

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

January 7, 2015

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on January 7, 2015 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Aretha Sumbry-Powers
Dr. Gregory Nash
Gina Pagnotta-Murphy

Jim Beard
Angela Green
Jason Esteves
Yvonne Cowser Yancy

NOT PRESENT:

Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Kristen Denius of City Law Department; Gwelda Swilley-Burke, Dana Brown and Brett Cornwell of Callan Associates, Robert Stanley of Atlanta Public Schools, Eric Atwater of Segal, Nathan Lewis of Security Capital, Milford McQuirt of KPMG and Gene Kirschbaum, City Finance and Accounting Department.

Mr. Strachan called the meeting to order at 9:30 am and asked the audience to introduce themselves. A quorum was present.

BOARD ELECTION RESULTS

Mr. Strachan announced that the results of the election for the two Retiree representative board seats had been certified and congratulated Ms. Angela Green and Dr. Gregory Nash on being re-elected to new 3-year terms. Mr. Strachan commented that he appreciated how well the board is currently functioning and looks forward to the continuity and dedication that Ms. Green and Dr. Nash will continue to provide.

ELECTION OF BOARD OFFICERS

MOTION: A motion was made and seconded to nominate Mr. Douglas Strachan to continue to serve as Board Chairman. The motion passed.

MOTION: A motion was made and seconded to nominate Ms. Aretha Sumbry-Powers to continue to serve as Vice Chairman. The motion passed.

MOTION: A motion was made and seconded to nominate Mr. Jim Beard to continue to serve as Secretary. The motion passed.

ADOPTION OF AGENDA:

MOTION: A motion was made and seconded to adopt the agenda The motion passed.

APPROVAL OF MINUTES:

Minutes from the December 3, 2014 board meeting were provided in the meeting packages in advance and were reviewed by board members.

MOTION: A motion was made and seconded to approve the minutes of the December 3, 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.

Responding to a question from Mr. Beard, applicant # 2 shows to separate age penalties and two amendment years (2005 & 2011) because the applicant has earned pension credits under both the 2005 defined benefit plan and under the 2011 amendment referred to as the Hybrid Plan. The plans have different Normal Retirement Age which affects the calculation.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-15 as listed on the attached spreadsheet dated January 7, 2015. 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 January 7, 2015. 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 January 7, 2015. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated January 7, 2015 was presented for review and approval.

The first item on the Check Register noted a check payable to Morgan Stanley that had been issued, with prior approval from Board Chairman Strachan and Secretary Beard, between meetings because this invoice had been misplaced by the administrator prior to last month's meeting and was now seriously past due. Mr. Beard questioned why the check number of the facsimile- issued check was out of sequence and did not match the check number on the photocopy of the check behind the Check Register. Mr. Larimer stated he would research and provide an explanation after the meeting.

MOTION: A motion was made and seconded to approve 8 items: #55607 - #55664 on the Check Register dated January 7, 2015 totaling \$363,799.95, subject to a satisfactory explanation of the check number sequence. The motion passed.

Subsequent to the meeting, Mr. Larimer explained that the check number in the Check Register was indeed correct and was out-of-sequence because it had been issued earlier in the month than the regular check run. The confusion occurred because a second check was prepared in error, the copy shown behind the Check Register and included in the live check folder; this check had already been issued (#55607 noted above). Check # 55666 to Morgan Stanley will be voided.

REVIEW OF FINANCIALS:

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

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

LAW DEPARTMENT:

IRS Updates and Plan Amendment - Ms. Denius updated the board and distributed a draft of Ordinance to amend the Pension Plan in order to align certain provisions with IRS Code requirements relating to military service and the inclusion of differential wage rates. The City Council requires a non-binding vote from the Pension boards. After a brief discussion,

MOTION: A motion was made and seconded to authorize the Board Chairman to sign the Ordinance on behalf of the board, recommending its adoption to City Council. The motion passed.

ACTUARY REPORT

No Report

INVESTMENT CONSULTANT REPORT

Performance Review – November 2014 – Ms. Swilley-Burke reviewed the Monthly Performance report for November, pointing out the Fund increased in market value by \$17 million to \$1.275 billion. Returns for virtually all the managers were positive for the month and the overall fund return for the

prior 12-month period was 9.88%, net of fees, about 100 bps under the Policy Index. For the last three year period the fund's over return was 14.92%, 60+ bps in excess of the Index. Given that December showed positive overall returns in the general market, Ms. Swilley-Burke commented that the board could expect that final 2014 numbers to come in excess of the 7.5% actuarial assumption.

Funding New Manager Mandates – Ms. Swilley-Burke reported that contracts for both Legato and Interncontinental had been completed and accounts were in process of being set up to receive funding; JP Morgan was still in process. She pointed out that the JP Morgan Real Estate Fund had a queue and would likely not see any funding until 4th quarter 2015 or early 2016.

Mr. Strachan complimented Gerrard Grant of the City Law Department for a job well-done on working through the complex legal issues involved in the JP Morgan Subscription Agreement.

Review of Manager Candidates

Gwelda Swilley- Burke introduced her colleagues, Dana Brown and Brett Cornwell, to assist with the reviews of manager candidates in the Emerging Market Equity and Global Fixed categories.

Ms. Green inquired about any liquidity restrictions among the prospective portfolios that would limit the board's ability to exit the investment. Ms. Swilley-Burke responded that they all offered 30-60 day outs upon client request.

Global Fixed – Brett Cornwell

Board members had requested that several firms be invited to present: Loomis Sayles, BlackRock and JP Morgan. Each of these firms either excused themselves or were eliminated by Callan because they did not offer an Investment Grade Only Global Fixed Income product as required to be in compliance with Georgia State investment guidelines for public pensions. Callan's search resulted in four firms being presented today: Alliance Bernstein, Brandywine Global, Colchester Global, and Mondrian.

Mr. Cornwell noted that candidates share many similar characteristics with respect to size, currency hedging, benchmarks and relative proportions of corporate credit and sovereign debt. All deliver their products using Collective Investment Trusts, an institutional comingled investment vehicle. Mr. Beard asked how some of the relatively small percentages of non-investment grade bonds got into the portfolios. Mr. Cornwell stated that no securities were below investment grade at the time of purchase, but may have later been downgraded. Mr. Beard also asked if there were any minority firms who were close to meeting the threshold but did not qualify due to a lack of an appropriate vehicle or relevant strategy. He requested that the universe be reviewed again with an eye toward an additional candidate that has minority credentials and may have been eliminated due to strict adherence to the filters.

After considerable further discussion,

MOTION: A motion was made and seconded to invite Brandywine, Colchester and Mondrian, plus a minority-owned firm if one can be identified that can meet the filters. The motion passed.

Emerging Market Equity – Andy Iseri

Ms. Swilley-Burke introduced Andy Iseri by telephone, a Callan specialist in Emerging Markets equity. Mr. Iseri reviewed a summary of eight recommended candidates, their style characteristics, discipline and approach to managing emerging market portfolios. Each has certain characteristics that distinguish them and all are quality managers. Callan categorized them into three groups - 3 tied for first, 3 very close together as second, and 2 others in the third group.

Mr. Iseri mentioned that Callan likes JP Morgan but due to having reached capacity two years ago, then adding a new portfolio manager and new analysts this year to boost capacity, there is some concern as to a possible diminution in quality. Lee Munder is a newer strategy, doing quite well and growing exceptionally fast. But the portfolio manager has an outsized impact on the portfolio and therefore adds key person risk to the portfolio.

Mr. Beard asked about other minority-owned firms that may have just missed the list or were close enough to deserve a second look based on the minority filter. Andy stated that the original list started at 43 names, with 12 presented to the Callan internal search committee; 8 were chosen for the final candidate list. Of the minority firms that did not make the final list, FIS was eliminated based on non-competitively high fees. Glovista was deemed to be too volatile for a stand-alone mandate. And Causeway did not compare favorably with BlackRock or Earnest in the same style. After considerable further discussion, and questions from various board members,

MOTION: A motion was made and seconded to invite presentations for Emerging Markets Equity from Aberdeen, Earnest Partners, Parametric, BlackRock and Lee Munder. The motion passed.

OLD BUSINESS:

Securities Monitoring Update – No updates.

Approval of New Physicians for Disability Exams – The resume of physician Raj D. Pandya, vetted by Mr. Amis of the City's Employee Benefit Department and proposed to be added to the list of approved doctors to perform disability examinations on behalf of the board, was included in the meeting package and reviewed by Board members in advance of the meeting. After a brief discussion,

MOTION: A motion was made and seconded to approve Dr. Pandya as an authorized physician to conduct examinations on behalf of the board of disability pension applicants. The motion passed.

By Laws Review and Discussion - A motion was made to table discussion of the By Laws to the next meeting due to the length of the Agenda; while there was some consensus on the motion, it did not pass. After some additional discussion,

MOTION: A motion was made and seconded to remove from the By Laws Section 2.4 dealing with the procedures for the removal of trustees. There was four Yes votes and four No votes; the motion failed.

Ms. Pagnotta-Murphy suggested that several areas of the By Laws needed to be discussed including Section 2.4, how trustees can get back on the board after having been removed and the Roberts Rules of Order.

Mr. Strachan committed that the By Laws would be on the February meeting agenda for further discussion. He also commented that the board has been and is currently functioning professionally and effectively and thanked the current members for their efforts.

Indirect Cost Allocations – Finance Department – Mr. Beard summarized the request from Finance to authorize an internal charge for services provided by Finance to the General Pension Fund to cover the costs of services provided for accounting, audit, HR Resources. Representatives of the Finance Department staff presented and reviewed a Table of Indirect Charges by year from 2010 – 2013, showing the services rendered under each category and an explanation of the year-over-year increases in costs. The total amount owed for the four years since the allocation had not been invoiced and paid by the pension is \$908,175.

A significant amount of discussion had occurred at the December meeting and the addition detail presented was satisfactory to the board.

MOTION: A motion was made and seconded to authorize payment of the allocation of indirect cost from the Finance Department for years 2010 – 2013 and to pay the allocation of indirect costs annually going forward. The total due is approximately \$340,000, net of prior credits, and will be on the February Check Register supported by invoices for each of the four years. The motion passed.

NEW BUSINESS:

Audit Report Review – KPMG - Milford McQuirt, partner at KPMG with responsibility for the City of Atlanta and Pension Fund audit presented and reviewed the firm's draft management letter and audit findings relating to the administration of the General Employees' Pension for the Plan year ended June 30, 2014.

Mr. McQuirt reported that KPMG would issue an unmodified, clean opinion on Pension Plan audited financial statements for fiscal 2014. He mentioned that there was an invalid receivable from APS in the amount of \$8.3 million that had been cleared/removed after verification that the amount was not owed. Several other areas of plan administration were reviewed.

Monitoring of Service Organizations – dealt with to need to verify and oversee the procedures and administration of third party vendors who are providing service to the Pension Plan, particularly GEMGroup, TPA. Mr. McQuirt mentioned that in a pre-call with Mr. Larimer he noted that the preparation of the SSAE -16 by GEMGroup for an additional time period will satisfy the KPMG recommendation in this area. The supplemental SSAE-16 should be available in February 2015.

Monitoring of Benefit Payments - The audit sampling uncovered two pension benefit calculation errors – one resulting in a substantial overpayment – and recommended that a significant sampling of ongoing pension benefit calculations be undertaken post pay status commencement to ensure that errors, if made, are not carried forward for many years. Mr. Larimer agreed that this process of checking a sample each month was reasonable.

Mr. Strachan again asked for a cost estimate to examine all 5000 + retiree calculations for retirees currently receiving a benefit in an effort to find other possible significant past errors. Mr. Larimer committed to obtain a quote for such a project.

Other findings recommended efforts by the City to ensure that active participants were enrolled in the correct plan based on eligibility requirements, to ensure accuracy of census data derived from Payroll in order to ensure accuracy of actuarial valuations, and Plan amendments with respect to IRS compliance (which was addressed by the action earlier in the meeting). Overall, the Audit report was generally favorable and the Office of Retirement Services, GEMGroup and the City Audit Department will work together to address any areas that needed improvement.

Proposal to Accelerate Pension Processing Timeline – Following up on a discussion from the December meeting, Mr. Larimer suggested that 2-3 weeks could be eliminated from the normal pension processing timeline if the board agreed to authorize a provisional approval of pension benefit calculations upon completion by GEMGroup. Retiree applicant would be provisionally placed in pay status as their application processing is completed and their benefit amount is calculated, with formal final approval being granted by the board at its next regularly scheduled monthly meeting. If an adjustment or correction needed to be made for any reason, it could be accomplished prior to final board approval being granted.

MOTION: A motion was made and seconded to authorize GEMGroup to put retiree applicants into pay status concurrently with the completion of the application process and benefit calculation with the board reviewing and granting final approval at the monthly board meeting. The motion passed.

Vacation Payout – Another suggestion had been made to include the payout for any unused Vacation time in the final paycheck instead of waiting two weeks for the next pay period. Ms. Yancy explained

that the payout of Vacation time was governed by code and other City payroll policies and timing and payout options were not within the purview of the Pension board.

There being no further business to discuss, the meeting was adjourned at 11:50 AM. The next regularly scheduled board meeting will be on Wednesday, February 4, 2015 at 9:30 am in Conference Room 1, City Hall.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary