

MINUTES OF THE RETIREMENT BOARD
Thursday, October 5, 2017

A meeting of the Retirement Board was held on Thursday, October 5, 2017 at 8:30 a.m., in the Administration Building, 9th Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

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

Excused:

Bob Smith

Also Present:

Stephanie Dobson, Stephen Smigiel, John Schapka, Joe Biondo, Larry Lee, Karen Bathanti, Aaron Castle, 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

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

3. Approval of Minutes

a. September 7, 2017 (REVISED)

A motion was made by Trustee Rocca, supported by Trustee Grant to approve the REVISED minutes of September 7, 2017 as presented. The motion carried.

b. September 21, 2017

A motion was made by Trustee Rocca, supported by Trustee Santo to approve the minutes of September 21, 2017 as presented. The motion carried.

4. Approval of Invoices

A motion was made by Trustee Grant, supported by Trustee Rocca to approve the invoices as presented. The motion carried.

5. Public Participation

None

6. Retirement Administrator Report

Ms. Dobson reported that Martha T. Berry is still in the process of implementing their new payroll system and they hope to start parallel runs this month. She is concerned because she has not yet been given an opportunity to review any of the data in their system. She is hopeful that this change will not delay the 2017 actuarial valuation. Ms. Dobson wants to ensure that only good data is loaded into the actuary system since they have worked so hard to clean-up the information the system contains.

The only other item Ms. Dobson wanted to address was her research into the information the Board requested related to the Rumps and Walsh arbitration decision. She said that the County's Human Resources (HR) system does not house historical information, so she is having to go through and examine each individual's record manually. She is not completely finished with her analysis, but can report the number that she has been able to review so far later in the agenda. She has not been able to look at any data from the Department of Roads or Martha T. Berry yet, but the majority of the members of the pension system are within the General County and Sheriff's Department.

A motion was made by Trustee Grant, supported by Vice-Chair Cutler to receive and file the Retirement Administrator Report. The motion carried.

7. Disability Retirement

The Board was in receipt of the Medical Director's confidential medical reports regarding the initial examination of Steven Marschke. The Medical Director has concluded, based on the exam, that disability retirement should be granted.

A motion was made by Vice-Chair Cutler, supported by Trustee Murphy that based on the Medical Director's opinion, the disability retirement of Steven Marschke shall be approved and the following resolution shall be adopted:

a. Steven Marschke (Initial Exam Opinion)

WHEREAS, the Retirement Board is vested with the general administration, management and operation of the Macomb County Employees' Retirement System ("Retirement System") and has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

WHEREAS, the Retirement Board is in receipt of an application for disability retirement from Steven Marschke dated May 11, 2017, and

WHEREAS, in accordance with Section 28 of the Retirement Ordinance provides that upon the application of a member, or their department head, a member who (1) is in the employ of the County, (2) is vested, and (3) has become or becomes totally and permanently incapacitated for duty in the employ of the County, may be retired by the Retirement Board: provided, that after a medical examination of the member made by or under the direction of the medical director, the medical director certifies to the Board (1) that the member is totally incapacitated for duty in the employ of the County, (2) that such incapacity will probably be permanent, and (3) that the member should be retired, and

WHEREAS, the Retirement Board has previously acknowledged receipt of said application and directed the processing of said application in accordance with the Retirement System provisions, and

WHEREAS, on August 29, 2017, Dr. Barry Leshman, D.O. conducted an independent examination and reviewed all records provided and concludes Steven Marschke is totally and permanently incapacitated for duty in the employ of the County, and further indicates that Steven Marschke should be retired, and

WHEREAS, the Retirement Board is in receipt of a certification from the Medical Director, dated September 18, 2017, which states that Steven Marschke is totally and permanently incapacitated for duty in the employ of the County, that such incapacity will probably be permanent, and further indicates that Steven Marschke should be retired, and

WHEREAS, the Retirement Board has discussed this matter and has determined that Steven Marschke has met the eligibility requirements for disability retirement from the Retirement System, therefore be it

RESOLVED, that the Retirement Board hereby approves the disability retirement of Steven Marschke and directs that benefits be paid consistent with the Retirement System's provisions, and further

RESOLVED, that a copy of this resolution shall be provided to Steven Marschke and all other appropriate parties.

The motion carried.

8. Bloomfield Capital (Follow-up)

Mr. Jason Jarjosa and Mr. Mike Lucci joined the meeting to provide the Board with some additional follow-up information related to Bloomfield Capital Fund III. They distributed an updated presentation. Bloomfield Capital has approximately \$180 million in assets under management (AUM) and their focus is in lending against real estate transactions. The average transaction is around \$3 million and they lend all over the country on a relatively short-term basis (12-24 months), ultimately at a higher return.

Mr. Jarjosa reviewed returns for Fund I, Fund II and Fund III as of June 30, 2017. The goal is to generate low, double-digit yield over time in what they think are risk-mitigated debt positions. These returns have also been generated without using any leverage.

The Board invested \$10 million in Fund II in 2014. Since that time, Bloomfield has generated \$2.5 million in profits that have been distributed back to the Board. Fund III was launched as a follow-up to Fund II about a year-and-a-half ago and so far they have raised about \$84 million and will be closing the fund on November 18th. Mr. Jarjosa also discussed the existing portfolio for Fund III which currently has 27 investments.

Vice-Chair Cutler asked if there are investments still remaining in Fund I. Mr. Jarjosa responded that there are still investments in Fund I. There was a single investor in Fund I and the investor has chosen to keep it going, but it is winding down. Vice-Chair Cutler asked when Bloomfield expects to close Fund II and have the Board's initial investment of \$10 million (plus profits) come back to them. Mr. Jarjosa said that Fund II goes into wind down at the end of 2018. That does not mean the Board will get their money back right then, but no more new investments can be made out of Fund II. As investments are resolved after that time, money would start coming back to the Board. Mr. Jarjosa expects that within a year-and-a-half to two years all of the Board's money would be returned.

Mr. Holycross asked Mr. Jarjosa how they are sourcing their loans at this time and whether the number of opportunities has expanded or stayed the same. Mr. Jarjosa responded that it appears that their loans can get taken out more quickly and there seems to be more liquidity when they are ready to be resolved. Their originations team has grown and they added their first team member outside the state of Michigan and now have an office in Connecticut. They have also merged with a firm in Portland, Maine and that is going to bring them a wealth of contacts and opportunities.

Mr. Holycross also inquired about where Bloomfield is in the process of registering with the Securities and Exchange Commission (SEC). Bloomfield has engaged their compliance consultant to work through helping them get SEC registered. Their expectation is this will be completed sometime between the first and second quarter of next year.

A motion was made by Trustee Grant, supported by Trustee Santo to receive and file the Bloomfield Capital update. The motion carried.

9. Rumps and Walsh Arbitration Award Implementation

Ms. Karen Bathanti, Director of Human Resources and Labor Relations, joined the meeting to continue the discussion regarding using "date of hire" as the standard in regards to determining benefit level for an employee. Ms. Dobson provided the results of the data review she had performed at the Board's request. She is estimating that this may affect approximately 120 employees. Although she is not done with her review, as of today, there would be 38 members who would be eligible for the 70-point plan with eight years vesting. There would also be 33 members eligible for eight year vesting (instead of 15 years). Additionally, there would be 10

members who would get 15 year vesting and not go into the Defined Contribution (DC) plan. These numbers do not include any Department of Roads employees (although they have relatively few part-time employees). Ms. Dobson is highly concerned about what the numbers will look like for Martha T. Berry since they have a practice of moving people in and out of part-time employment status.

Ms. Bathanti stated that they would like to receive an answer from the Board as soon as possible. There are a number of employees who they have been delaying giving pension estimates to because they have been trying to hold off until they know which direction the Board wants to take.

A motion was made by Vice-Chair Cutler, supported by Trustee Murphy to follow the decision of the Rumps and Walsh arbitration hearing and use date of hire to determine employee benefit levels. The motion carried.

Trustee Murphy asked Ms. Dobson if her office would be sending correspondence to the members who would be impacted by this change. Ms. Dobson stated that they will need to update the actuary system and will determine how to best communicate the change to those affected. She also requested Ms. Schave make a note of a need to add reversal of the Board's Vermander decision to the next meeting agenda. Ms. Vermander was given a fairly large refund of her contributions when her benefit level was reduced. They will need to work out a re-payment agreement with Ms. Vermander and the few other individuals impacted by that previous decision by the Board.

Chair Deldin asked if this decision requires a change to the Retirement Ordinance. Mr. Castle indicated that it does not.

10. Correspondence from Intercontinental Real Estate Corporation

Mr. Holycross advised the Board that Mr. Devin Sullivan (Client Services Associate) at Intercontinental Real Estate Corporation has left the firm to take a job elsewhere. Mr. Sullivan was never a part of the investment committee, but was one of the individuals who would come to the Board meetings to provide the portfolio updates. Trustee Grant stated that she had reached out to Mr. Paul Nasser at Intercontinental and was told that they are in the process of hiring someone to replace Mr. Sullivan.

A motion was made by Vice-Chair Cutler, supported by Trustee Grant to receive and file the correspondence from Intercontinental Real Estate Corporation. The motion carried.

11. Term Extension for Alidade Capital Fund II

Mr. Holycross referred the Board to the letter in their packets from Alidade Capital regarding a request for a one-year term extension for their Fund III. He stated that this is not uncommon and that this is the second request for a one-year extension the Board has received from Alidade. There are two properties remaining in Fund II with one of those expected to be sold

by the end of 2017 and the last sometime in 2018. Mr. Holycross said it makes sense to grant the extension.

A motion was made by Vice-Chair Cutler, supported by Trustee Rocca to approve Alidade Capital Fund III's request for a one-year term extension. The motion carried.

12. Unfinished Business

Mr. Castle presented the Board with a legal opinion regarding ValStone Opportunity Fund VI and compliance with Public Act (PA) 314. This is a \$10 million investment that was approved by the Board under their prior investment consultant (Graystone). Mr. Castle has had discussions with Mr. Holycross and he is comfortable with moving forward with the investment, but Mr. Castle wants to address a couple of items before the documents are actually signed.

The fund has a hard close on October 13th so that is why he is bringing these items to the Board's attention now. Mr. Castle stated that representatives from ValStone have indicated they are willing to offer a fee concession based on Macomb County's relationship with AndCo. He is working on getting them to memorialize that in writing within the side letter that is being prepared. ValStone has represented that they are going to bring the management fee down from 2% to 1.5%, but he is still trying to get that in writing.

The other item Mr. Castle wants to bring to the Board's attention is that ValStone will not be a fiduciary to the Retirement System. They are a fiduciary to the fund, which is typical in these private equity, alternative type investments. Their fiduciary obligation to the fund is a little bit different than the Board's responsibility under PA 314. Their fiduciary obligation arises under the Investment Advisors Act and Delaware Liability Company Act and they are subject to a gross negligence standard of care whereas the fiduciary standard of care under PA 314 is simple negligence, so there is a little bit of a gap. For that reason, Mr. Castle is recommending that the Board have their consultant (Mr. Holycross) formally recommend the investment from a prudent standpoint. He has brought the documents with him today and he is looking for approval to get them signed and he will hold them in escrow until the fee situation has been ironed out. Once that is done they will be ready to go and there will be no need to scramble for signatures before the fund's closing.

Trustee Murphy asked how many of the Board's other fund managers have this same fiduciary relationship and if this is unusual. Mr. Holycross stated that this is pretty common in the private equity, private real estate world. Mr. Castle stated that the difficulty is that if the manager agrees to the standard set by PA 314 for the County, then they have agreed to different standard than for every other investor in the fund. They have to treat everyone the same.

A motion was made by Trustee Santo, supported by Trustee Murphy to receive and file the legal opinion from Mr. Castle regarding the investment in ValStone Opportunity Fund VI. The motion carried.

13. New Business

Chair Deldin welcomed Mr. Holycross back to the table and stated that he looks forward to working with him again.

Chair Deldin asked if there is any discussion on Bloomfield Capital since they have been in before the Board twice now presenting information on Fund III. Mr. Holycross said that he expects that Bloomfield's registration with the SEC will be finalized sometime in June 2018. Vice-Chair Cutler asked Mr. Holycross what type of regulatory or audit procedures would be different if Bloomfield is registered with the SEC or not. Mr. Holycross said that Bloomfield has always gone through their own internal audits themselves, but now they will have to file on an annual basis with the SEC according to the regulatory requirements. It does give another layer of oversight and they could be audited at any time by the SEC.

A motion was made by Vice-Chair Cutler, supported by Trustee Santo to invest \$10 million in Bloomfield Capital Fund III. The motion carried.

14. Adjournment

There being no further business before the Board, a motion was made by Trustee Grant, supported by Trustee Rocca to adjourn the meeting at 9:14 a.m. The motion carried.