

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

July 8, 2015

(Re-scheduled July 1, 2015 meeting)

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on July 1, 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
Yvonne Cowser Yancy

NOT PRESENT:

Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Gerrard Grant of City Law Department; Gwelda Swilley-Burke and Dana Brown of Callan Associates, Gene Kirschbaum, City Finance and Accounting Department, Derek Batts of Morgan Stanley, Eric Atwater of Segal Consulting, and Nathan Lewis of Security Capital.

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 as presented. The motion passed.

APPROVAL OF MINUTES:

Minutes from the June 3, 2015 board meeting were provided in the meeting packages in advance.

MOTION: A motion was made and seconded to approve the minutes of the June 3, 2015 as presented. The motion passed. Ms. Green abstained.

GENERAL EMPLOYEES' PENSION FUND PENSION AWARDS:

SERVICE PENSION APPLICATIONS

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

It was noted that the employment classification of applicant No. 4 was incorrect. Mr. Larimer will make the correction.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-7 as listed on the attached spreadsheet dated July 1, 2015, with the correction as noted above. The motion passed.

DISABILITY PENSION APPLICATIONS

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

Application No. 1 was recommended for denial based on the recommendation from the applicant's doctor stating the applicant was not permanently and totally disabled. Application No. 2 was recommended for approval.

MOTION: A motion was made and seconded to deny Disability Application No. 1 and to approve Disability Application No. 2 on the attached spreadsheet dated July 1, 2015. 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 - 6 on the attached spreadsheet dated July 1, 2015. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

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

MOTION: A motion was made and seconded to approve 5 items: #57652 - #57656 on the Check Register dated July 1, 2015 totaling \$61,003.77. The motion passed.

Two checks – # 57605 and #57606 – totaling \$3200 were noted on the Check Register. These checks were for membership fees for the Board to participate in two professional organizations - NCPERS and NASRA- and had been approved at the May 6th meeting for issuance using facsimile signatures.

REVIEW OF FINANCIALS:

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

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

LAW DEPARTMENT:

Ms. Denius informed the board that an outside attorney specializing in SEC matters has been hired to analyze and present options to the board regarding the Gray Co Core Alts II matter. She expected their findings to be available for discussion at the August board meeting. Mr. Strachan asked that the report be provided to board members in advance.

Ms. Yancy suggested that the Police & Fire boards be asked to share the cost of outside counsel on this matter affecting all three plans. She further commented that there was a clause in the Gray Co contract that allows, under certain circumstances, for the investment manager / general partner to be replaced and this clause will be the focus of the review, among others.

Ms. Green asked the name of the firm, who hired the law firm and if the cost would be borne by City Law Department. Ms. Denius stated that City Law had engaged the firm of Schiff Hardin and that if any reimbursement were to be sought it would come to the board for approval of the expense.

Ms. Denius asked for assistance in locating a February 10, 2014 report from Gray Co. Several board members thought they would have it and would send.

Mr. Strachan updated the board on the Bridgepoint litigation matter. A trial date had been set for January 2016, but a mandatory pre-trial conference – often a settlement negotiation – has been scheduled for November.

ACTUARY REPORT

No Report

INVESTMENT CONSULTANT REPORT

Flash Performance Report – May 2015 – Dana Brown provided commentary on the overall market conditions. He pointed out that virtually all of the Fund's managers delivered positive returns and were outperforming their benchmarks. He suggested that equity markets may finally be facing an inflection point where performance will be driven more by underlying investment fundamentals rather than easy monetary policy. This type of environment generally favors quality active managers compared to passive strategies.

Overall, the portfolio exceeded its Blended Policy Index in the past quarter, year, 3-year and 5-year time periods.

Ms. Green asked if the Fund's portfolio would be better served by the Mid Cap allocation being invested with active managers instead of the passive strategy recently approved by the Board. Mr. Brown stated that Callan's research show that Mid Cap, as an asset class, shows a good probability to benefit from active management by beating passive benchmarks over time; active managers in Mid Cap can add value.

MOTION: Reconsider the current Mid Cap allocation to 100% index strategies and to direct Callan to perform a search of active Core managers in the Mid Cap segment and present options to the board, with minimal impact on asset allocation decisions for other segments that have already been made. The motion passed. Mr. Strachan voted No.

Mr. Strachan asked Mr. Batts if Morgan Stanley had a Mid Cap product offering. Mr. Batts responded that they did have a Mid Cap product but that its track record was not long. Ms. Swilley-Burke would include the Morgan Stanley product in the search mix and bring the results to the board for special consideration if it does not meet the IPS guidelines for length of performance history.

Ms. Swilley-Burke followed up on a Board request to review the new asset allocation matrix incorporating the decisions previously made. She presented a spreadsheet as of May 26th market values showing the new target allocations by asset class.

She also reviewed several changes in fee quotes from managers in the Large Cap segment based on the increase in mandate size being allocated to this segment. Vanguard and State Street offered lower basis point pricing based on the updated \$283 million allocation. After review and discussion, the Board felt that the difference in fees was not significant enough to justify a change and decided to remain with their previous choice of BlackRock in this space.

OLD BUSINESS:

Securities Monitoring Update – Bridgepoint update discussed above

Social Security Monitoring to Check Ongoing Eligibility for Disability – Ms. Yancy reported that the Social Security administrator had agreed to review the list provided by the City of people collecting a disability pension and report any irregularities. She thought the response would be available for the Board's review by next meeting.

GlassRatner – Additional Regular Audits of GrayCo Core Alts II - Mr. Strachan introduced the matter by reviewing the Board's ongoing concern over the GrayCo Core Alts II investment, particularly the holdings in US Community Lending and 5 Stone Green Capital. The Board has consistently sought progress and status updates on these investments, as recently as two months ago. The audited financials of Gray Co Core Alts II were delivered to the Board last month which showed that US Community Lending, as of December 31, 2014, was deemed to be insolvent and the value reduced to zero. A previous report that the GEPP had invested \$3.5 million in US Community Lending of which \$1.6 million was spent on hardware, software and administrative expenses, raising the question of where the remaining \$1.9 million went. These concerns prompted consideration of hiring GlassRatner again to perform a forensic audit of the Gray Co partnership.

Dan Berman of GlassRatner referred to their previous reports of November 2013 and March 2014 and updated their preliminary understanding to date based on the December 2014 audit financials. He mentioned that a Managing Director of Gray Co. sat on the board of US Community Lending. In 2014, after a triggering event as defined in the agreement, Gray Co. opted to exchange the partnership's interest in US Community Lending for a Promissory note. At year-end 2014, US Community Lending was insolvent.

With 5 Stone Green Capital, the initial investment was \$2.95 million; an additional \$2.1 million was invested by all the GrayCo Alts II limited partner investors in 2014, despite a triggering event that would have allowed the partnership to cease making additional capital contributions if the target raise had not been met. The value at 12/31/2014 was \$4 million, \$1.05 million less than the invested capital.

The purpose of the GlassRatner audit would be to examine in depth these transactions and to determine the business decisions that were made and their rationale. And to trace the use of all monies advanced to ensure they were expended on legitimate investment purposes.

Ms. Green asked what the Board could do if something improper were to be uncovered. She also inquired whether US Community Lending and 5 Stone Green had furnished bonds or Directors and Officers Liability policies. Ms. Denius commented that these avenues of possible repayment would be part of the outside counsel's options now being researched.

Ms. Green asked if the underlying managers – US Community Lending and 5 Stone Green Capital – who had been asked to come before the Board were obligated to respond. Ms. Swilley-Burke said that typically the general partner of a Fund-of-Funds vehicle is responsible for the communication and updates to the investor clients, not the underlying managers. In response to a question from Mr. Strachan, Ms. Swilley-Burke said that Gray Co was not as transparent and forthcoming with information and updates as most other Callan Fund-of-Fund alternative managers.

Ms. Green asked if the Board is obligated to continue to honor future capital calls for additional investment funds. Ms. Denius and Ms. Yancy stated that this is one of the issues being researched by outside counsel. Mr. Strachan wants the audit investigation to include a breakdown of the amount of money spent on business development activities, as permitted under the agreement, to make sure it stands a test of reasonableness.

In response to a question concerning the scope of the proposed work, Ms. Yancy suggested the audit focus on US Lending and 5 Stone Green Capital primarily which is where the Board's concern is gravest.

Dr. Nash and Ms. Green stated they were disappointed with the cost of the previous GlassRatner project because the original quote was for \$20,000 and they had expected that to be complete. However, there was a follow up necessary for an additional cost \$10,000 that was unexpected. Both wanted a hard, not-to-exceed amount.

Mr. Beard reminded the board that from a portfolio management perspective it was important to keep in mind the overall combined return for Gray Co Core Alts II (which Callan shows as 7% since inception) and that, particularly in these types of alternative investment categories, losses on some of the investment should be expected.

Ms. Green stated that the total loss of \$3.5 million on US Community Lending was just not acceptable to her.

Mr. Berman proposed a fee of \$12,500 - \$15,000 and to keep track of the time and to apprise the Board as they go along. Much of the cost estimate will be dependent on the level of cooperation from Gray Co. He estimated about 8 weeks to complete the work. Mr. Strachan suggested a quick update every Friday. Mr. Berman agreed.

MOTION: A motion was made and seconded to hire GlassRatner to perform a forensic audit of Gray Co Core Alts II focusing on the US Community Lending and 5 Stone Green Capital at a cost not to exceed \$15,000 and to ask Police and Fire to share the costs. The motion passed. Ms. Green voted No; Dr. Nash abstained.

NEW BUSINESS:

Pension Payments Examination Project – Cost Estimate – Following up on the suggestions at the last meeting, Mr. Larimer presented a revised scope of project and cost estimate. The suggestions were to eliminate retirees whose effective dates were after November 2009 (inception date of GEMGroup's contract) and to focus on those retirees whose effective dates occurred during the period of time when the City was undergoing HR and Payroll system conversions (2001 & 2008). This reduced the size of the project from 5922 to 2313. In addition, GEMGroup devised a means to automate the second,

comparison phase of the project to further reduce the costs. The new proposal for the scaled down project was \$91,000 compared to \$248,000 originally proposed. If the Board decided to revisit the scope of work and wanted all 5922 retiree payments to be examined, the revised cost for the full scope would be \$151,000.

Mr. Larimer reiterated that the scope of the project was a simple examination of comparing the calculation as originally shown on the calculation sheet to what is being paid currently to look for clerical errors that may have occurred in the set up.

After considerable discussion, including comments by Ms. Pagnotta-Murphy concerning the coordination between GEMGroup and the City as to communication of the retirement and pension processing with participants and further clarification of the scope, the Board decided to seek another proposal from a third-party audit firm to compare to GEMGroup's. Mr. Strachan asked Mr. Kirschbaum to talk to other audit firms to obtain proposals and asked that the topic be placed on the agenda for the August meeting.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary