

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
August 21, 2008**

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

ROLL CALL

Members Present: Boonstra, Crawford, Heatley, Hescheles, Kaur, Nerdrum, Sylvester
Members Absent: Fraser, Kahan
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel
Frank Judd, Legal Counsel
Stephen Postema, City Attorney
Monica Moore, City Employee (8:37-9:25)

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:

- D-1 Executive Session: Attorney-Client Privilege
- G-6 Audit Committee Report – August 19, 2008

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

B. APPROVAL OF MINUTES

B-1 July 17, 2008 Regular Board Meeting Minutes

It was **moved** by Crawford and **seconded** by Nerdrum to approve the July 17, 2008 regular Board meeting minutes as presented.
Approved

C. CONSENT AGENDA

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

Preliminary Retirement Resolutions:

C-1 Preliminary Approval of Service Retirement for James Blake

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **James Blake (Applicant)**, dated July 11, 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 **James Blake** 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:

C-2 Approval of Service Retirement for Kurt Kaiser

WHEREAS, **Kurt Kaiser** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of July 6, 2008, and

WHEREAS, said Participant has been credited with 27 years and 2.5 months of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive an Option III, 50% Joint & Survivor (Pop-Up) form of benefit (and nominated LeAnn Kaiser, wife, as option beneficiary), and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that a service retirement is hereby granted to **Kurt Kaiser** (Participant), effective July 6, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

C-3 Approval of Early/Service Retirement for David Konkle

WHEREAS, David Konkle (Participant) has submitted an application for an early/service retirement to the Board of Trustees requesting an effective retirement date of July 9, 2008, and

WHEREAS, said Participant has been credited with 20 years and .5 months of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for an early/service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive an Option II, 100% Joint & Survivor with pop-up form of benefit (and nominated Christiane Konkle, wife, as option beneficiary), and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that an early/service retirement is hereby granted to **David Konkle** (Participant), effective July 9, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

C-4 Approval of Service Retirement for Judy McAllister

WHEREAS, Judy McAllister (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of July 18, 2008, and

WHEREAS, said Participant has been credited with 28 years and 6.5 months service credit (*which includes 7 years and 11.5 months reciprocal credit and 4 years military service credit*), and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive the Straight-Life Option – terminating at death, and

WHEREAS, said Participant has requested a 25% annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that a service retirement is hereby granted to **Judy McAllister** (Participant), effective July 18, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

C-5 Approval of Early/Service Retirement for Larry Thoms

WHEREAS, **Larry Thoms** (Participant) has submitted an application for an early/service retirement to the Board of Trustees requesting an effective retirement date of July 19, 2008, and

WHEREAS, said Participant has been credited with 22 years and 6.5 months of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for an early/service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive an Option II, 100% Joint & Survivor with pop-up form of benefit (and nominated Sheryl Thoms, wife, as option beneficiary), and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that an early/service retirement is hereby granted to **Larry Thoms** (Participant), effective July 19, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

C-6 Approval of Service Retirement for Barbara Zahn

WHEREAS, **Barbara Zahn** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of July 12, 2008, and

WHEREAS, said Participant has been credited with 25 years and 4 months of service credit (*which includes 2 years and 4 months reciprocal credit*), and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive an Option III, 50% Joint & Survivor (Pop-Up) form of benefit (and nominated Benjamin Zahn III, husband, as option beneficiary), and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that a service retirement is hereby granted to **Barbara Zahn** (Participant), effective July 12, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

Resolutions:

C-7 Authorization for Payment of Invoices (\$ 211,097.43)

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.

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	301 E. Liberty LLC	6,394.16	Office Lease (including monthly escalation fee)adjusted
2	Republic Parking System	375.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – July 2008
4	SBC / AT&T	220.06	Monthly Telephone Service – 6/14/08– 7/13/08
5	Arbor Springs Water Co., Inc.	19.75	Monthly Water Service
6	AT&T Long Distance	6.10	Monthly Long Distance Telephone Service
7	Qwest	13.65	Monthly Long-Distance Telephone Service
8	Republic Parking System	51.65	Monthly parking validation fees
9	Staples Business Advantage	177.61	Miscellaneous office supplies
10	301 E. Liberty LLC	90.75	Monthly Electric Charge – 7/10/08 - 8/7/08
11	City of Ann Arbor Treasurer	8.10	Municipal Code supplement
12	AT&T	95.62	Monthly Toll-Free Telephone Service
13	VanOverbeke, Michaud & Timmony	10,535.35	Fees for Legal services – 4/1/08 – 6/30/08
14	First Impression Printing	311.15	Miscellaneous Receipt forms
15	A.R. Brouwer Company	40.60	Reimbursement: Bldg permit/plan review–532 S. Maple
16	Consulting Physicians, P.C.	625.00	Medical Re-examination of Jeffrey Harmon – 7/22/2008
17	Consulting Physicians, P.C.	850.00	Medical Examination of Monica Moore – 7/24/2008
18	Ann Arbor News	174.00	Annual subscription renewal
19	Chris Heatley	42.65	Reimbursement for due diligence to Gray/Chicago
20	Bradford & Marzec, Inc.	38,268.72	Investment Manager Fees: April-June 2008
21	Independence Investments	45,492.72	Investment Manager Fees: April-June 2008
22	Loomis, Sayles & Company	40,700.80	Investment Manager Fees: April-June 2008
23	Rhumblin Advisers	4,623.03	Investment Manager Fees: April-June 2008
24	Fisher Investments	54,230.96	Investment Manager Fees: April-June 2008
	TOTAL	211,097.43	

C-8 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
Venita Harrison	General	11 Years, 1 Month	Washtenaw Community College
John McGinnis	General	30 Years, 2 Months	Wayne County
Corey Mills	Police	12 Months	Washtenaw County

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.

Consent Agenda approved as submitted

D. EXECUTIVE SESSIONS:

D-1 Attorney-Client Privilege (Michael VanOverbeke & Stephen Postema)

Roll call vote to enter in to an executive session:

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

Executive session time: 8:39 – 9:15 a.m.

D-2 Disability Examinations: Monica Moore and Jeffrey Harmon

Roll call vote to enter in to an executive session for the purpose of discussing the non-duty disability examination for Monica Moore and the duty-disability re-examination for Jeffrey Harmon:

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

Note: Ms. Moore was present for the discussion regarding her disability examination, and departed before the Board discussed Mr. Harmon’s disability re-examination.

Monica Moore Executive session time: 9:16 – 9:25 a.m.

Jeffrey Harmon Executive session time: 9:27 – 9:35 a.m.

E. ACTION ITEMS

E-1 Disability Examinations Discussion: Monica Moore and Jeffrey Harmon

It was **moved** by Crawford and **seconded** by Heatley to acknowledge receipt of the medical report from Dr. Anthony Emmer dated July 24, 2008 with regards to the disability application examination of Monica Moore noting that the doctor has indicated that the incapacity will probably not be permanent at this point in time and accordingly to deny the disability application.

Approved

It was **moved** by Heatley and **seconded** by Nerdrum to acknowledge receipt of the medical re-examination report from Dr. Paul G. Olejniczak with regards to the medical re-evaluation of Jeffrey Harmon, noting that this was done at his 6-month date per the direction of the Board, noting that the doctor has indicated that Mr. Harmon continues to be physically totally incapacitated for duty in the service of the City, and that his incapacity will probably be permanent and accordingly to continue him on disability retirement.

Approved

E-2 Approval of Contract for Intercontinental Real Estate’s “Fund V”

Mr. Heatley presented the contract to invest in Intercontinental Real Estate’s “Fund V”, using the liquidation funds from the Invesco REIT fund (\$7 million). It is the opinion of Gray & Company that we are more strategically placed in the real estate area by having

a little more direct investment in reducing our REIT position. The issue to discuss is that Fund V is a quarterly liquidity type of investment, and in the future approximately \$4 million may be used for a future opportunistic real estate fund should we identify one, so Intercontinental may need six months notice in order for them to pay it out. Mr. VanOverbeke noted that this is also subject to the availability of the funds, and if funds are not totally available, the pay out may have to be paid in portions between two quarters. Mr. Heatley stated that should we need money within the real estate portion of the fund, we always have the Principal account with daily liquidity, so there is the opportunity if needed to move money from that fund if necessary. Mr. VanOverbeke stated that his office has reviewed the contract.

It was **moved** by Heatley and **seconded** by Crawford to approve the contract to invest in Intercontinental Real Estate Corporation's Fund V real estate fund.

