

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
OCTOBER 29, 2014**

A regular meeting of the Board of Trustees was held on Wednesday, October 29, 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 10:11 a.m.

TRUSTEES PRESENT

Jane Arndt
Shirley Barnett
Koné Bowman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Walter Moore
Nevrus Nazarko
Deirdre Holloway-Waterman (*arrived at 10:28 a.m.*)
Patrice Waterman
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Laurance O. Gray, Gray & Company
Deborah Munson, Interim Executive Director
Tommy Goodman, Deferred Retiree
Larry Marshall, Retiree
Billie Swazer, Retiree
Linda Watson, Retiree
Leonard Briscoe, Retiree (*arrived at 11:50 a.m.*)

PUBLIC DISCUSSION/UNION REPS

Deferred Retiree, Tommy Goodman addressed the Board indicating that the last time he came before the Board he was told that his early retirement was denied based on his PAS form indicating "Other" versus "Lay Off". If the reason for termination was "Lay Off" he believes that he would have been granted a retirement benefit. He has been trying to get this issue resolved for some time.

He stated that the Emergency Manager kicked him out of the Union when the Housing Commission separated from the City. The Union Contract had a seventy point provision and a sixty-five point provision based on a reorganization of the City. He felt that he qualified for an early retirement based on the sixty-five point provision due to a reorganization of the City with regards to the Housing Commission.

He referred to the early-out retirements for Linda Chambers, Alvin Hardy and Leonard Smith and how he was part of that group but was not given the same retirement opportunity. He stated that one of those members was not laid off but the City and the Human Resources Director rehired that member and then subsequently laid him off so he would qualify for retirement.

Ms. Billings stated that she would take a look at the sixty-five point provision in the contract.

Mr. Goodman stated that he worked for the City for twenty-seven years and is not being allowed to retire when other members with much less time are being allowed to retire. He also noted that while working for the City he caught a bank robber and saved someone's life.

He told the Board that his wife had suffered a heart attack while working for the City. Her job was eliminated by the City while she was on medical leave. When she found out that her job had been eliminated her window to apply for a disability retirement had expired. She is a deferred member of the Retirement System and has to wait to receive her retirement.

He wanted to bring the issue up again to ensure that he had exhausted his options on receiving an early-out retirement.

Chairman Harrison assured Mr. Goodman that Ms. Billings will look into the issue.

Retiree, Billie Swazer told the Board that she attended the last TAB meeting. At the meeting Joseph Sobota complained about two of the GERS Board members that are still being allowed to sit on the Board. He indicated that one Trustee was in compliance and that the other is not. It appeared that he was asking for the TAB's assistance in resolving the issue.

Retiree, Linda Watson asked about the Northern Trust payment under accounts payable.

Miss Munson explained that Northern Trust is the System's custodian and that they also monitor the Gray & Company investments' performance.

Ms. Watson also questioned the payment to Peritus Asset Management due to the manager being on watch.

Miss Munson explained that Peritus is not receiving any additional payments and are being paid for their continuing management of the System's assets. She also stated that Peritus had recently lowered their fees.

Ms. Watson questioned whether the Board had changed the meeting date for their December 3, 2014 meeting.

Chairman Harrison stated that a new date has not been determined.

Retiree, Larry Marshall asked whether the service credit issue for Arthur Brown and Vida Twum has been sent to Council.

Miss Munson confirmed that the cost study had been forwarded to Council.

Mr. Marshall also asked if a formal proposal was received from MERS detailing how the move from this System to MERS would work.

Trustee Gaffney stated that MERS sent information to the System but it was in response to the Request for Proposal for a Third Party Administrator. They indicated in the RFP that they could not provide only the administrative function only. The Board was only looking for a company that would provide only administrative duties.

Mr. Marshall also asked about receiving a hard copy of the minutes. In the past the minutes were provided to Union officials. He indicated that he is willing to pay the \$3.00 fee. He also asked if the legal report would also be included.

Miss Munson confirmed that a copy of the legal report would be included.

Ms. Watson questioned whether MERS responded to the second RFP.

Ms. Billings stated that MERS did respond to the second RFP.

Trustee Gaffney stated that MERS used the opportunity to reapply but their proposal was to take over the Retirement System.

AGENDA CHANGES - None

APPROVAL OF CONSENT AGENDA

A. Approval of Minutes of Regular Meeting: September 24, 2014

B. Approval of Minutes of Special Meeting: October 21, 2014

C. Communications:

1. Correspondence from Ambassador Re: Termination of Investment Advisory Services
2. Correspondence from Attorney General Re: Request for Opinion Re: Retiree Healthcare
3. Correspondence from Conway MacKenzie Re: Request for Cost Study
4. Correspondence from First Eagle Re: September 2014 Statement
5. Correspondence from First Eagle Re: Abhay Deshpande Resignation
6. Correspondence from First Eagle Re: Mark Cooper New Hire
7. Correspondence from Patricia Gusman Re: Annual Meeting/Retiree Healthcare
8. Correspondence from Peritus Re: September 2014 Market Commentary
9. Correspondence from Sawgrass Re: September 2014 Financial Review and Outlook
10. Correspondence from Systematic Re: GT Advanced Technologies

D. Financial Reports:

1. Statements of Changes: September 2014
2. Accounts Payable: October 2014
3. Northern Trust Gray & Company Performance Reports – September 2014
4. Commission Recapture Report: September 2014
5. Ratification of Private Equity Capital Calls:
 - a. Mesirow Private Equity Fund IV Capital Call \$100,000
 - b. Invesco Private Equity Fund V Distribution - \$147,578
 - c. Mesirow Private Equity Fund VI Capital Call - \$75,000

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

1. Remove from the Rolls:
 - a. James Boisseau (deceased 10/22/14)

- b. Doris Diaz (deceased 07/31/14)
- c. Priscilla Johnston (deceased 09/08/14)
- d. Carl White (deceased 09/29/14)
- 2. Applications for Service Retirement:
- 3. Final Benefit Calculations:
 - a. Sandra Spankie #2763 Option IV
- 4. Disability Re-exams
 - a. Rodney Graves #2322 Option II

RESOLUTION 14-098 By Gaffney, Supported by Williams
 Resolved, That the Board approve the consent agenda for October 29, 2014.

Yeas: 10 – Nays: 0

CONSULTANTS

Re: Gray & Company

Ambassador Capital Management

Mr. Gray told the Board that Ambassador Capital will be closing the firm as of October 31, 2014 and that he had met with the portfolio managers.

Several key members of the Ambassador fixed income team have accepted positions at Robinson Capital Management. This includes Talmadge Gunn who has been appointed Senior Portfolio Manager and Greg Prost who has been appointed CIO of Traditional Strategies. They will lead the traditional fixed income strategy. Two other members from Ambassador Capital - Melanie West and Barbara Cunningham - have joined Robinson Capital and will support the traditional fixed income team.

Ambassador Capital President, Brian Jeffries will be moving to a different firm.

There will be no transition costs to transfer the portfolio to Robinson Capital. Northern Trust will simply re-label the name on the account.

Trustee Nazarko stated that the Consultant went into detail regarding this transition during the Finance Sub-Committee meeting.

Trustee Moore noted that the Finance Sub-Committee was in agreement to move forward with Robinson Capital and in the event there are any issues the Board could perform a search for another manager.

Ms. Billings stated that she has reviewed the contract and all of her requested revisions were contained therein, and as such, she is comfortable with the agreement.

RESOLUTION 14-099 By Moore, Supported by Giddings

Resolved, That the Board move to hire Robinson Capital Management to manage the intermediate fixed income strategy for the Fund.

Yeas: 11 – Nays: 0

Market Values

Mr. Gray reported that there was downward pressure in the market due to global pressures including issues occurring in Russia, Syria, Hong Kong and the European Union. The System's market value as of October 24, 2014 was \$486.5 million.

Chairman Harrison asked if the Ebola virus has caused any of the downturn in the market.

Mr. Gray indicated that an issue like the Ebola virus can affect the markets if someone on a train or airplane becomes ill. That is a huge concern for his transit authority clients. But - regardless of these issues - the market has done incredibly well.

Peritus Asset Management

Mr. Gray reported that Peritus will be further reducing their fees to 100 basis points.

Gray & Company

Mr. Gray reported that Chris Kuhn will be leaving the firm. Based on the uncertainty due to the Wells Notice that Gray & Company received, he will be leaving mid-November. He will be going to Bogdahn Group. The firm will miss him, but he had to do what he felt was best for him and his family.

Mr. Gray indicated to the Board that he would be stepping back into the role of Consultant to the System going forward.

REPORTS

Re: Chairman – None

Re: Trustees/Committees

Personnel Subcommittee

Trustee Gaffney reported that the Personnel Committee interviewed two candidates and one Third Party Administrator on October 10, 2014. After the interviews the Committee did not feel that a TPA was appropriate for what they were looking for.

They felt that Cecelia Carter was qualified for the position. She has accepted a salary of \$120,000.00; an insurance package including healthcare, dental and life insurance paid on an 80%/20% split basis; a defined contribution plan with a 10% employer contribution; four weeks of vacation and a Monday - Friday 8:00 a.m. to 5:00 p.m. work-week.

She can start on January 1, 2015. However, the Committee has offered her a \$5,000.00 bonus if she can start on December 1, 2014.

Trustee Holloway-Waterman asked about the timeframe of the contract, if there is flexibility to renegotiate and if there was consideration made if the System was to move to MERS.

Ms. Billings stated that Ms. Carter will be an at-will employee. The Board would give Ms. Carter four months of severance pay if she is terminated for any reason other than cause.

Trustee Holloway-Waterman questioned whether Ms. Carter had been apprised of the MERS situation.

Ms. Billings and Trustee Gaffney both confirmed that Ms. Carter has been informed of the potential with respect to MERS.

Trustee Giddings asked if Ms. Carter would be in a defined contribution plan.

Ms. Billings stated that the System would contribute an amount equal to 10% of Ms. Carter's base pay to a defined contribution plan since she is not eligible to become a member of the defined benefit plan.

RESOLUTION 14-100 By Waterman, Supported by Barnett

Resolved, That the Board approve the hiring of Cecelia Carter as the Executive Director of the General Employees' Retirement System including the compensation package as described and a \$5,000.00 bonus if Ms. Carter can change her start date to December 1, 2014 from January 1, 2015.

Yeas: 10 – Nays: 0

Abs: Trustee Arndt

Finance Subcommittee

Trustee Moore reported about the topics discussed during the recent Finance Sub-Committee Meeting.

Mesirow Private Equity Fund VI Bank Account

Mr. Moore indicated that the Committee reviewed the change of banking information with the Consultant and agreed it was in the normal course of business.

Seizert Capital

Trustee Moore referred to the Consent to Assignment Agreement that needs to be signed by the Chairman. This item will be handled under New Business.

Ambassador Capital

Trustee Moore reported that this issue was discussed and resolved during the Consultant's report.

Peritus Asset Management

Trustee Moore reported that Peritus had been placed on watch by the Board. Peritus holds approximately 10% of the System's portfolio in international equity. The Committee is of the

opinion that the manager should stay within their investment mandate of high-yield domestic fixed-income bonds. The fee schedule had been reduced from 150 basis points to 125 basis points and the manager has agreed to reduce the fees further.

Miss Munson has indicated that Peritus had requested to meet with the Finance Sub-Committee. Peritus has been invited to attend the December Sub-Committee meeting.

The Committee has directed the Consultant to take a look at other managers and investments and bring some options to the next Committee meeting.

FOIA Policy

Trustee Moore reported that in the past the System used to provide agenda packets to the Union officials. However, based on their discussion they have developed and have a policy in place that should be followed consistently. The System will handle all requests according to the policy.

There was discussion regarding posting the agenda packet online but it was determined that there was the potential that confidential information could be inadvertently posted online. The Committee decided not to put the agenda packet online. There will be a cost to provide the packet on request.

Directed Brokerage Policy

The Committee reviewed the policy and found it intact except for a discrepancy that managers had been directed to direct 35% of their brokerage to the minority- and women-owned brokers. The Consultant will send direction letters to correct this to the 25% stated in the policy.

Soft Dollars

Soft dollars are fees charged for trades that are used for research and other goods and services by the manager. The system generated \$93,000.00 in soft dollar last year. After reviewing this with the Attorney and Consultant, the Committee believes that the System is receiving fair value for the soft dollars. The Committee will continue to monitor soft dollar expenditures.

Crime Insurance

The Committee has requested quotes for crime insurance/fidelity bond to cover the staff. They found the insurance in some cases cost prohibitive. Trustee Bowman had indicated he would see if he could assist with this issue in his professional capacity. Chubb is the only company that they have found that will provide a quote. Mr. Moore asked Trustee Bowman for any additional assistance he could provide.

Trustees

Trustee Williams asked whether there was any feedback from the Annual Meeting held at St. Joseph's Hospital. He thanked everyone for their heavy lifting to make the meeting possible.

Trustee Gaffney stated that she talked with a number of members who thought the information was good and liked the fact that the Board reached out.

Mr. Moore asked if anyone has responded to Patrica Gusman's letter to the Board.

Miss Munson indicated that she has not yet responded and was awaiting the Board's direction.

Trustee Gaffney indicated that the members felt that the information was good and in an easily understandable format.

Trustee Arndt thanked Miss Munson for her efforts and hard work coordinating the meeting.

Trustee Moore asked if a questionnaire should be sent to the members. He recommended that a survey be sent to the members regarding the Annual Meeting asking for feedback and suggestions for the next meeting.

Miss Munson stated that a questionnaire/survey was sent to members approximately five years ago with respect to customer service and that the staff had received an overall approval rating in the high 90's %. She suggested a questionnaire that was more encompassing to include things like the Annual Meeting.

Re: Executive Director

ADP Software

Miss Munson indicated that she reported at last month's meeting that ADP is updating their software. At that time Trustee Holloway-Waterman asked if ADP hosted their cloud in the United States. Miss Munson reported that ADP's servers are hosted in the United States. She provided Trustee Holloway-Waterman with ADP's Server Security brochure and indicated that a copy is available to all Trustees.

Miss Munson reported that she and Ms. Arndt are scheduled for two four-hour on-line training sessions on the new payroll system. The sessions will be held on November 11 and 12, 2014

Member Benefit Statements

Miss Munson reported that the active member benefit statements were mailed on October 1, 2014.

UNFINISHED BUSINESS

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

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

NEW BUSINESS

Re: Board Meeting Schedule – 2015

Miss Munson requested that the Board review the proposed Board Meeting Calendar for 2015 and to bring any requested changes to the December meeting.

Chairman Harrison stated that the December 3, 2014 meeting date needs to be changed. He indicated that Miss Munson would send out a notice with a list of dates for the Trustees. After discussion, Miss Munson was directed to send out a notice to the Trustees once she received a list of proposed dates for the December meeting.

Re: Seizert Capital – Consent to Assignment

Miss Munson asked that the Board approve the Chairman’s signature on the Seizert Capital Consent to Assignment Agreement.

RESOLUTION 14-100 By Moore, Supported by Bowman

Resolved, That the Board approve the Chairman’s signature on the Consent to Assignment in the Seizert Capital Investment Management Agreement.

Yeas: 11 – Nays: 0

Re: Summary Annual Report 2013

Miss Munson presented a copy of the 2013 Summary Annual Report for the Board’s review. She noted that the format has been changed to make the report more professional. It will be printed in color and be in a pamphlet format. She indicated that the SAR includes all the requirements outlined in Public Act 314.

Re: Legal

Proposed Agreement with Robinson Capital Management – Refer to Consultant’s Report

Proposed Amendment to Peritus Fee Schedule

Ms. Billings reported that the System previously negotiated a fee rollback from 150 basis points to 100 basis points. She indicated that Miss Munson had requested that the proposed revised fee schedule include the following language:

*“Market value shall be determined in accordance with section 16 of the agreement **and if there is a discrepancy between Manager’s value and Custodian’s value, Custodian’s value will be used.**”*

Peritus responded with a request to include language that would allow for a plus or minus 3% fee adjustment provision in the contract based on the manager’s determination of the market value.

Ms. Billings reviewed her email correspondence with Dave Desmond of Peritus Asset Management.

Ms. Billings indicated that her recommendation would be to leave the fee schedule as-is. She asked that the Board direct her to respond indicating that the System will continue to pay manager fees based on past practice.

Mr. Gray noted that these types of discrepancies happen all the time and they try to fix them before they reach their clients.

Miss Munson stated that she audits every invoice and – when there is a material difference between the managers’ value and the custodial value – she pays the invoice based on the custodial value of the assets.

RESOLUTION 14-101 By Bowman, Supported by Gaffney

Resolved, That the Board ratify the Chairman’s signature on the revised fee schedule reducing the management fees from 150 basis points to 100 basis points. The Board also directed legal counsel to contact Peritus indicating that the language in the fee schedule will not change.

Yeas: 11 – Nays: 0

Request for Attorney General Opinion

Ms. Billings reported that the Board sent a request asking for an Opinion from the Attorney General asking for clarification on what percentage of assets could be used to pay for retiree healthcare and if the assets could be used to pay for more than one year’s worth of healthcare benefits.

The Attorney General’s Office responded indicating that they cannot issue an opinion due to the ongoing litigation between the City and CPREA.

Trustee Holloway-Waterman indicated that Representative Greimel forwarded the information from the Attorney General and that she was disappointed with the answer/non-answer. They were hoping for a more definitive opinion.

Trustee Holloway-Waterman indicated that it is the City’s opinion that the IRS had granted the Retirement System qualified status. They felt that the amendments were only needed if the City decided to do a 420 Transfer. Trustee Nazarko has agreed to do another conference call with the IRS and Ms. Billings if the Board believes there is need for further verification.

Ms. Billings indicated that the original Letter of Determination was issued on November 30, 2013. It was revised on January 31, 2014. The Letter of Determination was contingent on the adoption of the amendments indicated in the Letter.

Trustees Bowman and Moore asked if the City has the opinion from the IRS in writing.

Trustee Holloway-Waterman indicated that the opinion is not available in writing. They have been relying on the legal advice provided to them.

Chairman Harrison noted that this Board has done everything they can do to resolve this issue. There is the possibility that the City will be fined and the System could lose its tax-exempt status for its members.

Ms. Billings stated that she would be willing to sit in on a telephone call to the IRS with Mr. Nazarko.

Trustee Nazarko stated that he believes the Plan is qualified. He indicated that Ms. Billings has spent a lot of her time trying to resolve the issue. As a member of the Board he feels the issue needs to be resolved. There seems to be a disconnect between the TAB and the GERS Board. The TAB feels that they can stop the 420 Transfer if they get rid of the amendments. The tax-exempt status of the Plan should not be in jeopardy but there is the possibility that the City could be fined.

Ms. Billings also explained that even though the 420 language is in the Ordinance it does not mean a 420 Transfer will or can occur.

City Council Board Appointments

A letter was received on October 2, 2014 from Attorney John Clark indicating that Trustees Bowman and Harrison are not considered members of the GERS Board and that they would have to be reappointed by City Council. The letter also indicated that Chairman Harrison is no longer in default.

Ms. Billings described the composition of the GERS Board including three citizen trustees that are appointed by the City Council. She reminded the trustees that City Council had previously provided the Board with correspondence indicating that Council disagrees with Mr. Sobota's position and stood behind its appointments to this Board. As such these trustees should continue to serve until such time as the City Council advises otherwise.

There was considerable discussion as to who Mr. Clark represented in this matter, as he did not identify his client in his letter to the Board.

Trustee Waterman indicated that the City Council still stands behind their appointments.

RESOLUTION 14-102 By Moore, Supported by Gaffney

Resolved, That the Board direct legal counsel to send a letter to John Clark of GM&H to determine who the firm is representing in their letters re: the reappointment of Trustees Bowman and Harrison to the GERS Board.

Yeas: 11 – Nays: 0

RESOLUTION 14-103 By Gaffney, Supported by Bowman

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

Roll Call:

Trustee Arndt – yea
Trustee Barnett - yea
Trustee Bowman - yea
Trustee Gaffney - yea
Trustee Giddings - yea
Chairman Harrison - yea

Trustee Moore - yea
Trustee Nazarko - yea
Trustee Holloway-Waterman - yea
Trustee Waterman- yea
Trustee Williams – yea

The Board moved to closed session at 12:10 p.m.

Mr. Briscoe, Mr. Marshall, Ms. Swazer and Ms. Watson left at 12:10 p.m.

Trustees Holloway-Waterman and Trustee Nazarko left at 1:45 p.m.

The Board returned from closed session at 2:04 p.m.

RESOLUTION 14-104 By Gaffney, Supported by Moore

Resolved, that the Board will require Gray & Company to provide periodic– but not less than monthly – reporting regarding the SEC notice, which report should include performance on the three portfolios managed by Gray & Company, assets under management and any changes to the personnel or operations of the firm.

Yeas: 9 – Nays: 0

RESOLUTION 14-105 By Williams, Supported by Gaffney

Resolved, That the Board ratify the Chairman’s signature on the Affidavit and Verification in support of the verified class action complaint against MGM Resorts International.

Yeas: 9 – Nays: 0

RESOLUTION 14-106 By Moore, Supported by Barnett

Resolved, That the Board ratify the Chairman’s signature on the Retainer Letter, Certification and Joint Declaration in the L3 Communications securities litigation.

Yeas: 9 – Nays: 0

RESOLUTION 14-107 By Barnett, Supported by Gaffney

Resolved, That the Board ratify the Chairman’s signature on the Retainer Letter, Certification and Joint Declaration in the Genworth Financial, Inc. securities litigation matter.

Yeas: 9 – Nays: 0

RESOLUTION 14-108 By Giddings, Supported by Williams

Resolved, That the Board ratify the Chairman’s signature on the Declaration, Special Power of Attorney and Books and Records request in the Qualcomm, Inc. securities litigation matter.

Yeas: 9 – Nays: 0

RESOLUTION 14-110 By Williams, Supported by Waterman

Resolved, That the Board ratify the Chairman's signature on the Retainer Letter and Certification in the Liquidity Services, Inc. securities litigation matter.

Yeas: 9 – Nays: 0

RESOLUTION 14-111 By Waterman, Supported by Arndt

Resolved, That the Board ratify the Chairman's signature on the Retainer Letter and Declaration in the GT Advanced securities litigation matter.

Yeas: 9 – Nays: 0

RESOLUTION 14-112 By Gaffney, Supported by Moore

Resolved, That the Board approve the closed session minutes for August 27, 2014 and September 24, 2014.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: TO BE DETERMINED – Retirement Office

ADJOURNMENT

RESOLUTION 14-113 By , Supported by

Resolved, That the meeting be adjourned at 2:08 p.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 October 29, 2014

As recorded by Jane Arndt