CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 15, 2018

A special meeting of the Board of Trustees was held on Friday, June 15, 2018 at the Retirement Office at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:00 a.m.

TRUSTEES PRESENT
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Billie Swazer
James Walker
Patrice Waterman *(arrvd @ 11:47 am)*

TRUSTEES ABSENT
Sheldon Albritton *(excused)*
Deirdre Waterman *(absent)*
Kevin Williams *(excused)*

OTHERS PRESENT
David Lee, Dahab Associates
Deborah Munson, Exec. Dir.
Bruce Deutsch, ARGA
Rama Krishna, ARGA
Clare Lewis, Wellington Mgmt.
Danny Sharp, Wellington Mgmt.
Larry Fumarolo, Northern Trust
Stefanie Hest, Northern Trust
Mac Nickey, Northern Trust
Linda Watson, Retiree

EMERGING MARKETS INVESTMENT OVERVIEW
Chairman Moore opened the meeting. He told the Board that three investment management firms will be making presentations to the Board. The firms were recommended by the investment consultant and by the finance committee. He told the Board that there were sixty-seven firms involved in the vetting process. He noted that the Board does not need to make a decision at this meeting and that the Board could go back out to the marketplace if they wanted to interview more firms for this mandate. He reminded the Trustees that the allocation to emerging markets is 5%.

Mr. Lee stated that - as the investment consultant - they make recommendations to the Board but nothing is set in stone.

Miss Munson gave a brief overview of the investment vehicle for ARGA. Typically, the System uses separately managed accounts for publicly traded equities. This is not the case for the ARGA and Wellington investments. The funds being presented today are not registered with the SEC and – therefore – would count towards the System's PA 314 basket clause limit. She noted that ARGA does offer separately managed accounts but that their ADV Brochure states that "In general, we do not tailor a strategy to the needs of individual Fund investors or Separate Account…clients." The Board would have to determine how much flexibility would be allowed and in what types of securities they would be invest on behalf of the System. Miss Munson discussed some of the other types of securities in which ARGA could invest including calls and puts; warrants and forwards and other contracts which are not traded on an exchange.

Trustee Swazer asked about investing in forwards.

Mr. Lee explained that forwards are a way to hedge currency. Because currency values move up and down, a manager may reduce volatility by buying forwards.

Miss Munson stated that the subscription documents give ARGA the discretion to invest the assets of the fund in any type of security – not only publicly traded equities.

Trustee Giddings asked where Miss Munson found this information.

Miss Munson responded that she reviewed the subscription documents.

Trustee Giddings asked whether it the subscription documents for ARGA are common when investing in emerging markets.

Mr. Lee indicated that these documents are written in favor of the manager and broadly by their attorneys. He confirmed that the investment would count towards the System's basket clause limit.

Chairman Moore asked that Mr. Lee explain what the basket clause is.

Mr. Lee explained that 20% of the System's assets can be invested in investments considered basket clause under PA 314He noted that First Eagle and Brandywine are part of the System's basket clause investments. The System currently has 16% of the assets invested in basket clause investments with a portion currently being liquidated to allocate to emerging markets.

Chairman Moore confirmed that basket clause investments are those that do not fit comfortably with the other investments.

Trustee Arndt questioned why the Board was not made aware that the investment would be part of the basket clause versus equities.

Mr. Lee stated that they thought it was clear since the assets from First Eagle are being used to the fund the investment. He provided an overview of the strategy and investment philosophy for emerging market investments.

Emerging markets are less developed countries from the Americas, Europe, the Middle East, Africa and Asia. There are currently twenty-four countries included in the index. Until recently, the economies of these countries were based on raw material industries. Now the focus is more on information technology. The main countries were referred to as BRIC which included Brazil, Russia, India and China. Sometimes it is referred to as BRICS which includes South Africa. The focus has been primarily on India and China which have the two largest populations. Originally, emerging markets were in South American countries starting in 1998 with an industrial focus. In 2018, the emerging markets have an Asian focus with more of an information technology and high tech orientation.

He reviewed the historical emerging markets versus domestic equity relative performance. During the bull run from 2001 through 2010 the emerging markets underperformed but there has been a sharp reversal in performance with emerging markets outperforming the domestic equity markets since that time.

Trustee Arndt questioned whether there should be any concern with the addition of the Chinese Class A securities in the MSCI Emerging Markets index.

Mr. Lee stated that the securities are now part of the indices and that the securities are managed by the government.

Trustee Swazer stated that China could shut those companies down if they wanted to.

Mr. Lee stated that there are a lot of companies that have exposure to these securities explaining that this is a small percentage of the securities in the index. It would be unlikely that China would but they could. Some of these companies could be less volatile versus more volatile.

Chairman Moore asked if these are stable companies.

Mr. Lee stated that - to the extent possible - the manager tries to predict which companies will do better. He noted that the U.S. has had their fair share of issues using Enron as an example.

Miss Munson commented that there are more investor protections in U.S. She also noted that the proposed fund for ARGA has not yet reached the 5-year mark. The firm was founded in 2010 but this fund was started in 2013.

Mr. Lee told the Board that the developed markets are older and are slowing down while the emerging markets and global economy are growing faster and makeup the majority of the world market.

Chairman Moore pointed out that the Chinese middle class is growing.

Mr. Lee stated that as China grows they are changing from an export driven economy to more of a consumer driven economy. This could create a change with investors buying companies that are focused on China. He reviewed a chart depicting global middle class consumption noting that the middle class in the developed markets is small compared to the growing global middle class in the emerging markets. He reviewed the annual returns from 1988 through 2017 comparing emerging market versus domestic equity market returns. Even though emerging market returns have outperformed domestic equity markets they are still more volatile.

Trustee Gaffney noted that both markets are going in the same direction.

Mr. Lee told the Board that in India they use and invest in local vendors versus in the United States where they will be looking for opportunities in other countries because of the growing middle class. He provided an overview of the best and worst quarterly returns for the S&P 500 versus the MSCI Emerging Markets Index. He showed that that the emerging markets are more volatile and there is the chance of losing more money in those investments. However, they offer unique opportunities different from developed market investments.

Trustee Swazer asked how the System would get its assets out of the investment.

Mr. Lee explained that there are two active managers and one passive manager. Assets can be withdrawn daily from the passive manager and require thirty days' notice for the active managers.

Miss Munson noted that the subscription documents for both ARGA and Wellington give the manager absolute discretion to suspend redemptions or withdrawals.

Mr. Lee reviewed the snapshot information for ARGA and Wellington Management. The information included historic returns, three-year performance statistics and the manager's risk return profile. It also included firm history, a brief explanation of the manager's investment strategy and their top ten holdings. He noted that this information is not normally provided for index funds as part of the RFP process. He reviewed the organizational information for each investment firm.

Chairman Moore asked in what country ARGA is located.

Mr. Lee responded that they are based in Stamford, Connecticut. ARGA has $881 million in assets under management in their fund.

Miss Munson noted that ARGA's Form ADV indicates that there is only $214 million in assets under management in this fund.

Mr. Lee referenced their fee schedule noting that their fees are higher than the other managers.

Miss Munson noted that – in addition to the 120 bps management fee - investors pay an additional charge for expenses of up to 25 basis points.

Mr. Lee stated that Wellington Trust is a large company with $1.1 trillion in total assets under management. They have approximately $1 billion in assets under management in this strategy and their portfolio contains 171 securities. Wellington has a five-year standard deviation of 13.31%; a five-year upside capture of 134.56%; five-year downside capture of 93.68% and a five-year tracking error of 2.25%. They offered the System a preferable fee of 75 basis points which includes expenses.

Mr. Lee indicated that Northern Trust is another large company with $1.2 trillion in total assets under management. They current have $32 billion in assets under management in this index fund. Because they are an index fund, they hold 844 securities in their portfolio in an attempt to mirror the index. Their five-year standard deviation is 13.31%; their five-year upside capture is 99.19%; their five-year downside capture is 101.81% and their five-year tracking record is 0.37%. Their fee is 10 basis points on the balance of the investment and there is no securities lending.

Trustee Giddings remarked on the upside and downside capture being close to because that is what you expect from an index fund.

Mr. Lee compared the managers' performance versus the benchmark. He noted that some latitude was given to ARGA due to their performance which qualified them even though they have a limited track record. ARGA was also given additional consideration because they qualify as an Emerging Manager as defined by the Board's policy.

The three-year performance returns were 12.35% for ARGA; 8.97% for Northern Trust and 15.51% for Wellington.

Chairman Moore asked how many of the responding firms qualified as Emerging Managers.

Mr. Lee responded that ten managers out of those who responded qualified. He also noted that the emerging markets and emerging management communities are not huge.

EMERGING MARKET FINALISTS PRESENTATIONS

ARGA Investment Management – Emerging Markets Equity
A. Rama Krishna, CFA, Co-Founder, CIO
Bruce Deutsch, Director, Client Relations

Mr. Deutsch introduced himself and Mr. Krishna to the Board. He is the Director of Client Service. Mr. Krishna has twenty-five years of experience in the industry and is highly regarded. He was recently the President, International of Pzena Investment Management, Inc. as well as a managing principal, member of the executive committee and portfolio manager of its operating company in New York. Prior to that time, he was the CIO and head of the institutional and international representing the asset management business for Citigroup Asset Management. Furthermore, he directly managed the global emerging markets equity strategy. He also worked at AllianceBernstein in New York, London and Tokyo and at Credit Suisse in New York, Tokyo and Singapore.

Mr. Krishna has been on the MSCI Editorial Advisory Board and is a Chartered Financial Analyst. He is also a product of Michigan attending the University of Michigan receiving the Prize Fellowship in Japanese business, University Fellowship as well as the Middlebury College Scholarship. He prides himself in his client service and meaningful relationship with his clients. They deliver investment results showing their commitment to their clients.

Mr. Krishna stated that they take the emotion out of the investment process. They believe that value is poised to outperform versus growth. They look at the fundamentals during the investment process because that will determine what to buy and sell. Globally, they look at investments with a developed and emerging markets perspective. He indicated that mainland China and other parts of the world are all influenced by both developed and emerging markets.

He told the Board that companies around the world do not report the pension liabilities that they owe. This should go along with the valuation process when you are comparing companies and their expenses. It gives you an apples to apples comparison from China to Russia to Poland. You cannot look at a company like Kia Motors and compare it to other automakers in Korea. You have to use assumptions to compare them versus other automotive companies. Key variables are like key models. They also spend time communicating with the clients to determine what they are going to do. They are completely aligned with their clients with regard to the investment assets. They live and die alongside their clients.

Mr. Krishna provided an overview of their investment team. There are twenty-seven members on their research team with eleven global business analysts and sixteen associates which include eight senior research associates. The members have average investment experience of nineteen years and average over six years with the firm.

Mr. Krishna reported that they have forty-five institutional clients. The firm currently has $4.1 billion in assets under management in a number of various investment strategies. They currently have $881 million in their emerging markets strategy. He stated that they manage a number of separate accounts as well as sub-advise on the Vanguard International Value Fund.

He described their investment approach noting that any manager can make 60%/40% investment and outperform the benchmark. They believe they can provide superior returns by leveraging inefficiencies and by removing emotion from decision-making through their systematic process. They start with a universe of more than three thousand companies looking for those with a market capitalization of $500 million or more with stocks that trade at discount to intrinsic value as well as those that have strong price-to-book and price-to-earnings ratios. They also adjust for quality and economic risk and limit the loss of capital through stress-test scenarios. The companies are also screened using their quantitative and valuation-focused process to identify undervalued businesses often overlooked by the market.

Their business analysts begin their fundamental research which is focused by sector while looking for the broader perspective through the developed and emerging markets. The detailed research process provides sixty or more companies that meet their forecast and valuations. He noted that portfolio construction is responsible for their strategy performing in the top quartile. They believe in diversification across currencies, industries and geographies. They are confident in their portfolio's long-term earnings power.

Mr. Krishna used the example EMart which is the largest retailer in South Korea and is similar to Walmart. ARGA's business analyst was researching this investment and noted that the company's sales had dramatically decreased. During the research process, the analyst discovered that the South Korean government had passed a law to close the large retail store on the two largest shopping days of the month which are Sunday and Wednesday. This was done because mom and pop stores were suffering from the reduced sales. Their data screen projected that the stock price will be down at roughly 80% for the next year to year and a half but will eventually start growing which is why they put the stock in their portfolio.

ARGA have implemented a daily update of metrics for the portfolio holdings including valuation and fundamentals. Their sell discipline is triggered if the company is in the bottom half of the universe on valuation or there is a more attractive alternative. They never deviate from their buy and sell discipline.

Chairman Moore asked where the majority of the employees are located.

Mr. Krishna indicated that the firm has fifty-one employees with approximately twenty located at the Stamford, Connecticut site and approximately thirty at the Chennai, India office.

Miss Munson confirmed that the research analysts are spread between their two offices.

Chairman Moore inquired as to their use of ESG guidelines.

Mr. Krishna told the Board that ESG is embedded in their investment process model.

Trustee Arndt questioned the assets under management in their emerging market strategy.

Miss Munson asked about the information in their ADV and if there is flexibility in their separate accounts.

Mr. Krishna explained the total assets under management in their emerging markets strategy is $881 million with most of their public funds in separate accounts. The $214 million is the amount invested in the commingled fund.

Mr. Lee asked what is the minimum mandate for a separate account.

Mr. Krishna indicated that there is a mandate of $50 to $60 million for the separate account. He noted that the assets are not domiciled in the U.S.

Miss Munson asked about the process for conforming financial statements to GAAP or IFRS.

Mr. Krishna described their process.

Miss Munson questioned whether the subscription documents limit the types of assets in which they can invest.

Mr. Krishna noted that they are currently 100% in equities. There is one security which is illiquid.

Miss Munson confirmed that the holdings report that ARGA provided is an actual and not composite report.

Chairman Moore asked if the manager would act as a fiduciary for the System.

Mr. Krishna indicated that they do acknowledge being a fiduciary for their public fund clients and stated that there is no securities lending in this fund.

Chairman Moore asked about the manager's fees.

Mr. Krishna that their proposed fee for a separately managed account is 90 basis points on the first $25 million in assets; 80 basis points on the next $25 million in assets and 70 basis points on assets over $50 million.

Mr. Lee asked about their fees for contributions or redemptions in the fund.

Mr. Krishna indicated that their redemptions fees are based on transactions. They feel it is fair to all the investors that stay in the fund to charge this fee.

Mr. Lee indicated that it would have been preferable to see the contribution/redemption fees provided in the proposal.

Trustee Swazer asked about the fees.

Mr. Krishna indicated that the charge to make contributions to the fund is 100 basis points and there is a redemption fee of 75 basis points.

Chairman Moore asked how they select their brokers and their diversity policy.

Mr. Krishna indicated that they provide the information and evaluations in order to make sure the company is stable and there are minimum brokerage fees. He requested that Mr. Krishna provide a copy of their diversity policy.

Miss Munson asked whether the assets would be custodied by Northern Trust if the System decided to invest in a separate account.

Mr. Krishna confirmed that the assets would be custodied with Northern Trust.

Miss Munson also asked about their reporting and when they provide their annual audited financial statements. She also asked if they would be agreeable to a side letter with regard to the date by which they would deliver their audited financial statements to the System. She asked for the names of their public pension funds clients invested in separate accounts.

Mr. Krishna provided a few names of their public pension fund separate account clients including the State of Connecticut; the State of Maryland; the State of Maine.

Trustee Giddings remarked on the concentrated portfolio and inquired whether there were certain countries in which ARGA would not invest since they are only currently in fourteen of the emerging markets.

Mr. Krishna responded that their strategy will not work in Argentina and that they stay away from that country. They are also careful on the kinds of investments they make in China. They will make no more than 2% of their investments in privately owned companies in China.

Chairman Moore asked what their minimum investment is for a separate account.

Mr. Krishna indicated that the minimum for a separate account is $10 million.

Chairman Moore also asked if the tariff war has had an effect on emerging market investments.

Mr. Krishna stated that they have already built the tariff effect into their investment return projections and securities cost. The normalizing factors are relevant in the European strategies.

Mr. Deutsch indicated that value is poised to outperform with the related information located near the back of the presentation book.

Mr. Deutsch and Mr. Krishna left at 11:44 a.m.
Trustee Patrice Waterman arrived at 11:47 a.m.

Wellington Management – Emerging Market Equities (Commingled Fund)
Clare Lewis, Portfolio Specialist
Danny Sharp, Director AIG Midwest, Business Development Mgr.

Mr. Sharp introduced himself and Ms. Lewis to the Board. He indicated that they work out of the firm's Chicago office. He told the Board that Ms. Lewis is the portfolio specialist and also runs the risk and analysis for the portfolio. He reviewed their ownership; business and investment models as well as their firm culture. They are one of the last firms left that believes in the long-term perspective of a private partnership structure. They look for the best tools and talent for their seasoned and experienced teams in order to have a stable team together for the long-term.

Their singular focus is on investment management. They look at diversification by asset class, geography and client type. They are committed to being a trusted advisor and strategic partner along with bringing the right resources to each of their clients. They believe that deep scientific research is the driver of alpha. Their analysts spend their whole careers analyzing and developing sector expertise. They have a big emerging markets team with seventy analysts tapping into their expertise. He explained their firm culture stating that their employees are professional, performance driven and believe in high standards, ethics and integrity. Their culture is one of global diversity and inclusion. They have extensive capability in the emerging markets with thirty years of investment experience. He told the Board that they have twelve career research analysts on the investment team.

Ms. Lewis provided an overview of the firm's investment strategy noting that their analysts stress stock selection. Their approach varies by analyst and industry which provides a clearer picture of the potential upside. They rely on their exposure to international managers which assists them in making the right choices. This is a very different way to invest in the emerging markets. Their career industry specialists have the experience and focus that can yield differentiated insights. They do not have a key man risk but utilize a team approach that provides deep coverage across a broad universe. Their unique structure takes the best ideas from each analyst which allows flexibility to adjust conviction. They assign capital close to the benchmark based on sector weight and style. This allows for multiple sources of alpha that can reduce volatility and preserve long-term return potential. Without this diversification by industry and style it could bleed away alpha.

Ms. Lewis reviewed their investment philosophy. They use a different way to evaluate other types of stocks utilizing stock level dispersion. Their dedicated bottom-up research can anticipate fundamental changes and should identify pricing anomalies. She explained stock level return dispersion within sectors. She noted that intra-industry dispersion can be exploited to seek to beat the market. They have exposure to all sectors and styles giving them more diversification which leads to consistent performance overtime. She reviewed their standard deviation of one-year returns using the average of all sectors to determine the return dispersion among sectors depicting the best versus the worst.

Ms. Lewis provided an overview of the global industry analysts depicting their strengths including deep industry expertise, their nineteen year average experience in the industry and low turnover. She also told the Board that all of their global industry analysts that cover emerging markets travel. She noted that before managing capital for their clients the investment team manages the portfolio on paper. She explained how their global industry analysts use a variety of different styles of investing. The diversity of these investment styles is key to their consistent performance. With this all-weather approach to investments, you get a core allocation to the emerging markets. By tracking risk, the portfolio should outperform versus the benchmark.

Ms. Lewis indicated that their core portfolio has consistently outperformed through a variety of markets as well as protecting well in the down markets. They have outperformed in twelve of the last thirteen quarters.

She reviewed their performance for 2016 of 17.7% gross of fees versus the benchmark at 11.6%; 2017 performance of 44.3% versus 37.8% and year-to-date performance of 3.3% versus 1.5%.

Mr. Sharp stated that their eight year track record using this strategy is a flagship for the firm and a hallmark of their consistency. There are many countries that are left out of their portfolio in which they do not invest.

Ms. Lewis stated that their exposure to frontier markets is driven by the stocks. They are not overweight to any one position. They are bottom-up driven.

Mr. Sharp indicated that they gather ideas and signal the portfolio team to run a risk overlay if there is any risk with which they are uncomfortable. This adds to their track record of performance in the portfolio.

Trustee Swazer asked if they are invested in companies located in Argentina.

Mr. Sharp said that it is possible.

Trustee Patrice Waterman stated that there is a lot of talk about investing in China and Canada.

Mr. Sharp indicated that China is a big part of the benchmark. They perform research on the ground in China. It is important that the manager is not buying all companies. Their western management teams have a close relationship with the government. They trust their management team to make the best decisions. There are approximately 3,500 names in Asia. They only touch around three hundred of those names. It is important to be invested in the decision.

Chairman Moore asked if the tariffs are having any effect on the emerging markets.

Mr. Sharp stated that the analyst has to evaluate or assess the hedging of currency and the macro political risk. The people who make the decisions will target the sector effects. It is never good to see international trade disruptions.

Ms. Lewis indicated they are comfortable with their exposure with an overweight to China. Their investments in IT, utilities and the healthcare markets are not significantly impacted.

Mr. Sharp confirmed that this is a commingled fund: the System would own a share of the fund not a share of the underlying assets. They have been managing trusts for forty years. It is a pooled fund which makes the investment more cost effective. Their administrative fees are capped at 25 basis points.

Miss Munson asked if they offer separate accounts.

Ms. Lewis confirmed that they offer separate accounts with a minimum investment of $75 million.

Phillip Moore asked how often the shares are valued.

Mr. Sharp stated that the shares are valued monthly for institutional clients and daily for internal purposes.

Miss Munson asked about their financial statement reporting.

Mr. Sharp indicated that their financial statements are provided five business days after the end of the month.

Miss Munson asked when their audited financial statements are available.

Chairman Moore asked if they have an ESG policy.

Mr. Sharp indicated that they look at ESG as a state of mind and look for ways to invest. Their analysts ask a lot of questions in China. Internally they have generated an ESG score which is integrated into everything that they do. They interview approximately five thousand companies from across the world and engage with these companies about ESG.

Trustee Gaffney asked if they have a diversity policy.

Mr. Sharp indicated that they do have a diversity policy. They have several recruitment policies stating that their hiring practices have to be diversified and include women, minorities and disabled veterans. They are also involved with NASP.

Ms. Lewis and Mr. Sharp left at 12:37 p.m.

Northern Trust – Global Equity Index - Emerging Markets Index Solution
Lawrence Fumarolo, Vice President, Public Fund/Taft-Hartley
Stefanie Hest, Sr. Index Specialist, Institutional Group
Mac Nickey, Director, Public Funds

Mr. Fumarolo introduced himself, Ms. Hest and Mr. Nickey to the Board.

Mr. Nickey told the Board that he has worked at Northern Trust Asset Management for thirty-two years. He works with public fund clients in the Midwest and Northeast. Mr. Fumarolo works in global custody.

Ms. Hest told the Board that she has worked for Northern Trust for thirteen years and has worked in the industry for nineteen years. She has spent a lot of time working closely with institutional clients at Northern Trust. She currently holds an executive seat on the Women in Leadership Council at Northern Trust. She explained they manage a $9 billion fund that is nine years old and has approximately 830 securities. It is a collective trust fund for retirement funds. The fund has a 10% target for minority brokers. She has worked with investment partners in this space and it is unique to find companies that think about diversity. She told the Board that the System can redeem and receive redemptions daily.

Mr. Nickey indicated that Northern Trust was founded in 1889. Their headquarters are in Chicago Illinois and they are the eighteenth largest bank in the United States. They are also the only independent bank in China. They have locations in twenty-four countries. They have total assets under management of $954 billion with $570 billion in index assets, 79% are institutional clients and they are the fourteenth largest index manager in the world. They provide exposure to emerging markets while managing risks. The investment is scalable and has daily liquidity. The management fee is 10 basis points which is a preferential fee for their custody clients.

Chairman Moore asked what is the normal fee.

Mr. Nickey stated that the fee for non-custodial clients is 17 basis points. Their asset management expertise spans the capital markets including equities, fixed income, alternatives, solutions and asset allocation.

Ms. Hest reported that market trends have driven institutional clients to utilize index investments. The biggest shift occurred with the huge flow into passive prior to the financial crises era. This increase of clients helped to decrease risk at a lower price point. She told the Board that in 1994 emerging markets represented less than 2% of the world market capitalization. Today emerging markets represent 13% of the work market capitalization. In 1992 there were 125 securities in emerging markets in four countries and today there are 844 securities in twenty-four countries. Many clients have increased their allocations to global equities with seven out of eight clients decreasing their allocation to global and moving to emerging markets. Exposure to U.S. equities has decreased and there has been an increase in exposure to global small cap.

She reviewed the drivers of emerging market returns. Country dispersion was a driver of performance in the late 1980's and 1990's. The country dispersion has become less significant now that the economy is more globalized with countries more correlated to the global markets. This makes it more challenging to add value through country allocations. Northern Trust has over $30 billion in assets under management in the emerging markets and thirteen years of experience. Their index fund allows broad representation and access to emerging markets. There are still a lot of investing challenges. Northern Trust has managed through crises. She stated that over the past five years their frontier market investments have set them apart in this space.

Chairman Moore asked if any of the $40 billion is allocated to South Africa.

Ms. Hest stated that 72% to 73% of the fund is invested in Asia with 12% to 13% invested in Europe and Africa noting South Africa only. The remainder is invested in frontier markets.

Trustee Patrice Waterman asked if they are heavily weighted in China.

Ms. Hest stated that 30% of the benchmark is invested in securities listed in China.

Mr. Lee noted that – as an index fund – they would see to mirror the index.

Ms. Hest noted how Northern Trust is able to influence what goes into the MSCI Emerging Markets Index due to their size and global reach. They meet with representatives from MSCI and are very vocal in that process.

Chairman Moore asked about their internal research.

Ms. Hest indicated that there is a team in Chicago, one in Hong Kong and one in London that manage the investments. They also have on ground traders if they are trading in specific markets. This is less about country specifics and more about index research, macro movements and liquidity.

Mr. Lee asked if most stocks trade at regional centers.

Mr. Nickey responded that 10% of trading is in the represented regions.

Ms. Hest said that they work with brokers with global expertise in specific areas and referred to their Head of Index and Tax Advantaged Equity. He noted that the index portfolio matches the risk and return characteristics of the benchmark. They hold all names to efficiently deliver performance. She also stated that with many emerging market companies liquidity drives the cost. They like to maximize performance by holding local names or holding names with more liquidity.

Mr. Lee asked if they invest in ETF's.

Ms. Hest responded that they do not invest in ETF's. They do keep 1% to 3% in cash available for redemptions.

Chairman Moore asked about their 2016 and 2017 returns and going forward.

Ms. Hest stated that the outlook is positive. Their performance returns for 2017 were 37.11% and 11.05% for 2016. As a firm they have reduced investments in domestic equities and increased investments in emerging markets.

Mr. Nickey indicated that they are expecting synchronous global growth.

Ms. Hest explained that the portfolio is valued daily. Emerging markets represent riskiest assets in portfolio. She also noted that they are in on-going consultation with MSCI and in collaboration with index providers on global consultations and participate on advisory councils.

Mr. Nicky concluded by telling the Board that they are a large index manager of emerging market securities. The nine year old fund provides sufficient exposure while managing risk. The fund also offers daily liquidity and valuations. Their global custody team in New York is in close coordination with the CIO roundtable which reviews performance. They acknowledge their fiduciary duties managing public pension assets and are closely aligned with their clients.

Mr. Fumarolo, Ms. Hest, Mr. Nickey and Ms. Watson left at 1:13 p.m.
Meeting break at 1:13 p.m.
Meeting resumed at 1:25 p.m.

Trustee Patrice Waterman indicated that she liked Wellington.

Trustee Gaffney felt that the index fund investment was the least scary investment and tracks with the index.

Chairman Moore asked where the assets for the emerging market investment are coming from.

Mr. Lee responded that funding would come from the two international managers – First Eagle and WCM.

Mr. Lee indicated that there is an over allocation to domestic equities. The allocation to large cap equities is 25% and it needs to be reduced to 20%. International equity is funding the emerging market allocation but this is only shifting or changing the flavor of equity.

Chairman Moore felt that the portfolio should be looked at as a whole.

Miss Munson concurred and noted that the Board has been looking at the portfolio as a whole and this is a continuation of the process of bringing the portfolio into alignment with the target allocation.

Trustee Patrice Waterman asked when this needs to be completed.

Miss Munson agreed with Chairman Moore that a decision on this is not required today. The Board can wait until the regular meeting to make this decision.

Miss Munson shared with the Board other questions that she had regarding the ARGA Commingled Fund Investment Management Offering Memorandum. One of those concerns were that – since the fund is registered under the Investment Company Act of 1940 – it will count towards the System's basket clause total. Another concern is that a $25M commitment would represent more than 10% of the overall fund. The Board has always been advised not to make an investment that would represent such a large portion of any fund. There were a number of other issues including the assets being custodied outside of the U.S., the management fee; in-kind redemptions; fees charged for contributions and redemptions; special situation accounts and restrictions; limited liquidity; illiquid investments, etc. She asked the Board whether they would consider the separately managed account.

Mr. Lee felt that the Board was looking back at their historical investment experience with bad managers.

Trustee Patrice Waterman asked why the investment consultant brought the ARGA emerging market investment to the Board and why these issues had not been identified prior.

Miss Munson explained that the investment consultant does not ask for the subscription documents as part of the RFP process and that they only look at things from an investment perspective. The subscription documents are generally not requested until after the Board has made their final selection. She stated that this is the first time the System has requested the subscription documents in advance and included them in the evaluation process. She and the consultant will ensure that the subscription documents are requested in the initial stage of the RFP process in the future.

Chairman Moore felt it would be better for the Board to have Miss Munson document her questions so that the Trustees can consider it prior to the next meeting.

Trustee Patrice Waterman questioned whether the Board cannot invest in two out of the three managers.

Trustee Walker agreed it would have been helpful to get the questions beforehand.

Mr. Lee told the Board that Dahab does not have any client relationships with ARGA. They do have public fund clients that have investments with Wellington. He noted that the Board's legal counsel could get side letters from ARGA acknowledging their fiduciary responsibility.

Trustee Walker asked if the side letters would alleviate the anxiety.

Mr. Lee indicated that the System is invested in multiple products including private equity and real estate that have these types of documents.

Miss Munson agreed that those types of investments are where we expect to see subscription document which are sixty pages. She did not expect to see these types of documents for publicly traded equities and inquired of the Trustees.

Trustee Gaffney asked why it is easier to invest in a commingled fund.

Trustee Giddings also asked why commingled funds.

Mr. Lee responded that commingled funds make it easier for smaller funds to invest and some firms do not offer separate accounts.

Chairman Moore stated that in the future the Board will have more information prior to the presentations.

Mr. Lee confirmed that he is comfortable with both the ARGA and Wellington commingled funds.

Trustee Gaffney indicated that Mr. Lee is providing his expertise with regard to the investment and that Miss Munson is providing information to protect the Board. However, it appears that it has created some confusion for the Board.

Miss Munson suggested that – if the Board would like to proceed with an investment with ARGA – that they consider using a separate account.

Trustee Swazer asked about the fees for a separate account with ARGA.

Miss Munson noted that if the Board invests in Wellington's commingled fund the assets will not be custodied at Northern Trust.

There was continued discussion regarding the concerns with investing in a commingled fund. The Trustees also indicated which managers they preferred.

Trustees Patrice Waterman, Gaffney and Arndt suggested splitting the investment between Wellington and Northern Trust.

Trustees Giddings and Walker did not feel that the ARGA investment should be removed from consideration.

Mr. Lee asked if it would help if the System's legal counsel reviewed the side letters their other clients have with Wellington.

The Board thought it would be beneficial if Miss Munson and Mr. Lee reviewed the information together.

The Board also asked that Miss Munson provide the information regarding the agreements and her concerns to the Board. The information will be reviewed by the Board prior to the decision regarding the emerging markets investment.

SCHEDULING OF NEXT MEETING
Regular Meeting: Wednesday, June 27, 2018 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 18-068 By P. Waterman, Supported by Swazer
Resolved, That the meeting be adjourned at 2:39 p.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the special meeting of the General Employees Retirement System held on June 15, 2018.

As recorded by Jane Arndt