

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
August 16, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 9:32 a.m.

ROLL CALL

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

AUDIENCE COMMENTS - None

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B-1 July 19, 2012 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

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

C. CONSENT AGENDA - None

D. ACTION ITEMS

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

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retiree Health Care Benefit Plan & Trust, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, Meketa Investment Group has advised the Investment Policy Committee to add a new high yield manager to the portfolio congruent with a new asset allocation policy, funding 6% (approximately \$5.5 million); and

WHEREAS, the Retirement Board of Trustees approved the hiring of SKY Harbor Capital Management on May 17, 2012, with contractual negotiations being successfully finalized and executed, and

WHEREAS, Meketa Investment Group has recommended funding SKY Harbor Capital Management with approximately \$2.2 million from the termination proceeds from the fixed income manager MacKay Shields, as well as \$3.3 million from the Northern Trust Barclays' Aggregate Bond Index; so be it

RESOLVED, that SKY Harbor Capital Management be funded from the fixed income portfolio with approximately \$5.5 million from the following managers: MacKay Shields (\$2.2 million), and Barclays Aggregate (\$3.3 million).

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

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Investment Policy Committee Minutes – August 7, 2012

Following are the Investment Policy Committee minutes from the meeting convened at 5:40 p.m. on August 7, 2012:

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

VEBA QUARTERLY PERFORMANCE REPORT FOR THE PERIOD ENDED JUNE 30, 2012

Mr. Peters reviewed the performance report for June 30, 2012. The Fund's total market value as of June 30, 2012 was \$89.4 million, which is a decrease of \$0.5 million from March 31, 2012. During the quarter, the Fund reported net cash inflows of approximately \$5.95 million.

The VEBA reported a -2.5% return for the quarter, net of fees. The VEBA's return was driven primarily by domestic equity (-4.0%) and international developed equity (-10.1%). Investment grade bond assets gained 2.2% and REITs rose 3.7%. In October 2011, the Trustees approved an updated VEBA policy asset allocation. At quarter-end, the Fund was outside of its new target range for investment grade bonds. Meketa expects the Fund's overweight to investment grade bonds to be reduced over time as new allocations are funded.

To date, the VEBA has:

- Invested approximately 3% in emerging markets equity.*
- Invested approximately 3% in emerging markets debt.*
- Invested approximately 4% in bank loans.*
- Approved the replacement of the high yield bond manager.*

Summary of Assets as of June 30, 2012:

Managers	Market Value
<i>Domestic Equity Composite</i>	<i>34,200,000</i>
<i>International Developed Mkt Equity Assets</i>	<i>10,400,000</i>

<i>International Emerging Mkt Equity Assets</i>	2,900,000
<i>Investment Grade Bond Assets</i>	26,300,000
<i>TIPS Assets</i>	0
<i>High Yield Assets</i>	2,200,000
<i>Bank Loan Assets</i>	3,600,000
<i>Emerging Market Debt Assets</i>	2,600,000
<i>Real Estate Assets</i>	4,700,000
<i>Natural Resources Assets</i>	0
<i>Cash</i>	2,500,000
Total Plan	89,400,000

SKY HARBOR FUNDING

Mr. Jaung stated that the Board approved the hire of SKY Harbor to manage a broad high yield bond market mandate for the VEBA (6% of the Fund, \$5.5 million), subject to Counsel's review of fund documents and contract negotiations which were completed in July 2012. Mr. Jaung stated that the Committee will now need to decide how to fund SKY Harbor.

It was **moved** by Flack and **seconded** by Monroe to recommend that the Board of Trustees terminate McKay Shields and transfer the \$2.2 million to fund SKY Harbor, in addition to transferring \$3.3 million from the Northern Trust Barclay's Aggregate Bond Index.

Approved

ADJOURNMENT

It was **moved** by Flack and **seconded** by Monroe to adjourn the meeting at 5:42.m.

Meeting adjourned at 5:42 p.m.

F-2 Preliminary Investment Reports for the Month Ended July 31, 2012

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

7/31/2012 Asset Value (Preliminary)	\$90,793,714
6/30/2012 Asset Value (Audited by Northern)	\$89,818,295
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$5,504,152
Percent Gain <Loss>	6.6%
August 15, 2012 Asset Value	\$ 91,681,157

F-3 Legal Report – No Report

G. TRUSTEE COMMENTS - None

H. FUTURE AGENDA ITEMS

I. INFORMATION

I-1 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Meketa Investment Group	2,916.67	Investment Consultant Retainer – July 2012
2	Buck Consultants	2,250.00	Basic Actuarial Services: 4/1/12 – 6/30/12
3	Bradford & Marzec, Inc.	6,584.94	Investment management fees: 4/1/12 – 6/30/12
4	Fisher Investments	23,679.95	Investment management fees: 4/1/12 – 6/30/12
5	RhumbLine Advisers	881.00	Investment management fees: 4/1/12 – 6/30/12
6	Southern Sun Asset Management	10,692.00	Investment management fees: 4/1/12 – 6/30/12
	TOTAL	47,004.56	

J. **ADJOURNMENT**

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 9:35 a.m.
Meeting adjourned at 9:35 a.m.



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