

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

June 4, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on June 4, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Gregory Nash
Gina Pagnotta-Murphy
Jason Esteves

Jim Beard
Angela Green
Yvonne Cowser Yancy

TRUSTEES ABSENT: Michael Bond and Aretha Sumbry-Powers

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.

Mr. Larimer requested that a revised pension application list be added to the agenda to include one additional pension applicant. The board approved.

MOTION: A motion was made and seconded to move the Gray Co Alts II LLC portfolio review to the end of the Agenda. The motion passed.

ADOPTION OF AGENDA:

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

APPROVAL OF MINUTES:

Minutes from May 7, 2014 Board meeting were provided in the meeting packages in advance.

Ms. Swilley-Burke had several suggested edits, the correction of a typo and clarification of two sentences. After discussion, the clarifications were accepted and Mr. Larimer will make the edits.

MOTION: A motion was made and seconded to approve the minutes of the May 7, 2014 board meeting as corrected. 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. 1-10 as listed on the attached spreadsheet dated June 4, 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 June 4, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated June 4, 2014 was presented for review and approval.

Ms. Green questioned check # 53662. Mr. Larimer stated it was for reimbursement of the Office of Retirement Services offices at the City. It was higher than usual because May had three payroll dates.

MOTION: A motion was made and seconded to approve 5 items: #53659 - #53663 on the Check Register dated June 4, 2014 totaling \$145,537.80. The motion passed.

Mr. Strachan asked about the board's policy on board members attending educational conference. Mr. Beard and Ms. Yancy summarized the policy. Board members were encouraged to attend educational conferences in any given year to enhance their understanding of pension fund management. Expenditures were limited to a maximum of \$5000 annually per member and a Form for Reimbursement must be completed itemizing travel, lodging and registration expenses and submitted to the board for approval. The Form should be sent to Mr. Larimer for inclusion in the monthly meeting Check Register.

REVIEW OF DECEMBER 2013 FINANCIALS:

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

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

LAW DEPARTMENT:

Ms. Denius had no report.

ACTUARY REPORT

Discussion on the actuarial valuations was deferred to next meeting to allow both the City and APS valuations to be discussed concurrently.

INVESTMENT CONSULTANT REPORT

Performance Report – April 2014 – Gwelda Swilley-Burke reviewed the Investment Measurement Service Monthly Review for the period ending April 30, 2014. Total market value of assets were \$1.226 billion with a slight negative overall performance for the month of (.33 %) net of fees, and positive returns of 3.43% and 14.44% for the quarter the past year, respectively.

A deeper discussion on the asset allocation was deferred to the Special Meeting that has been scheduled for that specific purpose on June 9, 2014.

Following up on a request from the last meeting, Ms. Swilley- Burke presented a summary table of all the managers' Fee Schedules. She distributed the Fee Schedule Table for the board members review. Ms. Swilley-Burke took the opportunity to introduce David McElroy of Ridgeworth who was in attendance. The sale by SunTrust of Ridgeworth to Lightyear Capital and a management group had been recently completed.

Gray Co Alternative Partners Fund II – Portfolio Review – Yolanda Foreman, Ademir Zeco and Curtis Williams of Gray & Company presented a portfolio review of the GrayCo Alts II portfolio. Mr. Zeco summarized the portfolio statistics as of December 31, 2013 as follows: Commitments to underlying partnerships: \$63.25 million, 53% of which has been funded; total value of investments is \$36.42 million, total gain since inception of \$2.98 million for a Gross Multiple of 1.09 and Internal Rate of Return (IRR) of 10.7%. Mr. Zeco cautioned that the Fund is in the very early stage of a normal alternatives portfolio and the IRR calculation at this point is not a particularly useful or reliable measure. It will become more valid as the investment mature, but investors should not be surprised if the IRR in the near future is quite variable and may turn negative. He reviewed the Fund's long term target allocation: 15% Opportunistic, 30% Hedge Funds, 35% Private Equity and 20% Real Estate. In reviewing the Hedge Fund portfolio, Mr. Zeco commented that the one-year performance was 18.32% (the minus sign after the number on page 9 of their presentation is a typographical error) and 17.58 since inception. Total commitments, all of which has been funded, is \$20.5 million and the Total value of investments is \$23.487 million, inclusive of a 2.7% distribution back from the investments. The Gross Internal Rate of Return (IRR) is 17.55%. While acknowledging that it is still early in the life-cycle of this portfolio, the early returns are very positive and would rank the Gray Co Alts II Hedge Fund portion of the portfolio among the best performing hedge funds in its peer universe, 900+ basis points above the HFRI FoF Composite Index.

Ms. Swilley-Burke asked who at Gray & Company was responsible for the investment decisions for the Hedge Fund portfolio. Ms. Foreman responded that it was the Alternative Investment Committee and referred the board to page 8 of the presentation book that lists the committee members as Larry Gray, Yolanda Foreman, Curtis Williams and Ademir Zeco.

Curtis Williams reviewed the Private Equity portfolio as of December 31, 2013. Total commitments to private equity are \$31.75 million of which 20.4% has been funded and 6.3% has been distributed back to the portfolio. Total value of investments \$8.009 million with a Gross Multiple of 1.24 and IRR of 39.9%. He discussed several of the partnerships specifically. Siris' goal was to raise \$400 million; they

exceeded their hard-cap of \$600 million and closed the Fund at \$620 million. This fund has already returned \$3 million of the original \$10 million invested by Gray Co Alts II. WL Ross Transportation Recovery Fund, has raised a total of \$500 million and is targeting distressed opportunities in shipping. In response to trustee questions, Mr. Williams provided some background on Mr. Wilbur Ross, the principal of the Fund and his expertise. Mr. Beard commented that Wilber Ross was an experienced, “known commodity” in the hedge fund segment.

Mr. Williams reviewed the Real Estate investment of the Fund. Ms. Yancy prefaced his presentation by asking several questions that had been raised at the previous meeting from the GlassRatner report and asked that Mr. Williams specifically touch on these concerns: 1) one of the funds did not meet its capital raise in a timely fashion and would have allowed an exit by investors in December but the option had not been acted upon; 2) Gray Co was the only investor in one of the funds at December 31, 2013; and 3) the management of one of the partnerships was from Darden and had some issues. Mr. Green, referring to the same GlassRatner, asked what the specific projects the fund has invested in. Also, one of the investors was a professional ballplayer and wanted to know why he had not been asked for more money to fund early stage expenses. She also asked for the official addresses of each of the companies in the portfolio.

According to Mr. Williams, Five Stone Capital had just raised \$60 million in capital in March which is not reflected in the reports, either from GlassRatner or the GrayCo which used data as of December 31, 2013. This latest capital raise exceeded the original expectation. Mr. Beard commented that this addressed his previous concern over funding early stage operating expenses in an investment in which the Gray Co appeared to be the first and only investor. Ms. Foreman explained that as additional compensation for the early funding, Gray Co has received a direct interest in the General Partner position in this investment and expects this “extra” position (10% of the GP’s return, in addition to the investment as a limited partner) to provide additional attractive returns over time. Five Stone Capital has committed to attend the July 8th meeting to present to the board.

Mr. Beard clarified that the cut-off date for the data used in GlassRatner’s report was December 31, 2013, pre-dating the latest capital raise. Ms. Foreman confirmed.

Mr. Beard reiterated that it will be important going forward to provide timely investment data to the consultant. Ms. Foreman stated that timely reports will be provided.

Mr. Williams reviewed US Community Lending LLC. US Community Lending’s strategic plan is to invest in small businesses through a Small Business Lending Company (SBLC). They must first acquire a license from the Small Business Administration. Granting of the license has been “authorized” but not awarded yet. Gray Co has converted the initial investment from equity to a promissory note paying a 10% coupon with full repayment by mid-2015. The partnership is in the position of having called all the capital but is not yet pursue their strategy of making SBA loans until the license is acquired. In the meantime, the conversion to debt makes the investment more secure until such time as the license is obtained at which time Gray Co can review the debt conversion and possibly convert the position back to an equity position.

Mr. Strachan asked what happens if they do not get the license. Mr. Williams and Mr. Beard commented that the partnership would be in the position of a lender with the collection rights of a creditor.

Ms. Green asked if the financials information in the report were audited. Ms. Foreman said the audit will be done in July. She also asked for more specifics about the investors and where these firms are located. Ms. Yancy wants more details on the timeline on when the license is expected to be granted and the Plan B / exit strategy if the license is not acquired.

Ms. Pagnotta-Murphy asked two questions: 1) How do we get repaid? 2) and, would it be ethical for US Community Lending to direct some of their lending services to City owned or affiliated entities – such as the Credit Union – to help local residents. Mr. Williams explained that the investment return is generated through the repayment of the underlying loans, plus interest. The business model of US Community Lending may not be consistent with the types of needs Ms. Pagnotta-Murphy trying to address.

Ms. Swilley-Burke asked Gray Co what the appropriate benchmark should be used to measure the portfolio. Gray Co and Callan agreed to work together to agree on the benchmark.

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 a 40% response rate by City retirees and a 60% response from APS retirees after a second mailing 1486 City and APS retirees who had elected a Joint & Survivor type of pension benefit at the time of retirement but who have no beneficiary listed on the system. This is an important data point for preparing accurate actuarial valuations; all updated beneficiary data will be input to the GEMGroup system prior to June 30 so as to be available to Segal for the June 30, 2014 Actuarial Valuation Reports.

Mr. Larimer 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 to be 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. Larimer provided a brief recap of the Plan audit issue and a proposed solution related to the SSAE-16 report. The Plan's audit firm, KPMG, requires a SSAE-16 report from GEMGroup verifying adequate internal procedures and controls. GEMGroup prepares a SSAE-16 each year and makes it available to all of its clients. GEMGroup's SSAE-16 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 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 did not understand why the City should bear the full cost of the preparation of the SSAE-16. Referring to his initial statement above, Mr. Larimer confirmed that the additional SSAE-16 is intended to cover a period solely for the benefit of the General Pension Fund and that no other GEMGroup clients have requested it. A decision on the proposal was deferred until Mr. Beard and Mr. Larimer can discuss it before the next meeting.

NEW BUSINESS:

Court Recorder Transcripts – As requested, Mr. Larimer provided the names and cost estimates of two court stenographer firms that would be willing to furnish this service to the Board. The estimates were based on attendance at one monthly board meeting lasting up to four hours, 30 pages of transcript for each meeting. The proposals ranged from \$252 - \$315 per meeting.

In the discussion, Ms. Green noted that she thought a verbatim transcript was important in order to clarify questions as to what exactly was said and by whom as currently reflected in the prepared minutes. She felt this would be important in the event an issue had to go to court. Other board members pointed that the meetings were already being audio recorded in their entirety. Ms. Pagnotta-Murphy asked which records would take precedence. Other suggestions were made to look into video recordings if the board felt that accuracy was lacking. Ms. Denius commented that the recording and the minutes

as currently prepared met all legal requirements of the Georgia Open Meetings Act. Mr. Strachan asked if the transcribing would slow down the meetings. He then commented that he did not think verbatim transcripts were necessary. After further discussion,

MOTION: A motion was made and seconded to hire a court reporter to attend the monthly board meetings and to prepare a verbatim written transcript of the meetings. The motion failed: 2 Ayes and 4 Nays.

GlassRatner Response Letter to Request for Work Papers/Additional Research - GlassRatner responded to the request for work papers and investigatory notes by letter (attached behind Tab 7 in the meeting book) by stating that they do not have or keep additional notes and papers beyond the reports that they have already presented to the board. They offered to perform additional research if the board chose to engage their services again. Mr. Strachan asked that the item be placed on the agenda for next meeting for consideration.

There being no further business to discuss, the meeting was adjourned at 11:45 p.m.

The next meeting will be a Special Called Meeting on Monday, June 9, 2014 at 9:30 am to discuss portfolio asset allocation. The next regular meeting will be held on Tuesday, July 8, 2014 at 1:00 pm in Conference Room 1, City Hall.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary