

**CITY OF PONTIAC
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES
JANUARY 15, 2015**

A regular meeting of the Board of Trustees was held on Thursday, January 15, 2015, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan.

Trustees Present

Craig Storum, Chairman
Nevrus Nazarko, Secretary
Lon Britton
Matt Nye
Deirdre Waterman, Mayor (Arrives 10:15)

Others Present

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

Trustees Absent

Chairman Storum declared that a quorum was present and called the meeting to order at 9:40 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Minutes of Regular Meeting – December 9, 2014
- B. Approval of Closed Session Minutes
- C. Financial Reports
 - 1. Financial Reports – November 30, 2014
 - 2. Bills for Ratification as of December, January, 2015
- D. Remove from Rolls:
 - 1. Bonnie Hendren, DOD 12-20-2014, No Beneficiary / Annuitant
 - 2. George Hilborn, DOD 12-23-2014; Patricia, Spouse / Annuitant
- E. Final Benefit Calculations: N / A

RESOLUTION 15-001 By Nazarko, Supported by Nye
Resolved, That the items on the Consent Agenda for January 15, 2015, be approved.

Yeas: 4 - Nays: 0

CONSULTANTS

A. The Bogdahn Group

Mr. Kuhn reviewed the letter from Richard Spurgeon from the Bogdahn Group, dated December 22, 2014. He also reviewed the January 12, 2015, Internal Announcement from the Bogdahn Group which describes a change in the ownership structure. They are looking forward to the next generation of service, with broader ownership over the next year.

Mr. Kuhn then presented the Direct Lending Review. Why would one consider direct lending, he posed? Because by doing so you are not taking equity market risk. Most will have a yield above 6%. It is similar to what we did with Bloomfield Capital. He discussed the steps that the Bogdahn Group has taken in the review process. There are six candidates which he will evaluate and rank in this presentation. Trustee Britton stated he thought he asked Wells Fargo about this. It is the first time they have offered Neuberger Berman.

Mr. Gray discussed and explained a chart which ranks the risk. Harbert Management and Wells Fargo have a more subordinated debt. He then reviewed the key highlights and differentiators between the investment managers. Cutler & Company has decent revenue and earnings. The Bogdahn Group will go in and evaluate the company to make sure we get our money back. Crescent Capital has one of the strongest teams, with more conservative underwriting. He likes them. Harbert Management has more aggressive underwriting, is service-business oriented, with higher yields, and lots of small loans. Medley Capital is opportunistic. Sankaty Advisors has been around for a while, is global in nature, does not leverage the portfolio so has the lowest risk / return. Victory Park Capital is financial-services focused. Wells Fargo is more global than some.

Mr. Kuhn reviewed the management fees of each of the managers. He prefers return with incentive fee.

Trustee Nye noted that the objective stated on page 26 is to avoid equity risk, but each manager has risk involved. Mr. Kuhn stated that most plans have a target. You can look at different fixed income investments without taking equity risk. For example, Aberdeen invests in below-investment grade items, but then the value increases.

Mayor Waterman arrives at 10:15.

Trustee Nye asked if we are committed to the full lifecycle described on page 34. Mr. Kuhn stated that yes we are. Trustee Nye then asked if we are committed to a range. Mr. Kuhn stated that he leans towards shorter cycles. They are good investments today, but things may be different three years from now. All will be paying off cash right away.

Trustee Britton stated his preference would be for shorter ones because things can change so fast. He looks at these as temps that help prop up the cash amounts. Chairman Storum stated his concern is that they are looking at borrowers that cannot get loans from banks. Mr. Kuhn stated that it is not necessarily a bad credit risk, just a higher risk. Trustee Nazarko stated he thought Wells Fargo was low risk. Mr. Kuhn stated that it is a relatively minor risk.

Trustee Waterman asked where we stand with risk in total. Mr. Kuhn stated we are in the middle: 60 / 40 stocks / bonds, on the higher end. Trustee Waterman stated since they are riskier, we may not want to invest in them. Mr. Kuhn stated we can invite other teams in too; we do not have to do anything at this time. Trustee Waterman asked which one would he pick? Mr. Kuhn stated his first choice is Sankaty, Jeff's is Crescent. He knows that the Board is more conservative. Sankaty is more in private equity.

Trustee Nye asked where we would take the funds from. Mr. Kuhn replied from core fixed income from Garcia Hamilton for the Pension Fund, or from Aberdeen or Bradford & Marzec for the VEBA. Trustee Nye asked if that would increase or decrease risk. Mr. Kuhn replied that it increases liquidity risk because we are locked in for three years; it is in line with the Aberdeen portfolio. Trustee Nye thinks Crescent and Sankaty should come in. Trustee Britton stated that Wells Fargo should come in for a second presentation as well.

RESOLUTION 15-002 By Nye, Supported by Waterman

Resolved, That Crescent Capital and Sankaty Advisors be invited to present their information to the Board of Trustees, and that Wells Fargo Management present a second review, be approved.

Yeas: 5 - Nays: 0

Mr. Kuhn stated that with Wells Fargo, in years five through eight, expect 0% - 70% to be invested. Attorney Henzi stated that we would be signing a contract for eight years, plus an optional two-year extension. Trustee Britton stated they are all pretty close, just stated differently. Mr. Kuhn recommends that Attorney Henzi review all the contracts before inviting them in. Trustee Nazarko stated he believes we can skip Crescent at this time. Chairman Storum is concerned with the Wells Fargo fees, and wants the option of two others to choose from if so; maybe Wells Fargo would be willing to waive the fees.

REPORTS

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

Attorney Report – General Matters:

Attorney Henzi discussed the Summary Annual Report and stated we will have it for the next meeting.

Attorney Henzi stated that the actuarial Request for Proposal was tabled but can resume now.

RESOLUTION 15-003 By Britton, Supported by Nye

Resolved, That preparation and distribution of a Request for Proposal for actuarial services be approved.

Yeas: 5 - Nays: 0

Application for IRS Determination Letters for PFRS – Exhibit A

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

PFRS Redeposit Policy – Partial Plan Termination

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

James Tate – Income Withholding Order – Exhibit B

Attorney Henzi addressed this issue for the Board in the Attorney Report. Mr. Tate was a disability benefit recipient and was divorced. There were income withholding orders in the QDRO. He now wants to return to work. Chairman Storum asked if we can put in an escalator based on his last salary. Trustee Nazarko stated that he is afraid that the County's pay scale would be higher than what the City's would be, had it continued. Attorney Henzi recommended that when calculating reductions for disability payments, to use the last applicable Pontiac wage scale plus an escalator (CPI).

RESOLUTION 15-004 By Nazarko, Supported by Waterman

Resolved, That when calculating reductions for disability payments, using the last applicable Pontiac wage scale plus a CPI escalator be approved.

Yeas: 5 - Nays: 0

Correspondence to Gray & Company – Exhibit C

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

Bogdahn Group Investment Agreement – Exhibit D

Attorney Henzi presented the Investment Consulting Agreement for services by the Bogdahn Group in the VEBA meeting, and recommended a motion be approved for Trustee Storum to sign the Agreement which was approved.

RESOLUTION 15-005 By Nazarko, Supported by Britton

Resolved, That the Board authorize Chairman Storum to execute the Investment Consulting Agreement between the Bogdahn Group and both the Pontiac Police and Fire Retiree Prefunded Group Health & Insurance Plan "VEBA" and the Retirement System Fund.

Yeas: 5 - Nays: 0

Response to FOIA Request – Exhibit E

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

Marc Seay Pension Application

Marc Seay is a firefighter with 14 years credited service and who turned age 50 in July, 2014. Under the terms of the Ordinance, Mr. Seay is eligible to draw a normal benefit upon reaching age 50. Mr. Seay began contact with BeneSys on June 25, 2014, to initiate the retirement application process. For multiple reasons, his application was not signed and completed until December 19, 2014. Mr. Seay was repeatedly asked to provide additional documentation regarding his claim. There are multiple, complicating factors about Mr. Seay's application for retirement. Legal is obtaining divorce records regarding Mr. Seay to evaluate his true divorce date. Mr. Seay has requested to be paid retroactive to his 50th birthdate, which is contrary to past practice and the terms of the Ordinance. Mr. Seay has also requested service credit for three years spent on City Council. Further, Mr. Seay objects to the calculation of his final average compensation since it does not include income earned during the last two years he reportedly worked for the City. The City does not have payroll records for him for 2004 – 2005. However, the City did produce a PAS form which indicates his last day worked was December 31, 2005, the day before he became a City of Pontiac councilman. Legal, with BeneSys, has been monitoring this claim and needs additional information from Mr. Seay and from the City to process this claim. Once the required materials are received, legal will provide an opinion memo to the Board regarding any potential appeal regarding Mr. Seay's eligibility for pension benefit.

Trustee Nazarko will ask Human Resources if they have a Form 1099 or other tax return for him for 2005. Trustee Nye stated he has talked to him over the past few days, and told him to get the paperwork. He will let him know if the default judgment is what we will use, and that we are looking for 2005 payroll information.

Mayor Waterman leaves the meeting at 11:35 a.m.

IRS 2015 Standard Mileage Rates – Exhibit F

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

Millennium Investment Contract

Attorney Henzi stated he is reviewing the contract.

Burgundy Investment Contract

Attorney Henzi stated he is reviewing the contract.

Daves v Daves – Response to Subpoena – Exhibit H

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

Miscellaneous Articles – Exhibit I

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

UNFINISHED BUSINESS

A. Participant Website

The participant website was discussed in the VEBA Trustee meeting.

NEW BUSINESS

A. Advisor and Consultant Review Policy

B. Gray & Company December, 2014, Invoice

The Board reviewed the December invoice received from Gray & Company.

RESOLUTION 15-006 By Nazarko, Supported by Nye

Resolved, That payment of the December, 2014, Gray & Company invoice be approved.

Yeas: 4 – Nays: 0

C. Metropolitan Real Estate Partners VI Distribution, \$117,050, 12-29-2014

It was noted that Metropolitan Real Estate Partners VI made a distribution to the Fund in the amount of \$117,050.00.

D. Metropolitan Real Estate Partners VI Distribution, \$170,254, 12-31-2014

It was noted that Metropolitan Real Estate Partners VI made a distribution to the Fund in the amount of \$170,254.00.

E. Metropolitan Real Estate Partners VII Distribution, \$47,888, 12-29-2014

It was noted that Metropolitan Real Estate Partners VII made a distribution to the Fund in the amount of \$47,888.00.

F. Metropolitan Real Estate Partners VII Distribution, \$177,871, 12-31-2014

It was noted that Metropolitan Real Estate Partners VII made a distribution to the Fund in the amount of \$177,871.00.

CORRESPONDENCE

NEXT MEETING DATE: Scheduled for February 26, 2015

ADJOURNMENT

RESOLUTION 15-007 By Nye, Supported by Britton
Further Resolved, That the meeting be adjourned at 11:48 a.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 January 15, 2015.



Nevrus Nazarko, Secretary
As recorded by BeneSys