

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 17, 2014**

A regular meeting of the Board of Trustees was held on Tuesday, June 17, 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 10:06 a.m.

TRUSTEES PRESENT

Jane Arndt
Koné Bowman, Vice Chair
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore
Nevrus Nazarko (*arrived at 10:50 a.m.*)

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Deirdre Holloway-Waterman, Mayor (*excused*)
Patrice Waterman (*excused*)
Kevin Williams (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Deborah Munson, Interim Executive Director
Linda Watson, Retiree

PUBLIC DISCUSSION/UNION REPS - None

AGENDA CHANGES

Miss Munson informed the Board that she had received the cost study for the proposed early-out retirement benefit for deferred members. She asked that it be added to the agenda under Unfinished Business.

RESOLUTION 14-056 By Moore, Supported by Gaffney

Resolved, That the Board authorize the adding of the Deferred Member Early Out Cost Study to the Agenda under Unfinished Business.

Yeas: 6 – Nays: 0

APPROVAL OF CONSENT AGENDA

A. Communications:

1. Correspondence from Ambassador Re: June 2014 Market Update
2. Correspondence from Ambassador Re: June 2014 Status Update
3. Correspondence from First Eagle Re: May 2014 Client Statement
4. Correspondence from Munder Capital Re: Citi GTS Custodian Communication
5. Conferences:

B. Financial Reports:

1. Statements of Changes: May 2014
2. Accounts Payable: June 2014
3. Northern Trust Gray & Company Performance Reports – May 2014
4. Ratification of Capital Calls:
 - a. Mesirov VI PE Capital Call \$30,000.00

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

1. Remove from the Rolls:
 - a. Merlene Grant (deceased 05/16/14)
 - b. David Tacia (deceased 05/21/14) Option III Benefit to Linda Tacia
2. Applications for Service Retirement:
3. Final Benefit Calculations:
 - a. Rhonda Lewis (Alt Payee of Thomas Lewis Jr.) #602632
4. Disability Re-exams
 - a. Edward Miller
5. EDRO Benefit
 - a. Rhonda Lewis (Alt Payee of Thomas Lewis, Jr.)

RESOLUTION 14-057 By Gaffney, Supported by Bowman
Resolved, That the Board approve the consent agenda for June 17, 2014.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Gray & Company

Market Values

Mr. Kuhn distributed copies of the Fund's updated market values.

He told the Board that the letters have been sent to investment managers regarding the semi-annual rebalancing.

He noted that the Fund is close to being back near the \$500 million mark.

Ms. Billings added that that is really an accomplishment since there are no contributions being made to the System.

Mr. Kuhn also indicated that the System pays out approximately \$2 million in expenses and benefits each month.

Peritus Global Account/Updated Due Diligence

Mr. Kuhn stated that the Peritus issue resulted from Peritus trading a security for the System's portfolio that required the account at Northern Trust to be changed to a global account. He will put together a detailed report to explain the issues at next month's meeting.

Chairman Harrison asked if the Peritus issue needs to be resolved before next month's meeting.

Ms. Billings stated it was her understanding that the Board ratified the Vice-Chairman's signature on the Letter of Direction with regard to the change of the Peritus account at last month's meeting. The Board should consider whether a policy is needed to address these types of issues that come up between meetings. That analysis should be included as part of Mr. Kuhn's report.

She also stated that the Consultant could recommend putting Peritus on watch if they violated the Investment Policy Statement by purchasing a security that is outside of the scope of their mandate according to the policy.

Trustee Bowman stated that he would like a letter on file for the record indicating that he signed the Letter of Direction based on the Consultant's recommendation.

Ms. Billings indicated that this was done without the recommendation of legal counsel.

Trustee Moore asked if the letter from the Consultant is in process.

Mr. Kuhn stated that he was not at the last meeting and that he would put together the letter for the Board.

Chairman Harrison asked if the letter indicating that the Peritus Letter of Direction was recommended by the Consultant could be submitted between meetings.

Mr. Kuhn stated that he reviewed the Investment Policy Statement with regard to high yield manager's allocation to global securities and equities. He said that the IPS was written in a way that can be interpreted two ways. It can be interpreted loosely which would allow for these types of investments or strictly which would indicate that the manager is in violation of the IPS.

Trustee Bowman stated that Peritus uses an unorthodox investment approach.

Mr. Kuhn agreed with Trustee Bowman and stated that Peritus looks at the broad definition of high yield. They are looking to find securities to put into the portfolio based on a loose interpretation of the IPS. What he took away from his recent meeting with Peritus was that their definition of 'high yield manager' had changed during the past three to five years.

Trustee Gaffney stated that the Board has to decide whether they will accept that Peritus is making these types of investments and whether they should change the IPS to reflect these changes.

Chairman Harrison suggested working with the consultant to determine how best to address this issue.

Miss Munson told the Board that if they were inclined to allow the manager to invest outside of the assumed scope of the asset class then the Board should consider reviewing the entire Investment Policy Statement. She questioned whether equities or foreign-currency traded securities were allowable investments under the IPS for a high yield manager. She indicated that as of June 12, 2014 Peritus had \$2 million or just under 10% of its portfolio (which page 12 of the IPS identifies as a fixed-income portfolio) invested in equities. The System currently exceeds their allowable allocation to equities under PA 314. The new investment is a global security that is settled in foreign currency which could affect the System's overall allocation to international equity managers as well as the fund's GASB 40 reportable foreign currency risk.

Mr. Kuhn stated that the System hired Peritus to buy securities that others do not look at. If the Board is looking for a stricter high yield policy or if they are not comfortable with the investments that Peritus is making then Peritus may not be the right fit for the Board.

Trustee Moore asked Mr. Kuhn whether he was suggesting that the Board could potentially scare the manager away if it did not make the changes to the IPS to allow the additional investment types.

Mr. Kuhn stated that if the Board is looking for a stricter interpretation of the high yield policy they may need to hire a different high yield manager.

Chairman Harrison stated that allowing Peritus to continue purchasing these other securities could subtract from the allocation to the international equity managers. This needs to be addressed but at the same time you do not want to handcuff the manager.

Trustee Gaffney stated that the Board could decide to make the needed changes in the IPS or they could keep things the way they are.

Small Cap Growth Search

Mr. Kuhn stated that when they prepared the asset liability study they looked at the small cap equity allocation that includes an allocation to small cap core and value but not one to growth. Kennedy Capital started a small cap growth strategy five years ago. They have a great track record with the Fund as its core manager and are reaching out to their current core clients with regard to marketing their small cap growth strategy.

Kennedy Capital is at the bottom of the list for assets under management and they do not have as long of a track record as the other managers in the group which includes: BMO; Geneva; Summit Creek and Voya which was formerly ING.

Kennedy is asking the System to put one-third of their allocation to small cap core into their new small cap growth strategy. Mr. Kuhn indicated that a benefit to the System is that Kennedy is willing to charge one-third of their current management fees for their core strategy to manage the allocation to small cap growth.

Chairman Harrison and Trustee Gaffney stated that Kennedy has been a long-time manager and a good performer.

Chairman Harrison stated that Kennedy Capital has consistently performed in the 10th percentile. The manager approached him regarding this investment and he referred them to the Consultant. In the short amount of time they have managed assets in this strategy their performance has been just as strong as the other managers.

Trustee Gaffney stated that she is comfortable with this investment to Kennedy Capital based on their good performance numbers and with them being a long-time trusted manager for the System.

Trustee Bowman asked if procedurally the Board would be in violation if they hire the manager without going through the entire search process.

Ms. Billings stated that as a fiduciary they would be investing in a trusted manager and following the recommendation of their consultant, so it would not be a violation of their fiduciary duty.

Chairman Harrison stated that the Board is only eliminating the presentation part of the process.

Trustee Moore stated that if the Board feels that Kennedy is the right manager they can go ahead and hire them as their small cap growth manager.

Trustee Gaffney stated that she would not do this if the manager had not consistently outperformed for the System.

Trustee Giddings indicated that the Consultant should provide all the presentation materials from the managers included in the search.

Trustee Arndt agreed that the presentation materials should be provided.

Mr. Kuhn stated that the IPS allocates 10% of the portfolio to small cap but doesn't define small cap further so the System would not be in violation of the IPS.

Miss Munson stated that the fees have not been negotiated with the manager.

Trustee Arndt indicated her concern since the Board has never hired a manager without going through the entire search process. She asked that the investment to small cap growth be subject to legal review of the contract including management fees.

RESOLUTION 14-058 By Moore, Supported by Gaffney
Resolved, That the Board approve the hiring of Kennedy Capital as the System's small cap growth manager allocating \$10 million of Kennedy's current allocation to small cap core contingent on legal review of the contract and the fees by the attorney.

Yeas: 6 – Nays: 0

REPORTS

Re: Chairman - None

Re: Trustees/Committees

Personnel Committee

Trustee Gaffney handed out and reviewed the written report prepared by the Committee with regard to the Third Party Administrator and Executive Director search. The Committee received a request for a written report with regard to the TPA and Executive Director search.

Chairman Harrison indicated that the Committee needs to make this a priority and be prudent on resolving the issues. He stated that it has been six months and Miss Munson has been working a long hours to do both jobs.

The Committee's next step is to put together a compensation package and decide what needs to happen with regard to the accountant's position including costs and policies.

Chairman Harrison indicated that the Committee needs to make this a priority and be prudent on resolving the issues.

Trustee Giddings stated that at the last meeting the Board made a motion offering the position to Miss Munson. He questioned why the Board is not ready to move forward.

Trustee Bowman stated that the Committee has to put together an offer and there needs to be an acceptance before they can move forward.

Trustee Arndt questioned whether a special meeting could be held once a compensation package had been decided upon in order to help move the hiring process along. The next regular Board meeting is six weeks out.

Trustee Nazarko arrived at 10:50 a.m.

Trustee Bowman indicated that there is nothing that would prohibit the Board from holding a special meeting to expedite the process.

Trustee Gaffney agreed that the Board could hold a special meeting.

The Board acknowledged receipt of the Third Party Administrator/Executive Directive Search Report.

