

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST  
BOARD OF TRUSTEES  
Minutes for the Regular Board Meeting  
March 19, 2009**

The meeting was called to order by Nancy Sylvester, Chairperson, at 11:12 a.m.

**ROLL CALL**

Members Present: Crawford, Flack, Fraser, Kahan, Nerdrum, Sylvester  
Members Absent: Heatley, Hescheles, Kaur  
Staff Present: Kluczynski, Powell, Refalo  
Others: Michael VanOverbeke, Legal Counsel  
David Diephuis, City Resident

**AUDIENCE COMMENTS - None**

**A. APPROVAL OF AGENDA**

It was **moved** by Nerdrum and **seconded** by Kahan to approve the agenda as submitted.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 February 19, 2009 Regular Retiree Health Care Benefit Plan & Trust Board Meeting**

It was **moved** by Kahan and **seconded** by Nerdrum to approve the February 19, 2009 Board meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA**

**C-1 Authorization for Payment of Invoices (\$ 2,205.18)**

**WHEREAS**, the Board of Trustees is vested with the general administration, management and responsibility for the proper operation of the Trust; and

**WHEREAS**, Section 1:746(1) of Chapter 21 of the Code of the City of Ann Arbor provides that the Trustees may use a portion of the income of the system for payment for reasonable and necessary professional services costs and expenses related to assisting the Trustees and Trust Administrator in the operation of the 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; 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.	Gray & Company	1,112.12	Investment Consultant Retainer – December 2008
2.	Gray & Company	1,093.06	Investment Consultant Retainer – February 2009
	<u>TOTAL</u>	<u>2,205.18</u>	

It was **moved** by Nerdrum and **seconded** by Kahan to approve the consent agenda as submitted.  
Approved

**D. ACTION ITEMS**

**D-1 Abraham & Gaffney, P.C. Engagement Letter to Perform Annual Financial Audit for the Year Ending June 30, 2009**

Ms. Nerdrum stated that as with the Retirement System, there have been discussions at the Board and Committee levels to initiate a separate engagement with the auditors, and Abraham & Gaffney have submitted the engagement letter and fee proposal for the Board's approval. This will enable the auditors to communicate directly with Mr. Powell on next year's audit process.

It was **moved** by Crawford and **seconded** by Flack to approve the engagement letter with Abraham & Gaffney as presented.  
Approved

**D-2 Appointment of Committee Members & Chairpersons**

It was **moved** by Kahan and **seconded** by Nerdrum to approve the same Committees and Committee members as appointed during the Retirement System's meeting.  
Approved

**Investment Policy Committee**

Chris Heatley – Chair  
Jeremy Flack  
David Hescheles  
Jeff Kahan  
Nancy Sylvester

**Administrative Policy Committee**

Tom Crawford - Chair  
Atleen Kaur  
Nancy Sylvester

**Audit Committee**

Alexa Nerdrum – Chair  
Nancy Sylvester  
Tom Crawford  
Atleen Kaur

**D-3 Resolution to Hire Three New Managers to the Health Care Benefit Plan**

Ms. Sylvester stated that this recommendation comes from the Investment Policy Committee, and the resolution recommends hiring Bradford & Marzec, Inc. for the Core Plus Fixed Income, MacKay Shields for High Yield Fixed Income, and Fisher Investments for International Equity, subject to contract approval by legal counsel and the executive director:

WHEREAS, the Board of Trustees is vested with the general 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 at its December 18, 2008 Regular Meeting amended the Investment Policy Statement to include four new asset classes in the Retiree Health Care Benefits Plan, the four new asset classes were: Core Plus Fixed Income, High Yield Fix Income, International Equity, and Core/Core Plus Real Estate, and

WHEREAS, the Investment Policy Committee, along with its Investment Consultant, Gray & Company, recommends hiring the following three managers to fill three of the four new asset classes: Bradford & Marzec, Inc for Core Plus Fixed Income, MacKay Shields for High Yield Fixed Income, and Fisher Investments for International Equity, so be it

RESOLVED, that the Board of Trustees hire Bradford & Marzec, Inc. for Core Plus Fixed Income, MacKay Shields for High Yield Fixed Income, and Fisher Investments for International Equity, subject to contract approval by Legal Counsel and Executive Director.

It was **moved** by Kahan and **seconded** by Flack to hire Bradford & Marzec, Inc. for Core Plus Fixed Income, MacKay Shields for High Yield Fixed Income, and Fisher Investments for International Equity, subject to contract approval by Legal Counsel and Executive Director.

**Approved**

**E. DISCUSSION ITEMS – None**

**F. REPORTS**

**F-1 Investment Policy Committee Report – March 3, 2009**

Following are the Retiree Health Care Benefit Plan & Trust Investment Policy Committee minutes from the meeting convened at 4:12 p.m. on February 3, 2009:

<i>Member(s) Present:</i>	<i>Heatley, Hescheles, Kahan, Sylvester</i>
<i>Member(s) Absent:</i>	<i>None</i>
<i>Other Trustees Present:</i>	<i>Crawford</i>
<i>Staff Present:</i>	<i>Kluczynski, Powell</i>
<i>Others Present:</i>	<i>Larry Gray, Gray &amp; Company Chris Kuhn, Gray &amp; Company David Diephuis, City Resident</i>

**ASSET ALLOCATION ANALYSIS**

*Mr. Kuhn stated that Mr. Crawford had previously indicated that the City would not need the liquidities from the VEBA Fund for at least the next three years, and one of the thoughts was to perhaps take more risk here since they will not need those funds. Mr. Kuhn presented three alternative scenarios for consideration which basically ends up sending funds from fixed income into the equity space to take on more risk. As a reference, the Committee reviewed the Asset / Manager Allocation Table which indicates market values as of March 2, 2009. Mr. Kuhn asked the Committee how they wish to proceed with implementing any allocation changes.*

The Committee discussed the various options and decided to amend the allocations as follows:

Core plus fixed income: Bradford & Marzec, Inc.  
High yield fixed income: MacKay Shields  
International equity: Fisher Investments

It was **moved** by Sylvester and **seconded** by Hescheles to recommend that the Board of Trustees approve the asset allocation changes as discussed.

**Approved**

### **ADJOURNMENT**

It was **moved** by Sylvester and **seconded** by Hescheles to adjourn the meeting at 4:30 p.m.

**Meeting adjourned at 4:30 p.m.**

### **F-2 Preliminary Investment Reports for the Month Ended February 28, 2009**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended February 28, 2009, to the Board of Trustees:

2/28/2009 Asset Value (Preliminary)	\$47,468,052
1/31/2009 Asset Value (Audited by Northern)	\$46,153,171
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$ (5,404,647)
Percent Gain <Loss>	-11.1%
<b>March 18, 2009 Asset Value</b>	<b>\$46,874,875</b>

Mr. Powell discussed the subject of his Executive Report from the Retirement System meeting:

### **VEBA TRANSFER**

At the Regular Board Meeting on February 19, 2009 it was reported that the City transferred \$4,348,065.09 into the VEBA. Tom Crawford, Board Trustee and CFO of the City, stated that the transfer was in error. Legal Counsel informed the Board that before the money could be returned to the City he would need to look into the Internal Revenue Service laws regarding withdrawals made in error to the VEBA. Below are memorandums from Legal Counsel and the CFO:

### **MEMORANDUM**

TO: BOARD OF TRUSTEES OF THE CITY OF ANN ARBOR  
RETIREE HEALTH CARE PLAN AND TRUST  
FROM: MICHAEL J. VANOVERBEKE, VANOVERBEKE, MICHAUD & TIMMONY PC  
RE: CORRECTION OF OVERPAYMENTS  
DATE: MARCH 4, 2009

The Internal Revenue Service has yet to provide formal guidelines for the correction of errors with regard to contributions made in error to an IRC §501(c)(9) VEBA Trust. The correction procedures that the IRS has established with regard to qualified retirement plans do not apply to VEBA Trusts because they are not considered qualified plans under Section 401 of the Internal Revenue Code. In the absence of a formal correction process, practitioners generally advise correcting errors by putting all involved parties in the position they would have been if the plan were administered correctly. Additionally, it is my understanding that the City could also request these funds be transferred to the City for payment of retiree healthcare expenses which is their intended purpose. Accordingly, it is my considered opinion that since this error was timely discovered and prompt

notification was provided such that the monies have not yet been invested, that the portion of the monies contributed in error, may be returned to the City.

## **MEMORANDUM**

**TO:** Willie Powell, Employees' Retirement System  
**FROM:** Tom Crawford, CFO  
**DATE:** March 4, 2009  
**SUBJECT:** VEBA transfer

Last month, at the request of the system, we transferred \$4,348,065.09 to the VEBA trust fund for both 2008 and 2009 monies transferred into the fund. The 2009 monies (\$2,602,856.00) were transferred in error from the Insurance Fund as an operating transfer. These monies were budgeted in the Insurance Fund as a contingency and should not have been transferred to the VEBA fund. Please transfer the money back to the City as soon as possible. If you have any questions or concerns, please contact me.

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Based on Legal Counsel advice a transfer of \$2,602,856.00 was approved on March 5, 2009 that instructed Northern Trust to return the funds to the City.

**F-3 Legal Report - None**

**G. TRUSTEE COMMENTS**

**H. FUTURE AGENDA ITEMS - None**

**I. INFORMATION**

**J. ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Nerdrum to adjourn the meeting at 11:23 a.m.  
**Meeting adjourned at 11:23 a.m.**

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