

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
October 20, 2011**

The meeting was called to order by Jeremy Flack, Chairperson, at 11:55 a.m.

ROLL CALL

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

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- D-1b Resolution to Consolidate Index Managers
- D-1c Resolution to Rebalance Assets
- I-1 Record of Paid Invoices

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

Approved as revised

B. APPROVAL OF MINUTES

B-1 September 15, 2011 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

It was **moved** by Heusel and **seconded** by Crawford to approve the September 15, 2011 Board meeting minutes as submitted.

Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Proposed Resolutions for Asset Allocation & Rebalancing Strategy

Mr. Hastie stated that all of the same comments apply to the VEBA asset allocation and rebalancing strategy as with the Retirement System's, with a slightly different manager mix, but the same intent applies on all three of the following resolutions:

D-1a Resolution to Adjust Asset Allocation Policy

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, Meketa Investment Group has advised the Investment Policy Committee to add Emerging Markets Equity Investments managers to the portfolio congruent with a new asset allocation policy; and

WHEREAS, On July 19, the Investment Policy Committee (“IPC”) voted to recommend the Board consider a new asset allocation, as presented by Meketa Investment Group, for the VEBA, and

WHEREAS, The Board approved the new asset allocation policy, and

WHEREAS, In subsequent discussions regarding compliance with Act 314 (Public Employee Retirement System Investment Act), Meketa Investment Group and Fund Counsel agreed that the newly approved allocation to emerging market debt would be most appropriately held under the Act’s provision for foreign securities, rather than accounted for under the “basket clause.” However, as a result of this classification change, the Funds’ current policies exceed the Act’s mandated limit on foreign securities.

THEREFORE, The Investment Policy Committee recommends the Board adopt amended policies for the VEBA to slightly reduce the Funds’ allocation targets to developed and emerging market equity, maintain the current allocation to emerging market debt, and increase the allocation to bank loans and high yield bonds, so be it

RESOLVED, That the Board agrees to adopt the newly modified allocation as illustrated by the attached table

Asset Allocation Policy – Recommendation Update

	Approved VEBA Policy	Recommended VEBA Policy	Recommended Target Range
	%	%	%
Domestic Equity	38	38	30-46
International Developed Market	13	11	8-14
International Emerging Market	7	6	0-9
Private Equity	0	0	-
Investment Grade Bonds	10	10	8-12
TIPS	9	9	0-11
High Yield Bonds	4	6	2-8
Bank Loans	3	4	0-6
Emerging Market Debt	3	3	0-5
Real Estate	10	10	2-12
Natural Resources	3	3	0-5
Hedge Funds	0	0	-

It was **moved** by Hastie and **seconded** by Heusel to approve the Resolution to Adjust Asset Allocation Policy as presented.

Approved

D-1b Resolution to Consolidate Index Managers

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, Meketa Investment Group has advised the Investment Policy Committee "IPC" to consolidate passive managers, and invest primarily in non-lending vehicles, and

WHEREAS, Meketa evaluated a selection of passive managers with primary considerations being fees, historical tracking error, and liquidity, and

WHEREAS, Meketa recommend to the IPC that the fund consolidate passive investments with Northern Trust, with some exceptions, and

WHEREAS, On September 15, the Investment Policy Committee ("IPC") voted to recommend the Board consolidate index providers as recommended by Meketa Investment Group, for the Retirement System, so be it

RESOLVED, that the Board agrees to adopt the recommendations of the IPC regarding consolidation of passive investments to Northern Trust, with the exception retaining SSgA for a MidCap portfolio and for a potential future allocation for TIPS, per Meketa Investment Group's "Rebalancing and Index Consolidation Recommendation".

It was **moved** by Hastie and **seconded** by Crawford to approve the Resolution to Consolidate Index Managers to Northern Trust with the exception of TIPS and Mid Cap.

Approved

D-1c Resolution to Rebalance Assets

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the VEBA, 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 an approved Investment Policy Statement in order to effectively monitor its portfolio, and

WHEREAS, the Investment Policy Statement recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions, and

WHEREAS, the Investment Policy Statement has established a range for each asset class to control risk and maximize the effectiveness of the VEBA's assets, and

WHEREAS, when an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back to the target allocation, and

WHEREAS, the System's investment consultant, Meketa has evaluated the VEBA's current asset class allocations relative to their respective targets and determined that the VEBA was significantly overweight both mid and small cap domestic equity relative to the Russell 3000 Index. Meketa recommends the VEBA move toward a market weight of small and midcap stocks by 1) funding the approved emerging markets allocation (approximately \$4.5 million) from small and midcap portfolios, and 2) rebalancing from small and midcap to large cap U.S. equity, so be it

RESOLVED, that the Board of Trustees authorizes the Executive Director to reallocate approximately \$5 million from the Rhumblin S&P 400 Index, and \$4 million from the Southern Sun Small Cap portfolio to fund the emerging market managers, DFA in the amount of approximately \$2.7 million, Vontobel in the amount of approximately \$1.8 million, and to increase the allocation to the Large Cap Index Mandate by \$4.5 million. Such reallocation will be accomplished in 3 tranches over the 4th calendar quarter and the 1st calendar quarter, per Meketa Investment Group's "Rebalancing and Index Consolidation Recommendation".

