

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

February 1, 2017

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A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on February 1, 2017 in City Hall, Committee Room 2, Atlanta GA.

**TRUSTEES PRESENT:**

Douglas Strachan  
Angela Green  
Gina Pagnotta-Murphy  
Jason Esteves

Jim Beard  
Yvonne Cowser Yancy  
Aretha Sumbry-Powers

Not present: Michael Bond and Dr. Gregory Nash

**OTHERS:**

Rick Larimer, GEMGroup; Tracie Gay, Office of Retirement Services, Kristen Denius and Desmond Dorsey of City Law Department; Lora Burton, City Finance; Peter Chan of Morgan Lewis; Gwelda Swilley-Burke of Callan Associates, Laurel Hill of Wells Fargo, and Jeanette Cooper of Segal, Bill Roach of Globalt, and Derek Batts of Morgan Stanley.

Mr. Strachan called the meeting to order at 9:35 AM.

**PUBLIC COMMENT**

Mr. Walter White – Mr. White addressed the board again on the issue of his not receiving his pension check in a timely manner and what he described as unprofessional treatment by the GEMGroup Atlanta office staff. He was prompted to appear at the meeting because he had not received the additional reimbursement check that the board had approved at the January meeting and he wanted to express his dissatisfaction with the \$100 amount. Mr. Larimer commented that the check was in process and had not been issued yet but would be in the next two weeks.

**ADOPTION OF AGENDA:**

**MOTION:** A motion was made and seconded to adopt the agenda with the addition of the Cornerstone Fee Reimbursement and amendment under New Business and a presentation from Consequent Capital Management. The motion passed.

**APPROVAL OF MINUTES:**

Minutes from the January 4, 2017 board meeting were provided in the meeting packages in advance and reviewed again at the meeting.

Ms. Green pointed out that the motion on page one concerning the election of officers incorrectly stated that the officers were elected to 3-year terms when in fact board officers are elected each year to serve one-year terms. Mr. Larimer will make the edits.

**MOTION:** A motion was made and seconded to approve the minutes of the January 4, 2017 meeting, as amended. The motion passed.

Ms. Pagnotta-Murphy suggested that the votes of the individual trustees be noted Yes or No. Mr. Larimer pointed out that most motions are approved unanimously and are simply noted as approved. If there are trustees who vote against a particular motion, they are noted as voting No. Ms. Pagnotta-Murphy was agreeable to this procedure and just asked that it be followed consistently.

## **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. 1-19 as listed on the attached spreadsheet dated February 1, 2017. 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 as listed on the attached spreadsheet dated February 1, 2017. The motion passed.

### **BENEFICIARY PENSION APPLICATIONS**

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

**MOTION:** A motion was made and seconded to approve the Beneficiary applications Nos. 1- 9 on the attached spreadsheet dated February 1, 2017. The motion passed.

## **APPROVAL OF CHECK REGISTER AND INVOICES:**

Mr. Larimer reviewed the Check Register dated February 1, 2017. He commented that this was the first month of implementation of the expense invoice review by City Finance Department prior to the meeting. All the invoices had been reviewed and approved with the exception of the GEMGroup invoice due to multiple reports sources and a desire to develop a simplified template. Payment of these two invoices will be deferred to next meeting.

**MOTION:** A motion was made and seconded to approve 12 items: (all except #64188 & 64212) totaling \$668,734.38. The motion passed.

## **REVIEW OF FINANCIALS:**

The financials for the period ending December 2016 were reviewed by the board.

**MOTION:** A motion was made and seconded to accept the unaudited financials for December 2016 for further review by the Finance Department. The motion passed.

## **ACTUARY REPORT:**

**GASB 68 Accounting Item – APS** - Ms. Cooper explained that as part of their audit, KPMG required that the asset allocation between General and APS be changed thereby requiring Segal to revise the GASB 68 report. The work to perform the required revision was \$2,970 and was outside the original scope. Considerable discussion ensued, including a question raised by Mr. Strachan and Mr. Beard as to what procedures had been put in place to prevent this from happening again. Ms. Cooper reported that KPMG has moved the item up on their timetable and Segal has included its confirmation in its procedures. Mr. Strachan made it clear that he would not be inclined to pay extra for this work in the future.

**MOTION:** A motion was made and seconded to authorize payment to Segal of \$2,970 for the revised GASB 68 Report. The motion passed. Ms. Green voted No.

Ms. Cooper presented a memorandum dated January 27, 2017 which summarized the results of Segal's findings on the two benefit changes that had been proposed at prior meetings.

**Extending Beneficiary Benefits to Children Up to Age 26** - Ms. Cooper reviewed the results of Segal's cost analysis of a benefit option to extend survivor benefits to dependent children up to age 26 from the current 18. The incremental cost for the General employees would equate to a .03% increase in employee contributions; for the Board of Education employees it would be .09%. This assumes no additional contribution by the City or APS.

**Extending Survivor Benefits for Disabled Children for Lifetime** – The results of this analysis yielded a .44% increase in employee contribution for General employees and a .81% increase for APS employees. Again, there is no assumed added cost to the employer.

Mr. Strachan pointed out that the board did not have the power to make these changes; these would represent a plan benefit change which would require Council approval. He also asked how confident Ms. Cooper was in the adequacy of the funding stream to pay for these benefits. Ms. Cooper stated that the first option represented a small cost and there was a fair degree of confidence. The second change is more difficult.

Ms. Pagnotta- Murphy asked that these suggestions be actively discussed, debated and decision made without delay. Mr. Strachan suggested that the proposals be on the Agenda for the next meeting when Ms. Yancy could be present and everyone had had more time to evaluate Segal's analysis.

## **OLD BUSINESS:**

**Separate Email Accounts for Board Members** – This item was deferred to the next meeting.

## NEW BUSINESS:

### Consequent Capital Management

Earl Robinson and Janelle Alexander of Consequent Capital Management (“CCM”) attended the City of Atlanta General Employees’ Pension Fund (“GEPF”) board meeting on February 1, 2017. Mr. Robinson provided the trustees with a bound booklet regarding CCM and answered follow-up questions from the GEPF trustees and others in attendance at the meeting.

Mr. Robinson began by informing the trustees that as of eight o’clock last night, there was no more Gray Financial and that the company is now Consequent Capital Management. He said that Larry Gray and Bob Hubbard were staying on as consultants, but not employees, to facilitate the transition.

Mr. Robinson explained that the “soul” of Gray Financial will remain in the sense that the new firm is committed to supporting African-American asset managers. He went on to highlight changes in the management of the firm. He said that there will be a CIO, in addition to the CEO, who will report to the CCM board. He said that the CIO will be Cyril Theccanat, who had come from a \$6 billion investment advisory firm in Houston and that the chair of the board will be Jeffrey Amling, who also serves on the board of FTI Consulting.

Mr. Robinson walked the trustees through the hand-out that contained background information about CCM’s philosophy and staff. He said that CCM is one of the largest African-American-run investment consulting firms and that it has \$47 billion under advisement as of last night. He also said that the firm is 40% women and 80% African-American. He said that the discretionary investment management side of the firm is committed to “impact real estate” and is at the forefront of a significant project involving real estate development in Atlanta.

Mr. Robinson briefly went through the biographies of the management and board of CCM. Ms. Alexander introduced herself and highlighted her real estate investment experience. Mr. Robinson reiterated that Mr. Gray and Mr. Hubbard serve as advisors to him and that their sole purpose is assisting with the transition of the business. Mr. Robinson said that Mr. Gray and Mr. Hubbard would have no role in investment management.

Following the formal presentation, Mr. Robinson took questions from the GEPF trustees and others in attendance at the meeting.

Mr. Beard asked why former SEC Commissioner Luis Aguilar was no longer involved in CCM. Mr. Robinson said that they could not reach a compensation package with Mr. Aguilar. Mr. Robinson explained that Mr. Aguilar was being pursued by firms who could pay him more for doing less work. Mr. Robinson said that CCM was a small firm and that the chairman role was going to be a heavy lift that would involve more than just attending board meetings.

Mr. Strachan said that the GEPF had experienced a loss of confidence in Gray Financial and that a large part of the confidence in CCM was due to Mr. Aguilar’s participation. Mr. Strachan indicated, by using examples of a number of communications having to do with CCM’s acquisition of the business and assets of Gray Financial dating back to June 2016, if it was really only just before the closing of the deal

that a remuneration impasse was reached. Mr. Robinson said that the negotiations with Mr. Aguilar fell apart a week ago. He also pointed out that Mr. Amling was on the proposed CCM board before, just not as chairman. He said that Mr. Amling's role was all set. Mr. Strachan asked if the GEPF board could meet Mr. Amling, and Mr. Robinson said yes.

Ms. Green asked how many Gray Financial employees CCM was keeping on staff. Mr. Robinson said that CCM was keeping all Gray Financial employees except Mr. Gray, Mr. Hubbard, and Marc Hardy. Ms. Green asked if Mr. Gray and Mr. Hubbard had paid positions. Mr. Robinson confirmed that they were paid, but that, as consultants, they would not be in the office every day.

Ms. Pagnotta-Murphy said that she could not get past the continued involvement of Mr. Gray and Mr. Hubbard and wanted to know why it was necessary for them to advise Mr. Robinson. Mr. Robinson said that Mr. Gray and Mr. Hubbard's task was to transition clients who had been with Gray Financial for 10 to 15 years to CCM. Ms. Pagnotta-Murphy asked why Mr. Robinson could not handle this task himself. Mr. Robinson said that 100% of Gray Financial clients signed a consent letter to move assets to CCM.

Mr. Strachan asked if Mr. Robinson could clarify the role that Mr. Gray and Mr. Hubbard play at CCM. Mr. Robinson said that clients have faith in the new CCM team and that Mr. Gray and Mr. Hubbard will have no role in the governance or operation of the CCM team. Mr. Robinson was asked how long Mr. Gray and Mr. Hubbard will be involved with CCM. Mr. Robinson said that they can be terminated at will, but he expected that they will stay on for approximately one year.

Mr. Strachan asked whether Mr. Gray or Mr. Hubbard would have any role with GrayCo Alt II. Mr. Robinson said no.

Ms. Green asked if CCM would need to use the transition team of Mr. Gray and Mr. Hubbard for bringing on a new client. Mr. Robinson said no.

Mr. Esteves asked, in connection with the representation that Mr. Gray and Mr. Hubbard would not have a role in the governance of GrayCo Alt II, about CCM's compliance functions and specifically asked about the role of the Chief Compliance Officer. Mr. Robinson said that there was a dedicated CCO focused on compliance and controls and that there are different officers with different roles. Mr. Robinson said that he did not want to have one or two people making all of the investment decisions as before. Mr. Robinson emphasized, as an example, that he cannot make compliance decisions by himself.

Mr. Robinson was asked how he got involved with CCM in the first place. Mr. Robinson said that his mentor called him about this opportunity approximately 18 months ago. He started meeting with Mr. Gray on a weekly basis and called people he knew to form a management team. Mr. Robinson's general message was, "There's something here, but the history will trouble us. We need to find a way to move forward."

Ms. Swilley-Burke asked whom the GEPF board should call when they need information about GrayCo Alt II. Mr. Robinson said the GEPF board should reach out to Mr. Theccanat, Ms. Alexander, or himself, but primarily Mr. Theccanat and Ms. Alexander. Mr. Robinson said that his team had literally conducted due diligence on every single fund over the past 14 months. Ms. Swilley-Burke then asked

about whether there were different lines of reporting for the discretionary versus non-discretionary sides of the business. Mr. Robinson said that there are separate committees with different members that meet on different days, although Mr. Theccanat heads both committees because of his experience.

Mr. Strachan raised the GEPF board's concerns with three of the underlying investments in GrayCo Alt II—5 Stone Green Capital, Parkview, and Community Lending—and asked what happened and when the board could see a report on these underlying investments. Mr. Robinson said that CCM wanted to keep an arm's length distance from these investments so they hired an outside firm to conduct a valuation. He estimated that they needed 45 days to complete the due diligence. Mr. Robinson said that for 5 Stone, they have a lot of confidence in the dirt/land, but not in the investment management firm that runs it. He promised to deliver a report on their findings at the April 2017 GEPF board meeting.

Mr. Robinson was asked how CCM sees the board addressing the issue of GrayCo Alt II's compliance with state law. Mr. Robinson said that CCM's largest single bill was legal and that they engaged four law firms. He said that CCM is working through ideas for restructuring and is considering ways to add new investors.

Mr. Robinson was asked how much capital was uncalled for GrayCo Alt II at this point. Mr. Robinson estimated \$17 million total. A representative of the City Finance Department who was in attendance estimated \$3.5 million for GEPF specifically.

Mr. Strachan asked whether CCM would place a hold on using remaining uncommitted capital related to opportunistic investments as it pertains to GrayCo Alt II. Mr. Robinson first said that he would circle back and thought there might be a contractual obligation related to existing investments and remaining uncalled capital. He then said the CCM had made an internal decision to hold off on any additional opportunistic investments related to uncommitted capital.

Mr. Robinson was asked how soon CCM planned to set up an investment advisory committee for GrayCo Alt II.

Mr. Robinson asked for 60 days and said that CCM needed to figure out what to do on that front.

Mr. Robinson was asked if there had been a change to the administrator of GrayCo Alt II. Mr. Robinson said that they had changed the fund administrator to SS&C, a well-known entity.

Mr. Chan asked if Mr. Gray's role in the three underlying funds that Mr. Strachan had highlighted would be a part of CCM's presentation in April. Mr. Robinson said yes. He went on to explain that Mr. Gray has no formal role with Parkview and that Mr. Gray never received money as an employee of Parkview. Mr. Robinson acknowledged that Mr. Gray was slated to have a seat on the board of Parkview, but he never served in that role in light of Mr. Gray's issues with the SEC.

Mr. Strachan asked why CCM's profile on Bloomberg showed that Mr. Gray and Mr. Hubbard had management roles. Mr. Robinson said he would look into that issue, but that the new CCM website was scheduled to go live that same day since they had just obtained SEC approval.

Ms. Sumbry-Powers said that the new website should have been approved earlier and that she felt uncomfortable as a fiduciary with Mr. Gray and Mr. Hubbard's involvement with CCM. She wanted to know whether the GEPF board could put GrayCo Alt II on some kind of watch list. Ms. Swilley-Burke said it was not possible to put GrayCo Alt II on a watch list because the board could not do anything about the alternative investment. Mr. Beard pointed out that the GEPF board had been informally watching GrayCo Alt II for over three years now.

Ms. Swilley-Burke asked about the ownership structure of CCM. Mr. Robinson said that Mr. Theccanat and himself own the firm. He said the employees have options. He said that Liberty Bank has an 18% ownership, the Koh family has 20%, and Mr. Amling has 9%. Mr. Robinson also said that Mr. Gray has a small stake of 14% in the going concern of the firm. Mr. Robinson said that he and the other investors gathered enough capital to buy 86% of the firm with the option to buy the rest. It was not clear if there was a time limit to exercise the option. Mr. Robinson explained that there were A and B class shares. Mr. Robinson, Liberty Bank, and the Koh family own A shares, whereas Mr. Gray has B shares, which means that Mr. Gray has no role in governance and does not have a vote, but receives money. Mr. Robinson did not specify the share price. Mr. Robinson said that the current owners did not have enough money to buy the whole firm, but expect that maybe in the third year of operations they would be able to write a check to Mr. Gray for the remaining 14%. Finally, Mr. Robinson said that CCM would terminate Mr. Gray immediately if there is an unfavorable decision in the SEC case against Mr. Gray.

Ms. Green asked to see CCM's financials. Mr. Robinson said he would provide the requested financials.

Ms. Pagnotta-Murphy reiterated that she was uncomfortable with Mr. Gray and Mr. Hubbard's continued involvement with CCM. Mr. Robinson said that the lower level employees of Gray Financial should not be punished because they did not have anything to do with Mr. Gray's issues. He said that all of the Gray Financial employees had been vetted before CCM made the decision to keep them on staff. Mr. Robinson concluded by asking for patience and time to earn the board's trust.

Cornerstone Amendment and Fee Reimbursement – Cornerstone Capital Management notified the board in writing that the investment management fee being charged to the General Employees' Pension fund was higher than their standard fee schedule in the Form ADV and they voluntarily are offering to reimburse the difference, plus interest, for the period October 1, 2011 to January 2, 2017. The amount is \$58,998. The board expressed appreciation for Cornerstone's action.

**MOTION:** A motion was made and seconded to accept Cornerstone's offer to reimburse investment management fees that exceeded their published fees as shown in the ADV from October 1, 2011 to present, plus interest which amounted to \$58,998. Acceptance was conditioned on Counsel's review of the proposed amendment. The motion passed.

#### INVESTMENT CONSULTANT REPORT – CALLAN:

Monthly Flash Performance Report – December 2016 – Ms. Swilley-Burke reviewed the portfolio performance for the period ending December 2016, stating that overall asset allocation remained within target ranges and the portfolio compared favorably – top quartile in the 3, 5, 10 year time periods – vs. other Public Pension funds across the country. She commented that the month and 3-month returns were slightly under benchmark, overall results for the year were a healthy 8.29%, net of fees, vs. 8.92% for the policy index.

Ms. Swilley-Burke proposed a change to Callan's monthly schedule to conduct manager reviews: moving Legato to April to allow Consequent to review the portfolio recently acquired from Gray & Company. The board approved.

The 2017 Work Plan for Callan was shared with the board, and Ms. Swilley- Burke invited comments.

**LAW REPORT:**

City Law Department – No Report

Morgan Lewis – Another draft of By Laws was discussed with changes that were added after the comments made at the last meeting: a definition of an excused absence and a permissible and prohibited conduct with respect to using City of Atlanta resources in campaigning for board elections.

Ms. Pagnotta-Murphy asked for clarification as to the acceptable means to provide prior notice the board chair of an absence.

It was decided to accept phone calls, emails or text messages to the board as proper notice and the Chairman will report receipt of those messages at the beginning of each meeting to be reflected in the meeting minutes.


**MOTION:** A motion was made and seconded to go into Executive Session for the purpose of discussing a matter of possible litigation. The motion passed.

{Executive Session begins – 11:40 AM and ends at 11:55 AM}

There being no further business before the board, the meeting was adjourned at 12:15 p.m.

Respectfully submitted:

  
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Douglas I. Strachan, Chair

  
~~Jim Beard, CFO & Secretary~~  
ARETHA Sumbry Powers - VICE CHAIR