Approved

F. **DISCUSSION ITEMS - None**

G. **REPORTS**

G-1 Executive Report

Mr. Powell reviewed the Executive Report for the month of August 2008:

LARSON REALTY GROUP

Steve Johnson of the Larson Realty Group stated, *"Based on our conversation, we will extend occupancy of Suite 680 until September 30th until further notice. Please let us know if you will need to extend further once there is a better sense of the completion date for your new premises."* He indicated that the cost of continuing to rent without a lease agreement will be subject to Article XIV Holding Over section of the current lease. Article XIV Holding Over section is printed below for your convenience.

ARTICLE XIV **HOLDING OVER**

Unless Landlord expressly agrees otherwise in writing, Tenant shall pay Landlord 150% of the amount of Rent then applicable (or the highest amount permitted by Law, whichever shall be less) rated on per diem basis for each day Tenant shall retain possession of the Premises or any part thereof after expiration or earlier termination of this Lease, together with all damages sustained by Landlord on account thereof. The foregoing provisions shall not serve as permission for Tenant to hold-over, nor serve to extend the Term (although Tenant shall remain bound to comply with all provisions of this Lease until Tenant vacates the Premises, and shall be subject to the provision of Article XIII). Notwithstanding the foregoing to the contrary, at any time before or after expiration or earlier termination of the Lease, Landlord may serve notice advising Tenant of the amount of Rent and other terms provided, should Tenant desire to enter a month-to-month tenancy (and if Tenant shall hold over more than one full calendar month after such notice, Tenant shall thereafter be deemed a month-to-month tenant, on the terms and provisions of this Lease then in effect, as modified by Landlord's notice, and except that Tenant shall not be entitled to any renewal or expansion rights contained in this Lease or any amendments hereto).

The per-month base rent charge beginning September 1, 2008 will be \$6,486.00. Staff is working diligently with the contractor, inspectors and all parties involved to try to push this project to a closure ASAP.

SCHWARTZ INVESTEMENT COUNSEL

Since we will not move in the month of August, Schwartz Investment Counsel has agreed to host their farewell luncheon at the September 18th Board Meeting. They will have Zingerman's cater the lunch in after the September Board Meeting. The luncheon is tentatively set for 11:00 a.m. on that day. It is hoped all Trustees can remain to be a part of that event.

G-2 Preliminary Investment Reports for the Month Ended June 30, 2008

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

7/31/2008 Asset Value (Preliminary)	\$403,869,301
6/30/2008 Asset Value (Audited by Northern)	\$411,264,967
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	(\$28,794,341)
Percent Gain <Loss>	-6.5%
August 20, 2008 Asset Value	\$ 406,965,771

G-3 Investment Policy Committee Report – August 12, 2008

Following are the Investment Policy Committee minutes from the meeting convened at 2:05 p.m. on August 12, 2008:

Member(s) Present: Heatley, Hescheles, Kahan (2:11), Sylvester
 Member(s) Absent: None
 Other Trustees Present: Crawford (4:03)
 Staff Present: Kluczynski, Powell
 Others Present: Larry Gray, Gray & Company
 Andrew Kelsen, Gray & Company

HEDGE FUND MANAGER INTERVIEWS

HRJ Capital, Woodside, California
 Jennifer Coffey, Managing Director, Head of Hedge Fund Investments
 Carlton Forrester, Vice President
 Jeff Bloom, Managing Director

HRJ Capital is an alternative investment firm specializing in funds of funds investment management. Asset classes include hedge funds, real estate, private equity, and venture capital, targeting superior risk-adjusted returns. HRJ has \$2.4 billion assets under management, 55 employees, 7 offices around the globe, founded in 1999, and is SEC registered. Assets under management broken down as follows:

Hedge Funds: \$417 million
 Global Buy-out and Special Opportunities: \$790 million

Real Estate: \$307 million
 Venture Capital: \$873 million

HRJ Capital is introduced to potential managers by its broad network in the financial services industry including hedge fund and private equity managers, family offices, endowments, sovereign wealth funds, investment banks, and other funds of funds. Their Investment Committee has decided to keep approximately 15-20 funds at a time. Investments are in four core strategies: Multi-Strategy, Long/Short Equity, Event Driven, and Macro/Commodities.

HRJ Hedge Funds overview:

- Approximately \$417 million hedge fund assets under management within \$2.4 billion alternative asset management firm
- Institutionally experienced investment team and back office
- Access to highly sought after hedge funds with significant track records
- Diversified client base including public pension plans, large international insurance companies and significant family offices
- 5-year track record with proven downside protection

Blackrock Multi Manager Partners (Offshore), Ltd., New York, New York
 Susan Regis, Managing Director
 Marcy Rappaport, Director

Blackrock is a global provider of investment and risk management services, headquartered in New York City with offices in 19 countries. They are an independent firm in ownership and governance established in 1988 and is a public company (NYSE:BLK). There are no majority owners, and the majority of Board of Directors is independent. Blackrock is a leader in creating solutions for clients with innovative products within and across asset classes and client dialogues have resulted in advisory assignments. Blackrock provides risk analytics for portfolios valued at \$7 trillion and investment accounting services for \$115 billion, and offers independent risk management products.

Total Assets of US \$1.43 Trillion:

Financial Advisory	\$44 billion
Alternatives and Real Estate	\$76 billion
Asset Allocation / Balanced	\$146 billion
Liquidity	\$345 billion
Equity	\$291 billion
Fixed Income	\$525 billion

Assets Under Management Reflects Diversity of Business:

US Institutional	28%
International Institutional	18%
US Retail	24%
International Retail	10%
Cash Management	20%

Vast resources provide deep understanding of local markets and economies: Over 5,700 employees, including more than 750 investment professionals; investment centers in the US, UK, Europe, Asia, and Australia, and clients in over 60 countries.

Ms. Regis explained the following overview of their Hedge Fund due diligence and investment process:

- Top-down determination of investment themes
- Investment themes establish parameters for bottom-up sector and hedge fund selection
- Risk management tools used to aggregate portfolio risks during portfolio construction process
- Ongoing monitoring is crucial to identifying red flags in rapidly changing hedge fund marketplace

Blackrock's top-down analysis consists of a review of quantitative and qualitative macroeconomic factors. Drawing on advice from ISF, the investment team sets strategy allocation framework during weekly investment and monthly allocation meetings. Allocations incorporate 12-36 month thematic views. Advanced Process Engineering: Advanced process engineering through Quasar, a comprehensive proprietary technology platform that supports the information-intensive nature of alternative investment fund of funds management (conversion of data into information, institutionalization of knowledge, and integrated systems and processes). Reasons to invest with Blackrock include:

- Experienced investment team and collaborative culture with emphasis on alignment of incentives
- Depth of knowledge facilitates early identification and pursuit of investment themes
- A comprehensive proprietary technology platform (Quasar) supports information sharing and disciplined process control
- Relevant expertise and a unique analytical platform specifically designed to manage the risks of alternative investments
- Leverage talents and skills of global firm to manage unique fund strategy
- Demonstrated success across a variety of challenging market conditions

Nantucket Multi Managers, LLC, Bloomfield Hills, Michigan

William K.M. Goldsmith, Co-Founder/Senior Due Diligence

Elizabeth (Libby) Greenstone, Co-Founder/Chief Compliance Officer/Investor Relations

Andrew C. Hopper, CFA, Managing Director/Portfolio Construction & Risk Management

Mr. Hopper gave an overview of Nantucket Multi Managers, stating that he and Mr. Goldsmith have been managing the fund-of-funds for 12½ years since the inception of the Fund with no changes in key personnel; the portfolio managers have been together since 2000. The Co-founders have been together since 1983, both having worked for Goldman Sachs. They currently have 163 accounts, \$200 million in fund assets since June 1, 2008, and \$27 million in Institutional Fund (tax-exempt) assets. They have managed hedge funds since 1990.

Nantucket conducts due diligence trips to managers by their portfolio management team, and do not delegate these trips to junior employees. Their investment objective of the funds includes equity-like returns with reduced correlation and volatility when compared to broad market indices, and strive to preserve capital. Due diligence is a continual and ongoing process, with daily, weekly, monthly, quarterly, and annual monitoring.

Risk Management Process:

- No leverage used at fund level
- Approximately 20% of the underlying managers use permanent leverage responsibly with another 20% using occasional modest leverage, which they strongly prefer when leverage is used at the manager level, that it be “within the hedge.”
- Independent administrator Hedgeworks (risk assessment done by independent fraud specialty firm)
- 10% maximum assets to any one manager/well-diversified
- Currently invested with 29 underlying managers, accounting for 35 fund investments, in a target range of 25-35 managers
- Concerned with unique manager risks such as changes in strategy, exposures, key personnel, as well as key man “calling in wealthy” and letting others run the shop without our knowledge
- Veteran managers use multiple Prime Brokers

Nantucket has had no changes in key personnel, and have added eight clients since December 31, 2007. They have significant capacity with current managers (>\$500 million additional capacity), and will not sacrifice performance by taking in assets and allocating to “B” managers. Performance is paramount.

**REPORT ON INDEPENDENCE INVESTMENTS
AND THEIR PEERS’ RANGE OF RETURNS**

Due to time constraints, the Committee decided to postpone this item until the next IPC meeting on Tuesday, September 2, 2008.

VARIOUS DELIVERABLES FROM GRAY & COMPANY

Due to time constraints, the Committee decided to postpone this item until the next IPC meeting on Tuesday, September 2, 2008.

**RETIREMENT SYSTEM QUARTERLY REVIEW FOR THE
QUARTER ENDED JUNE 30, 2008**

Due to time constraints, the Committee decided to postpone this item until the next IPC meeting on Tuesday, September 2, 2008.

ADJOURNMENT

Meeting adjourned at 5:10 p.m.

G-4 Administrative Policy Committee Report – July 28, 2008

Following are the Administrative Policy Committee minutes from the meeting convened at 1:10 p.m. on July 28, 2008:

Committee Members Present:	Boonstra, Crawford (2:00), Kaur, Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Powell, Jarskey, Refalo
Others Present:	Dan Rainey & Marlene Robinson, ITSU

STATUS OF PENSION GOLD PROGRAM

Mr. Powell stated that staff has been working with the Information Technology Services Unit (ITSU) and Levi, Ray, & Shoup (LRS) on the Pension Gold program. Mr. Rainey stated that a conference call was recently conducted in order to straighten out some of the programming issues encountered by staff as well as the current status. Mr. Rainey explained that the Pension Gold program was designed to replace the old Pension 2000 System, which had become outdated and it was difficult to recover from whenever errors were made, and with the new system coming from the Human Resources Department, it was decided that we needed a system with more flexibility. Mr. Rainey stated that the project kicked off in June 2006 and was going very well until there was a 4-month delay in December 2006 because LRS had offered to replace the client server-based program, which used older technology, with a new web-based program which they believed could still be incorporated in a timely manner. Mr. Rainey stated that as we went through the process of defining some of our requirements, it became more complex and taking the application from a client-server application and moving it to a web application, there was more development to be done as originally expected.

Mr. Rainey stated that in June 2007 we expected to go live with the software, but we ran into a delay because the Ultipro HR/Payroll System was delayed by three months as well, which is what feeds Pension Gold. The new payroll system was planned to go live in October 2007 and ultimately the flexibility of the new system along with the flexibility of Pension Gold added for a lot more complexity than we had planned for because there were many more new codes coming into another system with new codes as well, so nothing was matching up right away. It took several months before staff was able to get a good enough transmission to enable the printing of contribution statements for October-December 2007, which were distributed in May 2008, and the following batch of contribution statements for January-March 2008 were sent out in July 2008. Currently, staff is reconciling the statements for April-June 2008, essentially being caught up at this point in time.

Mr. Rainey stated that we are at the point in the project now where we believe it is ready to move from implementation to more of a maintenance mode, so his recommendation is that we proceed with the User Acceptance and the Project Completion Sign-Off in order to move this from a project to an ongoing maintenance agreement, and pay what is currently owed to LRS. There will be staff from ITSU designated to manage LRS and work with the pension staff to make sure there is a good relationship and that the changes are being managed. Mr. Rainey also recommended that both pension staff and ITSU staff attend the annual conferences and join the web support group so that we have insight into what other users are doing, because all of the other Pension Gold users are now moving to the web-based product, so we are probably the first City to use the new program.

Ms. Sylvester stated that there has been concern over how much time the pension staff is spending on solving all of the errors that keep coming up with the transmittals, and asked if we are over the toughest time-consuming part of the project, and when can we expect that things in a maintenance type environment not be time consuming for the staff? Ms. Robinson stated that errors are expected with any program, but she doesn't expect it will take 2 or 3 days to resolve as it has in the past, and both ITSU and LRS have assigned technical people to handle these problems from both sides. Ms. Sylvester suggested that staff begin keeping track of how much time is being devoted to the

various areas of the project because this has been enormously time consuming for our staff and a lot of their other work is behind because of it. Mr. Rainey stated that he will ask LRS to make sure that we are improving the performance over time, and he believes that we are getting there because the gap between the transmittal and the member statements for June 2008 is getting closer than what it has been, which is a signal that we are running into less problems.

After further discussion, the Committee, staff, and ITSU agreed to continue with the Pension Gold program and to compensate LRS for the services received so far. Mr. Rainey stated that ITSU will review the current maintenance agreement to make sure there is language to warrant that the system will run to the extent that it's supposed to run to avoid paying for charges that we shouldn't have to pay for before signing off on the agreement. Mr. Powell stated that he would prefer a Letter of Understanding prior to issuing payment to ensure that certain services are provided by LRS considering all of the concerns as discussed at this meeting. Mr. Boonstra stated that we have obligations to those that we do business with, and if there is nothing that we are waiting on, then we need to pay the invoices in order to hold ourselves up to our end of the agreement.

Ms. Kaur stated that even though we are 95% there with the project, it is still not 100%, and we are a beta site, which is usually important for a company to develop its product. Ms. Kaur stated that on the other hand, she is not opposed to paying the invoices, but wants to reserve our rights and not incur any additional unnecessary expenses in the future. That could mean reviewing the existing agreement to make sure our rights are properly reserved before we pay the invoices, and if it is not, then drafting an additional agreement before paying the invoices would be the proper thing to do. The Committee agreed, and expressed it's appreciation to the ITSU staff for their assistance with this project.

It was **moved** by Sylvester and **seconded** by Boonstra to pay the three outstanding invoices pending written notification from Mr. Rainey that our rights are properly protected under the existing agreement in terms of support versus core functionality.

Approved

DEFERRED RETIREMENT COMMUNICATIONS

Mr. Crawford discussed his revisions to the current Deferred Retirement Benefits form that is used when employees terminate employment and elect to take a deferred retirement. Mr. Boonstra stated that he doesn't feel that the entire form needs to be redrafted, but rather that some of the words should be changed in order to better explain what will happen when an employee leaves their accumulated contributions in the System, and what will happen if they do not, because if their contributions are left in the System the employee will receive a benefit, which is not guaranteed if they were to withdraw their contributions. The Committee further discussed the existing form, and ultimately decided to postpone this item until Mr. VanOverbeke can be present to further advise the Committee on the Ordinance language that is in place and how he believes the language on the form should be written.

CONSOLIDATION OF ORDINANCE CHANGES TO BE FORWARDED TO CITY COUNCIL

The Committee decided to postpone this item until its next meeting on Tuesday, September 2, 2008, so that Mr. VanOverbeke could be in attendance to discuss the proposed Ordinance changes.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Kaur to adjourn the meeting at 3:35 p.m.
Meeting adjourned at 3:35 p.m.

G-5 Special Projects Committee Report – No Report

G-6 Audit Committee Report – August 19, 2008

Following are the Audit Committee minutes from the meeting convened at 4:15 p.m. on August 19, 2008:

Committee Members Present:	Crawford (4:22), Kaur, Nerdrum, Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Powell, Refalo
Others Present:	Brad Armstrong, Gabriel, Roeder, Smith & Co.

ECONOMIC ASSUMPTIONS DISCUSSION

Ms. Nerdrum reviewed a handout entitled, "Economic Assumptions", which defines economic assumptions as including long-term rates of investment return (net after administrative and investment expenses) and wage inflation (the across-the-board portion of salary increases). Ms. Nerdrum stated that GRS has also submitted a Public Fund Survey which indicates what base fees and interest rates other large public systems are using, which range from 7%-8.5% with a median interest rate assumption of 8%. The City of Ann Arbor currently utilizes a 7% interest rate return. Ms. Nerdrum stated that this economic assumption discussion is just one part of the broader study that the Committee is conducting, and the next part will be the demographics which will be discussed at a later meeting.

Ms. Nerdrum stated that she believes that GRS' recommendation is to keep the interest rate where it is at 7% with the internal components changing, or alternatively, even lower it an additional 25 basis points to 6.75%. Mr. Armstrong has provided high-level impact information on what this means for the liabilities and actual contributions to the Plan. Changing the interest rate assumption would impact the cost to the Plan because it would be discounting at a lower interest rate which is going to increase the liability. Mr. Armstrong also indicates in his document that the interest rate assumption needs to be tied to our asset allocation or expected return assumption. Based on discussions between GRS and Gray & Company, it looks as though the long-term expected return is about 7.21%, which is due to the current provision in the Plan that allows for the post-retirement adjustment in the funding to the extent that there is a margin that we earn over 7%, the additional earnings go towards funding those post-retirement adjustments, which has not yet been passed by City Council.

Mr. Armstrong stated that most of the plans in the NASRA Survey are statewide plans, so Ann Arbor is on the small end, but primarily, the inputs were taken both expected mean return in the standard deviation (volatility), and were taken from inputs provided by

Gray & Company. Mr. Armstrong reviewed Gray & Company's assumption scenarios, and their return assumptions are more conservative than historical averages would suggest. Mr. Armstrong stated at ten years ago, the Board was assuming 7% and their expectation was 8%, the reason being so that the pension adjustment account could be funded for post-retirement increases on a consistent basis. Gray & Company has set their expectation at 7%. On a forward looking basis, under the System's current portfolio policy, the expected rate of return over a 30-year horizon is 7.21%. The distributions of returns shown in the charts were developed using the capital market assumptions and current allocation information as provided by Gray & Company and using Frontier Investment Plus version 8.1. The Committee discussed the current rate as compared to other municipalities, noting that many are not as well-funded as our System, so using an 8% interest rate is more suited to their systems.

Mr. Armstrong was asked to explain the wage inflation, which is a combination of price inflation and across-the-board increases, and 3% is a typical average or thereabouts for the last ten years for CPI rounded, but the national average earnings tend to be 3/4 -1% higher. Wages are going up faster than price inflation, and wages are what drives the liabilities of the Plan, so combining the two, you would get GRS' recommended 3.75% for wage inflation. Mr. Armstrong stated that the data is inconclusive, but it doesn't appear that there has been consistent loss on wage inflation. Mr. Armstrong stated that the combination of the interest assumption and the wage assumption gives an effective interest rate for amortizing the unfunded or overfunded, they're so close to 100% that it's not a major decision, but if these assumptions are going to potentially be applied to the VEBA, then the interest rate assumption will not be material in the short run to the Retirement System. If the interest rate or wage inflation assumption changed, it could have an effect on the amortization payments to payoff unfunded.

Ms. Nerdrum stated that she feels that before making a decision to change the assumptions, she would need more information to understand the investment allocation, the expected return, and the real return which is a component of that. Ms. Nerdrum stated she would like to know how the 8% became 7.21%, because part of the discussion came about from looking at the economic assumptions given that data point, and we have an expected return that we're driving towards of 8%, we are assuming something lower than that, given we want a cushion and we have other additional funding and there may be room to change that 7% to bring it up to be more in line with our expected returns; now if that is dropped 79 basis points then we have an issue. Ms. Sylvester stated that if we are taking the step to examine and possibly change the assumption, coincidentally at a time when we are making changes in our asset allocation, she feels the timing is off since we haven't yet funded the alternative investments.

Ms. Nerdrum stated that the new information on alternative investments could be added into the data that GRS has submitted. Mr. Crawford suggested that Gray & Company be asked to provide information on what is in between the 8% and the 7.2%, and if they could provide GRS with the recently approved alternative investment allocation information. Mr. Armstrong explained the upcoming 5-Year Experience Study, which can be forwarded to the Audit Committee for their October 7th meeting, before being presented to the Board at the October 16th Board meeting.

For the September 2nd Audit Committee meeting, Mr. Crawford stated that he would like a written response from Larry Gray explaining the difference between the expected rate

of return of 8% versus the 7.2% (net of investments), and also what would be the expected return with the addition of alternative assets.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Kaur to adjourn the meeting at 5:33 p.m.
Meeting adjourned at 5:33 p.m.

G-7 Legal Report – Asset Allocation Investment Law

Mr. VanOverbeke discussed an upcoming meeting that he will be attending in Lansing on August 25th regarding a re-write of the Investment Law (Public Act 314) that will have impact on asset allocations, which will open doors in a lot of areas for the System in terms of its allocations, i.e., alternative investments.

H. INFORMATION

H-1 Communications Memorandum

The Communications Memorandum was received and filed.

H-2 September Planning Calendar

The September 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

J. ADJOURNMENT

It was **moved** by Heatley and **seconded** by Hescheles to adjourn the meeting at 10:25 a.m.

Meeting adjourned at 10:25 a.m.

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