It was **moved** by Hastie and **seconded** by Monroe to approve the Resolution to Rebalance Assets according to the recommendations from Meketa Investment Group.

Approved

It was **moved** by Hastie and **seconded** by Crawford to note that the Board previously approved the hiring of the two emerging managers with a resolve that the Board would conduct the due diligence visits, and now move that that motion be amended to reflect that the Board will rely upon the due diligence of Meketa Investment Group.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Investment Policy Committee Minutes – October 4, 2011

Following are the Retiree Health Care Benefit Plan & Trust Investment Policy Committee minutes from the meeting convened at 5:25 p.m. on October 4, 2011:

<i>Member(s) Present:</i>	<i>Clark, Flack, Hastie</i>
<i>Member(s) Absent:</i>	<i>Monroe</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Gustafson, Jarskey, Walker</i>
<i>Others Present:</i>	<i>Henry Jaung, Meketa Investment Group Ted Urban, Meketa Investment Group</i>

INVESTMENT REVIEW

In reviewing the Aggregate Assets Summary and Performance, Mr. Urban noted that as of August 31, 2011, the VEBA Fund had a market value of \$78.5 million which was a decrease of \$3.8 million from the end of July 2011.

ASSET ALLOCATION AMENDMENTS

*It was **moved** by Clark and **seconded** by Flack to recommend that the Board of Trustees approve the revised asset allocation policy recommendation on page 19 of the Investment Review as reviewed and discussed.*

Approved

INDEX FUND PROVIDER CONSOLIDATION

It was **moved** by Flack and **seconded** by Clark to recommend that the Board of Trustees retain SSgA for TIPS, MidCap mandates, and non-lending, and retain The Northern Trust Company for all others.

Approved

It was noted that SSgA S&P 500 will go to The Northern Trust Company, Rhumblin MidCap would go to SSgA, and part of SouthernSun would go to fund the emerging markets.

REBALANCING RECOMMENDATIONS

Meketa has evaluated the Retirement System's current asset class allocations relative to their respective targets. As of September 29, the VEBA was significantly overweight both mid and small cap domestic equity relative to the Russell 3000 Index, a proxy for the broad U.S. equity market. Meketa recommends moving toward a market weight of small and midcap stocks by 1) funding the approved emerging markets allocation (approximately \$4.5 million) from small and midcap portfolios, and 2) rebalancing from small and midcap to large cap U.S. equity.

It was **moved** by Flack and **seconded** by Clark to recommend that the Board of Trustees approve Meketa's Rebalancing Recommendation as discussed and illustrated on page 30 of their Investment Review at +/- \$200,000.

Approved

TIMING OF EMERGING INVESTMENT STAGGER

It was **moved** by Clark and **seconded** by Flack to recommend that the index consolidation to Northern Trust be performed after the first tranche of funding to the emerging markets in November 2011, with the remaining being funded in January 2012 and March 2012.

Approved

EMERGING MANAGERS' DUE DILIGENCE

It was **moved** by Clark and **seconded** by Flack to utilize Meketa's prior due diligence visits and research for the two recent emerging market managers (Dimensional Fund Advisors and Vontobel Asset Management).

Approved

ADJOURNMENT

It was **moved** by Flack and **seconded** by Clark to adjourn the meeting at 5:30 p.m.

Meeting adjourned at 5:30 p.m.

F-2 Preliminary Investment Reports for the Month Ended September 30, 2011

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended September 30, 2011, to the Board of Trustees:

9/30/2011 Asset Value (Preliminary)	\$75,447,485
8/31/2011 Asset Value (Audited by Northern)	\$80,093,354
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	-\$1,065,444
Percent Gain <Loss>	-1.4%
October 19, 2011 Asset Value	\$ 77,378,278

F-3 Legal Report – No Report

G. TRUSTEE COMMENTS - None

H. FUTURE AGENDA ITEMS - None

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 – September 2011
2	Southern Sun Asset Management	17,141.00	Investment mgmt. Fees: July-September 2011
3	Fisher Investments	21,413.14	Investment mgmt. Fees: July-September 2011
4	RhumbLine Advisers	1,353.00	Investment mgmt. Fees: July-September 2011
	TOTAL	42,823.81	

J. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 12:00 p.m.
Meeting adjourned at 12:00 p.m.

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