

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
June 19, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:37 a.m.

**INTRODUCTION OF NEW CITIZEN TRUSTEE, DAVID HESCHELES**

Ms. Sylvester officially welcomed David Hescheles as the Board's new Citizen Trustee. Mr. Hescheles is replacing Rob Pollock, who resigned from the Board in April 2008. Mr. Hescheles is a Certified Investment Manager Analyst, and is a Vice President with Mainstay Investments.

**ROLL CALL**

Members Present: Boonstra, Crawford, Heatley, Hescheles, Kahan, Nerdrum,  
Sylvester  
Members Absent: Fraser, Kaur  
Staff Present: Kluczynski, Powell  
Others: Michael VanOverbeke, Legal Counsel  
Jeremy Flack, Ann Arbor Fire Department  
Matthew Horning, City Treasurer

**AUDIENCE COMMENTS**

**A. APPROVAL OF REVISED AGENDA**

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

- C-5 Authorization for Payment of Invoices – additional invoices received
- C-6 Reciprocal Retirement Act-Service Credit – additional request for credit

It was **moved** by Heatley and **seconded** by Boonstra to approve the agenda as revised.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 May 15, 2008 Regular Board Meeting Minutes**

It was **moved** by Crawford and **seconded** by Heatley to approve the May 15, 2008 regular Board meeting minutes as presented.  
**Approved**

**C. CONSENT AGENDA**

It was **moved** by Heatley and **seconded** by Boonstra to approve the following consent agenda as submitted:

**Preliminary Retirement Resolutions:**

**C-1 Preliminary Approval of Service Retirement for Carol Schuler**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Carol Schuler (Applicant)**, dated June 12, 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 **Carol Schuler** 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.

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**C-2 Preliminary Approval of Service Retirement for Kurt Kaiser**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Kurt Kaiser (Applicant)**, dated June 5, 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 **Kurt Kaiser** 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.

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**C-3 Preliminary Approval of Service Retirement for Gary Lutz**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Gary Lutz (Applicant)**, dated May 30, 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 **Gary Lutz** 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.

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**C-4 Preliminary Approval of Service Retirement for Barbara Zahn**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Barbara Zahn (Applicant)**, dated June 9, 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 **Barbara Zahn** 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-5 Authorization for Payment of Invoices (\$ 76,343.35)**

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.

|    | <b><u>PAYEE</u></b>                  | <b><u>AMOUNT</u></b> | <b><u>DESCRIPTION</u></b>                                 |
|----|--------------------------------------|----------------------|---|
| 1  | <b>301 E. Liberty LLC</b>            | <b>4,300.93</b>      | Office Lease <i>(including monthly escalation fee)adj</i> |
| 2  | <b>Republic Parking System</b>       | <b>375.00</b>        | Monthly Parking Fee                                       |
| 3  | <b>Gray &amp; Company</b>            | <b>7,750.00</b>      | Investment Consultant Retainer – May 2008                 |
| 4  | <b>SBC / AT&amp;T</b>                | <b>293.06</b>        | Monthly Telephone Service – 4/14/08– 5/13/08              |
| 5  | <b>Arbor Springs Water Co., Inc.</b> | <b>19.75</b>         | Monthly Water Service                                     |
| 6  | <b>AT&amp;T</b>                      | <b>60.76</b>         | Monthly Toll-Free Telephone Service                       |
| 7  | <b>Qwest</b>                         | <b>10.86</b>         | Monthly Long-Distance Telephone Service                   |
| 8  | <b>Republic Parking System</b>       | <b>95.25</b>         | Monthly parking validation fees                           |
| 9  | <b>City of Ann Arbor Treasurer</b>   | <b>4.00</b>          | Municipal Code Supplement                                 |
| 10 | <b>301 E. Liberty LLC</b>            | <b>91.84</b>         | Monthly Electric Charge – 4/08/08 - 5/09/08               |
| 11 | <b>Independence Investments</b>      | <b>56,938.58</b>     | Investment Mgr. Fees – 9/30/07-12/31/07                   |

|              |                            |                  |  |
|--------------|----------------------------|------------------|--|
| 12           | Van Goor Architects, Inc.  | 1,081.72         | Creation and printing of construction documents      |
| 13           | Transition Imaging, LLC    | 1855.04          | Digital imaging and database building of ERS records |
| 14           | Transition Imaging, LLC    | 159.25           | Digital imaging and database building of ERS records |
| 15           | Transition Imaging, LLC    | 195.41           | Digital imaging and database building of ERS records |
| 16           | Transition Imaging, LLC    | 260.00           | Digital imaging and database building of ERS records |
| 17           | Transition Imaging, LLC    | 350.00           | Digital imaging and database building of ERS records |
| 18           | Transition Imaging, LLC    | 1327.50          | Digital imaging and database building of ERS records |
| 19           | Lora Kluczynski            | 138.44           | Petty Cash Reimbursement                             |
| 20           | Nancy Sylvester            | 750.00           | 2008 Spring MAPERS Travel Reimbursement              |
| 21           | Staples Business Advantage | 285.96           | Miscellaneous Office Supplies                        |
| <b>TOTAL</b> |                            | <b>76,343.35</b> |  |

**C-6 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 |
|--------------------|----------------|---------------------------|----------------------------------|
| Matthew J. Francis | Fire           | 6 Years, 10 Months        | City of Chelsea                  |
| David Whalen       | General        | 20 Years, 8 Months        | City of Detroit                  |

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.

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**C-7 Authorization for Conference/Training – 2008 Spring MAPERS Conference (retroactive) – Sylvester**

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, Nancy Sylvester has requested the Board of Trustees' authorization for her travel to Mt. Pleasant, Michigan, at Retirement System expense, estimated at \$750.00, to attend the 2008 Spring MAPERS Conference, to participate in continuing education in her responsibilities as Board Trustee and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the travel requests of Nancy Sylvester to travel to Mt. Pleasant, Michigan, at Retirement System expense, estimated at \$750.00, to attend the 2008 Spring MAPERS Conference, to participate in continuing education in her responsibilities as Board Trustee, and

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

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**C-8 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            | Department      | Requested Military Service Time | Requested Method of Payment | Cost for Purchase of Military Service Time |
|-----------------|-----------------|---------------------------------|-----------------------------|--|
| Judy McAllister | Public Services | 4 Years                         | Lump Sum Payment            | \$ 9,721.92                                |

**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 as submitted**

**EXECUTIVE SESSION – Disability Medical Re-Examination – Leza Scott**

The Board convened an Executive Session for the purpose of discussing the medical re-examination report regarding Leza Scott.

Roll call vote:

|                 |                 |                 |
|-----------------|-----------------|-----------------|
| Boonstra - Yes  | Heatley - Yes   | Kaur - Absent   |
| Crawford – Yes  | Hescheles - Yes | Nerdrum - Yes   |
| Fraser - Absent | Kahan - Yes     | Sylvester - Yes |

*Executive session time: 8:40 – 8:43 a.m.*

**Motion: Disability Medical Re-Examination – Leza Scott**

It was **moved** by Heatley and **seconded** by Boonstra that the Board acknowledge receipt of the medical report from April D. Campbell, M.D. dated June 10, 2008 with regards to the disability re-examination of Ms. Leza Scott, with the Board noting that the doctor has rendered an opinion that Ms. Scott continues to be totally and physically incapacitated for duty in the service of the City, and that her incapacity will probably be permanent, therefore noting that she continues to be disabled and should continue receiving benefits.

**Approved**

**D. ACTION ITEMS**

**D-1 Actuarial Experience Study**

Ms. Nerdrum referred to the letter from Gabriel, Roeder, Smith & Company explaining the Experience Study, noting that the last study that was conducted was five years ago, and that it is recommended to conduct this study every five years to make sure that the assumptions we are utilizing in performing evaluations and computing liabilities for the Retirement System and the VEBA are in line with what is actually happening. Ms. Nerdrum stated that there has been concerns regarding timing, and whether GRS can get the study done as well as deliver this year's actuary report on time in October or November. Mr. Armstrong has indicated that as long as he receives the data from the System's office on time, that the study and the actuary report could be compiled at the same time. The Board decided to direct GRS to go ahead and complete the five year study along with the annual report.

It was **moved** by Heatley and **seconded** by Nerdrum to move forward with the Actuarial Experience Study.

**Approved**

**D-2 Resolution to Approve Executive Director's Salary Adjustment Effective July 1, 2008**

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

WHEREAS, The Board of Trustees identified some specific goals and objectives for the Executive Director for fiscal year 2007-2008, and

WHEREAS, The Executive Director has successfully completed the goals and objectives assigned to him by the Board, and

WHEREAS, The Administrative Policy Committee, along with written input from Trustees of the Board, has evaluated the Executive Director and agrees that the Executive Director has satisfactorily discharged his duties as Executive Director over the last fiscal year, and

WHEREAS, The Administrative Policy Committee recommends that the Executive Director salary be adjusted upward by 2.75% effective July 1, 2008, be it

RESOLVED, That the Board adjusts the Executive Director salary upward by 2.75% effective July 1, 2008, and

FURTHER RESOLVED, That the Administrative Policy Committee and the Executive Director jointly develop specific performance objectives to be approved by the Board for fiscal year 2008-2009.

It was **moved** by Boonstra and **seconded** by Heatley to adopt the proposed resolution as presented, granting a 2.75% wage increase to Mr. Powell effective July 1, 2008.

**Approved**

**D-3 Proposed FY 2008/2009 Budget & Cash Flow Projection**

Mr. Powell presented the proposed budget and cash flow projection for the fiscal year 2008/2009.

It was **moved** by Heatley and **seconded** by Boonstra to approve the proposed budget and cash flow projection for fiscal year 2008/2009 as presented.

**Approved**

**D-4 Funding and Repayment Agreement between the Retirement System and the City of Ann Arbor**

Mr. Powell presented the Funding and Repayment Agreement between the Retirement System and the City of Ann Arbor, which he has been working on with Mr. Horning, the City Treasurer. Mr. Powell stated that both the Board's legal counsel and the City Attorney's Office have reviewed the document, and that Mr. VanOverbeke had made some slight language changes to the document that the City has approved of and incorporated into the final version. Mr. Heatley stated that he appreciates Mr. Horning's help with this document, and it is nice to see the System and the City working together with this transaction.

It was **moved** by Boonstra and **seconded** by Nerdrum to approve the Funding and Repayment Agreement between the Retirement System and the City of Ann Arbor as presented, and authorize the document to be executed by two Trustees and the Executive Director on behalf of the Board of Trustees.

**Approved**

**D-5 Proposed Increase in Legal Service Fees**

Mr. Powell stated that Mr. VanOverbeke has submitted a letter dated May 15, 2008 indicating that effective July 1, 2008 his office will adjust its hourly billing rates for legal services to \$175.00 per hour for non-litigation services and \$190.00 per hour for litigation services. Mr. Powell noted that Mr. VanOverbeke's firm has endeavored to maintain their hourly rates and have not increased their rates since April 1, 2002.

It was **moved** by Heatley and **seconded** by Kahan to approve the request from VanOverbeke, Michaud & Timmony, P.C. for an hourly rate adjustment as indicated in their letter dated May 15, 2008.

**Approved**

**D-6 Proposed Disaster Recovery Plan**

Mr. Boonstra stated that the Disaster Recovery Plan has been one of the Administrative Policy Committee's projects, and the final version was reviewed by the Committee at the June APC meeting. The Committee is recommending final approval by the Board. Mr. Powell noted that the Plan indicates that if there were a disaster whereby the Retirement Office would have to relocate, the Office would be temporarily relocated to: #1 – the City's Wheeler Center, #2 – to Washtenaw County facilities, #3 – Staff work from home (using City-provided laptops), or #4 – obtain an emergency office trailer.

It was **moved** by Boonstra and **seconded** by Kahan to approve the proposed Disaster Recovery Plan as submitted.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Pension Protection Act 2006 / HELPS Retiree Act**

Mr. VanOverbeke stated that he has submitted both the Ordinance Language and a sample of the forms that would be used for those utilizing the HELPS legislation, where to the extent that we have payments deducted from our public safety retiree's retirement benefits for the payment of healthcare that are paid directly to the insurance carrier or directly back to the City, who pays the insurance carrier, the Retirement Office would provide them with information at the end of the year such that they can claim up to a \$3,000.00 deduction of those expenses tax-free. The second part of this issue is that language must be included in the Retirement System Ordinance, which Mr. VanOverbeke has submitted in draft form for the Board's review. Mr. VanOverbeke stated that he has left the language in broad form because there is talk that 1) the \$3,000 limit may be increased, and/or 2) that it may apply to all public employees in the future, rather than only public safety retirees.

Drafted language (Chapter 18, Section 1:587 (3)):

*HEALTH INSURANCE PREMIUM WITHHOLDING. The provisions of Section 845 of the Pension Protection Act of 2006 which provide for eligible retirees to make an election to have a portion of their retirement allowance paid directly for qualified health insurance premiums is hereby adopted. The Board shall adopt such policies and procedures as are necessary to administer the provisions of the Act in accordance with all applicable State and Federal statutes, rules, and regulations.*

It was **moved** by Kahan and **seconded** by Nerdrum to approve the draft Ordinance Amendment related to the HELPS Legislation, and direct that it be compiled with whatever other proposed Retirement System Ordinances that are currently pending for presentation to City Council at a future date.

**Approved**

**F. REPORTS**

**F-1 Executive Report**

**REBALANCING OF ASSETS**

Below is a spreadsheet provided by Gray & Company for rebalancing the Retirement System's assets. The Board has an approved plan to rebalance assets to insure a continual stream of cash flow to meet the operational needs of the Retirement System. Since the current asset allocations for Fisher and Thornburg were slightly over weighted per the Investment Policy Statement some of the funds needed in rebalancing came from their portfolios.

**City of Ann Arbor Employees Retirement System**  
Market Values as of  
June 11, 2008

| Current Market Value and Allocation | Target Market Value and Allocation | Add/Red |
|-------------------------------------|------------------------------------|---------|
|-------------------------------------|------------------------------------|---------|

| Asset Class/Manager            | (\$000)          | (%)           | (\$000)          | (%)           | uce            |                  |
|--------------------------------|------------------|---------------|------------------|---------------|----------------|------------------|
|                                |                  |               |                  |               | (\$000)        | Comments         |
| EQ - NT Russell 1000           | \$49,579         | 11.8%         | \$52,488         | 12.5%         | \$2,909        |                  |
| EQ - SSgA S&P 500              | \$49,053         | 11.7%         | \$52,488         | 12.5%         | \$3,435        |                  |
| EQ - NT S&P 400 Mid Cap        | \$39,619         | 9.4%          | \$37,792         | 9.0%          | \$1,827        |                  |
| EQ - Rhumblin Mid Cap          | \$38,049         | 9.1%          | \$37,792         | 9.0%          | \$257          |                  |
| EQ - Independence Small Growth | \$22,545         | 5.4%          | \$25,194         | 6.0%          | \$2,649        |                  |
| EQ - Loomis Sayles Small Value | <u>\$24,344</u>  | <u>5.8%</u>   | <u>\$25,194</u>  | <u>6.0%</u>   | <u>\$850</u>   |                  |
| <b>Total US Equity</b>         | \$223,189        | 53.2%         | \$230,949        | 55.0%         | \$7,760        |                  |
| INTL - Thornburg               | \$25,715         | 6.1%          | \$20,995         | 5.0%          | \$4,720        | Reduce by \$5 MM |
| INTL - Fisher                  | <u>\$24,211</u>  | <u>5.8%</u>   | <u>\$20,995</u>  | <u>5.0%</u>   | <u>\$3,216</u> | Reduce by \$3 MM |
| <b>Total Intl Equity</b>       | \$49,926         | 11.9%         | \$41,991         | 10.0%         | \$7,935        |                  |
| FI - NT LB Agg Bond            | \$4,565          | 1.1%          | \$10,498         | 2.5%          | \$5,933        |                  |
| FI - Bradford & Marzec         | \$53,618         | 12.8%         | \$54,588         | 13.0%         | \$970          |                  |
| FI - Schwartz                  | \$27,068         | 6.4%          | \$27,294         | 6.5%          | \$226          |                  |
| FI - INVESCO Stable Value      | <u>\$13,449</u>  | <u>3.2%</u>   | <u>\$12,597</u>  | <u>3.0%</u>   | <u>\$852</u>   |                  |
| <b>Total Fixed Income</b>      | \$98,700         | 23.5%         | \$104,977        | 25.0%         | \$6,277        |                  |
| RE - Heitman                   | \$4,077          | 1.0%          | \$4,199          | 1.0%          | \$122          |                  |
| RE - INVESCO Realty            | <u>\$9,625</u>   | <u>2.3%</u>   | <u>\$8,398</u>   | <u>2.0%</u>   | <u>\$1,227</u> |                  |
| <b>Total REIT</b>              | \$13,702         | 3.3%          | \$12,597         | 3.0%          | \$1,105        |                  |
| RE - Intercontinental          | \$13,483         | 3.2%          | \$12,597         | 3.0%          | \$886          |                  |
| RE - Principal Global          | <u>\$20,184</u>  | <u>4.8%</u>   | <u>\$16,796</u>  | <u>4.0%</u>   | <u>\$3,388</u> |                  |
| <b>Total Real Estate</b>       | \$33,667         | 8.0%          | \$29,393         | 7.0%          | \$4,274        |                  |
| CA - Cash Account/Sec Lending  | \$723            | 0.2%          | \$0              | 0.0%          | \$723          |                  |
| <b>Total Fund</b>              | <b>\$419,907</b> | <b>100.0%</b> | <b>\$419,907</b> | <b>100.0%</b> | <b>\$0</b>     |                  |

**Notes:**

Actuarial Assumed Rate:  
7.0%

**Act 314 Allocation Guidelines:**

|                                    |                                   |       |                                       |
|------------------------------------|-----------------------------------|-------|---------------------------------------|
| <b>Equity</b> - 70% Maximum        | Current Equity Allocation:        | 56.4% | Includes REITs                        |
| <b>International</b> - 20% Maximum | Current Int'l Allocation:         | 11.9% |                                       |
| <b>Real Estate</b> - 10% Maximum   | Current Real Estate Allocation:   | 8.0%  |                                       |
| <b>Basket Clause</b> - 10% Maximum | Current Basket Clause Allocation: | 1.9%  | High Yield (15% of Bradford & Marzec) |

**FREEDOM OF INFORMATION ACT REQUEST**

The Pension Office prepared the following information in response to a FOIA request by Jeff Harmon:

- 1) Retirement Board Minutes for the period April 1, 2007 through April 30, 2008
- 2) Medical documents with Medical Evaluation Specialists
- 3) Medical documents with Consulting Physicians
- 4) Listing of disability retirees who retired between March 27, 1989 – May 1, 2008
- 5) There is no documentation to and/or from Mr. Powell and to and/or from any and all Pension board and Board of Trustees members, during the time of March 15, 2007 until May 9, 2008
- 6) Documentation to and/or from Human Resources and the City of Ann Arbor
- 7) Documentation to and/or from any and all other employees of the City of Ann Arbor during the time of March 15, 2007 until May 9, 2008

The office charged Mr. Harmon \$ .10 per page for copying the documents (283 pages @ .10/pg = \$28.30), as well as the cost of labor for duplication, search, examination and review of these records at the hourly wage of the lowest paid, full-time, permanent clerical employee of the Pension System, currently \$23.83 per hour (3 hrs @ 23.83 = \$71.49). Mr. Harmon was requested in a letter to him dated May 28, 2008 to remit payment in the amount of \$99.79 to the City of Ann Arbor Employees Retirement System in order to receive the above information. To date Mr. Harmon has not responded.

#### **NEW TRUSTEE**

On June 2, 2008 the Mayor and Council appointed David Hescheles to replace Robert Pollock, Jr. as Trustee of the Retirement System & Retiree Health Care Benefits Plan. The Pension Office has contacted the Clerk's Office and Mayor's office to obtain contact information on Mr. Hescheles. As information is provided, Trustees will be notified.

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**Board Discussion:** The Board discussed the first item on Mr. Powell's Executive Report, "Rebalancing of Assets". Mr. Powell explained that the Board has an approved plan to rebalance assets to insure a continual stream of cash flow to meet the operational needs of the Retirement System. Since the current asset allocations for Fisher and Thornburg were slightly overweighted per the Investment Policy Statement, some of the funds needed in rebalancing will come from their portfolios. Mr. Heatley stated that the Investment Policy Committee has been having discussions regarding increasing the International exposure, and would rather see us close out the Heitman Capital Management account for the \$4 million, and leave the \$4.7 million with Thornburg, who are doing outstanding, thus keeping the exposure up to 12% with the International assets. Mr. Heatley noted that Heitman was never in our strategy, that it was only a parking place for the money from Intercontinental Real Estate, and was never something that we intended to hold for a long period of time.

Mr. Powell stated that the transaction with Fisher and Thornburg has not yet been executed, but it has been authorized to be done at the end of the month. Mr. VanOverbeke suggested that the Board contact Gray & Company via conference call during this meeting in order to make a decision. The Board contacted and spoke with Chris Kuhn of Gray & Company via a conference call, who stated that they are comfortable with the Board's decision regarding Heitman, and suggested that the

Investment Policy Committee further discuss the rebalancing issue at the July 1, 2008 meeting. The Board agreed.

It was **moved** by Heatley and **seconded** by Crawford to hold the rebalancing orders to Fisher and Thornburg, to liquidate the Heitman Capital Management account to meet ongoing costs, and to refer the rebalancing discussion to the Investment Policy Committee.

**Approved**

**F-2 Preliminary Investment Reports for the Month Ended May 31, 2008**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended May 31, 2008, to the Board of Trustees:

|  |                      |
|--|----------------------|
| 5/31/2008 Asset Value (Preliminary)  | \$431,485,315        |
| 4/30/2008 Asset Value (Audited by Northern)  | \$422,781,884        |
| Calendar YTD Increase/Decrease in Assets<br>(excludes non-investment receipts and disbursements) | (\$5,131,458)        |
| Percent Gain <Loss>  | -1.2%                |
| <b>June 18, 2008 Asset Value</b>   | <b>\$422,366,808</b> |

**F-3 Investment Policy Committee Report – June 10, 2008**

Following are the Investment Policy Committee minutes from the meeting convened at 3:15 p.m. on June 10, 2008:

Member(s) Present: Heatley, Kahan, Sylvester  
Member(s) Absent: None  
Other Trustees Present: Boonstra  
Staff Present: Kluczynski, Powell  
Others Present: None

**REVIEW OF RFI's FROM INVESTMENT CONSULTANTS**

*Mr. Heatley stated that the purpose of this month's meeting is to review the Requests for Information from a number of investment consulting firms. Mr. Heatley suggested that the Committee members divide the RFI's up and review them separately and then make a decision as to whether the Committee wants to have certain firms come in to discuss their RFI or not.*

*Mr. Heatley stated that he believes that everyone is satisfied with Gray & Company's performance, but it is incumbent upon the Committee to know what is out there and what other services may be offered. After reviewing the summary of candidates, the Committee decided that the members would review the RFI's for Asset Consulting Group, Gray & Company, New England Pension Consultants, Prime, Buchholz & Associates, and Segal Advisors. The Committee will further discuss this issue at the next IPC meeting on July 1, 2008. The Committee also decided to revisit the policy, and perhaps these RFI's should only be conducted every 5 years or as needed, rather than every three years.*

## ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Boonstra to adjourn the meeting at 3:50 p.m.

**Meeting adjourned at 3:50 p.m.**

### **F-4 Administrative Policy Committee Report – June 10, 2008**

Following are the Administrative Policy Committee minutes from the meeting convened at 1:05 p.m. on June 10, 2008:

|                            |                           |
|----------------------------|---------------------------|
| Committee Members Present: | Boonstra, Kaur, Sylvester |
| Members Absent:            | Crawford                  |
| Other Trustees Present:    | Heatley (1:26)            |
| Staff Present:             | Kluczynski, Powell        |
| Others Present:            | None                      |

Mr. Boonstra suggested that the Committee first review items 3 and 4 before conducting Mr. Powell's evaluation, because both items are part of the previous year's goals and objectives. The Committee agreed.

It was **moved** by Sylvester and **seconded** by Kaur to amend the agenda by reviewing items 3 and 4 first, followed by the closed session to review the Executive Director's Annual Evaluation.

**Approved**

### **ASSESSMENT OF OFFICE ROLES, RESPONSIBILITIES, AND EFFICIENCIES**

Mr. Powell informed the Committee that he has provided the information that was requested at the last APC meeting, which includes a survey of other retirement systems in the state comparing their staffing and staff duties, as well as a breakdown of the additional hours that Ms. Jarskey has been working due to the Pension Gold project. Mr. Powell stated that after conducting research on Ms. Jarskey's position, he found that the contract as approved by the Board did not specify a certain percentage in her status, and stated that she would be hired for at least 50% time, and it gave him the authority to take her from half-time up to 39 hours because at the time it was undetermined how much time would be spent on her tasks due to it being a new position. Ms. Jarskey was brought up to 75% time due to the needs in the office, which is reflected on the Personnel Action Form upon being hired as part of the City's system.

Mr. Powell compared the System's duties in 2000, when Ms. Jarskey was hired, as compared to present time. In 2000 there was not yet a VEBA Audit or Actuary Report to be prepared, there were 10 money managers as compared to 17 today, the VEBA System only had 2 managers as compared to 5 today, which requires added reconciliations to be performed. Ms. Sylvester thanked Mr. Powell for preparing the additional information, and stated that it seems to her that when looking at the hours worked, it appears it is right on target for a 75% time position, and that the only thing boosting the recent hours is the Pension Gold program, and why would we not keep it as it is? Mr. Powell stated that it is true that the Pension Gold program is taking up much more time than expected, and hopefully in the future the program will be easier once it is finished being programmed, tested, and in place. Mr. Powell stated that staff has found



## ADJOURNMENT

It was **moved** by Heatley and **seconded** by Sylvester to adjourn the meeting at 3:12 p.m.

**Meeting adjourned at 3:12 p.m.**

**F-5    Special Projects Committee Report – No Report**

**F-6    Audit Committee Report – June 10, 2008**

Following are the Audit Committee minutes from the meeting convened at 4:33 p.m. on June 10, 2008:

|                            |                          |
|----------------------------|--------------------------|
| Committee Members Present: | Kaur, Nerdrum, Sylvester |
| Members Absent:            | Crawford                 |
| Other Trustees Present:    | None                     |
| Staff Present:             | Powell, Refalo           |
| Others Present:            | None                     |

### **REVIEW OF RFI's FROM ACTUARIAL FIRMS**

Mr. Powell stated that the office received four RFI's for actuarial services, which he has summarized and charted for the Committee. Mr. Powell noted that our actuary, Gabriel, Roeder, Smith & Company, is one of the largest firms in Michigan. Mr. Powell stated that after doing the research, he sees no reason to change actuaries given all of the services that they provide for our System, and GRS has good personnel, resources, technology, and a long history with the System. The Committee discussed conducting the RFI process every 5 years instead of every 3 years, and Ms. Nerdrum explained the process of an RFI versus an RFP, stating that a lot of work goes into preparing these documents, more so with an RFP, because firms realize that RFI's are basically a price-check and the requester is more likely to stay with their current firm.

Ms. Sylvester asked Ms. Nerdrum what time span the Board should use for conducting RFIs/RFPs. Ms. Nerdrum stated that she has seen policies span anywhere from 3 to 7 years, but fees are reviewed more often at every 3 years. Ms. Nerdrum stated that GRS' fees are comparable, and that their presentations are the only area she believes could use improvement, because it is very important for the Trustees to understand their reports and educational sessions. Mr. Powell submitted copies of the RFI's that were sent out so that the Committee could review the questions that were asked of the firms. The Committee discussed the summary comparison, and decided that Gabriel, Roeder, Smith & Company is doing an acceptable job and there would be no reason to look elsewhere at this time. It was determined that an actual RFP would provide a better comparison, but there would be no need to conduct an RFP unless there was dissatisfaction with the actuarial firm. Mr. Powell stated that the Committee may want to amend the Governance Policy to change the time spans of conducting RFI's and RFP's in the future, and to set triggers of things that would necessitate conducting an RFP/RFI.

Ms. Nerdrum suggested that given the information received from the various firms, that the Committee make no changes regarding GRS, and the Committee may need to look at what the Governance Policy states as far as issuing an RFP and how it relates back to the contracts with vendors. Ms. Nerdrum asked Mr. Powell to research the

language in the Governance Policy as it relates to the time period in submitting an RFI and an RFP, and to provide the Committee members with a copy of the contract for review at the July Audit Committee meeting. Mr. Powell was also asked to find out the specifics regarding the web-based calculator provided by GRS, including who owns the software and is it licensed from someone, and what fees are paid for that service. It was determined that earlier this year the Board had already accepted GRS's fees for this year, and that no further action is required at this time.

### **5-YEAR ACTUARIAL EXPERIENCE STUDY**

Ms. Nerdrum stated that she has spoken with Brad Armstrong with Gabriel, Roeder, Smith & Company, and if the Board decides to go ahead with the Study at the next Board meeting, then the economic assumptions could be discussed at that time so that it can be factored into the valuation for this year. Subsequently, Mr. Armstrong would be doing the demographics study that looks at retirements, turnover, etc. in conjunction with doing the valuation and present both the baseline with no changes to those assumptions, as well as the updated report.

Ms. Nerdrum stated that her recommendation would be to move forward with the 5-year study, and that GRS will move forward with the actuarial report for presentation to the Board in October or November. As GRS goes through the calculations, they will also be looking at the actual experience over the last five years to determine whether or not the current assumptions that are used should change. In October or November, the Board would see two sets of results in draft form, one with no changes to the demographic assumptions, and one with changes. Mr. Armstrong has stated that if he receives the demographic information from staff in a timely manner, this process should not slow down the actuary report. Mr. Powell summarized by stating that if the Board approves to go ahead with GRS conducting the 5-year study at the June Board meeting, Mr. Armstrong will begin working on the assumption changes and by August he will have scenarios sent back to the Committee for review and at that point the Committee will decide what recommendation to make to the Board of Trustees at the August Board meeting.

### **FIDUCIARY AUDIT SUMMARY**

The Committee discussed whether to continue with the fiduciary audit summary, and the cost involved. Ms. Sylvester wonders if it is worth the money when thinking about picking and choosing the various topics to be researched. Ms. Nerdrum stated that she believes it is a worthwhile exercise to go through, but the Committee needs to be sure that it is focusing on the areas that it wants to focus on, that it is still undetermined on what the fees are going to be, and the next step is identifying which areas to look at and what the cost is going to be to do that. Ms. Nerdrum stated that the System is also taking on a lot of other projects right now and over the next few months, and is this the right time to take on this time-consuming project, given that we don't have all the information to move forward. Mr. Powell agreed that this is probably not the best time to take on this project, and that an RFP would have to go out, which is a lot of work before and after bids are received back. Mr. Powell suggested sending out an RFP in October with a goal of choosing a firm to conduct the audit by the end of the year, and added that he could provide a schedule for this process at the July Audit Committee meeting. Mr. Powell stated that he would like the firm to start working on the audit at the beginning of 2009. Ms. Sylvester asked Mr. Powell to follow up with the Committee with an email of everything they have requested him to do at this meeting. Mr. Powell agreed.

## ADJOURNMENT

It was **moved** by Kaur and **seconded** by Sylvester to adjourn the meeting at 6:05 p.m.  
**Meeting adjourned at 6:05 p.m.**

### **F-7 Legal Report – Sonoco Products Co. Securities Litigation**

Mr. VanOverbeke requested that the Board convene a closed session for the purpose of discussing attorney-client communications.

Roll call vote:

|                 |                 |                 |
|-----------------|-----------------|-----------------|
| Boonstra - Yes  | Heatley - Yes   | Kaur - Absent   |
| Crawford – Yes  | Hescheles - Yes | Nerdrum - Yes   |
| Fraser - Absent | Kahan - Yes     | Sylvester - Yes |

*Executive session time: 10:09 – 10:21 a.m.*

It was **moved** by Heatley and **seconded** by Kahan to acknowledge receipt of the payment and recommendation of the Board's legal counsel dated June 9, 2008 with regards to Sonoco Products Company securities litigation as well as a draft complaint prepared by the law firm of Coughlin Stoia Geller Rudman & Robbins LLP, and to further authorize entry into the retainer agreement and the pursuit of securities class action on behalf of the Retirement System in that regard.

**Approved**

## **G. INFORMATION**

### **G-1 Communications Memorandum**

The Communications Memorandum was received and filed.

### **G-2 July Planning Calendar**

The July Planning Calendar was received and filed. Mr. Powell asked that the next IPC meeting start earlier than scheduled to accommodate the items on the agenda. The Board agreed that the IPC meeting will start at 2:00 on July 1, 2008. The Board also determined that there will be no SPC meeting that day, and that the Audit Committee will be held on Tuesday, July 8<sup>th</sup> to accommodate Ms. Nerdrum's schedule.

### **G-3 Vendor Contacts - None**

### **G-4 Status of Pending Projects Report**

The Status of Pending Projects Report was received and filed.

### **G-5 Correspondence from Susan Martin regarding Deferred Retirement**

Susan Martin left the City in September of 1991 and elected a deferred retirement. Mr. VanOverbeke explained that when an employee goes out on a deferred retirement and are vested in the Plan, they have a right to draw a benefit at such point when they attain

age 60. When Ms. Martin left in 1991, a benefit estimate was calculated and based upon her 18 years and 1 month of service; she was entitled to a straight-life retirement allowance of a little over \$1,000. Under the Retirement Ordinance, that amount of money is based upon two components: 1) annuity (contributions & interest), and 2) pension (employer funded portion). One of her options was that she could elect to take her accumulated contributions out of the Plan with an understanding that it will result in a reduction of what her pension benefit otherwise would be at the time she starts to draw her benefit. With deferred retirees, we don't know what their accumulated contributions are going to be in the future, because we give a rate of interest on that money that varies depending on how well the Plan does. Ms. Martin elected to withdraw her contributions at the time she left the City, and if her contributions had been left in the System, they would have grown enough to fully fund her retirement benefit. Because she took a refund of her annuity, there is now no money that is payable by the Retirement System.

Ms. Martin has presented an appeal in writing to the Board of Trustees. Mr. VanOverbeke noted that for all of those deferred retirees that took their annuity at the time they left the City, and because of how well the Plan did in investment returns in the late 1990's and early 2000's, this is not going to be the first time this issue comes to the Board's attention. The Plan provision specifically provides how the benefits are calculated, so the Board does not have the discretion to make any changes to a person's benefit other than, for planning purposes, identifying those people that are on deferred retirement now who withdrew their accumulated contributions, and send correspondence to them that speaks to this issue so that they realize that if they had an expectation of drawing a pension at some point and time in the future, it may very well be that their annuity has been eliminated. Mr. VanOverbeke stated that even though employees are told that their calculations are only estimates, clarification should be added to the necessary forms that are signed by those taking a deferred retirement so that they know what to expect in the future.

It was **moved** by Heatley and **seconded** by Boonstra to acknowledge receipt of the appeal correspondence from Susan Martin noting that the Board has reviewed all of the documentation that she has submitted, resolving that her appeal be denied and that the payment of benefits to her have been in complete compliance and consistent with the Retirement Ordinance and the documentation provided to her.

**Approved**

#### **H. TRUSTEE COMMENTS**

Mr. Kahan inquired about the status of the Ordinance language regarding the Temporary-Permanent Buy-Back issue, and Mr. Powell stated that the drafted language has been sent to the City for forwarding to City Council, but Council has indicated that they would like all of the upcoming Ordinance changes brought to them at one time rather than separately. The APC will be identifying all of the upcoming changes for consolidation and forwarding to the City. It was suggested that if/when the Ordinance change goes through, that the language include a retroactive provision for those who may be eligible but may be retiring before the Ordinance is adopted by City Council.

Mr. Powell stated that George Schwartz would like to provide a farewell luncheon for the Board and Staff in August. Details will be provided.

Mr. Hescheles stated that he would like to join the Investment Policy Committee. The Board agreed, and noted the addition to the IPC.

I. **ADJOURNMENT**

It was **moved** by Boonstra and **seconded** by Nerdrum to adjourn the meeting at 10:49 a.m.

**Meeting adjourned at 10:49 a.m.**

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