

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

May 4, 2016

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on May 4, 2016 in City Hall, Committee Room 2, Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Angela Green
Dr. Gregory Nash
Gina Pagnotta-Murphy
Jason Esteves – (by telephone)

Jim Beard
Yvonne Yancy
Aretha Sumbry-Powers
Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Ray Adams, Office of Retirement Services, Tracie Gay, Kristen Denius of City Law Department; Peter Chan, Morgan Lewis; Gwelda Swilley-Burke of Callan Associates, Laurel Hill and Monique Etheridge of Wells Fargo, and Jeanette Cooper of Segal.

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

ADOPTION OF AGENDA:

Mr. Strachan motioned to add a Pension Website update item to the Agenda under New Business.

MOTION: A motion was made and seconded to adopt the agenda with the addition of the pension Website item added. The motion passed.

APPROVAL OF MINUTES:

Minutes from the April 6, 2016 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 April 6, 2016 meeting as presented. 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.

Mr. Larimer stated that the two applicants that had a month's penalty applied had been made aware and had approved proceeding with their applications.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-14 as listed on the attached spreadsheet dated May 4, 2016. The motion passed.

DISABILITY PENSION APPLICATIONS

There were no Disability Pension applications.

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. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

Mr. Larimer reviewed the Check Register dated May 4, 2016.

MOTION: A motion was made and seconded to approve 11 items: #61526 - #61536 on the Check Register dated May 4, 2016 totaling \$507,057.00. The motion passed.

REVIEW OF FINANCIALS:

The financials for the period ending March 2016 were reviewed by the board.

MOTION: A motion was made and seconded to accept the unaudited financials for March 2016 for further review by the Finance Department. The motion passed.

Review of Annual Financials by Finance Department – This item was deferred to the next meeting when Mr. Kirschbaum will comment on the financial statements as of March 31, 2016.

2015 Audit Findings - Mr. Kirschbaum reviewed a summary of the 2015 Audit Findings from KPMG. The table included a comparison to the Audit Findings from 2013 and 2014. The table shows considerable improvement in addressing the findings over the period: of the seven findings in 2013, four were addressed and removed in 2014 and were not cited in 2015; another related to plan participants being placed in the incorrect plan and, while appearing in all three years, the frequency of this problem has declined and has been identified as keying errors during the new hire process and has

been addressed with enhanced procedures; two others were related to a technical shortcoming in the time period covered by the SSAE-16 Report from the TPA that has since been resolved. One new item in 2015 relates to monitoring of the plan's alternative investments and has been addressed with additional staffing in the City Finance department and is not expected to be an issue next year. In response to a question from the board, Mr. Kirschbaum commented that overall he was pleased with the Audit Finding Report and the progress being made to address the few remaining items in 2016.

ACTUARY REPORT

Ms. Cooper reviewed a draft of the July 1, 2015 Actuarial Valuation for the City. All categories of participants – Actives, Retirees, and Terminated Vested – remained relatively stable year over year. Total payroll increased by 2.8% and average payroll went up .8%. Ms. Cooper noted an increase in the mortality rate for the year.

Plan administration expenses are allocated based on percentage of assets between City and APS which 90% City and 10% APS. Return on investments is also allocated on this basis and was 4.9% for the year compared to the 7.5% actuarial assumption; the smoothing technique used to develop the valuation evens out the return for a 5-year period.

Suggestions were made to prepare an abbreviated summary with a graph that simplifies the message for use in posting to the Website and for presentation to Council. Ms. Cooper will prepare a draft and send to the board.

Normal cost was \$18.8 million, up slightly from the previous year, with employee contributions of \$16.7 million and employer contributions of \$2.1 million. The recommended contribution for the year is \$53.8 million or 35.5% of payroll, down somewhat from last year of \$54.2 million and 36.8%, respectively. The funded percentage for the year was 61.5%, down 1% from last year. On an actuarial basis, after the effect of smoothing investment returns, the funded percentages are 57.8% and 55.5% for the prior year. After some discussion, it was decided that in the summary the market basis should be used with an asterisk to referring other sections of the report.

Ms. Green asked when the plan would be fully funded. Mr. Beard explained that after the plan elected five years ago to go to closed amortization of 30 years, the target is 25 years from this year. The plan has been holding to this target since implementation five years ago.

At the suggestion of the board, Ms. Cooper will allow two weeks for comments to receive comments from the board; if none are received the final valuation report will be distributed.

INVESTMENT CONSULTANT REPORT - Callan

Flash Performance Report – March 2016 – Ms. Swilley-Burke of Callan commented that the portfolio remained within target allocation for the month of March; overall returns were 1.71% net of fees vs. 1.49% for the Policy Index for the quarter. For the month, performance was slightly under the Policy Index – 5.53% vs. 5.60%.

Capital Markets Memo – Callan's annual Capital Markets analysis showed a 10 yr. Geometric Mean Return of 6.64% representing the forward projection of returns that can be expected in the future. The Standard Deviation of this projected return is 13.94%.

Work Plan for the Year – Ms. Swilley-Burke reviewed a draft of their Work Plan for the upcoming year including the scheduled review of the Investment Policy Statement in the second quarter and manager fees in the third quarter. Mr. Strachan asked that the final Plan be on the June agenda.

JP Morgan Core Bond –Callan prepared a memo dated April 14, 2016 summarizing multiple key personnel changes that have occurred over the past nine months among the JP Morgan Core Bond portfolio team. Based on these changes, Callan no longer has confidence in the continuity of portfolio team and recommended that the board undertake a manager search to replace them for this \$69 million in the portfolio. The board agreed. Ms. Swilley-Burke suggested that she send the manager profiles to the board within in few days for review and approve. The board can also add specific manager names for consideration. She proposed the Callan process and presentations of alternative managers at the August meeting. Ms. Yancy expressed that she would like to have the process completed before August; Ms. Swilley-Burke stated that she could not promise completion prior to August. Manager and peer group comparisons will be presented at the August meeting with a selection decision targeted for September.

Ms. Swilley-Burke reported that she had received notice from Mesirow than Linda Jordan, the relationship manager for the GEPP, was no longer with Mesirow. No details of her departure were available. The board felt strongly that Mesirow management and the person who will be replacing Ms. Jordan should attend the board meeting in June for purposes of discussing the change and introducing the new contact person.

Ms. Swilley-Burke suggested that a series of education sessions be presented by Callan to address investment topics. She thought it would make sense, given the difficulty of scheduling additional board member time, that these sessions be planned for 20 minute segments as part of regularly scheduled board meetings. The board concurred on this approach with educational sessions to begin in August.

OLD BUSINESS:

Social Security Monitoring to Check Ongoing Eligibility for Disability – Ms. Yancy reported that Social Security Administration that no individuals currently receiving a disability pension from the GEPP are reporting Social Security wages from other employment. This check was undertaken to verify that people receiving a disability benefit were in fact still disabled and were not taking advantage of the system by continuing to accept disability benefits while continuing to work elsewhere. Social Security Administration also provided a contact in the local office who will furnish a report once a quarter.

NEW BUSINESS:

Website Update – Mr. Strachan reported to the Board that pension Website – AtlantaGA.gov/pension is in the process of being updated with links to General, Police and Fire. Permission to add the links has been approved by General and Police; waiting on permission from Fire. The information on the Website has been refreshed with current minutes, the actuarial valuation report summary will be added, and other useful participant information will be updated on a regular basis. He requested that a message be included on the Annual Pension Statement scheduled to be mailed in May or early June.

Intercontinental Portfolio Review – Eugene Duffy and Peter Palandjian – Mr. Palandjian introduced the Intercontinental Real Estate Corporation, its management team and investment process. He described the firm as a “one-fund shop”, focusing all efforts on only one \$5.1 billion real estate portfolio. He described the strategy as Core Plus: multiple, primary markets, leased existing properties in a variety of office, multi-family, industrial and retail. The GEPP has committed \$17 million on 12/31/2014 which was invested within two quarters; the Net Asset Value at 3/31/2016 is \$18.8 million.

Mr. Palandjian reviewed the portfolio characteristics including debt maturity schedules, loan-to-value ratio, lease expirations and occupancy. Portfolio performance for 2014 was 12.5%; 2015 was 15.02% and year to date 2016 of 2.21%.

Mr. Beard asked about the pace of investment of new money. Mr. Palandjian commented that relative to the portfolio's peers, relatively quickly due to their multiple property strategy giving them more choices. In response to a question, Ms. Swilley-Burke reviewed the JP Morgan Real Estate fund, to which the GEPP committed \$17 million in January 2015, and confirmed that no calls on that have been made. JP Morgan is saying that they expect to make the first capital call of approximately 50% of the commitment in July with the balance being requested in October. Since the commitment date, the \$17 million has been invested according to the IPS asset allocation in other investments, not in real estate as intended. Ms. Swilley-Burke stated that it was Callan's recommendation to stick with the original recommendation to allocate a portion to Intercontinental and to JP Morgan for better diversification purposes. She reaffirmed JP Morgan's position that a Capital Call is expected no later than July of this year.

The board expressed impatience with the slow pace of calling this capital for investment and inquired about the exit provisions of the contract with JP Morgan to consider re-allocating the commitment amount. Mr. Strachan suggested that questions as to the terms of the contract be referred to Morgan Lewis for review.

MOTION: A motion was made to rescind the \$17 million commitment to the JP Morgan Real Estate Fund and reallocate the commitment amount to the Intercontinental Real Estate Fund, subject to legal review of the commitment exit provisions under the JP Morgan contract.

Considerable discussion continued on the motion regarding the length of time it was taking to call the committed capital, the opportunity costs of the delay and the possible benefits of diversifying across two portfolios. Ms. Green commented that she thought it would be fair to allow JP Morgan the opportunity to address the board and present the reasons for the length of the queue.

The motion passed; 7 Aye and 2 Nay: Angela Green and Gregory Nash voted against.

Mr. Chan said he could have the investment contract reviewed within two weeks, subject to a conflicts review within Morgan Lewis.

LAW REPORT

City Law Department – Ms. Denius reported that Gerrard Grant is no longer with the City having left for another opportunity. Desmond Dorsey has been hired to assume Mr. Grant's responsibilities.

Ms. Denius updated the board on an unusual circumstance involving a deceased participant. The beneficiary and County marriage records indicate four possible spousal beneficiaries. The Law Department and GEMGroup will undertake further research to attempt to determine the true beneficiary. It is likely that the Law Department will recommend that the estate of the deceased be probated so that the Court can make the final determination.

Morgan Lewis – No Report

PUBLIC COMMENT

There being no further business before the board, the meeting was adjourned at 11:15 a.m.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary