



MINUTES
MEETING NO. 015
MEETING OF THE POLICE AND FIRE RETIREMENT SYSTEM
INVESTMENT COMMITTEE
MONDAY, SEPTEMBER 19, 2016

A MEETING OF THE INVESTMENT COMMITTEE OF THE POLICE AND FIRE RETIREMENT SYSTEM OF THE CITY OF DETROIT WAS HELD ON **MONDAY, SEPTEMBER 19, 2016** IN THE CONFERENCE ROOM OF THE RETIREMENT SYSTEMS, 500 WOODWARD AVENUE, SUITE 3000, DETROIT, MICHIGAN 48226

ROLL CALL:

CHAIRMAN **ROBERT SMITH** CALLED THE MEETING TO ORDER AT **10:04 A.M.** A QUORUM BEING PRESENT, ATTENDANCE WAS TAKEN BY RECORDING SECRETARY **JANET LENEAR** AND THE FOLLOWING COMMITTEE MEMBERS WERE PRESENT: JOSEPH BOGDAHN, MARK DIAZ, ROBERT SMITH (CHAIRMAN), REBECCA SORENSEN, GREGORY TROZAK, JOHN TUCKER, WOODROW TYLER AND MCCULLOUGH WILLIAMS, III (VICE CHAIRMAN)

ALSO PRESENT AT ROLL CALL:

INVESTMENT OFFICER MICHAEL KRUSHENA AND GENERAL COUNSEL RONALD A. KING

GUESTS PRESENT AT ROLL CALL:

BRUCE BABIARZ, POLICE AND FIRE RETIREMENT SYSTEM PUBLIC RELATIONS ADVISOR; RONALD ROSE, MICHIGAN DEPARTMENT OF TREASURY EXECUTIVE DIRECTOR

EXCUSED:

DAVID CETLINSKI, ASSISTANT EXECUTIVE DIRECTOR

MOTION #1 – 09-19-16: APPROVAL OF SEPTEMBER 19, 2016 AGENDA

MOVED BY ROBERT SMITH – SECONDED BY MARK DIAZ: TO APPROVE TODAY'S **SEPTEMBER 19, 2016** AGENDA AS PREPARED AND SUBMITTED BY THE COMMITTEE'S RECORDING SECRETARY, SUBJECT TO RONALD A. KING

MOTION #1 – 09-19-16: APPROVAL OF SEPTEMBER 19, 2016 AGENDA – CONTINUED

PRESENTING HIS LEGAL REPORT PRIOR TO WILSHIRE'S PRESENTATION.
THE MOTION PASSED UNANIMOUSLY

COMMITTEE MEMBER **SEAN P. NEARY** ENTERED THE MEETING AT 10:06 A.M.

FUTURE AGENDA ITEMS/DISCUSSION

CHAIRMAN **SMITH** INFORMED THE COMMITTEE THAT POLICE AND FIRE'S INVESTMENT COMMITTEE WILL MEET WITH GENERAL'S INVESTMENT COMMITTEE ON OCTOBER 17, 2016 TO DISCUSS, AMONG OTHER MATTERS, THE SYSTEMS' FUNDING POLICIES; ACTUARIAL ASSUMPTIONS; GOVERNANCE; AND PERSONNEL SHARING.

MOTION #2 – 09-19-16: APPROVAL OF JULY 11, 2016 MINUTES

MOVED BY JOSEPH BOGDAHN – SECONDED BY WOODROW TYLER: TO APPROVE THE COMMITTEE'S **JULY 11, 2016** MINUTES AS RECORDED AND SUBMITTED BY THE COMMITTEE'S RECORDING SECRETARY. COMMITTEE MEMBER **MARK DIAZ** ABSTAINED.

PLANTE MORAN

MICHELLE WATTERWORTH AND ASSOCIATE **ALI HIJAZI** INFORMED THE COMMITTEE THAT PLANTE MORAN IS IN THE PROCESS OF PLANNING THE AUDIT OF POLICE AND FIRE'S FINANCIAL STATEMENTS OF COMPONENT I (HYBRID) AND COMPONENT II (LEGACY) FOR THE YEAR ENDED JUNE 30, 2016; DETAILING PLANTE MORAN'S AUDITING STANDARDS RESPONSIBILITIES AND PLANNED SCOPE AND TIMING OF SAID AUDIT. MS. WATTERWORTH ALSO NOTED PLANTE MORAN'S NEED FOR CERTAIN RELEVANT RETIREMENT SYSTEM INFORMATION (THE SYSTEM'S OBJECTIVES, STRATEGIES AND BUSINESS RISKS THAT MAY RESULT IN MATERIAL MISSTATEMENTS; MATTERS WARRANTING SPECIAL ATTENTION; REGULATOR COMMUNICATION; INTERNAL CONTROL CONCERNS; DEVELOPMENTS IN ACCOUNTING STANDARDS, REGULATIONS AND LAWS; ETC.) NECESSARY TO COMPLETE SAID AUDIT.

~CONCLUDES PLANTE MORAN'S PRESENTATION~

UHY

MARLENE BEACH AND **JOHN PEPPERMAN** INFORMED THE COMMITTEE THAT UHY HAD ENCOUNTERED CERTAIN IT ISSUES WITH RESPECT TO JOURNAL ENTRIES REGARDING THE HYBRID PLAN, BUT ASSURED THE COMMITTEE THAT SAID ISSUES WILL BE RESOLVED ONCE NEW RETIREMENT SYSTEM IT SOFTWARE HAS BEEN INSTALLED.

~CONCLUDES UHY'S PRESENTATION~

SECURITIES LENDING DISCUSSION

INVESTMENT OFFICER **MIKE KRUSHENA** AND **MESSRS. J.M. RUSCETTI** AND **CALVIN BORN, JR.** (OF WILSHIRE) DISCUSSED SECURITIES LENDING AT LENGTH, FOCUSING ON THE SYSTEM'S CURRENT SECURITIES LENDING PROGRAM WITH BANK OF NEW YORK MELLON.

THE GENTLEMEN NOTED THAT CURRENTLY WITHIN THE SYTEM'S SECURITIES LENDING PROGRAM WITH BONY, THE SYSTEM IS NOT INDEMNIFIED FOR CASH COLLATERAL RISK AND INVESTS CASH COLLATERAL IN U.S. GOVERNMENT AND CORPORATE BOND REPO; ASSET-BACKED FLOATING INSTRUMENTS; FLOATING RATE NOTE INSTRUMENTS; CERTIFICATES OF DEPOSITS; AND TIME DEPOSITS. CURRENTLY THE SYSTEM IS INDEMNIFIED AND ALLOWS U.S. GOVERNMENT INSTRUMENTS ONLY AS IT RELATES TO NON-CASH COLLATERAL.

FOUR (4) BONY SCENARIOS WERE DISCUSSED AS WELL, DETAILING WHAT THE SYSTEM WOULD EARN FOR THE FISCAL YEAR ENDING JUNE 30, 2017 IF NO CHANGES WERE MADE TO THE SYSTEM'S CURRENT PROGRAM; EXPANDING NON-CASH COLLATERAL TYPES AND ALLOWING FOR EQUITY REPO; WHAT THE SYSTEM WOULD EARN ANNUALLY IF THE SYSTEM'S CURRENT PROGRAM WERE CHANGED TO ALLOW FOR U.S. GOVERNMENT REPO ONLY; AND WHAT THE SYSTEM WOULD EARN ANNUALLY IF THE SYSTEM'S CURRENT PROGRAM WERE CHANGED TO ALLOW FOR U.S. GOVERNMENT AND EQUITY REPO ONLY.

THIS MATTER WILL BE DISCUSSED FURTHER AT A FUTURE MEETING (FOCUSING ON INVESTMENT POLICY IMPLICATIONS AND PERMITTED BONY INVESTMENTS). CHAIRMAN **SMITH** NOTED THAT SHOULD THE SYSTEM ADOPT ONE OF THE FOUR BONY SENARIOS, THE SYSTEM'S INVESTMENT POLICY MAY HAVE TO BE AMENDED.

~CONCLUDES SECURITIES LENDING DISCUSSION~

LEGAL REPORT

GENERAL COUNSEL **RONALD A. KING** ASKED THE COMMITTEE TO ENTER INTO CLOSED SESSION TO DISCUSS PENDING LITIGATION AND ATTORNEY/CLIENT PRIVILEGED MATTERS.

MOTION #3 - 09-19-16: ENTERING INTO CLOSED SESSION

MOVED BY JOSEPH BOGDAHN – SECONDED BY WOODROW TYLER: THAT THE COMMITTEE ENTER INTO CLOSED SESSION TO DISCUSS PENDING LITIGATION AND ATTORNEY/CLIENT PRIVILEGED MATTERS. A ROLL CALL VOTE WAS TAKEN, THE MOTION PASSED UNANIMOUSLY AND THE COMMITTEE ENTERED INTO CLOSED SESSION AT **11:00 A.M.**

CHIEF INVESTMENT OFFICER **RYAN C. BIGELOW** ENTERED THE MEETING AT 11:37 A.M.

MOTION #4 - 09-19-16: RETURNING TO OPEN SESSION

MOVED BY JOSEPH BOGDAHN – SECONDED BY WOODROW TYLER: THAT THE COMMITTEE RETURN TO OPEN SESSION. THE MOTION PASSED UNANIMOUSLY AND THE COMMITTEE RETURNED TO OPEN SESSION AT **11:42 A.M.**

~CONCLUDES LEGAL REPORT~

CHIEF INVESTMENT OFFICER'S REPORT

CHIEF INVESTMENT OFFICER **RYAN C. BIGELOW** AND INVESTMENT OFFICER **MIKE KRUSHENA** DISCUSSED RECENT MANAGER ALLOCATIONS (\$20,000,000 ALLOCATION TO PLATINUM EQUITY FUND IV AND \$15,000,000 TO GRIDIRON CAPITAL FUND III); AND **MR. BIGELOW'S** RECENT VISITS TO VALSTONE PARTNERS AND ALEX BROWN REALTY, AS WELL AS HIS DUE DILIGENCE VISITS TO GREENFIELD AND DRA. **MESSRS. BIGELOW** AND **KRUSHENA** ALSO PROVIDED THE COMMITTEE WITH AN UPDATE REGARDING THE SYSTEM'S INVESTMENT POLICY STATEMENT AND EMERGING MANAGER PROGRAM, AS WELL AS KINGS POINTE APARTMENTS.

MOTION #5 – 09-19-16: KINGS POINTE APARTMENTS

MOVED BY REBECCA SORENSEN – SECONDED BY WOODROW TYLER: TO CONCUR WITH THE POLICE AND FIRE RETIREMENT SYSTEM'S SEPTEMBER 8, 2016 APPROVAL OF BANYAN REALTY ADVISOR'S RECOMMENDATION THAT THE SYSTEM APPROVE THE SALE OF THE SYSTEM'S LIMITED PARTNER INTEREST FOR THE PRICE RECOMMENDED BY BANYAN REALTY ADVISORS. THE MOTION PASSED UNANIMOUSLY.

~CONCLUDES CHIEF INVESTMENT OFFICER'S REPORT~

LONG TERM RETURNS

EXECUTIVE DIRECTOR **CYNTHIA A. THOMAS** ENTERED THE MEETING AT 12:10 P.M.

MICHIGAN DEPARTMENT OF TREASURY EXECUTIVE DIRECTOR **RONALD ROSE** DISCUSSED THE FOLLOWING MATTERS:

THE SYSTEM'S 2015 GASB 67/68 REPORTS

THE SYSTEM'S DRAFT ANNUAL ACTUARIAL VALUATION OF COMPONENT II (AS OF JUNE 30, 2015)

THE SYSTEM'S 2024 LIABILITIES VERSUS ANNUAL PAYMENTS

COMMUNICATION BETWEEN THE CITY, THE SYSTEM, THE SYSTEM'S INVESTMENT COMMITTEE AND THE SYSTEM'S ACTUARY, GABRIEL, ROEDER, SMITH & COMPANY

COMMITTEE MEMBER **MARK DIAZ** EXCUSED HIMSELF AT 12:20 P.M.

RECESS

THE COMMITTEE RECESSED FROM 12:30 P.M. UNTIL 1:03 P.M.

TRUSTEE **MARK DIAZ** RETURNED TO THE MEETING AT 1:13 P.M.

GABRIEL, ROEDER, SMITH & COMPANY

KEN ALBERTS AND **DAVID KAUSCH** DISCUSSED THE SYSTEM'S DRAFT ANNUAL ACTUARIAL VALUATION OF COMPONENT II AS OF JUNE 30, 2015, AS WELL AS THE SYSTEM'S DRAFT ANNUAL ACTUARIAL VALUATION OF COMPONENT I AS OF JUNE 30, 2014. THEY ALSO NOTED THE RSCD ITEMS THEY WOULD NEED TO COMPLETE THE JUNE 30, 2016 GASB REPORT ((2016 ASSET DATA) AND 2016 FUNDING/STATUS VALUATIONS (MEMBER AND FINANCIAL DATA).

DURING THE GENTLEMEN'S PRESENTATION, COMMITTEE MEMBER **SEAN P. NEARY** EXCUSED HIMSELF AT 2:05 P.M.; AND GENERAL COUNSEL **RONALD A. KING** EXCUSED HIMSELF AT 2:40 P.M. AT 2:45 P.M., CHAIRMAN **ROBERT SMITH** RELINQUISHED THE CHAIR TO VICE CHAIRMAN **MCCULLOUGH WILLIAMS, III** AND EXCUSED HIMSELF.

PRIOR TO EXCUSING THEMSELVES, **MESSRS. ALBERTS** AND **KAUSCH** DISCUSSED ASSUMPTIONS AND METHODS FOR PERFORMING HYBRID PLAN SECTION 9.5 AND GABRIEL ROEDER'S PROJECT LIST FOR THE RETIREMENT SYSTEMS.

~CONCLUDES GABRIEL ROEDER'S PRESENTATION~

WILSHIRE CONSULTING

J.M. RUSCETTI AND **CALVIN BORN, JR.** DISCUSSED 2016 SECOND QUARTER MANAGER PERFORMANCE AND PROVIDED THE COMMITTEE WITH A CAPITAL MARKET UPDATE. THE GENTLEMEN ALSO DISCUSSED THE SYSTEM'S INVESTMENT POLICY STATEMENT AT LENGTH.

MOTION #6 - 09-19-16: APPROVAL OF PFRS INVESTMENT POLICY STATEMENT

MOVED BY JOSEPH BOGDahn - SECONDED BY WOODROW TYLER: THAT CONSISTENT WITH A "BEST PRACTICE" APPROACH AND THE SYSTEM'S FIDUCIARY OBLIGATION, THE COMMITTEE ACCEPTS THE RECOMMENDATIONS OF ITS CONSULTANT, WILSHIRE CONSULTING, AND CHIEF INVESTMENT OFFICER, AND APPROVES THE SYSTEM'S INVESTMENT POLICY STATEMENT. THE MOTION PASSED UNANIMOUSLY.

~CONCLUDES WILSHIRE'S PRESENTATION~

COMMITTEE MEMBERS **JOSEPH BOGDAHN** AND **WOODROW TYLER** EXCUSED THEMSELVES AT 3:10 P.M.

ADJOURNMENT

THERE BEING NO FURTHER BUSINESS BEFORE THE INVESTMENT COMMITTEE, VICE CHAIRMAN **WILLIAMS** ADJOURNED THE MEETING AT **3:35 P.M.** UNTIL **MONDAY, OCTOBER 17, 2016**, AT **10:00 A.M.**, IN THE CONFERENCE ROOM OF THE RETIREMENT SYSTEMS, 500 WOODWARD AVENUE, SUITE 3000, DETROIT, MICHIGAN 48226.

RESPECTFULLY SUBMITTED,

Cynthia A Thomas

EXECUTIVE DIRECTOR

MINUTES PREPARED BY: JANET S. LENEAR, RECORDING SECRETARY

MINUTES REVIEWED BY: RYAN C. BIGELOW, CHIEF INVESTMENT OFFICER
MIKE KRUSHENA, INVESTMENT OFFICER