City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
October 20, 2011

The meeting was called to order by Jeremy Flack, Chairperson, at 8:33 a.m.

ROLL CALL

Members Present:	Crawford, Flack, Hastie, Heusel, Monroe, Nerdrum, Powers *(dep. @10:56)*, Rogers
Members Absent:	Clark
Staff Present:	Gustafson, Jarskey, Kluczynski, Walker
Others:	Michael VanOverbeke, Legal Counsel Paul Wilkinson, Buck Consultants David Diephuis, City Resident

INTRODUCTION OF NEW TRUSTEES

Ms. Walker introduced Steve Powers as the new City Administrator Trustee and Brian Rogers as the new General Member Trustee.

AUDIENCE COMMENTS - ***None***

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- D-3b Resolution to Consolidate Index Managers
- D-3c Resolution to Rebalance Assets
- H-4 Record of Paid Invoices

It was **moved** by Crawford and **seconded** by Nerdrum to approve the agenda as revised.
Approved as revised

B. APPROVAL OF MINUTES

B-1 September 15, 2011 Regular Board Meeting Minutes

It was **moved** by Nerdrum and **seconded** by Crawford to approve the September 15, 2011 Board Meeting minutes as submitted.
Approved

C. CONSENT AGENDA

It was **moved** by Crawford and **seconded** by Monroe to approve the following Consent Agenda as submitted.
Approved

C-1 Reciprocal Retirement Act – Service Credit

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees acknowledges that, effective July 14, 1969, the City of Ann Arbor adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, to provide for the preservation and continuity of retirement system service credit for public employees who transfer their employment between units of government, and

WHEREAS, the Board acknowledges that a member may use service credit with another governmental unit to meet the eligibility service requirements of the Retirement System, upon satisfaction of the conditions set forth in the Reciprocal Retirement Act, and

WHEREAS, the Board is in receipt of requests to have service credit acquired in other governmental unit retirement systems recognized for purposes of receiving benefits from the Retirement System, therefore be it

RESOLVED, that the Board of Trustees hereby certifies that the following member(s) of the Retirement System have submitted the requisite documentation for the recognition of reciprocal retirement credit:

Name	Classification	Reciprocal Service Credit	Prior Reciprocal Retirement Unit
Daniel Campbell	**Fire**	**7 years, 5 months**	**State of Michigan**

RESOLVED, that the Board of Trustees notes that pursuant to the Reciprocal Retirement Act, said reciprocal retirement credit may only be used for purposes of meeting the retirement eligibility requirements of the Retirement System and that retirement benefits will be based upon actual service rendered to the City and shall be made payable consistent with the City Charter, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended), and further

RESOLVED, that a copy of this resolution shall be provided to the appropriate City and Union representatives and interested parties.

C-2 Authorization for Conference/Training – 16th Annual Governmental GAAP Update *(Live Streaming Event)*, November 3, 2011 – Walker

Summary of GFOA's live streaming event on November 3, 2011:

This year's training will cover:

- **Final GASB standards on**
  - Identifying and presenting component units (GASB Statement No. 61)
  - Applying private-sector standards (GASB Statement No. 62)
  - Presenting net position on the statement of position (GASB Statement No. 63)

- **GASB due-process documents on**
  - Effect of termination provisions on hedge accounting (exposure draft)
  - Reporting deferred inflows/outflows (exposure draft)
  - Recognition and measurement attributes (preliminary views)
  - Pension accounting (exposure draft)
  - Fiscal sustainability reporting (due-process document)

- **Practice updates on**
    - Mid-year and annual changes to the GASB's Comprehensive Implementation Guide
    - Common reporting deficiencies
    - 2011 "Blue Book"

- **GASB Technical Plan**

D. ACTION ITEMS

D-1 Certification of Brian Rogers, General Member Trustee

Certification of Brian Rogers was received and filed.

D-2 Annual Actuarial Valuation Review for the Year Ended June 30, 2011

Mr. Wilkinson reviewed a presentation outlining the annual Actuarial Valuation for the year ended June 30, 2011 and the Valuation process. *(The Actuarial Valuation is available for viewing on the Retirement System's website).* Below is an excerpt from the current Valuation:

> **Plan Assets**
> The Plan's assets are held in trust and invested for the exclusive benefit of plan members. The trust is funded by member and employer contributions, and pays benefits directly to eligible members in accordance with plan provisions. The assets are audited annually and are reported at fair value. On a fair value basis, the Plan has Net Assets Available for Benefits of $415.2 million as of June 30, 2011. This includes an increase of $66.6 million over the Net Assets Available for Benefits of $348.6 million as of June 30, 2010. During the prior year, the fair value of assets experienced an investment rate of return of 23.4%.
>
> In order to reduce the volatility investment gains and losses can have on the Plan's actuarially required contribution and funded status, the Board has adopted a five-year smoothing method to determine the actuarial value of assets used for funding purposes. This method recognizes gains and losses, i.e. the difference between actual investment return during the year and the expected return based on the valuation interest rate, on a level basis over a five year period. In our opinion, this method complies with Actuarial Standards of Practice No. 44.
>
> As of June 30, 2011, the assets available for benefits on an actuarial value basis were $423.7 million. This includes an increase of $2.3 million over the actuarial value of assets of $421.4 million as of June 30, 2010. During the prior year, the actuarial value of assets experienced an actuarial rate of return of 3.8%. A summary of the assets held for investment, a summary of changes in assets, and the development of the actuarial value of assets is shown in Section 2 beginning on page 17.
>
> **Actuarial Experience**
> Differences between the expected experience based on the actuarial assumptions and the actual experience create changes in the actuarial accrued liability, actuarial value of assets, and the unfunded actuarial accrued liability from one year to the next. These changes create an actuarial gain if the experience is favorable, and an actuarial loss if the experience is unfavorable. The Plan experienced a total net actuarial loss of $17.2 million during the prior year. This net loss is about 3.7% of the plan's prior year actuarial accrued liability. The net loss is a combination of two principal factors, demographic experience and investment performance.
>
> The demographic experience tracks actual changes in the plan's population compared to the assumptions for decrements such as mortality, turnover, and retirement, as well as pay increases. The Plan experienced a demographic loss of $3.8 million during the year ending June 30, 2011. This loss increased the unfunded actuarial accrued liability by $3.8 million and decreased the funded ratio by 0.9%.

Continued tracking of the demographic experience is warranted in order to confirm the appropriateness of the actuarial assumptions. Details of the demographic, economic, and other assumptions used to value the plan liabilities and normal cost can be found in Section 6. In our opinion, the economic assumptions comply with Actuarial Standards of Practice No. 27 and the demographic assumptions comply with Actuarial Standards of Practice No. 35.

On the asset side, the Plan experienced a loss on an actuarial value of assets basis. The actual rate of return on the actuarial value of plan assets for the year ending June 30, 2011 was approximately 3.8% compared to the assumption of 7.0%, resulting in an asset loss of $13.4 million. This loss increased the unfunded actuarial accrued liability by $13.4 million and decreased the funded ratio by 3.2%.

The rate of return on the fair value of assets for the year ending June 30, 2011 was higher than the assumed rate of 7.0%. The actuarial value of the assets recognizes only 20% of the 2011 gain on fair value, delaying the recognition of the remaining 80% over the next four years. Moreover, the actuarial value of assets also recognizes deferred portions of prior years' gains and losses on fair value. The investment loss recognized this year is primarily due to the investment losses suffered in 2008 and 2009. It should be noted that the plan's assumed asset return of 7.0% is a long-term rate and short-term performance is not necessarily indicative of expected long-term future returns.

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Actuarial Contributions

The Board has adopted a Funding Policy that requires contributions to be sufficient to pay the normal cost and amortize the unfunded actuarial accrued liability over a declining period. As of this valuation, the period is 28 years. This period will continue to decrease 1 year for each year until reaching 25 years for fiscal years beginning on and after July 1, 2014.

The normal cost represents the cost of the benefits that accrue during the year for active members under the Entry Age Actuarial Cost Method. It is determined as a level percentage of pay which, if paid from entry age to the assumed retirement age, assuming all the actuarial assumptions are exactly met by experience would accumulate to a fund sufficient to pay all benefits provided by the Plan. The expected member contributions are subtracted from this amount to determine the employer normal cost. The employer normal cost for 2011 has been determined to be $6.4 million, or 13.05% of pay. This represents a decrease in the employer normal cost rate of 0.11% of pay from last year's employer normal cost rate of 13.16%.

The cost method also determines the actuarial accrued liability which represents the value of all accumulated past normal cost payments. This amount is compared to the actuarial value of assets to determine if the Plan is ahead or behind in funding as of the valuation date. The difference between the total actuarial accrued liability and the actuarial value of assets equals the amount of unfunded actuarial accrued liability or surplus (if negative) on the valuation date. This amount is amortized and added to the employer normal cost to determine the annual actuarially required employer contribution for the year.

The unfunded actuarial accrued liability as of June 30, 2011 is $57.6 million. This represents an increase of $ 12.1 million in the unfunded actuarial accrued liability from last year's amount of $45.5 million. The annual payment required to amortize the unfunded actuarial accrued liability of $57.6 million as of June 30, 2011 is $3.3 million, or 6.76% of pay.

The annual actuarially required employer contribution for 2013 is $9.7 million, or 19.8% of pay. This represents an increase of $0.3 million in the employer contribution amount of $9.4 million for 2012, or an increase of 1.70% of pay from last year's employer contribution rate of 18.1%.

In our opinion, the measurement of the benefit obligations and determination of the actuarial cost of the Plan is performed in compliance with Actuarial Standards of Practice No. 4.

Funded Status
The funded status is a measure of the progress that has been made in funding the plan as of the valuation date. It is determined as a ratio of the actuarial value of assets divided by the total actuarial accrued liability on the valuation date. A ratio of over 100% represents a plan that is ahead in funding, and a ratio of less than 100% represents a plan that is behind in funding on the valuation date. As of June 30, 2011 the funded ratio of the Plan is 88.0%. This represents a decrease of 2.3% from last year's funded ratio of 90.3% as of June 30, 2010.

Accounting Information
The Governmental Accounting Standards Board (GASB) issues statements which establish financial reporting standards for defined benefit pension plans and accounting for the pension expenditures and expenses for governmental employers.

Projections
As part of the annual actuarial valuation, a forecast of expected future valuation results is performed over a 30 year period beginning on the valuation date. This analysis provides a dynamic look into the future to identify trends in future employer contributions and funded status. The forecast replaces active members who are assumed to decrement (terminate, retire, etc.) during the period with new employees resulting in a stable active membership. The forecast assumes all actuarial assumptions are exactly realized each year during the forecast period. A sensitivity analysis is also included to show the impact the investment return assumption can have on the future funding measures.

Changes in Plan Provisions
The change in benefits or other plan provisions considered in this actuarial valuation since the last valuation performed as of June 30, 2010 is that AAPOA for Police Service Specialists, pension contribution changed to 6% pretax effective on August 14, 2011. Other changes that have been made but were not reflected in this valuation but are reflected in the projections are:

- Non-union new hires and rehires effective 7/1/2011 will have to have 10 years of vesting service to become vested in a retirement benefit. In determining benefits, 5 years of salary will be used to determine a participant's average salary.

- AFSCME new hires on or after 8/29/2011 will have to have 10 years of vesting service to become vested in a retirement benefit. In determining benefits, 5 years of salary will be used to determine a participant's average salary.

- AAPOA new hires on or after 1/1/2012 will have to contribute 6% of salary. Also, they will have to have 10 years of vesting service to become vested in a retirement benefit. In determining benefits, 5 years of salary will be used to determine a participant's average salary.

Changes in Actuarial Assumptions, Methods, or Procedures
There have been no changes in the actuarial assumptions, actuarial cost method, asset valuation method, or valuation procedures since the last actuarial valuation performed as of June 30, 2010.

It was **moved** by Nerdrum and **seconded** by Crawford to receive and file the June 30, 2011 Actuarial Valuation, acknowledgement of the presentation by Paul Wilkinson of Buck Consultants, and request that a copy be forwarded to the City of Ann Arbor as an indication of the required employer contribution for the fiscal year beginning July 1, 2011.

Approved

D-3 Proposed Resolutions for Asset Allocation & Rebalancing Strategy

Mr. Hastie provided a background of the Investment Policy Committee's asset allocation and rebalancing strategy, and presented the following three resolutions for Board approval:

D-3a **Resolution to Adjust Asset Allocation Policy**

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, Meketa Investment Group has advised the Investment Policy Committee to add Emerging Markets Equity Investments managers to the portfolio congruent with a new asset allocation policy; and

WHEREAS, On July 19, the Investment Policy Committee ("IPC") voted to recommend the Board consider a new asset allocation, as presented by Meketa Investment Group, for the Retirement System, and

WHEREAS, The Board approved the new asset allocation policy; and

WHEREAS, In subsequent discussions regarding compliance with Act 314 (Public Employee Retirement System Investment Act), Meketa Investment Group and Fund Counsel agreed that the newly approved allocation to emerging market debt would be most appropriately held under the Act's provision for foreign securities, rather than accounted for under the "basket clause." However, as a result of this classification change, the Funds' current policies exceed the Act's mandated limit on foreign securities.

THEREFORE, the Investment Policy Committee recommends the Board adopt amended policies for the Retirement System to slightly reduce the Funds' allocation targets to developed and emerging market equity, maintain the current allocation to emerging market debt, and high yield bonds , and increase the allocation to bank loans, so be it

RESOLVED, that the Board agrees to adopt the newly modified allocation as illustrated by the attached table.

Asset Allocation Policy – Recommendation Update

	Approved Retirement System Policy	Recommended Retirement System Policy	Recommended Target Range
	%	**%**	**%**
Domestic Equity	**31**	**31**	**25-37**
International Developed Market	**13**	**12**	**9-15**
International Emerging Market	**7**	**6**	**0-9**
Private Equity	**3**	**3**	**0-5**
Investment Grade Bonds	**19**	**19**	**15-24**
TIPS	**8**	**8**	**0-10**
High Yield Bonds	**3**	**3**	**1-5**

Bank Loans	**0**	**2**	**0-4**
Emerging Market Debt	**2**	**2**	**0-4**
Real Estate	**9**	**9**	**2-12**
Natural Resources	**3**	**3**	**0-5**
Hedge Funds	**2**	**2**	**1-5**

It was **moved** by Hastie and **seconded** by Monroe to approve the Resolution to Adjust Asset Allocation Policy.

Approved

D-3b Resolution to Consolidate Index Managers

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, Meketa Investment Group has advised the Investment Policy Committee “IPC” to consolidate passive managers, and invest primarily in non-lending vehicles, and

WHEREAS, Meketa evaluated a selection of passive managers with primary considerations being fees, historical tracking error, and liquidity, and

WHEREAS, Meketa recommended to the IPC that the Fund consolidate passive investments with Northern Trust, and

WHEREAS, On September 15, the Investment Policy Committee (“IPC”) voted to recommend the Board consolidate index providers, as recommended by Meketa Investment Group for the Retirement System, so be it

RESOLVED, that the Board agrees to adopt the recommendations of the IPC regarding consolidation of passive investments per Meketa Investment Group’s “Rebalancing and Index Consolidation Recommendation”.

It was **moved** by Hastie and **seconded** by Nerdrum to approve the Resolution to Consolidate Index Managers.

Approved

D-3c Resolution to Rebalance Assets

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, the Board of Trustees has an approved Investment Policy Statement in order to effectively monitor its portfolio, and

WHEREAS, the Investment Policy Statement recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions, and

WHEREAS, the Investment Policy Statement has established a range for each asset class to control risk and maximize the effectiveness of the System's assets, and

WHEREAS, when an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back to the target allocation, and

WHEREAS, the System's investment consultant, Meketa has evaluated the Retirement System's current asset class allocations relative to their respective targets and determined that the Retirement System was significantly overweight both mid and small cap domestic equity relative to the Russell 3000 Index. Meketa recommends the System move toward a market weight of small and midcap stocks by 1) funding the approved emerging markets allocation (approximately $22.5 million) from small and midcap portfolios, and 2) rebalancing from small and midcap to large cap U.S. equity, so be it

RESOLVED, that the Board of Trustees authorizes the Executive Director to reallocate funds per Meketa Investment Group's "Rebalancing and Index Consolidation Recommendation".

It was **moved** by Hastie and **seconded** by Crawford to approve the Resolution to Rebalance Assets.

Approved

It was **moved** by Hastie and **seconded** by Crawford to note that the Board previously approved the hiring of the two emerging managers with a resolve that the Board would conduct the due diligence visits, and now move that that motion be amended to reflect that the Board will rely upon the due diligence of Meketa Investment Group.

Approved

E. EXECUTIVE SESSION – Retiree Appeal, Disability Application Notification, & Securities Litigation Correspondence

It was **moved** by Hastie and **seconded** by Crawford to convene an Executive Session for the purpose of discussing a disability retirement application, as well as securities litigation correspondence from The Northern Trust Company, and a retiree appeal regarding the correction of a basis recovery error, noting that one portion will be to discuss an attorney-client privilege communication, and the other portion to discuss a specific action the Board will contemplate taking, noting that it contains confidential information for which the retiree will be permitted to be present during the Board's discussion.

Approved

Roll call vote:

Clark – Absent	Hastie – Yes	Powers - Yes
Crawford - Yes	Monroe – Yes	Rogers - Yes
Flack – Yes	Nerdrum - Yes	

Executive session time: 10:28 a.m. – 11:15 a.m.

It was **moved** by Hastie and **seconded** by Crawford to approve the following resolution with regards to Kurt Kaiser, the Correction of Basis Recovery Error, as presented with the additional notation in the very first Resolve which provides that Mr. Kaiser execute a general release.

Approved

WHEREAS, the City of Ann Arbor Employees' Retirement System ("Retirement System") provides benefits in accordance with the applicable provisions of the Retirement System Ordinance ("Retirement Ordinance"), applicable collective bargaining agreements, and applicable state and federal law, and

WHEREAS, the Board of Trustees of the Retirement System is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board is aware of basis recovery errors by the Retirement System that resulted in the underreporting of taxable income for the years 2008, 2009, and 2010 with regard to the retirement benefits of Kurt Kaiser, and

WHEREAS, as a result of the Retirement System's reporting errors, Mr. Kaiser has incurred additional tax liabilities and corresponding interest, penalties, and costs, and

WHEREAS, Section 1:577 of the Retirement Ordinance provides for the correction of errors and states as follows:

> *If any change or error in the records results in a Member, Retirant or Beneficiary receiving from the Retirement System more or less that he/she would have been entitled to receive had the records been corrected, the Board shall seek to recover such overpayment or underpayment by correcting such errors in payments and as far as practicable shall adjust the future payments so that the actuarial present value of the actual payments in equal to the actuarial value of correct payments.*

and

WHEREAS, the Board is in receipt of a memorandum from its legal counsel discussing Mr. Kaiser's situation and providing recommendations to the Board from the Executive Director, designated Trustees, and legal counsel for correction, and

WHEREAS, the Board is desirous of implementing the recommendations of its Executive Director, designated Trustees, and legal counsel with regard to the basis recovery reporting errors affecting Mr. Kaiser, therefore be it

RESOLVED, that subject to receipt of a general release from Mr. Kaiser, the Retirement System pay all interest, penalties, and costs that Mr. Kaiser has incurred as of November 30, 2011, as a direct result of the Retirement System's reporting errors, and be it further

RESOLVED, that because the monies paid for such costs from the Retirement System will be taxable income to Mr. Kaiser, the amount paid for all interest, penalties, and costs shall be increased in accordance with Mr. Kaiser's marginal tax rate (25.0%) so that the net amount covers the total liability, and be it further

RESOLVED, that due to the Board's limited ability to modify Mr. Kaiser's tax withholding or the Retirement System's reporting requirements to assist Mr. Kaiser in the payment of his additional tax liabilities, in accordance with Section 1:557 of the Retirement Ordinance providing for the correction of errors, Mr. Kaiser shall be given a one-time opportunity to elect the Retirement System's 25% annuity withdrawal option in order to pay his accrued tax liability resulting from the Retirement System's reporting errors, and be it further

RESOLVED, that Mr. Kaiser's election of the 25% annuity withdrawal option must be made on or before November 30, 2011, and will result in an actuarially reduced pension payable from the Retirement System effective upon the date of withdrawal, and be it further

RESOLVED, that the Board will forward copies of this resolution to Mr. Kaiser, its actuary, its custodial bank, and all other interested parties.

Approved

F. DISCUSSION ITEMS

F-1 Proposed Annual Board Retreat Dates & Soliciting of Topics

Mr. Crawford presented potential topics and four possible dates in early 2012 for the annual Board Retreat. Mr. VanOverbeke suggested that the Board consider discussing Public Act 314 as well, which will have amendments to the State Investment Statute that also governs investments, travel, education, etc. The Board agreed. It was decided that staff will send an email in an attempt to determine which dates the Board Members are available to attend in order to establish a meeting date.

F-2 Ex-Officio Retiree Committee: Request for Change of Retiree Educational Session Date

Ms. Walker stated that the Ex-Officio Retiree Committee has requested that the annual Retiree Education Session be held on the last Thursday in May 2012 rather than in April, in order to allow those retirees returning from the south to attend. The Board had no objection to the Retiree Committee's request.

F-3 Request for Legal Clarification on Proposed Charter Amendment, and Impact on the Retirement Board

Mr. Monroe requested legal clarification on the proposed Charter amendment regarding the restructuring of the Retirement Board, and what impact it would cause if approved in the upcoming November election. Mr. Monroe expressed his frustration when currently, there is a Board structure that works, this recommendation is from seven years ago, and this proposal has been made by people who have not attended Board meetings without seeking input from any or many current members, and there is currently a fair representation of employees who have a fiduciary responsibility for those people who are benefiting, and what better people to have than participants without being a dominating number on the Board. Mr. Monroe stated that the current Board structure is working and now it is being tampered with, and he is also frustrated with the way it has been inaccurately portrayed in the media with comments such as this Board randomly enacting wage increases for all of the members. Mr. Monroe stated that he has been asked why the Board isn't dealing with this if it is potentially illegal to make a change without approval from the various collective bargaining units, so he is requesting further clarification.

Mr. VanOverbeke explained that while this Plan is basically set forth in the City Ordinance, the makeup of the Board and the right to establish this Plan is provided for in the City Charter, and in the terms of hierarchy of law, the Charter supersedes the Ordinance, so because it is a Charter provision, the Council by Ordinance could have amended the Ordinance, but the Ordinance would have been inconsistent with the Charter provision on the make-up of the Board. In order to make that change from a Charter standpoint, they have to go to the vote of the people to change the Charter. The make-up of a retirement board is a mandatory subject of bargaining units, and in most instances under what is called "case law", which is the court's interpretation of how to apply the existing laws to a certain set of facts. In the State of Michigan, retirement system benefits are a mandatory subject of bargaining. To the extent you have a conflict between a State statute or a local charter or local ordinance in a provision in a collective bargaining agreement, the collective bargaining agreement provision prevails.

The current proposal includes several changes, such as the size, the make-up of the Board itself, and changes the ability of people to vote for or to sit at the table in terms of the active employee representation, meaning the retirees have been included in the new language, for which it is still unclear as to whether the retirees can sit in the active seats or just have a vote in the elections. Because of the all-encompassing nature of that, there are clearly elements of that proposed Charter that under existing case law would be considered mandatory subjects of collective bargaining. There are several legal obstacles under existing case law to changing the composition of the Board; there are those that are related to collective bargaining and there are those that are related to the Charter, so in order to effectively completely change the composition of the Board, if one accepts the premise that this is a mandatory subject of bargaining, it would require a Charter amendment as well as collective bargaining with each of the affected union groups. The question becomes what is done first? Obviously in order to effectuate all of that, you have to satisfy all of the legal impediments, and it appears that the City's approach to doing this is to propose the Charter amendment on the November ballot first and then attempt to satisfy the remaining legal impediments by bargaining with each of the unions. Once that process is done, then effectively it is legally enacted.

Mr. VanOverbeke stated that there have been instances where a City may do something by charter which arguably is a mandatory subject of bargaining, but none of the unions objected, such as post-retirement benefit increases, but at this point in time, he is unaware of what the unions' position is, nor the employer although that they have implied that it is a mandatory subject of bargaining. If the parties assert that any point in time that this gets adopted by the vote of the people, and either side clearly recognizes that it is a mandatory subject of bargaining, than he believes the position of the Board should be that it has been acknowledged that it is a mandatory subject of bargaining, and that it will not be implemented in its entirety until such time as those other legal impediments are resolved, noting that he has not been advised or directed to do anything further at this point in time.

Mr. Monroe stated that it is unclear what the voters will be voting on November 8th, and if it is a mandatory subject of bargaining, are they actually able to vote on this amendment? Mr. VanOverbeke stated the City's proposal can be voted on, but until it is agreed to by the unions, it would not be implemented.

G. REPORTS

G-1 Executive Report – October 20, 2011

Invesco Mortgage

A capital call was requested by Invesco Mortgage Recovery Fund in connection with an investment in a pool of commercial real estate loans. Total Amount of drawdown: $215,269,810. **CAAERS' allocable share of drawdown: $2,865,758.**

Oaktree

From the VEBA, Oaktree PPIP Private Fund, L.P., requested a capital call of 2.5% of the total committed amount from each Limited Partner due on October 13, 2011. Based on a commitment amount of $2,573,000.00, our share of the drawdown is **$64,325.00**.

Our remaining capital commitment after this funding will be $1,831,976.00, or 71.20%. From the Retirement System, Oaktree PPIP Private Fund, L.P., requested a capital call of 2.5% of the total committed amount from each Limited Partner due on October 13, 2011. Based on a commitment amount of $7,144,000.00, our share of the drawdown is **$178,600.00**. Our remaining capital commitment after this funding will be $5,086,528.00, or 71.2%.

FOIA from United Taxpayers of America

A FOIA was received from this organization. It requested the following: Retiree names, pension amounts, pension amounts paid to date, date of retirements, and last salary before retirement, total contributions. Upon review by the Board's attorney, an existing report with names, date of retirement, and pension amounts was provided to this organization. The organization was advised that the other requested information did not reside in a compiled report, but in individual files. Such information could be copied but at considerable expense of staff time and copying costs, an estimate of which was provided. As of this date, no further communication has been received.

Ordinance Changes

Chapter 18 Ordinance changes reflecting the recently settled contracts between AFSCME and AAPOA are on the City Council agenda for the October 17th meeting. Changes include 10-year vesting and 5-year FAC for new hires and rehires, and increased pre-tax employee contributions for the units. Staff raised a question to the City about the effect of the new language on a rehire post change that would have 5 but not 10 years of vesting service upon rehire, but has not yet received a response.

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended September 30, 2011

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended September 30, 2011, to the Board of Trustees:

9/30/2011 Asset Value (Preliminary)	$378,006,717
8/31/2011 Asset Value (Audited by Northern)	$398,100,349
Calendar YTD Increase/Decrease in Assets *(excludes non-investment receipts and disbursements)*	- $13,449,193
Percent Gain <Loss>	-3.4%
October 19, 2011 Asset Value	**$383,095,122**

G-3 Investment Policy Committee Minutes: *October 4, 2011*

Following are the Investment Policy Committee minutes from the meeting convened at 3:13 p.m. on October 4, 2011:

Member(s) Present:	*Clark, Flack (via conf call), Hastie*
Member(s) Absent:	*Monroe*
Other Trustees Present:	*None*
Staff Present:	*Gustafson, Jarskey, Walker*
Others Present:	*Henry Jaung, Meketa Investment Group* *Ted Urban, Meketa Investment Group*

INVESTMENT REVIEW

Mr. Jaung stated that at the end of August, the System's market value was approximately $390 million, but as of September it has gone down to around $370 million (-5%). Mr. Jaung reviewed the Aggregate Assets Summary and Performance as of August 31st.

INDEX FUND PROVIDER CONSOLIDATION

Mr. Urban stated that during the initial fund review, Meketa had recommended the Funds consider combining passive mandates to reduce fees and increase operational efficiency. Meketa has conducted a search for a provider to manage the consolidated passive investments of the Funds, and to ensure the Funds receive a competitive fee schedule for the new consolidated passive mandate, Meketa requested fee proposals from the Funds' current index managers and several other large, established managers of similar index products, and negotiated with the most competitive index providers to obtain more favorable terms, with the most important factors being fees, historical tracking error, and liquidity. Given the current risk and return profile, Meketa recommends the Funds invest primarily in non-lending vehicles, and they will continue to evaluate securities lending arrangements and make further recommendations as appropriate.

The Committee discussed the Index Provider and Strategy Overviews, operating costs, and considerations. Meketa recommended that the Funds consider consolidating passive investments (with the exception of two VEBA portfolios) with Northern Trust, given the firm's low management fees and the existing custodial relationship with Northern which should facilitate efficient transfers. As a result, the SSgA Large Cap Index and the Rhumbline MidCap funds will be eliminated, with the SSgA being rolled into the Northern 1000. Eventually, Rhumbline Small Cap will fund the emerging markets with a part going into Northern. After discussion, the Committee decided to make the following motion:

*It was **moved** by Clark and **seconded** by Flack to recommend that the Board of Trustees use The Northern Trust Company for the consolidated mandates for all Retirement System Index funds.*

Approved

ASSET ALLOCATION AMENDMENTS

As a result of subsequent discussions regarding compliance with PA 314, Meketa recommends the Board adopt amended policies for the Retirement System and VEBA that slightly reduce the Funds' allocation targets to developed and emerging market equity, maintain the current allocation to emerging market debt, and increase the allocation to bank loans and high yield bonds (VEBA). Mr. Jaung reviewed the recommended revised Retirement System asset allocation and target range for the Committee's consideration. The Committee discussed the recommendation and made the following motion:

*It was **moved** by Clark and **seconded** by Flack to recommend that the Board of Trustees approve the revised asset allocation policy recommendation as reviewed and discussed.*

Approved

REBALANCING RECOMMENDATIONS

Meketa has evaluated the Retirement System's current asset class allocations relative to their respective targets. As of September 29, the Retirement System was significantly overweight both mid and small cap domestic equity relative to the Russell 3000 Index, a proxy for the broad U.S. equity market. Meketa recommends the System move toward a market weight of small and midcap *stocks by 1) funding the approved emerging markets allocation (approximately $22.5 million) from small and midcap portfolios, and 2) rebalancing from small and midcap to large cap U.S. equity.*

*It was **moved** by Clark and **seconded** by Flack to recommend that the Board of Trustees approve Meketa's Rebalancing Recommendation as discussed and illustrated in their Investment Review with +/- $500,000; including the full termination of Rhumbline and increased dollars going to Northern Trust Large Cap.*

<u>Approved</u>

<u>BENCHMARKING UPDATE & 314 COMPLIANCE</u>

Mr. Jaung discussed potential benchmarking ideas, stating that in July the Trustees adopted asset allocation policies for the Retirement System and VEBA that made explicit allocations to asset classes including inflation-protected securities (TIPS), emerging markets equity/debt, and natural resources. To reflect the new allocations, Meketa recommends that the Committee consider adopting three benchmarks for use in evaluating the performance of both Systems as follows:

> ***Policy Benchmark**: The Policy Benchmark would consist of multiple asset class indices, with the percentage allocation to each reflecting the Funds' **target** allocation. The Policy Benchmark is useful for evaluating both allocation shifts (for example, an overweight of small cap equity and underweight of fixed income) and overall manager performance.*
>
> ***Actual Allocation Benchmark:** The Actual Allocation Benchmark would consist of multiple asset class indices, with the percentage allocation to each reflecting the Funds' **actual** allocation. The Actual Allocation is useful for evaluating overall manager performance, excluding the impact of allocation shifts (tactical or otherwise).*
>
> ***Static Benchmark**: The Static Benchmark would consist of two or three broad market indices and is intended to offer a baseline comparison.*

Mr. Hastie stated that he agrees with using Meketa's proposed benchmarks, and that it would help when evaluating performances, but will also generate additional questions; the benchmarks should make the Committee more sensitive when making investment changes and understand how everything comes together. Mr. Urban stated that these benchmarks could be implemented for the next reporting cycle, or quarterly report. Mr. Hastie stated that it would be good to see what our balances are related to the PA 314 basket clause, because as that clause changes and gets more liberal, the Committee will need to see, on a regular basis, that we are in compliance. Mr. Hastie suggested that a page be added relating to this PA 314/basket clause information, perhaps in a manager-based layout in the quarterly review. Mr. Jaung agreed.

<u>TIMING OF EMERGING INVESTMENT STAGGER</u>

Mr. Hastie stated he believes the most efficient way to fund the emerging markets would be to submit the funds in three tranches with the first being this month or in early November, one in January, and one in March. The Committee agreed.

*It was **moved** by Flack and **seconded** by Clark to recommend that the index consolidation to Northern Trust be performed after the first tranche of funding to the emerging markets in November 2011, with the remaining being funded in January 2012 and March 2012.*

<u>Approved</u>

<u>DUE DILIGENCE APPROACH</u>

Mr. Hastie stated that he would like to refine the due diligence process slightly to make sure we maintain flexibility to do any due diligence that we want, but is concerned that we have a lot of manager changes forthcoming and the past policy has been to perform a due diligence visit to every new manager, and he is worried that it would be costly and time-consuming for this Committee. Mr. Hastie stated that he believes that Meketa will be doing a lot of that due diligence on behalf of the Committee, and that the Committee can rely on their due diligence and that their process is more frequent and more detailed than ours would be, so the Committee should feel comfortable relying on that. Mr. Hastie added that if there is something new or strange to the Committee, members should feel free to go look at it, such as a new allocation that someone feels they may need to be educated or become more familiar with. Mr. Hastie distributed a handout which included a cost estimate on the savings of having Meketa perform the majority of due diligence visits to new or potential managers. Mr. Jaung added that before even bringing potential managers before the Committee, Meketa would have already performed a complete due diligence on that firm, although they welcome any participation by the Committee members.

Mr. Urban stated that Meketa routinely performs visits on the existing and potential managers, so if at any time the members have concerns or would like to participate in a visit, Meketa can certainly arrange that. Mr. Jaung stated that as far as education of an asset class, he believes that the members should not have to get educated by visiting a manager, because Meketa will have already provided the Committee with an educational session on that asset class, sometimes by bringing in a specialist from their own firm. Mr. Hastie suggested setting up quarterly meetings with managers coming here rather than making actual due diligence trips to their various locations, or continue having the annual meetings as staff has arranged in the past. The Committee agreed with Mr. Hastie's recommendations.

*It was **moved** by Clark and **seconded** by Flack to utilize Meketa's prior due diligence visits and research for the two recent emerging market managers (Dimensional Fund Advisors and Vontobel Asset Management).*

Approved

ADJOURNMENT

*It was **moved** by Clark and **seconded** by Flack to adjourn the meeting at 5:25 p.m.*

Meeting adjourned at 5:25 p.m.

G-4 Administrative Policy Committee Minutes – *October 11, 2011*

Following are the Administrative Policy Committee minutes from the meeting convened at 3:12 p.m. on October 11, 2011:

Committee Members Present:	*Crawford, Heusel (via conf call), Monroe*
Members Absent:	*None*
Other Trustees Present:	*None*
Staff Present:	*Gustafson, Kluczynski, Walker*
Others Present:	*David Diephuis, City Resident*

PUBLIC ACCESS/REVIEW OF BOARD & COMMITTEE PACKET ITEMS

Mr. Crawford stated that this issue was discussed at the September Board meeting, and he gathered from that discussion that the Board was not ready to release the packets online, but had agreed to begin placing the meeting agendas on the site going forward. Mr. Heusel summarized Mr. VanOverbeke's general comments regarding this issue, and had stated that the Board is not required to place the entire Board and Committee meeting packets on the Retirement System's website. Mr. VanOverbeke had stated that considering the amount of information already on the *website, the detailed minutes that are available, possible legal implications, and administrative time, that there was no reason to place entire packets online. Mr. Heusel stated that he is open-minded, but is not persuaded that we should be placing back up documents online because it could result in legal issues. Mr. Monroe stated that he had not had a chance to view Jackson County's website and what is included in their meeting packets, but he still wished to do so and will report back to the Committee at the November meeting.*

"LAST DAY" POLICY (HR POLICY 4.1, SECTION 5.13)

Ms. Walker stated that this item is on the agenda because staff has received a message from the Human Resources Division indicating that the Retirement Office should verify that an employee is present at work on the day before they retire, pursuant to HR Policy 4.1 (Vacation) Section 5.13. Ms. Walker wanted to make the Trustees aware that staff encounters a variety of situations, and requested the Committee's view on whether it feels that staff should be responsible for verifying that an employee is present at work on the day before their actual retirement date. Mr. Crawford stated that he believes that the person requiring or enforcing this section of the policy should be the employee's supervisor, and Ms. Walker agreed, stating that she would feel more comfortable referring the employee back to HR and their supervisor when questions arise regarding this policy, adding that if the employee had not worked on their last day, what would staff be able to do about that? Mr. Crawford stated that he doesn't see how the staff would be able to verify this information, and that it is a policy issue that should be handled between the employee, supervisor and the City.

PRIORITIZE REMAINING TABLED/PENDING AGENDA ITEMS & ANY NEW ISSUES

Mr. Crawford reviewed the current tabled/pending agenda items, and the Committee decided to add the following items to a proposed list for the next Annual Board Retreat, which will be placed on the October Board agenda:

1) *Customer Service Philosophy*
2) *Review Charter Regarding Committees and Responsibilities*
3) *Mission Statement Update (?) - pending Board discussion and consideration*

Mr. Crawford requested that the following items be placed on the November APC agenda:

1) *Status: Accelerated Vesting for VCP-Affected Individuals*
2) *Fiduciary Audit Recommendations & Considerations – Discuss priority and next steps on implementation*

ADJOURNMENT

*It was **moved** by Monroe and **seconded** by Heusel to adjourn the meeting at 4:12 p.m.*
Meeting adjourned at 4:12 p.m.

G-5 Audit Committee Minutes – *October 11, 2011*

Following are the Audit Committee minutes from the meeting convened at 4:20 p.m. on October 11, 2011:

Committee Members Present:	*Crawford, Monroe, Nerdrum*
Members Absent:	*Clark*
Other Trustees Present:	*None*
Staff Present:	*Jarksey, Kluczynski, Walker*
Others Present:	*Bill McDonald, Buck Consultants (via conf call)*

David Diephuis, City Resident

REVIEW OF DRAFTED ACTUARIAL VALUATION

Mr. McDonald of Buck Consultants reviewed the drafted Actuarial Valuation with the Committee, which summarizes the valuation results for the System as of June 30, 2011. Mr. McDonald stated that there will be additional updates to the projection information before the final draft is sent for the October 20th regular Board meeting.

ADJOURNMENT

*It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 5:14 p.m.*
Meeting adjourned at 5:14 p.m.

G-6 Legal Report - *None*

H. INFORMATION

H-1 Communications Memorandum

The Communications Memorandum was received and filed.

H-2 November Planning Calendar

The November Planning Calendar was received and filed.

H-3 Board Tracking Report

Mr. Crawford asked if there is a need to continue presenting the Board Tracking Report, being that the Committees seem to be moving on all of the various items, and operating off of their individual tabled/pending items listings. The Board agreed to discontinue this report.

H-4 Record of Paid Invoices

The following invoices have been paid since the last Board meeting.

	PAYEE	AMOUNT	DESCRIPTION
1	**Coverall North America, Inc.**	**140.00**	Office Cleaning Services for October 2011
2	**Meketa Investment Group**	**8,750.00**	Investment Consultant Retainer – September 2011
3	**Hasselbring-Clark Co.**	**22.68**	Monthly copier cost per copy
4	**AT&T**	**64.57**	Monthly Toll-free Telephone Service
5	**Staples Business Advantage**	**122.46**	Miscellaneous office supplies
6	**Staples Business Advantage**	**83.77**	Miscellaneous office supplies
7	**AT&T**	**128.01**	Monthly Long-Distance Telephone Service
8	**Levi, Ray & Shoup, Inc.**	**1,200.00**	Support services in August – Pension Gold
9	**NCPERS**	**225.00**	2012 NCPERS Membership Dues
10	**IFEBP**	**955.00**	2012 IFEBP Membership Dues
11	**First Choice Background Screening**	**58.00**	Background screening – D. Gustafson
12	**DTE Energy**	**43.73**	Monthly Gas Fee dated October 12, 2011

13	**DTE Energy**	**216.91**	Monthly Electric Fee dated October 12, 2011
14	**Comcast**	**76.22**	Monthly Cable Fee
15	**Bergeron Backflow Services, Inc.**	**189.00**	Annual fire protection backflow inspection
16	**Fisher Investments**	**41,949.67**	Investment advisory fees: 7/1/2011 - 9/30/2011
17	**RhumbLine Advisers**	**1,977.00**	Invest. adv. fees: 7/1/2011-9/30/2011 *(SP600S Fund)*
18	**RhumbLine Advisers**	**3,540.00**	Invest. adv. fees: 7/1/2011-9/30/2011*(RUMIDS Fund)*
19	**Levi, Ray & Shoup, Inc.**	**37.50**	Support services in September – Pension Gold
	TOTAL	**59,779.52**	

H-5 <u>Retirement Report</u>

The following employee(s) have completed their paperwork for retirement:

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Carmen Dumas	Early / Age & Service	October 15, 2011	General	22 years, 4 months	Public Services Utilities
Richard Martonchik	Age & Service	October 27, 2011	General	7 years, 8.5 months	Admin/Human Resources
Bruce Moorman	Age & Service	October 28, 2011	General	32 years, 5 months *(includes 25 years, 7 months reciprocal credit)*	Public Services Utilities
Marlene Robinson	Age & Service	November 1, 2011	General	5 years	Finance / ITSU

H-6 <u>Chapter 18 Ordinance Changes Regarding AFSCME & AAPOA Collective Bargaining Units</u>

The Chapter 18 Ordinance changes were received and filed.

I. <u>TRUSTEE COMMENTS</u> - *None*

J. <u>ADJOURNMENT</u>

It was **moved** by Monroe and **seconded** by Heusel to adjourn the meeting at11:55 a.m.
<u>Meeting adjourned at 11:55 a.m.</u>

Nancy R. Walker, Executive Director
City of Ann Arbor Employees' Retirement System

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