

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

September 3, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on September 3, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Gregory Nash
Gina Pagnotta-Murphy
Yvonne Cowser Yancy
Jason Esteves

Jim Beard
Angela Green
Aretha Sumbry-Powers
Michael Bond

OTHERS:

Richard Larimer, GEMGroup; Kristen Denius of 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, Lisa Bowman of BlackRock,

Mr. Strachan called the meeting to order at 9:30 am and asked the audience to introduce themselves.

ADOPTION OF AGENDA:

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

APPROVAL OF MINUTES:

Minutes from the July 30, 2014 meeting were provided in the meeting packages in advance. Ms. Green asked for clarifications of her statements on page 3 requesting a copy of the letter from the GA Attorney General's office, her request for outside counsel to examine the issue and on page 7 by adding that only the custodian or investment manager would have investment detail on individual securities held in the portfolio. Mr. Larimer agreed to make the edits as requested and to send the revised minutes to all board members.

MOTION: A motion was made and seconded to approve the minutes of the July 30, 2014 board 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.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-25 as listed on the attached spreadsheet dated September 3, 2014. The motion passed.

DISABILITY PENSION APPLICATIONS

The Disability Pension Applications on the attached spreadsheet was presented to the Board for approval.

MOTION: A motion was made and seconded to approve Disability Pension applications Nos. 1 & 2 on the attached spreadsheet dated September 3, 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 - 7 on the attached spreadsheet dated September 3, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated September 3, 2014 was presented for review and approval.

MOTION: A motion was made and seconded to approve 10 items: #54567- #54576 on the Check Register dated September 3, 2014 totaling \$319,636.21. The motion passed.

REVIEW OF DECEMBER 2013 FINANCIALS:

The financials for the period ending July 30, 2014 were presented and reviewed.

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

LAW DEPARTMENT:

By-Laws and City Code Review – Ms. Denius clarified the discussion from the prior meeting with respect to abstaining votes and the apparent conflict with Roberts Rules of Order. She explained that the Bylaws govern the conduct of business by the board and the Bylaws supersede Roberts Rules. The Bylaws as adopted by vote of the GEPP board are consistent with the rules governing City Council and other City or Atlanta-related boards. Specifically on the question of abstaining votes, the Bylaws state

that a board member may not abstain from a vote unless the member has a potential conflict of interest and that conflict must be disclosed to support the abstention. Ms. Denius pointed out that the Bylaws may be changed by a majority vote of the current board.

Ms. Green made a motion to change the Bylaws and the provision pertaining to voting rules on abstentions. Before the motion was seconded and after further discussion, Ms. Yancy suggested that a revised draft of Bylaws be prepared by Ms. Denius and the City Law Department and that the item be added to the agenda for the October meeting. Board members concurred.

Ms. Green added that she would like to see a list of other public boards in Atlanta and around the State that contain similar provision dealing with abstaining votes and the removal of board members.

GA Attorney General Department Letter on Mutual Fund Investments – Ms. Denius discussed the copy of an internal letter written by an assistant attorney in the Georgia Department of Law that suggests that public pension funds in the State of Georgia may be prohibited from investing in mutual or comingled funds. After reviewing the letter, the City Law Department concluded that the letter is not directed to the board, is not binding and does not affect the board's investment policies. It appears that the letter was not intended to be made public. Furthermore, Ms. Denius stated that the Law Department disagrees with the conclusion reached in the letter.

Ms. Green suggested that it would be prudent for the board to engage an outside, independent law firm with expertise in securities law to evaluate the conclusions drawn in the letter and provide the board with an opinion as to its impact on board investment decisions.

MOTION: A motion was made and seconded to engage independent counsel to evaluate the issues raised in the GA Attorney General letter and provide an opinion on the permissibility of holding mutual fund and other comingled investments. The motion passed.

Ms. Denius was asked to solicit the interest of several law firms and ask them to present at the October meeting.

Bridgepoint Litigation - Ms. Denius updated the board on progress in the Bridgepoint securities litigation in which the GEPP is acting as lead plaintiff by noting that Mr. Strachan was scheduled to for a deposition the next day. The defense attorney is attempting to disqualify the GEPP as an unsuitable plaintiff. Mr. Strachan commented that the improved procedures for reviewing and evaluating possible claims and the procedures adopted by the board to select counsel to represent them in these matters has helped support the claim that the GEPP is a suitable and qualified to serve as lead plaintiff.

Ms. Denius stated that the Law Department needs advance notice on issues the board is seeking an opinion on and would appreciate the time to properly research legal questions. Ms. Yancy stated there were no expectations on the part of the board for City Law to render immediate advice on complex issues.

ACTUARY REPORT

No Report

INVESTMENT CONSULTANT REPORT

Ms. Swilley-Burke presented the Second Quarter Performance Report and the July Flash Report. Providing a summary of the market environment in the US economy over the past three months, she

noting that the labor market continued to improve, unemployment rates dropped, housing continued its recovery and inflation remained in check.

The portfolio asset allocation remains within allowable ranges, but the domestic equity portion increased to 61%, 6% above the target range of 55%, due to the run up in domestic equity markets. Overall market value increased by almost \$30 million in the quarter, from \$1.235 billion to \$1.265 billion. Outperforming managers for the quarter included Cornerstone and Ceredex in the Mid Cap space and Earnest Partners in Small Cap. Artisan continued to beat its benchmark in the international segment. Overall, the portfolio returned 3.65% (net of fees) for the quarter compared to the Policy Index of 4.05%, and 19.02% vs. 18.20% for the last year. The total fund performance graph shows that the portfolio has ranked in the upper tier among Callan's public fund universe for each of the 1, 3, 5 and 10-year time periods.

Mr. Beard asked if a custom benchmark had been constructed by Callan to appropriately measure the Gray Co Alts II portfolio. Ms. Swilley-Burke responded that it was in process. He also was curious how the GEPP ranked against a private funds universe in addition to the comparison against other public funds.

Ms. Yancy asked when Gray & Company would be coming to a board meeting again. She noted some change in management had been reported in the media at some of the underlying portfolio firms. Ms. Green also wanted to hear an update on the investment that was converted to debt from equity and other updates from the last presentation.

Mr. Strachan asked that Gray Co Alts and certain of the underlying investments be placed on the November agenda for presentation and review.

Ms. Swilley-Burke reported that Callan had received long-term performance numbers on all the active managers and in particular noted that Morgan Stanley, Union Heritage had outperformed, net of fees, since inception (19 years) and 10 years, despite its inability to meet or beat its benchmark over the last five years.

Ms. Swilley-Burke reported that July was a difficult month with equity markets in particular suffering a pullback. Market value of assets dropped \$31.8 in the month of July offsetting the gains from the second quarter. All managers experienced the downturn in varying degrees.

Ms. Swilley-Burke pointed out that the S&P 500 Index was down 1.44% while the Morgan Stanley/Union Heritage was down only .84%, offering an example of how certain active managers can provide downside protection in market downturns.

Transition Manager Candidates – Ms. Swilley-Burke presented a Callan memorandum analyzing three candidates to handle transition management: BlackRock, State Street and Northern Trust. The candidates were evaluated and ranked on a variety of criteria and expertise. One of the more important qualifications from the board's perspective is the commitment to employ minority-owned brokers in order to honor the board's goal of supporting diversity. Ms. Green commented that often the firms say they are committed but do not deliver. Mr. Strachan suggested specific performance metrics be included in the contract. Ms. Swilley-Burke stated that the participation with minority brokers can and would be specifically measured and could be included in the contract.

MOTION: A motion was made to engage BlackRock as transition manager, provided they meet the best pricing of the other competitor in the domestic equity category. The motion passed with 6 Yes votes and 3 abstentions.

Selection of Index Managers – this topic was deferred pending a legal opinion from outside counsel.

Comparison of Active vs. Passive Large Cap Core Managers - Following up on the request from the last meeting, Ms. Swilley-Burke reviewed a memorandum dated August 28, 2014 comparing returns of active managers in the Callan's comprehensive universe to passive returns. According to Callan, the

data illustrates that by a slight margin, the median active manager, gross of fees, does provide returns above the S&P 500 Index. The data also illustrate that the slight advantage has narrowed over time, suggesting that the market in Large Cap has become increasingly efficient and it is becoming more difficult for active managers to beat the index. Mr. Beard also pointed out that the data was aggregate and the conclusions were based on the performance of the median manager. Within the group, the best managers actually did better and bottom quartile managers did significantly worse. This demonstrates the importance, and difficulty, of selecting the best managers and in knowing the right time to make a change as their performance changes. Swilley-Burke commented that it was Callan's position that unless a portfolio has an outstanding, proven active manager in place, it is usually their recommendation that the Large Cap segment be allocated to passive strategies.

Investment Policy Statement – Update - The auditors have requested an updated Investment Policy Statement (IPS) that specifically authorizes investments in alternatives. Ms. Swilley-Burke stated that the IPS is on their list to get done and would have a draft to the board members prior to the next meeting for discussion.

OLD BUSINESS:

Securities Monitoring Update – Ms. Denius updated the board under the Law Department Report.

Approval of New Physicians for Disability Exams – Ms. Yancy requested that discussion on this item be deferred to the next meeting to allow more time for the City Employee Benefits and Insurance department to complete the recommended procedures and obtain resumes from additional physicians.

NEW BUSINESS:

Raiford Jackson Overpayment - Mr. Larimer summarized the facts of a pension overpayment error originated in 2008 and uncovered by the auditors during the annual audit of pension records. Mr. Jackson retired in May 2008 and completed the required paperwork, including the calculation sheet showing his eligibility for a monthly pension benefit of \$3,406.61. The amount of Mr. Jackson's retro check – covering the period from his pension effective date in May and his approval in June – was \$6,373.66. This amount was mistakenly entered into the City's pension system as the regular monthly pension benefit. The overpayment was not reported by Mr. Jackson and continued for six years. Mr. Jackson's pension amount was corrected upon discovery of the error; the total amount of the accumulated overpayment is \$235,793.

Mr. Adams explained that this error occurred during a 2008 system conversion at the City and several other similar instances were caught at that time. He stated that he and Mr. Larimer were working on a project to examine all retirements during the 2008 calendar year, the period of the system conversion, to make sure no others were missed.

Mr. Strachan asked what it would cost to examine all 5000+ retirees. Mr. Larimer offered to provide an estimate.

After some discussion including recommendations from Ms. Denius the board decided that Mr. Jackson should be given the opportunity to address the board to explain the circumstances surrounding this overpayment before deciding on recovery options. Mr. Larimer was asked to invite Mr. Jackson to attend the October 1, 2014 board meeting.

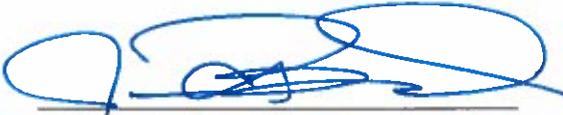
Proposed Fee Schedule Methodology for Active Managers – This item was deferred to a future meeting.

Ms. Swilley-Burke reminded the board members of the Georgia Association of Public Pension Trustees conference being held at Calloway Gardens September 23 – 26, 2014.

There being no further business to discuss, the meeting was adjourned at 11:30 a.m. The next meeting will be on Wednesday, October 1, 2014 at 9:30 am in Conference Room 1, City Hall.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary