

**MINUTES**  
**SPECIAL MEETING OF THE**  
**WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION**  
**Tuesday, September 17, 2013 at 9:15 a.m.**  
**Board of Commissioners Meeting Room 220 N. Main St., Ann Arbor, MI 48107**

**Meeting Called to Order**

Scott Miller called the WCERS meeting to order at 9:17 a.m.

**Roll Call**

Monica Boote called the roll.

**WCERS Members Present:** Kelly Belknap, Verna McDaniel, Scott Miller Deb Schmitt, Dan Smith

**WCERS Members Absent:** Nancy Hein (excused), Conan Smith (excused)

**Others Present:** Monica Boote and Lisa Everton, Human Resources Retirement Office; Barbara Finch, VEBA Representative; Roberta Allen, AWARE Representative; Brian Green, Graystone Consulting; Tom Michaud, VanOverbeke Michaud & Timmony; Kirsten Osborn, Treasurer's Office; Tom Sampson, Blackstone Tactical Opportunities

**Public Participation**

None

**Approval of Regular Agenda**

Deb Schmitt seconded by Verna McDaniel motion to approve the regular agenda of the special meeting as presented. All in favor, motion carried.

**REGULAR AGENDA**

**Investment Consultant's Report – Brian Green**

**A. Private Equity Overview**

Brian Green began the meeting with an overview of private equity as an asset class and its development over time.

*(Dan Smith arrived 9:20 a.m.)*

Mr. Green explained the risks associated with this asset class and potential returns for those risks. Private Equity as an asset class has an investment return of 5% with a 7-10 year investment horizon. Because private equity generates significant returns this type of investment is for the long term. There are no exit opportunities. Private equity has a low correlation to stocks and bonds with broad strategies and strong alignments to the interests of their investors. Personal and management company monies may also be invested in the fund making this type of fund more exclusive. Typically management fees are 20% of profits over 10% of the earned rate.

Scott Miller questioned the illiquidity and the risks involved. Mr. Green clarified that there are no opportunities to liquidate except under very select extraordinary circumstances. The fund may release a general partner with a 67% vote of shareholders and historically their contracts do provide for partner removal due to criminal activity and some civil infractions.

Mr. Green went on to discuss the valuation of the funds. Private equity is evaluated on a quarterly basis 45 – 60 days after the close of the quarter. For the first couple of years the portfolio is carried at cost. Trustees discussed what is involved in the quarterly determination. Private equity managers engage in 3<sup>rd</sup> party audit firms who also determine the pricing.

The private equity policy target has been set at 5%. Mr. Green recommends making a 2 - 3% allocation or approximately a \$4.5M - \$7M initial investment. Trustees discussed capital calls. Mr. Green explained that initially a

specific amount will be committed and called down over the investment period. Mr. Green likened this to a line of credit. The Vanguard portfolio would be the funding source for calls. While the maximum exposure is known and committed it may not all be used for capital calls.

Mr. Green discussed the J Curve effect with Trustees. In the first couple of years the fund will report negative returns due to the costs involved. The value of the fund is in the gains harvested from earlier investments at a below cost market value.

Dan Smith expressed his concerns with investing in private equity. Mr. Smith is cautious due to the illiquidity of the fund and expressed that there may be other venues that could be explored for performance. On the other hand, if this Board is still considering investing in private equity, Mr. Smith felt that this could be an opportunity for this Board to align with the Washtenaw County BOC economic development philosophies and focus on opportunities within Washtenaw County such as the University of Michigan and the SPARK initiative. Mr. Green informed Trustees that local investments could potentially be even riskier than a more broad investment with a firm, such as Blackstone. Mr. Green felt that local private equity investments would be more appropriate to make after the Board had made its initial transaction and desired to increase the allocation. Mr. Green recommends leveraging the expertise of a larger firm as a starting point to limit the exposure and help control the risks associated with this particular asset class.

Verna McDaniel's expressed her concerns that the fund would not be federally insured. Ms. McDaniel feels the inherent risks outweigh the potential benefits and is uncomfortable with the illiquidity of the fund.

*(Dan Smith excused himself 9:45 a.m.)*

Mr. Green restated the benefits of investing in private equity to Trustees. Private equity can provide additional diversification, premium return rates of 7% – 7.5%, with a very focused portfolio. Collaborating with a firm provides research, due diligence and some risk control.

Mr. Green did articulate that a shorter 7 year investment period may be possible with single project investments. He also stated that investors could also buy out or take over an unfunded shareholder's commitment for a fraction of the initial investment.

Scott Miller expressed that there seems to be a low correlation between the fixed income marketplace and private equity and felt that over time the pattern seems to be the same. Mr. Green stated that with private equity the apprehension creates a much smoother return than with public equity.

## **B. Blackstone Tactical Opportunities Presentation – Tom Sampson**

Brian Green introduced Tom Sampson of Blackstone Tactical Opportunities, the largest alternative investment company in the world.

Blackstone Tactical Opportunities offers private equity, credit, real estate and private equity options in one package taking advantage of funding special situations that are requesting minimal capital and are in large demand.

Mr. Sampson clarified the three criteria to be considered for Tactical Opportunities are size, governance and rate of return.

Mr. Miller inquired about the total investment target of this fund. Mr. Sampson confirmed that there is a \$5 B cap and fund has been seeded by the states of NJ (\$750 M), CA (\$500 M), and CO (\$500 M) with a two year investment period and nine year harvest period. \$1B has already been invested. The deal size is \$75 M to \$125 M with \$4 B in capital for a total of 20 – 25 investments.

Blackstone Tactical Opportunities is different than a traditional private equity funds with fees at 75 basis points on invested capital and 1.5% once invested. This mitigates the J curve and shortens investment periods with no hurdle rates before the carry.

Mr. Green further explained that the fee is smaller for the uncommitted or uncalled capital and larger on the called capital. This fee structure incentivizes investment managers and helps to shorten the J Curve.

Mr. Sampson answered Trustee concerns regarding funding sources, referral fees and parameters of the investment vehicle. One-half of the funds are sourced by the team and the other half is sourced by the verticals. Scott Miller questioned whether or not there are industry /individual cap on investments. This fund has a 15% asset allocation cap on non US funds with a 25% allocation limit into any one fund. The parameters can be changed or moved depending on opportunity.

Mr. Miller discussed the need for assurance that Blackstone is operating the fund in the best interest of all the investors and not just the largest investor, New Jersey. Blackstone is pro rata of their investments and has a percentage of every transaction. The largest investment does have a voting seat but Blackstone holds the majority.

Mr. Sampson concluded his presentation at 10:40 a.m. and left the meeting.

### **Issues, Concerns and Trustee Comments**

Trustees discussed the need for more time to ponder their decision. Mr. Green reminded the Board that in order to participate, a decision to take action no later than the next WCERS regular Board meeting on 10.22.13.

### **Adjournment**

Verna McDaniel seconded by Kelly Belknap motion to adjourn the WCERS Special meeting at 10:45 am. All in favor, motion carried.

### **Upcoming Board Meetings**

- WCERS Regular Meeting, October 22, 2013, 8:30 AM  
BOC Conference Room,  
220 North Main Street, Ann Arbor, MI