

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
August 16, 2012**

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

ROLL CALL

Members Present: Crawford, Flack (*via telephone*), Heusel, Monroe, Powers
 Members Absent: Clark, Hastie, Nerdrum, Rogers
 Staff Present: Kluczynski, Walker
 Others: Michael VanOverbeke, Legal Counsel
 Michael Van Dam, City Retiree
 David Diephuis, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda included the following items:

- E-2 Revised FOIA Policy
- G-4 Administrative Policy Committee Minutes – August 14, 2012

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

B. APPROVAL OF MINUTES

B-1 July 19, 2012 Regular Board Meeting Minutes

It was **moved** by Heusel and **seconded** by Crawford to approve the July 19, 2012 Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA

It was **moved** by Crawford and **seconded** by Monroe to approve the consent agenda as submitted:

C-1 Purchase of Military Service Time

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, Section 1:561(e) of the Retirement Ordinance, Chapter 18 of the Code of the City of Ann Arbor allows for prior Military Service Credit, and

WHEREAS, the Board is in receipt of an Application for Purchase of Military Service Time, 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 purchase of Military Service Time:

Name	Employee Group	Requested Military Service Time	Requested Method of Payment	Cost for Purchase of Military Service Time
Michael Koski	General	4 Years	Lump Sum Payment	\$ 9,197.76

FURTHER RESOLVED, that the applicant(s) purchasing Military Service Time be notified of the amount of money necessary to buy the Military Service Time, and upon full payment, the member(s) shall be credited the service time.

Consent Agenda Approved

D. EXECUTIVE SESSION: Executive Director Evaluation

Mr. Heusel stated that an evaluation has already taken place, and Mr. Crawford stated that this item is on the agenda for the purpose of receiving any additional input by the Board. A discussion ensued as to whether or not to hold an evaluation discussion at this meeting due to the number of absent Trustees, and it was decided that before going further, that this item should be referred back to the Administrative Policy Committee in order to further review the Director's current contract as well as the proposed goals and objectives for the coming year. Mr. Crawford suggested that Ms. Nerdrum be asked to attend the next APC meeting because she may be able to provide further insight on the issue of the benefits package that was discussed prior to Ms. Walker's hiring. It was decided that staff would contact Ms. Nerdrum to attempt to schedule the next APC meeting sometime in September.

It was **moved** by Crawford and **seconded** by Monroe to refer the Executive Director Evaluation discussion to the Administrative Policy Committee in order to further review the current contract and goals and objectives, noting that a date in September has yet to be scheduled.

Approved

E. ACTION ITEMS

E-1 Resolution to Approve Funding for SKY Harbor Capital Management

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the City of Ann Arbor Employees' 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 Retirement Board of Trustees approved the hiring of SKY Harbor Capital Management on May 17, 2012, with contractual negotiations being successfully finalized and executed, and

WHEREAS, Meketa Investment Group has advised the Investment Policy Committee to terminate PENN Capital Management, MacKay Shields, and the Invesco Stable Value fund and fund SKY Harbor with \$12 million of the proceeds, the balance to be divided with approximately \$3 million to be added to the Cash account for the purpose of funding benefit payments, and the remaining approximately \$6 million to be transferred to the Northern Trust Barclays Index portfolio; therefore be it

RESOLVED, that SKY Harbor Capital Management be funded from the Fixed Income portfolio with approximately \$12 million from the Invesco Stable Value fund with the balance to be placed into the Cash account; and further

RESOLVED, that PENN Capital Management and Mackay Shields funds be liquidated and the proceeds, estimated at \$6 million, be placed into the Northern Barclays Aggregate Fund.

It was **moved** by Crawford and **seconded** by Powers to approve the Resolution to Approve Funding for SKY Harbor Capital Management as presented.

Approved

E-2 Revised Freedom of Information Act Policy

Mr. Crawford reviewed the FOIA Policy as discussed and recommended by the Administrative Policy Committee at its August 14, 2012 meeting. Mr. Crawford stated that the three changes include language indicating that 1) email requests are considered as a request made "in writing", 2) language requiring full payment before releasing information to a requestor, and 3) that responses to FOIA requests remain on file for six years. Mr. VanOverbeke suggested that payments should be made to the City of Ann Arbor Employees' Retirement System, rather than to "CAAERS". The Board agreed.

It was **moved** by Crawford and **seconded** by Monroe to approve the revised Freedom of Information Act Policy as presented.

Approved

F. DISCUSSION ITEMS

F-1 Scheduling of Fall Equity Manager Forum

Ms. Walker discussed the Fixed Income Manager Forum this past March, and that the Investment Policy Committee has placed this item on the agenda in order to obtain the Board's input on whether an Equity Manager Forum should be held this fall (1/2 day session), and if so, when that should be. It was the consensus of the Board to proceed with the scheduling of a Equity Manager Forum, which will be a half-day session in September or October, and that staff be requested to solicit Board feedback in regards to a suitable date.

G. REPORTS

G-1 Executive Report – August 16, 2012

BUCK

ESS testing is still problematic although some of the flaws previously identified are being corrected. Specifically, some charts are still not populating correctly and a few sign-on errors are still occurring. The accrued benefit statement including contribution balances is being revised to correctly reflect pre- and post- tax balances. (The former PG statement also did not provide accumulated contributions by type of balance.)

These issues are still being communicated to Buck, via the task manager application and tracking system, and Larry Langer has been copied. Buck generated the balance billing amount for the Online Calculation System in its most recent invoice - however, this will not be paid until the system is complete.

VEBA IRS LETTER

The IRS has requested additional information for the System's request for the reinstatement of qualified status for the VEBA. This information has been gathered by staff and provided to our Board attorney who has sent a response to the requesting IRS agent.

ACTUARIAL AND AUDIT DATA

The census data, (both Retirement System and VEBA) as well as plan provision update documentation for the Retirement System, has been provided to Buck.

The accounting information for the valuations is in process. So far, the benefit payments reconciliation, the employee contribution reconciliation, and the investment breakouts for both trusts have been completed. Northern is in the process of facilitating online access for the new auditor. The auditor has not contacted the System as yet to schedule any visits.

FOIA

The Retirement System received a FOIA request from Mr. Nick Areddy, an intern for Pollock Investment Advisers, LLC. for investment performance data back to 2005. Mr. Pollock has been provided the cost for the production of the requested documents. Upon receipt of this amount, the documents are ready to be sent.

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended July 31, 2012

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended July 31, 2012 to the Board of Trustees:

7/31/2012 Asset Value (Preliminary)	\$406,057,486
6/30/2012 Asset Value (Audited by Northern)	\$401,758,098
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$26,119,340
Percent Gain <Loss>	6.7%
August 15, 2012 Asset Value	\$409,424,739

G-3 Investment Policy Committee Minutes – August 7, 2012

Following are the Investment Policy Committee minutes from the meeting convened at 3:08 p.m. on August 7, 2012:

<i>Member(s) Present:</i>	<i>Flack (via telephone), Hastie, Monroe</i>
<i>Member(s) Absent:</i>	<i>Clark, Rogers</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Kluczynski, Walker</i>
<i>Others Present:</i>	<i>Henry Jaung, Meketa Investment Group</i>
	<i>Fran Peters, Meketa Investment Group</i>
	<i>Michael Van Dam, City Retiree</i>
	<i>David Diephuis, City Resident</i>

QUARTERLY PERFORMANCE REPORT FOR THE PERIOD ENDED JUNE 30, 2012

Mr. Jaung reviewed the performance report for June 30, 2012. As of June 30, 2012, the Retirement System was valued at \$402.3 million, a decrease of \$10.7 million from March 31, 2012. During the quarter, the System reported net cash outflows of approximately \$1.2 million.

The Retirement System reported a -2.4% return for the quarter, net of fees. The System's return was driven primarily by domestic equity and international developed equity investments, which declined 3.8% and 8.5% respectively. Investment grade bond assets gained 1.7% and high yield bonds rose 1.5% for the quarter. In October 2011, the Trustees approved an updated Retirement System policy asset allocation. At quarter-end, the Fund was outside of its new target range for domestic equity and investment grade bonds. Meketa expects the Fund's overweight to domestic equity and investment grade bonds to be reduced over time as new allocations are funded.

To date, the Retirement System has:

- Consolidated the index fund providers.
- Invested approximately 4% in emerging markets equity.
- Invested approximately 2% in emerging markets debt.
- Invested approximately 2% in bank loans.
- Approved the consolidation of the high yield bond portfolio.

Summary of Assets as of June 30, 2012:

Managers	Market Value
Domestic Equity Composite	156,500,000
International Developed Mkt Equity Assets	41,600,000
International Emerging Mkt Equity Assets	14,400,000
Private Equity Assets	0
Investment Grade Bond Assets	125,000,000
TIPS Assets	0
High Yield Assets	6,000,000
Bank Loan Assets	8,100,000
Emerging Market Debt Assets	8,400,000
Real Estate Assets	20,200,000
Natural Resources Assets	0
Hedge Fund Assets	19,300,000
Cash	2,800,000
Total Plan	402,300,000

MEKETA THOUGHTS ON SCENARIO PLANNING & OUTLOOK

Mr. Monroe asked how prepared the Committee is to deal with certain market scenarios and in terms of funding levels, what kind of position would that put the System and the City in, and would it require simplifying asset allocations? Mr. Jaung stated that Meketa could prepare an asset allocation analysis and liquidity analysis that could provide information. Mr. Hastie agreed with receiving those reports, and that they be presented at the December IPC meeting; Mr. Monroe and Mr. Jaung agreed.

**FORUMS: REVIEW FEEDBACK FROM FIXED INCOME FORUM.
DO WE WANT TO HAVE AN EQUITY FORUM IN THE LATE FALL?**

The Committee discussed possible dates for an Equity Forum in the fall, and decided to place this item on the August Board Agenda for discussion with the full Board in order to find a suitable date for Trustees to attend.

**FUNDING: STATUS OF RECENT NEW MANAGER ADDITIONS
AND PLANS FOR SKY HARBOR FUNDING**

Mr. Jaung reviewed the new manager updates, stating that both Beach Point and Stone Harbor were funded during April/May 2012, and that the Board approved the hire of Sky Harbor to manage a broad high yield bond market mandate for the Retirement System (3% of the Fund, approximately \$12 million) subject to Counsel's review of fund documents and contract negotiations which were completed in July 2012. Mr. Jaung stated that the Committee will now need to decide how to fund SKY Harbor. Mr. Jaung stated that Meketa recommends taking Invesco and Schwartz money and transferring it into an index fund, but taking some of it to fund high yield, or, since U.S. Equity is overweighted and it will be some time before funding natural resources and private equity, another recommendation would be to take the Schwartz and Invesco money and transfer it into fixed income and take additional funding as necessary for SKY Harbor out of U.S. Equities. The Committee discussed the options and other manager performances, and decided to make the following motion:

It was **moved** by Flack and **seconded** by Monroe to recommend that the Board of Trustees terminate PENN Capital Management, McKay Shields, and Invesco/Stable Value using that \$21 million to fund SKY Harbor at \$12 million, with approximately \$2 to \$3 million to go into the cash fund, and the remaining \$6 to \$7 million to be transferred into the Northern Barclay's Aggregate Index.

Approved

With the next IPC meeting being scheduled so close to Labor Day as well as other scheduling conflicts, the Committee decided to schedule the next IPC meeting for Tuesday, September 18, 2012 at 3:00 p.m. Mr. Hastie suggested discussing the Investment Policy Statement on the September IPC agenda, stating that Meketa has made suggestions on crafting the document to be clearer, more beneficial, and easier for the Committee and Board to interpret. Mr. Hastie suggested that a week prior to the meeting, that he, Mr. Jaung, and Ms. Walker discuss a draft for the Committee's review.

RECESS

At this point, the Committee recessed the meeting in order to convene the VEBA IPC meeting.

Meeting recessed at 5:40 p.m.

MEETING RECONVENED

The Committee reconvened the meeting at 5:42 p.m.

FIXED INCOME PRIORITIES & NEXT STEPS

The Committee decided to discuss the future of the fixed income program at the September IPC meeting.

**MANAGER FEES & HOW TO ASSESS
(NOT REVIEWING THE RESULTS, BUT HOW DO WE WANT TO REVIEW FEES)**

Ms. Walker stated that this item was requested by Tom Crawford, who had indicated that he would like additional information included in the budget reports in regards to the various managers, their fee schedules, and what total fees the System is paying out on an annual basis. Mr. Jaung distributed a sample report in booklet form for the Committee to review which shows a breakdown of compensation for service providers such as direct compensation, indirect compensation, compensation paid among related parties, and payment on termination. Mr. Jaung stated that Meketa could easily provide such a report on an annual basis for the Committee's review. The Committee agreed, stating that the information would be a good reporting mechanism and very helpful.

ADJOURNMENT

Meeting adjourned at 6:10 p.m.

Mr. Monroe briefly discussed the Schwartz Investment Counsel account, and the recommendation by Meketa to close the account and transfer those funds to the Barclay Aggregate in order to get a higher return, believing that if the interest rates do go up in the near term the System would not be losing that much, and the risk is not that high. The move would not be due to performance, but due to moving to a different strategy, but Mr. Monroe stated that he wants to be cautious, not wanting to make such a decision at the wrong time. Mr. Monroe stated that he believes that the Schwartz group should be given the opportunity to explain their perspective before the Committee makes such a decision, considering the long-standing relationship between the System and their firm. After discussion, the Board decided that Schwartz Investment Counsel should be made aware of Meketa's recommendation and requested to attend the September 18th IPC meeting in order to present their views.

It was **moved** by Monroe and **seconded** by Heusel to notify Schwartz Investment Counsel of potential changes to the System's fixed income strategy, and request that they attend the September 18, 2012 IPC meeting in order to present their views.

Approved

G-4 Administrative Policy Committee Minutes – August 14, 2012

Following are the Administrative Policy Committee minutes from the meeting convened at 3: p.m. on August 14, 2012:

<i>Committee Members Present:</i>	<i>Crawford, Heusel, Monroe</i>
<i>Members Absent:</i>	<i>None</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Gustafson, Kluczynski</i>
<i>Others Present:</i>	<i>David Diephuis, City Resident</i>

REVISED FOIA POLICY

The Committee discussed revising the current FOIA Policy to include language that requires payment for any FOIA requests prior to the information being released. The Committee also discussed the retention of FOIA responses, and decided that responses should be kept on file for six years from the date of receipt; also, that Email requests would be considered as a request made in writing.

*It was **moved** by Heusel and **seconded** by Monroe to recommend that the Board of Trustees approve the FOIA Policy as revised and amended by the Committee.*

Motion passes 2-1 (Crawford opposed)

DISCUSSION OF RECENT RETIREE CALCULATION

Mr. Gustafson stated that while doing random testing for the new Buck calculation software, he discovered a retiree calculation from 2011 that had contained data that was physically entered incorrectly into the calculation software. The calculation used an incorrect value for the retiree's service time that provided them with four and a half additional months that they did not obtain when they left the City (.5 rather than .05 months), so this retiree has been overpaid since early 2011. The Committee discussed the process for checks and balances, and what route had been taken in the past when this has happened. It was decided that a letter should be sent to the retiree indicating their options for returning the payment to the System, whether it be it by full or monthly payment deductions or a lump sum repayment. Mr. Monroe suggested that a detailed/comparative calculation be included with the letter which shows where and how the correction has been made. Mr. Crawford requested that the Committee be copied on the letter being sent to the retiree.

ADJOURNMENT

It was **moved** by Heusel and **seconded** by Monroe to adjourn the meeting at 3:54 p.m.
Meeting adjourned at 3:54 p.m.

G-5 Audit Committee Minutes – No Report

G-6 Legal Report

Mr. VanOverbeke updated the Board on Senate Bill 797, stating that the House Appropriations has passed the Bill with a 23-1 vote with no amendments, and that the House is now recessed until September 11th, so it is the hope that it will be brought on the House floor prior to the November election recess.

H. INFORMATION (Received & Filed)

H-1 Communications Memorandum

H-2 September Planning Calendar

Ms. Walker noted that with a few of the Committee members attending the MAPERS Conference from September 9-11, staff will be soliciting feedback as to when to reschedule the September APC and Audit Committee meetings. Mr. Monroe suggested that per a prior APC discussion regarding the timing of the October meetings, it may be better to hold the Committee meetings later in September in order to avoid meeting in October.

H-3 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Allstar Alarm, LLC	90.00	3 Months Central Station Monitoring (Aug-Oct 2012)
2	DTE Energy	12.73	Monthly Gas Fee dated July 12, 2012
3	DTE Energy	311.21	Monthly Electric Fee dated July 12, 2012
4	City of Ann Arbor	12.40	Municipal Code Supplement/Update
5	Hasselbring-Clark Co.	41.32	Monthly copier cost per copy
6	MAPERS	400.00	Registration fees for Flack, Monroe, Clark & Walker
7	Coverall North America, Inc.	140.00	Office Cleaning Services for August 2012
8	Fifth Third Bank/Maple Office	338.69	Condo association dues – August 2012

9	Meketa Investment Group	8,750.00	Investment Consultant Retainer – July 2012
10	Hasselbring-Clark Co.	41.32	Monthly copier cost per copy
11	AT&T	168.88	Monthly Telephone Service
12	Buck Consultants	8,816.66	Monthly Chamberlain calc, basic svcs, hosting fees
13	Arbor Inspection Services, LLC	175.00	Annual fire sprinkler inspection w/report to City
14	Bradford & Marzec, Inc.	44,862.88	Investment Mgmt. Fees – 4/1/12 – 6/30/12
15	Fisher Investments	46,390.48	Investment Mgmt. Fees – 4/1/12 – 6/30/12
16	Loomis, Sayles & Company	34,213.71	Investment Mgmt. Fees – 4/1/12 – 6/30/12
TOTAL		144,765.28	

H-4 Retirement Report

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

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Dawn King	Age & Service	September 1, 2012	Police	25 years	Safety Services / Police

I. TRUSTEE COMMENTS - None

J. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 9:32 a.m.
Meeting adjourned at 9:32 a.m.



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