

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

August 12, 2015

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on August 12, 2015 in City Hall, Old Council Chambers, Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Aretha Sumbry-Powers
Dr. Gregory Nash

Jim Beard
Angela Green
Gina Pagnotta-Murphy
Yvonne Cowser Yancy

NOT PRESENT:

Michael Bond, Jason Esteves

OTHERS:

Rick Larimer, GEMGroup; Kristen Denius and Gerrard Grant of City Law Department; Gwelda Swilley-Burke of Callan Associates, Gene Kirschbaum, City Finance and Accounting Department, Misty Robinson, Office of Retirement Services, Robert Stanley, Atlanta Public Schools, and Derek Batts of Morgan Stanley,

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 the agenda as presented. The motion passed.

APPROVAL OF MINUTES:

Minutes from the July 8, 2015 board meeting were provided in the meeting packages in advance.

Ms. Green requested that the Law Department section be corrected to reflect that she had asked for the name of the law firm hired to provide SEC related counsel (page 3) and that the last paragraph on page 4 be clarified to reflect that the additional \$2.1 million invested in the 5 Stone Green Capital partnership was across all GrayCo limited partnerships, not just the City of Atlanta General Employees' Pension Fund. Mr. Larimer agreed to make these corrections and to distribute a revised set of minutes to the board.

MOTION: A motion was made and seconded to approve the minutes of the July 8, 2015 as corrected. 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.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-3 as listed on the attached spreadsheet dated August 12, 2015. The motion passed.

DISABILITY PENSION APPLICATIONS

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

Application No. 1 was shown as recommended for approval, but it was pointed out by Ms. Green that there was only one doctor's opinion provided that supported total disability. Mr. Larimer agreed to research the file and the board approved Disability Application No. 1, conditioned upon verification that two doctors had supported total disability of the applicant. Subsequent to the meeting, further research confirmed that two doctors had concluded that the applicant was disabled.

MOTION: A motion was made and seconded to approve Disability Application No. 1, subject to verification that two doctors had concluded in favor of the disability eligibility. The motion passed.

BENEFICIARY PENSION APPLICATIONS

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

MOTION: A motion was made and seconded to approve Beneficiary Pension applications Nos. 1 - 5 on the attached spreadsheet dated August 12, 2015. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated August 12, 2015 was presented for review and approval.

MOTION: A motion was made and seconded to approve 14 items: #58246 - #58259 on the Check Register dated August 12, 2015 totaling \$934,627.76. The motion passed.

REVIEW OF FINANCIALS:

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

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

LAW DEPARTMENT:

Kristen Denius reported that the law firm engaged to review the GrayCo Core Alts II matter is continuing to prepare their review and will present it at a later date.

Mr. Strachan asked several questions about interim actions that board should be taking while waiting for the law firms recommendations, such as withholding future capital calls. Ms. Denius and Ms. Yancy recommended that the board do nothing different until after the law firm's recommendations are presented and reviewed by the board.

Ms. Yancy mentioned that the Police and Fire boards have agreed to split the fees for Glass Ratner's review; a cost sharing of the legal fees will need to be an agenda item at their next meeting.

Ms. Green made the point that that since the board was not consulted on the choice of law firm to represent them in this matter, the board should have the right to review the billing for this review project and decide how much, if any, of the costs the board will share with the City Law Department.

ACTUARY REPORT

No Report

INVESTMENT CONSULTANT REPORT

Quarterly Performance Report – June 2015 – Ms. Swilley-Burke presented the Quarterly Performance Report for the period ending June 30, 2015, including the current market environment and the U.S. economy. The asset allocation as of June 30 – actual vs. target – is roughly in line and will be adjusted closer to target as the asset re-balancing currently underway is completed.

The market value of the Fund was down approximately \$24 million for the quarter as investment returns were (\$3.9 million) and \$21.4 million in outflows for cash needs.

Overall performance of the fund was down 34 bps for the quarter, but still up 5.35% for the year and 80 bps over the Policy Index, net of fees. Also, the portfolio exceeded its Blended Policy Index in the past 3-year and 5-year time periods.

Ms. Swilley-Burke reviewed each manager's performance in more detail. Mr. Beard asked about an apparent slippage in the quartile rankings for several of the managers and asked for the attribution analysis of this trend. Ms. Swilley-Burke referred Mr. Beard to the full quarterly report, and offered to provide the analytics of the attribution of returns relative to peer group.

Ms. Swilley-Burke pointed out that over the long term the GEPP continues to rank in the top quartile over the year, 3-year, and 5-year time frames.

The Fixed Income segment was negative for the quarter with a return of – 1.3% vs. -1.7% for the Policy Index, showing that the Fund managers protected a bit on the downside in this market environment.

Mr. Strachan asked about Globalt and their strategy by commenting that the Fund is paying about \$78,000 per quarter in management fees and the portfolio holds a high percentage of passive assets, prompting a question of what they are doing and does it make sense to continue with them. Ms. Swilley-Burke responded that Globalt is an active, tactical sector rotator and asset allocator, moving from overweight to underweight positions among the various asset classes to try to add value.

Mr. Beard asked about other competitors in this space and how does Globalt compare to them. Ms. Swilley-Burke stated that Globalt's benchmark is basically the universe of other balanced managers. Mr. Beard noted that Globalt's ranking in the 12th and 21st percentile in the past 1-year and 2-year

periods suggests that they perform satisfactorily in this segment; the larger question is whether the Fund should be invested in this type of strategy or should the assets be deployed directly with managers in the underlying segments. Ms. Swilley-Burke commented that Callan typically does not recommend this type of strategy within its client portfolio. Mr. Beard suggested that the desirability of this overlay strategy warrants a longer discussion at a future date. Mr. Nash commented that Callan would tell the board if something was seriously wrong with a manager and he felt as if the board was micromanaging. Mr. Beard clarified that his objective was to foster a discussion of the strategy as an appropriate part of the Fund's overall strategy and if this type of manager really could add value over time.

Ms. Green asked if any managers were on probation. None are currently on probation. Ms. Green commented that it seemed to her that the application of the watch list and probationary rules are not consistently applied. Mr. Beard said that he had to push back on the that comment, stating that he is looking solely at the data as shown, with no bias for or against, and asking a question concerning the value of the strategy.

Ms. Pagnotta-Murphy asked if the watch list and probation policy guideline were in writing and when does the board "pull the trigger" when there is underperformance. Ms. Swilley-Burke referred to the Investment Policy Statement as having a section on these matters and will bring and review it at the next board meeting.

Ms. Swilley-Burke mentioned that the documentation for all the new managers, including the BlackRock Transition management documents being signed today, is in process and would be completed this week. Funding of the new mandates is expected by the end of August or the first week of September.

Mid Cap Manager Search – Ms. Swilley-Burke sought clarification on the board's direction from the July meeting in which a motion was passed to conduct a Mid Cap manager search for an active manager in place of the previously approved passive strategy. Mr. Strachan suggested that Cornerstone, the current active Mid Cap manager, remain as the active manager and split the allocation between Cornerstone and a new passive manager, adjusting their target amounts as necessary.

MOTION: A motion was made to split the target allocation to Mid Cap between Active and Passive in a 50% / 50% proportion, leaving Cornerstone as the Active Mid Cap manager. This motion failed for a lack of second.

MOTION: A motion was made to keep Cornerstone as an Active manager in the Mid Cap allocation for 100% of the target Mid Cap allocation. The motion passed.

OLD BUSINESS:

Securities Monitoring Update – No update at this time.

Social Security Monitoring to Check Ongoing Eligibility for Disability – Ms. Yancy reported that she thought a response would be available for the Board's review by next meeting.

NEW BUSINESS:

Pension Payments Examination Project – Quote – Following up on the suggestions at the last meeting to seek other quotes from auditing firms for this project, Mr. Kirschbaum presented a proposal from Cherry Bekaert LLP. Based on the agreed upon scope of work to examine pension files for the period 2000 -

2009, the proposal totaled \$25,000. Mr. Kirschbaum reviewed the capabilities of the firm and its experience with Fulton County on a similar project. After a brief discussion,

MOTION: A motion was made to hire the Cherry Bekaert firm for the project to examine the retiree files for accuracy of the payment amount compared to the calculated and approved amount for retirees whose effective dates fall between 2000 – 2009. The motion passed.

Mesirow Portfolio Review – Mark Newlin and Linda Jordan presented to the board a portfolio review of the Fixed Income portfolio that they currently manage for the Fund. Ms. Jordan introduced the firm as a Chicago-based investment management firm founded in 1937, remain an independent, privately held firm with \$33.1 billion in assets under management. Approximately \$5 billion in Fixed Income assets are under management. She noted that Mesirow also manages money for Atlanta Police and Fire plans and MARTA locally.

Mr. Newlin reviewed the firm’s strategy, what distinguishes Mesirow, their forward looking ideas and portfolio adjustment tactics, and their historical performance. The performance review highlighted that in the recent quarter and year-to-date, Mesirow has underperformed the Barclays Aggregate benchmark by 20 bps and 40 bps, respectively. However, they consistently outperformed the benchmark over the longer terms of 3-, 5-, and 7- and since inception (2006) by 43 bps.

Ms. Green asked how Mesirow is addressing the goal of diversity within the firm. Ms. Jordan responded that the firm embraces diversity, citing herself as an example among others.

The board thanked Mesirow for their presentation.

Pension Reform - Ms. Pagnotta-Murphy asked for a discussion of the possible impact on the board and the pension fund of the lawsuit being pursued by plaintiffs challenging the changes made in 2011 to employee contribution rates and other terms of the Pension Plan.

Mr. Strachan summarized the goals of the changes as being: 1) decrease the ever-increasing portion of the City’s budget being devoted to pension contributions; 2) to reduce the City’s risk in future periods of suboptimal market ROI; and 3) to remain competitive relative to the ability to hire a quality workforce. Mr. Strachan stated that if not for the reform effort, the benefits of existing and future retirees would have been at risk. If the plaintiffs were to prevail, which Mr. Strachan believes is unlikely, the City would likely revert to its original reform template, which was a hard freeze of the plan, relative to the current active participants.

Ms. Green commented that, in her opinion, the impact on the board and the GEPP would be minimal if the plaintiffs won the lawsuit because the City would have to come up the money to reimburse contributions made to date by participants since the 2011 changes. Mr. Beard commented that Plan assets would have to be reduced to cover the reimbursement. Ms. Denius stated that the 5% contributions from employees have gone into the Plan since 2011 and, if the lawsuit is successful, these contributions would have to come out of the Plan to be refunded to the participants. Ms. Green’s opinion is that that would not be necessary because it wasn’t the board’s decision to make the changes. Mr. Strachan reminded her that the board did vote for the change; Ms. Green stated the she personally had not voted for it.

Ms. Pagnotta-Murphy commented that she thinks the Plan would have to fund any reimbursement to the affected participants if the plaintiffs prevailed and reiterated her concern as to whether the board has a plan in the event of this outcome. Mr. Strachan stated that there is no plan for this outcome, but, in his opinion, if the extra five percent collected from active employees were to be refunded, it would have to come from where it was deposited – the General Employees’ Pension Fund.

Ms. Green continued to stress that the City would have to meet its obligation to the Plan and would have to put the money back into the Plan.

Ms. Pagnotta-Murphy interjected complimentary comments concerning GEMGroup following a visit to the GEMGroup's Atlanta Office with Mr. Larimer to meet the staff and review the process and work they do in processing City employee's pensions. Ms. Sumbry-Powers also commented that one of the GEMGroup staff had attended a forum for APS participants to explain the pension rules and the process for applying for retirement. She stated that the presentation was very well received. Mr. Larimer thanked both for their comments.

Ms. Green made a comment critical of Glass Ratner in their month delay in asking for the letter to request data from Gray Company, causing a delay and procrastination in starting their review. Mr. Strachan stated that they had requested the letter earlier and the initial draft had to undergo several edits before being finalized. Ms. Green stated that she believes they could have requested the letter earlier than they did. She stated that she had not voted for them to do the work and, in her opinion, it's a waste of money.

Ms. Green commented on the recent articles in the press and objected to Mr. Strachan being quoted and making comments as the spokesperson of the board. Ms. Green stated that nobody can speak for her and that she wanted Mr. Strachan in the future to specifically ask the press to note that he was not speaking for her. Mr. Beard interjected that the newspaper is not a publication that can be controlled and told what to write; he then excused himself from the meeting.

Mr. Strachan responded by trying to refresh the board members' memory by recalling that he had made a proposal for the board to hire a Public Relations resource to help them communicate with the media and others. The board decided that in lieu of that expense, the board chairman would act as spokesperson. Mr. Strachan stated that he communicates with the media in writing only and makes reasonable attempts to specify that his comments are about actions taken by the board as a collective body and may not reflect the opinions of individual board members who may have different views. Ms. Green continued to insist that nobody has the right to speak for her.

At this point, Mr. Strachan adjourned the meeting.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary