

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
October 18, 2007**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:50 a.m.

ROLL CALL

Members Present: Boonstra, Carter (9:05), Crawford, Heatley, Kahan, Nerdrum, Pollock, Sylvester
Members Absent: Fraser
Staff Present: Kluczynski, Powell, Refalo
Others: Jack Timmony, Legal Counsel
Jeff Rentschler, City Retiree
Wesley Prater, City Retiree

AUDIENCE COMMENTS

Mr. Rentschler and Mr. Prater stated that they would like to defer their statements until Item D-1-Real Estate Purchase is discussed later on the agenda.

A. APPROVAL OF REVISED AGENDA

Mr. Powell stated that the following item has been revised since the distribution of the agenda packet:

- C-2 Authorization for Payment of Invoices – New invoices added to resolution

It was **moved** by Pollock and **seconded** by Kahan to approve the agenda as revised.

Approved as revised

B. APPROVAL OF MINUTES

B-1 September 20, 2007 Regular Board Meeting Minutes

It was **moved** by Heatley and **seconded** by Boonstra to approve the September 20, 2007 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:

Preliminary Retirement Resolutions

C-1 Preliminary Approval of the Application for Service Retirement of Donovan Czyszczo

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Donovan Czyszczo (Applicant)**, dated September 13, 2007, 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 **Donovan Czynszczon** 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-2 Authorization For Payment of Invoices (\$ 70,647.68)

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.

	PAYEE	AMOUNT	DESCRIPTION
1	301 E. Liberty LLC	4,875.98	Office Lease (including monthly escalation fee)

2	Republic Parking System	375.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – September 2007
4	SBC / AT&T	224.26	Monthly Telephone Service - 8/14/07 – 9/13/07
5	Arbor Springs Water Co., Inc.	25.50	Monthly Water Service
6	AT&T	114.21	Monthly Toll-Free Telephone Service
7	Qwest	7.75	Monthly Long-Distance Telephone Service
8	Republic Parking System	46.80	Monthly Parking Validation Fee
9	University Office Equipment	95.05	Quarterly Copier Maintenance Contract
10	Four Points Sheraton	702.98	Annual Manager Forum – Sept. 11, 2007
11	Int'l Society of CEBS	125.00	ISCEBS Benefit Quarterly Subscription Renewal
12	Kolossos Printing, Inc.	45.39	Printing/Folding of Bd Election Memos Dated 10/4/07
13	IFEBP	800.00	Annual Membership Dues – Jan-Dec 2008
14	The Northern Trust Company	55,345.75	Quarterly Custodial Fees – July-September 2007
15	301 E. Liberty LLC	89.49	Monthly electric payment – 9/4/2007-10/3/2007
16	City of Ann Arbor Treasurer	24.52	Municipal Code Electronic Update
	TOTAL	70,647.68	

C-3 Authorization for Conference/Training – Opal Financial Group 10th Annual Alternative Investing Summit, December 2-4, 2007 – Heatley, Kahan

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, Chris Heatley and Jeff Kahan have requested the Board of Trustees' authorization for their travel to Laguna Niguel, California, at Retirement System expense, estimated at \$4,200.00, to attend Opal Financial Group's 10th Annual Alternative Investing Summit, and to participate in continuing education in their responsibility as Board Trustees and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the travel requests of Chris Heatley and Jeff Kahan to travel to Laguna Niguel, California, at Retirement System expense, estimated at \$4,200.00, to attend Opal Financial Group's 10th Annual Alternative Investing Summit, to participate in continuing education in their responsibility as Board Trustees, and

FURTHER RESOLVED, that Chris Heatley and Jeff Kahan comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy

and Procedures.

Consent agenda approved as revised

D. ACTION ITEMS

D-1 Real Estate Purchase

Mr. Kahan gave a brief summary of the Special Project Committee's progress with finding new office space, stating that it has found that in the long-term, buying makes more sense than renting. Mr. Kahan stated that the Committee is currently looking at space in a new office center in Ann Arbor, which includes 1500 square feet, free parking, and is on a bus route. Mr. Kahan stated that at the last SPC meeting, the Committee decided to recommend that the Board begin the acquisition process for this property. Mr. Boonstra agreed that the office space is in a nice facility, it is an investment opportunity, as well as a great opportunity for the Board to invest in the Ann Arbor community.

Mr. Prater stated that it would be a wise decision to purchase office space and that it would be solidifying the Trustees' fiduciary responsibilities. Mr. Prater gave the Board a brief history of his term on the Retirement Board, stating that he was on the Board at the time that the transition was made from City Hall to an independent office, and there were issues to deal with that were not very pleasant. Mr. Prater stated that this Board has done an excellent job and is on the right course, and encourages the Board to continue with this long-term asset and to go back and operate in a City facility is not a wise choice.

Mr. Rentschler stated that he is representing on behalf of the retirees, and has spoken with many retirees and employees who do not believe that the System should go back to City facilities which may lead to City control. Mr. Rentschler stated that many retirees prefer to talk to staff face to face rather than on the telephone or by computer, and downtown parking is sometimes hard to deal with for someone who is older, on a walker, or in a wheelchair, especially in the winter. Mr. Rentschler stated that retirees also desire confidentiality when visiting the pension office, as do active employees. Mr. Rentschler stated that he has seen the property that is being considered, that it is very handy, is on a bus route, and he encourages the Board to approve the recommendation of the Special Project Committee.

Mr. Kahan stated that during the research process, the Committee had asked Mr. Powell to conduct a financial analysis to compare a lease versus buy scenario, and Gray & Company has reviewed and found no fault with the numbers, and Mr. Crawford had agreed that although he would run the numbers differently, that he was not able to find anything that appeared to be inaccurate. Mr. Kahan stated that within the last week, he, Ms. Sylvester, and staff met with a number of employees who had questions and concerns about the possible purchase of property, and they were able to address their concerns. Mr. Prater stated that this System was established in 1941 primarily with funds from the Fire Department as a result of funds raised by the Fire and Police Departments, and as he recalls, the Fund was established with approximately \$40,000 that had been accumulated over a period of time. Mr. Prater stated this resulted in an Ordinance and is part of a Charter, and the citizens are the ones that have approved this process. Mr. Prater stated that the System is very unique and there are not many other systems that mirror Ann Arbor's, and the Trustees should keep it that way.

Mr. Heatley noted that the discussion of the cost benefit of purchasing office space has been going on since he's been on the Board, for the last seven years, and looking more heavily at it in the last two years, and for example, if the Retirement Board had purchased its own property back in the 1960's, how much more money would we have in our Fund today than we have, the sole reason we are doing this is because it is going to benefit the bottom line going forward; it may take 6-10 years to reach the break-even point, but it is going to come and if things are done right, this Board will be here

200 years from now, and he believes that someday, future Boards will look back and realize that this Board made the right decision. Ms. Carter agreed, and stated that the Board must look at the long-term interest of the System and what bothers her is when she hears that there are pressures being suggested that the Board does something that is not in the best interest of what it knows it should be doing, and based on all of the information on this issue, including Mr. Powell's cost benefits, she does not see how the Board can not purchase its own facility because it is in the best interest of the Fund.

Mr. Crawford stated that he feels it is not in the best interest of the Fund to do this, and does not believe that the System would be under the control of the City by being located in one of its facilities. Mr. Crawford stated that while he does agree with the accuracy of the numbers, there are three flaws that he sees in the consideration of a conclusion, 1) it doesn't account for the fact that the System does not pay Municipal Service Charges to the City which is how rent is collected by the City; 2) it does not address the symbiotic relationship that if there were payments made to the City there is a symbiotic relationship between those economics where the System is actually renting space from a sponsor which is providing funding for the System, and 3) regarding if this is a good investment, if the Board was doing its fiduciary responsibility, why wouldn't it borrow money that needs to be invested in real estate that actually has multiple rate of returns; by borrowing this money and investing it in this property we are earning 3%, however other real estate earns more and to say that this is an investment that is fulfilling our fiduciary duty and is better than rent, is only halfway there, and he will not be supporting the recommendation.

Mr. Pollock stated that he agrees with Mr. Crawford on the numbers, and clearly when looking at debt service versus opportunity costs with a mortgage, that money would continue to grow and the break-even point is about 15.5 years, which is a long time for a payoff, but this is a Fund that is long past our lifetime and 15 years should be nothing. Mr. Pollock also stated that a lot can happen in 15 years, and while he is not hung up on the location being outside of City Hall, he does not feel that it is a compelling argument to rush into this if the City is going to build something where they would have reasonable space for this office; there are a lot of moving parts right now, and he understands that the analysis makes sense, but he is not comfortable at this point, and not really getting a feel for staffing needs and space needs and has not seen an analysis about what we need space-wise. Mr. Powell stated that there have been space need analyses conducted and discussed by the Committee, and the staffing needs analysis is ongoing, although he does have a document draft relating to this issue for an upcoming meeting. Mr. Powell stated that his analysis shows that the current number of staff is adequate, that we can not operate with any less staff, it is determined that we need approximately 1500 square feet of space, and everything has been documented that we are moving in the right direction.

A discussion ensued regarding the municipal service charge and how it is operated. Mr. Crawford stated that he is not in a position to offer the System indefinite free rent because he is not going to be here 20-30 years from now, and the bottom line is it is up to the System to not pay rent through the MSC which the Board has decided not to pay, and if the City were interested in charging rent other than that it would have to be negotiated, so that is not a unilateral decision that the City makes. Mr. Boonstra wanted it known that the reason the System does not pay the MSC is because by law it can not pay for indirect costs, and the City has determined that it can not break down the individual costs for the purpose of billing the System. Mr. Pollock added that it is unknown and not measurable today as to what the future would hold as far as being located in a new City facility. Mr. Kahan stated that he would be very impressed if he were to see an offer from the City for free rent in perpetuity, but to date the Board has not been provided that offer, but has received an offer for space for rent for an unlimited period of time, and the future would be unknown. Mr. Kahan stated that he believes that becoming enmeshed with the City is a protracted nightmare that never ends, so at this point he is fully prepared to support the recommendation to purchase space.

Mr. Pollock stated there is no question that based on the linear analysis of 7% flat growth in the portfolio, with breaking even in 15.5 years, and based on that in his opinion you would have to vote for this when looking at the long-term, but he just wants the Trustees to think about all of the moving

parts and all things that haven't been addressed or analyzed more specifically when looking through the decision. Ms. Nerdrum stated that she views the independence of a board by the actuary that they hire, the investment consultant, the board composition, and the staff, and she does not necessarily feel that wherever the office is physically located defines independence. Having said that, Ms. Nerdrum stated she did visit the proposed spaces at the City Center Building and was not necessarily impressed with what was offered. Ms. Nerdrum stated she has reviewed and agrees with the numbers and believes this Board has spent a lot of time with this issue and needs to take a long term view, and in doing that, she would be in support of purchasing property.

Mr. Pollock stated that there are a lot of assumptions in the cost analysis and it is easy to look at it and see a simple analysis based on these assumptions, and sometimes there is no perfect analysis, but if you look at this even more volatily as opposed to a linear 7% growth and you looked at a real market cycle of 30 years from 1973 to 2002, you'd still find a compelling case based on the investment return of the money in the market net-net of the opportunity costs, which is one of the things to take into consideration when voting.

It was **moved** by Heatley and **seconded** by Kahan to approve the Special Project Committee's recommendation to purchase office space subject to negotiation of details.

Roll call vote:

Boonstra - Yes	Fraser - Absent	Nerdrum - Yes
Carter - Yes	Heatley - Yes	Pollock - No
Crawford - No	Kahan - Yes	Sylvester - Yes

Motion passes 6-2

It was **moved** by Kahan and **seconded** by Boonstra to convene an executive session for the purpose of discussing details of the property purchase.

Roll call vote to convene an executive session:

Boonstra - Yes	Fraser - Absent	Nerdrum - Yes
Carter - Yes	Heatley - Yes	Pollock - Yes
Crawford - Yes	Kahan - Yes	Sylvester - Yes

Approved

Executive session time: 9:59 – 10:13 a.m.

E. DISCUSSION ITEMS

E-1 "Me-Too" for the Special Retirement Window Retirees

Ms. Sylvester stated that this is the issue regarding the employees that retired under the Special Retirement Window, and if they should have their retirement benefits recalculated in light of the additional monies that were awarded by the arbitrator. Ms. Sylvester reminded the Board that what was unique about the Window Retirees, is that the language was specific that the retirement benefit would not be based on necessarily the total compensation they received during their last year, but would instead be based on their highest rate of pay during a given selected time frame. The question arose regarding the lump sum payments that were made to the AFSCME employees – is that considered compensation? Yes. Did it constitute a change in the rate of pay? Ms. Sylvester stated that approximately one year ago this Board determined that those lump sum payments did constitute a change in the rate of pay and therefore those retirees (approximately 45 of them) should have their retirement benefits recalculated which would represent an increase in their benefit.

Ms. Sylvester stated that this Board had instructed Mr. Powell to communicate with the City to let them know how the calculations were going to be processed, and if there was a disagreement or dispute with the process, they should contact the Retirement Office by a certain date (December 8, 2006). In the absence of any communication regarding this issue, the Board instructed staff to proceed with the retirement calculations. The calculations were delayed because of other things going on with the arbitration, and within the last month, Ms. Schuler, Human Resources Manager, has communicated that the City disagrees with the Board's assessment that this was in fact a rate of pay change. The Board decided that the correspondence was very vague, and asked Ms. Schuler to further clarify her response, and Mr. Powell provided a sample of language that might help clarify the issue. Ms. Schuler has sent another letter for which she has only changed the following wording of once sentence from:

*I explained to you the creation of a new **wage** would not be appropriate or consistent with the Arbitrator's opinion and the City's mutual agreements with AFSCME over the past year or so.*

to:

*I explained to you the creation of a new **rate of pay** would not be appropriate or consistent with the Arbitrator's opinion and the City's mutual agreements with AFSCME over the past year or so.*

Ms. Sylvester stated that the suggested language that Mr. Powell sent made it clear that, "...the lump sum payments do not constitute a rate of pay increase." Ms. Sylvester stated that the hope was by making it very clear in the letter, we could alleviate any question that any concerns would be between the Union and the City and not this Board. Ms. Sylvester stated that guidance is needed from the City regarding what that lump sum payment was – did it constitute a rate of pay change and therefore the retirees' benefits should be recalculated, or did it not, and that might cause this Board to change its earlier decision which had been to say yes, those benefits should be recalculated. After further discussion, the Board decided that the City's intent is still too vague to proceed with any calculations, that Mr. Powell be requested to contact Ms. Schuler for further clarification, and this issue should be postponed until the November 15, 2007 Board meeting.

It was **moved** by Heatley and **seconded** by Pollock to postpone this item until the November regular Board meeting.

Approved

F. REPORTS

F-1 Executive Report – October 18, 2007

UPDATE – JEFFREY HARMON

At the Regular Meeting of the Board of Trustees on July 19, 2007 the following occurred:

"It was **moved** by Boonstra and **seconded** by Heatley to reaffirm the Board's prior grant of a duty-disability retirement to Jeffrey Harmon noting that the Board has received a copy of a supplemental medical report from the Board's medical director, Joseph E. Burkhardt, D.O. dated July 3, 2007. The Board further notes, however, that Mr. Harmon will be re-examined in six months and that in the event that he desires to withdraw his application for duty-disability retirement, he may do so at any time prior to issuance of the first check, but once that is done, he will be considered a disability retiree subject to a re-examination in six months as directed by the Board."

Mr. Harmon came to the Pension Office on August 24, 2007 to sign the necessary paperwork for his duty-disability retirement. His effective date of retirement is retroactive to June 25, 2007 per the Board's Disability Policy.

There is a disagreement between Mr. Harmon and the City regarding his payout bank balances. On Monday, October 8, 2007, Carol Schuler, Human Resources Manager, wrote the following to me, "Jeff has not agreed upon anything yet re-banked time." The Payroll Department is unable to process the final payout numbers for Mr. Harmon until there is an agreement as to his remaining hours. The Pension Office is not able to calculate Mr. Harmon's final average compensation (FAC) until this matter is resolved.

Since Mr. Harmon is in receipt of Worker's Compensation payments, his pension payments will be coordinated with his Worker's Compensation payments as per the AFSCME contract which states: *"The Worker's Compensation and pension benefits paid to an employee or retiree shall be coordinated so that the amount of pension paid to that person shall be reduced by the amount of the Worker's Compensation payments. Upon termination of the period for payment of Worker's Disability Compensation, arising on account of his/her City employment, the employee or retiree shall again receive his/her full periodic pension payments."* Staff is still working with the Human Resources Department to determine the offset amount.

Staff wants clarification as to whether to begin counting the six-month disability period from the effective date of his retirement or when the disagreement is settled between Mr. Harmon and the City and a check can actually be processed for him.

OUTSTANDING OVER-PAYMENTS OWED TO THE SYSTEM

There are currently two situations that staff is working on involving retirees that had passed away, but the Office was never notified of their deaths, therefore their monthly benefit payments continued to be deposited into their accounts. Below are the summaries:

Geneva Martin

Ms. Martin died on April 14, 2005. With no notice from her family, benefit payments continued to be deposited into her account and the overpayment in this case equals \$752.96. Ms. Refalo sent Ms. Martin's daughter, Nancy Rhoads, a letter on September 7, 2005 indicating the need to recoup this amount. Ms. Refalo was in contact by telephone with Ms. Rhoads throughout the year asking for this payment to be made, but lost contact soon after. Ms. Refalo then sent a letter to Ms. Martin's other daughter, Susan Snyder, on July 12, 2007 explaining the previous letter to her sister, and that she has since lost contact with Ms. Rhoads. Ms. Snyder contacted the office and stated that she had access to \$469.23 from her mother's account. Ms. Refalo then contacted Mr. VanOverbeke regarding the offer of the partial payment, and he suggested that he send a letter to Ms. Rhoads, which was dated August 20, 2007 indicating that to avoid further action from his office, the recoupment of \$752.96 must be paid in full to the System. There has been no contact from Ms. Rhoads since Mr. VanOverbeke's August 20th letter.

Lois Hickonbottom

Mr. Hickonbottom died on November 25, 2006. With no notice from his family, benefit payments continued to be deposited into his account and the overpayment in his case equals \$4,282.57. Mr. Hickonbottom's daughter, Melissa Robinson, came in to the Retirement Office on June 8, 2007 and set up a payment schedule of \$100.00 per month. Staff had not received any payments from Ms. Robinson. In August staff requested legal counsel to send a letter to Ms. Robinson similar to the one sent to Ms. Rhoads above. Legal Counsel sent Ms. Robinson a letter dated August 20, 2007.

Two months have passed since Mr. VanOverbeke's letters to the two individuals, with neither person contacting this office; staff would like the Board's guidance as to how to proceed with these two situations.

ACTUARY REPORT

Staff submitted the actuarial and financial data to Gabriel, Roeder and Smith for the Actuary Report last week. The data was not submitted early enough to have the actuarial presentation for this Board meeting. However, GRS should be able to present the actuary report next month.

Executive Report discussions:

Jeffrey Harmon: The Board discussed when to begin Mr. Harmon's six-month disability period, from the effective date of his retirement, or when the disagreement is settled between Mr. Harmon and the City, and after reviewing a letter sent from the Human Resources Department, it was determined that the City is moving forward in processing his payouts, and staff can now begin to finalize his disability retirement paperwork. Mr. Powell noted that there will be a Worker's Compensation offset, so he may not receive actual benefit payments for a while because the Worker's Compensation payment will be higher than his retirement payment would be. Mr. Timmony reviewed prior minutes regarding this issue, and suggested that the retirement period should begin per the date of his first benefit payment check, and should be sent for a re-examination six months after the date of the first check. The Board agreed.

It was **moved** by Boonstra and **seconded** by Heatley that based on legal counsel's recommendation to send Mr. Harmon for a re-evaluation six months after the date of his first benefit payment.

Approved

Outstanding Payments: The Board discussed the two cases where outstanding payments are due to the System, and Mr. Powell asked for the Board's direction on proceeding with the two situations as explained in the report. After discussion with legal counsel, it was determined that these issues be pursued by filing police reports. Mr. Powell will provide a future report.

Actuary Report:

Ms. Nerdrum stated that she has spoken with Mr. Armstrong at GRS, and he indicated that he had received some contracts where wage increases were settled and that potentially he wanted to look at changing the wage increase assumptions for a short period of time given the recent contract changes. The current assumptions are 3.5%. Ms. Nerdrum stated that the Board would need to determine if the value that we would get is worth the short-term change and that it would only effect a small group in the valuation. The Board decided to hold a conference call with Mr. Armstrong to further discuss the proposed change. Mr. Armstrong explained that the contracts for the Firefighters and the General Employees have been agreed upon, and for the next couple of years the across-the-board wage increases have been negotiated below the across-the-board 3.5% assumption that is used to project the costs of benefits under the Retirement System. There have been cases with other large retirement plans that recognize some of the across-the-board wage increases at least one year at a time and with regards to preparing valuations for other systems, the question becomes do we want to pre-recognize the expectation based on the contract to be below 3.5%, and if so, how many years of the contract would be appropriate to recognize. It could be that the difference is so minor that you would keep everything as status quo just because adjustments have never been made before, and since the assumption is a long-term assumption, does the Board want to be influenced by short-term occurrences or not.

Mr. Armstrong noted that the System is approximately 100.05% funded as of June 30, 2007 on a business as usual basis, so if the Board would like to be more comfortably over 100%, then recognizing the flat salary agreements for the next year or two would make the liabilities a little bit less, and wouldn't have any effect on the assets so the funding ratio would look a little bit higher. Ms. Nerdrum stated that it is her opinion that the Board would not want to change an assumption to impact the funding status just for the sake of changing the funding status, but if the contracts call for a certain increase at something less than we are assuming for a stated period of time, why would we not want to make that change given that it is a much broader group than it has been in the past. Mr. Heatley stated that he believes that if we play with the assumptions on a short-term basis, it would

have long-term consequences, and he would not be comfortable with changing anything at this point. Mr. Armstrong noted that this would not be a permanent reduction, but the question before the Board is whether or not they might want to recognize the impact of these contracts now or wait a year or two when it happens.

Ms. Sylvester summarized by stating that regardless of whether we keep it the same currently or change it, it will become recognized next year anyway. Mr. Crawford stated that if the Board is worried about slippage it could just add .05% to whatever the contracts are, and he doesn't see why we wouldn't take known data and incorporate it and recognize the agreements. Mr. Crawford asked Mr. Armstrong what the actual experience has been in the last couple of years in payroll increases, and Mr. Armstrong stated that he doesn't think that salaries have been a significant source of gain or loss in the last few years. Ms. Sylvester stated that the most you're behind is one year and its then going to be incorporated and readjusted in the subsequent report, so she feels comfortable just staying the course and leaving the assumption as is. Mr. Crawford stated that he does not see the harm in making the short-term change, and during Union negotiations he knows that there are a lot of discussions of how the impacts are compounded.

Mr. Heatley stated that he is opposed in general to changing actuarial assumptions on anything on a year-to-year basis, over a long-term if we see that the average rate of wage inflation goes down to 2.5% over ten years, he would be perfectly comfortable.

It was **moved** by Crawford and **seconded** by Pollock to change the assumption for a short-term basis.

Motion fails 6-2

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended September 30, 2007

Mr. Powell reported that as of October 17, 2007 the Fund totaled \$459,281,970 which is an increase of 1.35% from last month.

F-3 Investment Policy Committee Report – October 2, 2007

Following are the Investment Policy Committee minutes from the meeting convened at 3:10 p.m. on October 2, 2007:

<i>Member(s) Present:</i>	<i>Boonstra, Heatley, Kahan (3:12), Pollock, Sylvester</i>
<i>Member(s) Absent:</i>	<i>None</i>
<i>Other Trustees Present:</i>	<i>Crawford</i>
<i>Staff Present:</i>	<i>Jarskey, Powell</i>
<i>Others Present:</i>	<i>Larry Gray, Gray & Company Chris Kuhn, Gray & Company</i>

Mr. Kuhn introduced himself and gave a brief biography of his education and experience.

Mr. Pollock asked Mr. Gray about a recent article regarding the City of Pontiac hiring a new large cap growth manager, and wanted to know what the differences were between their system and ours. Mr. Gray stated that they are the same consultant, the same ideology, same belief that over time roughly 87% of the numbers have gone down a little bit from the two years numbers, 87% of all active managers in the large cap space have failed to outperform their respective benchmarks over time. Pontiac is aware of all of this, but they do not mind going through the process of the hiring, firing, and discussions, and wanted to see if their chosen manager, Sawgrass, might be one of the 13% over the long haul, so it became their willingness or desire to have an active rather than passive manager.

Mr. Heatley mentioned an upcoming meeting with a representative from West End, who is a core large cap and emerging manager that he has invited to meet at 11:00 a.m. on October 17th to discuss

their product. He will be sending an invitation to the Trustees via Email soon.

Mr. Boonstra stated that he and Mr. Kahan attended a due diligence visit with Invesco, Inc. in Louisville, Kentucky, and they will be submitting a report in the near future. Mr. Boonstra stated that he left the visit feeling very comfortable with the firm.

INVESCO, INC.

Mr. Powell submitted documents from Invesco regarding a press release entitled, "INVESCO PLC Board Recommending Relisting on the New York Stock Exchange – Proposal to be Voted on by Shareholders".

INTERMEDIATE FIXED INCOME

Mr. Gray stated that the net returns for Schwartz Investment Counsel has very respectable ranks among active intermediate fixed income managers. The main issue though is not whether Schwartz has outperformed other managers, but whether it has outperformed the benchmark index. It is very difficult to find active managers that can consistently outperform a relevant benchmark index in efficient markets such as domestic fixed income. Passive strategies are expected to closely track the underlying benchmark index, while active strategies are expected to outperform their respective benchmark indexes over 3 to 5 year periods or market cycles (whichever is longer).

During the 10 year period, Schwartz's net return of 5.4% ranked in the 27th percentile of the Gray & Company Intermediate Fixed Income Universe, while the Median return was 4.9%. The passive investment Lehman Intermediate Government / Credit Index returned 5.7%. The Index Attribution ranges from 100.0% to 103.0% while Investment Manager Attribution ranges from -3.0% to 0.0%. The Cumulative Relative Dollar Value ranges from 97.1% to 100.0%. The Cumulative Excess Dollars range from -\$752 thousand to \$22 thousand.

Mr. Gray noted that Schwartz has performed well in the last quarter, but their longer-term performance was not impressive. Mr. Gray reviewed a chart showing their net returns compared to the Lehman Intermediate Government/Credit Index as of June 30, 2007. Mr. Kahan stated that he believes it does not make sense to be paying active management fees for a manager who has been consistently outperformed by the index. Mr. Gray stated that no matter how long you document the range of performance, you will get the same results because over time that asset class has become much more efficient. Mr. Boonstra stated that this is a difficult decision because there is such a long-standing relationship, but as Trustees and fiduciaries, you have to look at why are we paying someone for the active management fees when they are not meeting that benchmark and he believes that there needs to be some kind of change made because it is not a prudent use of the funds.

Mr. Pollock stated he is not concerned about the length of the relationship, and how much he likes them personally and professionally, the decision that the Committee faces is what would we do today if we were starting over? If you look at this in historical context it is easy to look at 3 to 5-year numbers, there is a long history with Schwartz, but if you look, most of that history is a secular interest rate-declining environment. Mr. Pollock believes that active management at least in the fixed income environment, there should be at least one manager who is stable, for example, Bradford & Marzec, and he is not confident enough to say that a good quality manager should be thrown out in this particular space in the portfolio, and we should be humble enough to say that we don't know what's coming. It is easy to look at these historical numbers and say that it doesn't work, but he is of the opinion that we want someone like this in the portfolio.

Mr. Boonstra agreed, stating that he likes to have this type of product in the portfolio because he likes the stability of it, but can we capture the same product for less cost, and can an index give the same results? Mr. Kahan stated that over the long term, he believes there are very few active managers in this space that efficient who can outperform the index over a long period of time.

Mr. Heatley stated that we are talking about 5% of our Fund, we know that this is a solid company with solid people, which means something, and his inclination based on what he's heard at this meeting is are we going to move it for a couple more basis points, or are we going to keep it with somebody that we've known for a very long time and we trusted and who's been through probably ten complete changeovers of the Board. Mr. Heatley stated that if we do run into some turmoil, Schwartz is going to look out for our interest as best as they possibly can.

After further discussion, the Committee decided to conduct a roll-call vote:

It was **moved** by Sylvester and **seconded** by Kahan to terminate Schwartz Investment Counsel and invest in a passive index.

Kahan - Yes
Boonstra - Abstain
Sylvester - Yes
Crawford - Abstain
Pollock - No
Heatley - No

Motion fails

The Committee discussed having Mr. Schwartz come in to discuss this issue further, and Mr. Powell stated he will get in touch with him to schedule a future meeting with the Committee.

ADJOURNMENT

It was **moved** by Pollock and **seconded** by Boonstra to adjourn the meeting at 4:25 p.m.
The meeting was adjourned at 4:25 p.m.

F-4 Administrative Policy Committee Report – October 2, 2007

Following are the Administrative/Personnel Policy Committee minutes from the meeting convened at 2:06 p.m. on October 2, 2007:

Committee Members Present:	Boonstra, Carter, Crawford, Heatley, Sylvester
Members Absent:	None
Other Trustees Present:	Pollock (2:29)
Staff Present:	Kluczynski, Powell
Others Present:	Jeff Rentschler, City Retiree

BOARD GOVERNANCE POLICIES

Mr. Boonstra stated that this document was discussed at the last meeting, and has been revised to include his suggested changes from that meeting. Mr. Boonstra asked if anyone had additional comments or suggestions, noting that Mr. Pollock has since sent a Code of Conduct document for the Committee's consideration for inclusion in the policy. The Committee proceeded to review the document from the beginning. The Committee discussed and made various changes to the document, including adding the System's current Code of Conduct Policy. Due to time constraints, it was decided to continue to review the remainder of the document at the November APC meeting, and that today's suggested changes be included prior to the next meeting.

POVERTY INCREASE DISCUSSION

Due to time constraints, the Committee decided to postpone this discussion until the November 6, 2007 APC meeting.

ADJOURNMENT

It was **moved** by Heatley and **seconded** by Crawford to adjourn the meeting at 3:01 p.m.
Meeting adjourned at 3:01 p.m.

F-5 Special Projects Committee Report – October 2, 2007

Following are the Special Projects Committee minutes from the meeting convened at 1:10 p.m. on October 2, 2007:

Committee Members Present: Boonstra, Crawford, Kahan (1:18), Sylvester
Members Absent: Heatley
Other Trustees Present: None
Staff Present: Kluczynski, Powell, Refalo
Others Present: Bart Wise, Swisher Real Estate
Jeff Rentschler, City Retiree

REAL ESTATE PURCHASE

Mr. Powell reviewed several office space alternatives included in a memorandum included in the agenda packet:

- Leasing space in the City Center Building (2 options)
- Purchasing Options
 - 530 S. Maple
 - 1531 Eastover

Comments regarding the two spaces in the City Center Building:

1080 Square Feet

- Investment Opportunity not available. At the end of 15 years you would have cumulative expenditures of \$420,335 rather than an appreciable asset that would be worth more than its original cost
- Space not conducive to optimal staff operations. The office space is listed at 880 sq. ft; however, the amount of office space available as shown in the city's proposal is 670 sq. ft. at \$14,960 per year this is effectively \$22.33 per square foot, a saving of \$1.67 per sq.ft. over the current rent with Larson Realty.
- Rental cost is less than 1/3 the cost of the current lease with Larson Realty because the space is considerable less at 670 sq.ft. rather than 2,162 sq. ft.
- Basement storage area has no fire suppressant system
- Area is not private, secure, or enclosed and subject to area foot traffic

1000 Square Feet

- Space not conducive to optimal staff operations. The office space is listed at 800 sq. ft; however, the amount of office space available as shown in the city's proposal is 535 sq. ft. at \$13,600 per year. This is effectively \$25.42 per square foot, which is an increase in cost of \$1.42 per square foot over the current rent with Larson Realty.
- Investment Opportunity not available
- Rental cost is less than 1/3 the cost of the current lease with Larson Realty because the space is considerable less at 535 sq. ft. rather than 2,162 sq. ft.
- Basement storage area has no fire suppressant system
- Area is not private, secure, or enclosed and subject to area foot traffic

Purchasing Options comments:

530 S. Maple, Ann Arbor:

- *Investment Opportunity, asset will appreciate. At a 3% annual appreciation rate the value of the property would be \$487,810.00 at the end of 15 years. A 3% annual appreciation at the end of 30 years the property would be valued at \$759,992.00. A gain in asset value of \$437,492.00*
- *Continual cost savings for the System after break-even point. Break-even point is 16 yrs 7.25 mos.*
- *Free Parking for retirees, employees, trustees, staff, and consultants*
- *Located on the #9 Bus Route-Westgate Shopping Center*
- *Property Management firm will not be required*
- *Fits space needs for efficient operation of the Retirement System*
- *New building*

1531 Eastover, Ann Arbor

- *Investment Opportunity, asset will appreciate. At a 3% annual appreciation rate, the value of the property would be \$332,770.00 at the end of 15 years. At a 3% annual appreciation at the end of 30 years the property would be valued at \$518,444.00. A gain in asset value of \$298,444.00*
- *Continual cost savings for the System after break-even point. Break-even point is 12 years 2 mos.*
- *Free Parking for retirees, employees, trustees, staff, and consultants*
- *On the Bus Route*
- *Association fees are a little high*
- *Management firm will not be required*
- *The space as configured wouldn't be very efficient for the System's operations*
- *Older building, renovations would be required*

Mr. Powell discussed Financing vs. Cash:

In purchasing its own space the System would fare better if it borrow the money rather than buy the space out right. Leveraging the System's money by borrowing would allow the System to earn a return on its own dollars. The System would not lose the opportunity on earning a rate of return on its money.

If the money is borrowed, this would allow the Systems' funds to remain invested. The investments would be compounding, whereas the cost of the mortgage interest is computed on a simple-interest and also on a declining balance. Because of the compounding of interest over the long run, it would not even be necessary to earn an investment rate of return at an interest rate equal to or greater than the interest rate of the cost of borrowing those funds.

On Thursday, September 27, 2007 the Bank of Ann Arbor quoted an interest rate to the System of 6.75% amortized over a 15-year period.

Other intangibles:

The Board of Trustees of the Retirement System is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System.

Michigan Public Act 314 of 1965, as amended, and the Retirement System Ordinance provide that a fiduciary shall discharge its duties with respect to the plan

solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits and of defraying reasonable expenses of administration and shall act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man would exercise. Fiduciaries who breach their responsibilities shall be personally liable for any losses to the Plan, which they administer and shall be subject to other equitable or remedial relief.

Some benefits beyond the fact that it makes more sense economically for the System to purchase it owns space rather than continuing to lease:

- *The purchase options offer ease of accessibility to employees and retirees. Accessibility is extremely important to the handicapped*
- *On site parking at zero cost*
- *Retirement files would be protected by a fire suppressant system and would not be in a common storage area shared by other Service Areas*
- *Systems Independence*
- *Confidentiality to members. Active employees would feel free to visit the Pension Office to explore pension options without fear that his/her supervisor is aware of the confidential meeting*

The Committee discussed the property at 530 S. Maple, and Mr. Wise noted that it is a good time to buy right now because the core developer of that site has not sold any part of the property yet, so he is very eager to sell, and interest rates are relatively low and banks are quite eager to loan. The Committee discussed association fees and maintenance costs, and Mr. Wise stated if the developer does not have reserves built in to the costs, the Committee may want to build something in to cover future maintenance costs for the roof, furnace, parking lot, etc. Mr. Wise stated that he and Mr. Powell could look further into this issue.

Mr. Rentschler stated that the Ex-Officio Committee has met regarding this issue, and they urge the Board to vote to either lease or buy outside of a City-owned or rented building. Mr. Rentschler stated that retirees must be considered, and most retirees prefer to speak face-to-face with staff, and many have issues with parking when downtown. Mr. Rentschler stated that confidentiality is also an issue with retirees as well as employees, and this must be considered. Mr. Rentschler has received comments from meetings and telephone calls that retirees believe that the System should purchase its own building and that it is a good investment all the way around.

Mr. Crawford stated that he will not be supporting a motion to purchase this property because he believes that parking is not an issue downtown for retirees that might need handicapped access which is provided at City Hall and the City Center Building, and he does not believe that there would be a problem with confidentiality, noting that the Human Resources Department is on the same floor in the building and it would be convenient for employees to have the offices closer together. Mr. Crawford stated that while 1500 square feet seems much more reasonable than previous alternatives, and although he would have approached the analysis differently, he essentially reached the same conclusion, but he believes it makes more sense to share City facilities if there is an opportunity.

Mr. Kahan stated that subject to additional financial information provided by Mr. Powell, the long-term lease vs. buy scenarios are dramatic in terms of looking at this as an asset 25 years from now and that is motivating to him because he believes the System will be here for a long period of time and the Committee needs to be thinking long-term. Mr. Kahan stated that he would rather be ahead of the game than behind, so the numbers are very compelling to him and he will be supporting this motion.

Mr. Boonstra stated that he will be supporting a motion as well, and this Committee has put a tremendous amount of effort into this project which has included great view points from every

single angle, including a lot of great points from Mr. Crawford, but he will support this for the interest of the Board and this is a great investment opportunity, including the ability to invest in Ann Arbor itself in terms of supporting the community.

Ms. Sylvester agreed, stating that it is a great investment opportunity and she is just as concerned about the issue of being independent and the appearance of independence, the issues of control by the System and not the City, and the appearance of a conflict of interest. Ms. Sylvester stated that at the AFSCME meeting in September, the Union voted unanimously that the System should not be located in a City facility, and items mentioned at the meeting were the City trying to take control of the System, it appears to be a conflict of interest, and it is important that the Trustees remember that they are here only for the interest of the members and the beneficiaries. Ms. Sylvester stated that from a financial perspective, it is a sound investment to make, and the intangibles discussed earlier cannot be stated or overstated enough because they are vital and a big part of our fiduciary responsibility here. Ms. Sylvester stated that people do want privacy and anonymity and do not want rumors and the Committee has the ability to accommodate these actions, so why would we not want to provide this for our members and also make a good investment for the Fund.

It was **moved** by Sylvester and **seconded** by Boonstra to recommend to the Board of Trustees the purchase of 530 S. Maple, at approximately 1500 square feet, subject to detailed negotiations regarding finishing costs and future maintenance costs.

Motion passes 3-1

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Boonstra to adjourn the meeting at 2:01 p.m.

Meeting adjourned at 2:01 p.m.

F-6 Audit Committee Report – September 19, 2007

Following are the Audit Committee minutes from the meeting convened at 4:35 p.m. on September 19, 2007:

Committee Members Present:	Crawford (5:05), Nerdrum, Pollock, Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Jarskey, Powell
Others Present:	Alan D. Panter, Abraham & Gaffney, P.C. Rachel Bottema, Abraham & Gaffney, P.C.

SCOPE OF AUDIT– ABRAHAM & GAFFNEY, P.C.

Mr. Panter stated that Abraham & Gaffney works for the Board and is here to provide a service and a management tool, working with management for the Board. They receive their general guidance from the Auditing Standards, but there is still a lot of judgment involved in what they do and how they do it. Auditing financial statements is specifically what A&G is here to do, part of that is looking at internal controls, who the benefits are going to, whether or not those individuals are alive, whether or not they are being paid the correct amount, etc.

Mr. Pollock asked if there were any concerns from the last audit that Mr. Panter feels needed to be addressed, and Mr. Panter stated that whenever they have concerns, it is their job to make it known to the Board, and whatever problems or concerns they would have seen would have been communicated last year. Mr. Panter stated that they include a letter to the Board addressing the audit, which includes the header, "Difficulties Performing the Audit", which is where the Board would find any concerns. There were no concerns found in last year's audit, and there is nothing that the Trustees need to do that they aren't already doing as far as the scope of the audit, and there are no

major procedural or internal control problems. Mr. Panter stated that the idea of an Audit Committee is to provide a group of interested and independent overseers that are all Board members to oversee all aspects of the financial reporting process which is a very important process. The job of the Audit Committee, hopefully, is to oversee both the actions of management, the internal control structure that is put into place, and the actions of the auditors. This also provides the auditors with a direct method of communication with the people that they work for, and Mr. Panter believes that it is a good idea to have the Audit Committee.

Mr. Pollock stated that he is looking for a simple summary of the processes and controls that the auditors look into, and asked if it would be complicated for the auditors to put together a listing of what they look at when creating the audit. Mr. Panter stated that this could be done, and a major part of the financial portion is from looking at the records from The Northern Trust Company, which is fairly easy to audit. Mr. Pollock stated that he would like to be able to help the other Trustees understand the audit process, and the way to do that is by being able to understand the main areas of what is looked at when creating the audit, and perhaps Ms. Jarskey would be able to put together a summary of the top three or five source data documents that are studied during the audit process, and have A&G review it before submitting it to the Committee. Mr. Panter stated that taking a look at their actual work papers would be a good way to understand what goes into the audit process.

Ms. Sylvester asked about the VEBA audit, and asked where the trail is that the Trustees can look at to see how the final amounts are reported. Mr. Panter stated that this is a combined concern between the City's audit and the Retirement Plan's audit, because they are taking financial information from the City and using it to bill the Retirement Plan, so as the City's auditor's they are looking at their systems as well by testing and sampling transactions to determine whether or not they can rely on those systems. A&G obviously can't test anywhere near 100% of those transactions, but they use enough procedures to determine that the systems are in place to put things where they need to go and that transactions are properly authorized and properly valued.

Ms. Bottema reviewed the work papers, which serve as evidence that they have completed their procedures, such as the presentation letter from Mr. Powell to the auditors indicating that staff has provided all of the information they have and haven't withheld any information, and are not aware of any fraud. Mr. Panter stated that a common misconception is that auditors are here to figure out if people are taking money, and that is not what they are here to do, but rather, the purpose of the audit is to give an opinion on the financial statements. Mr. Panter stated that all of the guidance that they receive emphasizes management's responsibility to detect and deter fraud, so they ask about fraud, and if they find or suspect fraud, they are going to dig in to that area, but if during their procedures, they do not come across anything, they are not going to go looking for it.

(Mr. Crawford arrived at this time)

Ms. Bottema stated that the actuarial reports for both the Retirement and VEBA systems are also reviewed, mainly matching them against other data. A discussion ensued regarding the reliability of source documents, and Mr. Panter stated that basically, the auditors gather information from various sources from Northern Trust, the City, and the Retirement System, and relying upon their integrity in giving them the accurate information to the best of their knowledge.

ACTUARIAL BASICS PRESENTATION

The Committee reviewed and discussed the presentation submitted by Ms. Nerdrum, who provided a document that gives basic concepts and explanations of certain actuarial terms. Mr. Pollock suggested certain changes that would make the document easier to read and understand. Mr. Pollock stated that it would be helpful to have a list showing what the City controls and what the Retirement System controls as far as assumptions, Ordinance changes, inflation rates, etc. The Committee decided to continue to review the document on an ongoing basis for an ultimate presentation to the full Board at the Annual Board Retreat in January 2008.

ADJOURNMENT

It was ***moved*** by Sylvester and ***seconded*** by Pollock to adjourn the meeting at 5:55 p.m.
Meeting adjourned at 5:55 p.m.

F-7 Special Administrative Policy Committee Report – October 9, 2007

Following are the Special Administrative Policy Committee minutes from the meeting convened at 1:36 p.m. on October 9, 2007:

Committee Members Present:	Boonstra, Carter, Crawford (1:45), Heatley (1:40), Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell, Refalo
Others Present:	Michael VanOverbeke, Legal Counsel Mary Fales, Senior Assistant City Attorney Jeff Rentschler, City Retiree Karoline Hense, City Retiree

PROPOSED DUTY-DEATH ORDINANCE LANGUAGE CHANGES

Ms. Fales reviewed the revised Ordinance changes with the Committee. Ms. Sylvester asked that the Committee be provided with Sections 301 and 415 of the Worker's Compensation Act of 1969 in order to better understand the proposed language. Mr. VanOverbeke stated that he will forward this language to the Committee and it was decided that this issue be postponed until the November 6, 2007 APC meeting in order for the members to have time to review the entire document before making a recommendation to the Board of Trustees.

PROPOSED POST-RETIREMENT BENEFIT INCREASE LANGUAGE CHANGES

Ms. Fales reviewed the revised Ordinance changes with the Committee. After discussing the various revisions, the Committee requested that Mr. VanOverbeke review the revised document as submitted, and that this issue be postponed until the November 6, 2007 APC meeting for further review prior to making a recommendation to the Board of Trustees.

ADJOURNMENT

It was ***moved*** by Heatley and ***seconded*** by Carter to adjourn the meeting at 2:18 p.m.
Meeting adjourned at 2:18 p.m.

F-8 Legal Report – No Report

G. INFORMATION

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 November Planning Calendar

The November Planning Calendar was received and filed.

G-3 Vendor Contacts - None

G-4 Status of Pending Projects Report

The Status of Pending Projects Report was received and filed.

G-5 INVESCO Fixed Income Departures/Due Diligence Report

Mr. Gray had provided information regarding INVESCO staff changes as well as a due diligence report from a visit to their offices in Louisville, Kentucky during the last week of September 2007. Mr. Boonstra also reviewed his and Mr. Kahan's due diligence report from that visit.

H. TRUSTEE COMMENTS

Mr. Kahan asked about the status of the temporary to permanent buy-back project, and Mr. Powell stated that this project is listed on the Status of Pending Projects report as being completed in November, and he anticipates making a report to the Board at the December Board meeting.

Mr. Kahan asked if changing the annual rate of return assumption is being looked at, and Mr. Pollock stated it is also on the Status of Pending Projects report, and is being studied by the Audit Committee.

Mr. Kahan stated that he is very honored to be a member of this Board and to be a part of all of the fantastic thinkers and members with different backgrounds bringing tremendous discussions to the table, especially considering the recent serious issues and conflicts.

I. ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Kahan to adjourn the meeting at 11:18 a.m.
Meeting adjourned at 11:18 a.m.

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

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