Finance Committee

Trustee Moore indicated that the Finance Committee did not meet. He did question the status of the amendments to the Retirement Ordinance.

Miss Munson indicated that she was informed by Joseph Sobota by email that the TAB Board is not planning to act on the two amendments during their June meeting because their request for the System's returns and interest were just provided.

Re: Executive Director

Miss Munson reminded the Board that the August Manager Review meeting will be held on August 26, 2014 beginning at 8:00 a.m. The regular meeting will be held the following day on August 27, 2014.

UNFINISHED BUSINESS

Re: Personnel Policies (Referred to Personnel Committee) – Pending

Re: Fiduciary/Dishonest Insurance (Referred to Finance Sub-Committee) – Pending

Re: Ratification of June 2014 Rebalancing

Miss Munson requested that the Board ratify the semi-annual rebalancing. The money will be moved from the managers on June 19, 2014.

RESOLUTION 14-059 By Gaffney, Supported by Bowman

Resolved, That the Board approve the transfer of \$3,500,000 from Sawgrass large cap growth account; \$1,500,000 from Gray large cap core (emerging) account; \$3,000,000 from Gray large cap value (Michigan) account; \$1,000,000 from Loomis Sayles small cap value account and \$3,000,000 from WCM international equity account to provide for benefits and operating expenses for the next six months.

Yeas: 7 – Nays: 0

Re: Deferred Member Early Out Cost Study

Miss Munson requested that the Board acknowledge receipt of the Deferred Member Early-Out Cost Study and direct her to forward the cost study to Patrice Waterman so it can be presented to the City Council.

Trustee Nazarko asked why the study has to be forwarded to Patrice Waterman.

Miss Munson explained that all cost studies must be presented to the Council seven days prior to implementation. The Board has always worked with the City Council representative on the Board to ensure that this was done. The studies are still subject to TAB approval.

Trustee Moore indicated that the request for the cost study, originated with the City Council.

RESOLUTION 14-060 By Moore, Supported by Gaffney

Resolved, That the Board direct the Executive Director to forward a copy of the Deferred Member Early Out Cost Study to President, Patrice Waterman of the City Council.

Yeas: 7 – Nays: 0

NEW BUSINESS

Re: Legal

IRS Letter of Determination Submission for an IRC Section 420 Transfer

Ms. Billings reported that there is nothing new to report. She has included her follow up correspondence to attorney Stephen Hitchcock, legal counsel for the City Administrator.

Request for Attorney General Opinion

Ms. Billings reported that she received a letter from State Representative Tim Greimel stating that the Attorney General's Office has indicated that the Opinion with regard to using Retirement System assets to pay for retiree healthcare will not be available for an additional six months.

Invesco Agreement

Ms. Billings reported that she is in the process of negotiating a side agreement with regard to the Invesco Fund VI Agreement.

Portfolio Monitoring Reports

- Robbins Geller May 2014 Monitoring Report

Ms. Billings indicated that the System's other Securities Litigation firm Bernstein Litowitz is holding a one-day seminar in Ann Arbor today.

Miscellaneous

- Proposed Amendment to the Freedom of Information Act

Ms. Billing indicated that the proposed amendment would waive the fee if an elected official files a FOIA to obtain information to be used in the furtherance of their official duty.

- Proposed Amendment to the Open Meetings Act

Ms. Billings indicated that the amendment to the Open Meetings Act would not affect this System because they currently record all topics of discussion and trustee voting in the minutes.

RESOLUTION 14-061 By Bowman, Supported by Gaffney

Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Arndt – yea

Trustee Bowman– yea

Trustee Gaffney - yea

Trustee Giddings - yea

Chairman Harrison - yea

Trustee Moore - yea

Trustee Nazarko - yea

*The Board moved to closed session at 11:00 a.m.
Mr. Kuhn and Ms. Watson left at 11:00 a.m.*

It was determined that the item for discussion did not need to occur during closed session.

The Board returned from closed session at 11:01 a.m.

Re: Cost Study for Vida Owusu-Agyei and Arthur Brown

Miss Munson told the Board that the original cost study for Vida Owusu-Agyei and Arthur Brown allowed these members to use their temporary time toward retirement service credit. The cost study was forwarded to City Council but was never presented. She asked that the Board authorize her to forward another copy of the study to City Council.

She noted that Ms. Owusu-Agyei will not be included in the Deferred Member Early-Out group unless this additional time is approved. Mr. Brown was included in the Deferred Member Early Out Cost Study.

Trustee Moore also suggested that procedurally copies of the cost studies should be forwarded to the Mayor since both branches of government are affected.

RESOLUTION 014-062 By Moore, Supported by Bowman

Resolved, That the Board direct the Executive Director to forward a copy of the Vida Owusu-Agyei and Arthur Brown cost study to President, Patrice Waterman of the City Council and Mayor, Deirdre Holloway-Waterman.

Yeas: 7 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, July 30, 2014 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 14-063 By Bowman, Supported by Moore

Resolved, That the meeting be adjourned at 11:04 a.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on June 17, 2014

As recorded by Jane Arndt