

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
December 20, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 10:56 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Heusel, Monroe, Nerdrum
Members Absent: Powers, Rogers
Staff Present: Jarskey, Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
Mark Kettner, Rehmann Robson
David Diephuis, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- D-1 Revised Investment Policy Statement

It was **moved** by Hastie and **seconded** by Crawford to approve the agenda as revised, including placing the presentation of the Financial Audit as the first item of business.

Approved

PRESENTATION: Financial Audit for the Fiscal Years Ended June 30, 2012 & June 30, 2011

Mr. Kettner from Rehmann Robson presented the Financial Audit for the fiscal years ended June 30, 2012 and June 30, 2011. Mr. Kettner stated that this year's audit went very well and his firm encountered no significant difficulties in dealing with management in performing and completing the audit. The table below compares key financial information in a condensed format between the current year and the prior year:

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Investments, at fair value:		
Common stock	\$ 11,353,185	\$ 21,220,162
Common stock funds	24,107,753	16,037,312
Government bonds	1,733,071	1,076,995
Government agencies	100,566	24,395
Government agencies funds	-	14,501,920
Municipal bonds	90,288	-
Corporate bonds	3,337,214	3,586,562
Corporate bond funds	21,954,843	2,049,269
Government mortgage backed	2,783,468	1,864,771
Commercial mortgage backed	422,935	1,025,478
Asset backed securities	296,971	154,325
Non-government backed CMOs	281,661	277,482
Real estate	3,957,458	3,484,484
Partnerships	12,709,359	12,586,924
Hedge funds	3,556,899	-
Short-term bills and notes	53,589	307,886

Short-term fund	2,923,924	4,503,556
Portfolio cash	<u>144,451</u>	<u>443,169</u>
Total investments	89,807,635	83,144,690
Cash	14,524	3,575,898
Accrued interest and dividends	106,508	200,441
Due from the City of Ann Arbor	-	2,029
Due from broker for securities sold	<u>1,008,179</u>	<u>528,406</u>
Total assets	<u>90,936,846</u>	<u>87,451,464</u>
Liabilities		
Accrued liabilities	45,457	60,270
Due to broker for securities purchased	<u>1,104,026</u>	<u>899,579</u>
Total liabilities	<u>1,149,483</u>	<u>959,849</u>
Net assets held in trust for healthcare benefits	<u>\$ 89,787,363</u>	<u>\$ 86,491,615</u>

It was **moved** by Crawford and **seconded** by Hastie to receive and file the Financial Audit for the Fiscal Years Ended June 30, 2012 and June 30, 2011.

Approved

B. APPROVAL OF MINUTES

B-1 November 15, 2012 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

It was **moved** by Nerdrum and **seconded** by Crawford to approve the November 15, 2012 Board meeting minutes as presented.

Approved

B-2 October 18, 2012 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

It was **moved** by Nerdrum and **seconded** by Crawford to approve the October 18, 2012 Board meeting minutes as presented.

Approved

C. CONSENT AGENDA - None

PRESENTATION: Financial Audit for the Fiscal Years Ended June 30, 2012 & June 30, 2011

Discussed earlier on the agenda.

D. ACTION ITEMS

D-1 Proposed Revised Investment Policy Statement (w/Proxy Language)

Mr. Hastie stated that the Investment Policy Statement has been revised since the November Board meeting to include additional language related to voting of proxies, specifically to reflect the fact that for most investments we ask our investment managers to vote those proxies, and there are some cases where the managers do not end up voting proxies, and someone from the Retirement

System or the VEBA will need to vote. The IPC would like to avoid bringing any of those motions to the full Board, i.e., electing a board of directors, committees, auditors, etc., and instead would like the IPC to have the ability to vote those proxies.

It was **moved** by Hastie and **seconded** by Crawford to approve the revised Investment Policy Statement as discussed.

Approved

D-2 IPC High-Level Review of Investment Actions in 2012 & 2013 Strategic Plan

Mr. Hastie stated that at the last IPC meeting Meketa had provided a listed summary of the Committee's actions for the last year as well as considerations for next year. Mr. Hastie reviewed the summary for the Board's information.

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Investment Policy Committee Minutes – December 4, 2012

Following are the Investment Policy Committee minutes from the meeting convened at 3:02 p.m. on December 4, 2012:

Member(s) Present: Clark, Flack (via telephone @3:20), Hastie, Monroe (via telephone)
Member(s) Absent: Rogers
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Henry Jaung & Ed Urban, Meketa Investment Group
David Diephuis, City Resident

INVESTMENT REVIEW

Mr. Urban reviewed the performance report for September 30, 2012. As of September 30, 2012, the Retiree Health Care Benefit Plan & Trust was valued at \$93.7 million, with an increase of \$3.8 million from June 30, 2012. During the quarter, the Fund reported net cash outflows of approximately \$100,000. The VEBA returned 4.3% for the quarter, net of fees:

- All asset class aggregates and funds had positive returns for the quarter, except Duff & Phelps REITs Fund.*
- The VEBA's return was driven primarily by domestic equity (+6.3%), international developed equity (+5.7%), and emerging market equity (+6.6%).*
- Investment grade bond assets gained 2.0%, while REITs declined slightly (-0.2%).*

2012 & 2013 ACTIVITIES REVIEW

Mr. Jaung reviewed the 2012 Fund Activities and next steps for 2013, which included the following:

- During 2012, the VEBA has:*
 - Invested approximately 3% in emerging markets equity.*
 - Invested approximately 3% in emerging markets debt.*
 - Invested approximately 4% in bank loans.*
 - Significantly reduced its small cap overweight, from 16% of domestic equity to 10%.*
 - Authorized the replacement of a high yield bond portfolio and funded a new manager.*
 - Approved a new Investment Policy Statement.*

➤ Next steps for the Trustees to consider:

- Review and update manager guidelines.
- Conduct a search for a natural resources manager.
- Review current real estate investments and develop a roadmap to fund the remaining allocation.
- Discuss the TIPS allocation; identify allocation alternatives if necessary.

Mr. Hastie requested that Ms. Walker place this review on the December Board agenda for Board discussion.

ADJOURNMENT

Meeting adjourned at 5:54 p.m.

F-2 Preliminary Investment Reports for the Month Ended November 30, 2012

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended November 30, 2012, to the Board of Trustees:

11/30/2012 Asset Value (Preliminary)	\$94,096,023
10/31/2012 Asset Value (Audited by Northern)	\$93,462,616
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$8,898,137
Percent Gain <Loss>	10.7%
December 19, 2012 Asset Value	\$ 95,580,435

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	2916.67	Investment Consultant Retainer - October 2012
2	Rehmann Robson	1,659.57	June 30, 2012 Financial Audit
3	Meketa Investment Group	2916.67	Investment Consultant Retainer - November 2012
	TOTAL	7,492.91	

I-2 IRS Determination Letter

J. ADJOURNMENT

It was **moved** by Hastie and **seconded** by Clark to adjourn the meeting at 11:22 a.m.

Meeting adjourned at 11:22 a.m.



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

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