

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

July 30, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on July 30, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Gregory Nash
Gina Pagnotta-Murphy
Yvonne Cowser Yancy

Jim Beard
Angela Green
Aretha Sumbry-Powers

TRUSTEES ABSENT: Michael Bond and Jason Esteves

OTHERS:

Richard Larimer, GEMGroup; Amber Robinson 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:

Mr. Larimer distributed an amended Pension application agenda with the addition of one late applicant. The trustees approved the amended application agenda.

MOTION: A motion was made and seconded to amend the agenda to add a presentation from Derek Batts of Morgan Stanley.

Ms. Yancy requested an addition to the agenda to accommodate a request from Mr. Batts of Union Heritage / Morgan Stanley, a long-time manager for the Pension, to address the board and to review his firm's performance. Mr. Strachan questioned the addition as a departure from the board's previously approved protocol that manager presentations would be heard only after a review and vetting by Callan Associates. Ms. Yancy asked that the request be granted as a courtesy to Mr. Batts who had been managing a portfolio for the Fund for 19 years. After further discussion, the motion passed.

APPROVAL OF MINUTES:

Minutes from the July 8, 2014 Special meeting were provided in the meeting packages in advance. Ms. Green asked for a clarification of her statement on page 5 concerning speaking with investment managers directly, stating that she did not speak with managers during a period of an active search where the managers may be under consideration to be hired by the Fund. She also asked that a question she had asked to the presenters from Five Stone Green Capital concerning the specific projects that had been funded with the General Pension Fund's called capital. Ms. Pagnotta-Murphy asked that her comments on page 5 be edited to more accurately reflect her reaction to Mr. Strachan's comments.

Mr. Larimer agreed to make all edits as requested.

MOTION: A motion was made and seconded to approve the minutes of the July 8, 2014 board meeting, as edited. The motion passed.

Final edited versions of the July 8 and June 9, 2014 minutes will be distributed to the board.

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. 1-5 as listed on the attached spreadsheet dated July 30, 2014. The motion passed.

DISABILITY PENSION APPLICATIONS

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

MOTION: A motion was made and seconded to approve the Disability Pension application on the attached spreadsheet dated July 30, 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 - 3 on the attached spreadsheet dated July 30, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated July 30, 2014 was presented for review and approval.

Mr. Beard inquired of Mr. Kirschbaum, Director of Financial Reporting for the City, as to the status of the current Plan year audit that is underway. Mr. Kirschbaum reported that it was going well.

MOTION: A motion was made and seconded to approve 18 items: #54031- #54048 on the Check Register dated July 30, 2014 totaling \$528,636.18. The motion passed.

REVIEW OF DECEMBER 2013 FINANCIALS:

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

MOTION: A motion was made and seconded to acknowledge receipt of the June 30, 2014 financial statements as presented for further review by the Finance Department. The motion passed.

LAW DEPARTMENT:

By-Laws and City Code Review - deferred to next meeting.

ACTUARY REPORT

Mr. Atwater discussed the new reporting requirements relating to compliance with GASB 67/68. The new accounting standards will require additional work to be performed that was not anticipated under Segal's current agreement. The cost to the plan was estimated to be \$25,000 annually.

Mr. Beard explained that the requirement was being imposed by the national accounting standards board and confirmed that it was a new requirement this year. Ms. Yancy likened the added reporting and compliance requirements to those that had been promulgated as a result of the Affordable Care Act and were impacting the City in its health care benefit programs.

MOTION: A motion was made and seconded to authorize Segal to prepare the required GASB 67/68 Reports at a cost not to exceed \$25,000. The motion passed.

INVESTMENT CONSULTANT REPORT

Mr. Strachan suggested that the agenda item "Selection of Index Managers" be deferred to the next meeting pending additional research that needed to be done. Responding to questions, Ms. Swilley-Burke stated that she had recently received a copy of letter from an assistant Counsel in the Georgia Attorney General's (AG) Office addressed to the Director, Department of Audits and Account, also within the Georgia Attorney General's Office, that suggests that it appears that mutual funds may not be an expressly authorized investment for public retirement systems in the State of Georgia. Given that Index Fund vehicle are largely mutual funds, the issue should be explored by City Law Department prior to the board proceeding with the selection process. Upon request of Ms. Green, Ms. Swilley-Burke distributed copies of the letter. Mr. Strachan pointed out that the letter was an internal document within the AG's office and the opinion had not been sought by the General Pension Fund, but prudence dictates that City Law Department have the opportunity to research the opinion before the board proceeded with the manager selection process. Ms. Green requested that outside, independent counsel be engaged to provide an opinion to the board on the effect of the letter.

After additional discussion, it was decided that the September 3, 2014 regularly scheduled meeting be extended from 9:30 a.m. to 2:00 p.m. to allow extra time to review the initial manager search analytics and recommendations from Callan on managers.

Performance Report – June 2014 – Ms. Swilley-Burke reviewed the Monthly Performance Report for June 2014, highlighting total assets of \$1.265 billion, up \$20 million from May. The total fund delivered a 2.21% return, net of fees, for the month, exceeding the Policy Index by 51 bps. The 3-month performance was 3.66%, slightly under the blended benchmark of 4.05% but the last year showed a 19.02% return vs. 18.2% for the target.

The Small Cap and International equity segments continue their strong performance for the month and quarter. The Balanced portfolio was slightly behind for the 3-month and one year periods, as was JP Morgan in the Fixed Income space. The other Fixed Income managers delivered modest outperformance for the 3-month and one year periods.

Recommended Transition Plan and Manager Searches – Ms. Swilley-Burke distributed and discussed a Callan memorandum detailing Callan’s proposed criteria for conducting the manager searches for the various asset classes. The specific search parameters were outlined for each type of manager including investment orientation, style, minimum assets under management (AUM), local geographic preference, risk and fees, among others. The categories were based on the overall asset allocation plan decisions made at prior meetings and included Small Cap Growth, Emerging Markets Equity, Global Fixed Income and Core / Core Plus Real Estate.

Mr. Beard and Ms. Yancy inquired about the threshold of \$500 million in assets under management (AUM) for Small Cap managers (and different thresholds for other asset classes), raising a concern that these thresholds may serve to exclude smaller, start-up managers from getting past the initial screening process. The board affirmed its goal to encourage diversity by supporting minority and women-owned firms by ensuring their inclusion in the search process to the extent that they meet fiduciary standards of performance and risk management. Ms. Yancy commented that the board has a history of small and diverse managers and has often been in the role of “first” or “early stage” investor with type of manager. Ms. Swilley-Burke suggested two approaches: 1) amend the language in the criteria to allow smaller AUM thresholds provided the performance meets the standards, and 2) allow the inclusion of “Fund of Fund” products that use several smaller sub-managers combined into one portfolio.

Ms. Yancy also asked that a demographic screen be added to the criteria to show minority representation of the staff of prospective managers. Callan will add that request of the prospective managers. Mr. Strachan asked that if the board members had names of managers that they would like to be included in the initial screening to get those names to Callan by the end of the week. Ms. Pagnotta had already submitted her suggestion.

The topic of Transition Managers was discussed. Mr. Strachan asked if there was a way to ensure that a certain percentage of trading could be accomplished using local, minority firms. The board affirmed its desire to use firms that were either minority firms or who can partner with minority-owned firms for a meaningful portion of the trades. Ms. Swilley-Burke noted that the General Pension already has investment management relationships with two firms that are noted for their experience in handling transitions: BlackRock and Northern Trust, and a third, State Street, has an office in Atlanta, and all do a good job of including minority trading firms. The board asked Callan to include language that expresses a preference, subject to best execution, to partner with minority firms for transition trading. Ms. Swilley-Burke agreed to prepare a draft the transition manager criteria document, incorporating these discussion items and share it with the board for review.

OLD BUSINESS:

Securities Monitoring Update – There were no updates to report.

Public Relations Resource for Board – Mr. Strachan led a discussion on the merits of the board identifying a public relations resource to support the board and provide a single, unified voice for the board to communicate primarily to the media. Ms. Green and other board members expressed their preference to continue to speak for themselves as board members and not to rely on a third-party to talk about board business. Mr. Strachan stated that the intent would not be to limit the ability of individual board members to speak to the media or other public venues. Ms. Pagnotta stated that the Chairman should be able to speak to the media in their official capacity and if they need help or guidance they could seek it out from someone in the City's communication department, or simply say they have no comment and invite them to future board meetings. The consensus of the board was that this was not a resource that was needed and that money should not be spent on it.

GASB 40 – Following up on last month's meeting wherein Ms. Etheridge was asked to research other peer group custodians as to how the GASB 40 costs and fees were typically handled, she explained that competitor custodians normally do not charge separately for this reporting requirement but do bundle the cost into their overall fee. Wells Fargo has adopted the philosophy of unbundling fees in an effort to achieve transparency for the clients and to meet standards considered to be "best practice". Ms. Swilley-Burke added that Callan's custody specialist confirmed that GASB 40 reporting is typically bundled into the overall fee for most custodians. Ms. Etheridge reviewed again 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. The fee would be disclosed as a separate line item on the invoice.

Ms. Pagnotta asked for an explanation as to why Wells Fargo bill separately for this service while their competitors bundle it in their overall fee. Ms. Hill responded that Wells Fargo follows an itemized list of services and costs to achieve a higher level of transparency for their clients. Ms. Hill pointed out that Wells Fargo won the custody business at least partly because their custody pricing proposal was lower than the other competitors.

MOTION: A motion was made and seconded to authorize the addition of \$7,200 annually to the Wells Fargo Custody fee to cover the cost of GASB 40 reporting. The motion passed.

PIBDA Account – Ms. Etheridge had proposed at the last meeting 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.

Callan had reviewed the PIBDA and was not totally comfortable with this vehicle due to its limited track record. Mr. Beard also stated that he was not completely comfortable at this time.

Mr. Strachan asked that Ms. Etheridge prepare a one-page summary of PIBDA product and circulate it to the board for possible consideration at a later date.

Manager Searches

MOTION: A motion was made and seconded to authorize Callan to start searches for Small Cap and Real Estate managers. The motion passed.

Authorization to proceed with searches for passive strategies was deferred until research and guidance can be provided on the mutual fund holding issue discussed earlier.

NEW BUSINESS:

Morgan Stanley – Union Heritage Group – Portfolio Review – Derek Batts reviewed his firm’s historical performance, pointing out that Union Heritage / Morgan Stanley has been managing assets for the General Pension Fund since 1990. Union Heritage’s strategy is to provide relatively high returns, relative to the benchmark, on the upside and to provide downside protection in down markets. Mr. Batts presented performance data in support of this strategy, showing that the portfolio captured 87% of the return in up markets, while only participating in 60% of the decline in down markets. Over the past 15 years and since inception, the result has been annualized performance over the benchmark of 1.46% and 0.83%, respectively. Mr. Batts quantified this outperformance by showing that the portfolio had made \$88 million, net of fees, since inception for the Fund compared to a return of \$64 million if the money had been invested in an index. The added \$24 million in aggregate dollar return was attributed to the successful implementation of the firm’s overall strategy. This performance places Union Heritage / Morgan Stanley in the top quartile of Large Cap managers. Mr. Batts stressed that the value of his strategy is recognized by providing downside protection when the stock market declines.

Mr. Strachan noted that the presentation showed that over the last 5 years, Union Heritage had underperformed by 19 bps; he approximated the loss compared to benchmark at \$20 million. Mr. Beard asked what Callan’s position was on active vs. passive management in the Large Cap space. Mr. Swilley-Burke stated that Callan believes that most Large Cap managers cannot beat the index over time; however, a few can, and that there may be value in the downside protection that active portfolio management can provide in down markets. She pointed out that one of the options in Callan’s overall allocation study was to elect a 70/30 passive vs. active split in the Large Cap space. The board chose to adopt 100% passive.

Ms. Yancy stated that she generally was a proponent of active management, and stated that had she been able to attend the last meeting she would have argued for at least a portion of the Large Cap segment to remain with an active manager. She also expressed that opinion that the vote on the motion at the last meeting was questionable based on the what may have been incorrect guidance given by the City Law Department at the meeting on the rules governing abstention votes. This guidance was the basis for Ms. Pagnotta changing her vote to allow the motion to pass. Ms. Yancy asked Amber Robinson of City Law to review Roberts Rules of Order at the meeting. Ms. Robinson said that according to the text of Robert’s Rules, a board member may abstain and did not have to do so only based on a conflict of interest; “a board member cannot be compelled to vote”.

Ms. Pagnotta commented that she was upset because she had been given bad information by the Law Department telling her that unless she had a conflict of interest she must vote.

A new motion was made to adopt a 70/30 passive vs. active split in the Large Cap space consistent with one of the choices that had been presented by Callan in their original asset allocation study. Considerable discussion ensued. Responding to questions raised by Mr. Strachan, Ms. Yancy clarified her position by stating that this was not a discussion about Union Heritage, Mr. Batts or any one manager, but rather a philosophical debate around whether the entire Large Cap segment of the portfolio

should be passive or if was better to have some active management which she supports. Mr. Strachan felt the discussion was about Union Heritage and Mr. Batts because he had been added to the agenda and allowed to make a presentation. Ms. Yancy again clarified that she supported the addition to the agenda out of courtesy toward to manager with a 10-year working relationship with the General Pension fund.

Mr. Strachan stated he thought it was inappropriate to debate the reconsideration of a duly adopted asset allocation decision made in the previous meeting. Ms. Yancy stated that she thought it was inappropriate not to reconsider a previous vote that may have been the result of bad advice and guidance on voting procedures given by City Law. Mr. Strachan and Ms. Yancy agreed to respectfully disagree.

MOTION: A motion was made and seconded to adopt a 70/30 passive vs. active allocation of the Large Cap segment of the portfolio, consistent with one of the options that Callan had presented in their asset allocation study. The motion passed. Mr. Strachan voted No.

The board asked to see Callan's research showing the percentage of the universe of active managers that have beaten the benchmark in the Large Cap segment over a long period of time.

Approval of New Physicians for Disability Exams – Mr. Larimer presented two resumes of doctors who had been solicited to join the list of approved doctors to perform examinations on behalf of the City in connection with disability applications. Upon questioning from the board on the process for identifying and vetting physicians to serve in this capacity it became apparent that a more formal process that included involvement by the City's Health and Insurance Department was needed. Ms. Yancy suggested that Louis Amis, Director of Employee Benefits could provide input and support in establishing a procedure. Mr. Larimer agreed to contact Mr. Amis and bring the results and his recommendations back to the board at the next meeting.

Ms. Pagnotta asked that the disability application process be reviewed and explained so that she could be satisfied that the process is fair from the employees' and the board viewpoint.

OTHER COMMENTS

In response to a request she had received relating the securities litigation, Angela Green commented that she did not know and would never know what securities an individual investment manager held in their portfolio; the only people to have that information would be the custodian or the investment manager. She wanted to make it clear that she does not receive reports from investment manager on the holdings in the portfolios.

Ms. Pagnotta asked that in future board meetings that all actions be governed by the text of Robert's Rules of Order.

There being no further business to discuss, the meeting was adjourned at 12:15 p.m. The next meeting will be on Wednesday, September 3, 2014 at 9:30 am in Conference Room 1, City Hall.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary