

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
JULY 30, 2014**

A regular meeting of the Board of Trustees was held on Tuesday, July 30, 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 10:03 a.m.

**TRUSTEES PRESENT**

Jane Arndt  
Shirley Barnett  
Koné Bowman, Vice Chair  
Janice Gaffney  
Robert Giddings  
Charlie Harrison, Chairman  
Walter Moore  
Nevrus Nazarko (*arrived at 10:50 a.m.*)  
Deirdre Holloway-Waterman (*arr. at 10:35 a.m.*)  
Patrice Waterman  
Kevin Williams

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton  
Chris Kuhn, Gray & Company  
Deborah Munson, Interim Executive Director  
Linda Hassan, City of Pontiac Resident  
Larry Marshall, Retiree  
Gloria Miller, Deferred Retiree (*arr. at 10:42 a.m.*)  
Billie Swazer, Retiree (*arrived at 10:30 a.m.*)  
Linda Watson, Retiree

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**PUBLIC DISCUSSION/UNION REPS**

Retiree, Linda Watson asked about payments to vendors Adecco, ADP, Ark Technologies and Crain's Communications.

Miss Munson indicated that payments made to Adecco are for the Retirement Office's temporary employee; ADP is the System's payroll vendor; Ark Technologies supplies IT services for the Retirement Office and Crain's Communications is payment for a publication.

Ms. Watson also provided the Board a copy of an email with various options proposed by the Michigan Department of Treasury that could be used to pay for retiree healthcare.

City of Pontiac resident, Linda Hassan stated that she has concerns regarding Trustees Bowman and Harrison positions on the Retirement Board. She referred to an article in the Oakland Press that indicated that the City Administrator has called for the two Trustees to be removed from the Board. She asked whether they were still eligible to sit on the Board.

She also questioned whether there is a conflict of interest referring to the Loan Officers Compensation Act. She she asked whether they could uphold their fiduciary duties to the Retirement System due to recent circumstances.

She also questioned whether Trustees Patrice Waterman and Deirdre Waterman in their roles as President Pro-Tem of the Pontiac City Council and Mayor of the City of Pontiac could make decisions that were in the best interest of the retirees.

Ms. Billings noted that the City Council has provided correspondence to the Board indicating that Council has investigated the allegations and determined that the individuals are not in default to the City and that further, the Council stands by its appointments to the Retirement Board. Ms. Billings stated that with respect to these positions, in as much as they are Council appointments, the Board should take its direction from Council.

Ms. Hassan also asked whether elected officials are eligible to be members of the Retirement System.

Ms. Billings and Trustee Gaffney both indicated that the Trustees in question are not elected officials.

Trustee Moore noted that the only elected official that may be eligible to be a member of the Retirement System would be Mayor Waterman.

Trustee Moore and Ms. Billings both stated that Mayor Deirdre Waterman and City Council President Pro-Tem Patrice Waterman are both eligible to sit on the Board by virtue of their positions with the City of Pontiac.

Chairman Harrison noted that the Board has done its best to respond to Ms. Hassan's questions.

Retiree, Larry Marshall indicated that he has two issues but was planning to submit them to the Retirement Board in writing.

#### **AGENDA CHANGES**

Trustee Arndt indicated that she is planning to attend the Fall MAPERS Conference. She told the Board that Miss Munson has also indicated that she is interested in attending the conference. She indicated that the Retirement Office would need to be closed on Monday, September 15, 2014 and the morning of Tuesday, September 16, 2014.

The Board discussed whether the Retirement Office should be closed other than for an emergency.

Chairman Harrison indicated that he would like to see Trustee Arndt attend the educational session since she has not had the opportunity since becoming a Trustee.

The Board determined that they did not want to close the office.

#### **APPROVAL OF CONSENT AGENDA**

##### **A. Communications:**

1. Correspondence from Ambassador Re: July 2014 Market Update

2. Correspondence from Ambassador Re: July 2014 Status Update
  3. Correspondence from First Eagle Re: June 2014 Client Statement
  4. Correspondence from Anna Jantz Re: FOIA Request
  5. Correspondence to Bryant Vaughn Re: Disability Application
  6. Correspondence from Systematic Re: Q2 2014 Summary
  7. Correspondence from City Administrator Re: Trustee Appointments
  8. Correspondence from Council President Re: Trustee Appointments
  9. Correspondence from Attorney Hitchcock Re: 420 Transfer
  10. Correspondence to/from Mayor Waterman Re: TAB Request – 420 Transfer Information
  11. Conferences:
- B. Financial Reports:
1. Statements of Changes: June 2014
  2. Accounts Payable: July 2014
  3. Northern Trust Gray & Company Performance Reports – June 2014
  4. Ratification of Private Equity Distribution:
    - a. Invesco V PE Distribution - \$340,565.00
- C. Applications for Retirement, Final Calculations, Refunds, Re-examinations
1. Remove from the Rolls:
    - a. Shellie Branner (deceased 07/04/14)
    - b. Roosevelt Bussey Jr. (deceased 06/22/14)
    - c. Rosa Cucksey (deceased 06/22/14)
    - d. Roger Warner (deceased 07/02/14) Option III Benefit of \$4,033.84 (+\$400) to Dennis Brink
  2. Applications for Service Retirement:
 

|                                      |                |                       |
|--------------------------------------|----------------|-----------------------|
| a. Lillian Arrive-Kellar – Teamsters | 12 yrs. 1 mo   | Age 60 (Off Deferred) |
| b. William Bell, Jr. – Hospital      | 18 yrs. 9 mos. | Age 60 (Off Deferred) |
| c. Becky Smathers – Hospital         | 7 yrs. 4 mos.  | Age 60 (Off Deferred) |
  3. Final Benefit Calculations:
 

|                          |       |
|--------------------------|-------|
| a. Lillian Arrivé-Kellar | #2757 |
| b. William Bell, Jr.     | #2756 |
| c. Becky Smathers        | #2758 |
  4. Disability Re-exams

**RESOLUTION 14-064** By Moore, Supported by Gaffney  
 Resolved, That the Board approve the consent agenda for July 30, 2014.

Yeas: 9 – Nays: 0

**CONSULTANTS**

**Re: Plante & Moran – Annual Audit Presentation**

Beth Bialy from Plante & Moran reviewed the financial reports for the Retirement System for the period ending December 31, 2013.

It is their responsibility to issue an opinion based on their audit of the financial statements of the Retirement System. They use their judgment to assess the risks of material misstatement, evaluate the accounting policies used and evaluate the overall presentation of the financial statements.

They have issued an unmodified opinion and have determined that the financial statements were fairly stated in all material respects.

The Management Discussion & Analysis is prepared by the Plan's Staff and includes the current year's financial results. It is a summary of the balance sheet and income statement.

She noted that the Total Plan returned 22.57% for the year. The actuarial rate of return is 7.5%. The System's performance was outstanding in 2013.

She explained that the Plan Sponsor Financial Condition is a required disclosure. The Fund does not rely on new dollars coming into the Plan.

She reviewed The Statement of Plan Net Position noting that the net position as of December 31, 2013 was \$490.5 million.

The Statement of Changes in Plan Net Position additions indicated interest and dividends totaling \$9,168,565.00 versus approximately \$10 million in 2012. The net increase in fair value of investments was \$85,344,964.00 versus \$42 million in 2012. The investment advisor fees were about the same from 2012 at \$2,726.683.00.

Deductions for retiree's pension benefits totaled \$23,946,914.00 versus \$21.5 million in 2012.

Administrative expenses including staff wages and benefits along with fees for the attorney, auditor and actuary for 2013 were \$921,629.00 compared to \$511,854.00 in 2012.

The increased net position as of December 31, 2013 was \$67 million versus \$28 million in 2012.

Trustee Bowman asked Ms. Bialy to confirm that if the Fund dips below or drops to a funding ratio around 100% that the City would be obligated to make contributions to the System.

Ms. Bialy indicated that the Plan Sponsor Financial Statement in Note 1 is to put the reader on notice that if the System realizes poor performance or losses the City would have to make payments to the System and it is uncertain that the City could make the payments.

Note 3 included the Plan Description and Contribution Information. As of December 31, 2012 the actuarial accrued liability for benefits was \$247.9 million and the actuarial value of assets was \$369.6 million resulting in an unfunded actuarial accrued liability of -\$121.6 million. She indicated that the actuary measures the funding along with the increases in the service credit for members.

Chairman Harrison also noted that the actuary uses a five year smoothing method to determine the System's funded ratio.

Ms. Bialy indicated that there was a difference of approximately \$100 million between the market value of assets and the actuarial value of assets as of December 31, 2012.

Trustee Moore asked why there is such a discrepancy between the market value of assets and the actuarial value of assets.

Ms. Bialy explained that the actuary uses a smoothed market value which is better to measure performance and contributions needed to fund the System. It evens out market gains and losses and stabilizes employee and employer contributions. She also noted that using the market value of assets is currently not an accepted accounting method.

She described the upcoming accounting pronouncements. GASB 67 is a new standard replacing GASB 25 which will require that liabilities be measured differently comparing the actual market value of assets versus the actuarial smoothed value. The Retirement System will adopt this standard for the year ending December 31, 2014. Liabilities will be measured at fair market value – not smoothed, the amortization period will be standardized and there will be additional disclosures. The new standard identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service.

GASB 68 will be adopted effective June 30, 2015 for the City. The City will be impacted versus the System. The City will have to show the value of the assets in the system as well as the liabilities and these two will be netted on the government-wide balance sheet and financial statements. This statement is more for the reader on how cities and counties are doing with regard to funding legacy costs.

Trustee Deirdre Waterman asked what the performance percentage was for 2013.

Ms. Bialy indicated that performance returns were 22.57%.

Trustee Deirdre Waterman asked why the cost of pension benefits increased so significantly from 2012 to 2013.

Trustee Moore and Miss Munson noted that in 2013 there were additional retirees, increased COLA payments, a number of early out retirements and a \$400.00 per month increase for all members of the Retirement System in pay status which was approved by the Emergency Manager.

Ms. Bialy referenced Note 1 at the bottom of page 8. She indicated that the majority of investments in the Fund are publicly traded which allows for verified pricing sources. However, private equity and limited partnerships are difficult to value. The System has to rely on the audited financial statements of the manager. First Eagle and GrayCo Alternative Partners are

two such managers. Last year they encountered an issue with regard to the opinion of the GrayCo audit.

Going forward the Board should make sure that they get audited financial statements for these types of investments in a timely fashion.

Ms. Billings noted that she has been working with private equity manager Invesco on a side letter agreement to provide their audited financial statements within 150 days of year end. By law Plante & Moran has to complete their audit for the System 180 days after the end of the year. If they do not receive the audited financial statements from the underlying private equity type investments within a certain timeframe it does not give them time to prepare and review the audit information. Invesco indicated that they could not comply with a 150 day deadline. Ms. Bialy stated that if they could get the drafts by that date they could incorporate the audited financial statement information when finalizing the audit as long as it is received within the 180 days. She needs time to review those audited financial statements and finalize her report.

Ms. Bialy indicated that she understands that managers cannot push a button to finalize their audits. They can work with the manager as long as they get the final information in time to complete the audit. It helps if the manager works with a reliable and well established audit firm.

Chairman Harrison asked if Ms. Bialy has run into these same issues with other systems when preparing audits.

Ms. Bialy indicated that they audit the Detroit Retirement System and they have lots of alternative investments. They have no issues with that System. Their managers understand that the information is needed within the timeframe and they get it done.

Ms. Bialy indicated that Senate Bill 949 was introduced in the State of Michigan Senate which would accelerate the audit from 180 days to 150 days after year end. Her firm feels that they are putting an unnecessary burden on audit firms. She stated that they have indicated that the State believes that the additional month will give them time to determine the financial condition of the local government unit.

Ms. Bialy indicated that the Retirement System has to account for increases in benefits and wage increases which are important. She noted in Note 3 on page 9 the disclosure of the actuarial assumptions and indicated that they should be reviewed.

Miss Munson indicated that she had spoken with the actuary about reviewing the assumptions this year.

She also noted that the City is responsible for paying the liability for existing retirees and a total liability of \$35 million for those members who are still working.

She explained that State law requires employee contributions to be segregated. Amounts must be set aside as determined by the actuary to fund benefits to retirees currently receiving benefits. As of December 31, 2013 the reserve for retired employees was \$211.5 million and the reserve

for employee contribution balances was \$1.3 million. Money is transferred from the employer reserve to fund retiree pension benefits.

Trustee Deirdre Waterman asked if the overfunding is over that amount.

Ms. Bialy indicated that the Fund is approximately \$240 million over-funded on a market basis.

She described the effective duration of investments and associated interest rate and credit risk. She also noted that the System had a total of \$17.6 million in equity investments subject to foreign currency risk.

Ms. Bialy went over the required communications to the Board and Plante & Moran's recommendations and related information.

She described their responsibility under the U.S. Generally Accepted Auditing Standards.

She stated that the audit was performed according to the planned scope and timing.

There were no new accounting policies adopted and no existing policies were changed during 2013.

No transactions were entered into the System during the year for which there was a lack of authoritative guidance or consensus.

She explained that accounting estimates are an integral part of the financial statements. They evaluated the key factors and assumptions and determined that they were reasonable in relation to the financial statements taken as a whole.

They encountered no significant difficulties in performing the audit. She thanked Miss Munson and Ms. Arndt and indicated that they did a great job.

There were no disagreements with management.

They did not detect any misstatements as a result of the audit procedures.

They found no significant findings or issues.

No information was withheld during the processing of the audit.

To their knowledge there were no consultations with other accountants during the process of the audit.

She indicated that during the year they noted certain investments that were out of compliance with the Investment Policy Statement. No more than 5% of the System's assets can be invested in one investment, but that can be difficult to manage due to investment performance. She noted that the System rebalances the portfolio twice per year.

Chairman Harrison noted that the System rebalances semi-annually pulling assets from managers to pay for expenses and benefits. He asked if the Fund should rebalance more frequently to better manage those fluctuations to be in compliance with the PA 314 and the IPS.

Ms. Bialy indicated that some systems rebalance quarterly. She indicated that the System does not have to rebalance as soon as you find out you are out of compliance, but you don't want to add to the asset class. They should look for opportunities to rebalance without taking needless losses.

She explained the Segregation of Duties and indicated that the Retirement Office Staff has always been small. Due to the loss of Ellen Zimmermann new checks and balances had to be put in place. Miss Munson contacted her to go over the revised changes to the checks and balances. The changes will be tested when the 2014 audit is processed.

Ms. Bialy asked if the Board had any questions.

Trustee Deirdre Waterman indicated that under GASB 68 effective June 30, 2015 the City of Pontiac will be the richest small City due to the overfunding in the Retirement System. However, it will only apply to that year.

Ms. Bialy indicated that the funding will stay on the City's balance sheet. There will be no impact to the Retirement System. The assets in the trust are there to pay for pension benefits.

Trustee Moore stated that the City's General Fund is the problem. There are no revenue sources left in the City due to the Emergency Manager and no revenue sharing coming from the State.

Trustee Deirdre Waterman stated that the reality is that the City is being redefined.

Trustee Nazarko stated that the request to close the office is an indication that there is no disaster recovery in place in the event one of the Staff needs to go on an extended leave. He asked why this was not covered under the reportable conditions in the audit report.

Ms. Bialy stated that from an auditor's standpoint they are only looking to ensure that there are adequate checks and balances in place and auditing transactions. No one person has the ability to take money from the Fund. Even though this is a limited staff they are comfortable that there are enough checks and balances in place.

Trustee Nazarko also questioned why the administration expenses doubled in 2013.

Miss Munson explained that in 2013 the System secured a new building for their office and the Police & Fire Retirement System was no longer covering 30% of the administrative costs.

Ms. Bialy indicated that administrative expenses went up \$430,000.00 and also noted additional wage increases and insurance costs.



Trustee Nazarko also asked why there is such a huge markdown totaling \$100 million between the actuarial value of assets and the market value of assets. He questioned whether Ms. Bialy has ever seen a 20% markdown of assets.

Ms. Bialy explained that all systems mark down their gains and losses. Some systems only use smoothing for the bad years which weighs heavily on the market value. The generally accepted accounting practice for actuaries is to use a three-year, five-year, etc. smoothing method when valuing system assets.

She also stated that most cities use a smoothing method to stabilize the contributions needed to fund the system which assists in the City's budgeting process. Actuaries cannot vary from their standards.

Chairman Harrison stated that when the actuary presents their report this will be covered in more detail. He noted that when 2008 drops off the system will see an increased funding ratio.

He also confirmed that the System realized performance of 22.7% and asked where that compares in the universe versus their peer group.

Mr. Kuhn indicated that the System's investment gains versus their peer group through March 31, 2013 were in the sixth percentile. To date the System's performance is in a similar position in the tenth percentile in the Wilshire's Public Funds which contains 250 funds ranging in assets from \$250 million to \$2 billion.

Trustee Arndt also noted that many of the public funds in the peer group universe are not subject to the same investment requirements as this System.

Trustee Bowman stated that it is not uncommon for the GASB rules to shift with regard to financial reporting.

Ms. Bialy stated that GASB rules change for financial reporting purposes only. GASB requirements do not affect or dictate funding solutions. The System can refer to the State Law for funding requirements or to determine the City's contributions.

Trustee Giddings stated that this was an excellent report and thanked Ms. Bialy. He also told the Board that they should also give recognition to the Staff for their part in the process given this year's circumstances.

*Ms. Bialy left at 11:03 a.m.*

## **Re: Gray & Company**

### Market Values

Mr. Kuhn distributed copies of the Fund's updated market values. The market value as of July 28, 2014 was \$501.5 million. There is currently a 3% to 4% over-allocation to equities or approximately \$14 million. The funds could be transferred to the alternative investments but

those are more risky investments. He noted that the System pays out approximately \$2 million in benefits each month.

The Gross Domestic Product for the second quarter was just reported at around 6%. First quarter GDP was revised to -3%.

Chairman Harrison stated that the Fed has stepped up to end the quantitative easing in October. He asked if the markets will see an increase in interest rates and a market correction. The Fund's equities investments are out of balance but the situation could reverse with fixed income.

Mr. Kuhn stated that Chairman Harrison's questions are being addressed in the commentary for their second quarter performance report which will be presented at the August meeting. He indicated that they have seen a reduction of 2% to 3% in the broad fixed income market which is now at 2.5%. The Fed announced the QE slowdown of the \$85 billion invested in the fixed income market. However, interest rates have not risen and they have gone in the other direction. They have not seen a selloff in equities either. The U.S. has one of the highest yields in the world. Japan is seeing a yield of .7% and Germany's yield is currently 1.2%.

Chairman Harrison noted that there is no quantitative easing in these countries. In the U.S. money is being printed to buy the bonds and then the Fed is buying the bonds themselves.

Mr. Kuhn stated that the market is moving away from manipulation. Europe is currently moving towards manipulation. The U.S. is seeing yields around 2.5% with Spain at 2.6%. The United Kingdom was the first to exit out of quantitative easing. He indicated that he does not think interest rates will be at 5% next year.

Chairman Harrison asked how that will relate to the markets.

Mr. Kuhn stated that he does not feel rates will increase and that the GDP will factor in.

Chairman Harrison felt that inflation would have to increase.

Mr. Kuhn said that there has not been a decrease in inflation at gas stations or grocery stores. In order for inflation rates to increase the market needs to see wages increase from a stronger employment market.

#### Peritus Global Account and Due Diligence Update

Mr. Kuhn explained that high yield manager Peritus purchased a Canadian equity and added it to their portfolio which has created a number of issues. There were issues with regard to having to convert their account with Northern Trust and their investment in international equities (Peritus is the domestic high-yield bond manager). The Finance Sub-Committee has recommended putting the manager on watch. The Consultant will also request a reduction of their fees which are on the high side in the high yield manager universe. The Sub-Committee agreed with the Consultant's recommendation to have Peritus come before it and decide after that whether to amend the IPS to accommodate equities and international securities in the portfolio or to request that the manager adhere to the IPS as written.

Chairman Harrison stated that this could affect their performance.

**RESOLUTION 14-065** By Moore, Supported by Gaffney

Resolved, That high yield manager Peritus Asset Management be put on watch with regard to their investment in international equities.

Yeas: 11 – Nays: 0

Kennedy Small Cap Growth Contract and Fee Ratification

Mr. Kuhn told the Board that Kenney requested that a percentage of the System's portfolio be invested in their small cap growth product. When he spoke with Kennedy in December they were looking for institutional investors to invest in this product and had agreed to a low fee. However, it has been six months and their position with regard to this reduced fee has changed. He did not know that there was a time period in place with regard to their fee schedule. Their fee schedule has increased from thirty to forty basis points to seventy-five to one hundred basis points or to a full fee and is limited to the first two years of investment. The investment is currently on hold until a reasonable fee can be negotiated.

Chairman Harrison noted that Peritus and Kennedy will come in to discuss the issues during the Finance Sub-Committee meeting. The Committee will bring the information back to the full Board.

**REPORTS**

**Re: Chairman - None**

**Re: Trustees/Committees**

Personnel Committee

Trustee Gaffney reported that the Committee received resumes from fifteen individuals and the current Interim Executive Director, Deborah Munson. On May 28, 2014, after thoroughly reviewing all options, the Committee recommended to the full Board that the position of Executive Director be offered to Miss Munson. The Board by majority vote, voted to accept the Committee's recommendation contingent upon Miss Munson accepting the position and the Committee finalizing the compensation package. They were unable to reach an agreement with Miss Munson. She has advised the Committee that she no longer intends to accept this position.

Their backup plan is to reevaluate the Third Party Administrators and the resumes of those who applied for the Executive Director position. Instead of starting the entire process from the beginning and incurring the expenses and time associated with this process the Committee is looking to refine the RFP and forward it to the four TPA's contacted and reach out to the fifteen applicants to determine if they are still interested in the position.

Trustee Giddings asked if there anything that could be done for Miss Munson to change her mind.

Trustee Deirdre Waterman stated that the Board is back to its original position. Perhaps they can work out a solution combining the TPA and Administrator's position. It also gives the Personnel Sub-Committee an opportunity to review the pros and cons of a TPA and having a solo Executive Director. Neither report provided discussed assessing the pros and cons. This provides an opportunity for further research.

Chairman Harrison stated that the Committee provided an extensive written report.

Trustee Deirdre Waterman stated that she discussed her concerns with the Personnel Committee and they did not discuss the best option for the System.

Trustee Gaffney stated that the Committee will be revising the Request for Proposal and asking the parties to resubmit their proposal.

Trustee Giddings stated that there is a third option. The Board could hire an Executive Director under contract.

Trustee Gaffney stated that the Board did consider a hybrid option. When they reviewed the RFP's from the Third Party Administrators there were a number of key things or functions they could not provide.

Trustee Nazarko stated that brings to the forefront that there were issues with the process. He felt that Tony Asher from Sullivan Ward imposed his will on the Board by recommending that they offer Miss Munson the position. The Board should look at the process followed by the Committee.

Trustee Williams stated that the Personnel Committee did all that they could do. Each one of us has the option to make our own decision when it comes to accepting a new job position.

Trustee Bowman referred to page ten of the May 28, 2014 minutes where he indicated that Miss Munson may not take the position. He stated that it is absurd and unfounded to state that Tony Asher came in and manipulated the situation.

Chairman Harrison indicated that he had the same concern as Trustee Bowman with regard to Miss Munson accepting the position. He disagrees with Trustee Nazarko that the attorneys played a large part in that process. The Committee had already made the recommendation to the full Board. The Board decided to move ahead prior to providing the report.

Ms. Billings stated that Tony Asher had not attended any Committee meetings, and was in no way involved in the selection of Ms. Munson. Tony's recommendation was merely an attempt to assist the Board in moving the meeting along.

Trustee Arndt stated that Mr. Asher did not impose his will on the Board. He tried to assist the Board based on their discussion regarding their decision to offer Miss Munson the position.

Miss Munson indicated that she wanted to make clear for the Trustees not on the Committee and the members that among the four contingencies of her being appointed Executive Director one was that she accept the offer and another was that the compensation package was finalized. That second condition was not met. There is no animosity among the parties – things just did not work out.

Mayor Waterman asked whether this puts us back in the position we were in. The report provided by the Committee didn't fully explain the evaluation process. This is another opportunity to go back.

Trustee Moore stated that we are all here for the same purpose. He said that he feels the Personnel Committee did a thorough job and would like to get to the end of the process. He does not want to go by an artificial timeline on this issue. The timeline was reasonable to secure the System and to carefully consider the options. He suggested that the Board move forward to continue the process to fill the Executive Director position.

Trustee Moore moved that the Board follow the recommendation of the Personnel Sub-Committee to revisit the other responses received and move forward to continue the process to fill the Executive Director position.

Chairman Harrison indicated that he did not believe that a resolution would be needed to continue the process. The Committee is still charged with the process.

Trustee Nazarko felt that the Board should not rush the decision. He felt that Trustee Gaffney's presentation discounted certain TPA's and Executive Director applicants due to salary issues. He would like to reopen the process.

Chairman Harrison disagreed and stated that no one was excluded based on salary concerns.

Trustee Deirdre Waterman questioned whether the motion to continue to the process would be starting the process over.

Trustee Gaffney stated that the Committee would not be starting the process over. They would revise the proposals to the TPA's and would contact the candidates to determine if they still wanted to be considered for the position.

Trustee Deirdre Waterman stated that by revising the RFP's it is essentially starting the process over.

Trustee Williams did not feel that revising the RFP or contacting the applicants would be starting the process over.

Trustee Gaffney stated that the Committee had some questions regarding whether the TPA's could provide the required services.

Trustee Giddings stated that the Committee could consider an out-sourced CEO provider or something similar.

There was discussion regarding the advertising costs and what was previously budgeted. The original advertising budget was \$4,000.00.

Trustee Arndt voiced her concerns regarding a certain Third Party Administrator that does not meet the required criteria and cannot provide adequate administrative services.

Trustee Moore indicated that candidates were not rejected. The candidates were evaluated to determine whether they could meet the requirements and in the end they determined that Miss Munson was the most qualified among a group.

Trustee Gaffney asked for the Board's direction with regard to the issue on the table.

Trustee Deirdre Waterman recommended a possible TPA hybrid solution.

Chairman Harrison stated that after reviewing the TPA's and candidates from the submitted proposals and resumes they will chose to hire what they feel is the best option for the System. He asked if it is the Board's opinion that the process should be opened up and reoffered to applicants.

Trustee Gaffney stated that she is not concerned with the additional work or timeline. However, it may be putting additional pressure on the Retirement Staff.

Trustee Gaffney re-read the Summary of the Executive Director/Third Party Administrator Search.

**RESOLUTION 14-066** By Moore, Supported by Williams

Resolved, That the Board approve the recommendation of the Personnel Sub-Committee to continue the search process for an Executive Director or Third Party Administrator.

Yeas – 5 – Nays – 5 (Trustees D. Waterman, P. Waterman, Nazarko, Giddings and Chairman  
Harrison  
Abs: Trustee Arndt

Motion Failed

Trustee Deirdre Waterman recommended that the Personnel Subcommittee be authorized to revisit the process to hire a TPA or Executive Director.

**RESOLUTION 14-067** By D. Waterman, Supported by Giddings

Resolved, That the Board direct the Personnel Subcommittee to reopen the hiring process to new applicants and Third Party Administrators in the search for an Executive Director or Third Party Administrator.

Yeas: 7 – Nay: 3 (Trustees Barnett, Bowman and Moore)  
Abs: Trustee Arndt

*Trustee Bowman and Trustee Patrice Waterman left at 12:19 p.m.*

There was discussion whether the motion also included the approval to incur additional costs as well as the amount of the advertising budget.

There was also a lengthy discussion on the process for the Board to reconsider the previous motion.

*Trustee Nazarko left at 12:33 p.m.*

Finance Sub-Committee

Trustee Moore told the Board that the Finance Sub-Committee submitted and reviewed the 2015 Budget. It will be presented to the Board at the next meeting.

Trustee Moore indicated that the new technology is now in use for meetings. It will be a valuable asset to the Board.

Trustee Moore stated that the Finance Committee reviewed the Information Technology contract with Ark Technologies. It is in order and the vendor is providing basic IT services which seem practical at this time. Trustee Williams is looking into a website company.

Network backups are being provided by Ark Technologies and they have the ability to restore data.

*Trustee Williams left at 12:40 p.m.*

The annual meeting is scheduled for October 7, 2014. They have not nailed down a location to-date. They are planning to send out a save the date notice to members and add a message on the August, 2014 pension benefit checks.

Trustee Moore noted that Mr. Kuhn addressed the Peritus issue.

Trustee Moore explained that investment manager Ambassador contacted the System regarding a cross-traded security and requested the Board's permission to keep the security in their portfolio. They indicated that the cross-trade was not prohibited by policy or statute. The Committee reviewed the cross-traded security with the Consultant and he advised that it did not impact the portfolio.

He told the Board that a cross-trade is when an investment manager buys or sells a security from one portfolio and sells or buys it into another portfolio they manage. In order for this to be acceptable it has to be fairly traded with no gains or losses incurred by either portfolio.

Trustee Moore indicated that the System has a Directed Brokerage Policy that states the System would like to do business with Michigan-based women- and minority-owned firms in order to open doors for local firms. It looks like women- and minority-owned firms have been locked out. The Consultant will provide a periodic report indicating which of these brokerage firms are being used by the investment managers. The Consultant has indicated that they will put a mechanism in place to do a better job of monitoring the program to ensure that these brokerage firms receive an adequate percentage of the System's business.

Trustee Moore also indicated that the Consultant will track soft dollars/commissions. If the soft dollars are not monitored the benefits that are generated from the managers' financial transactions executed on behalf of the System may not accrue to the System.

Chairman Harrison stated that there is a mechanism that can be used for trades that can ensure that the soft dollars come back to the System.

#### Kennedy Small Cap Growth

Trustee Moore indicated that the Kennedy Small Cap Growth management fee was discussed under the Consultant's Report.

#### Criminal Liability Insurance – Move Forward

Trustee Moore indicated that the Committee is continuing to look at this insurance.

#### **RESOLUTION 14-068** By Gaffney, Supported by Moore

Resolved, That the Board approve the request from Ambassador Capital Management to keep the cross-traded security in the portfolio based on the recommendation of the Consultant.

Yeas: 6 – Nays: 0

#### **Re: Executive Director – No Report**

#### Actuarial Software

Ms. Billings noted that the Board's actuaries are currently using two different actuarial assumptions for calculating the actuarial equivalence of benefits. Rodwan Consulting has been calculating the actuarial equivalence of benefits under EDRO's and overpayments using assumptions that are different from the assumptions used by Gabriel, Roeder, Smith & Co. software for retirement calculations.

#### **RESOLUTION 14-069** By Gaffney, Supported by Arndt

Resolved, That the Board direct Rodwan Consulting to use the same actuarial assumption as Gabriel, Roeder, Smith & Co. for calculating the actuarial equivalence of benefits.



Yeas: 7 – Nays: 0

420 Transfer Correspondence Regarding TAB Board Request

Ms. Billings referred to the information requested by the Mayor.

She explained the VCP process and referred to her communication to the City's legal counsel regarding the 420 Transfer.

Trustee Moore asked if the TAB Board does not approve the amendments by August 1, 2014 whether the City will pay a fine of \$15,000.00.

Ms. Billings stated that if the IRS audits the City it negates the VCP process.

Trustee Deirdre Waterman stated that her 2015-16 Budget included a 420 Transfer as a placeholder to cover retiree healthcare costs. The TAB may not know or understand the hundred page document.

Ms. Billings indicated that the Retirement System is a qualified Plan and in order to maintain their tax-exempt status the Retirement Ordinance needs to be amended. The City can file the VCP submission and pay the fee but they cannot go through the program without adopting the Ordinance amendments.

Trustee Deirdre Waterman asked about the original IRS Request for Determination document signed by Patrice Waterman, President Pro-Tem of the City Council and whether a resolution was approved by the City Council authorizing her signature.

Chairman Harrison indicated that the Board has been open regarding the Letter of Determination process. The issue has been revisited each month. The TAB has indicated potentially using the System's 401(a) status as a bargaining chip. The System has not received an opinion from the Attorney General to-date.

Trustee Moore asked why there is an issue with regard to the 420 Transfer. The fact is the System returned performance of 22.5% in 2013 with an actuarial rate of return of 7.5%. Fifty percent of the earnings over the 7.5% can be used to fund healthcare.

Ms. Billings explained that the earnings from 2013 can only pay for one year of healthcare. The System has requested clarification from the State on this issue.

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**UNFINISHED BUSINESS**

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

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

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## NEW BUSINESS

**Re: Ambassador Request Re: Cross-Traded Security** (Refer to Finance Sub-Committee)

*Trustee Deirdre Waterman left at 1:17 p.m.*

**Re: Ratification of Morgan Stanley Certificate of Bond Proceeds**

Ms. Billings asked the Board to ratify Chairman Harrison's signature on the Certificate of Bonds Proceed for U.S. State and Local Governments and Municipal Bond Obligors form as manually amended.

**RESOLUTION 14-0070** By Moore, Supported by Gaffney

Resolved, that the Board ratify Chairman Harrison's signature on the Certificate of Bonds Proceed for U.S. State and Local Governments and Municipal Bond Obligors Form as manually amended.

Yeas: 6 – Nays: 0

*Trustee Deirdre Waterman returned at 1:21 p.m.*

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**Re: Legal**

### Invesco Agreement

Ms. Billings reported that she is in the process of negotiating a side agreement with regard to the Invesco Fund VI Agreement. The Board authorized a \$3 million allocation to this private equity fund subject to legal counsel review. She ran into two issues while negotiating the side letter agreement. One was with regard to the audit requirements. She is asking that the manager submit their audited financial statements within 150 days after year end. They have indicated that they cannot meet that requirement.

*Ms. Hassan left at 1:25 p.m.*

The other issue is the standard of care. Invesco will not agree to the level of care requested and will not acknowledge their fiduciary status. They will only accept a gross negligence standard of care which is a very high standard.

Trustee Giddings noted that it is impossible to prove gross negligence.

Trustee Moore asked if other systems enter into contracts without removing this level of care.

Trustee Giddings suggested that the Board should not commit to this investment.

**RESOLUTION 14-071** By Gaffney, Supported by Barnett  
Resolved, That the Board will not move forward with the additional Invesco allocation based upon the gross negligence standard of care.

Yeas: 7 – Nays: 0

Retiree Patricia Lile Proposed EDRO

Ms. Billings reported that she has advised the attorney that there are deficiencies in the Order.

Portfolio Monitoring Reports

- Robbins Geller June 2014 Portfolio Monitoring Report
- Motley Rice Second Quarter 2014 Portfolio Monitoring Report

Historic Supreme Court Decision in *Halliburton II*

Ms. Billings reported that the Supreme Court rejected Halliburton's attempt to overturn the fraud-on-the-market presumption of reliance. This reaffirms investors' right to rely on the integrity of security prices in developed markets.

**RESOLUTION 14-072** By Moore, Supported by Gaffney  
Resolved, That the Board move to closed session to discuss pending litigation.

**Roll Call:**

|                        |                                |
|------------------------|--------------------------------|
| Trustee Arndt – yea    | Chairman Harrison - yea        |
| Trustee Barnett – yea  | Trustee Moore - yea            |
| Trustee Gaffney - yea  | Trustee Deirdre Waterman - yea |
| Trustee Giddings - yea |                                |

*The Board moved to closed session at 1:36 p.m.*

*Mr. Kuhn, Mr. Marshall, Ms. Miller, Ms. Swazer and Ms. Watson left at 1:36 p.m.*

*The Board returned from closed session at 1:46 p.m.*

**RESOLUTION 14-073** By Gaffney, Supported by Arndt  
Resolved, that the Board ratify the Chairman's signature on the HealthWays securities litigation agreement.

Yeas: 7 – Nays: 0

**RESOLUTION 14-074** By Gaffney, Supported by Moore  
Resolved, that the Board approve the closed session minutes for May 28, 2014.

Yeas: 7 – Nays: 0

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**SCHEDULING OF NEXT MEETING**

Special Meeting: Tuesday, August 26, 2014 @ 8:45 a.m. – Marriott at Centerpoint  
Regular Meeting: Wednesday, August 27, 2014 @ 10:00 a.m. – Retirement Office

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**ADJOURNMENT**

**RESOLUTION 14-075** By Gaffney, Supported by Moore  
Resolved, That the meeting be adjourned at 1:49 p.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 July 30, 2014

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*As recorded by Jane Arndt*