

**BOARD OF TRUSTEES OF THE CITY OF ATLANTA  
GENERAL EMPLOYEES PENSION FUND  
MINUTES OF MEETING**

**December 2, 2015**

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A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on December 2, 2015 in City Hall, Suite 2550, Atlanta, GA.

**TRUSTEES PRESENT:**

Douglas Strachan  
Angela Green  
Aretha Sumbry-Powers

Jim Beard  
Dr. Gregory Nash  
Jason Esteves

**NOT PRESENT:**

Michael Bond, Gina Pagnotta-Murphy, Yvonne Cowser Yancy

**OTHERS:**

Rick Larimer, GEMGroup; Ray Adams, Office of Retirement Services, Kristen Denius and Gerrard Grant of City Law Department; Gwelda Swilley-Burke of Callan Associates, Derek Batts of Morgan Stanley, Laurel Hill of Wells Fargo.

Mr. Strachan called the meeting to order at 9:35 AM. A quorum was present.

**ADOPTION OF AGENDA:**

**MOTION:** A motion was made and seconded to adopt a revised agenda to add review and approval of the COLA adjustment letter for 2016 and a Cash Raise Authorization. The motion passed.

**MOTION:** A motion was made and seconded to approve the 2016 COLA adjustment letter, subject to review by Segal. The motion passed.

**APPROVAL OF MINUTES:**

Minutes from the November 4, 2015 board meeting were provided in the meeting packages in advance.

Ms. Green commented that her comments concerning the GlassRatner audit on page should be clarified to note that the investments in the pension plan were public money belonging to taxpayers. Mr. Larimer agreed to edit the minutes accordingly.

**MOTION:** A motion was made and seconded to approve the minutes of the November 4, 2015 meeting as amended. The motion passed.

**GENERAL EMPLOYEES' PENSION FUND PENSION AWARDS:**

**SERVICE PENSION APPLICATIONS**

The Service Pension applications on the attached spreadsheet were presented to the Board for approval.

Mr. Beard questioned the Penalty applied for applicant #13 – it shows as “51 & 8 mos.” Subsequent to the meeting, Mr. Larimer confirmed this was a typo and should have been in the standard notation of “51.8 mos.”

**MOTION:** A motion was made and seconded to approve the service pension applications Nos. 1-13 as listed on the attached spreadsheet dated December 2, 2015, with the correction noted above. The motion passed.

**DISABILITY PENSION APPLICATIONS**

There were no Disability Pension applications.

**BENEFICIARY PENSION APPLICATIONS**

The Beneficiary applications on the attached spreadsheet were presented to the Board for approval

**MOTION:** A motion was made and seconded to approve the Beneficiary applications Nos. 1-3 on the attached spreadsheet. The motion passed.

**APPROVAL OF CHECK REGISTER AND INVOICES:**

The Check Register dated December 2, 2015 was presented for review and approval.

Mr. Beard questioned the methodology of the split of the Administration Fee from GEMGroup. Subsequent to the meeting, Mr. Larimer confirmed that the Admin fee is proportioned based on the number of participants in the City and APS Plan. Other expenses are allocated based on the proportion of assets in City and APS portion of the Plan.

Ms. Green asked about the Life Status 360 annual fee of \$1200. Mr. Larimer explained that this was for the Death Audit service that this company provides to locate and notify the Plan on participant and retiree deaths. She questioned why the Plan was being billed for this expense and believes it should be included in the administration fee from GEMGroup. Mr. Larimer will research the parties to this agreement and review at the next meeting.

**MOTION:** A motion was made and seconded to approve 7 items: #59839 - #59845 on the Check Register dated December 2, 2015 totaling \$194,276.96. The motion passed.

**REVIEW OF FINANCIALS:**

The financials for the period ending October 2015 were reviewed by the board.

**MOTION:** A motion was made and seconded to accept the unaudited financials for October 2015 for further review by the Finance Department. The motion passed.

**GLASSRATNER AUDIT REPORT** – Representatives of GlassRatner presented their updates on their review of the City of Atlanta General Employees' Pension Fund's (GEPF) investment in the GrayCo Alternative Partners II, LP including summarizing capital committed and invested by the GEPF; GrayCo Alt II investment into underlying funds; a review of GrayCo's Alt II investment in US Community Lending and 5 Stone Green Capital; and an examination of the use of funds for business development purposes. GlassRatner commented that Gray & Company had generally been cooperative, but that a number of questions and requests for information have gone unanswered and, as a result, several items remain open.

GrayCo Alts II seems to have committed \$88.25 million as of June 30, 2015 which exceeds by \$5.25 million the \$83 million committed to Gray Co Alt II by its investors. This issue remains one of the open questions.

One new investment was made by GrayCo Alt II after January 2014: Parkview Capital Credit. This investment raises a number of questions. The commitment was \$25 million, the largest to any one sub-investment, and GrayCo Alt II was the initial investor. Larry Gray was the Board Chairman of Parkview and according to an SEC filing an estimated \$500,000 of the offering proceeds could be paid to two individuals, one of whom is Larry Gray. (GlassRatner has not determined whether any amounts have been paid to Mr. Gray) According to GlassRatner, the Parkview investment may be a conflict of interest. GrayCo Alt II noted an "affiliation" between the GP of GrayCo Alts II and Parkview, it was not specifically noted in the correspondence that Larry Gray was Parkview's Chairman. Due to the "affiliation" GrayCo Alt II stated that it would not assess a management fee on the assets committed to Parkview.

The \$25 million commitment to Parkview exceeds the Single Manager Limit of 15% Max, one of the provisions of the GrayCo Alt II partnership agreement. This investment constitutes over 30% of the total capital commitment of GrayCo Alt II.

Other open questions remain unanswered concerning Parkview: 1) owners of Parkview, 2) is GrayCo Alt II or other related parties entitled to receive compensation from Parkview, 3) what investments has Parkview made, and 4) clarification of GrayCo Alt II capacity to commit \$25 million.

A review of the methodology of assessing management fees appears to result in excess fees being charged. It appears that management fees are being assessed on the total amount committed – including the investment in Parkview. The use of a 360-day year to calculate the rate but applying it to the full 365 days in a year appears to result in more than the 1% fee being charged.

With respect to US Community Lending, GlassRatner's review raised several issues including the rationale for exchanging the equity investment for a \$3.5 million note without collateral with an entity owned by "members and employees" of US Community Lending Holdings as Maker. There appears to be no specific efforts being made to collect on the defaulted note.

5 Stone Green Capital has received \$5 million of its \$7.5 million for up-front, preliminary development costs for the CenterWest project in Downtown Baltimore. 5 Stone Green advanced \$2 million to the GP of the Fund for working capital. 5 Stone is a capital source, not the developer, and has provided \$2.8 in mezzanine financing for this development. A number of questions posed to GrayCo Alts II concerning this project remain unanswered including the status of an extension on the closing date of the land acquisition which has passed, the extension of the mezz loan past the expiration date of June 2<sup>nd</sup>, and when the construction loan is expected to close.

Substantial documentation was provided regarding the use of investment proceeds to fund business development but several questions remain open and further documentation has been requested concerning ongoing marketing and business development expenditures.

## **LAW REPORT**

**MOTION:** A motion was made to go into Executive Session to discuss a matter involving possible litigation. The motion passed.

{Executive Session ends}

## **ACTUARY REPORT**

Rocky Joiner of Segal informed the Board that Eric Atwater has left Segal to pursue another opportunity and that Mr. Joiner and Jeanette would be the primary relationship contacts for the GEPP board going forward. Mr. Joiner summarized the services being provided by Segal and the Company's and his long-standing work with the General Employees' Pension Fund.

Mr. Joiner was asked about the status of the Segal consulting agreement with stated that the contract had expired but as was customary had been renewed annually since the expiration date. The board proposed a one-year extension on the current terms. Mr. Joiner agreed and would provide an extension Agreement for signature at a future meeting.

## **AUDITOR REPORT – KPMG**

Milford McGuirt of KPMG presented a summary of the audit report of the General Employees' Pension Fund. The firm's opinion letter states that the financials present fairly, in all material respects, the fiduciary net position of the Plan in accordance with generally accepted accounting principles. The primary focus of Mr. McGuirt's presentations was on the audit findings in which three areas for improvement were noted.

Eligibility of Plan Participants – one participant in sample of 60 was inadvertently placed in the Pension Plan and should have been placed in the Defined Contribution Plan. Recommendation was to develop procedures to ensure that participant's enrollment in the appropriate Plan based on their eligibility is verified.

Monitoring of Alternative Investments – The auditor recommended that the Plan's investment in alternative investment be monitored more thoroughly including reconciliation of financial data provided by the custodian and the independent fund managers, and the development of procedures to perform "look back" analysis relative to recorded fair values, at least on an annual basis.

Accuracy of Census Data for Active Participants – The audit found 3 participants whose annual earnings and pensionable pay amount in the census did not conform to the City's payroll data. There was also an instance where information on a retiree was not consistent with the information on the Administrator's file. The recommendation was to develop procedures to monitor the completeness and accuracy of the census data being reported to the Administrator, and validating the data against payroll records prior to having the Administrator furnishing the census data to the Actuary to perform the valuation.

Various departments of Plan management at the City provided satisfactory responses to the KPMG audit findings and plans to respond to the specific recommendations are underway. Mr. Strachan asked that the recommendations be on the Agenda for future meetings so the Administrator and City Audit and Finance can update the board on progress to address the items noted.

## **INVESTMENT CONSULTANT REPORT - Callan**

### **Performance – October 2015**

Gwelda Swilley-Burke reviewed performance for the period ending October 30, 2015. The overall asset allocation among asset classes and managers is within the target range in compliance with the Investment Policy Statement. Investment returns for the month were all generally positive with the Fund earning 4.63 % overall, net of fees, under the Policy Index for the month of 5.38%. The prior 3-month returns still show a negative 2.09% as a result of a difficult September but the past 3-years performance remains strong with a return of 11.29% compared to the Policy Index of 10.66%.

### **Fee Review**

Following up on an earlier request to review the fees being paid to the Fund's investment managers, Ms. Swilley-Burke presented Callan's analysis and comparison to median of the portfolio managers' investment fees. Callan's report concluded that domestic equity managers' are all below the median for the universe of managers in this segment which is favorable for the Fund; fixed income and international investment manager fees are reasonable; and, Alternatives and Balanced manager fees are favorable.

## **OLD BUSINESS:**

**Pension Payment Verification Project – Update** – Discussion on this item was deferred until Gene Kirschbaum, City Audit and Financial Controls can be present.

**Social Security Monitoring to Check Ongoing Eligibility for Disability** – Discussion on this item was deferred.

## **NEW BUSINESS:**

### **Union Heritage Group at Morgan Stanley Portfolio Review – Derek Batts**

Mr. Batts provided an overview of the portfolio team and strategy, describing the approach as bottom up analysis with quantitative overlays to generate a portfolio of 30-50 stocks. On a net of fees basis, the portfolio provided protection on the downside in both month and quarter-to-date as of September 30, bettering the S&P 500 benchmark by 76 bps and 222 bps, respectively. Over the long term of 10- and 15-year time periods, the Union Heritage portfolio has outperformed its benchmark by 175 bps and 213 bps, respectively.

Mr. Batts stressed the downside protection characteristics of the portfolio by highlighting returns in the down market periods of 2000, 2001, 2002 and 2008, averaging 900 bps outperformance in these four years. According to Mr. Batts, this excellent performance over longer terms is attributable to good fundamental analysis and relatively low turnover of approximately 20%.

Mr. Strachan thanked Mr. Batts for the presentation and Union Heritage's performance for the Fund over many years.

**Cash Projection and Cash Raise Authorization** – Mr. Larimer presented the Cash Projection spreadsheet showing the Fund's cash needs to pay benefits and expenses over the next 90-day period and requested authorization to raise \$20 million in cash. The request was supported by a memorandum dated November 25, 2015 from Callan outlining their recommendations for the source of the funding from various managers in order to maintain the targeted asset allocation. After review,

**MOTION:** A motion was made and seconded to approve a Cash Raise of \$20 million as requested. The motion passed.

There being no further business before the board, the meeting was adjourned.

Respectfully submitted:

  
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Douglas I. Strachan, Chair

  
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Jim Beard, CFO & Secretary