

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

May 3, 2017

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on May 3, 2017 in City Hall, Committee Room 2, Atlanta GA.

TRUSTEES PRESENT:

Douglas Strachan
Angela Green
Gina Pagnotta-Murphy

Aretha Sumbry-Powers
Dr. Gregory Nash

Not present: Michael Bond, Jim Beard, Jason Esteves and Yvonne Cowser Yancy

OTHERS:

Rick Larimer, GEMGroup; Ray Adams, Office of Retirement Services, Kristen Denius, Carl Christian and Desmond Dorsey of City Law Department; Gene Kirschbaum, Lora Burton and Karen Sutton, City Finance; Peter Chan of Morgan Lewis; Gwelda Swilley-Burke and Dana Brown 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 Jeffrey Amling of Consequent Capital Management, Richard Turnley and Derek Coffey of Channing Capital and Tanisha Oliver of Atlanta Public Schools.

Mr. Strachan called the meeting to order at 9:45 AM.

ADOPTION OF AGENDA:

Mr. Strachan asked that three items be added to the Agenda: Cash Raise Authorization, Cornerstone Fee Schedule and IMA Agreement, and a presentation by Consequent Capital Management.

MOTION: A motion was made and seconded to adopt the agenda with the additions as noted above. The motion passed.

PUBLIC COMMENT:

Ms. Brooks, a retiree from Atlanta Public Schools, addressed the board to question the policy – effective March 1, 2017 – that prohibits retirees from working as a substitute teacher while receiving pension benefits. Ms. Sumbry-Powers explained that the policy was in fact in place and confirmed that a retiree who was collecting a pension benefit could not work as a substitute teacher even on a part time basis; one could either work as a teacher or receive a pension benefit but not both. Mr. Strachan explained that it was a policy of the Atlanta Public School board and not initiated by the Pension board. Ms. Green pointed out that a retiree receiving pension benefits could work as a substitute in a school district other than Atlanta and continue to receive their pension benefit.

APPROVAL OF MINUTES:

Minutes from the April 5, 2017 board meeting were not included this month in the meeting packages in advance of the meeting due to extra time needed by the Administrator and Counsel to finalize. Several board members commented that having the minutes distributed at the meeting did not provide adequate time for review. Dr. Nash made a motion to approve the minutes in this instance but in the future would not vote to approve them unless they were provided as part of the meeting package at least several days in advance.

Ms. Denius clarified that the Code requires meeting minutes to be approved at the next regularly scheduled meeting. However, the board may amend or edit the minutes at the next meeting if, after further review, the board believes clarifications or amendments are necessary.

MOTION: Dr. Nash's motion to approve the April 5, 2017 meeting minutes as presented was seconded. The motion passed. Ms. Sumbry-Powers abstained; she was not present at the April board meeting.

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. 1-8 as listed on the attached spreadsheet dated May 3, 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- 4 on the attached spreadsheet dated May 3, 2017. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

Mr. Larimer reviewed the Check Register dated May 3, 2017 commenting only on the invoice for reimbursement to GEMGroup for the preparation of the special SSAE 16 Audit Report required to satisfy the City Auditor and to point out the check to Mr. Strachan had been approved at the last meeting and had been previously issued.

The invoices were reviewed and approved by City Finance staff prior to the meeting.

MOTION: A motion was made and seconded to approve 13 items - #65432 - #65444 totaling \$714,555.60. The motion passed.

REVIEW OF FINANCIALS:

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

Mr. Larimer commented that the reconciliation between of certain expenses categories that appeared in the financial statements provided to the board and the general ledger totals as prepared by GEMGroup had been cited last month by Ms. Sutton and the City Finance Department had been rectified and that the March 2017 financials as presented were accurate and completely reconciled. Ms. Sutton concurred. At the request of the board, Chris Schnupp, Accounting Manager for GEMGroup, was in attendance and addressed the board, explaining that the customized format for the GEPP financials as requested by the board required the use of software to extract certain financial data from GEMGroup primary accounting system. The general ledger entries and totals for all categories had been correct, but the extracts did not always reconcile and required adjustment each month. Recent staff turnover had caused this step to be missed recently. This has now been rectified with the addition of a second accounting staff member and written procedures to follow to include the final reconciliation of all expense categories to the general ledger. This out of balance situation should not occur in the future. The City Finance department and the board were satisfied with the explanation.

