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

April 5, 2017

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on April 5, 2017 in City Hall, Committee Room 2, Atlanta GA.

TRUSTEES PRESENT:

Douglas Strachan
Angela Green
Gina Pagnotta-Murphy
Jim Beard
Yvonne Cowser Yancy
Jason Esteves
Dr. Gregory Nash

Not present: Michael Bond and Aretha Sumbry-Powers

OTHERS:

Rick Larimer, GEMGroup; Tracie Gay, Office of Retirement Services, Kristen Denius and Desmond Dorsey of City Law Department; Lora Burton and Karen Sutton, City Finance; Peter Chan of Morgan Lewis; Gwelda Swilley-Burke of Callan Associates, Laurel Hill of Wells Fargo, and Jeanette Cooper of Segal, Bill Roach of Globalt, Derek Batts of Morgan Stanley and Earl Robinson and Jenelle Alexander of Consequent Capital Management.

Mr. Strachan called the meeting to order at 10:00 AM.

ADOPTION OF AGENDA:

MOTION: A motion was made and seconded to adopt the agenda with the addition of the matter of COLA reimbursement for Mr. Tommie Rowland, Retiree. The motion passed.

PUBLIC COMMENT: None

APPROVAL OF MINUTES:

Minutes from the March 1, 2017 board meeting were provided in the meeting packages in advance and reviewed again at the meeting.

MOTION: A motion was made and seconded to approve the minutes of the March 1, 2017 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.

MOTION: A motion was made and seconded to approve service pension applications Nos. 1-16 as listed on the attached spreadsheet dated April 5, 2017. The motion passed.

DISABILITY PENSION APPLICATIONS

There were no Disability Pension applications this month.

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- 9 on the attached spreadsheet dated April 5, 2017. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

Mr. Larimer reviewed a revised Check Register dated April 5, 2017 which he distributed at the meeting. The Check Register distributed with the meeting packages contained typos in the check numbers; the revised Check Register corrected the check numbers. All other aspects of the Check Register were accurate. The invoices were reviewed and approved by City Finance prior to the meeting.

MOTION: A motion was made and seconded to approve 9 items - #65091 – 65099 totaling $239,807.66. The motion passed.

A check payable to Douglas Strachan in the amount of $26.10 was also issued and presented for approval. The check was to reimburse Mr. Strachan for the purchase of software necessary to listen to audio recordings of Board meetings. The check was not on the Check Register but will be noted on next month's Check Register.

REVIEW OF FINANCIALS:

The financials for the period ending February 2017 were reviewed by the board.

Karen Sutton reported that the reconciliation of the trial balances on the unaudited financial statements prepared by GEMGroup for December 2016 to the investment asset accounts at Wells Fargo had been satisfactorily completed. However, Ms. Sutton also commented that upon further review by the City Finance Department, several of the income and expense categories in the unaudited financial statements prepared by GEMGroup showed variances to GEMGroup's general ledger trial balance totals for these categories through February. In response to questions from the Board, Ms. Sutton stated that the variance was approximately $3 million.

Mr. Larimer stated that Ms. Sutton had just brought the matter to his attention and there had not been sufficient time to get an explanation. He assured the Board that the issue would be resolved and any variances reconciled prior to the next meeting. Ms. Yancy and Mr. Beard requested that GEMGroup's Accounting Manager attend the May meeting to provide a full explanation of the issue and its resolution. Mr. Larimer agreed.

MOTION: A motion was made and seconded to acknowledge receipt of the February 2016 unaudited financials with the issues noted above with a full explanation and reconciliation by GEMGroup to be provided at the next meeting. The motion passed.

Indirect Cost Allocation and Billing

Ms. Sutton presented for the Board's review and approval invoices for the Indirect Costs being allocated to the General Employees' Pension Fund for various support services provided by the City such as procurement, general accounting, internal Law Department. One invoice covers fiscal year 2015 and the other is for fiscal 2016 – the total presented for approval was $798,615.40.
Mr. Beard asked if the consultant, MGT, engaged by the City to independently determine appropriate charges among City departments, had been involved in the analysis of the indirect costs being allocated to the GEPP. Mr. Kirschbaum confirmed that they had. Mr. Strachan asked if the allocation to the GEPP for indirect legal expenses had gone down as a result of the board hiring Morgan Lewis as independent counsel. Ms. Sutton said yes and that the reduction was approximately $30,000 last year.
Ms. Sutton stated that the Finance Department now has process in place to ensure that the billing for indirect costs will be done on a regular annual basis.
Mr. Esteves commented that APS does many of these functions such as general accounting and asked if APS should not be compensated by sharing part of this allocation. Mr. Beard and Ms. Yancy pointed out that the work being done by accounting, audit and legal staffs within the City was on behalf of the combined pension fund; the work being done by APS staff is focused on their own basic requirements to support the APS portion of the pension. Mr. Esteves deferred.
Ms. Pagnotta-Murphy inquired as to why it was necessary to charge different departments of the City for work that benefits all. Ms. Yancy clarified that the Pension funds were separate legal entities, independent and distinct from the City. Therefore, billing for services provided was prudent and necessary.

MOTION: A motion was made and seconded to approve the payment of the indirect cost allocations from the City to the General Employees' Pension Fund for fiscal years 2015 ($587,104.32) and 2016 ($211,11.08) based on the invoices presented by City Finance Department. The motion passed. Ms. Pagnotta-Murphy abstained.

NEW BUSINESS:

Fiduciary Liability Policy Renewal – Mr. Larimer reported that United Members Insurance had submitted the proposed annual renewal of the fiduciary liability coverage from Markel American Insurance/ Ullico Casualty. The premium increased 3% from last year to a total of $60,606.00. United Members Insurance had solicited two other quotes – one carrier proposed a higher premium and the other declined to bid. The coverage remained the same at $5 million liability limit.

MOTION: A motion was made and seconded to renew the fiduciary liability insurance policy covering board members for one year at an annual premium of $60,600 and coverage limit of $5 million. The motion passed.

ACTUARY REPORT:

Update on 2016 Actuarial Valuation – Jeanette Cooper reviewed two items. The GASB work has been completed and was mailed out to City and APS Finance Departments. The 2016 Actuarial Valuation Report has been completed in draft and has been shared with City and APS Finance Departments. Segal is awaiting comments back and will finalize and issue the final reports for discussion at the May or June meeting.

OLD BUSINESS:

Extending Survivor Benefits to Age 26 & to Disabled Children for Life – Mr. Strachan asked Ms. Yancy to comment on progress. Ms. Yancy explained that since such a change would require approval of Police and Fire boards to implement as well, the discussion with the other boards would take place next week and she would provide an update at the May meeting.

INVESTMENT CONSULTANT REPORT – CALLAN:

Monthly Flash Performance Report – February 2017 – Ms. Swilley-Burke reviewed the February Flash report, noting that overall asset allocation remains on target and within the compliance guidelines. The Fund gained $24 million in February over January month-end. All managers were in positive territory last month; Ms. Swilley-Burke noted that Morgan Stanley had rebounded in February and was 50 bps ahead of its benchmark through March after a difficult performance period earlier that was discussed at the April meeting. Small Cap and International segments also continued to perform well and slightly over the benchmark. Globalt, a manager on watch list, turned in a good 3-month period with a return of 6.17% vs. 5.65% for its benchmark.
Overall, the portfolio performed well and in line with its Policy Index.

Consequent Management Review of Alternative Investments Portfolio – Mr. Robinson addressed questions submitted by the trustees in advance of the meeting.

Mr. Robinson informed the board that Mr. Jeff Amling, chairman of CCM's board, was not able to attend the board meeting due to travel for work commitments. Mr. Strachan reiterated the board's request to meet Mr. Amling in person.

\Mr. Robinson reported on the due diligence conducted by CCM regarding three of the underlying investments in GrayCo Alt II: (1) 5 Stone Green Capital; (2) Parkview Capital; (3) U.S. Community Lending.

For 5 Stone Green Capital, Mr. Robinson provided background regarding the investment. According to Mr. Robinson, GrayCo Alt II made a $7 million commitment to 5 Stone; 5 Stone called $5 million of the $7 million before GrayCo put a hold on drawing additional capital. 5 Stone promised to hit a funding level of $100 million; however, within 60 days of calling the last $1 million of the $5 million, it became clear that 5 Stone was south of even $20 million. GrayCo refused to answer capital calls or pay management fees going forward because 5 Stone was short of the fund raising target. Per CCM's due diligence, 5 Stone has invested the $5 million in real estate development in the Caribbean (approximately 30% of the $5 million) and in a real estate development called Poppleton or Center West that involves the revitalization of large section of Baltimore (approximately 60% of the $5 million). Mr. Robinson said that even though the fund was not going to reach its fund raising target, the underlying investment was compelling because the developer paid $1 million for the land, which is now worth $14 million, with an additional infrastructure commitment of $58 million from the city of Baltimore and the state of Maryland has another $58 million in incentives. According to Mr. Robinson, GEPF owns an equity stake in two residential buildings, which are near Johns Hopkins and the University of Maryland and are positioned to do well. Mr. Robinson is working directly with the developer, La Cité, to ultimately move GEPF's investment across the entire development.

For Parkview Capital, Mr. Robinson explained that Parkview, which is publicly listed, is a $44 million mezzanine investment fund that does second lien and second chair loans to lower middle market companies. The loans are secured, priced at 11-15%, and last 12 to 36 months. Mr. Robinson described this as a safe strategy and said Parkview has done quite well in its peer group. Mr. Robinson said a concern related to Parkview is that CCM investors are 100% of the unlimited partner commitments to the fund. Mr. Robinson believes the path forward for Parkview is a public offering. Mr. Robinson has discussed with Keith Smith, the founder of Parkview that, within approximately twelve months, there needs to be additional limited partners in Parkview. Alternatively, Mr. Robinson and Mr. Smith have discussed a complex path to taking back the assets to limit the risk. Mr. Robinson said that Parkview typically lends to industrial companies with hard assets; the only non-industrial company that Parkview loaned to is the holding company that acquired Ebony Magazine. Mr. Robinson committed to circulating information related to the members of Parkview's board.

For U.S. Community Lending, Mr. Robinson reported that in doing due diligence in advance of acquiring Gray Financial, he encouraged Gray Financial, via its law firm Greenberg Traurig, to engage a third party to investigate investments that raised a red flag. Gray Financial engaged a retired FBI agent and a consulting firm in New York to investigate U.S. Community Lending. Mr. Robinson distributed copies of the resulting investigative reports and committed to circulating them electronically as well. According to Mr. Robinson, the FBI agent found that the founder of U.S. Community was a fraud with multiple aliases and the entire $7.3 million that was raised for U.S. Community appears to have disappeared to offshore companies and shell companies. In addition, the founder has more tax liens than he has assets, which means there is a low probability that this money will ever come back. Mr. Robinson said that CCM discovered that the founder has $1-2 million in assets. Mr. Robinson said CCM's valuation committee recently made the decision to write the investment down to zero, which will be incorporated into the next flash report. Mr. Gray said that previously there had not been an air-tight process for due diligence for direct investments in individuals as compared with funds. Mr. Strachan asked why the ownership stake was converted to a promissory note, and Mr. Robinson said that the predecessor firm could attach a lien to the founder's assets. Mr. Robinson said the former FBI agent's findings have been reported to the authorities and that the specific authorities are included in the investigative reports.

Mr. Robinson provided an update on the issue of GrayCo Alt II's compliance with state law. Mr. Robinson said there was no definitive answer yet regarding whether the fund is in compliance because of the state statute's ambiguity. CCM is currently waiting for counsel's opinion on how to move forward. Mr. Robinson discussed potential paths forward if the fund is found to be not in compliance, including raising additional money (approximately $18 million) or selling the underlying assets. Mr. Robinson explained the complexities relating to raising additional capital. Mr. Robinson said that CCM's investment committee is reluctant to sell everything because there are compelling investments in the portfolio that could grow in value. Mr. Robinson is currently awaiting a decision from CCM's counsel and then will report back to the board regarding options. Mr. Robinson said he was reluctant to sell the portfolio because it would leave too much money on the table. Mr. Strachan asked whether there was risk to GEPF for not being in compliance. Mr. Robinson said he had not heard that from counsel; the potential risk relates to the former general partner and not the fund. Mr. Robinson confirmed that the path forward depends on counsel's opinion and the outcome of the SEC's case involving Gray Financial. Mr. Robinson reported that he has initiated conversations with a relatively large buyer of limited partner state funds in New York as a potential remedy. Mr. Robinson also discussed the possibility of additional investors.

Mr. Robinson provided an update regarding setting up the investment advisory committee. Mr. Robinson said it would be set up by the end of second quarter of this year, Janelle Alexander will run it, and GEPF will have a seat on the committee.

Mr. Robinson provided an update on CCM's profile on Bloomberg. Mr. Robinson said that CCM has submitted a correction to Bloomberg to correct CCM's profile, which currently lists Mr. Larry Gray as Founder and President and Mr. Robert Hubbard as Chief Operating Officer. Mr. Robinson confirmed that this information on Bloomberg is incorrect. Ms. Alexander explained that it takes a while for a correction to take effect because Bloomberg researches it and conducts due diligence.

Mr. Robinson further responded to GEPF's request for CCM's financials. Mr. Robinson said that CCM's financials, including balance sheets, income statement, and cash flows, are highly confidential and cannot be provided after all, per guidance from CCM's counsel. Mr. Robinson said that disclosing the CCM's financials would violate the confidentiality agreements with the underlying investors. Mr. Robinson committed to sending the publicly available Form ADV documents to the board.

Mr. Robinson answered a question related to CCM's investment strategy of "taking the path less traveled." Mr. Robinson explained that this strategy relates to making sure that underrepresented money managers, such as women, minority, and emerging managers, have an opportunity to manage assets.

Mr. Robinson answered a question related to CCM's "active" strategy for managing the fund. Mr. Robinson explained that a passive strategy refers to investing in index funds. Mr. Robinson said that CCM's active strategy relates to investing with an eye toward social impact, such as real estate investments related to moderately priced and low income housing, eliminating food desserts, and creating jobs.

Mr. Robinson confirmed that the new fund administrator was SS&C and the new fund bank is State Street. Mr. Robinson said that SS&C would review the former fund administrator's (Stonegate) records for accuracy and he expected to have a report within the next 60 days. The board requested a copy of SS&C's report.

LAW REPORT:

City Law Department – No Report

Morgan Lewis – No Report

Discussion Regarding Retiree Rowland – Missed COLA Payments - Mr. Rowland sent a letter to Board Chairman Mr. Strachan seeking reimbursement for a personal tax liability relating to a corrective payment made to him in 2016 by the Plan for COLA adjustments that he was due but had not received since 2005. Mr. Larimer summarized the basic facts and the timeline by stating that Mr. Rowland had retired in 2004 under the 1978 Amendment and therefore was entitled to receive an annual COLA adjustment. Due to an administrative error in the initial set-up, Mr. Rowland did not receive a COLA adjustment from 2005 – 2015. In 2015 he called the Fund Office to inquire. After research it was determined that he indeed had been entitled to COLA increases over this period of time, a calculation of his new adjusted pension benefit and the amount of retroactive payments he was due. Mr. Rowland is now receiving his corrected monthly pension and a check for the retroactive amount due from his date of retirement was issued to him.
At this point, a recommendation was made to go into Executive Session to have further discussion on the matter.

MOTION: A motion was made and seconded to go into Executive Session for the purpose of discussing a matter of possible litigation. The motion passed.

{Executive Session begins – 11:30 AM and ends at 12:10 PM}

MOTION: A motion was made and seconded to add interest to the reimbursement payment to Mr. Rowland based on the Department of Labor's Voluntary Fiduciary Correction Program interest rate and to decline additional compensation requested for related personal tax liability caused by the previously paid retroactive reimbursement. The motion passed.

After some discussion at to how and when to communicate the board's decision to Mr. Rowland, it was decided that Mr. Larimer would call him and continue the previous dialogue, explaining the decision and asking him if he was agreeable to it. If Mr. Rowland was agreeable a letter with a check enclosed for the interest would be mailed as soon as possible the following week.

Other Discussion
Ms. Green stated that she would like to change her vote (from Yes to No) taken at the prior meeting in which the Board voted to approve Consequent Capital Management's acquisition of GrayCo. Her reasons were that the Chairman of Consequent had committed to attend this month's meeting and did not show up, and she had asked at the last meeting to see the financial statements of Consequent Capital Management, Mr. Robinson said he would provide them but now has stated that the financials cannot be shared due to privacy and confidentiality concerns of the other investors.
Ms. Pagnotta-Murphy also expressed deep concerns about the ongoing involvement of GrayCo in the ongoing management of Consequent and would also like to review her prior vote.
Ms. Yancy stated that she shared some of the concerns expressed by Ms. Green and Ms. Pagnotta-Murphy, but that she was favorably impressed with the level of diligence and professionalism with which Mr. Robinson and Consequent have approached the GrayCo portfolio and their interaction to date with the Board and feels it is a significant improvement. Ms. Yancy stated that the positive impact of replacing GrayCo with Consequent outweighs her concerns over some of the things that Consequent has not done with respect to delivery of financial statements and the inability of the new Chairman to attend the board meeting.

There being no further business before the board, the meeting was adjourned at 12:30 p.m.

Respectfully submitted:

Douglas I. Strachan, Chair

~~Jim Beard, CFO & Secretary~~
ARETHA JUMBRY - POWERS, VICE CHAIR