

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
September 20, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:40 a.m.

**ROLL CALL**

Members Present: Clark, Crawford, Flack, Hastie, Heusel (8:45), Monroe, Nerdrum, Rogers  
Members Absent: Powers  
Staff Present: Kluczynski, Walker  
Others: Michael VanOverbeke, Legal Counsel (8:55)  
Craig DeVoogd, City Retiree  
Michael Dortch, City Employee/AAPD

**AUDIENCE COMMENTS - None**

**A. APPROVAL OF REVISED AGENDA**

A revision to the agenda includes the following item:

- F-3 Investment Police Committee Minutes – September 18, 2012

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

**Approved**

**B. APPROVAL OF MINUTES**

**B-1 August 16, 2012 Regular Board Meeting Minutes**

It was **moved** by Crawford and **seconded** by Clark to approve the August 16, 2012 Board Meeting minutes as submitted.

**Approved**

**C. CONSENT AGENDA**

It was **moved** by Crawford and **seconded** by Hastie to approve the consent agenda as submitted:

**C-1 EDRO Certification**

**RE: Sharon Marie Towles v. Timothy Wayne Towles  
Livingston County Circuit Court Case No. 08-4144-DO**

**WHEREAS**, the Board is in receipt of an Eligible Domestic Relations Order dated June 19, 2012, wherein Sharon Marie Towles, the Alternate Payee, is awarded certain rights to the benefits of Timothy Wayne Towles, the Participant, and

**WHEREAS**, the Alternate Payee is entitled to a portion of the Participant's monthly retirement benefit from the Retirement System which is subject to the Alternate Payee making an application for the same, and

**WHEREAS**, the payments from the plan to the Alternate Payee shall begin when the Participant commences benefits from the Retirement System, unless the Alternate Payee elects to receive benefits at any time after the Participant reaches his earliest retirement date, and

**WHEREAS**, the Board's policy is to require that the cost for the actuary's calculations are to be borne by the parties to the domestic relations proceedings, and the order provides that the Participant and the Alternate Payee shall be responsible for any and all additional costs for actuarial services in proportion to the Alternate Payee's share of the Participant's retirement allowance awarded to the Alternate Payee under Section 6 of the EDRO, and

**WHEREAS**, said matter having been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law, therefore be it

**RESOLVED**, that the Board acknowledges receipt of said court order and will administer benefits consistent with said order as soon as administratively feasible, and further

**RESOLVED**, that a copy of this Resolution be immediately attached as the top sheet of the Participant's pension file and other appropriate records be retained by the Retirement System relative to this matter, and further

**RESOLVED**, that copies of this resolution be sent to Timothy Wayne Towles, the Participant; John K. Harris, Esq., attorney for the Alternate Payee; and the Board's Actuary.

**Consent Agenda Approved**

**D. ACTION ITEMS**

**D-1 Invesco Mortgage Recovery Fund: Request for Extension of Investment Period**

Mr. Hastie presented a request from the Invesco Mortgage Recovery Fund to extend their purchase period for an additional year to December 2013, noting that Meketa Investment Group has reviewed the request and recommended approval during the September 18<sup>th</sup> IPC meeting. After a brief discussion, the Board agreed to approve the request as presented.

It was **moved** by Hastie and **seconded** by Monroe to approve the Request for Extension of Investment Period from the Invesco Mortgage Recovery Fund.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Opportunity for Discussion of Appeal / 457 Issue – Craig DeVoogd**

Mr. Monroe stated that this item has been brought to the Board in order to continue the discussion of Mr. DeVoogd's appeal, specifically in regards to whether the calculation of his FAC should have included the City's contributions to his 457 Plan (*the monthly \$20 match*). Mr. DeVoogd provided a brief review of his appeal, stating that he believes that the City's contributions are defined as earned compensation per Chapter 18 of the City Code, noting that the recent Ordinance restatement differs from the 1988 and 2009 language for which he believes he falls under per his contract. A lengthy discussion ensued regarding this issue, the opposing interpretations of the various Code definitions, as well as established past practice. Mr. VanOverbeke reiterated his former written opinion which concluded the following:

*"Amounts contributed by the City to the 457 Plan are more in the nature of a retirement plan contribution and/or fringe benefit such as health or life insurance. The amounts are not payable to the employee and are analogous to the employer's contribution to the Retirement System and the Retiree Health Care Plan, neither of which are included as "compensation" for retirement purposes or upon which the employee pays income taxes*

at the time contributed. Accordingly, it is the consideration of this writer that the employer contributions to an individuals' 457 Plan account is not a form of compensation paid to a member for personal services rendered to the City or an "amount deferred" by the employer into the plan."

"Based on the foregoing, it is the considered opinion of this writer that the calculation of Mr. DeVoogd's FAC should not include lump sum payments at retirement for accumulated sick time or accumulated vacation time as such payments are expressly excluded from FAC under the applicable CBA and the Retirement Ordinance. Furthermore, the exclusion of uniform allowance and City 457 Plan contributions under the Retirement Ordinance is consistent with applicable law and the past practice of the parties. Consequently, Mr. DeVoogd is not entitled to inclusion of such payments and/or contributions in the calculation of his FAC."

After further discussion, Mr. Hastie made the following motion:

It was **moved** by Hastie and **seconded** by Crawford to follow the recommendation of the Board's legal counsel as well as taking into account the System's past practice, to deny the appeal as discussed.

**Motion passes 5-3**

**E-2 Fixed Income Manager Discussion**

Mr. Hastie stated that the IPC has been discussing active versus passive investing with Meketa Investment Group for quite some time, as well as the issue of Schwartz Investment Counsel's underperformance in the last three years which has lagged the benchmark by a fair amount. At the most recent IPC meeting, Schwartz Investment Counsel was asked to make a presentation to discuss their investment philosophy, how they believe their firm can add value through active management, and other aspects of their investment process. After careful consideration, the recommendation from the Committee is to terminate the Schwartz Investment Counsel portfolio and replace it with a similar index fund. Mr. Hastie stated that it was a very difficult decision, because Schwartz has been with the System for over 37 years, but ultimately it was decided that it would be best for the System to index those funds in the same manner for less than 1/3 of the cost.

It was **moved** by Hastie and **seconded** by Crawford to terminate Schwartz Investment Counsel and work with The Northern Trust Company to participate in two fixed income funds that will provide a blend of 80% Credit and 20% Government in fixed income instruments.

**Approved**

**F. REPORTS**

**F-1 Executive Report – September 20, 2012**

**OAKTREE PPIP PRIVATE FUND, L.P.**

Distributions representing interest payments are scheduled for September 21<sup>st</sup> for:

- Retiree Healthcare Benefit Plan- **\$68,161**
- Employees Retirement System - **\$189,250**

**ACTUARIAL AND AUDIT DATA**

The accounting information for the valuation and audit is nearly complete.

The following have been submitted:

- Benefit payments reconciliation
- Lump sum payment reconciliation
- Employee contribution reconciliation
- Pension analysis of changes in the reserve account
- Accrued investment income
- Investment breakouts (*analysis by category of investment*)

Our Accountant is working on the classification of assets to conform to a format requested by the actuary. Northern has set up the audit principal and a colleague for online access to our investment reporting. The auditor has requested a sample of 50 benefit payments from a wide selection of past years to test; files have been pulled for this request.

### **MANAGER FORUM**

An investment manager forum for our equity managers has been scheduled for Wednesday, October 24<sup>th</sup>. All Board members are encouraged to attend if possible.

### **MEKETA CLIENT CONFERENCE**

Meketa's annual Investment Conference is November 10th, 2012 in San Diego. Please see staff for invitations and more information if needed. The deadline to indicate attendance is October 12, 2012.

### **TRUSTEE TERMS EXPIRING**

The terms of General Trustee Terry Clark and Police Trustee David Monroe are expiring in December 2012. Elections will be Wednesday, December 12<sup>th</sup> and Thursday, December 13<sup>th</sup>.

The new term would be from January 1, 2013-December 31, 2015. Below is a general description of the election schedule:

Early October:	Election notices will be sent for electronic posting on A2 Central, A2 News, and Ultipro, and hard copies will be sent to various departments for posting. The election notice will indicate the deadline for Declarations of Candidacy (30 calendar days prior to election date).
Mid November:	Notices announcing election candidates will be distributed as indicated above.
December 12 & 13:	Election dates (depending on confirmation with City Clerk).
December 20:	Board certification of elected candidate followed by a general announcement to all employees via electronic formats.

### **EXCERPTS FROM SUMMARY OF ELECTION POLICY**

#### **Eligibility to Serve as an Elected Trustee**

Must be an active employee of the City and an active member of the Retirement System through the term of office.

## Eligibility to Vote for Trustees

Any active employee of the City and active member of the Retirement System is eligible to vote in member-trustee elections in accordance to Section 1:553 (3) (c, e) of Chapter 18 of the Code of the City of Ann Arbor, provided however, that eligibility can be verified through City payroll records indicating that such person is eligible by his or her name appearing on the last regular payroll before such election.

Employees on leave of absence, layoff, or absent while receiving workers compensation disability act benefits are not eligible to vote. In all cases of doubt, the Board of Trustees, in its sole discretion, shall resolve questions of eligibility to vote in member-trustee elections.

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## Motion regarding Meketa Investment Group Conference in November 2012:

It was **moved** by Flack and **seconded** by Clark to authorize those Trustees wishing to attend the Meketa Investment Group 2012 Investment Conference and/or extending it into the IFEBP Annual Employee Benefits Conference in November.

**Approved**

## Update on Buck Consultants' Employee Self-Service Software:

Ms. Walker gave a brief update on the implementation and testing of the Buck software, stating that there is an outstanding invoice from Buck for approximately \$32,000 which she has decided not to pay at this time because the System is not yet finished. Ms. Nerdrum and Mr. Crawford agreed that no payment should be made until Ms. Walker is completely satisfied that the screens are working and fields are being populated correctly, etc.

## **F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended August 31, 2012**

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

8/31/2012 Asset Value (Preliminary)	\$413,382,364
7/31/2012 Asset Value (Audited by Northern)	\$406,227,796
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$31,625,500
Percent Gain <Loss>	8.1%
<b>September 19, 2012 Asset Value</b>	<b>\$ 418,566,576</b>

## **F-3 Investment Policy Committee Minutes – September 18, 2012**

Following are the Investment Policy Committee minutes from the meeting convened at 3:05 p.m. on September 18, 2012:

*Member(s) Present:* Clark, Flack, Hastie, Monroe, Rogers  
*Member(s) Absent:* None  
*Other Trustees Present:* None  
*Staff Present:* Kluczynski, Walker  
*Others Present:* Henry Jaung, Meketa Investment Group  
Ed Urban, Meketa Investment Group  
George Schwartz, Schwartz Investment Counsel  
Rick Platte, Schwartz Investment Counsel

## **SCHWARTZ FIXED INCOME PRESENTATION**

Due to the Committee's review of the fixed income portfolio, George Schwartz and Rick Platte were asked to provide a presentation to discuss Schwartz Investment Counsel's investment philosophy, how they believe their firm can add value through active management, and other aspects of their investment process. Mr. Schwartz began the presentation by stating that Schwartz Investment Counsel is proud to have been with the Retirement System for 37+ years, and has grown to have a "parental" view over the System's assets, beyond fiduciary, and has seen a lot of changes. He noted that Schwartz Investment Counsel has been a constant in serving the System through those years and despite recent underperformance in the last three years, he believes that Schwartz Investment Counsel would continue to do a good job going forward. Mr. Platte provided a presentation on their recent performance, philosophies, and investment approach.

Mr. Schwartz and Mr. Platte departed after their presentation.

The Committee carefully considered the Schwartz presentation and their tenure with the Plan in conjunction with Meketa's performance review. After a lengthy discussion, the Trustees concurred with Meketa's recommendation that a passive index strategy for this allocation to short term investment grade fixed income be adopted. A recommendation was made as follows:

It was **moved** by Flack and **seconded** by Monroe to recommend that the Board of Trustees terminate Schwartz Investment Counsel and work with The Northern Trust Company to participate in two fixed income funds that will provide a blend of 80% Credit and 20% Government in fixed income instruments.

**Approved**

## **FIXED INCOME TRANSITION PROGRESS & FUTURE PRIORITIES**

Ms. Walker reviewed the current fixed income update below:

*Invesco Stable Value Fund has been liquidated. Of the slightly greater than \$15 million in proceeds, the Sky Harbor/Retirement System allocation has been funded at \$12 million, and the \$3 million balance has been allocated to the Cash Fund for Benefit Payments.*

*MacKay Shields and Penn Capital have been notified of the terminations of the manager relationships, and distributions will occur after the contractual waiting periods have expired.*

## **INVESCO MORTGAGE RECOVERY FUND: REQUEST FOR EXTENSION OF INVESTMENT PERIOD**

Mr. Urban discussed a request from the Invesco Mortgage Recovery Fund, which is seeking an extension of the investment period of one year from its currently scheduled end date of December 31, 2012. If the request is granted, a consent and amendment to the limited partnership agreement would have to be signed by a representative of the Retirement System. Mr. Urban stated that Meketa has no organizational objections to the request and recommends approval of the extension.

It was **moved** by Flack and **seconded** by Clark to recommend that the Board of Trustees approve Invesco's request as presented. This item will be included on the September 20, 2012 regular Board meeting agenda for approval.

**Approved**

## **PROPOSED TIMING OF MANAGER FEE SCHEDULE ANALYSIS**

Meketa acknowledged that they will be providing a review of the Manager Fee Schedule on an annual basis going forward.

## **JULY INTERIM FINANCIAL REPORT**

The July Interim Report was included in the booklet provided by Meketa, but no verbal report was presented at the meeting.

## **RECAP OF RECENT GTS TRANSITION SERVICES**

The Committee decided that it would make sense to evaluate using GTS' services in the Schwartz/fixed income index transition. Mr. Jaung suggested speaking to Northern Trust as well because they also provide transition services, and then the transition costs could be compared. The Committee agreed.

## **DRAFTED INVESTMENT POLICY STATEMENT REVIEW & SAMPLE MANAGER GUIDELINES**

This item was postponed until the October 23<sup>rd</sup> IPC meeting.

## **FALL MANAGER FORUM REVIEW FOR WEDNESDAY, OCTOBER 24, 2012**

Mr. Jaung stated that he will send the Committee a copy of the questions they will be asking the managers at the Forum, and welcome any additional questions that the Trustees may have as well.

## **UPCOMING IPC MEETING SCHEDULE**

The Committee discussed the meeting schedule for the remainder of the year, and decided to hold the next regular IPC meeting on Tuesday, October 23<sup>rd</sup> at 4:00 p.m. in order to discuss the revised Investment Policy Statement. The Manager Forum will then be held the next day at WISD on October 24<sup>th</sup> at 12:30 p.m., with no IPC meeting being held in November. The December IPC meeting will remain as scheduled on Tuesday, December 4<sup>th</sup> at 3:00 p.m.

## **ADJOURNMENT**

It was ***moved*** by Monroe and ***seconded*** by Clark to adjourn the meeting at 5:46 p.m.  
**Meeting adjourned at 5:46 p.m.**

**F-4 Administrative Policy Committee Minutes – No Report**

**F-5 Audit Committee Minutes – No Report**

**F-6 Legal Report**

Mr. VanOverbeke informed the Board that the House passed Senate Bill 797 on a vote of 104-1, which is now waiting for the Governor's signature. Mr. VanOverbeke will provide further details of the Bill once it is signed into law.

**G. INFORMATION (Received & Filed)**

**G-1 Communications Memorandum**

**G-2 October Planning Calendar**

**G-3 Record of Paid Invoices**

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

	PAYEE	AMOUNT	DESCRIPTION
1	Staples Business Advantage	107.13	Miscellaneous office supplies
2	DTE Energy	19.86	Monthly Gas Fee dated August 13, 2012
3	DTE Energy	377.81	Monthly Electric Fee dated August 13, 2012
4	Comcast	81.66	Monthly Cable Fee – August
5	Schwartz Investment Counsel	11,393.00	Investment Mgmt. Fees – 4/1/12 – 6/30/12
6	Meketa Investment Group	8,750.00	Investment Consultant Retainer - August 2012
7	AT&T	150.74	Monthly telephone service
8	Comcast	81.66	Monthly Cable Fee – September
9	Hasselbring-Clark Co.	8.91	Monthly copier cost per copy
10	Fifth Third Bank/Maple Office	338.69	Condo association dues – September 2012
11	City of Ann Arbor Treasurer	7.27	Municipal Code Reimbursement
12	Coverall North America, Inc.	140.00	Office Cleaning Services for September 2012
	<b>TOTAL</b>	<b>21,456.73</b>	

**G-4 Retirement Report**

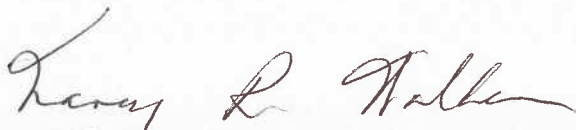
The following employee(s) have completed their paperwork for retirement:

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Mary Ann S. Tremain	Age & Service	October 6, 2012	Police	25 years	Safety Services / Police

H. **TRUSTEE COMMENTS - None**

I. **ADJOURNMENT**

It was **moved** by Heusel and **seconded** by Monroe to adjourn the meeting at 11:04 a.m.  
**Meeting adjourned at 11:04 a.m.**



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