

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

October 4, 2017

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on October 4, 2017 in City Hall, Committee Room 2, Atlanta GA.

TRUSTEES PRESENT:

Douglas Strachan
Angela Green
Gina Pagnotta-Murphy
Yvonne Yancy

Aretha Sumbry-Powers
Dr. Gregory Nash
Jason Esteves

Not present: Michael Bond and Jim Beard

OTHERS:

Rick Larimer, Zenith American; Kristen Denius, and Carl Christie of City Law Department; Lora Burton, City Finance; Wendy Brown, Office of Retirement Services, Patricia Harris, Zenith American, Mai-Lan Williams, Atlanta Public Schools, Peter Chan, Marla Kreindler and Amber Robinson of Morgan Lewis; Brian Smith and Bill Emmett of Callan Associates, Laurel Hill and Marsha Petzel of Wells Fargo, Jeanette Cooper and Rocky Joiner of Segal, Bill Roach of Globalt, Richard Turley of Channing Capital and Derek Batts of Morgan Stanley.

Mr. Strachan called the meeting to order at 9:35AM.

ADOPTION OF AGENDA:

MOTION: A motion was made and seconded to adopt the Agenda as presented. The motion passed.

PUBLIC COMMENT:

Calvin Vismale announced that the Atlanta Chapter of the National Association of Securities Professionals will be hosting a Holiday Event at the Oceanaire Restaurant on December 7, 2017 and all of the board members and others were invited to attend.

APPROVAL OF MINUTES:

Minutes from the August 2, 2017 board meeting were distributed in advance in the meeting package and reviewed again at the meeting.

Ms. Green requested that her question on page 4 concerning the GrayCo portfolio be clarified to indicate that she had asked what the impact has been on the Fund's overall performance of the approximately \$3 million loss taken on the US Community Lending partnership investment. Mr. Larimer agreed to make the edit.

MOTION: A motion was made and seconded to approve the October 4, 2017 meeting minutes 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. 1-18 as listed on the attached spreadsheet dated October 4, 2017. The motion passed.

DISABILITY PENSION APPLICATIONS

The Disability Pension application on the attached spreadsheet was presented to the board with a recommendation to approve.

MOTION: A motion was made and seconded to approve the disability application as presented on the attached spreadsheet dated October 4, 2017. The motion passed.

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 Beneficiary applications Nos. 1- 4 on the attached spreadsheet dated October 4, 2017. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

Mr. Larimer reviewed the Check Register dated October 4, 2017.

The invoices were reviewed and approved for accuracy by City Finance staff prior to the meeting. In addition to the checks listed on the Check Register, a check for reimbursement of conference attendance and related travel expenses for board member Jason Esteves was presented. The Board voted to approve the item and the check was signed and delivered to Mr. Esteves. Mr. Larimer stated that the check will appear on the Check Register for next month's meeting and will be noted as "previously approved and issued".

MOTION: A motion was made and seconded to approve 8 items - #67107 - #67114 totaling \$259,494.28, plus the additional check for Mr. Esteves. The motion passed. Mr. Esteves abstained.

REVIEW OF FINANCIALS:

The financials for the period ending August 2017 were presented and reviewed by the board. City Finance had reviewed the financials in advance and opined on their accuracy.

MOTION: A motion was made and seconded to approve the August 2017 unaudited financials. The motion passed.

NEW BUSINESS:

Additional Board-Approved Doctors for Disability Exams – Ms. Yancy commented that she had some preliminary discussion on this subject with Louis Amis and wanted to gather further input. She commented that the current market fee for such examinations may be in the range of \$1800 - \$2100 compared to the \$600 being paid by the GEPP. Ms. Yancy will follow up with board members before next meeting with more guidance on this subject.

ACTUARY REPORT:

GASB 67 Disclosure – Jeannette Cooper briefly reviewed the GASB 67 Disclosure Information for the fiscal year ending June 30, 2017 for both the City and APS plans. The Disclosure is mandated by the Government Accounting Standards Board (GASB) and takes the total pension liability as of July 1, 2016 and rolls it forward to June 30, 2017, measuring plan fiduciary net position (assets) as of June 30, 2017. The computations use the 7.5% discount rate. The fiduciary net position for the City plan is \$1,229,419,000; the net position for the Atlanta Public School plan is \$139,396,000.

OLD BUSINESS:

Extending Survivor Benefits to Age 26 - Ms. Yancy reported that this proposal was discussed at the Police and Fire plans board meetings and that there was not support for implementing this benefit change. While acknowledging that the preliminary cost estimate from Segal for this enhancement was negligible, the Police and Fire board members did not express any enthusiasm for the addition.

Extending Survivor Benefits to Disabled Children for Life – This proposal was more positively received by the Police and Fire boards, who expressed a willingness to explore this benefit enhancement and the options to fund it. The idea was to make the election of this benefit an option for individual participants who would elect to pay for it either through a percentage increase in their contribution to the pension or to elect a reduction in their pension benefit amount based on an actuarial analysis of the cost to fund such a future benefit based on the age of the disabled child.

Ms. Yancy pointed out that either of these benefit enhancements would need to be accepted and approved by all three boards and could not be adopted only by the GEPP. Ms. Pagnotta-Murphy commented that she would like to go back to the Police and Fire to try to persuade them to reconsider their position on extending survivor benefits to age 26 and volunteered to do so.

Based on a verbal estimate from Mr. Joiner of Segal that the fee cost / reduction of benefit payment option analysis could be done for approximately \$1500,

MOTION: A motion was made to approve Segal to undertake an analysis of the cost in terms of 1) the additional percentage contribution by participants or, 2) the necessary benefit reduction to a participant electing this benefit that would be sufficient to cover the cost to the Plan of this benefit. The motion passed.

Rapid Retirement Program – Mr. Larimer commented that the forms had been created and reviewed internally and were in final form. They need to be circulated to HR in both the City and APS in order to move toward implementation at the end of November. Ms. Sumbry-Powers asked when the APS HR Reps would be notified of this program and the process reviewed with them. Mr. Larimer said in November.

Ms. Green asked how GEMGroup (Zenith American) has addressed the customer service issues surrounding the Atlanta participant service office. Mr. Larimer commented that the office had a door added to the room used for customer meetings to better ensure privacy and the staff has undergone refresher training on customer service by Zenith American managers. Ms. Yancy asked if Zenith conducted any participant feedback surveys and Mr. Larimer responded that they did not. She mentioned that the City had implemented a customer experience survey process and had engaged an outside firm to conduct the survey. Ms. Yancey suggested that the board take advantage of this program and conduct a survey of recent participants and retirees and ask them to rate and comment on their experience with the GEMGroup / Zenith office in Atlanta.

MOTION: A motion was made to conduct a participant / retiree feedback survey of the experience interacting with the GEMGroup/Zenith customer service office in Atlanta, with the cost borne by the City as part of the larger program. The motion passed.

INVESTMENT CONSULTANT REPORT – CALLAN:

August Flash Report - Brian Smith presented the August performance review, highlighting the broad category returns in both equities and fixed income. He pointed out a slight underweight to fixed income but still within policy guidelines. Total assets increased in the month by approximately \$7,000,000 to \$1.375 billion.

Generally global equities came under stress in August due to impacts of international tension and concern over Hurricane Harvey hitting Texas. Emerging markets continue its positive performance. Global performance continues to improve and Colchester contributed nicely in the international fixed income sector.

Management Fee Review - Mr. Smith reviewed a peer group analysis of effective annual fees. Peer group range is 33 bps – 74 bps, compared to GEPP at 41 bps, which ranks in the 75th percentile. The overall fee is affected by the asset allocation which has added 10% to the international equity from 20% and contributes to an increase in overall fees. The benefit of the returns from international and particularly the emerging markets has outweighed the added costs. Mr. Smith also showed each manager in terms of management fees vs. their peers within the segments. Overall, the GEPP compares favorably with its peers with respect to overall management fees.

Mr. Strachan requested that Callan's recommendations that may be made at the next meeting be circulated to the board 2 weeks in advance if possible.

Ms. Yancy commented that the analysis of recommended changes in asset allocation reflect both goals of appropriately diversified assets and competitive fee structures.

Ms. Pagnotta-Murphy asked about the current funding level of the plan and has it improved. This prompted a request for Segal to provide a historical picture of the changes in the GEPP funding levels over time and to provide a brief explanation of the causes. This will be discussed at the next meeting.

Ms. Green noted that the format of the summary performance booklets had changed and asked Mr. Smith if he had asked for input from her and the other board members in advance of making the change. Mr. Smith offered to review the presentation materials and make any changes the board might want to see. They review meeting could be at the board meeting or a separate meeting at Callan's office.

Investment Policy Statement Review - Mr. Emmett made some brief comments about the work Callan is doing on the IPS. Mr. Strachan asked that Callan prepare a red-lined draft for review in advance of the meeting. Mr. Emmett pointed out that Mr. Klepfer of Callan would be discussing the Plan's asset allocation and would likely have some recommended changes that would need to be incorporated into the IPS. The consensus was that the re-drafted IPS should be done after conversations with Fund Counsel and in conjunction with Callan's asset allocation review.

GrayCo Alt II Monitoring Report – Mr. Emmett commented on recent proposal by Consequent concerning the formation and structure of a Limited Partner Advisory Committee. Callan believes the suggested structure is inconsistent with common practice in that Consequent wants a Consequent representative to be part of the committee meetings; Callan disagrees.

Callan's recommendations are: 1. No Consequent employee as a member of the Advisory Committee and no presence at the meetings; 2. Quarterly meetings and monthly conference calls; 3. Enhanced reporting on problematic investment and input from limited partners on how to manage, and 4. Potential conflicts of interest to be reviewed in advance. Mr. Emmett noted that all limited partners would have to agree on the structure, frequency of meetings and the number of representatives. Ms. Yancy suggested that Mr. Emmett reach out to the Police and Fire boards' investment consultants to try to reach a consensus on these items.

The board voted Angela Green to represent the GEPP board as a member of the Limited Partner Advisory Committee. Ms. Green accepted.

Mr. Chan commented that Morgan Lewis had enlisted one of their lawyers who is specialist in limited partnership investment to review the structure, policies and structure of GrayCo Alts II with a focus on practical tactics that could be employed by the board to protect or liquidate their investment in certain parts of the portfolio. A conference call to review preliminary findings was scheduled for next week and he asked that this input be made available and be used to inform the ultimate structure of the Advisory Committee.

Mr. Emmett mentioned that Parkview and 5 Stone Green Capital had agreed to present updates to the board. The board decided to take advantage of the offer quickly and extended an invitation for the November 1, 2017 meeting.

Portfolio Review – Globalt – Bill Roach and Gary Fullam Messrs. Roach and Fullam gave an overview of the firm and its philosophy, highlighting the 25 year relationship with the board, over \$2.1 billion in assets and \$1.1 billion in the innovatETF Strategies with a 21 member staff. The innovatETF strategy is designed to be nimble with respect to asset allocation positions to take advantage of weighting toward sectors that are in favor through a risk controlled process. Mr. Roach noted the benchmark change at September 30, 2015 to the new benchmark finalized at August 29, 2016. YTD at August performance was 12.75% vs. 10.43% of the Atlanta Policy Index. The 3-year performance is 7.09% vs. 6.97%. There was some questioning of variances between performance numbers presented by Globalt and those shown by Callan. Mr. Roach will circle back with Callan to reconcile these reporting variances.

Mr. Fullam discussed macroeconomic factors such as inflation, employment and trade that has contributed to the current 9-year bull market. Globalt believes that many geopolitical factors will serve to increase volatility in the near term their strategies are designed to protect downside volatility.

Mr. Roach pointed out a “hidden” benefit of the Globalt portfolio – securities lending income. The ETFs in the portfolio are a ready source for securities lending and this provides an offset to the management fees. Page 17 of their presentation shows the total management fees for 2016 were \$417,389; an offset provided by securities lending for the same period were \$178,335 for a net fee impact to the Fund of \$239,054. Mr. Roach made the case for increasing their allocation back to the original 10% to take advantage of their downside protection attributes and to capture the benefit of increased securities lending income.

Mr. Strachan pointed out that next meeting’s discussion of overall asset allocation and a review of Globalt’s position on the Watch List would be the appropriate venue to consider any changes.

LAW REPORT:

City Law Department – Ms. Denius reported that the Legal Department was still working with Ray Adams and the Office of Retirement Services to complete the update of the Summary Plan Description (SPD) and that a draft should be ready for review in advance of the next meeting.

Morgan Lewis – Mr. Chan reported the public information that the GrayCo Alt II matter with the SEC had been settled by the parties. No information is available on the terms of the settlement.

Consolidation of Pension Boards for Administration and Investment Purposes – Proposed Ordinance 17-O-1589 - Mr. Strachan asked Ms. Yancy to begin discussion of the proposed ordinance to consolidate the GEPF, Police, and Fire boards for purposes of investment and administration.

Ms. Yancy explained that the proposed legislation was drafted with three points in mind: certain proposals in the legislation were raised during the 2011 pension reform process, certain proposals in the legislation were raised during the 2014 operational efficiency initiatives exercise, and the legislation was not designed to remove participant or elected trustee representation from boards. Ms. Yancy noted that the concepts in the legislation were not a reflection of a “negative posture” towards pensions.

Ms. Yancy provided an overview of the process going forward, noting that each board would need to reach a position regarding the legislation. Ms. Yancy noted that the City Council Finance/Executive Committee, charged with steering the legislative process, intends to schedule a working session designed to process the impact of the legislation. Ms. Yancy indicated that she informed Vice Chair Council member Shook of the board’s interest in participating in the working session and shared the board’s email addresses with the expectation that the board would receive a schedule request.

Ms. Yancy also explained that prior to the City Council taking any action, the three boards, an actuary, and the City Attorney must opine. Ms. Yancy further explained that the legislation was drafted to “protect the financial capacity” of the pensions and to implement governance and audit structures which are not currently in place. Ms. Yancy noted that as the current administration is coming to a close, questions of conflicts are not an issue. Finally, Ms. Yancy noted that APS must also opine prior to the City Council taking any action and that she expects that APS will be an active participant in the coming conversations.

Mr. Strachan stated that while there are elements of the proposed ordinance that he has previously supported, as noted in circulated letters, he “is not in favor of dramatically changing the governance structure in favor of people that are ex officio or appointed relative to people who are elected by the participants.” Mr. Strachan also noted that after making an informal, no-cost inquiry with the board investment consultant, the proposed legislation generated nominal savings related to service provider expenses and provided almost no cost savings with regard to investment fees. Mr. Strachan requested that data on these issues be shared with the board prior to the working session. Ms. Yancy replied that there would be data and the data would be distributed in advance.

Dr. Nash asked about the authorship of the bill. Ms. Yancy replied that the administration submitted the legislation.

Dr. Nash asked how large the board would be if the proposed legislation were enacted. Ms. Yancy replied that as currently drafted, there would be four boards that manage the collective three independent funds: an administrative board, a larger investment board, an audit committee, and a governance committee. Dr. Nash expressed his concern about the size of the board relative to voting matters, like appointing an investment manager. Ms. Yancy stated that as she recalled, the proposed legislation currently contemplates 13 people and that she fully expects that the number will change as the legislation process moves forward. Dr. Nash expressed that he was “upset” that he was not made aware of the legislation prior to September 25 and that the submission of the proposed ordinance seemed analogous to the GrayCo matter when the board did not receive certain information until the last minute. Ms. Green asked if anyone on the board knew about the proposed legislation prior to September 25. Ms. Yancy responded that she knew about the legislation. Ms. Green commented that the submission of the proposed ordinance without prior notice struck her as “disrespectful” to her as a taxpayer and as an elected trustee. Ms. Green stated that submission of the proposed ordinance seemed analogous to the GrayCo matter.

Ms. Yancy noted that, “respectfully,” there was no intent to disrespect board members.

Mr. Strachan asked when the board would receive a schedule of the legislative process with dates. Ms. Yancy reiterated that Councilmember Shook would circulate a scheduler.

Mr. Estevez made a statement on behalf of APS, noting that it would have been helpful to have some input on the proposed ordinance “on the front end” because the legislation contains some good ideas. Mr. Estevez noted that the school system would like to see tangible data related to how changing the governance structure would improve investment-related outcomes. The school system would also like to see data related to savings on administrative costs and fee reduction, noting that the savings components are not obvious, but that the school system would be willing to explore the concepts in further detail. Mr. Estevez noted that the school system is also concerned about a reduction of APS members from the current 3 APS-related board members on a board of 9 to approximately 2 or 3 members out of a total of 15 which “reduces the voice of APS employees and retirees.” Mr. Estevez stated that he expects that retirees will influence the APS board’s decision.

Ms. Green noted that the composition of the board under the proposed ordinance is “very political” because there are more appointees than elected persons. Ms. Green noted that as the largest asset holder, the GEPF should have greater representation than Police and Fire.

Ms. Pagnotta-Murphy stated that while some components of the proposed ordinance, like the training requirements, may be favorable, she “is not for” the change to the composition of the board, noting that if there are only 4 elected members on a board of 15, “where do you think the vote is going to go?” Ms. Pagnotta-Murphy also stated that “from a union perspective” the other boards appear to be “adamant about” not combining. Ms. Pagnotta-Murphy asked about the City’s authority over the boards.

Ms. Denius presented a historical overview of the establishment of the GEPF, Police, and Fire pension funds and a summary of case law interpreting the authority of the boards of the Pension Funds and the Georgia Supreme Court's assessment of the validity of a City ordinance amending the Pension Funds' contribution rates.

Mr. Chan reiterated that the board remains subject to a fiduciary standard of care related to its consideration of the proposed ordinance. Mr. Chan stated that each trustee must take reasonable steps to be adequately informed and to understand the components of the proposal. Mr. Chan noted that the board's duties required that evaluation of the proposal focus on whether each component of the proposed legislation would ultimately benefit, harm, or otherwise impact plan participants. Mr. Chan also reiterated that any decision must be made in a fiduciary capacity, free of material conflicts of interest.

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.

Ms. Denius excused herself from Executive Session to prevent the creation of any legal conflicts.

Following the Executive Session,

MOTION: A motion was made and seconded to authorize Morgan Lewis to represent GEPF's interest in connection with the proposed ordinance and to send a letter to the City Attorney regarding certain legal questions on the proposed ordinance. The motion passed.

There being no further business before the board, the meeting was adjourned at 12:50 PM.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary