

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
January 17, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:38 a.m.

ROLL CALL

Members Present: Boonstra, Carter (8:50), Crawford, Kahan, Nerdrum, Pollock, Sylvester
Members Absent: Fraser, Heatley
Staff Present: Kluczynski, Powell, Refalo
Others: Tom Michaud, Legal Counsel
Alan Panter, Abraham & Gaffney, PC
Karen Sydney, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Mr. Powell stated that the following items have been revised since the distribution of the agenda packet:

- C-1 Gregory O'Dell, Preliminary Approval of Service Retirement
- C-2 Authorization of Payment of Invoices – Additional Invoices Received
- C-4 Authorization for Conference/Training – Jarskey – GFOA/OPEB
- C-5 Domestic Relations Order – Jenkins vs. Rayburn
- F-6 Audit Committee Report – January 15, 2008

It was **moved** by Kahan and **seconded** by Pollock to approve the agenda as revised.
Approved as revised

B. APPROVAL OF MINUTES

B-1 December 20, 2007 Regular Board Meeting Minutes

It was **moved** by Kahan and **seconded** by Pollock to approve the December 20, 2007 regular Board Meeting minutes as presented.
Approved

C. CONSENT AGENDA

It was **moved** by Boonstra and **seconded** by Kahan to approve the following Consent Agenda:

Preliminary Retirement Resolutions

C-1 Preliminary Approval of Service Retirement for Gregory O'Dell

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Gregory O'Dell (Applicant)**, dated January 8, 2008, and

WHEREAS, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

RESOLVED, that said application for service retirement of **Gregory O'Dell** is preliminarily approved

subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

RESOLVED, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

RESOLVED, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

RESOLVED, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

Final Retirement Resolutions - None

Resolutions:

C-2 Authorization For Payment of Invoices (\$ 29,426.94)

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

WHEREAS, Section 13(4) of Public Act 314 of 1965, as amended, provides that an investment fiduciary may use a portion of the income of the system to defray the costs of investing, managing, and protecting the assets of the system, may retain services necessary for the conduct of the affairs of the system, and may pay reasonable compensation for those services; 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 previously approved a resolution at its regular meeting of June 19, 1997 to have accounts payable services provided through its custodian bank, The Northern Trust Company; and

WHEREAS, the Board is of the opinion that prompt payment to service providers for services rendered is appropriate and in the best interest of the plan; therefore be it

RESOLVED, that the Board of Trustees' custodial bank, The Northern Trust Company, is authorized and directed to provide payment to the following vendors and providers of service in the amount as indicated upon receipt by the Board of appropriate invoices or as required by lease agreements, subject to (a) review and approval of said invoices and lease agreements by appropriate Board representatives and (b) payment authorization signed by Nancy Sylvester/Chairperson, Chris Heatley/Vice-Chairperson, or Jeffrey Kahan/Secretary, and Willie J. Powell/Executive Director.

	PAYEE	AMOUNT	DESCRIPTION
1	301 E. Liberty LLC	4,875.98	Office Lease (<i>including monthly escalation fee</i>)
2	Republic Parking System	375.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – December 2007
4	SBC / AT&T	213.73	Monthly Telephone Service – 11/14/07 – 12/13/07
5	Arbor Springs Water Co., Inc.	19.75	Monthly Water Service
6	AT&T	48.26	Monthly Toll-Free Telephone Service

7	Qwest	11.18	Monthly Long-Distance Telephone Service
8	Republic Parking System	81.85	Monthly parking validation fees
9	301 E. Liberty LLC	169.06	Monthly Electric Charge – 11/02/07 - 1/03/08
10	Afternoon Delight	176.75	December Board Meetings – 12/20/07
11	Staples Business Advantage	106.93	Miscellaneous Office Supplies
12	Levi, Ray & Shoup, Inc. (Pension Gold)	7,315.00	Project Deliverable 5 – Final Data Load
13	Gabriel, Roeder, Smith & Company	7,250.00	Actuarial/Consulting Services – 10/1/07-12/31/07
14	Gabriel, Roeder, Smith & Company	888.00	IRC Section 420 Qualified Transfer Test
15	City of Ann Arbor Treasurer	16.24	Municipal Code Electronic Update
16	University Office Equipment	56.22	Quarterly Copier Maintenance Fee
17	Staples Business Advantage	72.99	Miscellaneous Office Supplies
TOTAL		29,426.94	

C-3 Authorization for Conference/Training – Private Equity Investment Summit & Global Real Estate/Investments Conference, January 27-29, 2008 – Heatley

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) is vested with the authority and fiduciary responsibility for the 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 acknowledges that the Retirement System has evolved in complexity such that the circumstances 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 requires continuing education, training, and oversight of its advisors, and

WHEREAS, it is necessary, appropriate and incumbent upon Board trustees and/or Retirement System staff, from time to time, to participate in continuing education, training, and/or conduct due diligence trips in relation to their oversight of Retirement System advisors to ensure that Retirement System participants receive the best possible service, benefit and representation from these responsible persons, and

WHEREAS, Chris Heatley has requested the Board of Trustees' authorization for his travel to La Quinta, California, at Retirement System expense, estimated at \$ 600.00, to attend the Private Equity Investment Summit & Global Real Estate/Investments Conference, to participate in continuing education in his responsibility as a Board Trustee and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the travel request of Chris Heatley to travel to La Quinta, California, at Retirement System expense, estimated at \$ 600.00, to attend the Private Equity Investment Summit & Global Real Estate/Investments Conference, to participate in continuing education in his responsibility as a Board Trustee, and

FURTHER RESOLVED, that Chris Heatley comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures.

C-4 Authorization for Conference/Training – GFOA Accounting for Pensions and Other Post-Employment Benefits (OPEB), April 13-15, 2008 – Jarskey

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) is vested with the authority and fiduciary responsibility for the 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 acknowledges that the Retirement System has evolved in complexity such that the circumstances 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 requires continuing education, training, and oversight of its advisors, and

WHEREAS, it is necessary, appropriate and incumbent upon Board trustees and/or Retirement System staff, from time to time, to participate in continuing education, training, and/or conduct due diligence trips in relation to their oversight of Retirement System advisors to ensure that Retirement System participants receive the best possible service, benefit and representation from these responsible persons, and

WHEREAS, Gail Jarskey, Accountant, has requested the Board of Trustees' authorization for her travel to Reno, Nevada, at Retirement System expense, estimated at \$1,311.48, to attend the GFOA Accounting for Pensions and Other Post-Employment Benefits (OPEB), to participate in continuing education in her responsibility as Retirement System Staff person, therefore be it

RESOLVED, the Board of Trustees authorizes the conference and training request of Gail Jarskey to travel to Reno, Nevada, at Retirement System expense, estimated at \$1,311.48, to attend the GFOA Accounting for Pensions and Other Post-Employment Benefits (OPEB), to participate in continuing education in her responsibility as Retirement System Staff person, and

FURTHER RESOLVED, that Gail Jarskey comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures.

C-5 Domestic Relations Order: Jo Anne Jenkins v. Scott C. Rayburn

WHEREAS, the Board of Trustees is in receipt of a Domestic Relations Order ("DRO") dated December 1, 2007, wherein Jo Anne Jenkins, the alternate payee, is awarded certain rights to the benefits of Scott C. Rayburn, the participant, and

WHEREAS, the alternate payee is entitled to claim a portion of the participant's retirement benefit which is to be paid as soon as administratively feasible, and

WHEREAS, said matter had been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law including Public Act 46 of 1991 (MCLA 38.1701) as applicable, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order, will pay pension benefits consistent with said order as soon as administratively feasible, and further

RESOLVED, that a copy of this resolution be immediately attached as the top sheet of the pension file and other appropriate records be kept for the Retirement System relative to this matter, and

RESOLVED, that copies of this resolution be sent to R. J. Jenkins, Esq., attorney for alternate payee; Scott C. Rayburn, the participant; and the Board's actuary.

Consent agenda approved

D. ACTION ITEMS

D-1 Beneficiary Request from Mark Purcell, City of Ann Arbor Employee

Mr. Powell stated that this item is brought before the Board because Mr. Purcell has requested that he be allowed to nominate his fiancé, Nekole D. Smith, as his survivor beneficiary. Since Ms. Smith does not automatically meet the Board's definition of "insurable interest", his request requires Board approval.

It was **moved** by Boonstra and **seconded** by Kahan to approve Mr. Purcell's request to nominate Nekole D. Smith, fiancé, as his survivor beneficiary.

Approved

D-2 Retirement System Annual Report for the Year Ended June 30, 2007

Mr. Boonstra stated that staff did a nice job with this year's report, and the charts and tables make it very easy to understand.

It was **moved** by Boonstra and **seconded** by Nerdrum to approve the Annual Report for the year ended June 30, 2007.

Approved

D-3 Summary Annual Report for the Year Ended June 30, 2007

Mr. Powell stated that this report is required by law, and is extracted and summarized from the Annual Report in Item D-2 above. Mr. Powell stated that information from the report will be included in the upcoming Retirement System annual newsletter as well as the Retirement System website. Mr. Kahan suggested that the report also be sent to the City to be included in the A2 News Notes email that is distributed to all employees.

It was **moved** by Crawford and **seconded** by Pollock to approve the Summary Annual Report for the year ended June 30, 2007.

Approved

D-4 Fees for Annual Actuarial Services

Mr. Powell stated that Gabriel, Roeder, Smith & Company has submitted a letter dated December 31, 2007 which indicates the proposed Annual Actuarial Services Fees for the year beginning January 1, 2008.

It was **moved** by Crawford and **seconded** by Pollock to approve the fees for annual actuarial services as submitted by Gabriel, Roeder, Smith & Company.

Approved

D-5 Schwartz Investment Counsel Request for Duration Change

Ms. Sylvester stated that Schwartz Investment Counsel has submitted a request to expand their duration range to plus or minus 50% of the Lehman Index, and they believe that the increased flexibility will enable them to add further value in their management of the assets that they manage for the System. Gray & Company has submitted a letter dated January 9, 2008 recommending that the Board approve the request.

It was **moved** by Crawford and **seconded** by Pollock to adopt the broader duration guidelines as requested by Schwartz Investment Counsel in their October 3, 2007 letter to the Board of Trustees.

E. Approved
DISCUSSION ITEMS - None

F. REPORTS

F-1 Executive Report – January 17, 2008

BUY-BACKS

A questionnaire from the Retirement Office in November 2006 was sent to employees that asked: “At the time you were hired permanently, were you made aware of the opportunity to purchase your temporary time?” Twenty-one employees responded that they had not been made aware of that opportunity.

Of the twenty-one respondents, staff found that five were ineligible to purchase the temporary time. Some were ineligible because they had not gone directly from temporary to permanent status as required by the Retirement Ordinance. Others were ineligible because staff was able to locate documentation that showed that they had been offered the opportunity to purchase the temporary time in the past but had declined. Finally, one person was ineligible because the temporary position was a Student Cooperative Program. The Retirement Ordinance prohibits temporary service in a student training or intern program from participating in purchasing temporary time.

Staff sent the sixteen eligible respondents letters that estimated their individual buy back costs through the quarter ending September 30, 2007. The letters asked the respondents whether they would be interested in purchasing their temporary time given the estimated cost at September 30, 2007. In addition the letters requested that the respondent return the letters to the Retirement Office by January 8, 2008.

Twelve respondents replied “Yes” that they would be interested in purchasing their temporary time. One respondent said “No”. One respondent is still pending. Two individuals did not return their letters.

If the Board decides to go forward with the eligible respondents who said “Yes” to purchase their temporary time, then a proposed Ordinance change would need to be drafted for City Council’s consideration.

RETIREE EDUCATIONAL LUNCHEON

The educational luncheon for retirees and their spouses/beneficiaries will be held on April 24, 2008 at the Four Points Sheraton in Ann Arbor. Suggested topics will be presented to the Board later.

Temporary-Permanent Buy Back Discussion:

Mr. Powell updated the Board on the recent survey regarding temporary-permanent buy back time, and after conducting the research on all of the respondents, there are a total of 8 employees that would be eligible to buy back their temporary time. Mr. Powell informed the Board that this would require an Ordinance change, and asked how the Board would like to proceed with this issue.

Mr. Boonstra stated that these employees were never afforded the chance to buy back their temporary time, and believes the Board should proceed with recommending an Ordinance change to City Council. Mr. Kahan agreed, stating that since this is a “buy back” it would not harm the System. Mr. Powell noted that the actuary would have to do a cost analysis for this project. The Board decided to proceed by referring this issue to the Administrative Policy Committee and suggested that they work with legal counsel to obtain proposed Ordinance language for submission to City Council.

It was **moved** by Kahan and **seconded** by Pollock to refer the Temporary-Permanent Buy Back issue to the Administrative Policy Committee in order to work with legal counsel in preparing the proper language to Chapter 18 of the City Ordinance for submission to City Council.

Approved

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended November 30, 2007

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended December 31, 2007, to the Board of Trustees:

12/31/2007 Asset Value (Preliminary)	\$445,974,317
11/30/2007 Asset Value (Audited by Northern)	\$451,188,017
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$29,567,282
Percent Gain <Loss>	6.8%
January 16, 2008 Asset Value	\$ 423,900,524

F-3 Investment Policy Committee Report – January 8, 2008

Following are the Investment Policy Committee minutes from the meeting convened at 3:05 p.m. on January 8, 2008:

Member(s) Present: Boonstra, Heatley, Pollock, Sylvester
 Member(s) Absent: Kahan
 Other Trustees Present: None
 Staff Present: Jarskey, Powell
 Others Present: Larry Gray, Gray & Company
 Chris Kuhn, Gray & Company
 Michael Nairne, Director, Chicago Equity Partners
 Robert Kramer, Managing Director, Chicago Equity Partners
 George Schwartz, Schwartz Investment Counsel
 Rick Platte, Schwartz Investment Counsel
 Charles E. Helppie III, Echelon Wealth Management

CHICAGO EQUITY MID-CAP CORE PORTFOLIO PERFORMANCE PRESENTATION

Mr. Gray informed the Committee that Chicago Equity Partners has been placed on the watch list. Chicago Equity Partners was hired in September 2004, and this firm does go through periods of underperformance every now and then. Chicago Equity has submitted a letter to Mr. Heatley, which was distributed to the Committee members stating their position, and Gray & Company has confirmed the contents of that letter. Mr. Gray stated that today's presentation is being held to discuss the recent performance, most notably that of the 3rd quarter of 2007, and to hopefully make the Committee more comfortable with their recent performance.

(Mr. Nairne & Mr. Kramer entered the meeting at this time)

Mr. Nairne thanked the Committee for the opportunity to present their review, and stated that the current numbers are now where they like them to be, and will provide plausible information for the Committee to be able to understand what has been going on and what has been a very tough market over the last year. Mr. Nairne stated that there has been no changes in the firm other than adding three new people, and have continued to grow in assets.

Overview of Chicago Equity Partners:

- *Institutional Focus – working with institutional clients is all that we do*

- *Disciplined, structured investment approach that consistently outperforms*
- *\$11.4 billion in assets under management for over 120 clients across the world*
- *Founded in 1989 – over 19 years refining our investment strategies*
- *Significant employee ownership – people making investment, research and company decisions are shareholders*
- *Founding partners are active in the business with a clearly defined set of successor partners in the firm*
- *50 people with an average professional level tenure at Chicago Equity Partners of over 11 years*
- *19 person investment team – nearly 80% are CFA's*

Mr. Kramer reviewed the firm's investment policy, which is based on a well-established financial/behavioral theory: "We believe we can outperform passive benchmarks with a consistently applied process rooted in fundamentals." Mr. Kramer reviewed the investment process, and in summary, they are basically stock pickers based on fundamentals, screenings, are not making style bets or sector bets, and are totally neutral to the Index, except they might overweight or underweight individual securities within a sector. Mr. Kramer stated that the four main factors that they look at are valuation, quality, momentum, and growth when evaluating individual stocks. Mr. Kramer stated that 2007 was a transitional type of market and they went from a steady growth to a slow down toward the end of the year. The stock market has been volatile as a result as people try to weigh the effects of a slowing economy and effects of a sub-prime mortgage crisis.

Mr. Kramer stated that instead of a typical cycle where you would see a slower economy, valuation stocks doing better, and momentum and growth stocks doing worse, we had basically the opposite and it was an extreme opposite where momentum was the place to be. Mid Cap Core Model Performance:

Performance by Factor Group ending 12/31/2007: Three out of the four factor groups were negative in the 4th quarter; with the momentum factors showing a slight positive return. The value factors, while still negative, did show improvement in the month of December. Over the last twelve months, only the momentum factors have had slight positive returns.

Quintile Rank Performance ending 12/31/2007: Over the last three months, the highest ranked stocks have performed the worst, and the lowest ranked stocks showed positive returns. During the last year, the top ranked stocks had negative performance.

Mr. Kramer reviewed various performance charts in the presentation, and noted the total account market value as of December 31, 2007 was \$18,038,502. Mr. Kramer stated they are confident that they will rebound as the market focuses back on fundamentals.

Mid Cap Core 12-month rolling excess return histogram:

- *This strategy outperforms 60% of the time on a 12-month rolling period and 74% of the time on a 36-month rolling period.*
- *When performance deviates over 2% from benchmark, 74% of time is on the upside*
- *Periods of underperformance are typically followed by strong rebounds*

SCHWARTZ INVESTMENT COUNSEL REQUEST FOR DURATION CHANGE PRESENTATION

Mr. Schwartz stated that in March 2006 Schwartz Investment Counsel was granted the ability to expand the duration range to plus or minus 25% of the Lehman Index, and since that time, the added flexibility has resulted in enhanced performance. At this point, his firm is requesting that the range be further expanded to plus or minus 50% of the Index, and they believe the increased flexibility will enable them to add further value in their management of the System's assets.

Mr. Schwartz reviewed an executive summary of the quarter ended December 31, 2007:

- The market value of the City of Ann Arbor Employees' Retirement System's fixed income assets under the supervision of Schwartz Investment Counsel as of December 31, 2007 was \$26,674,297.
- The fixed income investment performance for the quarter ended December 31, 2007 was 3.0% (total return) versus 2.9% for the Lehman Brothers Intermediate Government/Credit Index.
- As of December 31, 2007, the fixed income asset allocation was as follows: 24% U.S. Treasury securities, 22% U.S. Agency securities, 52% corporate bonds, and 2% cash equivalents.

Mr. Platte reviewed the Economic Outlook, stating that they look for economic growth to be weak in 2008 with an increase of only 1.5% in real GDP. The year will start slowly with a quarter or two of negligible to negative economic growth, but improve as the year progresses. Mr. Schwartz stated that over a long period of time, active portfolio management can work, and it has worked for them and their clients. In the 33 years that Schwartz Investment Counsel has managed this bond portfolio, more than \$1,500,000 (net after fees) of incremental gains over the index, have been produced through active portfolio management. Properly applied over the long term, active portfolio management vastly beats indexing. Regarding the fixed income portfolio strategy, duration at year-end was 2.9 years, 79% of the Lehman Index, which is at the short end of the permissible range. Schwartz continues to believe that the next major move in long-term interest rates will be to the upside so they have chosen to reduce the level of interest-rate risk. Early in the year, credit spreads were inordinately tight making Government bonds a compelling value. Schwartz capitalized on this by overweighting Treasuries in the Fund's portfolio. With Treasury prices now up significantly, the field of attractive investments has broadened appreciably, and they have diversified out of Treasuries to pursue these opportunities.

Mr. Platte reviewed the fixed income portfolio transactions for the quarter ended December 31, 2007 and the fixed income asset allocation. Mr. Schwartz reviewed 30-year performance charts for U.S. Treasury Bonds, Real U.S. T-Bonds, and Spread-Corp BAA/US T-Bonds. Mr. Schwartz believes that in the years to come rates will more than likely move irregularly higher, which supports their request for added flexibility managing the portfolio, and also supports an argument as to why their assignment shouldn't be switched to index funds. They believe the long secular decline in interest rates is over, and will be going up in the next several years, including the return of inflation for various reasons.

The Committee discussed the request, and Mr. Gray stated that he feels there is no problem with allowing the flexibility, given Schwartz's long-term performance. Ms. Sylvester asked if Mr. Gray could provide his explanation in writing for the upcoming Board meeting, and Mr. Gray agreed.

It was **moved** by Boonstra and **seconded** by Sylvester to recommend to the Board of Trustees that Schwartz Investment Counsel be granted the leeway as requested in his letter dated October 3, 2007 requesting that the range be further expanded to plus or minus 50% of the Index.

Approved

RFI UPDATE FOR INVESTMENT CONSULTANT SERVICES

Mr. Gray stated that Gray & Company has really enjoyed its relationship with the System, and by working with Ann Arbor and other Systems in Michigan, it has led to the hiring of Chris Kuhn, and hopefully it will give the System added local investment consultant support. Mr. Powell reviewed the System's RFP-RFI Policy, noting that the policy states that, "Since providers' fee structures may change, it is a prudent practice to schedule a RFI on plan vendors every three (3) years as part of Trustees' fiduciary responsibility to assure the Plan is receiving the optimal level of service at the best price. The RFI will be used when:

- There is no intention on changing the service provider and the Board wants to gauge the market cost for the level of service rendered."

Mr. Powell stated that this basically means that we will check several firms to see the competitive pricing that vendors provide regarding specific services in question. Mr. Heatley stated that he wants to make sure that this is presented solely as a Request for Information, and not a Request for Proposal, and we do not want other consulting firms to jump through hoops and mislead them that we are considering a new consultant. Mr. Powell stated that he will come up with language explaining the System and its needs when requesting pricing from other firms. Mr. Powell noted that the only reason for conducting an RFI is because the policy states that this should be done every three years. The Policy states that, "The Request for Information will not include solicitation of service providers by proposals. It will however include competitive pricing that vendors provide to the Plan regarding the specific service(s) in question."

ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Sylvester to adjourn the meeting at 4:31 p.m.
Meeting adjourned at 4:31 p.m.

F-4 Administrative Policy Committee Report – January 8, 2008

Following are the Administrative/Personnel Policy Committee minutes from the meeting convened at 2:07 p.m. on January 8, 2008:

Committee Members Present:	Boonstra, Sylvester
Members Absent:	Carter, Crawford, Heatley,
Other Trustees Present:	None
Staff Present:	Jarskey, Kluczynski, Powell, Refalo
Others Present:	None

POVERTY INCREASE DISCUSSION

Mr. Powell gave a brief overview of the poverty increase benefit, stating that at the last APC meeting the Committee had asked him to speak with Michael VanOverbeke in regards to some of the requirements for changes to the poverty increase process, and whether certain changes would have to be grandfathered in. Mr. VanOverbeke has advised that the Board cannot make changes without the approval of City Council, and that nothing can be taken from those people who are already receiving the benefits who retired under certain Ordinance language.

Ms. Jarskey stated that she feels that each year, this process requires new calculations and situations, and doesn't feel that their benefit is being diminished because they haven't received the next year's increase yet. Ms. Sylvester stated that she understands the situation to be that those who retired under certain Ordinance language will receive the benefits in place at that time. Mr. Boonstra agreed that for those who have already retired and are receiving the benefit, nothing can be changed, and the question is if anything can be done going forward and how to go about doing that. Mr. Powell stated that the intent of this annual increase was to benefit the many older retirees that were receiving benefits below the poverty level, and noted that most of the individuals involved are the older retirees. The issue is that there are some cases where someone may have withdrew their contributions at the time of retirement, thereby lowering the monthly benefit which could result in them falling below the poverty level.

After discussion, the Committee determined that it would not be inclined to make any changes at this time given the previous legal information, and that the vast majority of constituents are being served well, but decided to forward the following questions to legal counsel for discussion at the regular Board meeting in February:

- If someone is currently receiving the poverty increase benefit, can you freeze, or redline, them where they are until such point as they meet certain criteria?

- If a current retiree is not yet receiving this benefit because they are not yet below the poverty level, can it be changed, or stopped?
- For current active employees, can the language be changed going forward?
- Could you make a change that affects new hires only?

Ms. Refalo thanked the Committee for taking the time to look into this matter, and Ms. Sylvester thanked staff for bringing this to their attention.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Boonstra to adjourn the meeting at 2:43 p.m.
Meeting adjourned at 2:43 p.m.

F-5 Special Projects Committee Report – January 8, 2008

Following are the Special Projects Committee minutes from the meeting convened at 1:15 p.m. on January 8, 2008:

Committee Members Present:	Boonstra, Sylvester
Members Absent:	Crawford, Heatley, Kahan
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell, Refalo
Others Present:	Bart Wise, Swisher Real Estate

REAL ESTATE PURCHASE UPDATE WITH BART WISE

Mr. Wise updated the Committee on the status of the purchase agreement, and stated that he will be meeting with the seller in the next day to finalize the agreement now that Ms. Sylvester has signed off on all minor changes as discussed by the Committee. It was estimated that after the documents have been reviewed by legal counsel, closing procedures completed, and bidding for a construction company, that construction could start as soon as March or April. Staff indicated that they would like to be moved in to the new office by July 1, 2008 due to the many annual timeline-related projects that occur in July and August, such as the actuary report, audit reports, and fiscal year-end projects.

Mr. Wise stated that he will be in contact with Ms. Sylvester and Mr. Powell after the purchase agreement is signed by the seller.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Boonstra to adjourn the meeting at 1:38 p.m.
Meeting adjourned at 1:38 p.m.

Mr. Michaud suggested that the Board hold the real estate as a separate entity other than under the name of the Retirement System for liability purposes. This would insulate the Retirement System from any possible liability by setting up a separate entity to hold the real estate. Mr. Michaud stated that this is a very typical practice. The Board decided to name the holding as "AAERS Properties".

F-6 Audit Committee Report – January 15, 2008

Following are the Audit Committee minutes from the meeting convened at 4:40 p.m. on January 15, 2008:

Committee Members Present:	Crawford, Pollock, Nerdrum, Sylvester
Members Absent:	None

Other Trustees Present: None
Staff Present: Jarskey, Powell
Others Present: Jeanna Cullins, Independent Fiduciary Services, Inc.
Barbra Byington, Independent Fiduciary Services, Inc.

FIDUCIARY AUDIT EDUCATIONAL PRESENTATION

Ms. Cullins introduced herself as the Managing Director and Practice Leader for the operational review practice for Independent Fiduciary Services, and Ms. Byington is the Vice President. Prior to coming to IFS, Ms. Cullins was the Executive Director for the District of Columbia Retirement Board and before that she was their general counsel. Ms. Cullins stated that the purpose of the session is to provide an overview of the Fiduciary Audit/Operational Review concept in order to get more insight as to what the process is, how much they cost, and what subject matters are involved.

Who is IFS?:

- IFS is an investment consulting firm that provides services to public, private, and Taft-Hartley pension funds
- 20-year firm history
- Totally independent of all brokerage and investment management firms
- 100% of firm revenues from providing investment advisory services to institutional clients
- 36 employees in two offices (Washington, DC and Newark, NJ). Consultants have, on average, over 22 years of investment-related experience
- IFS does not perform ongoing investment consulting for public funds

Ms. Cullins stated that her firm conducts both very comprehensive and limited operational reviews, which may cover only one or two areas. An operational review is a systematic diagnostic study of a pension fund's investment program and practices. It is a niche service, different from traditional investment consulting or auditing in several ways, 1) Reviews subjects the regular consultant and auditor do not address; 2) Focus on governance, practices and procedures (who does what, how, when, subject to what controls, compared to industry "common practices" and "best practices").

An operational review is a "fiduciary physical" that provides a pension fund with a prescription for assessing the adequacy of the pension fund's foundational components:

- Fiduciary Standards
- Governance
- Investment Policy
- Asset Allocation
- Administration
- Internal Controls & Procedures

IFS believes that they hold the record for conducting more comprehensive operational reviews than any other firm. The reasons for conducting a review are to identify:

- Aspects of the pension fund's operations or organization that pose undue risk
- Aspects that are inefficient and ineffective
- Aspects that pose undue expense, and
- How the fund's organization and procedures compare to industry "best practices" and "common practices"

Some benchmarks used are peer groups and comparable funds in terms of assets, restrictions on assets, internal vs. external management which all impact the comparability of the peer groups. How much the Board wants to spend on a review will determine how in-depth the review would be. Following is the process for conducting a review:

- Entrance Conference – Confirm client goals, scope of work and project methodology
- Assess current status – Collection and review of documents & personal interviews
- Compare policies and practices to “common” and “best” practices
- Develop preliminary observations and recommendations
- Submit draft for review and comment – Discuss comments with designated personnel
- Refine the draft – finalize observations and recommendations in final report
- Oral presentation of final report

Ms. Cullins asked if the Committee is looking at conducting a review proactively or reactively, and it was indicated that the Committee is interested in doing a review proactively. Ms. Cullins reviewed the format of an Operational Review Report, which includes an executive summary, introduction, and possible components for each task area of the report (background/principles, risk, findings/observed condition, and recommendations), and a summary of recommendations. Ms. Nerdrum asked how long a typical review would take, and Ms. Cullins stated that it would depend on the desired scope that the Board chooses, but a limited scope would take 3 to 6 months (at approximately \$50,000), and a full-blown scope (up to \$450,000) could take 6 months to 1½ years. Ms. Cullins added that these projects tend to go that long because it is an interactive process, so when they send the client the document requests, it is their experience that it typically takes staff anywhere from 3 to 6 weeks to put the document request together. IFS does not bill by the hour, but by how much time they think it's going to take them to accomplish the review. Some areas are more labor-intensive than others, such as investment accounting/operations and service providers. Ms. Cullins stated that she will send examples of previous Requests for Proposals so staff can get an idea of what information is needed before sending out an RFP.

PROPOSED ACTUARIAL BASICS PRESENTATION

It was **moved** by Pollock and **seconded** by Nerdrum to postpone the Actuarial Basics Presentation until the Annual Board Retreat on February 8, 2008.

Approved

ADJOURNMENT

It was **moved** by Pollock and **seconded** by Nerdrum to adjourn the meeting at 6:00 p.m.

Meeting adjourned at 6:00 p.m.

F-7 Legal Report - None

G. AUDIT PRESENTATION - Review of Financial Statements for the Year Ended June 30, 2007

Alan Panter of Abraham & Gaffney presented a review of the financial statements for the year ended June 30, 2007. Mr. Panter stated that the audit process went fine, spending less time this year than last year, which is to be expected in a second-year audit and he thanked Mr. Powell and Ms. Jarskey for their assistance with this process. As far as the Retirement System financial statements this year, there are no big changes and there are no written audit comments this year, which is a credit to the management and operations of the office staff. According to the Statement of Plan Net Assets, the assets as of June 30, 2007 were \$449,916,000 as compared to \$403,271,000 at June 30, 2006.

Mr. Panter indicated that there were no proposed audit adjustments during the current year audit, no disagreements with management, and they encountered no significant difficulties in dealing with management in performing and completing the audit.

It was **moved** by Carter and **seconded** by Pollock to accept the Financial Statement for the Year Ended June 30, 2007 as presented by Alan Panter of Abraham & Gaffney, PC.

Approved

H. **INFORMATION**

H-1 **Communications Memorandum**

The Communications Memorandum was received and filed.

H-2 **February Planning Calendar**

The February Planning Calendar was received and filed.

H-3 **Vendor Contacts - None**

H-4 **Status of Pending Projects Report**

The Status of Pending Projects Report was received and filed.

I. **TRUSTEE COMMENTS - None**

J. **ADJOURNMENT**

It was **moved** by Carter and **seconded** by Kahan to adjourn the meeting at 9:35 a.m.

Meeting adjourned at 9:35 a.m.



**Willie J. Powell, Executive Director
City of Ann Arbor Employees' Retirement System**