

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

November 1, 2017

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A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on November 1, 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 Yvonne Yancy

**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 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 revised Agenda, adding the Cash Raise under New Business. The motion passed.

**PUBLIC COMMENT:**

Calvin Vismale reminded board members that the Atlanta Chapter of the National Association of Securities Professionals will be hosting a Holiday Event at the Oceannaire Restaurant on December 6, 2017 and all of the board members and others were invited to attend.

**APPROVAL OF MINUTES:**

Minutes from the October 4, 2017 board meeting were distributed in advance in the meeting package and reviewed again at the meeting.

Ms. Green pointed out the Mr. Vismale's name was misspelled on page 1 and that the reference to her being "nominated" by the board to the position of board representative to the Limited Partner Advisory Committee of the GrayCo Alt II/Consequent partnership should be changed to "voted". Mr. Larimer will make the edits.

**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. 1-9 as listed on the attached spreadsheet dated November 1, 2017. The motion passed, subject to confirmation of the calculation of applicant #8 for accuracy. Prior the end of the meeting, Mr. Larimer confirmed with Zenith American staff that the calculation was accurate.

**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 November 1, 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 & 2 on the attached spreadsheet dated November 1, 2017. The motion passed.

**APPROVAL OF CHECK REGISTER AND INVOICES:**

Mr. Larimer reviewed the Check Register dated November 1, 2017.

The invoices were reviewed and approved for accuracy by City Finance staff prior to the meeting. Check #67115 to Jason Esteves for reimbursement of conference travel expenses was shown as having been approved and issued at the October 4<sup>th</sup> meeting and is not included in the total.

**MOTION:** A motion was made and seconded to approve 14 items - #67428 - #67440 totaling \$1,051,832.49. The motion passed.

## **REVIEW OF FINANCIALS:**

The financials for the period ending September 2017 were presented and reviewed by the board. City Finance had reviewed the financials in advance and opined on their accuracy. Mr. Larimer pointed out that the version of the financials included in the book was an earlier, unadjusted version that had been put in the books by mistake. The final set had been delivered to City Finance and had been reviewed.

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

## **NEW BUSINESS:**

Additional Board-Approved Doctors for Disability Exams – This item was deferred to next meeting when Ms. Yancy can be present.

Consolidation of Pension Boards for Administration and Investment Purposes – this item moved to Executive Session.

Cash Projection and Cash Raise Authorization - \$33 million - Mr. Larimer explained that the Cash Raise request, a month earlier and \$13 million larger than usual, was necessitated by the Atlanta Public Schools advising the board that their regular monthly pension contribution of approximately \$4.5 million would be delayed at least for October, November and December due to the delay in Fulton County property tax billings. Mr. Larimer distributed a Cash Projection showing the need for \$33 million over the next 90 days to pay pension benefits and plan expenses, taking into account the \$4.5 monthly expected shortfall. Once the State approves the tax billings and receipts received, APS will make up the missed monthly payments and return to a regular payment schedule. The City of Atlanta is similarly affected but has sufficient reserves to bridge the shortfall and continue its required pension contributions.

A lengthy discussion ensued. The standard allocation of between the City and APS plans is a 90/10 split based on the proportionate assets of the plans. In order to avoid the Cash Raise being characterized as a “loan” of City plan assets to the APS plan, it was determined that the extra funding required by APS’s deferred contribution would be accounted for by a 60/40 allocation: 60% from City and 40% from APS.

**MOTION:** A motion was made and seconded to authorize a \$33 million cash raise for liquidity to meet benefit payments and plan expenses, with 60% funded from the City plan and 40% from the APS plan. The motion passed.

## **ACTUARY REPORT:**

Review of Changes over Time of Plan Funding Levels – Following up on a request from the board at the October meeting, Jeannette Cooper briefly reviewed the changes in funding levels of the plans from 2000 to present. She highlighted those years in which the funded ratios changed more than usual and the reasons for those fluctuations.

For the General Employees’, in 2001 the funded ratio declined from 71.8% to 63.1%, and in 2002 declined again from 63.1% to 56.3% largely due to large investment losses: -1.86% and -7.67%, respectively. In 2005, the valuation fell from 63.9% to 54.8% due primarily to another investment loss

of -.09% and the increase of the benefit multiplier from 2.0% to 2.5%. A large investment gain of +18.4% in 2013 contributed to an increase in the funded ratio from 54.4% to 62.5%.

The APS plan suffered its big decline in funded ratio more than 25 years ago when teachers became part of the Teachers Retirement System of Georgia and assets were transferred to cover their liability. The APS plan has fluctuated between 15.7% and 24.5% since 2002 with changes largely due to investment performance.

A more detailed analysis of the historical variations in funded percentages was contained in presentation materials that were shared with the board at the meeting.

### **OLD BUSINESS:**

Extending Survivor Benefits to Age 26 – This item was again deferred until Ms. Yancy can be present and share with the board the feedback she has received from the Police and Fire boards. These proposed changes in benefits would require all three boards to agree on their adoption.

Extending Survivor Benefits to Disabled Children for Life – This item was again deferred until Ms. Yancy can be present and share with the board the feedback she has received from the Police and Fire boards. These proposed changes in benefits would require all three boards to agree on their adoption.

Rapid Retirement Program – Mr. Larimer commented that the forms had been created and reviewed internally and were in final form. They will be circulated to HR in both the City and APS in order to be able to implement in December.

### **INVESTMENT CONSULTANT REPORT – CALLAN:**

Bill Emmett introduced the topics on the agenda to be discussed.

Angela Green questioned why she had not been called to participate in the meeting with Consequent on the 5 Stone Green and Parkview matters as she had been voted by the board to be the board's representative on the Limited Partner Advisory Committee. Mr. Emmett tried to explain that 5 Stone and Parkview were unable to coordinate their schedules and it was decided that it would be better to have them attend a regular board meeting. In response to Ms. Green's question if a conference call had taken place with Consequent, Mr. Emmett stated yes; Ms. Green said that means she had been excluded. Ms. Green said that if other board members had been invited then all board members should have been invited to participate. Mr. Emmett, Mr. Smith and Mr. Strachan stated that it was not intentional to exclude her but there was a concern that multiple board members in attendance would constitute a public meeting and, without appropriate notice, would violate the Open Meeting statute.

A representative of Consequent addressed the issue of the 5 Stone's and Parkview's lack of availability and the frustration of the board as expressed by Mr. Beard.

Asset Allocation Review and Recommendations - Jay Kloepfer reviewed the current asset allocation and the changes since the portfolio review in 2014. The overall allocation remains very close to the targets as set by the Investment Policy Statement (IPS).

The changes in portfolio allocations since 2014 highlighted increasing exposure to international equity, reducing the mid/small cap overweight slightly, adopting a passive strategy for 70% of the large cap allocation, eliminated the intermediate bond allocation and added passive fixed income mandate for one-

third of US bond allocation, divided the alternatives exposure between two managers which included real estate, hedge funds and private equity.

Overall, Mr. Kloepfer commented that the changes that have been implemented have been good, the Plan remains in compliance with the IPS and recommended that the board stay the course. No changes are recommended.

Using Callan's capital market assumptions, the portfolio's expected return is 6.4% over the next 10 years. This is below the 7.25% adopted as a return target. Many factors affect these assumptions which change in each forward looking projection. Callan does not recommend any major change in risk profile to try to achieve higher returns. There is a reasonable chance to exceed this projection based on excess return from active managers.

From the audience, Katrina Taylor Parks, deputy assistant to the Mayor, identifying her role as an interested participant in the pension plan, asked several questions concerning the portfolio's exposure to fossil fuel producers and to companies that were engaged in the private prison business. Mr. Beard responded that he believes most large cap managers would have some exposure to fossil fuels, but will need to do some additional research on the private prison sector. Callan offered to identify the holdings in these industries and provide a report at the next meeting.

Mr. Beard asks what the value proposition was for top decile ranked active managers, how much they could be expected to deliver above index performance assuming one could pick them on a regular basis. Mr. Kloepfer responded that the best opportunities for outperformance by the best managers were in the small cap and emerging markets segments and they may be expected to add 50 bps and up to 100 bps, respectively. Mr. Beard also asked how the GEPP compared to other similar plans in its IPS target return assumption of 7.25%. Mr. Kloepfer opined that 7.25% was close to the middle of the group, with 7.0% on the low side and even 7.5% was being challenged as a bit optimistic.

Investment Policy Statement Draft of Changes - Brian Smith reported that a draft was sent to the board members with recommended edits and a copy to Peter Chan, Fund Counsel. After board and counsel review and input a final draft should be ready for adoption at the next meeting.

September Performance and GLOBALT Review - Mr. Emmitt commented that the asset allocation remains close to target and the recently approved Cash Raise will bring the allocations even closer to target. Overall return for 12 months was 14.56% net of fees vs. the Policy Index of 13.64%, or about a 90 bps outperformance. For fixed income, interest rates increased over the past month which drove negative returns in bonds for the month. The quarterly return remains favorable. Callan's review of Globalt suggests that Globalt remain on Watch list because, while performance has improved and is trending positive, they continue to meet the strict definition of the criteria for being on the Watch list. Globalt will continue to monitor.

Consequent Capital - Mr. Cyril Theccanat, the President and Chief Investment Officer of Consequent Capital Management, introduced himself to the Board. Mr. Theccanat informed the Board that he recently replaced Mr. Earl Robinson, noting that Mr. Robinson is a party to a complaint filed by the Federal Trade Commission. Although Mr. Robinson has denied all of the accusations in the complaint and is pursuing an outright dismissal or settlement, the Consequent board felt that the matter had become a distraction for the firm and its clients, so the Consequent board and Mr. Robinson reached an agreement. The Consequent board requested that Mr. Theccanat take on the role of President in addition to his role as Chief Executive Officer. Mr. Theccanat described his background in the investment management business and his credentials serving on the boards of public plan funds.

Mr. Theccanat expressed that from Consequent's view, nothing has changed on the investment side and that Consequent will continue to serve clients in the same manner. He noted that Consequent board members have reiterated their commitment to Consequent. Mr. Theccanat noted that one of the firm's largest investors is one of the largest minority-owned banks in the country.

Mr. Strachan said that he would like to see Consequent work with Callan to shrink the "punch list" and to set up the advisory council that the Board previously requested. Mr. Strachan stated that he would like to see a definitive schedule of meetings with 5 Stone and Parkview. Mr. Theccanat confirmed that Parkview would attend the December Board meeting.

Ms. Pagnotta-Murphy requested a copy of Mr. Theccanat's biography and expressed her discomfort with Consequent's prior conduct. Ms. Pagnotta-Murphy also asked why she had not received proper notice of Mr. Robinson's resignation and asked Callan to provide additional context. Callan stated that it was not aware of Mr. Robinson's resignation until that morning. Ms. Pagnotta-Murphy reiterated that Parkview and 5 Stone's absence from Board meetings, despite repeated requests, has also been problematic from the Board's perspective.

Mr. Theccanat stated the he understood the Board's position and urged the Board to consider that two of the largest investors in Consequent are the biggest minority-owned banks in the country. As regulated institutions under heavy scrutiny, the banks would not have increased capital commitments with Consequent if the institutions had received negative information. Mr. Theccanat expressed that Consequent noted positive developments with 5 Stone's and Parkview's performance and predicted that the Board would be reassured after receiving more information about investment performance. Mr. Theccanat affirmed Consequent's commitment to increased transparency, regular contact with Callan, and establishing a limited partner advisory board to ensure that the Board receives better service and more information going forward. Ms. Pagnotta-Murphy requested an updated organizational chart from Consequent.

Mr. Chan requested that Consequent provide the Board with more information about its current relationship with GrayCo. Consequent noted that it could not opine on SEC proceedings but confirmed that Mr. Gray is not a Consequent employee, board member, or management committee member and that Mr. Gray's consulting arrangement is currently in the process of being terminated. Mr. Beard inquired as to whether Mr. Gray holds an equity interest with substantial voting power. Mr. Theccanat did not have a definitive answer about Mr. Gray's equity interest and noted that he would confirm what kind of information he can share, given that the asset purchase agreement involving Consequent and GrayCo is confidential.

Mr. Beard noted that the Board expects greater transparency, given the complicated nature of alternative investments. Mr. Estevez noted that Consequent is subject to a very high standard and that past issues with Parkview and 5 Stone have only made Consequent's burden more difficult moving forward. Mr. Estevez noted that the trustees are particularly sensitive to the GEPF Board's lack of representation on the Consequent board and that the trustees would like to receive as much information as possible.

Mr. Theccanat noted that as a large plan, it is normal for certain investments to perform better than others and observed that the Fund contributed \$24m and the current market value of the Fund's account is \$26m. Mr. Strachan commented that in the spirit of moving forward, the Board is interested in reopening the limited partnership agreement to renegotiate terms that do not appear to be consistent with market provisions for comparable funds around the country. Mr. Strachan requested that Consequent review the terms of the limited partnership agreement to evaluate which terms might be modified and be prepared to present its review next month. Consequent agreed to review the limited partnership agreement and noted that it would also consider returning capital a year early. Mr. Beard asked Mr. Theccanat to review the full set of options and to be prepared to discuss those options in the next

meeting. Mr. Chan recommended that as a matter of transparency, Consequent should share the terms of Mr. Gray's settlement with the SEC, to the extent that Consequent is aware of the terms and has the ability to share the information. Mr. Beard and Ms. Paganotta-Murphy requested the information, as recommended by Mr. Chan. Mr. Theccanat stated that he would confirm what information he could share with the Board in its December meeting.

Mesirow Financial Portfolio Review – Eugene Duffy introduced the members of the Mesirow team: Peter Hagel, Mark Newlin and Eric Welt. Mr. Newlin commented that Mesirow has managed money for the GEPP for 13 years and over that time has delivered 56 bps over benchmark performance. Their more recent performance has not been as favorable against the benchmark largely due to a concerted effort to de-risk the portfolio, going to higher quality and lower rates. This move may have been a little early, but will pay off if interest rates continue to rise. Mesirow remains comfortable with the strategy as being the prudent course and plans to stay the course.

Mr. Strachan asked for the return net of fees and why Mesirow is on the watch list. Mr. Newlin commented that the management fee, lowered as the result of combining for fee purposes the assets of the General, Police and Fire, is about 17 bps. This amount can be subtracted from the gross return, so a net return of approximately 49 bps over the benchmark over 13 years.

Peter Hagel will be assuming the client servicing for the GEPP in 2018 as Mr. Newlin retires from Mesirow. The board wished him well.

#### **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 soon. Mr. Strachan expressed frustration that the completion of the SPD draft is taking so long. He asked for a hard deadline that the board can rely on to see the finished result. Ms. Denius acknowledged his frustration and committed to circle back with all the staff working on it and will make every effort to have it completed by year-end. She believes that this is a reasonable goal. Mr. Strachan thanked her for the efforts.

Angela Green announced that she was resigning from the position of board representative to the Limited Partners Advisory Committee for the GrayCo / Consequent Core Alt II partnership, effective immediately. Mr. Green stated that she was not able to fulfill those responsibilities if, in her opinion, the board chair withholds information from her and Callan doesn't communicate with her.

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 legal matters related to Consequent, GrayCo and the SEC, and consideration of the proposed ordinance related to pension board consolidation.

Following the Executive Session,

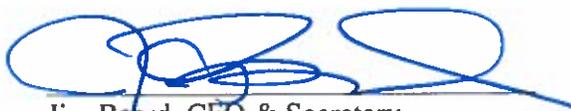
**MOTION:** A motion was made and seconded to authorize the delivery of a letter to City Council in advance of the City Council Finance/Executive Committee working session on November 9th, to authorize the delivery of a follow-up letter responding to the City Law Department's response to the Board's initial letter related to the proposed ordinance and to authorize Morgan Lewis to attend City Council proceedings on the proposed ordinance and to give remarks on behalf of the Board. The motion passed. Mr. Beard abstained.

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

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary