

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

June 3, 2015

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on June 3, 2015 in City Hall, Room 1500, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Aretha Sumbry-Powers
Dr. Gregory Nash

Jim Beard
Angela Green
Gina Pagnotta-Murphy
Yvonne Cowser Yancy

NOT PRESENT:

Jason Esteves, Gina Pagnotta-Murphy and Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Gerrard Grant of City Law Department; Misty Robinson of Retirement Services; Gwelda Swilley-Burke 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, and Eric Atwater of Segal Consulting.

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

ADOPTION OF AGENDA:

A request was made to add Disability Pension Summary to the Agenda for review and discussion.

MOTION: A motion was made and seconded to adopt the agenda with the Disability Pension Summary item added. The motion passed.

APPROVAL OF MINUTES:

Minutes from the May 6, 2015 board meeting were provided in the meeting packages in advance. Ms. Green asked that the minutes be corrected on page 2 to reflect that she had voted No on the May 6, 2015 meeting minutes because, in her opinion, the minutes were inadequate in the level of detail.

MOTION: A motion was made and seconded to approve the minutes of the May 6, 2015, with the correction as noted above. 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 the service pension applications Nos. 1-13 as listed on the attached spreadsheet dated June 3, 2015. The motion passed.

CORRECTION

One Correction on the Agenda was the result of additional years of service being located for this applicant when he questioned the final application package. Board of Education payroll records confirmed additional years of service for him, his benefit amount was recalculated and the corrected amount presented for final approval on the June 3rd Agenda.

MOTION: A motion was made and seconded to approve the Correction as shown. The motion passed.

DISABILITY PENSION APPLICATIONS

There were no Disability Pension Applications.

BENEFICIARY PENSION APPLICATIONS

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

MOTION: A motion was made and seconded to approve Beneficiary Pension applications Nos. 1 - 6 on the attached spreadsheet dated June 3, 2015. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated June 3, 2015 was presented for review and approval.

In response to a question from Mr. Beard, Mr. Larimer explained that the Small World Solutions invoice for \$1200 was an annual charge for this vendor that provides Death and participant location services to the Pension Plan.

Ms. Green asked about the \$18,000 expense for Cypher & Cypher. Mr. Larimer explained that this was the charge from the accounting firm to perform a supplemental SSAE-16 Internal Controls Audit of GEMGroup in order to satisfy a KPMG audit requirement for the City. By prior agreement, the board had approved this expense not to exceed \$18,000.

MOTION: A motion was made and seconded to approve 9 items: #57577 - #57585 on the Check Register dated June 3, 2015 totaling \$387,842.53. The motion passed.

Mr. Strachan asked for approval to issue checks using facsimile signatures in order to make payment on two invoices for the Board's membership, as authorized at the May 6th meeting, in the NASRA and NCPERS associations.

MOTION: A motion was made to authorize GEMGroup to issue two checks using facsimile signatures in the amounts of \$2700 for NASRA and \$500 for NCPERS for annual membership fees to these two associations. The checks will appear on the July Check Register. The motion passed.

REVIEW OF FINANCIALS:

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

MOTION: A motion was made and seconded to accept the unaudited financials for April 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

Performance Report – March 2015 - Ms. Swilley-Burke commented on current market conditions and the environment and reviewed the overall asset allocation of the Plan as of March 31, 2015.

Mr. Strachan asked about the current status of the alternatives portfolio. The board concurred that they would like to have Five Stone Green and US Lending, two underlying managers in the GrayCo Core Alts II portfolio, give an update on their performance at the next meeting. Ms. Swilley-Burke said she would make the request through Gray & Company.

The performance summary showed all the equity and fixed income managers delivering positive returns for the quarter. The overall returns for the quarter were 2.84% vs. 2.1% for the Policy Index and for the one, three and five year periods the Fund exceeded its Policy Index by 31 bps, 93 bps, and 3 bps, respectively, net of fees. The Fund compared favorably again a peer group of other Public Funds, ranking in the top quartile in the 1, 3, & 5 year periods.

Ms. Swilley-Burke reviewed each of the managers in the Executive Summary and the full report is filed in the Fund Office and by reference is part of these minutes.

Review of Mutual Fund Managers for Approved Passive Strategies - Ms. Swilley-Burke presented a matrix table of index manager candidates S&P 500, S&P 400 Midcap and Barclays Aggregate. The managers presented for consideration were BlackRock, Northern Trust, Rhumblin, Vanguard and State Street. The metrics included fees, including the scaled tiers depending on mandate size and the splits on securities lending.

Mr. Strachan asked for Callan's recommendations. For the S&P segment, Ms. Swilley-Burke stated a preference for either BlackRock or State Street. Based on the existing relationship,

MOTION: A motion was made to select BlackRock for the S&P mandate of the index strategy (approximately \$156 million) including securities lending. The motion passed.

For the Mid Cap segment, the board expressed a preference for either Rhumblin or Northern Trust. Ms. Swilley-Burke concurred.

MOTION: A motion was made to select Rhumblin for the Mid Cap mandate in the index strategy. (approximately \$89 million) without securities lending. The motion passed.

In the Fixed Income – Barclay Aggregate portion,

MOTION: A motion was made to select State Street for the Fixed Income mandate in the index strategy (approximately \$74 million) including securities lending. The motion passed.

Ms. Green commented that she had been continuously asking since February to get a copy of the Wells Notice Letter that had been sent to Gray & Company by the SEC. She was told by Ms. Foreman at Gray & Company that it had been sent to Mr. Strachan and to GEMGroup. She wants to know why she did not get a copy even after asking for it. The other board members stated that they had not received it. Ms. Green said it could not have been missed because she has a copy of a receipt that delivery was made to Mr. Larimer and Mr. Strachan. She implied that the information was being withheld from her and she expects to receive any information that she makes a request for. Mr. Larimer stated that he had looked for the letter but could not locate it and did not have a record of having received.

Ms. Yancy asked that Mr. Larimer contact Gray & Company today and obtain the Wells Notice and forward it to the board.

Subsequent to the meeting, Mr. Larimer contacted Ms. Foreman at Gray & Company and learned that receipt by Gray & Company of a Wells Notice Letter had been disclosed in their Form ADV filing, a copy of which was delivered to Mr. Larimer. All of the Plan's investment managers file a Form ADV at least annually and, because it is typically a 50+ page document, it is not normally forwarded to board members. Ms. Foreman provided another copy via email of Gray & Company's Form ADV and Mr. Larimer forwarded it to board members with an explanatory email. Ms. Foreman stated that a Wells Notice Letter is a private communication between the SEC and the Company that receives it and, upon advice of Gray & Company's legal counsel, was not distributed publicly.

OLD BUSINESS:

Securities Monitoring Update – None

NEW BUSINESS:

Cash Projections and Cash Raise – Mr. Larimer reviewed the Cash Projections included in the meeting books showing the Plan's cash needs over the June – August period of \$24.7 million to fund benefits and expenses and requested approval to raise \$26 million. Gwelda Swilley-Burke provided Callan's recommendation to fund the cash raise from the BlackRock Small Cap ETF.

MOTION: A motion was made and seconded to approve a cash raise of \$26 million to fund Plan benefits and expenses from the BlackRock Small Cap ETF portfolio. The motion passed.

Pension Payments Examination Project – Cost Estimate – Mr. Strachan introduced this proposed project as being a review of all current retiree and beneficiary pension recipients to determine that the amount being paid is consistent with what was originally calculated and approved by the board. Ms. Green asked which years would be covered. Ms. Yancy explained that scope of the project would include all participants currently receiving a pension.

Ms. Green asked the Law Department to send to her a copy of the GEMGroup contract. Mr. Larimer offered to send a copy of the contract to all board members.

Mr. Larimer presented the proposal for discussion. The scope of the project would be to review every original calculation sheet contained in the pension files of each retiree (currently 5922) and comparing the originally calculated benefit amount with the amount currently being paid, adjusted for COLA. The objective would be to uncover any over or under payments caused by administrative or clerical errors in the set up phase to identify potential situations such as the Raiford Jackson case in which a substantial overpayment occurred and was not caught for a number of years. The estimated cost of the project was \$248,000 with projected completion date of 9-12 months.

Ms. Green asked questions to clarify that the scope of project did not include recalculating the pensions but would be focused only on making sure that the calculated amount was entered and set up properly in the system. She also made the point that the project should not include, or there should be no charge, for the pensions that were processed during the period of GEMGroup's administration – November 2009 to present. Ms. Yancy pointed out that the time period of greatest risk of errors included those years when two system conversions occurred at the City and the time period covered by the project could be shortened. Ms. Green opined that there should be a "credit" against the charges for time spent by staff of the Office of Retirement Services (ORS) to research certain files, if necessary. Mr. Larimer stated that the files in the GEMGroup Atlanta office were about 97% complete and there should not be significant input needed from ORS, but any time would be tracked.

Mr. Strachan summarized the feedback on the proposal by directing Mr. Larimer to bring back a revised proposal that: 1) excludes pensions calculated by GEMGroup from 2009 – to present; 2) identify the number of pensions calculated during the span of years – roughly 2000 - 2009 - during which HR system conversions at the City may have disrupted normal procedures; and 3) revises the cost estimate downward based on the reduced project scope.

Update on Other Post Retirement Employee Benefits (OPEB) – Following up on a request from Gina Pagnotta-Murphy, Ms. Yancy briefed the board on the City's efforts to continue to offer a quality post-retirement package to the City's retired population while prudently managing the cost. Currently, the OPEB liability, the projected cost to provide these benefits over time, is \$1.4 billion. The liability is trending downward and Ms. Yancy reiterated that there is no plan to eliminate or reduce these benefits. There are approximately 1200 people who accrued benefits during a time when the City did not pay into Medicare and therefore are not eligible for this Federal government program; this group account for approximately 45% of the City's OPEB liability. The focus of the City's cost management plan is to have this portion of the population enroll in Medicare and the City will pay the employer penalty. The result will be a savings of approximately \$2-\$3 million annually, net after paying the penalty. Ms. Yancy commented on another important initiative being the addition of a comprehensive Retiree Wellness Program to improve health and lower future health care costs.

Appeal – Otis Hampton Spousal Beneficiary - Mr. Larimer briefly summarized the facts of the denial of beneficiary benefits to the widow of Otis Hampton. The Hamptons were married in 1976, divorced in 1982 and remarried in 2004, after Mr. Hampton had retired in 1989. Mr. Hampton paid the 1% spousal benefit amount for all but the last 15 months of his employment and was not paying it at the time of retirement. Mr. Hampton deceased in 2015. Because Mr. Hampton was single when he retired and was not paying for the 1% spousal benefit at the time of retirement, Mrs. Hampton was not eligible as a beneficiary. The amount that would have been paid by Mr. Hampton during the 15 months leading up to his retirement totaled approximately \$480.

Ms. Yancy recalled that the board in previous similar instances had allowed the 1% amount due to be paid by the spouse. Ms. Green asked for direction from the Law Department. Gerrard Grant stated that the City Law Department review of the facts and circumstances indicated that granting Mrs. Hampton's appeal was within the Board's discretion.

Mr. Beard noted that the amount to be paid back by Mrs. Hampton should include the original amount plus earnings that the Plan would have derived had the money been in the Plan for the full period of time. The assumed actuarial rate of investment return would be an appropriate measure.

Mr. Strachan asked Mrs. Hampton if she understood the discussion and was agreeable to a calculation of the amount to be paid back that included investment earnings. Mrs. Hampton agreed. GEMGroup was directed to calculate the amount owed including an earnings factor and present it to Mrs. Hampton with repayment options.

MOTION: A motion was made and seconded to grant the appeal and calculate the appropriate amount owed including an earnings factor. The motion passed.

Disability Pension Summary – A summary of disability recipients and the amounts paid in each of the last two years was distributed for the purpose of making the board aware of size of this obligation and to consider if there could be a review of ongoing disability. The summary showed approximately 460 disability pension recipients at a total benefit payout of \$4,235,000.

Ms. Yancy commented that the Plan does not require a periodic verification of ongoing disability eligibility, and once a disability is determined through the current rigorous process and is approved by the board, it remains in force.

Mr. Strachan asked about checking with Social Security periodically to verify that disability recipients are not reporting earned wages from another employer. Ms. Yancy offered to address that possible with one of the vendors currently working with City on other matters and update the board that the next meeting.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary