

CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES

Minutes for the Regular Board Meeting
October 18, 2018

B

The meeting was called to order by Jeremy Flack, Board Chairperson, at 9:28 a.m.

ROLL CALL

Members Present: Clark (*Via TX*), Crawford, DiGiovanni, Flack, Hastie, Lynch, Monroe (*9:54 a.m. depart*), Nerdrum, Schreier
Members Absent: None
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others: Michael VanOverbeke, Legal Counsel
Matt Klein, Findley
Amy Kennedy, Findley
David Youngstrom (*Via TX*), Yeo & Yeo
David Diephuis, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF AGENDA

It was **moved** by Nerdrum and **seconded** by DiGiovanni to approve the agenda as submitted with an amendment to move the Presentation: FYE June 30, 2018 Actuary Valuation as the first Agenda item.

Approved

D-3 PRESENTATION: FYE June 30, 2018 Actuarial Valuation

Mr. Klein and Ms. Kennedy from Findley was present to review the drafted Actuarial Valuation for fiscal year ending June 30, 2018. Mr. Klein informed the Board that he was providing a revised draft that was sent over yesterday evening. In summary, the following language was included in the presentation:

Key Assumptions:

- Investment Rate of Return: 7.00%
- Inflation: 2.5%
- Amortization Period: 28 years
- Pre/Post-Retirement Mortality: RP-2014 Healthy Employees and Annuitants, Adjusted back to 2006, Generational Under Projection Scale MP-2017. (These tables first used for the June 30, 2018 Actuarial Valuation).

The Actuarially Determined Contribution (ADC) increased from \$9,234,000 for fiscal year ending 2019 to \$12,129,387 for fiscal year ending 2020. The primary driver of the increase was a \$19.1 actuarial loss in the accrued liability. Ms. Kennedy stated that the actuarial loss stems greatly from the assumption changes as a result of the recent experience study. The mortality table was updated to a generational table to mirror the table used by the Retirement System, as it represents the same population. Assumingly all assumptions are met, it is projected that the plan would be 100% funded in 2029.

Mr. VanOverbeke noted that Ann Arbor is already consistent with the majority of the new P.A. 202 Uniform Assumptions; the cost/need for additional reporting should be minimal.

On the basis of the valuation, it has been determined that the Actuarially Determined Contribution for the year ending June 30, 2020 for the plan, as described in the Schedule of Benefits, is as follows:

	Year Ending June 30, 2018
Normal Cost	2,822,213
Amortization of Unfunded Accrued Liability	8,864,068
Interest	443,106
Actuarially Determined Contribution (ADC)	12,129,387
Assume Revenue Increase	2.00%
Funding Plan Contribution (FPC)	9,418,680
Estimated Funding Plan Contributions [Greater of (ADC & FPC)]	12,129,387
ADC as a percentage of projected pay	22.09%

It was **moved** by Nerdrum and **seconded** by DiGiovanni to approve the FYE June 30, 2018 Actuarial Valuation as amended.

Approved

B. APPROVAL OF MINUTES

B-1 September 20, 2018 Regular Board Meeting

It was **moved** by DiGiovanni and **seconded** by Hastie to approve the September 20, 2018 Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Resolution to Invest in Constitution Capital as part of the Private Equity Allocation Program

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retiree Health Care Benefit Plan & Trust, 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 as the Retirement System's investment consultant, the Investment Policy Committee, and the Board of Trustees have discussed an additional allocation to private equity, and

WHEREAS, a current private equity manager, Constitution Capital Partners, presented their investment strategies to the Board on March 23, 2018, and

WHEREAS, Meketa and the Investment Policy Committee have recommended an investment with Constitution Capital Partners, Ironsides Partnership Fund V and Direct Investment Fund V with a 50% split in the allocation between the two strategies, so be it

RESOLVED, that the Board of Trustees approves the investment with Constitution Capital Partners in the amount of \$2 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by DiGiovanni and **seconded** by Schreier to approve the resolution to invest \$2 million in Constitution Capital as part of the Private Equity Allocation Program.

Approved

D-2 Resolution to Invest in Summit Partners as part of the Fixed Income Program

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retiree Health Care Benefit Plan & Trust, 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 as the Retirement System's investment consultant, the Investment Policy Committee, and the Board of Trustees have discussed an additional allocation to its fixed income portfolio, and

WHEREAS, Meketa has reviewed and recommended to the Investment Policy Committee at its October 2, 2018 meeting, an investment with Summit Partners Credit Fund III, so be it

RESOLVED, that the Board of Trustees approves the investment with Summit Partners Credit Fund III, L.P. in the amount of \$2.5 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by DiGiovanni and **seconded** by Schreier to approve the resolution to invest \$2.5 million in Summit Partners as part of the Fixed Income Program.

Approved

~~D-3 PRESENTATION: FYE June 30, 2018 Actuarial Valuation~~

(Moved above, before item B on agenda)

D-4 PRESENTATION: FYE June 30, 2018 Audited Financial Statements

Mr. Youngstrom, Auditor from Yeo & Yeo, called into the Board Meeting to review the June 30, 2018 audited financial statements with the Board, stating that the audit went well. The Board found no suggested changes or corrections.

It was **moved** by Schreier and **seconded** by Crawford to accept as issued the FYE June 30, 2018 Audited Financial Statements as submitted.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Investment Policy Committee Minutes – October 2, 2018

Following are the Investment Policy Committee minutes from the meeting convened at 3:16 p.m. on October 2, 2018:

Member(s) Present: DiGiovanni, Hastie, Monroe

Member(s) Absent: Clark, Crawford, Flack

Other Trustees Present: None

Staff Present: Hammond, Hollabaugh, Orcutt
 Others Present: Henry Jaung, Meketa Investment Group
 David Diephuis, City Resident

PERFORMANCE REVIEW THROUGH AUGUST 2018

As of August 31, 2018 the balance of the Fund was \$178,434,045. Mr. Jaung also reviewed the PA 314 Compliance, stating that everything is currently in compliance.

Mr. Jaung informed the committee that the Ironside V fund recommendation for the VEBA Board was not shown in the Board minutes and wanted to confirm the action on this matter. Meketa had recommended a commitment of \$2 million to Ironside V and the IPC agreed. The Committee decided that they will discuss further at the upcoming Board meeting.

PACING STUDIES FOR PRIVATE EQUITY AND PRIVATE REAL ESTATE

Mr. Jaung briefly reviewed the studies and stated that the Pacing studies are done each year and adjustments are made annually. For real estate VEBA is currently at 9%.

POTENTIAL MANAGER SEARCHES – SMALL CAP AND EMERGING MARKETS DEBT

Mr. Jaung stated that he will be watching Southern Sun and Stone Harbor EMD for potential replacement. Meketa is meeting with Stone Harbor in the coming weeks and will update the IPC of the outcome.

SUMMIT PARTNERS CREDIT FUND III

Mr. Jaung reviewed the Summit Partners Credit Fund III with the Committee and recommended that VEBA commit 2.5 million to Summit Partners Credit Fund III.

ADJOURNMENT

Meeting adjourned without a quorum at 4:55 p.m.

F-2 Preliminary Investment Reports for the Month Ended September 30, 2018

Corbin Hammond, Accountant, submitted the Financial Report for the month ended September 30, 2018, to the Board of Trustees:

9/30/2018 Asset Value (Preliminary)	\$177,058,227
8/31/2018 Asset Value (Audited by Northern)	\$177,208,369
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$5,601,980
Percent Gain <Loss>	3.33%
October 18, 2018 Asset Value	\$173,127,527

F-3 Legal Report - None

G. TRUSTEE COMMENTS / SUGGESTIONS - None

H. FUTURE AGENDA ITEMS - None

I. INFORMATION (Received & Filed)

I-1 **Record of Paid Invoices**

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

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	Hexavest	\$13,793.26	Management Fees July - September 2018
2	Meketa Investment Group	\$3,750.00	Investment consulting services 9/2018
	Total	\$17,543.26	

J. **ADJOURNMENT**

It was **moved** by Nerdrum and **seconded** by Schreier to adjourn the meeting at 10:15 a.m.

Meeting adjourned at 10:15 a.m.



**Wendy Orcutt, Executive Director
City of Ann Arbor Employees' Retirement System**