

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

July 8, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on July 8, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Gregory Nash
Gina Pagnotta-Murphy

Jim Beard
Angela Green

TRUSTEES ABSENT: Michael Bond and Aretha Sumbry-Powers, Yvonne Cowser Yancy
Jason Esteves

OTHERS:

Richard Larimer, GEMGroup; Kristen Denius and Gerard Grant, City Law Department; Ray Adams, Office of Retirement Services; Robert Stanley of Atlanta Public Schools, Nathan Lewis of Security Capital, Gwelda Swilley-Burke of Callan Associates, and Derek Batts of Morgan Stanley, Monique Etheridge and Laurel Hill from Wells Fargo, Marlon Kimpson of Motley Rice, Lisa Bowman of BlackRock, and Steve Loncar of Ceredex.

Mr. Strachan called the meeting to order at 1:00 pm without a quorum; a quorum was reached at 1:45 pm.

Ms. Pagnotta-Murphy made a request of the Chair that the attendees in the audience introduce themselves. Mr. Strachan agreed.

Because there was not a quorum, Mr. Strachan asked the Investment Consultant report be given since it did not require a vote.

Ms. Pagnotta-Murphy asked where the other board members were and whether they were expected in order to have a quorum. Mr. Strachan stated that Ms. Yancy had notified him that she was ill today and would not be attending; the others had not said that they would not be in attendance and may just be running late.

ADOPTION OF AGENDA:

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

APPROVAL OF MINUTES:

Minutes from June 4, 2014 Board meeting and the June 9, 2014 Special meeting were provided in the meeting packages in advance. Dr. Nash requested an addition to the June 9th minutes in the second paragraph on page 3 to clarify that Ms. Pagnotta-Murphy changed her vote from abstention to “Aye” after Fund Counsel explained that abstaining from voting on an issue could be done only if the board member had a personal conflict of interest regarding the issue and that the conflict must be disclosed. Ms. Pagnotta-Murphy had no personal conflict of interest regarding the issue and therefore decided to change her vote. The Fund Administrator will make the change.

MOTION: A motion was made and seconded to approve the minutes of the June 4, 2014 board meeting and the June 9, 2014 Special meeting, as edited. 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. Beard asked if each of the applicants who had an age penalty assessed had been contacted and informed of the benefit reduction. Mr. Larimer confirmed that they had.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-12 as listed on the attached spreadsheet dated July 8, 2014. 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 Disability Pension application Nos. 1-5 on the attached spreadsheet dated July 8, 2014. The motion passed.

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 & 2 on the attached spreadsheet dated July 8, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated July 8, 2014 was presented for review and approval.

Ms. Green asked about the transaction fees shown on the Wells Fargo Bank custody invoice. Ms. Etheridge confirmed that transaction fees were charged, per the Custody Fee Agreement, on all buys and

sells of securities. She also inquired about the transaction and check processing fees in the operating account. Ms. Hill explained that analysis charges in the bank operating account are partially offset by compensating balances maintained in the account.

MOTION: A motion was made and seconded to approve 11 items: #53977 - #53987 on the Check Register dated July 8, 2014 totaling \$230, 42.33. The motion passed.

REVIEW OF DECEMBER 2013 FINANCIALS:

The financials for the period ending May, 2014 were presented and reviewed.

MOTION: A motion was made and seconded to acknowledge receipt of the May 31, 2014 financial statements as presented for further review by the Finance Department. The motion passed.

LAW DEPARTMENT:

No report.

ACTUARY REPORT

Mr. Atwater reviewed the July 1, 2014 Actuarial Report for both the City and Atlanta Public Schools.

Before beginning his presentation of the reports, Mr. Atwater commented that there was a significant improvement in the quality and timeliness of the data provided by GEMGroup that made their work more efficient and improved the accuracy of the Valuation. Mr. Strachan thanked GEMGroup for their efforts. Beginning with the City, Mr. Atwater reported that the City's contribution for FY '15 is \$48 million to the Plan which equates to 35% of covered payroll. Last year's lowering of the assumed investment rate of return from 8.0% to 7.5% provides a more conservative view and increased the City's cost (contribution) by about \$5.0 million or about 5.0% of covered payroll over what it would have been at an 8.0% assumption. The unfunded liability for the City's portion of the General Pension fund increased to about \$910 million from \$880 million last year. Although the unfunded liability increased about \$30 million, the City's funded percentage increased from 51% last year to about 54% this year.

Ms. Pagnatto-Murphy asked if 54% was considered to be a good funded percentage. Mr. Atwater stated that the funded percentage is not the sole measure of the health of a fund but that 54% funded was not ideal. However, he said the plan is on a path to improve each year and to be fully funded within 30 years. The plan is in its third year since implementation.

Ms. Green questioned the planned date to be fully funded. Mr. Atwater responded 2041 and that the date was changed by City Council as part of the approved funding plan in 2011. Ms. Green asked for a copy of when the funding plan was changed. Mr. Strachan asked when the Plan was projected to hit 80% funded. Mr. Atwater estimated that it would be 10-15 years.

The Fund earned 16.8% in investment return in the 12-month period ending June 30, 2013. The excellent, higher-than-assumed investment returns lowered the cost by about \$4 million. Mr. Atwater gave a brief explanation of actuarial smoothing technique that only recognizes a portion of above normal gains (and losses) in order smooth out the fluctuations year to year. There is approximately \$60 million in reserves as a result of this smoothing. The number of employees has remained virtually the same year to year, netting new hires and terminations.

Ms. Pagnotta-Murphy asked about the structure of the General and the APS plans and how the combination of the two plans worked. Mr. Strachan and Ms. Denius described the plans as two separate pension plans whose assets were comingled strictly for investment purposes and with the administration done together to achieve economy of scale for cost savings. APS contributes money for its employees and retirees; the City does the same for its employees and retirees. All expenses and investment returns on the combined operations are shared on a prorata basis based on the relative size of the assets, roughly 90% City and 10% APS. The pension calculations are done separately according to the rules of each plan and APS can decide, by vote of its board, to accept or decline changes that are proposed to be made to the Plan by City Council, the sponsor of both plans. For example, APS decided against adopting the changes made in 2011 in the General Fund.

Mr. Atwater reviewed the allocation of assets between the General and APS plans at July 1, 2013: General - \$1.014 billion and APS - \$115.5 million. In response to a question from Dr. Nash, Mr. Atwater stated that APS had 737 participants and 2165 retirees. This is one metric that contributes to the APS having a significantly lower Funded Percentage than the General: 17% vs. 54%. The funding status of the APS plan was 15% in 1978 when the teachers split off to the Georgia State Teachers System, indicating that the low funded percentage is not a new problem.

In June 2014, APS adopted a resolution to change the funding policy to a fixed dollar contribution each year: \$48.9 million in 2015 with a 3% increase each year. If investment returns equal the actuarial assumed rate of 7.5%, the Plan's unfunded liability will be fully amortized in 16 years. The unfunded liability at July 1, 2013 was \$533 million.

INVESTMENT CONSULTANT REPORT

Performance Report – May 2014 – Ms. Swilley-Burke reviewed the Performance Report for May 2014, highlighting total assets of \$1.243 billion. Performance by individual managers showed Large Cap manager Morgan Stanley underperformed the benchmark in the one-and –three month period as well as the year; Mid Cap managers generally outperformed their benchmarks in the near term, however, Ceredex missed its target for three years. Earnest and Channing in the Small Cap space outperformed for the month, 3-month and one-year period. Other managers were generally in line with their target benchmarks and the overall portfolio, while slightly under the Policy Index for the month and 3-month period has outperformed for the year net of fees: 14.85% vs. 14.43%. The total Fund also beat its benchmark in the 7 and 10 year time periods.

Ms. Green asked if all the managers were in compliance with their investment policies. Ms. Swilley-Burke said yes, with one exception being the Global Tactical Portfolio holds high-yield bonds that are not allowable under the law that governs Georgia public pension plans. Ms. Swilley-Burke has already contacted Mr. Roach at Globalt to discuss.

Recommended Transition Plan and Manager Searches – Ms. Swilley-Burke distributed and discussed a Callan memorandum on Transitioning Assets as a follow-up to the last month's meeting. Decisions need to be made at the next meeting as to new passive managers prior to implementing the termination of any existing managers to ensure that assets move from one to the other without any lapse in being fully invested.

Mr. Strachan asked the Ms. Swilley-Burke double check the fees quoted for the Vanguard portfolio for amounts in excess of \$200 million because he had spoken to Vanguard and thought the amount reflected in the memo was not correct. Ms. Swilley-Burke stated that all the fees had been checked by Callan staff, but that she would check them again.

Ms. Green asked Mr. Strachan if he had talked to Vanguard and other managers directly, questioning why he felt that was appropriate when the board had engaged a consultant to communicate and gather data from

managers. She asked if Mr. Strachan did not trust the consultant. She said that she was not aware that the Chair was contacting investment managers directly; she stated that she chooses not to talk with any managers directly so that it cannot be said that she has any preferences.

Mr. Strachan stated that he had spoken with several managers including Vanguard, BlackRock, Rhumblin, and Northern Trust. He asked Ms. Green if she was leading him to believe that she does not talk to investment managers directly. Ms. Green said she never speaks with investment manager directly during the search period or anytime they are under active consideration by the board to be hired as a manager for the Fund.

Ms. Pagnotta-Murphy suggested that the board members all calm down and as a group try to focus on conducting the business of the board.

Ms. Swilley-Burke continued, mentioning that two of the firms that currently manage money for the Fund – BlackRock and Northern Trust - offer transition services to implement the asset re-allocation; she suggested that a third firm be added. ConvergEx, the Plan's former designated transition manager, has exited the business.

Mr. Strachan addressed comments to the investment managers in the audience, suggesting that they could talk to any of the board members as they would in the normal course of business to promote their products and investment capabilities. However, he stressed that the process for being considered to do business with the Pension Fund and to be invited to make a presentation to the Pension board requires that the manager go through Callan's analytical vetting process first and would be recommended for the full board's consideration only if that manager met all the necessary criteria to qualify. He pointed out that there were a multitude of investment managers in the market; some great and some inferior. Mr. Strachan reiterated that that board members would collectively decide which potential investment managers could make presentations, from a "short list" provided by the investment consultant, after appropriate filtering had taken place. He indicated that he would not schedule any such presentations until the filtering and collective board decisions were made.

Ms. Pagnotta-Murphy commented that she felt Mr. Strachan's comments were inappropriate and out of order. She said that she had gotten his point. If she were to meet with and be impressed by a particular manager, she would certainly follow the established protocol and refer that manager to Callan for evaluation. She expected that Callan would perform its same rigorous analysis on each and every manager that a board member may identify and would make it onto the recommended list only if they were completely qualified. She reiterated that as a board member she believes she has the right to talk to managers and to independently decide to refer or not refer them to Callan. Mr. Strachan said that he had no problem with that and that his comments were addressed to the investment managers present, as a means of managing their expectations relative to premature presentations to the board.

Ms. Swilley-Burke stated that Callan had approximately 95% of all managers in their database and would be happy to take suggestions from board members to consider a new manager.

Gray Co Alts II Portfolio Review – Five Stone Green Capital - Principals Doug Lawrence, Lewis Jones, and Tony Roberts introduced Five Stone Green Capital. The firm is one of the underlying investments in Gray Co Alts II LLC. Mr. Lawrence introduced the firm by stating they were affiliated with Bainbridge Investments and were the "green" real estate development manager on their global platform. Five Stone is 100% minority-owned and is responsible for all investment decisions. Their thesis is to own land in cities at a good price, then to develop smart buildings using the latest technology and building products to construct the most efficient buildings on the market. Efficient, particularly in energy use, reduces operating expenses and increased net cash flow. Focus is on multi-family housing, groceries and pharmacies. Commitments to the Fund have reached \$167 million, exceeding the original target of \$150 million. The

General Pension fund, as the lead investor, has received 10% of the partnership's carried interest as additional compensation for being the early stage investor.

Mr. Lewis reviewed various other criteria of the investment strategy and the many transactions that each of the partners has been involved in over their careers prior to forming Five Stone Capital. Ms. Green asked what specific projects had been funded by the money the General Pension Fund had invested. Mr. Lewis stated that the first project to receive funding from the General Pension Fund monies would commence Fall 2014; none had been started yet. Mr. Lewis and Mr. Lawrence clarified that the projects discussed were all done at other firms and Five Stone Capital is a new firm. The principals bring a broad range of experience to the firm and are committed to building a success.

OLD BUSINESS:

Securities Monitoring Update – There were no updates to report.

Public Relations Resource for Board – Mr. Strachan deferred discussion of this item to a future meeting.

Beneficiary Update Project Mailing – Mr. Larimer reported the final results of this project after the second mailing: 40% response rate by City retirees and a 60% response from APS retirees. 359 updates from 894 City retirees have been received and entered into the GEMGroup system, and 354 updates from 586 APS retirees. These corrective updates will improve the accuracy of actuarial valuations going forward. Mr. Larimer had provided to Ms. Yancy a spreadsheet listing the names and addresses of all non-responders for use in an outreach program as part of a Retiree Fair held in June and an automated reminder call campaign using the City's "Robo Call" capability.

Plan Audit- SSAE 16 Report and Proposed Solution – Mr. Kirschbaum gave a brief synopsis of the issue. The SSAE 16 is a report required by KPMG, the City's auditor, in accordance with AICPA accounting standards that provides assurance to the City that GEMGroup, the third-party administrator, has adequate internal controls, technology security and checks and balances in their processes. Mr. Larimer added to the summary by commenting that GEMGroup prepares, and has for many years, an SSAE-16 each year and makes it available to all of its clients at no charge. GEMGroup's SSAE-16, however, covers the period October 1-September 30; this time period does not meet the compliance requirement of KPMG since it does not cover at least nine months of the City's fiscal year – July 1-June 30. GEMGroup has agreed to prepare two separate SSAE-16 reports per year, each covering a six-month period, to satisfy the audit needs of the Plan. The cost to prepare an additional SSAE-16 report solely to meet the needs of the General Pension fund will be \$18,000 annually and would be billed to the General Pension fund.

Mr. Beard commented that the City's auditor questioned why the City should bear the full cost of the preparation of the SSAE-16. Mr. Larimer reiterated that the additional SSAE-16 is solely for the benefit of the General Pension Fund and that no other GEMGroup clients have requested it. KPMG has said that they will do the extra work on site at GEMGroup's locations to cover their needs for this year only. The cost for KPMG to perform this work has been quoted at \$48,000. Beginning in 2015, KPMG will not prepare the SSAE 16 Report.

Mr. Beard summarized the issue by stating that for this year the least expensive way to solve the problem is to have GEMGroup prepare the SSAE 16 at a charge of \$18,000. Going forward, it will be important for GEMGroup to consider other alternatives such as having both reports be part of their cost of doing business or change the time period such that the City's needs are satisfied. Mr. Larimer committed to explore such alternatives before the end of 2014.

MOTION: A motion was made and seconded to engage GEMGroup to prepare a second SSAE 16 covering a six-month period that, in combination with their current Report, will satisfy KPMG's audit requirement at a cost not to exceed \$18,000. As part of the motion, Mr. Beard offered that the Finance Department would share up to 50% of this charge with the General Employees' Pension Fund. The motion passed.

NEW BUSINESS:

Cash Projection – 90-day Cash Raise – Mr. Larimer reviewed the three-month projection of cash flow needs for the Plan estimated at approximately \$18.5 million. Mr. Larimer requested a motion to raise cash in the amount of \$20 million for the next 90-day period. Ms. Swilley-Burke recommended that the funds be raised from the Rhumblin portfolio in anticipation that this portfolio is scheduled to be liquidated soon as part of the portfolio re-allocation plan.

MOTION: A motion was made and seconded to sell securities from the Rhumblin Weighted Average Index portfolio to raise \$20 million to meet the benefit payments and expenses of the Plan projected over the next three months. The motion passed.

