

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

May 6, 2015

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on May 6, 2015 in City Hall, Room 1500, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Aretha Sumbry-Powers
Dr. Gregory Nash
Jason Esteves

Jim Beard
Angela Green
Gina Pagnotta-Murphy

NOT PRESENT:

Yvonne Cowser Yancy and Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Kristen Denius of City Law Department; Ray Adams of Office of Retirement Services; Gwelda Swilley-Burke and Dana Brown of Callan Associates, Robert Stanley of Atlanta Public Schools, and Gene Kirschbaum, City Finance and Accounting Department, Monique Etheridge and Laurel Hill of Wells Fargo and Derek Batts of Morgan Stanley, Eric Atwater and Jeanette Cooper of Segal Consulting.

Mr. Strachan called the meeting to order at 9:35 AM. A quorum was present.

ADOPTION OF AGENDA:

MOTION: A motion was made and seconded to adopt the agenda. The motion passed.

Mr. Larimer made a request that the August meeting date be changed from August 5th to August 12th.

MOTION: A motion was made and seconded to move the August 5, 2015 meeting date to August 12, 2015. The motion passed.

APPROVAL OF MINUTES:

Minutes from the April 1, 2015 board meeting were provided in the meeting packages in advance; copies of the minutes of the March 26 Special Called meeting were distributed at the meeting. Upon review,

MOTION: A motion was made and seconded to approve the minutes of the April 1, 2015 and March 26, 2015 meetings as presented. Angela Green voted No on the April 1, 2015 minutes, explaining that, in her opinion, the minutes were inadequate in detail. 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 commented that applicant No. 15 had been deferred from last month's agenda pending confirmation that the Plan does not require a vesting penalty be applied for a participant who is 65 years of age or older. This interpretation was confirmed by City Law Department.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-15 as listed on the attached spreadsheet dated May 6, 2015. The motion passed.

DISABILITY PENSION APPLICATIONS

The Disability Pension applications on the attached spreadsheet were presented to the Board for approval.

MOTION: A motion was made and seconded to approve the disability pension applications Nos. 1 and 2 listed on the attached spreadsheet dated May 6, 2015. The motion passed.

BENEFICIARY PENSION APPLICATIONS

The Beneficiary Pension applications on the attached spreadsheet were presented to the Board for approval. Dr. Nash asked about application No. 4 where the last names were different. Mr. Larimer stated that additional documentation had been received that verified that the beneficiary was entitled to the benefit.

MOTION: A motion was made and seconded to approve Beneficiary Pension applications Nos. 1 - 4 on the attached spreadsheet dated May 6, 2015. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated May 6, 2015 was presented for review and approval.

Dr. Nash asked why the Segal invoice for actuarial services was split 50/50 between the City and Atlanta Public Schools instead of the customary 90/10. Mr. Beard responded that the work was evenly proportioned between the two plan components and was not related to the number of participants or the relative asset size.

MOTION: A motion was made and seconded to approve 17 items: #57236 - #57232 on the Check Register dated May 6, 2015 totaling \$813,850.10. The motion passed.

REVIEW OF FINANCIALS:

The financials for the period ending March 2015 were reviewed by the board.

MOTION: A motion was made and seconded to accept the unaudited financials for March 2015 for further review by the Finance Department. The motion passed.

LAW DEPARTMENT:

No Report

ACTUARY REPORT

Eric Atwater of Segal presented the Actuarial Valuation review for the City of Atlanta as of July 1, 2014, which had been distributed to the trustees in advance. The City's recommended contribution for fiscal year-ending June 30, 2016 is \$47.4 million or 32% of projected payroll. This is a decrease of approximately \$500,000 from last year, primarily as a result of favorable investment returns. The Plan's Unfunded Actuarial Accrued Liability (UAAL) decreased from last year by \$25.5 million to \$883.1 million, again largely the result of better-than-expected investment returns.

The funded ratio for the Plan increased to 60.7% from 54.4% on a market value basis as of July 1, 2014. This compares to a GASB method calculation of 62.9%.

Plan assets earned 18.9% for the year. The Plan uses a valuation method that recognizes 20% of each year's market gain or loss in order to smooth our fluctuations; the impact of this smoothing was an actuarial return on assets of 12.01%. The unrecognized investment gain as of June 30, 2014 is \$135.3 million. Because these gains will be recognized over the next few years, it implies that if the Plan achieves its actuarially assumed investment return of 7.5% the amount of the required contribution would decrease each year, assuming all else remains equal.

Responding to a question by Mr. Strachan, Mr. Atwater pointed out that the Police and Fire Plans use the same methodology to both Fund those Plans and to prepare the actuarial reports. This requires a slightly higher contribution level. The City, however, uses different methods – both acceptable -- to Fund and report. Dr. Nash asked Mr. Atwater for his recommendation as the Plan's actuary. There would be no downside to the Plan because the change would result in the City contribution increasing; the City would have to approve the change in methodology to conform to the Police & Fire Plans. Mr. Strachan asked for a motion for a non-binding recommendation from the board to the City to adopt the change.

MOTION: A motion was made and seconded to recommend that the City adopt the same methodology to both Fund and to prepare actuarial valuations as is currently being used in the Police and Fire Plans. The motion passed.

Jeanette Cooper of Segal presented the Actuarial Valuation review for the Atlanta Public School as of July 1, 2014, which had been distributed to the trustees in advance. The School Board's recommended contribution for fiscal year 2016 is \$50.4 million, an increase of \$1.5 million over the previous year. Pursuant to a prior agreement, the contribution to the APS Plan will increase by 3% each year until the Plan is fully funded.

The market return on assets for the APS is reported at 11.0%; the market return on assets for General Employees' was 18.9%; total combined fund earned 18.1%. This variance was caused by the elimination of an erroneous accounts receivable in the amount of \$8.3 million that had carried from prior years. KPMG and City auditors determined that it was not valid and was eliminated in 2014, resulting in a charge to expenses. This was a one-time, non-cash transaction.

At the recommendation of both Mr. Atwater and Mr. Kirschbaum, City Finance,

MOTION: A motion was made to resume in future years a proportional allocation of Plan expenses and to discuss in advance any exceptional transactions prior to deviating from the standard proportional allocation. The motion passed.

Ms. Cooper reported for APS a funded ratio on a market value basis of 19.0%, up 1.2% from last year.

INVESTMENT CONSULTANT REPORT

Flash Performance Report – March 2015 – Dana Brown reviewed portfolio performance for the period ending March 31, 2015. For the month the portfolio returned 10 bps compared to the policy index of negative 64 bps; results for the quarter and last year also exceeded the policy benchmark. Mr. Brown noted that the Large Cap segment for the month was negative. A bright spot was good defensive performance by Morgan Stanley, down only 29 bps against its benchmark being down 158 bps. In Mid-Cap, Ceredex continued to struggle, underperforming for month, quarter and full year. Their holding of SanDisk negatively impacted the return for the month and quarter. Also in the Mid-Cap space, Cornerstone outperformed its benchmark by almost 30 bps for the month. The Plan's active international managers performed quite well. Total assets were \$1.290 billion.

Ms. Swilley-Burke reminded the board that Legato had recently funded their portfolio and performance will be reported in future periods. She also reported that the legislation to allow investment by public funds in mutual fund vehicles had passed the Georgia legislature and was awaiting the Governor's signature. The measure is expected to become law in June and funding of the portfolio of the new managers would be ideal in July.

A discussion concerning votes by telephone and / or proxy was initiated. Ms. Denius explained that generally board members must be physically present to vote; however, if a legal quorum is physically present at the meeting, other board members can participate by telephone or by submitting a proxy and those votes would be valid.

Ms. Swilley-Burke pointed out that the Board, in anticipation of the legislation taking effect, needed to select mutual fund index managers for the approved allocation to passive strategies. The board asked if presentations from prospective managers were necessary; Ms. Swilley-Burke commented that typically index fund managers would not be interviewed.

MOTION: A motion was made and seconded to adopt the schedule, as proposed by Callan, to hear presentations from existing managers over the next 4 – 6 months. The motion passed.

Ms. Swilley-Burke mentioned that the Investment Policy Statement will need to be modified to accommodate the use of index funds. Mr. Strachan asked that a draft with the edits be circulated to the board in advance of the next meeting.

Ms. Green asked if Ms. Swilley-Burke would reach out to Gray & Company and ask if they received a Wells notice from the SEC and, if so, did they send a copy of the notice to the board.

Responding to several of her constituent's inquires, Ms. Green asked that the insurance deduction amount from retirees benefit checks be included on the 1099R Tax Reporting forms sent to recipients at the end of the year to assist them in completing their tax returns. Mr. Adams answered that the amount of the deduction is not the correct number to put on the 1099R form; retirees can see the number on their last check stub. The correct number that should go into that box is not a number available to GEMGroup – it would come from City payroll.

OLD BUSINESS:

Securities Monitoring Update – Discussed above.

By Laws Review and Discussion – This issue had been discussed several times over the past year and Mr. Strachan asked that the matter be brought to a vote. After a brief discussion,

MOTION: A motion was made and seconded to remove Sections 2.4.1 and 2.4.2 from the By Laws. The motion passed.

NEW BUSINESS:

Three firms: Milberg LLP, Motley Rice, and Robbins Geller Rudman & Dowd, were invited to discuss their capabilities and to make recommendations on the merits of the General Employees' Pension Fund serving as lead plaintiff in SanDisk securities litigation matter. Each of the firms presented their qualifications, shared some of their preliminary research on the merits of the case and the potential size of the claim, and the prospects for winning a meaningful award that would make the effort worthwhile.

All three firms made highly professional presentations and were well-received by the Board. The merits of the proposals and a course of action would be discussed in Executive Session.

MOTION: A motion was made to go into Executive Session to consult with legal counsel concerning a potential litigation matter. The motion passed.

{Executive Session}

MOTION: A motion was made to return to the regular open meeting. The motion passed.

MOTION: A motion was made and seconded not to pursue lead plaintiff status in the SanDisk securities litigation matter. The motion passed.

Representatives of the three law firms were informed of the Board's decision and thanked for their time, effort and recommendations.

Mr. Strachan invited Calvin Ishmael to make the board aware of an upcoming conference – National Association of Securities Professionals – to be held in Chicago. The organization was founded by Maynard Jackson and, among other things, promotes participation of women and minorities in the securities industry. He mentioned that the General Employees' Pension Plan is a past recipient of an award from the organization.

Mr. Strachan suggested that the board consider a membership in the National Association of State Retirement Plans (NASRA). The cost for the entire board would be \$2700 annually. Membership would provide access to a wealth of data and information on peer pension and health care plans sponsored by municipalities and states around the country.

MOTION: A motion was made and seconded to join the NASRA organization at an annual cost not to exceed \$2700. The motion passed.

Respectfully submitted:

Douglas I. Strachan, Chair

Jim Beard, CFO & Secretary

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Respectfully submitted:



Douglas I. Strachan, Chair



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