

MINUTES OF THE RETIREMENT BOARD
Thursday, June 8, 2017

A meeting of the Retirement Board was held on Thursday, June 8, 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, Larry Rocca, Bryan Santo, George Brumbaugh

Excused:

Bob Smith

Also Present:

Stephen Smigiel, John Schapka, Joe Biondo, Tom Michaud, Amy Cole, Erik Burger, Brian Brice, John Krakowiak, Troy Mooyoung

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 Revised Agenda

A motion was made by Trustee Grant, supported by Trustee Murphy to approve the revised agenda as presented. The motion carried.

3. Approval of Minutes – May 18, 2017

A motion was made by Trustee Santo, supported by Trustee Grant to approve the minutes of May 18, 2017 as presented. The motion carried.

4. Public Participation

None.

5. Correspondence from Morgan Stanley

Mr. Troy Mooyoung, Ms. Amy Cole, Mr. Erik Burger, Mr. Brian Brice and Mr. John Krakowiak were present from Graystone Consulting. Mr. Mooyoung is Graystone's Complex Manager and he provided the Board with a memo related to Mr. Holycross' departure from the firm. He offered to answer the Board's questions, but cautioned that there were limits on what he could and could not say regarding Mr. Holycross' termination.

Mr. Mooyoung began by assuring the Board members that Graystone did a thorough review of the Board's account and at no point was their account or the assets they entrusted with Morgan Stanley in peril. There was no impropriety and there is nothing the Board members need to be concerned about. If something had been found, there would be a very different conversation happening today. The termination of someone from their firm is not something they take lightly and it is not done arbitrarily.

Trustee Brumbaugh inquired about the title "Complex Manager" and asked Mr. Mooyoung to explain his role at Morgan Stanley. Mr. Mooyoung explained that a "complex" is the group of offices that he oversees. He is responsible for overseeing the Birmingham, Bloomfield, Farmington Hills and Troy offices of Morgan Stanley. The term complex generally refers to the territory that he oversees.

Trustee Murphy asked whether the separation was amicable. Mr. Mooyoung responded that the separation was not amicable.

Mr. Smigiel asked if it would be fair to say that this was a surprise to Mr. Holycross and whether there had been any indication that something like this may have been coming. Mr. Mooyoung stated that all employees at Morgan Stanley are constantly monitored and there are departments specifically tasked with making sure everything is "in line" with their staff. Receipts, emails, mail correspondence and many other items are monitored and that is done to protect themselves and their clients from any sort of reputational or headline risk. He provided an example of taking a Board member out to a Tiger game or dinner. Even though that may seem like a great idea and a way to better get to know a client, there are certain policies and procedures that have to be followed within the firm to make sure that it's handled appropriately. They do not want the appearance of impropriety or "pay to play".

Trustee Grant asked if there was anyone else that was let go within the Holycross group. Mr. Mooyoung responded that the entire team with the exception of Ms. Cole was let go and the support team was given the opportunity to reapply for their jobs or accept a "reduction in force" package. Mr. Burger and Ms. Christine Wilson from Mr. Holycross' support team were given these options. Mr. Burger reapplied for his job and was brought back.

Mr. Smigiel asked if some of the issues surrounding Mr. Holycross' departure involve "independence". Mr. Mooyoung stated that he was not familiar with that term. Mr. Smigiel said that things like Tigers games and dinners would be referred to as "independence" in the accounting field. Mr. Mooyoung responded by giving an analogy about driving on a race track. He said there are stripes on the sides of the track called "rumble strips" and those stripes are intended to help you stay on the track and keep you from going off the road. Morgan Stanley has a Risk and Compliance Department and their sole responsibility is to let you know when you're close to going off the track. If an individual starts going off the track, they are notified, Mr. Mooyoung is notified, there is a conversation about it and it is documented. If that continues to happen, then there are going to be consequences.

Trustee Rocca inquired whether everyone on the Holycross team was under contract with Morgan Stanley. Mr. Mooyoung responded that there is an employee agreement, not an employment contract.

Mr. Smigiel asked again if this would not have been a surprise to Mr. Holycross. He stated that it sounds like there were times when the “rumble strips” had been engaged. Mr. Mooyoung confirmed this to be the case.

Chair Deldin said that when Boards like this one conduct their reviews of their service providers, as much as they should be looking at the black and white and what is in the portfolio, so much comes down to the relationship when determining who you are going to give the business to. He expressed no disrespect to Ms. Cole and Mr. Burger, but the Board had been with Mr. Holycross a long time and in many respects, as a member of the Board, he feels like they are at ground zero in terms of what they do now and how they move forward. There is so much trust built with the person you are dealing with and they are talking about a portfolio valued at upwards of \$1 billion that had been entrusted specifically with Mr. Holycross. He acknowledged that there is nothing the Board can say or ask that will bring Mr. Holycross back and the Board needs to move on knowing that he is not coming back (at least not with Morgan Stanley).

Mr. Mooyoung empathized with Chair Deldin’s sentiment. He stated that he has known Mr. Holycross for the better part of his career and it was very tough for him personally to let Mr. Holycross go.

Trustee Brumbaugh asked for confirmation of when the separation actually took place. Mr. Mooyoung replied that it was Thursday, June 1st. Trustee Brumbaugh said that he had heard about the separation over the weekend from a Trustee in another pension system that he happened to bump into socially. He said this made him consider how little he (and possibly the rest of the Board) understand how Morgan Stanley functions. He knows the Board has a contract with Morgan Stanley and wondered if that contract is terminable at will or for a time certain. Mr. Michaud said that it can be terminated immediately. He said there would obviously be transition issues, but there is no time period they would be obligated to continue working with Morgan Stanley.

Trustee Brumbaugh then summarized the evolution of Graystone Consulting via Morgan Stanley and the resulting development of the Holycross Group. He asked if Graystone Consulting is a separate corporation or a department of Morgan Stanley. Mr. Mooyoung confirmed that Graystone Consulting is a part of Morgan Stanley and it is not a separate corporation. It is a differentiated business of consultants that operates in the institutional space and they are not allowed to offer proprietary information that regular financial advisors who work with private clients are able to deliver.

Trustee Brumbaugh then asked how many Graystone teams there are in Michigan. Mr. Mooyoung stated there were three and now two remain. His complex is now the only one in Michigan with two Graystone groups and they have the highest concentration of public funds business in the firm. Those remaining groups are the Brice Group and the Messner-Krakowiak

Group. Trustee Brumbaugh asked how those groups are compensated and whether Mr. Holycross was paid a salary. Mr. Mooyoung stated that Mr. Holycross was not paid a salary. He received a commission on fees that were generated. Support staff are paid a salary. Trustee Brumbaugh inquired who selects the members of a team. Mr. Mooyoung advised that the head of the team chooses the team members and they are hired by Morgan Stanley. Morgan Stanley has the right to terminate any member of the team at will.

Trustee Brumbaugh asked how many municipal clients Mr. Holycross represented. Mr. Mooyoung did not have the exact number, but believed it to be more than 50 but less than 100. Trustee Brumbaugh then asked how many municipal clients the Brice Group has. Mr. Brice stated the Brice group has more than a dozen and he believed that the entire Graystone Consulting group within Michigan had 55. Trustee Grant stated that she showed 41 total belonging to the former Holycross Group.

Trustee Brumbaugh inquired about a rumor he had heard from other Trustees from other pension systems that part of the reason that Mr. Holycross was let go had something to do directly with Macomb County and perhaps advice he gave (or didn't give) to Macomb County. He said that he represents the Retirees' Association (approximately 2,500 individuals) and he would like to know if Mr. Mooyoung can comment on that rumor. Mr. Mooyoung stated that he can't comment specifically on the exact reasons that Mr. Holycross was let go, but said that if he were in Trustee Brumbaugh's shoes, his concern would be if there was something that the Board did or he as a Trustee did that resulted in Mr. Holycross being terminated from the firm. The answer to that is, "no". There was also not just one single thing that happened that resulted in his termination.

Mr. Schapka asked if Mr. Mooyoung could comment on the root issue or what "rumble strip" Mr. Holycross engaged. Mr. Mooyoung reiterated that it was not just one thing he can point to. He said that shortly the Board will be able to read what is called a "U5". All financial advisors register and complete a "U4" when they are employed and a U5 is completed when someone leaves employment. That U5 will show the reason for termination and will provide a bit more detail than he is able to share at this time. The language is still being worked on, but he has been told that it will say something along the lines of "management lost confidence". Mr. Schapka noted that was a bit amorphous and sort of "one-size-fits-all". He asked whether Mr. Mooyoung could tell the Board whether it was a Dodd-Frank issue, a SEC compliance issue, an embezzlement issue, or something else. Mr. Mooyoung could not comment. Trustee Brumbaugh asked when the U5 would be available. Mr. Mooyoung indicated the U5 would be available within 30 days and both the U4 and U5 could be viewed on the website www.brokercheck.com.

Trustee Brumbaugh asked if Ms. Cole is now with another group since the dissolution of the Holycross Group or if she is just a Morgan Stanley employee without a group. Mr. Mooyoung stated that Ms. Cole has previously done business with the Messner-Krakowiak Group in addition to the Holycross Group. She is now a part of the newly created "Graystone Consulting Southeast Michigan Group" which is a combination of the Brice, Messner-Krakowiak teams and Ms. Cole. Mr. Burger distributed a handout with an organizational chart that shows a combined, larger team that will collectively serve Southeast Michigan clients.

Mr. Mooyoung stated this reorganization will bring more service to Macomb County by broadening the team.

Mr. Brice took a moment to introduce himself and provided some background on his experience with institutional investments. He stressed that there are centralized resources that the Graystone team draws upon for research and due diligence (60+ people) that were also utilized by Mr. Holycross. Their goal moving forward is to be recognized as one organization. He understands that the Board is in a review process and that these are unusual circumstances, but the Board will still be able to select who they choose to work with.

Mr. Krakowiak also introduced himself and outlined his experience within the industry. He sees himself and Mr. Brice as members of an important support system for Ms. Cole and Mr. Burger. Mr. Brice added that they also have experience working with systems just like this one. Graystone was hired by St. Clair County earlier this year and they have been working together with them in a joint effort across the Brice and Messner-Krakowiak groups.

Vice-Chair Cutler asked Mr. Brice and Mr. Krakowiak what the largest institutional clients they have as far as assets under management (AUM) are. Mr. Brice stated that his largest institutional client would be north of \$0.5 billion in AUM. Mr. Krakowiak stated that his largest institutional client would have approximately \$1.5 billion in AUM.

Trustee Brumbaugh inquired about whether the two existing Graystone groups would now be merged into a single group. Mr. Mooyoung responded that there will technically be three groups – the Brice Group, the Messner-Krakowiak Group and the collective group now known as Graystone Southeast Michigan (which includes Ms. Cole, Mr. Brice, Mr. Krakowiak and the rest of their teams). Trustee Brumbaugh asked who the Southeast Michigan Group will service. Mr. Mooyoung stated they will service Macomb and a host of other clients. Mr. Brice explained that anything that Mr. Holycross had previously been involved with will be served by the combined effort of all of the teams. Mr. Brice indicated that Graystone is working on a handout that will better explain the structure of the organization.

Ms. Cole provided some background on her working relationship with Mr. Holycross and explained how growing their separate businesses and eventually joining forces brought them to where they are today. They discovered they had very similar philosophies about the markets and comparable motivation and method of servicing their clients. She believed that they were each other's own best representatives if one was not available and they trusted each other to fill in for each other's clients whenever necessary. Ms. Cole understands that she is still a relatively "new face" to the Board, but advised that she and Mr. Holycross had been very involved with each other's clients over the last year. She is not new to the industry, but she is newer to the Board and wants to assure them she has a wealth of experience and will do her best for them.

Trustee Brumbaugh had one more question for Mr. Mooyoung. He wanted to know if the Board has the right to select which group they want to work with, whether it be just the Brice Group or just the Messner-Krakowiak Group or just the Southeast Michigan Group. Mr. Mooyoung confirmed that the selection of the group they want to work with is the Board's

prerogative. Trustee Brumbaugh then asked if the Brice Group or the Messner-Krakowiak Group had ever lost a municipality as a client. Both Mr. Brice and Mr. Krakowiak indicated the answer to that question would be “no”.

Mr. Burger addressed the Board next and stated that he was glad to be back and he feels that the Southeast Michigan group is a strong combination of the teams coming together. He reminded the Board that most of the information they received to review had been compiled by him (with Mr. Holycross’ blessing) and he remains committed to providing the same service the Board has come to expect.

Chair Deldin turned the conversation back over to Mr. Mooyoung for any final comments. Mr. Mooyoung stated that the Board is a very important client to Graystone as an organization and he can imagine what it is like to be sitting in their seats right now and to be responsible for retirees. That is not something the Board takes lightly and it’s not something he takes lightly. He is responsible for about 400 employees in Southeast Michigan and he does not take parting ways with someone lightly. He knows what it feels like to be responsible to others, as the Board members are. The Morgan Stanley team appreciates the Board giving them the opportunity to come before them and would like the opportunity to continue to serve them. He also reiterated that it is the Board’s discretion who they want to work with and Graystone’s most important objective is to protect the Board and their assets and to grow those assets while protecting them from any sort of reputational risk (as well as protecting the Graystone brand from any sort of reputational risk). He thanked the Board again for the opportunity to speak today.

Chair Deldin thanked the Morgan Stanley representatives for being present today and their comments. He noted by the questions posed by the Board members today that there is a certain level of anxiety and concern in the room. He reiterated that he personally feels they are back at “ground zero” with a 20+ year relationship with someone that had grown with the pension fund simply gone. He is recommending to the Board that an emotional decision not be made. There is a lot of money at stake and a lot of people who rely on that. He feels they should let some time pass and consider their options. He is hopeful that is the direction the Board will support, but they will have those discussions across the next several weeks.

A motion was made by Vice-Chair Cutler, supported by Trustee Rocca to receive and file the correspondence from Morgan Stanley. The motion carried.

A motion was made by Trustee Murphy, supported by Trustee Rocca that for the sake of efficiency, the Morgan Stanley 1st Quarter update be moved up in the agenda to immediately follow this item. The motion carried.

6. Morgan Stanley 1st Quarter 2017 update

Ms. Cole directed the Board’s attention to the slides inserted in the back of their presentation books. She stated that on a go forward basis, their feeling is that the market is not overvalued at this point, but they are approaching fair value. As a firm, she feels that they are a little bit more optimistic than their peers about where this market can go. Ms. Cole reported that she

believes that the weightings and the managers in the portfolio are where they should be. She does not think that any drastic changes are necessary.

Vice-Chair Cutler asked where the portfolio is on alternative investments and adding to real estate and private equity. Ms. Cole replied that the Board certainly has the option to invest in more alternatives. They would be happy to present options to the Board as early as the next meeting if that is the direction the Board would like to go.

Ms. Cole also briefly covered overall performance since March 31st. They have been seeing great results and are handily outpacing their policy index.

A motion was made by Trustee Rocca, supported by Trustee Murphy to receive and file the Morgan Stanley 1st Quarter 2017 report. The motion carried.

7. Retirement Administrator Report

Ms. Dobson had been excused from the meeting by Chair Deldin, but provided the activity numbers for the month of April.

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

8. Disability Retirement

-- Steven Marschke (Application)

A motion was made by Vice-Chair Cutler, supported by Trustee Murphy to adopt the resolution to process the disability retirement application of Steven Marschke and direct Human Resources to order an IME. The motion carried.

9. Clarkston Capital Partners update

Mr. Jeff Hakala and Mr. Kurt Terrien joined the meeting to provide an update on the Clarkston Capital Partners portfolio. Mr. Terrien began by providing an update on the firm. They have experienced some growth and now have 26 employees with approximately \$3 billion in AUM. He covered performance and noted they are short of the benchmark and they are not surprised by that. They admitted that they do not pay much attention to the benchmark because they are not trying to be the benchmark. Their goal is to simply find high quality companies to invest in.

Mr. Hakala discussed the portfolio and stated that they are just purely focused on the 23 businesses they own. They are only willing to commit capital when they believe they have an opportunity to earn a double digit return. They are being very disciplined and very patient in the current market and they will never stray from their philosophy and who they are.

A motion was made by Trustee Santo, supported by Trustee Murphy to receive and file the Clarkston Capital Partners update. The motion carried.

10. Unfinished Business

a. Update on RFP process for Investment Consultant

Mr. Michaud asked the investment consultants to excuse themselves from the room so the Board could discuss the status of the RFP process.

Chair Deldin reminded the Board members that they are in the middle of the RFP process for the Investment Consultant. He suggested the possibility of tabling the process for a month or two while they consider their options. He opened the floor for discussion on this.

Trustee Murphy inquired about whether they need to be concerned about ensuring that Graystone knows they are to continue to act as the Investment Consultant while waiting for a decision from the Board. Mr. Michaud confirmed for the Board that Morgan Stanley is still their Investment Consultant until the Board decides otherwise. They are still under contract and obligated to service the Board as they have in the past.

Trustee Brumbaugh asked Mr. Michaud if he also represents the Roseville pension system and if he was in attendance at their meeting last night. Mr. Michaud confirmed that he does and he was there. Trustee Brumbaugh inquired if the presentation by the members of Graystone was the same as was provided today. Mr. Michaud confirmed that it was and Roseville did not take any action. His firm had suggested that they take some time to understand all of the moving parts and realize that this is a long-term decision. He stated that his firm probably has about a dozen crossover clients that also dealt with the Holycross Group and he said that none of them are rushing to make any quick decisions at this point.

Ms. Schave added that she has been in contact with several people from Graystone over the last few days and they are certainly still working on business for the Board. They are researching capital calls that are due and preparing the documents for the Board's new investment with ClearArc.

Trustee Rocca asked Mr. Michaud if the contract with Graystone is terminable at any time without any penalty to the Board. Mr. Michaud said that it is, but that there are a lot of services that are built into that contract (custodial services, manager fee structure, investment management agreements, etc.) and if a change were to be made, those will be the items that will need to be addressed by the Board in terms of finding alternative arrangements. The relationship with Morgan Stanley can be terminated at will, immediately, but there are some residual issues that would result in a possible 60-90 day transition time frame. Mr. Michaud stressed again that these are long-term decisions that need to be made in the best interest of the retirement system.

Chair Deldin mentioned that he had discussed with Mr. Michaud the length of the contract and they determined that while it can be terminated at any time, the fee agreement is good

for three years. That is part of the reasoning behind the RFP/review process so the Board can determine who they want to work with and what the fee will be for the next three year period.

Mr. Smigiel asked what the direction for the sub-committee tasked with reviewing the submissions should be. The original intention of the sub-committee was to have each person on the committee review the proposals individually and then come together to meet and discuss. That has not happened yet.

Chair Deldin stated that he does not want Graystone to think that because they currently have the Board's business and they have been with Morgan Stanley for a long time that they are necessarily going to continue to have the Board's business. They are an outstanding company, but he hopes that they left the meeting feeling a bit uneasy about their place with the Board. He stated that he would like to see where Mr. Holycross (who he trusts and respects) might land. He feels that wherever that is, Mr. Holycross might still want the Board's business and the Board may also want him to continue to be their representative. He feels the Board should let some time pass and not proceed with the RFP process unless a majority of the Board would like to go in another direction. Chair Deldin believes it is too soon to make a decision that may not be easy to undo once they find out where Mr. Holycross ends up.

Trustee Murphy stated that he believes the RFP process is going to be lengthy anyway because there are many factors to be reviewed and considered within each proposal. He also reminded the Board that there may be some sort of "no-competition" clause that would apply to Mr. Holycross and he may not be able to communicate with this Board for a set period of time. Mr. Smigiel also pointed out that it is possible for Mr. Holycross to end up with a firm that is not one of the seven that submitted proposals. Trustee Brumbaugh asked who submitted on behalf of Morgan Stanley. Vice-Chair Cutler and Mr. Smigiel confirmed their proposal was submitted by Graystone Consulting with Mr. Holycross signing all necessary documents.

Trustee Brumbaugh recalled when the Board first brought on an Investment Consultant. He believed that Morgan Stanley is the only consultant the Board has ever had. Mr. Holycross succeeded the initial consultant from Morgan Stanley who started 23 years ago and Trustee Brumbaugh believed that Mr. Holycross had been with the Board himself for over 20 years.

Trustee Grant asked if there is a certain time period during which the Board is required to choose an Investment Consultant based on the RFP submissions. Chair Deldin said that he believed the only time constraint involved how long the firms who submitted proposals were required to hold their prices.

Vice-Chair Cutler stated that as a member of the sub-committee he is not prepared to make any kind of recommendation at this point. There are seven firms that submitted proposals and he has not had a chance to review any of the proposals as thoroughly as needed. He added that while he was at the MAPERS conference, he looked for representatives from these firms and Dahab, &Co and the Holycross Group were the only firms with individuals at the

conference. He feels that they should want someone who is in Michigan and involved locally that understands their needs.

A motion was made by Trustee Rocca, supported by Trustee Grant to postpone any further discussion relative to the RFP until the next meeting. The motion carried.

Vice-Chair Cutler stated that he had received another call from another employee related to service time issues and the hybrid calculation. He said that he had contacted Ms. Dobson and that she told him a settlement conference related to the arbitration had been scheduled for June 14, 2017. He just wanted to make the Board aware of the status of that issue because this seems to be a hot topic amongst employees. Trustee Brumbaugh said that he had also received several phone calls and he feels strongly that a decision needs to be made soon on whether or not the Ordinance needs to be revised.

11. New Business

Chair Deldin advised the Board members that they should have received an email from Ms. Dobson last night that contained information related to the RFP previously done for the Medical Director. He also advised that a representative from MMRO will be attending the June 29th meeting to discuss the proposed increases to the fee schedule.

Trustee Brumbaugh stated that even though the contract that currently exists with MMRO is not date specific, it does have a section that says the contract can be amended or canceled with 30 days' notice sometime in October and if that does not happen, then it is automatically renewed for another year. Trustee Brumbaugh firmly believes that the fee schedule the Board has with MMRO is good until the contract term is up and that the Board should not budge from that. If MMRO wishes to negotiate a new fee schedule, it should be for another term of the contract. Chair Deldin requested Mr. Schapka review the MMRO contract prior to the June 29th meeting.

Trustee Rocca advised the Board that Mr. Kravitz has moved on to his new position with Wayne County. He has hired a new Investment Officer (Larry Lee) who has two Masters' Degrees with a specialty in Finance. Mr. Lee had been working in the Purchasing Department. He will be starting in the Treasurer's Office on June 19th and will be trained by Ms. Denise Mento (who had previously trained Mr. Kravitz). Trustee Rocca is very pleased to have found such a qualified candidate and is eager for him to join his office.

12. Adjournment

There being no further business before the Board, a motion was made by Trustee Murphy, supported by Trustee Grant to adjourn the meeting at 10:08 a.m. The motion carried.