ADR Tax Reclaim Services – Wells Fargo – Ms. Etheridge presented a service that Wells Fargo offers at no charge to its custody clients that hold ADR, foreign securities registered as American Depository Receipts (ADR's), wherein Wells Fargo will file for refunds in the foreign countries where taxes had been withheld to obtain a refund of those taxes back to the Plan. Mr. Beard asked how much money the board can expect to recoup. Ms. Etheridge will have to research. He also wanted to confirm that no fees would be assessed to the Plan for this service either in the form of a straight charge or as a split of the amount recouped through the program. Ms. Etheridge confirmed that no fees would be assessed, either as a direct charge or as a split of tax refunds obtained.

MOTION: A motion was made and seconded to engage Wells Fargo to perform the tax reclaiming services on behalf of the Plan, provided that there was no cost to the Plan or a revenue split with Wells Fargo. The motion passed.

Ms. Pagnotta asked if the prior custodian was performing this service. It does not appear that they were. Mr. Beard asked if BNY/Mellon could go back to see if there were amounts that could have been reclaimed over the past three years. Ms. Etheridge will make the inquiry of BNY/Mellon.

Ms. Etheridge presented the Limited Power of Attorney document for Mr. Strachan to sign to authorize Wells to submit the tax reclamation requests.

GASB 40 – Ms. Etheridge explained that GASB 40 is a report required by the Plan auditors each year that attempts to quantify various investment portfolio metrics such as interest rate sensitivity and concentrations of risk. The cost of the report is \$400 per sub-account; the GEPP has 18 accounts resulting in a cost to the Plan of \$7200 annually. However, since the Wells Fargo custody fee proposal and schedule did not itemize this specific charge it was not charged in the first year. Going forward the GASB 40 report preparation would be an addition to the custody fee schedule. Several board members asked if other custodians charged for this report and specifically did BNY/Mellon levy a charge. Ms. Swilley-Burke was asked to research this pricing among peer custodians to determine if it was a standard pricing item. Ms. Etheridge was asked to research prior invoices from BNY/Mellon to determine if this was being paid prior, perhaps under a broader category of reporting and administration if not separately reported. Action on this item was deferred to the next meeting pending the outcome of this additional research.

PIBDA Account – Ms. Etheridge proposed a PIBDA account at Wells Fargo as an alternative to the current Wells Fargo Short Term Investment Fund (STIF) for the investment of short term cash. The current STIF is a bank sponsored Collective Investment Fund holding short term government securities and commercial paper. The expense ratio is 5.5 bps that actually exceeds the current yield such that the net return, after fees, is negative. It is not collateralized. By comparison, the PIBDA is a bank demand deposit account that has no expense ratio and pays a 2 bps. It is fully collateralized.

Ms. Etheridge pointed out that the expense savings and additional interest income from moving from the STIF product to the PIBDA account would be an offset to the cost of the GASB 40 report. She also mentioned that if the switch were approved Wells Fargo could lower the fee for the GASB 40 report from \$400 to \$250 per sub-account.

After some discussion, the board decided to table the proposals for the GASB 40 report charges pending additional peer research on pricing and the PIBDA account pending a more detailed description of the type of account, the investment holdings and the pros and cons compared to a STIF. Both will be on the agenda for the next meeting when they can be fully considered together.

OTHER COMMENTS

Dr. Nash raised the question of absentee board members and asked that the By-Laws be reviewed to determine if they are being followed with respect to this issue. Ms. Denius commented that the attendance requirements for board members is contained in the City Code and applies to all City boards. It is her opinion that the attendance requirements state that a board member may be removed after missing three consecutive meetings. However, this requirement only applies to elected board members and not to members who hold their seat as ex-officio members or to those members appointed by the Mayor.

Ms. Pagnotta-Murphy suggested that water be provided at future meetings.

There being no further business to discuss, the meeting was adjourned at 4:00 p.m.

The next meeting will be on Wednesday, July 30, 2014 at 9:30 am in Conference Room 1, City Hall.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary