

**CITY OF PONTIAC
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES
DECEMBER 9, 2014**

A regular meeting of the Board of Trustees was held on Tuesday, December 9, 2014, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan.

Trustees Present

Craig Storum, Chairman
Nevrus Nazarko, Secretary
Lon Britton
Matt Nye
Deirdre Waterman, Mayor

Others Present

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

Trustees Absent

Chairman Storum declared that a quorum was present and called the meeting to order at 9:07 a.m. to accommodate the schedule of Mr. Kuhn and Mr. Welker of the Bogdahn Group.

AGENDA CHANGES

Mr. Kuhn presented the September 30, 2014, performance report on behalf of Gray & Company. Because of the negative performance for the Mid Cap and Equity composites, the Fund was down 1% for the quarter. However, the Fund has positive returns for the 1-year, 3-year, and 5-year periods. Performance for the third quarter was weak, but competitive when compared to the benchmarks. Wentworth Hauser had many energy holdings which dropped in the third quarter. Thornburg International Equity was a bright mark, down only 1.4% for the quarter, and was ahead of the benchmark. Garcia Hamilton fixed income did a great job, and was ahead of the benchmark. Franklin Templeton finished down, but ahead of the benchmark. American Realty Advisors had a good quarter and finished ahead of the benchmark. Metropolitan Real Estate and Mesriow International Real Estate had not yet submitted their results at the time this report was prepared.

Chairman Storum suspended the meeting at 9:17 a.m. The Meeting was suspended until the conclusion of the VEBA meeting, and reconvened at 1:00 p.m

CONSENT AGENDA

- A. Minutes of Regular Meeting – October 30, 2014
- B. Approval of Closed Session Minutes
- C. Financial Reports
 - 1. Financial Reports – September 30, 2014
 - 2. Bills for Ratification as of October, November, 2014
- D. Remove from Rolls:
 - 1. Homer Ellsworth, DOD 11-01-2014, No Beneficiary / Annuitant
 - 2. Sally Chastain, DOD 11-03-2014; Spouse / Annuitant of Robert
- E. Final Benefit Calculations:
 - 1. Todd Hunt - PPSA #17175 \$3,570.22

RESOLUTION 14-049 By Nazarko, Supported by Nye

Resolved, That the items on the Consent Agenda for December 9, 2014, be approved.

Yeas: 5 - Nays: 0

CONSULTANTS

- A. Gray & Company
 - a. Letter from Gray & Company re Change in Relationship Team, November 4, 2014
 - b. Performance Report, September 30, 2014
- B. Investment Consulting Services Review, The Bogdahn Group

Mr. Kuhn introduced Mike Welker, president and CEO of the Bogdahn Group. Mr. Welker discussed the company's history, mission, staff, and goals. He described how the staff would work with the Fund and the Trustees if given the opportunity. Other members of the staff will come to future meetings, if the Trustees would like. They take their fiduciary responsibilities very seriously, and make recommendations based on what is best for the fund, not for what fees they will generate. No one sells products for a commission. The company sees Michigan as a target market, and already works with Bay City, the City of Wayne, and the Oakland County Retirement Commission. Trustee Britton asked if the Company is a member of MAPERS. Mr. Welker stated that yes, the Company belonged to MAPERS, and will make a presentation at the next MAPERS conference.

Mr. Welker stated they have offices in Orlando, Chicago, and Boston, and can customize to meet their clients' needs. Public funds are an important piece of their business; they manage over 140 police and fire funds, the average fund size being approximately \$120 million. Client retention is 95% since the company's establishment in 2000, and employee retention is 95% as well. They value employee creativity. The funds they manage have outperformed the national average over the past seven years. They will put a Service Guarantee in the agreement for the first year. No one has taken them up on it since the Company's establishment in 2000.

Trustee Britton asked about the Investment Policy Committee. Mr. Welker replied that the Research department will get a request from a manager. They then send back a ten-page questionnaire for completion. The Committee reviews it and if they meet the requirements, then the manager is called in for an interview. Trustee Britton asked what Richard Spurgeon, the Compliance Officer, does for the portfolio. Mr. Welker replied that he ensures from a compliance standpoint that nothing is overlooked. Trustee Nye asked what do the internal consultants do. Mr. Kuhn responded that it was structured a bit differently than Gray & Company. There will be a team assigned to the Fund who will also perform day to day administration and fund review. There is a 24-hour response policy. The set-up allows Mr. Kuhn more time to review asset allocations and exposures, and also internal consultant interaction. The consultants average over twenty years of investment experience.

Trustee Britton asked what the cost would be if we prepared a new asset allocation model. Mr. Welker replied there would be no additional cost. Mr. Kuhn commented that the technologist would draw up a model from historical report analysis.

Mayor Waterman asked if any of the current managers are on watch. Mr. Kuhn replied that Thornburg is the only manager on watch at this time. Mayor Waterman then asked what are the fees and expenses associated in a transition. Mr. Welker replied there would be none because there is no change to the portfolio. Trustee Nye asked if the transition would be smoother if we stayed with Mr. Kuhn. Mr. Kuhn replied yes it would, because he knows the group and the history. Some other firms do charge a set-up fee, but the Bogdahn Group does not. Mr. Welker commented that it is important that Mr. Spurgeon come up soon to personally meet with the Trustees to answer their questions and concerns. Mayor Waterman asked where the company stands with diversity. Mr. Welker replied that 38% were minorities/women, and that the company believes in equal opportunity. The Trustees excused Mr. Welker and Mr. Kuhn from the meeting and asked them to wait in the waiting room.

Trustee Britton commented that the Fund should hire them, phase in the fees, and move more of the fees to the Pension Fund from the Veba, with a three-year phase-in of \$85,000, \$90,000, and \$95,000 for the Pension Fund, and \$20,000, \$25,000, and \$30,000 for the Veba Fund. Chairman Storum commented that he would be fine with this, that there would be additional support, and that he is pleased with Mr. Kuhn's efforts over the years and wants to continue the relationship. Trustee Nazarko stated he would want the Pension Fund phased in at \$85,000, \$90,000, and \$90,000. The Trustees discussed that this was a nominal increase over the fee structure paid to Gray & Company, which had not been changed in several years. As such, the increase was reasonable.

Mayor Waterman asked what is the policy for portfolio manager review. Chairman Storum stated the policy was to review every three years. Trustee Nazarko thinks the Ordinance calls for an annual consultant performance review. Attorney Henzi stated there is nothing specific noted for investment consultants; it was voted on by City Council but never codified. He stated there should be annual evaluations, and that the managers do come for a round table meeting twice each year. Mayor Waterman stated that in observing best practices, if we do not already do so, then there should be a policy in place, and perhaps maybe this is the time to initiate one. Attorney Henzi commented that the need for review was included in the Attorney's Report two

meetings ago. Mayor Waterman stated that the time is overdue, and perhaps we need to bring in comparative companies. Attorney Henzi replied that this was brought up at the last meeting, and that we are transitioning to stay with the same rules by staying with Mr. Kuhn. He stated there is no need to prepare a request for proposal at this time, as it is common for clients to follow their consultant. He knows the Bogdahn Group, but we need to meet with the group so that we know what we are getting. There is no requirement to do a request for proposal. Chairman Storum commented that Ms. Zimmerman had drawn up a policy when the City was still administering the program. He is comfortable moving forward with the Bogdahn Group. Ms. Edwards should get the policy from the City's Pension department.

Trustee Nazarko stated that there is a conflict between Attorney Henzi's letter to Gray & Company, and Gray & Company's letter. Chairman Storum replied that he spoke with Mr. Gray and he would understand if we followed Mr. Kuhn. Trustee Nazarko commented that Mr. Gray's letter stated they are assigning Bob Hubbard to the account. Trustee Nye commented that he likes Mr. Gray, but if we want to move on, it is our call. Attorney Henzi commented that Mr. Gray stated he will accept the Board's decision if it is to leave Gray & Company and hire Mr. Kuhn. Attorney Henzi advised that Mr. Gray also stated that Gray & Company would provide consultant's reports for this meeting. Further, Mr. Gray and Mr. Kuhn decided that Mr. Kuhn would present the Gray & Company reports at the meeting. Mayor Waterman said that just strengthens her view that we are a pawn. Trustee Nye disagrees and believes we are in control of our path; we are moving on because of the SEC investigation. He is comfortable with the process, and satisfied that we can move away with Mr. Kuhn. The one-year guarantee is a huge plus. He likes the fact that there will be more support, filters, and a smooth transition.

RESOLUTION 14-050 By Britton, Supported by Nazarko

Resolved, That the Veba and Pension Funds hire the Bogdahn Group as the investment consultant effective immediately, at the pricing level proposed by Trustee Nazarko, and with Mayor Waterman's caveat that we have the policy to review.

Yeas: 5 – Nays: 0

Mr. Kuhn and Mr. Welker return to the meeting at 12:00 p.m.

Mr. Kuhn and Mr. Welker return to the meeting and accept the proposal to assume investment consultant responsibilities for the Veba and Pension Funds effective immediately.

Mr. Kuhn commented on the Wells Fargo proposal. He reviewed this both while with Gray & Company and with the Bogdahn Group. He also went to Neuberger Berman to review the underlying costs. It is a bit more expensive and more than you would find in the marketplace. The strategy makes sense but there are others in the marketplace the Fund may want to consider. He stated it might be possible to get the fees reduced if both the Veba and Pension Funds participated. He noted there is not as much market volatility because it is private. Mayor Waterman commented that we should look at strategies that are Midwest focused. Chairman

Britton commented that when others come for interviews, be sure to have Wells Fargo come back.

RESOLUTION 14-051 By Britton, Supported by Nazarko
Resolved, That legal counsel work with Wells Fargo and the Bogdahn Group on this arrangement.

Yeas: 5 – Nays: 0

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:

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.

American Realty – Change from Limited Partnership to LLC – Exhibit C

Attorney Henzi addressed this issue for the Board in the Attorney Report. Attorney Henzi noted there are no problems with this change.

Correspondence to Gray & Company – Exhibit D

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

Robbins Geller Portfolio Monitoring Report October 31, 2014 – Exhibit E

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

Bradley Riggs – Income Withholding Order – Exhibit F

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

FOIA Request – Exhibit G

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

Individual Income Tax for Retirement Benefits Chart – Effective Tax Year 2013 – Exhibit H

Attorney Henzi addressed this issue for the Board in the Attorney Report. This item will be posted on the participant website.

Miscellaneous Article – Exhibit I

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

Millennium Investment Contract

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

Burgundy Investment Contract

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

Summary Annual Report – Exhibit J

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

Neuberger Berman Investment Vehicle Analysis

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. Metropolitan Real Estate Partners VI Distribution, \$191,535, 11-21-2014

It was noted that Metropolitan Real Estate Partners VI made a distribution to the Fund in the amount of \$191,535.00.

B. Metropolitan Real Estate Partners VII Distribution, \$49,671, 11-21-2014.

It was noted that Metropolitan Real Estate Partners VII made a distribution to the Fund in the amount of \$49,671.00.

C. BNY Mellon IPO Securities Litigation Check, \$135.32, 10-14-2014

It was noted that BNY Mellon made an IPO Securities payment to the Fund with respect to a class action suit in the amount of \$135.32.

D. Bloomfield Capital Income Distribution, \$45,369.86, 10-30-2014

It was noted that Bloomfield Capital made a distribution to the Fund in the amount of \$45,369.86.

E. FOIA Response, 11-06-2014

CORRESPONDENCE

A. Letter from Sullivan, Ward, Asher and Patton to Gray & Company, 11-11-2014

B. Victory Capital Management Status Update

C. Garcia Hamilton November Commentary

Trustee Nazarko left the meeting at 1:05 p.m.

NEXT MEETING DATE: Scheduled for January 29, 2015

This meeting is rescheduled to January 15, 2015, immediately following the VEBA meeting.

RESOLUTION 14-052 By Nye, Supported by Britton
Further Resolved, That the 2015 meeting calendar be approved, as adjusted.

Yeas: 4 – Nays: 0

ADJOURNMENT

RESOLUTION 14-053 By Nye, Supported by Britton
Further Resolved, That the meeting be adjourned at 1:07 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 9, 2014.



Nevrus Nazarko, Secretary
As recorded by BeneSys