

**MINUTES OF THE RETIREMENT BOARD**  
**Thursday, June 7, 2018**

A meeting of the Retirement Board was held on Thursday, June 7, 2018 at 8:30 a.m., in the Administration Building, 9<sup>th</sup> Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Mark Deldin, Bryan Santo, Gary Cutler, Carol Grant, Matthew Murphy, Larry Rocca, Bob Smith, George Brumbaugh

Excused:

Also Present:

Stephanie Dobson, Stephen Smigiel, John Schapka, Joe Biondo, Larry Lee, Tom Michaud, Mike Holycross

**1. Call to Order**

There being a quorum of the Board present, the meeting was called to order at 8:30 a.m. by Chair Deldin.

**2. Adoption of Agenda**

Chair Deldin requested to shuffle the fund manager presentations. He asked that Bloomfield Capital go first, followed by Clarkston Capital and then Centerbridge Partners. No one objected.

*A motion was made by Trustee Cutler, supported by Trustee Rocca to adopt the amended agenda with the revised order of presentations. The motion carried.*

**3. Approval of Minutes**

**a. May 17, 2018**

*A motion was made by Trustee Grant, supported by Trustee Murphy to approve the minutes of May 17, 2018 as presented. The motion carried.*

**4. Approval of Invoices**

*A motion was made by Vice-Chair Santo, supported by Trustee Rocca to approve the invoices as presented. The motion carried.*

**5. Public Participation**

None

## **6. Retirement Administrator Report**

Ms. Dobson advised the Board that the annual signature verifications have gone out. There is no longer a requirement that they be notarized before they are returned, so they are hoping for full compliance. She and her staff are also still working very diligently with the programmers from Conduent and there are a few issues to still be ironed out before the online portal will be released. She remains hopeful for an end of June, beginning of July release.

Chair Deldin inquired if it would be possible to share a demonstration with the Board before the portal actually goes live. Ms. Dobson said that she is planning a demonstration and also hopes to be able to provide access to the Board members ahead of time, so they can try the system themselves. She would like to have a “fresh set of eyes” view it and possibly find issues that she and her staff might be missing.

Ms. Dobson also reported that she was finally able to have a conference call with the people at Martha T. Berry (MTB) and their PayCom programmers. She believes they now finally understand the importance and urgent need to get the data required to move forward with the 2017 valuation. Mr. Evans (the director at MTB) must authorize a service agreement for PayCom to complete the work necessary to get this done. She is hoping to hear back from MTB early next week. Ms. Dobson and Mr. Jaros (from Conduent) have had conversations about the 2017 valuation and since they must wait for the data from MTB, he may not be able to present anything to the Board until early August.

*A motion was made by Trustee Murphy, supported by Trustee Smith to receive and file the Retirement Administrator Report. The motion carried.*

## **7. Bloomfield Capital update**

Mr. Nick Coburn, Mr. Jason Jarjosa and Mr. Mike Lucci joined the meeting to provide the Board with an update on the Bloomfield Capital portfolio. Mr. Coburn provided a synopsis of Bloomfield’s background. They were founded in 2008 and they focus on smaller deals and are generally able to drive higher returns for their investors. Most of their deals are complex and often quick moving. They often see about 3,000 deals a year and typically invest in about 30. Their credit strategy focuses on niche credit investments that provide consistent income and superior risk adjusted returns for their investors. Their company has grown since the Board’s initial investment in Fund II (from about 10 people to 20).

Mr. Jarjosa then discussed the performance of each of their funds. The Board is currently invested in Fund II and Fund III. He reviewed specific returns for both Fund II and Fund III and provided an overview of each of the portfolios. Both funds are invested across every asset type in real estate. Mr. Jarjosa also walked through an example of one of the investments that is in both Fund II and Fund III.

Mr. Coburn advised that Fund II goes into wind down this coming November. They are seeing a lot of deal opportunities in the market and they are embarking on raising another fund (Fund V). They are going to the investors in Fund II and introducing the concept of “rolling over” capital from Fund II when it goes into wind down to Fund V. He reviewed a comparison of Fund II and Fund V. In Fund V, management fees have been reduced and there is the ability to opt out after 24 months. There will be no equity investments in Fund V. There is an incentive for “rollover” investors with an 8.5% return.

Mr. Holycross asked for an update on the documentation that his firm had requested in order for them to review recommending investments in Fund V. Mr. Jarjosa indicated that they filed for SEC registration a couple of weeks ago and expect to have that completed by the end of June. The DDQ is under review and he suspects that Mr. Holycross will receive it within the next week or so. The fund documents are also under review and they should have final copies out within the same time frame. The initial close for Fund V is targeted for August 31, 2018.

*A motion was made by Trustee Murphy, supported by Trustee Smith to receive and file the Bloomfield Capital update. The motion carried.*

## **8. Clarkston Capital update**

Mr. Kurt Terrien and Mr. Jeff Hakala joined the meeting to provide the Board with an update on the Clarkston Capital portfolio. Mr. Terrien began the conversation by stating that they would review Clarkston's investment philosophy and where they are currently with their cash position and why they have that position. Mr. Hakala reiterated that they are value investors and when they make an investment they ultimately look at what they are getting in exchange for what they are paying. The reason they are sitting on so much cash is that they are not getting enough for what they are willing to pay for. They stubbornly wait for better opportunities.

Clarkston buys companies, not stocks and they have a very disciplined quality standard. They want a high return on capital and they look for simple, understandable businesses that don't have too much debt on their balance sheets. They know what they want to own and they are just waiting for value. They do one thing, they do it best and they do it the same for every client. What they do works and it it's going to work well for the long term.

Mr. Holycross asked Mr. Terrien and Mr. Hakala if they would be willing to not charge on the cash they are holding. Mr. Terrien responded that they cannot commit to that. They have a lot of most favored nation's clauses with a number of clients (including the County) and it is very problematic to do that. Mr. Holycross asked how their firm would react if an addendum were written into their investment policy that said they are not to hold any more than 10% in cash. Mr. Hakala stated that they have resigned from all cash restrictive accounts because it is not what they do.

Mr. Hakala also provided some background on a stock they purchased earlier this year.

*A motion was made by Vice-Chair Santo, supported by Trustee Smith to receive and file the Clarkston Capital update. The motion carried.*

## **9. Centerbridge Partners Real Estate Fund, L.P. presentation**

Mr. Keith Merrill and Mr. Adam Burinescu joined the meeting to introduce the Centerbridge Partners Real Estate Fund to the Board. Mr. Merrill provided a firm overview, touched on their track record and outlined their investment strategy. Centerbridge was founded in 2005 and today the firm manages real estate, private equity, and credit investments. The real estate fund they are here to talk to the Board about today is a \$750 million closed end fund with a four year investment period that will invest in three main categories. They are going to invest in operating platforms, business that are tied to real estate, direct assets, and loans and securities of either businesses or assets. They think having the flexibility to do that in one fund is a differentiated offering which gives them the ability to invest prudently.

Mr. Burinescu stated that while this is their first dedicated real estate fund, they've been investing in real estate at Centerbridge since the beginning of the firm. They've invested just under \$8 billion of equity in real estate and it's been the largest area of investment for the firm. Centerbridge has generated returns in excess of 23% on that capital. Over 90% of the investments they have made have been realized. They have had less than 1% of their invested capital incur any sort of a loss. He also pointed out that 75% of the investments they have made were unlevered. Part of their process is a deep focus on unlevered returns.

The next close is scheduled for June 30, 2018 and the fund size is expected to be between \$650-750 million. They have started investing this portfolio. The fund was activated in mid-February. Trustee Cutler asked which "box" they consider this product to be in – private equity or real estate? Mr. Burinescu responded that he thinks of it as real estate. He thinks the underlying work that they do is real estate in that at the heart of every investment they make there is a real estate valuation.

*A motion was made by Trustee Murphy, supported by Trustee Smith to receive and file the Centerbridge Partners Real Estate Fund, L.P. presentation. The motion carried.*

Mr. Holycross directed the Board's attention to the Centerbridge profile provided by AndCo. He is recommending a \$10 million allocation to Centerbridge which would take the Board from roughly 5.5% to closer to 8% overall allocation in real estate. Ten percent is the Board's target and 20% is Public Act 314's maximum for real estate. Trustee Murphy asked for Trustee Cutler's opinion. He said that he likes what Centerbridge has to offer and he feels it is important for the Board to have managers with flexibility. Mr. Holycross and Mr. Michaud also clarified the fee structure.

*A motion was made by Trustee Cutler, supported by Trustee Murphy to follow the recommendation of AndCo and allocate \$10 million for an investment with Centerbridge Partners pending legal review of the documents. The motion carried.*

#### **10. AndCo Investment Performance Review – 1<sup>st</sup> Quarter 2018**

Mr. Holycross directed the Board's attention to the two books provided by AndCo with reporting through March 31, 2018. He noted that the quarter was negative. January was great, but ultimately the S&P 500 finished negative 0.76%. That is the first negative quarter in almost two years and only the second negative quarter in over three years. Although they are anticipating more volatility to come, they still believe they will be in positive territory.

Mr. Holycross reviewed total fund returns, discussed investment policy constraints and evaluated individual manager performance.

Trustee Murphy asked when the Board would be expected to make a decision on Bloomfield's Fund V given the incentive they described for rollover investors. Mr. Holycross responded that his firm will go through and verify all of the information provided by Bloomfield and once the due diligence has been completed, he will come back to the Board with a recommendation.

In the Private Investment Report, Mr. Holycross discussed a summary of these investments including overall rates of return since inception. Also included are fund profile sheets for each illiquid.

*A motion was made by Trustee Grant, supported by Trustee Smith to receive and file the AndCo 1<sup>st</sup> Quarter Investment Performance Review. The motion carried.*

**11. Unfinished Business**

None

**12. New Business**

None

**13. Adjournment**

*There being no further business before the Board, a motion was made by Trustee Rocca, supported by Vice-Chair Santo to adjourn the meeting at 10:23 a.m. The motion carried.*