

City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
September 15, 2011

The meeting was called to order by Jeremy Flack, Chairperson, at 8:34 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Heusel, Monroe, Nerdrum
Members Absent: None
Staff Present: Gustafson, Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
David Diephuis, City Resident
Mary Morgan, Ann Arbor Chronicle
Michael Dortch, AAPD

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- D-2 Medical Director Request for Proposal
- E-1 Public Access/Review of Board & Committee Packet Items
- E-2 Update on Police Dispatcher Transition
- E-3 Executive Director's Update on Recent Retirement Calculation Requests
- F-4 Administrative Policy Committee Minutes – September 13, 2011

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

Approved as revised

B. APPROVAL OF MINUTES

B-1 August 18, 2011 Regular Board Meeting Minutes

It was **moved** by Crawford and **seconded** by Monroe to approve the August 18, 2011 Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Resolution to Hire Dimensional Fund Advisors and Vontobel Asset Management as Emerging Market Equity Managers

Mr. Hastie provided a brief summary of the Investment Policy Committee's proposed resolution:

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, the Investment Policy Committee interviewed the following three firms for Emerging Markets Equity Managers on September 6, 2011: Dimensional Fund Advisors, Vontobel Asset Management, and Artisan Partners; and

WHEREAS, the Investment Policy Committee and Meketa Investment Group recommend funding the Emerging Markets Equity Manager mandate, currently recommended to reach a target of 7% of the portfolio, by an allocation of 60% of the mandate to DFA and 40% to Vontobel, so be it

RESOLVED, that DFA and Vontobel be added to the portfolio after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval and a due diligence visit by Trustees and/or staff. Timing of the allocations will be determined in conjunction with the Board and Meketa's recommendation.

It was **moved** by Crawford and **seconded** by Clark to hire Dimensional Fund Advisors and Vontobel Asset Management as Emerging Market Equity Managers.

Approved

It was **moved** by Hastie and **seconded** by Monroe to fund the Emerging Markets Equity Manager mandate with \$27.5 million, allocating 60% of the mandate to DFA and 40% to Vontobel, and allocating \$16 million from the Rhumblin small cap portfolio (which would result in full liquidation of that account), with the balance of approximately \$10 million to be allocated from the Loomis, Sayles & Company small cap portfolio.

Approved

D-2 Medical Director Request for Proposal

Mr. Crawford stated that this item has been recommended by the Administrative Policy Committee per the RFP Policy and schedule, noting a delay due to other pressing items on the APC's activity listing. This RFP would be issued on November 14th with a due date of December 16th in anticipation of a recommendation by February 2012. Mr. VanOverbeke suggested an additional location for the email address on page 5 of the RFP, that a provision be added in the introductory section that cites what the Ordinance provisions require in order to be granted a disability so that it is very clear in what it is the Board will be looking for from them, and also a provision stating that they will complete our certification forms and administer in conformance with our disability procedures.

It was **moved** by Nerdrum and **seconded** by Crawford to approve the proposed Medical Director Request for Proposal as revised with Mr. VanOverbeke's suggestions as discussed.

Approved

E. DISCUSSION ITEMS

E-1 Public Access/Review of Board & Committee Packet Items

Mr. Crawford stated that the APC discussed this at its September 13th meeting, noting that the

Committee did not reach a conclusion due to a desire to discuss this with the full Board as well as asking legal counsel to address questions regarding placing certain packet items on the website and what may be subject to FOIA or considered proprietary. Mr. Crawford stated that the Committee did decide to start publishing the agendas online when they become available. Mr. Heusel stated that his opinion was to remain on the conservative side and only publish the meeting agendas online due to the extra staff time it would ensue and the issue of having to decide what can or cannot be released, along with the long-term implications of determining what is subject to FOIA.

Mr. VanOverbeke agreed with Mr. Heusel, and noted that the Open Meetings law does not even require the System to publish an agenda; the law is that you have to have an agenda available at the start of your meeting. Mr. VanOverbeke briefly reviewed FOIA procedures, and believes that the most conservative approach is to only post the agenda, and then to the extent that someone wants additional information, staff can review the individual request to decide if it can be provided, and once you start releasing information it is more difficult to claim an exemption later because the information has already been considered public. Mr. Crawford stated that the APC will continue its discussion on this issue and encouraged further thoughts from the entire Board. Mr. Hastie noted that the Board should continue to be aware of its fiduciary responsibilities, and there are clear costs related when considering staff and legal time for such requests, and he believes that publishing the agenda is the best option going forward. Mr. VanOverbeke added that the amount of information on the System's website is probably within the top 5% of the retirement systems in the state, so the System is clearly at that top edge of the information that is available in terms of minutes, documents, and notices.

E-2 Update on Police Dispatcher Transition

Mr. Crawford stated that there was a Working Session held by City Council on September 12th, and the only issue that was not discussed there was the transition costs which are currently being discussed with the unions, and he has not participated in those discussions. Ms. Walker stated that these employees have been calling with questions and requests, and with many of the individuals not being eligible for retirement, staff has been asked to perform various calculations for deferred retirements. Mr. Monroe asked what the Retirement Board's responsibility is, because if this transition is going to occur in January or February, and considering that all of the details have not been worked out, what can the Board or staff tell them, understanding that these employees are under considerable stress while having to start thinking about finding future employment and what to do with their contributions; and separating this out with the City's issues, the Board should not be relying on the City for our decision making and what our role is in helping these employees understand what is going on so that they make the right decision as they have potentially three and a half months to go before they are out of a job. Mr. Monroe believes there should be a group meeting with these employees to go over the process and various scenarios so that they have a complete understanding of their options.

Mr. VanOverbeke stated that the Board's role in this process is to administer the Plan as in place, so under the existing Plan provision, there is only one option - if they terminate their employment with the City at this point in time, they would be a deferred vested retiree under the existing Plan provisions with a right to draw a benefit at this point in time based upon this criteria. With regards to retiree healthcare, if you are a deferred vested retiree, you are not eligible for retiree healthcare. The concern with holding a meeting to give out information now is that if the City is perhaps in the process of amending the Plan provisions or providing something different, the information may be different going forward. Mr. Crawford suggested placing this information on the Retirement System's website so that those employees can easily access the material. Mr. VanOverbeke stated that a caveat be added stating that it is the Retirement System's understanding that the information may change between now and the time that the transition occurs, but as of this point in time, this is

what the Plan provision provide. Ms. Walker stated that she will generate language for the website.

E-3 Executive Director's Update on Recent Retirement Calculation Requests

Ms. Walker reported that there has been an increase in requests for retirement calculations, with many employees wanting to go over their numbers immediately, and she wanted to make the Board aware that these requests can't be reasonably serviced with the level of requests that we are receiving right now, because some research is required in gathering information, performing the calculations, and double-checking the work. Ms. Walker stated that the entire process could take a week depending on the employee's circumstances, noting that they must sign their final paperwork at least thirty days prior to their retirement date.

F. REPORTS

F-1 Executive Report – September 15, 2011

STAFF UPDATE

Daniel Gustafson has joined the pension staff as pension analyst as of 9-6-2011.

BUCK

Actuarial Valuation - the Retirement System census has been submitted to Buck, and questions from Buck to staff on benefit summaries are ongoing.

RETIREMENT PROCESSING

Estimate requests are ticking up, especially from police and general members for 12-31-2011 or early in 2012. We are also attempting to provide deferred estimates for terminating dispatchers who are not retirement eligible in order to assist them with their retirement planning, but they may need to be a lower priority than retirement eligible estimates.

ORDINANCE CHANGES

The ordinance change for non union hires post 7-1-2011 and changes in vesting and FAC has been read and approved by Council 9-6-2011.

RETIREE TAX INQUIRY

Michael VanOverbeke has forwarded the information to the Retirement System subcommittee regarding the tax inquiry from a retirant.

CITY CONTRIBUTIONS

An amount of \$836,627.87, the balance of the City contributions to the Retirement System based on current tax collections, has been received.

Also, \$949,498.44 in accumulated employee contributions to the Retirement System and \$3,490,680.05 in VEBA contributions for the end of fiscal year 2011 was received on 9-7-2011.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended August 31, 2011

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended August 31, 2011, to the Board of Trustees:

8/31/2011 Asset Value (Preliminary)	\$398,001,541
7/31/2011 Asset Value (Audited by Northern)	\$410,340,623
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$8,563,090
Percent Gain <Loss>	2.2%
September 14, 2011 Asset Value	\$ 393,298,830

F-3 Investment Policy Committee Minutes: September 6, 2011

Following are the Investment Policy Committee minutes from the meeting convened at 3:05 p.m. on September 6, 2011:

Member(s) Present: Flack, Hastie, Monroe
 Member(s) Absent: Clark
 Other Trustees Present: None
 Staff Present: Gustafson, Jarskey, Walker
 Others Present: Henry Jaung, Fran Peters, Meketa Investment Group
 David Diephuis, City Resident

EMERGING MARKETS MANAGER PRESENTATIONS

Mr. Jaung and Mr. Peters gave a brief overview on the background of the Emerging Market Equity Manager Search, indicating that in July 2011 the Trustees approved new policy asset allocations for the Retirement System and VEBA which included 7% target allocations to emerging market stocks. As a result, Meketa Investment Group conducted a search to identify suitable emerging market equity managers. Managers selected for an interview were Dimensional Fund Advisors (DFA), Artisan Partners, and Vontobel Asset Management. Mr. Peters noted that all three firms are based in the United States, all have long track records with 10+ years investing in emerging markets, and all have outperformed the index.

Artisan Partners

Chip Ridley, Managing Director
 Chen Gu, Analyst (via telephone)

Artisan Partners L.P. is an independent, multi-product investment management firm focusing exclusively on high value added investment strategies. The firm was founded in 1994 by Andrew and Carlene Ziegler in Milwaukee, WI. Artisan currently employs five investment teams, each operating independently within the firm's "boutique of boutiques" structure. The Emerging Markets team joined the firm in July 2006 from DuPont Capital Management and is based in New York. As of June 30, 2011, the firm held approximately \$63.7 billion under management.

Vontobel Asset Management

Jeff Kutler, Director, Institutional Clients
 Peter Newell, Sr. Managing Director, Portfolio Adviser

Vontobel Asset Management was founded in 1984 and is dedicated exclusively to managing global long-only equity portfolios from the firm's offices in New York. Vontobel is a wholly owned subsidiary of Vontobel Holding AG and a sister company of Bank Vontobel AG, one of Switzerland's foremost private banks for over eighty years. Vontobel Holding AG is a public company listed on the Swiss exchange. As of July 31, 2011, the firm held approximately \$15.9 billion under management.

Dimensional Fund Advisors (DFA)

Doug Byrkit, Regional Director
Daniel Ong, Vice President, Portfolio Manager

Dimensional Fund Advisors was founded in 1981 and is structured as a private limited partnership owned primarily by its employees and directors. The firm is headquartered in Austin, TX, and has offices in Santa Monica, London, Sydney, and Vancouver. The firm currently has 467 employees, with 85 serving in investment capacities. DFA offers a broad array of investment products with the majority of their assets in equity strategies utilizing a similar approach. As of June 30, 2011, the firm held approximately \$231 billion under management.

COMMITTEE DISCUSSION:

The Committee discussed the presentations with Meketa. Mr. Peters stated that because the Retirement System has a larger allocation, it would make sense to hire a mix of the managers, with the VEBA hiring one, or even two. Mr. Peters stated that Meketa believes that all three firms are capable of producing strong results and they all have good track records. The Committee ultimately decided to recommend that the Board of Trustees hire Dimensional Fund Advisors and Vontobel Asset Management, allocating 60% to Dimensional as a core portfolio, and 40% to Vontobel as a satellite portfolio for both the Retirement System and the VEBA Trust.

It was **moved** by Flack and **seconded** by Monroe to recommend that the Board of Trustees hire Dimensional Fund Advisors and Vontobel Asset Management, allocating 60% to Dimensional and 40% to Vontobel. The recommendation will be brought before the Board at the regular meeting on September 15, 2011.

Approved

ADJOURNMENT

It was **moved** by Flack and **seconded** by Monroe to adjourn the meeting at 6:47 p.m.

Meeting adjourned at 6:47 p.m.

F-4 Administrative Policy Committee Minutes – September 13, 2011

Following are the Administrative Policy Committee minutes from the meeting convened at 3:01 p.m. on September 15, 2011:

Committee Members Present:	Crawford, Heusel, Monroe
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Gustafson, Kluczynski, Walker
Others Present:	David Diephuis, City Resident

Mr. Diephuis suggested that the Committee develop better framework for how the Board and Executive Director's goals and objectives are formed and evaluated. Mr. Diephuis stated that he believes the recent goals as submitted did not reflect the format of where responsibilities lay, and submitted a sample format listing using the current Executive Director goals and objectives along with mission statements from other municipality retirement systems because he believes the goals should align with the Board's mission statement, which the Board may want to look at revising in order to better direct overall reflection of the Board and Retirement System as a whole. Mr. Crawford suggested that staff add mission statement and goals to a proposed list of topics for the next Board Retreat.

MEDICAL DIRECTOR REQUEST FOR PROPOSAL

Ms. Walker presented a drafted RFP to the Committee for consideration which would be issued on November 14, 2011 and due by December 16, 2011 for review by the Committee in February 2012. The Committee discussed the draft and made minor language changes throughout the document. It was decided that the Committee should recommend the revised draft to the Board of Trustees to approve at the upcoming Board meeting on September 15, 2011.

*It was **moved** by Crawford and **seconded** by Monroe to recommend the revised Medical Director RFP to the Board of Trustees for approval at the September 15, 2011 regular Board meeting.*

Approved

PUBLIC ACCESS/REVIEW OF BOARD & COMMITTEE PACKET ITEMS

As requested by the Committee at the August meeting, Ms. Walker presented a list indicating the practical issues, time involved, or potential problems of posting entire meeting packets online which contain the supporting documents. Ms. Walker stated that her chief concern is the time involved in redacting proprietary information particularly on the investment side, as Meketa has indicated that some of their measurements and evaluations are proprietary and unique to the firm, so it becomes a question of how to identify those areas along with other items on typical board and committee agendas. Ms. Walker stated that many items presented are a work in progress or preliminary materials and drafts that the Board has not yet had a chance to view or make a decision on, which could be excluded under the FOIA rules. Ms. Walker stated that currently, the Board minutes contain final work products such as policies and resolutions, which legal counsel has already deemed adequate for providing this information to the public. Ms. Walker noted that currently, staff sends monthly agendas via email to interested individuals on the day that the packets are distributed, and her recommendation would be to post the current meeting agendas online as well.

Mr. Monroe stated that he has contacted Jackson County, a municipality that does post entire packets online, and was told that they have not encountered any problems with doing so, aside from the extra time that it takes. Ms. Walker stated that she would like policy guidance regarding how to judge which items are or are not proprietary or legally acceptable to place online so that the system is consistent. Mr. Crawford stated that he agrees that the minutes contain final products for the most part, and that if an item had to be redacted or had legal implications, he would not be in favor of it going online, but does understand that individuals may want to view certain documents before discussions are held at a meeting. Mr. Crawford suggested leaving investment-related items off of the website to avoid having to decide what is acceptable. Mr. Heusel stated that he believes that Mr. VanOverbeke's view is to be more conservative and only do that which we are legally obligated to do as opposed to just volunteer information because we consider it good policy. After further discussion, and there being no consensus or closure, it was decided that with the various legal questions presented that this item be placed on the upcoming regular meeting on September 15th for full Board and legal discussion with Mr. VanOverbeke to see if there are any potential risks when making our packets available to the public, and could it somehow comprise a position in the future that we might take on in a FOIA request. The Committee agreed that going forward, when meeting agendas become available, that they be posted on the Retirement System's website.

PRIORITIZE REMAINING TABLED/PENDING AGENDA ITEMS & ANY NEW ISSUES

It was decided that at the October APC meeting, the Committee will discuss:

- 1. Public Access/Review of Board & Committee Packet Items
(depending on the outcome of the September Board meeting discussion)*

2. *Prioritizing Tabled/Pending Agenda Items*
3. *Accelerated Vesting for VCP-Affected Individuals*

ADJOURNMENT

*It was **moved** by Monroe and **seconded** by Heusel to adjourn the meeting at 4:16 p.m.
Meeting adjourned at 4:16 p.m.*

F-5 Audit Committee Minutes – None

F-6 Legal Report

Mr. VanOverbeke stated that amendments to Public Act 314 should be introduced this afternoon, and the big hold up has been Treasury’s desire to put a very specific cap on costs for trustee training, education, and travel.

Mr. VanOverbeke suggested that considering the Board’s reliance on the various Committee structures, that it may be beneficial for the new Trustees, and for the Board as a whole, to revisit the charters of each of the Committees to decide what it is that those Committees are supposed to be addressing and what authority they have. There have been recent issues where Committees were unclear whether certain issues had to come before the full Board, and it is his understanding that the Committees only gather and discuss recommendations to take to the Board of Trustees unless otherwise directed or approved. Mr. Crawford stated that this be added to the APC’s tabled/pending items listing.

G. INFORMATION

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 October Planning Calendar

The October Planning Calendar was received and filed.

G-3 Board Tracking Report

The Board Tracking Report was received and filed.

G-4 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Coverall North America, Inc.	140.00	Office Cleaning Services for September 2011
2	Meketa Investment Group	8,750.00	Investment Consultant Retainer – August 2011
3	DTE Energy	343.00	Monthly Electric Fee dated August 12, 2011
4	AT&T	141.30	Monthly Long-Distance Telephone Service
5	Staples Business Advantage	207.12	Miscellaneous office supplies
6	AT&T	61.03	Monthly toll-free telephone service
7	Hasselbring-Clark Co.	24.85	Monthly copier cost per copy – August 2011
8	Hasselbring-Clark Co.	40.16	Monthly copier cost per copy – September 2011

9	First Impression Printing	60.00	Business cards for Daniel Gustafson
10	The Wall Street Journal	664.56	2-year subscription
11	State Street Global Advisors	311.17	Investment Mgmt. Fees: 4/1/2011–6/30/2011
12	HealthWorks	52.00	Drug screening/report for Daniel Gustafson
13	Staples	22.00	Name plate: D. Gustafson
14	Comcast	76.23	Monthly Cable Fee
TOTAL		10,893.42	

G-5 Retirement Report

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

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Lucy Ann Visovatti	Age & Service	October 14, 2011	General	25 years, 1.5 months	Administration / Communications

G-6 Correspondence from Meketa Investment Group Regarding Loomis, Sayles & Company

Correspondence regarding Loomis, Sayles & Company was received and filed.

H. TRUSTEE COMMENTS

I. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Crawford to adjourn the meeting at 9:58 a.m.
Meeting adjourned at 9:58 a.m.

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