

CITY OF ATLANTA DEFINED BENEFIT
PENSION INVESTMENT BOARD MEETING
JANUARY 22, 2020
City Council Chambers – City Hall
10:00 A.M. – 12:00 P.M.

BOARD MEMBERS PRESENT

FRANK SIMS	Chairman
ROOSEVELT COUNCIL	CFO, City of Atlanta
JEFFREY NORMAN	HR Commissioner, City of Atlanta
JOSHUA WILLIAMS	COO, City of Atlanta
REGGIE GRANT	Appointee, City of Atlanta
NATALYN ARCHIBONG	Councilmember, City of Atlanta
MARCI COLLIER OVERSTREET	Councilmember, City of Atlanta
LISA BRACKEN	CFO, APS City of Atlanta
QUENTIN HUTCHINS	APS, City of Atlanta
BRENT HULLENDER	Fire, City of Atlanta
ALFRED BERRY, JR.	General, City of Atlanta
RICK ‘BUD’ LIGHT	Police, City of Atlanta

Board Members not present: Joyce Sheppard, Howard Shook, JP. Matzigkeit

OTHERS PRESENT

As acknowledged on the City of Atlanta Pension Investment Board Trustee Meeting Sign In Sheet for January 22, 2020.

I. CALL TO ORDER

Chairman Mr. Frank Sims called the meeting to order at 10:21 a.m. in Council Chambers at City Hall in Atlanta, Georgia. Chairman Sims indicated that a quorum was present for the meeting.

II. ADOPTION OF THE AGENDA

Ms. Harris acknowledged with the Board that there was a request from KPMG to present the Audit Results first during New Business in order to account for travel arrangements made. The Board agreed to accept this modification of the order of the Agenda.

Following this approval, a *motion was made by Mr. Hullender to approve the Agenda with the noted change and the motion was seconded by Mr. Williams. The motion unanimously carried and the Agenda was approved as noted.*

III. PUBLIC COMMENT

There were no public comments.

IV. APPROVAL OF PREVIOUS MEETING MINUTES

The Trustees reviewed the Minutes of the November 20, 2019 Board meeting, which were distributed in advance and reviewed by the Fund Professionals as customary.

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As well Ms. Harris noted that according to the Agenda she had a copy of the October 16, 2019 Minutes that had been previously approved. Ms. Harris indicated that signature execution was required as Chairman Sims and Vice Chairman Williams were not present at the November 20, 2019 in order to provide their respective signatures.

Following this discussion, a *motion was made by Mr. Hutchins to approve the Minutes as presented. This motion was seconded by Ms. Overstreet. The motion was unanimously carried and the November 20, 2019 Minutes were approved.*

V. ATTORNEY'S REPORT

Mandatory Arbitration

Mr. Emerson informed the Board that he had recently been provided a copy of the Forced Arbitration Provisions in Public Company Governing Documents letters that were distributed today. Mr. Emerson advised the Board letter was to request support for legislation that would ensure that no investor is subject to forced arbitration, and in particular for enactment of the Forced Arbitration Injustice Repeal (FAIR) Act, along with other large public plan and other investors. Mr. Emerson summarized that there have been recent attempts to include forced arbitration provisions in corporate governance documents through shareholder proposals, including a no-action letter granted by the SEC for a bylaw mandating forced arbitration for all shareholder disputes. Mr. Hullender and Mr. Light also provided their insight and input on the matter as it related to like funds with similar interests. It was noted that there was an older version letter dated 2013 that provided some groundwork for the January 6, 2020 document presented. Mr. Hullender noted that it was in the order of acknowledgement to have the Board provide their opinion today.

The Board allowed Mr. Mario Alba of Robbins Gellar Rudman & Dowd, LLP to address them with regard to this matter as a relevant party for the Security Litigation and Monitoring services that his firm provides them. Mr. Alba stated that the intent of the mandatory arbitration order was to limit class action lawsuits and the ability for the Plans to file such claims. In addition, Mr. Alba noted that in arbitration the corporation may not be incentivized but in a class action the incentives to settle are greater for the City of Atlanta and other public funds. With this, Ms. Maya Saxena of Saxena White opined and noted that she would agree with the recommendation presented to the Board in order to preserve the rights of the class action process.

Following this discussion, a *motion was made by Mr. Hullender to have the City of Atlanta Investment Board join the letter in support of legislation to prohibit the use of mandatory arbitration. This motion was seconded by Mr. Berry and the motion passed with unanimous decision.*

With no additional questions or matters of discussion, the Attorney's Report was completed and accepted as informational.

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VI. INVESTMENT CONSULTANT REPORT – Marquette Associates

In the absence of Mr. Kweku Obed, Mr. Jesus Jimenez presented to the Board on behalf of Marquette Associates.

Mr. Jimenez provided the following U.S. economy overview from the December 2019 Executive Summary. Mr. Jimenez noted in the 4th quarter the GDP increased by 2.3% which was forecasted by GDP Now from Atlanta Fed. The unemployment rate for December was unchanged at 3.5% with 145K new jobs added. CPI increased 2.1% over the trailing 12 months with core CPI at 2.3%. Mr. Jimenez informed the Board that as of January 15, 2020 the phase one tariff agreement reached with China was completed and that China had agreed to \$200B in goods over two years while the U.S. would halt tariffs on the imported goods. Mr. Jimenez stated that there was a manufacturing decline as the PMI index continues its downward trend to 47.2 although the economy continues to grow which showed a shift to a risk on environment in the market.

Fixed Income

Mr. Jimenez informed the Board there was an early start to the roaring 20's as the yield curve steepened in December. As a result Mr. Jimenez noted that long term rates provided good performance in the BLM BC Long Gov. and GLM BC High Yield space reporting 14.7% and 14.3% respectively year to date.

U.S. Equity

Mr. Jimenez informed the Board that new all-time highs were seen in December as the U.S. equity space returned high double digits performances year to date across the board. Mr. Jimenez stated that this was the highest 4th Calendar return in 10 years. To this Mr. Jimenez emphasized that Large Cap Stock outperformed Small Cap Stock and Growth Stocks outperformed Values stocks. However during the 1st month of 2020 Value saw a rebound and outperformed Growth with specific reference to Energy stocks leading the way.

Non-U.S. Equity

Mr. Jimenez informed the Board that 1 year returns were fueled by the trade agreement while the Non-U.S. Equities also finished in double digits across the board in 2019.

Alternatives

Mr. Jimenez stated that preliminary 4Q2019 performance in Core Real Estate was on pace to deliver 5% gross return for calendar year 2019 as returns continued to be moderate. Mr. Jimenez pointed out that this was leading to normalized returns as Odyssey opened holdings drove returns.

Performance Overview – General Employees' Pension Plan

Mr. Jimenez informed the Trustees that the market value as of December 31, 2019 was \$1,584,878,323.

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Mr. Jimenez reviewed in detail the YTD Performance of Top and Bottom performing managers noting that the total fund composite was in line with the total fund policy benchmark for the month, 3 month and year to date metrics.

COA General Employees' Manager Contribution – YTD Performance

Top Performers	Absolute Performance	Benchmark Performance	Strategy
Colchester Global	+7.5%	+5.9%	Global Fixed Income
Morgan Stanley LCC	+33.6%	+31.5%	U.S. Equity
Earnest Partners SCC	+32.6%	+25.5%	U.S. Equity
Hardman Johnston	+33.5%	+21.5%	International Equity
Earnest Partners EM	+23.6%	+18.4%	Emerging Markets Equity

Bottom Performers	Absolute Performance	Benchmark Performance	Strategy
Garcia Hamilton	+7.1%	+8.7%	Fixed Income
MacKay Shields MCC	+23.4%	+30.5%	U.S. Equity

Mr. Jimenez noted that short term durations and poor stock selection were the catalyst for the underperformers seen respectively. While the top performers saw IT, Consumer Discretions and Growth tilt strategies lend to the values seen.

Performance Overview – Police Officers' Pension Plan

Mr. Jimenez informed the Trustees that the market value as of December 31, 2019 was \$1,212,769,729.

Similar to the General Employees' Plan, Mr. Jimenez noted that the total fund composite was in line with the total fund policy benchmark for the month, 3 month and year to date metrics. Mr. Jimenez reviewed in detail the YTD Performance of Top and Bottom performing managers.

Similar to the General Employees' Plan, Mr. Jimenez noted that short term durations and underweights in IT and Industrials were the catalyst for the underperformers seen respectively. While the top performers saw IT, Consumer Discretions and Financial holdings lend to the values seen.

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COA Police Officers' Manager Contribution – YTD Performance

Top Performers	Absolute Performance	Benchmark Performance	Strategy
Colchester Global	+7.5%	+5.9%	Fixed Income
Macquarie SCC	+26.3%	+25.5%	U.S. Equity
Hardman Johnston	+33.8%	+21.5%	International Equity

Bottom Performers	Absolute Performance	Benchmark Performance	Strategy
Garcia Hamilton	+5.8%	+6.8%	Fixed Income
LMCG Investments	+19.8%	+28.5%	U.S. Equity

Performance Overview – Fire Fighters' Pension Plan

Ms. Grant informed the Trustees that the market value as of December 31, 2019 was \$760,864,319.

Similar to the General Employees' and Police Officers' Plans, Mr. Jimenez noted that the total fund composite was in line with the total fund policy benchmark for the month, 3 month and year to date metrics. Mr. Jimenez reviewed in detail the YTD Performance of Top and Bottom performing managers.

Similar to the General Employees' and Police Officers' Plans, Mr. Jimenez noted the same conditions for the under and over performers seen.

COA Firefighters' Manager Contribution – YTD Performance

Top Performers	Absolute Performance	Benchmark Performance	Strategy
Colchester Global	+7.5%	+5.9%	Fixed Income
Hardman Johnston	+33.4%	+22.0%	International Equity

Bottom Performers	Absolute Performance	Benchmark Performance	Strategy
Garcia Hamilton	+7.0%	+8.7%	Fixed Income
LMCG Investments	+19.8%	+28.5%	U.S. Equity

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Following a review of the reports, Mr. Hullender inquired on the status of McKay Shields, Garcia Hamilton and LMCG being under performers again. Mr. Jimenez stated that at this point there was no need to take action or have concern based on the long term performance seen by both managers. As well, Mr. Jimenez noted that the since inception performance experienced has added overall value to the Plan. With 3 interest rate cuts seen in 2019 it had been challenging for Garcia Hamilton as their strategy is based on durations while LMCG has a Value based strategy of which has also not been in favor. To this Mr. Jimenez also went on to note that McKay Shields had been terminated based on the approval of the Board and this manager would be phased out during this transition.

Mr. Light inquired on 2020 being in favor for Growth to continue to outperform Value. To this, Mr. Jimenez noted that there have been rebounds seen with in IT, Energy and Financials that may continue that trend if those stocks continue to be profitable for the market. However, this will still need to be watched over time.

Ms. Archibong inquired on the status of the other plan portfolio changes approved. To this, Mr. Jimenez noted that Colchester was in the process of being terminated and this action is pending. As a rule of thumb it is good to terminate a manager when they are in positive territory not the reverse. As well, the Low Volatility holding was added to the plan.

Mr. Sims inquired on the idea of indexing the entire portfolio. To this, Mr. Jimenez stated that the portfolio has the advantage of having both passive and active manager strategies that add overall value. Mr. Jimenez noted that Marquette tried to find the inefficiencies in the portfolio that were experienced prior to their placement with the plans. It was agreed that the fixed income statute acting in the passive space allowed for downside protection in a long term strategy. In addition, should the all portfolios be indexed it would be extremely hard to meet the target investment assumption of 7.25%.

With no additional questions, comments or discussion the Investment Consultant's Report was accepted as informational.

VII. OLD BUSINESS

COAG – Security Lending – Wells Fargo

Ms. Petzel from Wells Fargo reminded the Board that the approved action to terminate the Citibank Securities Lending Agreement is completed. All securities have been returned and final income has been received.

Principal Financial Transaction Update – Wells Fargo

Ms. Marsha Petzel of Wells Fargo informed the Board there was good news to report regarding the Principal acquisition. Ms. Petzel stated the systems would remain the same (SEI). Principal is building the platform and the accounts will be lifted off the current SEI system and placed onto the new Principal SEI platform. City of Atlanta will keep all transaction history, including statements, and the account

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numbers will remain the same. The migration is scheduled for Presidents Day Weekend 2021.

Custodial RFP

Ms. Petzel informed the Board that Wells Fargo was responding to the Custodial RFP that was issued.

Fiduciary Liability Policy

Ms. Harris informed the Board that she had been working on the Fiduciary Liability Policy Applications and a declination of coverage had been received from one of the brokers. After great concern from a robust discussion the Board requested Ms. Harris provide the Board with the email of reference that provided the explanation for declination of coverage. As well, Mr. Gaffney agreed to assist in the efforts to secure a policy since the Finance Department presently has an insurance broker. It was agreed that Ms. Harris would reach out to Mr. Gaffney to engage in the request.

VIII. NEW BUSINESS

KPMG FY19 Audit Results

Ms. Karen Mitchell with KPMG began by giving a brief presentation of the professional services that KPMG provides the City of Atlanta. Following this, Ms. Mitchell discussed current year internal control observations and their audit findings for (FYE 6/30) 2019 and presented the following highlights for all three (3) Pension Plans:

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There were no signification changes to our planned risk assessment and planned audit strategy presented to the Audit Committee on April 23, 2019.

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Significant accounting estimates relate to Net Pension liability

Significant risks and other significant audit matters relate to the Plans:

- Management override of controls. These are not unique.
- Various subpoenas and investigations by Federal agencies. There was an overlap of management authorized signers

No new accounting pronouncements related to the Pension Plans were noted.

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Material weaknesses

Description	Potential effects	Status
Information Technology Monitoring Access	Delay in the City identifying inappropriate access into the system.	Material weakness communicated in previous audit that had not been remediated during first half of fiscal year 2019.

Description	Potential effects	Status
Pension Plan Census Data	Inaccurate computation related to contributions, net pension liability and payments to individual retirees/beneficiaries.	Material weakness communicated in previous audit that has not yet been remediated.

- Oracle to Cloud implementaiton done mid audit year during 2018 and final remediation not completed until 2019. This will not be a Material Weakness in 2020.
 - Mr. Amis stated that AIM had rectified this matter. In addition, Mr. Amis informed the Board that Zenith had met with City Payroll and Deloitte to address some payroll concerns of reference.
- Census data reported in prior years. Continued recommendation to management for timely reconciliation of census data.
 - Mr. Amis stated that the City would be working with a third party entity to address the high risk populations.

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Material weaknesses

Description	Potential effects	Status
Pension Plan Benefit Payments	Possible overpayments and/or underpayments to retirees and beneficiaries.	Material weakness communicated in previous audit that has not yet been remediated.

Description	Potential effects	Status
Actuarial Assumptions	Misstatement in pension plan disclosures (Police Officers and Firefighters' Plans)	Material weakness identified in 2019.

- Over/Underpayments
 - Mr. Amis stated that the City was presently working with Zenith and the Fund Attorney and the City Law Department in regards to the Over/Underpayments.
 - Mr. Hullender noted that the Firefighters' Committee had discussed this matter at the prior months meeting held in December. It was determined that there may be some headline risk to recouping the overpaid pensions. As well, the Annual Valuation process

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for determining the required contribution makes the plan whole by design as this value is already rolled into that figure.

- Ms. Harris noted that Zenith has encouraged the City to adopt formal procedures for Over/Underpayments. In addition, this could cover an annual Proof of Existence letter process that is currently underway for all Plans on the Committee level.
- Mr. Emerson confirmed that the appeals process would be handled at the Investment Board level.
- The Board requested Ms. Harris provide them with copies of the Committee debriefs and Minutes for their reference. In addition, it was agreed that if there are any matters of interest that have been addressed on the Committee level the Chairman of that Committee would present those matters to the Investment Board.
- Fire and Police mortality tables were updated during the plan year and report had to be returned Actuary to have audit performed using new tables
 - Mr. Chuck Carr of Southern Actuarial stated that the mortality table was updated to the generational approach as approved; however, the table in question was released in February 2019. This table was not published with the valuation was completed and as such it would not have been used. This new table will increase the liability for the Plan however this value would not be reflected until the 2019 Valuation is complete which is currently in progress.

Ms. Mitchell advised the Board that the Engagement Letter has been provided annually and a copy would be provided to them for their continued information. Mr. Council indicated there is an ongoing cadence to monitor the audit and its findings consistently.

With no additional questions or discussion, KPMG concluded the Audit Results Report that was accepted as informational.

Experience Study – Actuarial Recommendations – Southern Actuary/Segal Actuarial

Mr. Chuck Carr of Southern Actuarial Services addressed the Board by stating the Experience Study had been done every few years in order to review all assumptions. The last time the General Employees' Plan was done was in 2017 and it had been much longer since it was done for Fire and Police. Mr. Carr recommended that this study be done by Segal for all of the City's defined benefit plans. Ms. Jeanette Cooper of Segal recommended that in performing the updated study, Segal evaluate different mortality tables including the Pub-2010 tables. The Board requested Ms. Cooper present a proposal to perform an experience study for the Fire, Police, General and School Board plans at the February meeting.

Joint & Survivor Factors – Segal Actuarial

Ms. Cooper informed the Board that the Plan Ordinance (Section 6.2) stating that the 75% joint and survivor benefit should be actuarially equivalent but that the ordinance did not state what actuarial equivalence basis to use, specifically the interest rate and mortality table, or how often the factors should

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be updated. Ms. Cooper noted that the APS Plan was not covered in this Ordinance since that Plan was still administered under the plan provisions prior to Pension Reform. Ms. Cooper noted that she conferred with Mr. Carr and their joint recommendation was to use the 3rd segment rate plus 2% used to determine lump sums in ERISA plans as of the October prior to the calendar year and the lump sum unisex table for the current year with both interest and mortality updated annually for each calendar year. The October rate was recommended to be consistent with the COLA factors that are conditioned on the CPI using October as a lookback month. Ms. Cooper stated that she could send the tables or do a more formal analysis comparing factors under alternative assumptions. Mr. Williams agreed that it would be prudent to have Segal do the additional analysis and discuss the recommendation with Human Resources first in order for their input to be vetted and provided to the Board. Mr. Williams stated that he would take the lead on this item with the intention to engage by Mr. Amis and Mr. Norman.

Mr. Lee Ramey

Mr. Lee Ramey approached the Board after his appearance at the General Employees' Committee meeting the week before. Mr. Ramey was allowed to discuss his concerns with a letter that he received from Zenith stating that during the process of an audit it was determined that an error was made with his gross monthly pension amount. The letter stated that his pension benefit would be reduced effective November 29, 2019 and Mr. Ramey stated that this was a hardship to him financially.

The Board agreed to address this matter in Executive Session at the conclusion of regular agenda business.

Merit Medical – Security Litigation

The Board agreed to address this matter in Executive Session at the conclusion of regular agenda business.

IX. QUESTIONS AND COMMENTS FROM AUDIENCE

There were no questions and comments from the audience. At 12:23 p.m. *a motion was made by Mr. Hullender to enter into Executive Session to discuss matters of Member Concern and Security Litigation. This motion was seconded by Mr. Williams and the motion carried with unanimous decision.*

A motion was made by Mr. Williams to continue the benefit payments to Mr. Ramey at the correct amount and allow for an appeal with hardship conditions to be extended. This motion was seconded by Mr. Berry and the motion carried with unanimous decision.

A motion was made by Mr. Light to allow Saxena White to take the role of Lead Plaintiff on the matter of Merit Medical. This motion was seconded by Mr. Hullender and the motion carried with unanimous decision.

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At 1:40 p.m. a *motion was made by Mr. Hullender to exit Executive Session and return to regular agenda business. This motion was seconded by Mr. Light and the motion carried with unanimous decision.*

X. DATE OF NEXT MEETING

The next Investment Board meeting is scheduled for February 19, 2020. The Board requested that Ms. Harris create a calendar of all meeting dates and locations for 2020. It was also discussed that Mr. Amis would have to confirm the dates in which the City Council Calendar created a conflict with the ongoing meeting dates in accordance to the Bylaws. To this Mr. Hullender requested that the Board Members reply to the Outlook Invites sent from Zenith so that the quorum could be established timely and so that Ms. Harris could limit the ongoing monthly follow ups for response.

XI. ADJOURNMENT

There being no further business to be brought before the Board at this time at 12:13p.m. a *motion was made by Mr. Berry to call for adjournment. This motion was seconded by Mr. Williams and the motion passed with unanimous decision and the meeting was adjourned.*