

MINUTES OF THE REGULAR MEETING
City of Aurora General Employees' Retirement Board

Held Thursday, November 16, 2017
12100 East Iliff Avenue, Suite 108
Aurora, CO 80014

1) 8:00 AM - Meeting Called to Order

Roll Call

Chairperson	David McConico	Present
Legislative Members	Helen DiBartolomeo	Present
	Cliff Haight	Present
	Joe McCleary	Present
	Michelle Reding	Present
	Sue Sandstrom	Present
	Trevor Vaughn	Excused
Nonvoting Members	Janice Napper (for the City Manager)	Present
	Terri Velasquez (Finance)	Present
	Noël Mink (Human Resources)	Present
	Hans Hernandez (City Attorney)	Present
	Dan Brotzman	Present
Staff	Thomas Connell	Present
	Aaron Kahn	Present

2) Approval of the Minutes

Terri Velasquez suggested several additions to the minutes. Michelle Reding moved and David McConico seconded a motion to approve the minutes of the Regular Meeting held on October 19, 2017 as amended. After Dan Brotzman explained that the minutes only need to reflect whether something was discussed, the motion to approve the minutes passed with Michelle Reding, David McConico and Joe McCleary in favor and Cliff Haight opposed. Both Cliff and Joe explained that they were skeptical that GERP would have been offered office space at the Aurora Municipal Center at no cost to the Plan.

3) Treasurer's Report

Tom Connell reviewed the financial statements and investment performance for September 2017. As of November 14, 2017 the fund was valued at approximately \$461.5 million.

Tom told the Board that Heitman had attributed its lower rate of appreciation to the fact that it does not participate in property development, as many of its peers do. Tom also noted that low valuations in the MLP sector had increased interest from institutional investors. David McConico and Tom recently met with HarbourVest representatives to discuss Fund XI, which will have up to 15% exposure to microcap buyout investments.

4) Review of Lump Sum Distributions for October

Eight participants received lump sum payments totaling \$43,524.97.

5) Approval of Retirement Benefits

Aaron Kahn presented the retirement calculations. Michelle Reding moved and Cliff Haight seconded a motion to approve retirement benefits for **Shirley Bonner, Richard Leger and Joyce Sandoval**. The motion passed unanimously.

6) Old Business

A) Participant Confidentiality

Noel Mink, Human Resources

At the October 19th Board meeting, Aaron Kahn made a statement which seemed to indicate that someone in the Human Resources Department may have broken confidentiality. Noel Mink requested an investigation and Aaron was interviewed by David Vogel, Senior Investigator with Employee Matters LLC. Aaron apologized to Noel and explained that his intent was to highlight an instance where an employee's coworkers discovered that she was planning to retire, based to her visit to a City office to discuss benefits and her final paycheck. Aaron does not believe that Human Resources personnel broke confidentiality, but simply that visiting with certain individuals in the City is a strong indicator that someone is about to retire. His concern is that if the GERP offices were relocated to the Aurora Municipal Center, employees thinking about retirement may not want to be seen entering or exiting the office.

Public Comments

Terri Velasquez presented an analysis of GERP's IT systems and security prepared by Tim McCain, the City's Chief Information Security Officer. Tom Connell explained that he had discussed GERP's current systems with Tim and was in the process of getting upgrade proposals from three vendors. He planned to review those proposals with Tim and then present them to the Board at the December 14th meeting. Michelle Reding moved and Cliff Haight seconded a motion to direct Tom to continue as planned and to present the IT proposals at the December 14th meeting. The motion passed unanimously.

7) New Business

A) Adoption of 2018 Meeting Calendar

Tom presented the proposed 2018 meeting calendar. Cliff Haight moved and Sue Sandstrom seconded a motion to adopt the Calendar as presented. The motion passed unanimously.

B) Recommendation to City Council Regarding Reappointment of David McConico

As part of their process for reappointments, City Council asks for comments from fellow Board members. Sue Sandstrom moved and Cliff Haight seconded a motion to direct Tom Connell to write a memo to Council indicating the Board's strong support of David McConico's reappointment. Other Board members discussed the many and significant contributions that David has made, his attention to the fiduciary duties and continued education of Board members and his leadership as the chair. The motion passed unanimously.

David McConico stated that he has enjoyed serving on the Board. His goals include seeing the plan reach fully funded status, reaching \$500 million in Plan assets and for participants to continue to retire with confidence in GERP.

C) Evaluation of Pension Plan Administrators – Executive Session

Michelle Reding moved and Cliff Haight seconded a motion to enter executive session to discuss the Pension Plan Administrator's evaluation. The motion passed unanimously. After discussion in executive session, Sue Sandstrom moved and Joe McCleary seconded a motion to leave executive session. The motion passed unanimously.

Joe McCleary stated that the Board appreciates all of the work that Tom has done throughout his career. Michelle Reding moved and Sue Sandstrom seconded a motion to pay Tom Connell a bonus of \$5,000. The motion passed unanimously.

8) Report on Travel

There was no report on travel.

9) Staff Report

Tom noted that NCPERS is concerned that Section 5001 of the House version of the Tax Cuts and Jobs Act contains a provision which would subject certain investments of state and local governmental pension plans to the unrelated business income tax (UBIT.) Tom noted that this provision, if passed, would mostly affect the Plan's investments in Master Limited Partnerships. He will continue to monitor the situation.

Noel Mink, Tom Connell, Aaron Kahn, Terri Velasquez and Joe McCleary are scheduled to meet on November 20th to discuss how to improve employee education and awareness of GERP. Noel discussed the process of on-boarding new hires and looks forward to working with GERP staff to improve communication on the Plan. Joe McCleary emphasized City managers and leadership need to take responsibility and encourage employees to learn about financial planning and the benefits of also participating in the deferred compensation plan.

Minutes of the Regular Meeting
Held Thursday, November 16, 2017
Page 4

Tom reminded Board members that the international equity managers will be presenting at the next meeting on November 30th. He also noted that the December regular meeting will be on the second Thursday of the month, December 14th.

Janice Napper invited Board members to attend the swearing in of new City Council members and a reception for members leaving Council on December 4th .

Cliff Haight moved and Michelle Reding seconded a motion to adjourn. The motion passed unanimously.

Meeting Adjourned 11:30 AM
Minutes Submitted by Aaron D. Kahn

Minutes Approved

David McConico
Chairperson of the Board

12/14/17
Date

MINUTES OF THE INVESTMENT MANAGERS MEETING

City of Aurora General Employees' Retirement Board

Held Thursday, November 30, 2017
12100 East Iliff Avenue, Suite 108
Aurora, CO 80014

1) 8:00 AM- Meeting Called to Order

Roll Call

Chairperson	David McConico	Present
Legislative Members	Helen DiBartolomeo	Present
	Cliff Haight	Present
	Joe McCleary	Present
	Michelle Reding	Present
	Sue Sandstrom	Present
	Trevor Vaughn	Present
Nonvoting Members	Janice Napper (for the City Manager)	Excused
	Jackie Ehmann (for Terri Velasquez, Finance)	Present
	Noel Mink (Human Resources)	Excused
	Hans Hernandez (City Attorney)	Present
Staff	Thomas Connell	Present
	Aaron Kahn	Present

2) Approval of Retirement Benefits

Aaron Kahn presented the retirement calculations. Michelle Reding moved and Cliff Haight seconded a motion to approve retirement benefits for **Brenda Gustafson**. The motion passed unanimously.

3) Asset/Liability Study – Callan Associates

Jason Ellement and Alex Browning

Jason Ellement explained that the goal of the asset/liability study is to establish long-term strategic asset allocation targets. He noted that GERP's current target allocation is projected to return 6.5% per year which is 0.25% below the liability return expectation of 6.75%, given Callan's inflation assumption of 2.25%. Jason pointed out that active management has historically provided returns in excess of the target allocation's return, so the shortfall did not make him concerned.

Jason explained that listed infrastructure is comprised of equity investments in companies that build and operate transportation, utilities, communication and public facilities. Listed infrastructure provides inflation protection, attractive yields and low volatility.

Minutes of the Investment Managers Meeting
Held Thursday, November 30, 2017
Page 2

Jason proposed a new allocation which included a higher percentage in international equity and a new allocation to listed infrastructure. Trevor Vaughn asked Jason about the current allocation to timber. Jason noted that timber provides biological growth, has a low correlation to the return of other assets in the portfolio, but is highly correlated to inflation. In answer to Cliff Haight's question, Jason said that MLPs account for about 30% of the listed infrastructure benchmark.

Sue Sandstrom noted that the optimization model indicates that the allocation to private equity should be lower. Jason responded that GERP's higher quality private equity managers should be able to exceed Callan's median return forecast.

Trevor Vaughn moved and Cliff Haight seconded a motion to adopt Callan Associates' recommended asset allocation. The motion passed unanimously. Cliff Haight moved and Trevor Vaughn seconded a motion to authorize Callan to conduct a search for a listed infrastructure manager. The motion passed unanimously.

4) Dodge & Cox International Stock Fund
Matt Beck

Matt Beck explained that Dodge & Cox continues to be a value investor, concentrating on well-established companies with below average valuations. The firm's long term investment approach results in portfolio turnover of 15-20% annually. Mr. Beck stated that even after the recent year's strong performance, international valuations remain attractive.

The Dodge & Cox International Stock Fund returned 26.58% for the year ending September 30, 2017 and 10.13% annualized for the five years ending September 30, 2017. The fund is in the 12th percentile among peers for the 5 year period and has consistently outperformed the ACWI ex-US index.

5) American Funds EuroPacific Growth
Vincent Ortega, Mario DiVito

Vincent Ortega explained the Capital System's multi-manager approach which divides the portfolio into portions which are independently managed by nine investment professionals with diverse backgrounds, ages and investment approaches. Mario DiVito explained that international equities have benefited from robust corporate earnings, diminished political risk and the weakening dollar. He noted that we are in a global synchronized recovery. While the international markets continue to be attractive, Mr. DiVito stated that EuroPacific Growth's focus is company by company.

American Funds EuroPacific Growth Fund had a return of 20.63% for the year ending September 30, 2017 and an annualized return since inception of 5.56%, significantly outperforming both the index and peer group over those time periods.

6) American Century Non-US Small Cap
Jim Shore, Michael Bell

Jim Shore reviewed American Century's investment philosophy. He explained the investment professionals at American Century have a nontraditional approach to growth investing, where they don't look at absolute growth, but at inflection points in the rate of growth. They believe that they can take advantage the market's inefficiencies when the growth of a company is either accelerating or decelerating.

American Century Non-US Small Cap had a return of 23.70% for the year ending September 30, 2017 and an annualized return of 7.39% since inception, significantly outperforming both the index and their peer group over those time periods.

7) Board Discussion on Investment Performance

The Board was very happy with the international managers' performance.

8) Consent to Heitman's Change in Ownership Structure

Heitman has requested that clients consent to its agreement to redeem Old Mutual Asset Management's interest in Heitman. Subsequent to the transaction closing, Heitman will be 100% owned and controlled by senior officers of the firm. Joe McCleary moved and Trevor Vaughn seconded a motion to consent to Heitman's change in ownership structure. The motion passed unanimously.

9) 3rd Quarter 2017 Investment Performance Report
Alex Browning, Callan Associates

Alex Browning reviewed the economy and 3rd quarter performance. The Plan earned 3.45% for the quarter and 12.40% for the year ending September 30, 2017. Active managers contributed 1.76% over the target return for the year.

10) Board Discussion

David McConico addressed the perception that the Board is not receptive to all points of view and doesn't listen to the concerns of non-voting members. He felt that the Board does listen to all members' concerns, but the last minute timing of some of the criticisms of Board decisions has created a disruptive atmosphere at the last few meetings. He was very disappointed that the IT security assessment presented at the last meeting seemed to be an attack on GERP.

Minutes of the Investment Managers Meeting
Held Thursday, November 30, 2017
Page 4

Cliff Haight stated that Tom Connell was the one that initiated the process of improving security after reviewing cyber issues with GERP's insurance agent. David also noted that Terri Velasquez has expressed that she feels that the concerns of non-voting board members haven't been taken seriously by the voting Board members. David noted that the input of non-voting members is important.

Joe McCleary complimented Tom on the work that he did on negotiating the office lease renewal and agreed that members' concerns need to be addressed in a timely manner, before the Plan Administrator has spent a lot of time on an assignment. Michelle Reding stated that she takes the concerns of other Board members very seriously and her disagreement does not mean that she hasn't listened to their opinions. Trevor Vaughn noted that he has been in the minority on some of the recent issues, but explained that he often feels that additional analysis should be done before the Board makes certain decisions. He suggested that he'd like the Board to be more open to making changes to administration and structure that could reduce costs. David encouraged Trevor to continue to bring up those issues, as Board members have a fiduciary duty to look at opportunities to reduce costs.

Hans Hernandez explained his relationship with the Board and City management. GERP is his client and he provides legal advice to the Board independently of his relationship with the City. He does not give his opinion as a member of the Plan, but as its attorney. He emphasized that Board members have a fiduciary duty to speak their mind, especially when it pertains to the interests of plan participants. His relationship with the City and the Board can sometimes be awkward. He'd like Board members to try to get along and to carefully listen to other's concerns.

Sue Sandstrom stated that Board members' fiduciary duty is solely to Plan participants. She emphasized that the Board, while closely tied to the City, is an independent entity. She felt that City management representatives had recently tried to force the Board to take certain actions with respect to employee benefits, IT security and the office lease. She agreed with Trevor Vaughn the Board should be open to making appropriate changes, but noted that the Board has a long history of running the Plan very well. She stated that the last few meetings have been uncomfortable. She also stated that the Board has always worked well with City Council, even when there has been disagreement.

Members agreed that the Board has had a long history of working well together and of listening to all, both voting and non-voting members, and they hoped to return to less antagonistic meetings.

Minutes of the Investment Managers Meeting
Held Thursday, November 30, 2017
Page 5

Cliff Haight moved and Trevor Vaughn seconded a motion to adjourn. The motion passed unanimously.

Meeting Adjourned at 11:10 AM
Minutes Submitted by Aaron D. Kahn

Minutes Approved

David McConico
Chairperson of the Board

12/14/17
Date