

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

October 1, 2014

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

TRUSTEES PRESENT:

Douglas Strachan
Gina Pagnotta-Murphy
Yvonne Cowser Yancy
Jason Esteves

Jim Beard
Aretha Sumbry-Powers
Michael Bond

NOT PRESENT:

Gregory Nash, Angela Green

OTHERS:

Rick 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, Derek Batts of Morgan Stanley, and 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 September 3, 2014 meeting were provided in the meeting packages in advance.

MOTION: A motion was made and seconded to approve the minutes of the September 3, 2014 board meeting. 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. 1-11 as listed on the attached spreadsheet dated October 1, 2014. The motion passed.

CORRECTION

The Corrected Pension Application on the attached spreadsheet was presented to the Board for approval. The correction was the result of the settlement of a legal dispute with the City. A court approved settlement agreement directed the change in the previously approved pension benefit.

MOTION: A motion was made and seconded to approve the Corrected Pension application on the attached spreadsheet dated October 1, 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 & 2 on the attached spreadsheet dated October 1, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated October 1, 2014 was presented for review and approval.

MOTION: A motion was made and seconded to approve 4 items: #54655- #54658 on the Check Register dated October 1, 2014 totaling \$58,731.59. The motion passed.

REVIEW OF DECEMBER 2013 FINANCIALS:

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

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

LAW DEPARTMENT:

Ms. Denius had no report.

Mr. Strachan asked that Ms. Denius update the board on the status of the Bridgepoint class action in which the Board has been granted lead plaintiff status. Ms. Denius confirmed the lead plaintiff status and that defendant's counsel had filed a motion attempting to disqualify the GEPP board as being

unsuitable to act in this capacity. Mr. Strachan had to submit to a lengthy deposition by defendant's counsel. The judge has not yet ruled on the motion.

ACTUARY REPORT

No Report

INVESTMENT CONSULTANT REPORT

Gwelda Swilley-Burke provided an update on several items on the underlying investments in GrayCo Core Alts II LLC. The update prompted a number of questions concerning the percentage of funding of capital calls for each underlying partnership, a key personnel change at one of the underlying investments and progress on some of the initiatives that were discussed by the managers a few months ago. Ms. Yolanda Foreman and others from Gray Co will address these questions during their portfolio review of Core Alts II LLC at the November board meeting.

Ms. Swilley-Burke reminded that board that Ms. Bowman of BlackRock had responded by email to all board members that BlackRock had agreed to match the lowest priced bidder for transition management services, satisfying the condition of the previous motion to hire the firm as transition manager.

Monthly Flash Report – August - Ms. Swilley-Burke reviewed the August Flash Report. There is a slight overweight in domestic equities due to the run up in stocks, but still within policy guidelines. Overall, August was a good month, delivering a 3.24% net-of-fee return against a benchmark of 2.92%. While 75 bps under the benchmark for the past year, the portfolio beat the policy benchmark over 3-years – 14.79% compared to 14.27%.

Manager Search Candidates - Ms. Swilley-Burke presented the recommendations of the Callan Search Committee for managers in the Core Real Estate category: AEW Capital, Clarion Partners, Heitman Capital Mgmt, JP Morgan Investment Management, Prudential Real Estate Investors and UBS Trumbull, and Core+: Intercontinental – US REIF (client requested), JP Morgan Income & Growth, Prudential – PRISA II, and UBS – Trumbull Growth and Income. She briefly reviewed the search criteria that had been shared with the board at a prior meeting and described the basic differences in portfolio construction and risk-reward characteristics between Core and Core+. The allocation to Real Estate would be approximately \$34 - \$36 million.

An overview was provided of each of the recommended firms including investment strategies, fees and the length of queue for the draw-down of capital. A discussion ensued regarding the differences in risk/return profiles between Core and Core+ managers. Based on a preference expressed by Mr. Beard and a general consensus among the board, it was decided to consider managers in the Core+ segment only.

MOTION: A motion was made and seconded to invite four (4) Core+ Real Estate managers to present to the board: Intercontinental, JP Morgan, Prudential and UBS Trumbull. The motion passed.

Ms. Pagnotta-Murphy commented that she was disappointed that Bretwood Capital Partners had not been given an opportunity to bid. Ms. Swilley-Burke explained that Bretwood does not have a product that fits in either of the categories being considered for the search in that they do not have a true real estate investment product nor do they have a Small Cap offering. Mr. Beard and Mr. Strachan pointed out that there was no desire to exclude Bretwood, but rather it was a “square peg in a round hole” situation. A long discussion ensued regarding the board's support for minority firm inclusion and

helping small, local firms. Several people recommended developing a more comprehensive policy statement to clarify the process of including such firms.

MOTION: A motion was made and seconded to include Bretwood Capital Partners as one of the firms to present as a manager for the Real Estate category allocation. The motion passed. Mr. Strachan voted No.

Ms. Swilley-Burke followed the same process in presenting the recommendations of the Callan Search Committee for managers in the Small Cap Growth category. The board requested, subject to the firms meeting the previously established criteria, that the following firms be included in the search: Ariel Investments, JP Morgan, Lee Munder and ProShares. Three of four were excluded in Callan's vetting process: Ariel is a value manager (not growth); JP Morgan has only one Small Cap Growth portfolio which is closed to new investors; and ProShares is an alternative ETF firm that does not fit into the Small Cap Growth segment.

The firms that made the list for consideration were: AH Lisanti Capital, Apex Capital Management, Lee Munder Capital, Nicholas Investment Partners, and StoneRidge Investment Partners.

In addition, Callan presented a list of Manager of Manager products for the board's consideration: Attucks Asset Mgmt, FIS Group, Leading Edge Advisors, Legato Capital Mgmt and Progress Investment Mgmt.

Ms. Swilley-Burke summarized each of the active manager profiles including asset size, style, fees, minority representation and performance. A discussion ensued on the merits of the Manager of Manager approach to the Small Cap, namely, additional diversification of risk across multiple managers, the nimbleness that the manager can bring in replacing under-performing managers and a potential reduction in volatility. The downside is often the additional cost of the extra layer of management.

MOTION: A motion was made and seconded to interview StoneRidge, Lee Munder and Apex as direct managers in the Small Cap Growth segment, and to interview Attucks and Legato in the Manager of Managers Small Cap Growth space. The motion passed.

To keep the process moving forward in a timely manner, a Special Called Meeting was scheduled for Wednesday, October 22, 2014 to interview the four Real Estate managers, Bretwood Capital, and the five Small Cap Growth managers.

OLD BUSINESS:

Securities Monitoring Update – Ms. Denius provided an update under the Legal 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.

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.

Following up on the invitation extended to him after last month's board meeting, Mr. Jackson addressed the board to explain that although he realized the check was more than it should have been, various health issues and other difficult circumstances occurred in his life at the time and created a need for some assistance. After praying about it for some time, Mr. Jackson concluded the overpayment was simply a blessing from God in his time of need. He asked for the board's understanding and mercy. Mr. Strachan explained that the board is tasked with exercising its fiduciary responsibility to protect the Fund and its ability to pay benefits for all participants. Ms. Yancy and others, while expressing some empathy for his circumstances, stated that some effort to repay the amount would be necessary. After some additional discussion, Ms. Yancy asked Mr. Larimer to provide at the November meeting a breakdown of Mr. Jackson's corrected monthly pension benefit showing the net amount received after deductions so that the board can make a decision on a plan of repayment.

NEW BUSINESS:

Interviews of Law Firms for Review of GA Department of Law Letter on Mutual Fund Holdings - Two law firms accepted the board's invitation to present on their capabilities to prepare an opinion letter on the issues raised by a GA Department of Law Letter regarding the permissibility of public pension funds in Georgia to hold mutual fund investments.

Edmund Emerson of Morris, Manning and Martin, introduced himself and his firm. He reviewed his experience in public pension law and related investment issues. Mr. Emerson summarized the issue by stating that this was not a new issue and, in fact, guidance has been sought from the GA Attorney General's office for several years. To date, no clear opinion or guidance has been issued, nor is the current letter that is the subject of the board's inquiry an official position. An official guidance opinion is in process and legislation is being drafted for action in the 2015 legislative session that would clarify the question.

In response to a question from Mr. Strachan, Mr. Emerson said that he could prepare a legal memorandum addressing the appropriateness of the GEPP's current portfolio holdings; the cost would not exceed \$15,000. Ms. Swilley-Burke asked about prospective investments. Mr. Emerson stated that he was advising his other Georgia municipal plan clients to wait for upcoming official guidance or legislative action before investing in new mutual fund investments. Ms. Yancy asked if a memorandum prepared by Mr. Emerson could be for the benefit of the General Employees' and the Police and Fire plans and for a single bill. Mr. Emerson said yes.

David Bain, a sole practitioner, introduced himself and his capabilities. Mr. Bain's background is primarily in litigation. He concurred with Mr. Emerson's assessment that the prudent course would be to wait for further guidance from the GA Attorney General's office or legislation in 2015. Mr. Bain described his normal practice as being litigation and may not be best suited for the task at hand.

The board came to the consensus that the best course of action would be to delay taking an action on hiring a law firm for an opinion and await the issuance of formal guidance from GA Attorney General's office or legislation in the next session. The board thanked both Mr. Emerson and Mr. Bain for their time and direction on this issue.

GEMGroup Administrative Services Agreement - Mr. Larimer presented the GEMGroup Addendum to the Administrative Services Agreement to extend for one year at a fee increase of 4%. Ms. Yancy commented for the benefit of the other board members that she and Mr. Beard also sit on the Police and Fire Plans boards which are administered by Zenith American, an affiliate of GEMGroup. By having experience with both administrators, Ms. Yancy is able to compare the service, level of cooperation and reporting and the overall quality of administration provided. Ms. Yancy stated that there are problems

and issues with Zenith on the Police and Fire Plans that are not problems and issues with GEMGroup on the General Plan, in particular the support and responsiveness provided to the City's auditors.

In response to questions, Mr. Larimer briefly described the corporate structure of Zenith American and GEMGroup and how they relate to one another. Even though GEMGroup is a wholly-owned subsidiary of the same parent company that owns Zenith, GEMGroup is operated as a separate "brand" and has its own proprietary data and accounting system that may afford more flexibility in responding to client requests.

Mr. Strachan asked if Police and Fire Plans were to be consolidated under a single administrative agreement would there be a deal or discounts in that arrangement. While not be able to commit to something specific, Mr. Larimer was certain that GEMGroup would work out an acceptable pricing arrangement. Ms. Yancy made it clear that she was concerned with a consolidation of GEMGroup into the larger Zenith and would prefer to consolidate all the City's plans under GEMGroup.

Mr. Beard asked for background on the Agreement, initial term and prior fee increases. He had no objection to the 4% increase but did not want to contemplate a multi-year extension in light of the potential to consolidate the Police and Fire plans.

Ms. Pagnotta-Murphy asked two questions and raised several customer service complaints. She asked if GEMGroup and Zenith had competitors who provided the same services and asked what exactly does the GEMGroup do for the General plan. Mr. Larimer answered that there were other third-party administrator firms that were competitors of GEMGroup. He also gave a short summary of the services that were being provided to the General Pension under the services agreement.

Ms. Pagnotta-Murphy commented that she regularly receives feedback from her members that the GEMGroup is not consistently delivering a good customer service experience with reported delays in response time, no call backs and less than courteous and timely service from the Atlanta office.

Mr. Larimer accepted the comments and promised to address the issues with GEMGroup staff.

Ms. Aretha Sumbry-Powers provided alternative commentary based on her experience. She stated that she deals with the GEMGroup Atlanta office staff frequently on behalf of her employees and directs many participants to the GEMGroup office; her experience directly and reported to her by participants is excellent: responsive and courteous service, timely reaction to requests and generally a very good experience. Mr. Larimer acknowledged these comments and promised to work with the Atlanta office staff to improve the quality of the experience for all participants to match Ms. Powers' experience.

Mr. Strachan proposed for consideration a mechanism for measuring the customer service outcomes and benchmarking to industry standards then tying a portion of the GEMGroup fee to that performance measurement. At this point, there is no consensus among the board to develop such a process.

Ms. Pagnotta-Murphy asked why the administration was ever outsourced to a third-party firm. Ms. Yancy stated that cost reduction and efficiency motivated the City's decision in 2009, saving an estimated \$400,000. Ms. Pagnotta-Murphy stated that she thought the pension function should be handled internally and should be brought back in house at the City.

Ms. Yancy suggested that a thoughtful discussion on all the issues should take place and that GEMGroup needs to address the customer service issues raised by Ms. Pagnotta-Murphy immediately in the Atlanta office.

MOTION: To renew the GEMGroup Administrative Services Agreement for a one-year term with a 4% fee increase accompanied by an action plan to address the customer services issues as reported in the GEMGroup Atlanta office. The motion passed. Ms. Pagnotta-Murphy and Mr. Bond abstained.

There being no further business to discuss, the meeting was adjourned at 2:30 a.m. The next regularly scheduled board meeting will be on Wednesday, November 5, 2014 at 9:30 am in Conference Room 1, City Hall.

A Special Called Meeting is scheduled for Wednesday, October 22 at 9:00 am – 5:00 pm to interview investment managers firms.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary