

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

MARCH 5, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on March 5, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Gregory Nash
Aretha Sumbry-Powers

Jim Beard
Angela Green
Gina Pagnotta-Murphy

TRUSTEES ABSENT: Michael Bond, Yvonne Cowser Yancy and Jason Esteves

OTHERS:

Richard Larimer, GEMGroup; Gerard Grant, City Law Department; Ray Adams, Office of Retirement Services; Monique Etheridge of Wells Fargo Bank, Robert Stanley of Atlanta Public Schools, Jerry DeLoach of Risk Management, Gene Kirschbaum, Audit, Nathan Lewis of Security Capital, Gwelda Swilley-Burke, Callan Associates, Steve Loncar of Ceredex, Steve Sexeny of Cornerstone, Derek Batts of Morgan Stanley, and Dan Berman and Tom Woodliff of GlassRatner.

Mr. Strachan called the meeting to order at 9:30 A.M. There was not a quorum initially, but a quorum was reached within 30 minutes of the start time.

Angela Green asked if a board member can change their mind and rescind their vote on a previous motion, according to Robert's Rules of Order. Mr. Grant deferred the question to Ms. Denius at a future meeting.

ADOPTION OF AGENDA:

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

APPROVAL OF MINUTES:

Minutes from February 5, 2014 Board meeting were provided in the meeting packages in advance.

MOTION: A motion was made and seconded to approve the minutes of the February 5, 2014 board meeting as presented. 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. 1-5 as listed on the attached spreadsheet dated March 5, 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 second to approve the disability applications Nos. 1-4 as listed on the attached spreadsheet dated March 5, 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 - 4 on the attached spreadsheet dated March 5, 2014. The motion passed.

Dr. Nash asked that a designation of City or APS be added to the Application spreadsheet. Mr. Larimer will make the format change.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated March 5, 2014 was presented for review and approval.

MOTION: A motion was made and seconded to approve 15 items: #52719 - #52733 on the Check Register dated March 5, 2014 totaling \$288,857.67. The motion passed.

REVIEW OF DECEMBER 2013 FINANCIALS:

The financials for the period ending January 31, 2014 were presented and reviewed.

MOTION: A motion was made and seconded to accept receipt of the January 31, 2014 financial statements as presented. The motion passed.

LAW DEPARTMENT:

No Report

ACTUARY REPORT

Actuarial Valuation Data – Update - Mr. Atwater reported that all the data requested from GEMGroup for the Valuation had been provided in a timely manner and Segal's Valuation Report is expected to be ready in advance of the May meeting.

INVESTMENT CONSULTANT REPORT

Callan & Associates – Gwelda Swilley-Burke reviewed the Quarterly Performance Report for the period ending December 31, 2013 and a Flash Monthly Performance Review for January 31, 2014. An electronic version had been sent to the board members a week prior. She commented that there were several areas of the report in which performance data for the manager is not correct and these would need to be adjusted. A revised, corrected report would be sent. With this being the first performance report prepared by Callan, there has been some lag in receiving and verifying investment data from several of the managers.

The Flash Report shows that equities were down for January, with fixed income showing modest but positive returns, resulting in a market value decline in the overall portfolio of 1.98% or \$24,194,000 for the month. However, indications are that returns rebounded in February.

Ms. Swilley-Burke provided a market overview as part of the Quarterly Performance Report, commenting that for the quarter domestic equities had performed very well, international equities had delivered satisfactory returns and fixed income categories were down a bit. She summarized the performance of several of the key indices and managers, reporting that the portfolio had an overall return of 24.35% and 7.09% for the full year and quarter, respectively.

Ms. Swilley-Burke reviewed the asset allocation vs. the Investment Policy Statement (IPS) targets and commented that the allocation was consistent with policy guidelines except that the IPS contains no allocation to alternative asset classes. This raised a question as to whether the board had actually voted to adopt an allocation to alternatives. Mr. Strachan asked that Mr. Larimer review the minutes to determine if an alternatives allocation had been formally approved.

Ms. Swilley-Burke pointed out the Attribution Analysis section of the report on page 8 and highlighted the relative contributions to overall returns that came from the impact of managers and from asset allocation. She briefly reviewed the performance of each of the individual managers. She also pointed out the overall investment management cost is approximately 40 basis points.

At the request of Mr. Strachan, a discussion ensued on the delivery of hard copies of Performance Reports a week in advance and whether Callan or GEMGroup can send them directly to board members. Mr. Larimer and Ms. Swilley-Burke will work out the delivery logistics.

Mr. Strachan polled the board on posting the performance reports in the future on the GEPP Website. The board agreed. Ms. Pagnotta-Murphy expressed the need for the report to be summarized in a simplified format.

Ms. Swilley-Burke presented the Callan Associates annual Capital Market Projection Memorandum. This is an analysis that Callan prepare each year projecting their return expectations for the major markets segments for the next 20 years. The projections are used to develop asset allocation recommendations and actuarial planning. When applied to the GEPP portfolio based on the current Investment Policy Statement, the Callan Capital Market projections would indicate an expected return, based on segment indices, of 6.51%. This compares to the current actuarial assumption of 7.5%. This means that the Fund's active managers need to deliver excess (above index) returns of approximately 100 bps to achieve acceptable funding levels.

A Callan College educational session is being planned for April 15 -16 in Atlanta and all board members were encouraged to attend.

OLD BUSINESS:

Securities Monitoring Update –Mr. Strachan had asked that Motley Rice make a brief presentation to the board to explain the monthly reports that are sent to board members and to provide any guidance on what the board should do on a monthly basis. Mr. Badge Humphries of Motley Rice reviewed the monthly reports, commenting that the reports represent the first phase of the securities monitoring service by simply listing those actions that affect any of the securities held by the Plan. If there are actions that need to be taken to follow up on a particular matter, Motley Rice will notify the board in detail and provide recommendations. Further action would normally depend on the size of the potential recovery, issues involved which impact the recoverability prospects and other factors.

Mr. Strachan asked that the report format be changed to clearly identify those items that require action or alternatively that no action is needed in abbreviated fashion. Mr. Humphries agreed to adjust the format.

Fiduciary Liability Insurance – United Members Insurance and Ullico - Mr. Arango from United Members Insurance and Craig Arneson from Ullico addressed the board. The purpose was to answer several specific questions that had been raised at the previous board meeting concerning the terms of coverage relating to the Self Insured Reserve (who pays) and are there circumstances under which the policy may not engage and not provide coverage.

Mr. Arneson explained that the Self Insured Reserve is \$50,000 and is per claim and would be paid by the Fund, not the individual board members.

Ms. Green asked if there were any restrictions under Georgia law that would not permit the Fund to pay fiduciary claims that were made against the pension fund or board members acting in their capacity as trustees. Discussion ensued and

Ms. Pagnotta-Murphy asked who is providing the protection to individual board members in the event there is a suit relating to a member's activities on the board. Mr. Arneson explained that if there is another party – such as the City or other entity – that will provide indemnification and costs to defend such an action, this policy would look to the other entity to respond first.

MOTION: A motion was made and seconded to authorize the purchase of a Fiduciary Liability Insurance Policy from Ullico/Alterra through United Members Insurance for a period of one year with the coverage amount of \$5 million and a premium of \$58,439.00. The motion passed.

Ms. Pagnotta-Murphy initially voted No, expressing her continued uncertainty concerning the answer provided in response to her initial question regarding potential costs that may be incurred by a board member in having to hire their own counsel and defend a suit that may be filed against them as individual board members. Mr. Arneson clarified his earlier comment to state that if a board member is sued as a result of a fiduciary issue relating to the board member's service as a trustee, the policy provides that the individual member may select their own counsel and that the policy will pay for the legal costs to defend such an action. Based on this clarification, Ms. Pagnotta-Murphy changed her vote to Yes and the approval was unanimous.

GlassRatner Forensic Audit Report on GrayCo Alternative Partners II ("GrayCo Alt II") - Update - Dan Berman and Tom Woodliff of GlassRatner Advisory & Capital Group presented their updated findings on the review of the GrayCo Alt II investment by GEPPF. The board specific request was to bring their prior analysis up-to-date through December 31, 2013 now that data is available for that time period and to look more deeply at the underlying partnerships that GrayCo Alt II has invested in, paying particular attention to the two newest investments in US Community Lending Holdings and 5 Stone Capital Real Estate.

Angela Green stated that she wanted to know exactly what the underlying managers were invested in. Mr. Berman responded that their presentation would cover the funds that GrayCo Alt II was invested in, the strategies of the managers, the size of the funds, and the number of investors in each. However, identifying the exact investments in each fund was dependent on the willingness of the partnerships to disclose that level of detail and was not within the present scope. Ms. Green stated that her experience on other boards and with other people that she knows who serve on other boards leads her to believe that other private equity partnerships do disclose this level of detail and asked, "Why not us?"

Ms. Pagnotta-Murphy commented that she also thought that it was necessary to understand exactly what the Fund's private equity managers were invested in.

It was suggested that the holdings of the private equity managers would be shown on the Wells Fargo custody statement. Ms. Etheridge of Wells Fargo explained that private equity partnerships were held as book entry assets based on statements that were sent to the custodian from the manager. The holding is carried as a single line item and does not provide the detail. This is common practice with private equity partnerships.

GlassRatner summarized the commitments and called amounts of each of the five investors in GrayCo Alt II, totaling \$83 million committed and \$32 million called and all in their prorata share. It was noted that MARTA had increased their commitment by \$5 million in the fourth quarter. Page 5 of the report lists the committed and called amounts that have been invested in the 12 underlying funds. Page 6 of the Report provides a summary of the current fund sizes, number of investors and the year of inception. The first 10 of 12 funds show substantial asset sizes and multi-year track records, indicating experienced and seasoned funds. US Community Lending Holdings and 5 Stone Green Capital are substantially smaller (\$5.5 and \$7.5 million) and have fewer investors (2 and 1).

US Community Lending Holdings has two investors: GrayCo Alt II (\$3.5 million) and an individual, Ronald Smith, a Maine-based homebuilder (\$2 million). As of December 31, no investments have closed. An acquisition is planned and an agreement has been signed but not yet closed to purchase a portfolio of loans whose face value is \$11.7, plus an SBLC license, for a purchase price of \$5.2 million. A discussion ensued as to the nature of the loan portfolio, the credit and payment history and other factors that may account for the substantial discount. No portfolio statistics were provided in the report. GlassRatner reviewed the financial profile of US Community Lending Holding at December 31 by noting \$3.9 million in cash on the balance sheet, \$1.6 million in expenditures comprised of \$1 million in R&D and software and \$600,000 in operating and administrative expenses. Mr. Beard commented that US Community Lending Holding appears to be a start-up venture.

There is a Triggering Event included in the operating agreement that allows GrayCo to require the Company to repurchase its shares at the original sale price (\$3.5 million) if an SBLC license is not obtained by October 1, 2013. The option had to be exercised prior to December 31, 2013.

5 Stone Green Capital Real Estate Fund has a targeted fund size of \$60 - \$100 million. GrayCo Alt II is the sole investor with a commitment of \$7.5 million of which \$2.95 million has been called as of June 30. Since the Fund did not raise \$20 million of commitments by December 31, 2013, GrayCo Alt II is under no further obligation to invest beyond the \$2.95 million already called. The management of 5 Stone Capital is led by four founders with extensive background and resumes in the Real Estate development and management business. As the initial "seed" investor, GrayCo Alt II is obligated to fund up to \$2 million of General Partner operating expenses and business costs; in return for this funding obligation for "soft costs", GrayCo Alt II receives 20% of the General Partner's carried interest. Mr. Beard commented that this partnership is another start-up and time will tell if it performs well or not. The GrayCo Alt II partnership agreement should specify what types of – and what proportion of the total -investments can be made in special assets and/or start-ups. Mr. Larimer was asked to provide the Partnership Agreement and the Private Placement Memorandum for GrayCo Alt II to the board and to Ms. Swilley-Burke.

Ms. Gina Pagnotta-Murphy asked GlassRatner for their opinion on the overall evaluation of US Community Lending and 5 Stone Green Capital. GlassRatner responded that GrayCo Alt II is investing in management and the management of the partnerships appears to be experienced. However, GlassRatner expressed concern about GrayCo Alt II being just one or one of two investors in these two funds. Mr. Beard commented that his concern is that the two partnerships are not raising sufficient money to meet their stated targets and pursue their stated strategies. This completes the scope of work that GlassRatner was asked to perform and the board thanked them for their work.

Ceredex – Ownership Restructuring, Assignment and Fee Amendment - Mr. Strachan reported and Mr. Loncar confirmed that the Assignment Letter had been executed and delivered to Ceredex and that Ceredex had agreed to the condition of the authorizing motion from the March meeting and will implement an additional 2% across the board fee discount.

Beneficiary Update Project Mailing – There are 894 City retirees who elected a Joint & Survivor type of pension benefit which indicates that, at the time of retirement, they had a spouse. The data on the pension file, however, has no beneficiary named. This is an important data point for preparing accurate actuarial valuations. A project was undertaken to obtain this missing information. Letters were mailed to these affected retirees asking them to complete an update beneficiary designation form. The response rate to date has been encouraging: 215 updates (24%) have been received in the first few weeks. A follow up mailing will be done next month.

Ms. Pagnotta-Murphy suggested that a training or communication program concerning the rules governing the pension and the participants and retirees responsibilities in keeping their records up to date and their options under the Plan rules.

NEW BUSINESS:

August Meeting Date Change to July 30 – Mr. Strachan polled the board on changing the August board meeting date from August 6 to July 30, a week earlier, to accommodate Mr. Larimer's schedule. The board members agreed.

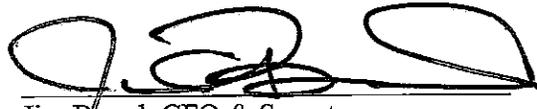
On-Line Pension Calculator – Mr. Strachan mentioned that he had a Pension Calculator created pro bono as part of a GovaThon initiative. He asked the board if they supported the idea of placing this calculator on the pension Website for participants to use to estimate their pension benefit. The board members agreed to test it if Mr. Strachan would send it to everyone.

There being no further business to discuss, the meeting was adjourned at 12:30 p.m.

The next meeting will be held on Wednesday, April 2, 2014 in Conference Room 1, City Hall.

Respectfully submitted:


Douglas I. Strachan, Chair


Jim Beard, CFO & Secretary