

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

A meeting of the Board of Trustees was held on Wednesday, September 25, 2019, at the Pontiac General Employees' Retirement System, 2201 Auburn Rd., Suite B, Auburn Hills, MI 48326. The meeting was called to order at 10:00 A.M.

TRUSTEES PRESENT

John Balint
Robert Giddings
James Miriani
Walter Moore, Chair
Billie Swazer
James Walker (*arr. @ 10:06 a.m.*)
Deirdre Waterman (*arr. @ 10:03 a.m.*)
Patrice Waterman
John White

OTHERS PRESENT

Samantha Kopacz, Miller Canfield
Linda Watson, Retiree
Cynthia Billings-Dunn – Sullivan, Ward
David Lee – Dahab Associates
Steven Roth – Dahab Associates
Kristy Neumann, Executive Assistant
Deborah Munson, Executive Director

TRUSTEES ABSENT

Sheldon Albritton, Vice-Chair (excused)

Chairman Moore opened the meeting at 10:00 A.M.

PUBLIC COMMENT

None

AGENDA CHANGES

Miss Munson requested that Unfinished Business be amended to include a resolution to amend the 2019 budget to adjust the retiree payroll expense; that New Business be amended to include a resolution to adopt the proposed revisions to the System's Supplemental Actuarial Analyses Approval Policy; to include a resolution to put Piedmont on watch; and to include the handout material as back-up for New Business Item A. Miss Munson noted that there is a request to remove from the Communications section the correspondence regarding the IRS filing and add it as an agenda item.

Trustee D. Waterman arrived @ 10:06 a.m.

Trustee Walker arrived @ 10:06 a.m.

Trustee Deirdre Waterman confirmed the request to make the correspondence regarding the IRS filing an agenda item. She recapped for the Board that, at the last meeting, the Board directed the Executive Director to send all of the Trustees' questions regarding the request for a supplement actuarial analysis to her in writing. The agenda item is Miller Canfield's responses to those questions. She noted the Ms. Kopacz is here to address any remaining questions.

RE: Resolution to Approve Agenda Changes

RESOLUTION 19-114 By Balint, Supported by Walker

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Resolved, That the Board hereby amends the agenda as follows: Unfinished Business is amended to add a resolution to amend 2019 Expense Budget; New Business is amended to include a resolution putting Piedmont on watch, a resolution to consider the proposed revisions to the Supplemental Actuarial Analyses Approval Policy and to include the handout regarding Item A; the communication regarding the IRS filing is removed from Communications to be addressed as an agenda item.

Yeas: 9 – Nays: 0

RE: REQUEST FOR SUPPLEMENTAL ACTUARIAL ANALYSIS AND EXPERIENCE STUDY

Chairman Moore recapped the discussion and resolution from the August meeting. He reminded the Board that the System is not a party to the CPREA healthcare lawsuit with the City. The Board's responsibility is to manage the System so that assets are available to pay pension benefits.

Ms. Kopacz introduced herself and began by stating that the purpose of the request for the supplemental actuarial analysis is for the City to get information and to have a range of what are the excess assets and how much would go into the new GERS replacement and how much would go into the new healthcare VEBA. The amount available for transfer should take into consideration future events so that the System isn't facing a shortfall and the City facing a possible lawsuit 50 years from now. The purpose of the request is solely to ensure that the proper amount of assets are transferred into the new VEBA. Such a transfer can only occur one time and they want to make sure they have all of the information possible so that the right amount of assets are moved. She solicited questions from the Trustees.

Trustee Deirdre Waterman asked Ms. Kopacz to confirm that the 3.5% rate that is set has nothing to do with the valuation which is performed annually using rates adopted by the Board.

Ms. Kopacz responded that the rate has nothing to do with the retirement allowances that the pensioners will receive. What the request has to do with is determining the right amount of money that would be moved into the new VEBA.

Trustee Deirdre Waterman stated that she recognizes that the Board has full responsibility to set actuarial assumptions and asked Ms. Kopacz to confirm that what she is doing in terms of the IRS application will in no way infringe on the Board's authority to set those assumptions.

Ms. Kopacz confirmed that this is correct.

Trustee Patrice Waterman asked why Ms. Kopacz is coming to the Board for approval and why the City cannot use its own actuary to do the calculations.

Ms. Kopacz answered that she would prefer to use the System's actuary because they will be able to do it the most efficiently. One of the questions on the IRS application is why there is a surplus. The only way to get the surplus out is to show that there was an actuarial computation error. An actuarial computation error is not in the sense that the actuary made a mistake – actuarial assumptions are merely predictions. The assumptions used by the actuary may have been more conservative or optimistic than what is

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

reasonable. The IRS is going to want to know what the assumptions are because they are only going to let (the assets) out if the surplus is based on what they consider an error based on reasonable assumptions.

Ms. Kopacz continued that it is a possibility that the IRS may question a City coming out of financial management trying to take assets out of a pension plan which has a surplus and the IRS may require that they take a more conservative approach. They want to be prepared for that.

Trustee Patrice Waterman asked why – even taking a conservative approach – would the rate go from 7% to 3.5%.

Ms. Kopacz responded that she is offering a range.

Chairman Moore stated that the Board is vested with the responsibility of setting actuarial assumptions and that it is a responsibility that is not taken lightly. The question becomes whether this Board will allow anyone outside of this Board to set the assumptions. He stated that the Board voted at the last meeting that this responsibility is not something that they are going to relinquish. He noted that the City employs its own actuary and asked why the City could not use its own actuary to apply the requested assumptions.

Ms. Kopacz responded that she believes that there is a misconception that the City is attempting to take over the Board's responsibility for setting actuarial assumptions. She is requesting additional information in order to evaluate an extremely complicated transaction. She doesn't want it to get held up once the filing is actually made. There is nothing to say that the City's actuary cannot be used. However, the System's actuary already has all the information and the historical data and she believes it is a more efficient approach

Trustee Balint asked whether there would be any negative impact on the GERS Trustees or the System if the Board approved the study.

Ms. Billings-Dunn asked to respond. She stated that she watched the City council meeting last night and was pleased as she listened to the Mayor discuss the innovativeness of the settlement. She was pleased because she is the one who came up with the idea. When the retirees sued the City for restoration of their healthcare, she was asked to attend some of the early mediation sessions. The City's proposal, through the Mayor's office, to resolve the lawsuit was to terminate the GERS plan and to send the assets to MERS and to start a new pension plan and a new VEBA; but the retirees were adamantly against that proposal. So, she suggested to the mediator that they explore the idea of terminating the plan and setting up another locally controlled retirement system and VEBA instead of sending the money to MERS. At the mediator's request, she did extensive research and laid out the blueprint for how to amend the plans and recommended IRS approval.

Ms. Billings-Dunn continued that she found nowhere in all of her research a requirement that certain assumptions be used. She reminded the Trustees that the System's actuary at a prior meeting had demonstrated to the Trustees that – leaving all other factors the same – a 3.5% rate would result in an approximate 122% funded level which would undermine the settlement. The numbers were based on

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

rough estimates and an actual analysis has not been conducted. She said that rather than using a 3.5% rate of return, she would suggest that in presenting this to the IRS that the City demonstrate how the current assumptions that the Board adopted are reasonable; specifically that the System's actuary and consultant have both advised that 7% is reasonable, many other public plans use this rate and she is not aware of any plan that uses a 3.5% rate. She said the best way to demonstrate to the IRS that the rates are reasonable is to look at the actual performance of the plan over the last 25 years - it has always greatly exceeded the assumed rate of return. Although this is an innovative, novel approach, she has worked with the IRS for over 25 years and she would start by demonstrating that the rate is reasonable. The IRS may ask us to come back with a more conservative approach but she has never had the IRS shut the door on trying to negotiate a Determination Letter because they needed additional information.

Chairman Moore and Trustee Balint thanked Ms. Billings-Dunn.

Trustee Balint asked Ms. Kopacz whether there is anything required in the submittal to the IRS that says we must submit an additional actuarial study or can we submit with the information based on our current actuarial study.

Ms. Kopacz replied that the IRS filing can be submitted without an additional supplemental analysis. It is not necessarily that the City would submit the filing using 3.5% or 7%, it was just getting the information. She noted that the System's 2018 Valuation report is not appropriate for what they are doing and read a portion from page A-2 - "It is important to note that the funding status measurement presented in this report is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations and the need for or the amount of future employer contributions."

Trustee Deirdre Waterman discussed the years that this process has taken and that a 420 Transfer had also been considered. She referenced Ms. Kopacz February 20, 2019 memo detailing the documents required for the filing and asked her to confirm that this supplemental analysis was the last report she needed to complete her research.

Ms. Kopacz responded that it is.

There was additional discussion.

RESOLUTION 19-115 By D. Waterman

Resolved that, the Board - having heard the presentation of Ms. Kopacz - approves to send to the actuary the request for a supplemental actuarial analysis as requested by the City attorney who has been retained to file the application with the IRS.

Trustee John Balint seconded the motion and asked if it could be amended in light of Ms. Billings-Dunn comments and his concern of using 3.5%.

Trustee Deirdre Waterman did not agree to the friendly amendment to her motion

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Trustee Balint withdrew his second.

The motion failed for lack of support.

Chairman Moore opened the floor for any other questions for Ms. Kopacz. There were none.

Chairman Moore confirmed that Ms. Kopacz understands that the System is not a party to the lawsuit.

Ms. Kopacz ended by saying they would be willing to have discussions with the Board about different rates and are willing to entertain other suggestions. She noted that the settlement agreement specifically says that both the City and the retiree class have to agree to the assumptions before the assets are transferred.

Ms. Kopacz left at 10:40 a.m.

Trustee D. Waterman left at 10:40 a.m.

APPROVAL OF CONSENT AGENDA

A. Approval of the Minutes of the Regular Board Meeting held August 28, 2019

B. Ratification of Retiree Payroll & Staff Payroll

Retiree Pay Date September 25, 2019	
TOTAL PENSION PAYROLL	\$2,104,867.26
Staff Pay Date September 12 & 26, 2019	
TOTAL STAFF PAYROLL	\$21,477.72

C. Communications

- FOIA Request From/To Public Plans IQ: August 21, 2019
- FOIA Request From/To Public Plans IQ: September 4, 2019
- Invesco Client Conference: November 5-7, 2019 (LaJolla, CA)
- Correspondence To/From City RE: IRS Filing
- Correspondence from Incore RE: Staff Changes
- Correspondence from Kennedy Capital RE: Staff Changes
- Correspondence from Principal Real Estate RE: Hurricane Dorian
- Correspondence from TerraCap RE: Resource Square Acquisition – Charlotte, N.C.
- Correspondence from TerraCap RE: Denver Corp. Center Acquisition – Denver, CO.

D. Financial Reports

- Accounts Payable: September 2019
- Dahab Associates Preliminary Report: August 2019
- Attucks Manager-of-Managers Summary: August 2019
- Statement of Changes: August 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

E. Private Equity and Real Estate Capital Calls & Distributions

- Invesco Fund V Distribution: September 13, 2019 \$66,921
- Mesirov Fund IV Distribution: August 23, 2019 \$30,000

F. Retirement Benefits

1. New Retirements

RETNO	NAME	EFFECTIVE DATE	AMOUNT

Bold type entry indicates Reciprocal service credit.

2. Terminated Retirements

RETNO	NAME	DATE OF DEATH	BENEFIT AMOUNT
702	Jones, Ernestine	8/6/2019	
949	Keebaugh, Vernon	9/15/2019	

3. Terminated Retirements

RETNO	RETIREE'S NAME	SURVIVOR'S NAME	DATE OF DEATH	AMOUNT
1568	Hamersley, Steven	Hamersley, Roselyn	9/5/2019	
1872	Lynch, David	Lynch, Susan	8/14/2019	

4. Re-calculated Retirements

RETNO	MEMBER'S NAME	REASON FOR CHANGE	EFFECTIVE DATE	NEW AMOUNT
1567	Grice, Roger	Pop-Up	7/1/2019	
2306	Mitchell, Arthur	Revised DRO	7/1/2019	
602306	Colon, Nilda	Revised DRO	7/1/2019	

Pop-Up Benefit: When beneficiary dies before retirant, monthly benefit "pops-up" to what would have been the monthly Regular benefit amount (plus applicable COLA).

5. Disability Medical Re-Exams/Benefit Continuation

RETNO	Member's Name	Reason

6. Refunds of Employee Contributions

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

RETNO	Member's Name	Reason	Amount
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RESOLUTION 19-116 By P. Waterman, Supported by Swazer

Resolved that, the Board approves and ratifies actions described in the Consent Agenda as amended for September 25, 2019.

Yeas: 9 – Nays: 0

CONSULTANTS

Preliminary Performance Report – September 2019

Mr. Roth provided a short overview of how the portfolio has been reallocated over the past two years. He presented an asset allocation report with preliminary values as of September 13, 2019. The total portfolio market value was \$499,686,077. Domestic fixed income allocation was 24.7%, Real Estate 9.7%, Private Equity 2.3%, Emerging Markets 4.3% International 5.9%, Small Cap 11.7%, Mid Cap 17.5% Large Cap 10% and All Cap 14.1%.

Trustee D. Waterman returned at 10:44 a.m.

REPORTS

Personnel & Administrative Committee

Proposed Expense Budget 2020: Second Review

Miss Munson reported that both committees are recommending approval of the 2020 Expense Budget.

Correspondence with Members via Email

Miss Munson reported that the committee chair - Trustee Swazer – added to the agenda a discussion on potentially corresponding with members via email for non-personal (mass) mailings. Staff has been directed to research this matter and provide a cost-benefit analysis.

Re-examination Report: Member no Longer Disabled Status Update

Miss Munson reported that both committees received a verbal update regarding the member who is currently in the re-examination appeal process. The member's doctor has suggested a third physician and we are awaiting confirmation from the System's doctor that the third physician is acceptable.

Annual Disability Procedures Report

Both committees reviewed this report.

Annual Employee Evaluations

Miss Munson reported that the committee reviewed the annual employee evaluations and have requested additional information.

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Finance Committee

Emerging Manager Program Update RE: Seizert

Miss Munson reported that the committee reviewed the information included in the handouts. The committee is recommending that the Board increase the allocation to the Emerging Manager program from \$60M to \$70M and amend the IPS to change the all-cap target allocation from 12% to 14%.

Attucks Portfolio Restructuring Contract and Appendices

Miss Munson reported the committee is recommending for approval the Attucks investment guidelines and fee agreement.

Piedmont Staff Changes

Miss Munson reported the committee reviewed all correspondence from the managers and are recommending for approval the New Business item putting Piedmont on watch for two quarters. This is customary when there are staff changes.

Fiduciary Liability Insurance Vendor Update

Miss Munson reported that the committee received a verbal update on the Fiduciary Liability vendor search.

Funding Policy

Miss Munson reported the committee began to review the Funding Policy draft and intends to make recommendations after the next committee meeting.

Proxy Voting Education

Miss Munson reported the committee directed the consultant to develop a proxy voting education session for the Trustees.

Supplemental Actuarial Analyses Approval Policy Resolution

Miss Munson reported the committee is recommending for approval the revisions to the Supplemental Actuarial Analyses Approval Policy Resolution.

Trustees

Trustee Swazer informed the Trustees that copies of the employee evaluations are available from the Executive Director upon request.

Trustee Deirdre Waterman requested a copy.

Chairman

Chairman Moore reminded everyone of the investment manager review meeting and encouraged everyone to attend. He suggested that the Board consider holding a retreat next year, especially in light of all of the new Board members.

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

EXECUTIVE DIRECTOR REPORT

Disability Annual Procedures Report

Miss Munson reported there is one member scheduled for re-examination on October 17, 2019.

Asset Transition Update

Miss Munson reported that there are no assets currently in transition.

MAPERS Email RE: Attempted Fraudulent Wire Transfers

Miss Munson referenced the email included in the agenda and noted that it is informational only. She has requested copies of the cyber security policy and insurance limits from Northern Trust and ADP.

Annual Notice RE: Continuation of \$400 Temporary Benefit

Miss Munson reported that the annual notice of the continuation of the \$400 supplemental benefit was mailed on September 3, 2019.

UNFINISHED BUSINESS

RE: Resolution to Adopt 2020 Expense Budget as presented

RESOLUTION 19 – 117 By Balint, Supported by Walker

Resolved, That the Board adopts the 2020 Expense Budget as presented.

Roll Call:

Balint – Yes	Walker – Yes
Giddings – Yes	D. Waterman – Yes
Mirani – Yes	P. Waterman – Yes
Moore – Yes	White – Yes
Swazer – Yes	

RE: Resolution to Amend 2019 Expense Budget

Miss Munson reminded the Trustees that when the 2019 expense budget was adopted, it was adopted without including the supplemental payment which is paid from September through December. The budget is approved by the Board in the prior year but approval by the Council of the continuation of the \$400 supplement benefit does not occur until the following year. This amendment would add \$2M to the 2019 retiree payroll expense to bring the current year's adopted budget in line with what will be the actual expenses.

RESOLUTION 19 – 118 By P. Waterman, Supported by Walker

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Resolved, That the Board approves to amend the 2019 expense budget by increasing the amount for retiree payroll by \$2M.

Yeas: 9 – Nays: 0

NEW BUSINESS

RE: Resolution to Update Emerging Manager Program

Miss Munson reminded the Board that they approved in May some changes to the Emerging Manager Program. The initial plan was to graduate the two Michigan-based managers and to convert the program from large-cap to all-cap. Everything went well except the Seizert graduation. The Board approved at their August meeting to retain Seizert in the Emerging Manager Program. Questions were sent back to the finance committee about the new investment guidelines, the new fee agreement as well as the amount allocated to the program. The Board initially allocated \$60M to the Emerging Manager Program but retaining Seizert in the program means that there is currently \$70M in the program. Attucks is the manager-of-managers who oversees all of the emerging managers. Attucks provided the committee with three options for the program depending on what decision was made about the size of the program.

The finance committee is recommending that the Board would allocate \$70M to the Emerging Manager Program, that the Board would amend the IPS to increase the allocation to all-cap from 12% to 14% and approve the new investment guidelines and fee structure.

RESOLUTION 19 – 119 By P. Waterman, Supported by Balint

Resolved, That the Board approves the Consultant's recommendation to allocate \$70M to the Emerging Manager Program and to amend the IPS to reflect the following adjustments to domestic equity:

<u>Equity</u>		60%	(Permissible Range) 50 – 65%	
		<u>From:</u>	<u>To:</u>	<u>Range:</u>
All Cap	Russell 3000	12%	14%	8 - 16%
Large Cap	Russell 1000	11%	10%	8 – 13%
Mid Cap	Russell Mid-Cap	16%	15%	12 – 19%
Small Cap	Russell 2000	11%	No Change	8 – 14%
International	MSCI ACWI ex-US	5%	No Change	3 – 7%
Emerging Markets	MSCI Emerging Mkts	5%	No Change	3 – 7%
Core Fixed Income	Bloomberg Barclays	25%	No Change	20 - 30%
	US Aggregate			
Real Estate	NCREIF ODCE	10%	No Change	7 – 10%
Private Equity	Cambridge Private Eq	5%	No Change	3 – 7.5%
Cash		0%	No Change	0 – 5%

And, Further, Resolved, That the Board approves the Amended Appendix A – Investment Guidelines and Second Revision Appendix B – Fee Schedule, and, further

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Resolved, That the Board authorizes the Chairman's signature on all required agreements.

Yeas: 9 – Nays: 0

RE: Resolution to Revise the Supplemental Actuarial Analyses Approval Policy

There was discussion about whether the resolution would prohibit the City from requesting a supplemental actuarial analysis using a rate other than 3%. It was noted that the policy can be amended again in the future, if necessary. The policy does not preclude the City from using its own actuary to make the calculations using different rates of return.

RESOLUTION 19 – 120 By Swazer, Supported by Walker

WHEREAS, The Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended, requires the Board of Trustees of the Retirement System to prepare an annual actuarial valuation using actuarial assumptions adopted by the Board of Trustees, upon recommendation of its actuary; and

WHEREAS, Municipal Code of the City of Pontiac Chapter 92 of the General Employees' Retirement System Ordinance vests with the Board of the responsibility for preparing an actuarial valuation and determining rates and tables to be used for actuarial purposes: and

WHEREAS, PA 314 requires a supplemental actuarial analysis before the adoption of pension benefit changes; and

WHEREAS, The Board of Trustees is responsible for directing the work of the Retirement System staff and the actuary with respect to supplemental actuarial analyses (cost studies) as may be requested from time to time; and

WHEREAS, Public Act 314 as amended prohibits Retirement System assets from being used to pay for actuarial expenses related to supplemental actuarial analyses; now, therefore be it

RESOLVED, That all supplemental actuarial analyses approved by the Board shall be paid to the actuary by the City, Union or other individual so authorized by the Board to pay in advance of any work commencing with respect to the analysis and that a copy of the supplemental actuarial analysis be provided to the Board upon completion; and, further

RESOLVED, That all supplemental actuarial analyses shall be calculated using the assumptions adopted by the Board of Trustees and set forth in the most recent annual actuarial valuation; and, further

RESOLVED, That no other entity or individual(s) shall have the authority to request or present valuations, supplemental or otherwise, on behalf of the Retirement System, using actuarial assumptions that have not been formally adopted by the Board of Trustees.

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

Yeas - 7 Nays - 1 D. Waterman
Abstain – 1 Giddings

RE: Resolution to Approve Periodic Rebalancing

RESOLUTION 19 – 121 By Swazer, Supported by Walker

Resolved, That the Board approves the consultant's recommendation to rebalance the portfolio by transferring \$10M from Piedmont Investment Advisors to the cash manager to pay for benefits and expenses.

Yeas: 9 – Nays: 0

RE: Piedmont Investment Advisors, Inc. Removal of Equity Team Member

Mr. Roth reported that Richard Mills, a co-portfolio manager, left the firm. He stated that while his departure will not have a direct impact on the GERS investment directly, it is standard operating procedure that if a senior member of an investment team leaves, we put them on an official watch list to see if there are other departures or changes.

RESOLUTION 19 – 122 By Walker, Supported by Balint

Resolved, That the Board approves the consultant's recommendation to put Piedmont on watch for two quarters.

Yeas: 9 – Nays: 0

LEGAL REPORT

Attucks Asset Management – SEE NEW BUSINESS

Cruz Subpoena
Informational Only

Disability Re-Examination Policy Questions
Ms. Billings-Dunn confirmed that this is being reviewed by the Personnel & Administration committee.

TerraCap First Amendment
Currently being reviewed by legal counsel

Robins Geller August 2019 Portfolio Monitoring Report
Informational Only

Fees received by Sullivan Ward from Securities Litigation Matters
No changes

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

RE: Resolution to go into Closed Session

The Board reserves the right to enter closed session to review matters in accordance with Michigan Public Act 267 of 1976 (Open Meetings Act).

RESOLUTION 19 – 123

Resolved, That the Board approves to go into closed session to discuss the Camping World litigation.

Roll Call:

Balint – Yes	Swazer – Yes
Giddings – Yes	D. Waterman – Yes
Mirani – Yes	P. Waterman – Yes
Moore – Yes	White – Yes
Walker – Yes	

The Board moved to closed session at 11:35 a.m.

The Board returned from closed session at 11:39 a.m.

RE: Resolution Regarding Camping World Litigation

RESOLUTION 19 – 124 By Walker, Supported by Balint

Resolved, That the Board authorizes Robbins Geller to engage in settlement discussions in mediation as outlined in closed session.

RE: Resolution to Approve Closed Session Minutes: July 31, 2019

RESOLUTION 19 – 125 By P. Waterman, Supported by Swazer

Resolved, That the Board approves the minutes of closed session of July 31, 2019

RE: Resolution to Approve Closed Session Minutes: August 28, 2019

RESOLUTION 19 – 126 By Balint, Supported by Walker

Resolved, That the Board approves the minutes of closed session of August 28, 2019

SCHEDULING OF NEXT MEETING/ADJOURNMENT

Regular Meeting: Wednesday, October 30, 2019 10:00 a.m. – Retirement Office

RESOLUTION 19 – 127 By Swazer, Supported by P. Waterman

Resolved, That the meeting of the Board of Trustees of the Pontiac General Employees Retirement System be adjourned at 11:42 A.M.

Yeas: 9 – Nays: 0

General Employees' Retirement System
Regular Meeting
September 25, 2019

**CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 25, 2019**

I certify that the forgoing are the true and correct minutes of the meeting of the General Employees Retirement System held on September 25, 2019

As recorded by Kristy Neumann,
reviewed and edited by Legal Counsel
and Executive Director