MOTION: A motion was made and seconded to acknowledge receipt of the March 2017 unaudited financials. The motion passed.

NEW BUSINESS:

COLA Adjustments – Retroactive Corrections – Mr. Larimer distributed a list of 35 retirees from Atlanta Public Schools who had never received COLA adjustments to which they were entitled from the inception date of their retirement as a result of errors in the initial set-up of their pension. The retirement dates ranged from 1993 – 2008, with most of the mistakes occurring during a period of several system conversions at the City between 2004 and 2007. A question from Segal concerning the data file provided in connection with the actuarial valuation prompted GEMGroup to research approximately 200 retirees' records which uncovered the errors. All of the affected retirees' monthly benefits were corrected to what they should have been had the COLA increases been made. Interest was added to compensate for the lost earnings on the COLA adjustments over the various periods. The total amount owed to these individuals from the Plan was \$1,297,616.62.

Ms. Green suggested that a final review and verification of methodology be performed by the Office of Retirement Services and City Finance. Mr. Nash asked if any of the affected retirees had died during the period and would therefore require a reimbursement be made to the participant's estate. Subsequent to the meeting, Mr. Larimer verified that there were no retirees who were part of the affected group that had died since their retirement date.

Mr. Larimer noted that the same research work was underway for City retirees; the results should be available by the June meeting.

MOTION: A motion was made and seconded to authorize the retroactive reimbursement of missed COLA adjustments to the 35 affected retirees, subject to final review of the methodology and verification of eligibility by City staff. The motion passed.

Pension Overpayment – Surcharge and Plan Reimbursement – Mr. Larimer informed the board that GEMGroup had made an error which had resulted in an overpayment by the Plan. Mr. Havord Head, a retiree, had passed away in July 2015; GEMGroup was notified but failed to terminate his monthly pension benefit. The payment continued to be deposited into the retiree’s bank account until a second notification was received in May 2016 at which time the oversight was addressed. During this period of overpayment another individual had access to Mr. Head’s account and apparently withdrew the funds. Mr. Head had a minor beneficiary whose was entitled to a beneficiary benefit. After required documentation was obtained from the custodial parent, a retroactive payment of past benefit payments was made and the monthly benefit to the minor child began in November 2016. The overpayment was \$30,221.04. Lost earnings to the Plan were \$2,218.22. As suggested by Mr. Strachan, Lost Earnings were calculated using the overall percentage return on the portfolio over the period as provided by Callan, Mr. Larimer agreed. The total reimbursement to the Plan by GEMGroup was \$32,439.26.

MOTION: A motion was made and seconded to approve the \$32,439.26 reimbursement calculation and payment to the Plan by GEMGroup for the pension overpayment error as described above. The motion passed.

Cash Raise – In order to fund benefit payments and expenses over the next 90-days, Mr. Larimer requested authorization to raise \$20 million in Cash in the portfolio. He distributed a 90-day Cash Projection showing the accumulated shortfall over the period of \$18.5 million. The authorization was requested subject to Ms. Swilley-Burke providing Callan’s recommended portfolio re-balancing and identifying the specific investments to be sold to meet the Plan’s liquidity needs.

MOTION: A motion was made and seconded to authorize GEMGroup to raise \$20 million in Cash to meet the liquidity needs of the Plan subject to Callan’s recommendations on specific managers and amounts to be liquidated from each. The motion passed.

Consequent Capital Management – Jeffrey Amling, Chairman – Responding to a request from the board, Mr. Amling attended the meeting to introduce himself and to discuss the future strategy of Consequent Capital Management. Mr. Amling briefly described his educational and professional background and how he came to be involved as an investor in and ultimately as Chairman of Consequent. Mr. Amling currently serves as the Chief Marketing Officer and Head of Business Development of FTI Consulting, Inc.

Mr. Strachan asked that Mr. Amling review the road map of the future direction of Consequent as reflected in the recent board meeting minutes and provide a written summary related to his anticipated role. Mr. Strachan also asked Mr. Amling to address the status and specific role of Larry Gray within Consequent. Mr. Amling stated that Mr. Gray is not an employee of Consequent, is not on the board of Consequent, and has no vote on Consequent’s board. Mr. Robinson explained that Mr. Gray serves as advisor to the CEO, which is a consulting role focused on transitioning old clients to the new firm. Mr. Robinson noted that Mr. Gray has no governance, investment, or operating responsibilities. At the request of the board, Mr. Robinson delineated the general ownership structure of Consequent: Mr. Robinson and Mr. Amling own approximately 41%, with the balance owned by the Koh Family, a private family investment group based in Los Angeles; Liberty Bank, a minority-owned bank based in New Orleans; and a minority stake of approximately 12% held by Mr. Gray.

Ms. Pagnotta-Murphy pressed on why Mr. Gray needed to be involved at all in Consequent and emphasized her discomfort with Mr. Gray’s continuing role. Mr. Robinson stated that it takes time to transition clients following a complex transaction and the owners of Consequent initially could not afford to buy 100% of the firm. Mr. Robinson reiterated that there is an agreement in place with Mr. Gray and it is going to take some time to transition certain clients – perhaps 6-9 more months. Mr. Robinson also said that Consequent has responded to every request from the board, with the exception

of providing financials because the financials relate to the personal financial interests of each individual investor. According to Mr. Robinson, Consequent currently serves 17 of Mr. Gray's clients.

Ms. Green reminded Mr. Robinson that he had promised to send to the board copies of the presentation book used in the previous meeting; Ms. Green stated that she hadn't received it. Mr. Robinson thought that it had been sent electronically but would follow up and make sure the presentation is delivered. Mr. Larimer will provide the contact information for the board members.

Cornerstone Capital Management – Carrie Estill, Relationship Manager for Cornerstone, addressed the board to inform the board that Cornerstone had lowered their asset management fee on the GEPP portfolio going forward and had reimbursed the Plan for the retroactive fee adjustment. The new fee schedule is reflected in a new, fully executed standard Investment Management Agreement recently adopted by the board.

Ms. Estill also informed the board of an ownership change at Cornerstone. Cornerstone is merging with MacKay Shields, a sister company, both subsidiaries of New York Life.

MOTION: A motion was made and seconded to accept the new Investment Management Agreement and new Fee Schedule with Cornerstone Capital Management, subject to final review of the Fee Schedule attachment by Ms. Swilley-Burke and Callan. The motion passed.

ACTUARY REPORT:

2016 Actuarial Valuations – City and Atlantic Public Schools (APS) – Jeanette Cooper and Danielle Cook reviewed the completed actuarial valuation reports for the City and APS.

Ms. Cooper reviewed the City report summary table on page (iv) noting the following highlights:

- Average payroll increased from \$44,299 to \$47,891 due to higher than expected salary increases;
- Average COLA increase was 1.87%, lower than expected;
- Active participants rose 145 year-over-year while retirees remained virtually constant;
- Actuarial value of assets increased by 5.8% to \$1.147 billion;
- Funded ratio on an actuarial basis improved from 57.8% to 60.4%;
- The City's Annual Recommended Contribution (ARC) for next year declined by 3.5% to \$51.9 million.

Ms. Pagotta-Murphy asked about the 5% additional employee contribution that had been implemented several years prior, what its impact had been and when it may be able to be eliminated. A discussion ensued among board members as to the origin of the idea to require an increased contribution from employees to help shore up the General Pension and the circumstances that would allow its elimination.

Ms. Cooper commented that the extra contribution definitely had improved the Plan's health from an actuarial point of view promised to provide an estimate of when the 5% contribution might be able to be eliminated.

Subsequent to the meeting, Ms. Cooper sent an email to the board communicating that her review of the City ordinance confirmed that the GEPP would have to reach an unfunded liability percentage of 15% or less, at which point Council could consider legislation to remove the 5% supplemental contribution.

The GEPP currently has an unfunded liability percentage of approximately 40%; at current projections a 15% unfunded liability percentage would be reached around July 1, 2039.

Ms. Cook reviewed the APS summary report on page (iv), noting the following highlights:

- Average payroll increased from \$27,016 to \$28,942;
- Number of Active employees went down by 63 to 738 and retirees declined slightly as well to 2028;
- Actuarial value of assets increased by 1.3% to \$128.3 million;
- Funded ratio on an actuarial basis improved to 21.5% from 20.3%;
- School Board's Annual Recommended Contribution (ARC) increased for next year by 3% to \$53.5 million.

Mr. Strachan asked if a summary page could be prepared to better illustrate the results of the actuarial valuations as a communication tool for participants. Mr. Strachan recalled one from last year. Ms. Cooper said that Segal could prepare a summary for a separate fee similar to last year. Mr. Strachan was not supportive of paying an additional fee and the board concurred.

Ms. Pagnotta-Murphy asked if APS employees were not required to contribute an additional 5% as City employees do, does this mean that the City employees are benefiting the APS portion of the pension plan. Mr. Strachan explained that there are two pension plans – City and APS – both of which are sponsored by the City of Atlanta. Contributions are made by the City to the City plan and by APS to its plan. The assets / portfolios are combined for investment purposes and to share administration expenses because it is more cost effective to do so, but that the assets and liabilities of each plan are accounted for separately.

OLD BUSINESS:

Extending Survivor Benefits to Age 26 & to Disabled Children for Life – This item was deferred to the next meeting when Commissioner Yancy could be present.

INVESTMENT CONSULTANT REPORT – CALLAN:

Monthly Flash Performance Report – March 2017 – Dana Brown reviewed the March Flash Performance Report. Asset allocation was within the prescribed targets and the upcoming cash raise will rebalance to portfolio even closer to the target ranges. Performance of the Large Cap segment was good, helped by outperformance to its benchmark by Morgan Stanley over the month and quarter. Cornerstone was up for the month in the Mid Cap space, but will be reviewed in the quarterly report for possible Watch List based on their 3-year performance vs. benchmark and peers as required by the IPS policy. Small Cap continued to outperform the benchmark with both Earnest and Channing delivering excess returns for the month and quarter. International and Emerging Markets outperformed as well.

Globalt beat its benchmark for the month and quarter, reversing some recent difficult periods of underperformance. Fixed Income – Mesirow and Garcia Hamilton - outperformed for the month.

Ms. Swilley-Burke commented on a memo from Colchester that notified the board concerning a matter involving the occasional circumstance when a bond purchased with an investment grade rating is subsequently downgraded to below investment grade. Their policy is to continue to hold the security rather than “fire sale” it. Because this investment is held in a co-mingled fund flexibility to handle

multiple holders differently does not exist. Callan concurs with the strategy, pointing out that these are sovereign bonds and not corporate issues so the downside risk is small. No action by the board is necessary.

Channing Capital – Portfolio Review – Richard Turnley and Derek Coffey reviewed the Small Cap Value portfolio managed by Channing Capital.

Ms. Pagnotta-Murphy began by thanking Mr. Turnley for a complimentary note to the employees of the Water Department for their timely and professional response to correct a water main break in his neighborhood recently. She appreciated the accolades and wanted to pass those along to employees of the Water Department.

Mr. Turnley described Channing Capital, a Chicago-based firm founded in 2003 and employee owned, as a fundamental, bottom-up manager specializing in small and mid-cap investing. Assets under management are \$2.8 billion. The Small Cap Value fund is currently at \$1.9 billion and, in response to a question from Ms. Swilley-Burke, Mr. Turnley stated that the firm is planning a hard close to new investors of the Small Cap product at \$2 billion.

Performance since inception (4 years) Channing has outperformed its benchmark, the Russell 2000 Value, net of fees, by 86 bps.

Mr. Strachan asked if Channing would change its strategy if faced with a Watch List notification. Mr. Turnley responded that Channing's philosophy is to be persistent in its dedication to their process which has proven to be successful over time, despite dips for short periods. He referred the board to page 11 showing outperformance in 94% of the rolling 3-year periods since inception.

Mr. Coffey described the firm's strategy and philosophy in more detail and their approach to value investing, looking for undervalued or mispriced companies.

LAW REPORT:

City Law Department – Ms. Denius commented that work on the re-write of the Summary Plan Description (SPD) continues and a draft should be ready for review for the next meeting. She also commented that she expects to receive the Plan's Determination Letter from the IRS.

Morgan Lewis – No Report

A recommendation was made to go into Executive Session.

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}

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