

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
April 19, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:33 a.m.

ROLL CALL

Members Present: Clark, Flack, Hastie, Heusel, Monroe, Rogers
Members Absent: Crawford, Nerdrum, Powers
Staff Present: 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:

- E-2 Determination of Date for the Half-Day Spring Investment Manager Forum
- E-3 Closed Session – Personnel matter
- F-6 Legal Reports: Lyondell and Sonoco Products
- G-7 Future of Corporate Reform-GMI Ratings' 2012 Public Funds Forum

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

Approved as revised

B. APPROVAL OF MINUTES

B-1 March 15, 2012 Regular Board Meeting Minutes

Mr. Monroe requested that the APC minutes contained on page 10 of the Board minutes include a clarification in the rolling 36 month discussion.

It was **moved** by Hastie and **seconded** by Clark to approve the March 15, 2012 Board Meeting minutes as revised.

Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Designation of Individuals Authorized to Represent the City of Ann Arbor Employees' Retirement System with Respect to the Northern Trust Company

WHEREAS, the Board of Trustees 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, Section 1:556(3) of Chapter 18 of the Code of Ordinances, City of Ann Arbor, Michigan, provides that the Retirement System assets may from time to time be placed with a custodial service provider designated by the Board of Trustees, and

WHEREAS, Section 20(f) of Public Act 314 of 1965, as amended, provides that an investment fiduciary may use 1 or more nominees to facilitate transfer of the Retirement System's securities and may hold the securities in safekeeping with the federal reserve system, a clearing corporation, or a custodian bank which is a member of the federal reserve system, and

WHEREAS, the Board of Trustees and City Treasurer have heretofore determined that The Northern Trust Company, an Illinois corporation, is a firm with the professional expertise and capability to provide services permitted pursuant to Section 20(f) of Public Act 314 of 1965, as amended, and

WHEREAS, Section 13(4) of Public Act 314 of 1965, as amended, permits the Board of Trustees to use a portion of the income of the Retirement System to defray the costs of investing, managing, and protecting the assets of the Retirement System; and may retain investment and all other services necessary for the conduct of the affairs of the Retirement System; and may pay reasonable compensation for those services, and

WHEREAS, The Board of Trustees and The Northern Trust Company entered into a Master Custody Agreement regarding the assets of the City of Ann Arbor Employees' Retirement System effective February 1, 1998, and

WHEREAS, from time to time, the Board of Trustees, by resolution, needs to advise The Northern Trust Company of the individuals authorized to represent the City of Ann Arbor Employees' Retirement System with respect to The Northern Trust Company, therefore it be

RESOLVED, that any two of the following individuals: Nancy R. Walker, Daniel Gustafson, Lora Kluczynski, and N. Gail Jarskey are authorized to act for and on behalf of the Board of Trustees from time to time in taking all such action under the Master Custody Agreement as may be necessary to carry out the intent and meaning of the Agreement, including effecting intra account transfers, in writing, for all Northern Trust Company trust accounts as related to the Retirement System; and

FURTHER RESOLVED, that any two of the following individuals: Nancy R. Walker, Daniel Gustafson, Lora Kluczynski, and N. Gail Jarskey are authorized to instruct in writing The Northern Trust Company to effect wire transfers from the aforementioned trust accounts on behalf of the Board of Trustees, and

FURTHER RESOLVED, that any two of the following individuals: Nancy R. Walker, Daniel Gustafson, Lora Kluczynski, or N. Gail Jarskey are authorized to instruct in writing The Northern Trust Company to effect wire transfers from the Ann Arbor-Cash Account to the City of Ann Arbor JP Morgan Chase wire payment account when specified as City of Ann Arbor Employees' Retirement System reimbursement to the City Retirement System staff wages and fringe benefits on behalf of the Board of Trustees, with the limitation that all such wires must be signed and co-signed by at least two of the following individuals: Nancy R. Walker, Daniel Gustafson, Lora Kluczynski, or N. Gail Jarskey, and

FURTHER RESOLVED, that this resolution supersedes any previous representations to The Northern Trust Company relating to the designation of individuals authorized to represent the City of Ann Arbor Employees' Retirement System with respect to The Northern Trust Company, and

FURTHER RESOLVED, that this resolution, beginning April 19, 2012, shall be in full force and effect and binding upon the Board of Trustees until it is repealed and until written notice of a repeal is delivered to The Northern Trust Company at its office in the City of Chicago, Illinois.

It was **moved** by Heusel and **seconded** by Monroe to approve the Designation of Individuals Authorized to Represent the City of Ann Arbor Employees' Retirement System with Respect to the Northern Trust Company resolution.

Approved

D-2 Proposed/Revised Mission Statement

Ms. Walker presented the drafted Mission Statement as discussed at the 2012 Board Retreat.

It was **moved** by Monroe and **seconded** by Rogers to approve the revised Mission Statement as presented.

Approved

D-3 Customer Service Guidelines

Ms. Walker presented the drafted Customer Service Guidelines as discussed at the 2012 Board Retreat.

It was **moved** by Rogers and **seconded** by Monroe to approve the Customer Service Guidelines as presented.

Approved

E. DISCUSSION ITEMS

E-1 Clarification on Effective Temporary Service Purchase & Plan Participation Date on Vesting Rules

Ms. Walker stated that an employee inquired as to what their vesting time would be (5 or 10 years) after purchasing their temporary time going back to 2009 and being hired as permanent after the new 10-year vesting Ordinance change for those hired after July 1, 2011. The employee's participation date would change, placing them back to the 2009 time period when 5 year vesting was in place. Mr. Clark stated that he believes that if the employee is purchasing their service time and the participation date changes to 2009, they should be under the 5-year vesting rules. Ms. Walker also brought up the fact that the Chapter 21 language mentions the "beginning of employment", so clarification may be needed regarding the healthcare aspect as well, and would they fall under the VEBA. Mr. VanOverbeke stated that the employee was hired in 2009 as a temporary employee, and the Ordinance allows her to buy that time, so it is in effect reflecting her membership status as of that date, therefore that is the date of her employment and she should have the 5-year vesting.

Mr. VanOverbeke stated that the provision in the Plan states that if an employee's temporary employment leads directly to full-time permanent employment, then they have the ability to purchase that temporary time, meaning it really wasn't temporary because it led to full-time permanent employment, so they have been a continuous member for that period of time and have to pay the contributions, otherwise their eligibility for membership in the Plan becomes at stake, but if they buy that time, that's now their date of employment; and in this case, it just so happens that her employment date pre-dates the change in the Ordinance to 10-year vesting, but she had been employed continuously as a full-time employee. Mr. Rogers asked if this would change the seniority date, and Mr. VanOverbeke stated that seniority and service credit for retirement purposes are not always synonymous, therefore the seniority question would be a labor or collective bargaining issue.

Mr. VanOverbeke stated that he would like to review the actual Ordinance language on this issue and give a written memo so there is at least something in the file for future reference, and Ms. Walker asked that he also review the Chapter 21/VEBA language for clarification. It was decided to postpone this item until the May 17th regular Board meeting for further clarification from legal counsel.

E-2 Determination of Date for the Half-Day Spring Investment Manager Forum

Mr. Hastie stated that the IPC is planning a half-day manager forum in June and is looking for available dates that the Board members may attend. After discussion, it was decided to use the same afternoon as the regularly scheduled June IPC meeting, Tuesday, June 5th from 12:30-5:00 p.m. at WISD if available. Staff will work with Meketa to notify all of the Board members as well as the contacts for the various managers.

E-3 Closed Session – Personnel Matter

It was **moved** by Heusel and **seconded** by Clark to convene an Executive Session for the purpose of discussing a personnel matter as requested by Ms. Walker which will entail confidential information, a disclosure of which would be an invasion of an individual's right to privacy.

Approved

Roll call vote:

Clark – Yes	Hastie – Yes	Nerdrum - Absent
Crawford - Absent	Heusel – Yes	Powers - Absent
Flack – Yes	Monroe - Yes	Rogers - Yes

Executive session time: 9:08 a.m. – 9:25 a.m.

F. REPORTS

F-1 Executive Report – April 19, 2012

NEWLY SELECTED EMERGING MARKET MANAGER

Stone Harbor Investment Partners Emerging Market Local debt allocation for \$8 million for the Retirement System and \$2.5 million for the VEBA was approved in March and will be funded as soon as legal documents are complete.

BUCK CALCULATION SYSTEM UPDATE

Earnings and other data reconciliations are ongoing with the new system vs. Pension Gold. Service has been reviewed and loaded. Contributions and contribution roll-up with interest were completed by Buck for validation and reviewed for reasonableness and are now being loaded.

INVESCO MORTGAGE

INVESCO Mortgage has liquidated the entire PPIP entered into with the U.S. Treasury in September 2009. This activity resulted in a 17% gross IRR for the Limited Partners. The manager believes that the combination of market appreciation and restrictive financing mandated by Treasury make it unlikely that the PPIP will continue to provide similar returns in the future. On March 30, Ann Arbor Retirement System received \$1,634,147 as its allocable share of as part of the \$122.8 million distribution. A small amount of the investment has been held back for termination and will be distributed after settlement of final investment costs.

INVESCO Mortgage Recovery Loans is also requesting a drawdown of funds to be made in connection with an investment in an office complex. Total Amount of drawdown: \$14,598,170

Partner's allocable share of drawdown: \$194,337, drawdown date: By 11:00 a.m. (EST) on Thursday, April 12, 2012.

OAKTREE PPIP

The General Partner of Oaktree PPIP Private Fund, L.P. had made the following distributions, March 30, 2012, pursuant to Section 6.3(b) of the Amended and Restated Limited Partnership Agreement.

Retirement System: \$307,723 VEBA: \$110,830

On April 10, 2012, Oaktree requested capital draw downs of **\$307,721 and \$110, 830** to the Retirement System and the VEBA respectively, due April 19, 2012.

NEW MANAGERS DISCUSSION

The Investment Policy Committee discussed numerous potential high yield managers at the April meeting. It is anticipated that changes, if any, to the current high yield managers, may occur late summer to early fall period. The Committee is recommending to the Board that a forum for various fixed income incumbents and potentials be considered for the June IPC meeting time frame.

ORDINANCE CHANGES

A number of City Ordinance changes will be read for the second time on April 16th. These include the Chapter 18 change that was discussed with the Board's attorney on clarification of the interest crediting method for the annuity balances, the return of the original language regarding calculation of early retirements, as well as negotiated changes for COAM and Firefighters (pre tax vs. after tax contributions and new 6% levels, new vesting and FAC rules). Additionally included are the provisions that were referred to as "HELPS" providing for withholding of health care and Long Term Care premiums (defined as Qualified Health Insurance Premiums) for Eligible Retired Public Safety Officers (ERPSO's). Also, AFSCME, COAM, and AAPOA members who retire after various applicable dates will be permitted to pop up to a life annuity form a survivor election for an "other qualified adult", upon submitting an affidavit attesting that the named beneficiary no longer satisfies the Other Qualified Adult criteria.

Additionally, Chapter 21 will be amended to reflect the ineligibility of Firefighters hired after 7-1-2012 for City subsidized post retirement health care.

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

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

3/31/2012 Asset Value (Preliminary)	\$414,728,421
2/29/2012 Asset Value (Audited by Northern)	\$408,589,092
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$30,668,083
Percent Gain <Loss>	7.9%
April 18, 2012 Asset Value	\$410,166,809

F-3 Investment Policy Committee Minutes – April 3, 2012

Following are the Investment Policy Committee minutes from the meeting convened at 3:19 p.m. on April 3, 2012:

Member(s) Present: Clark, Flack (via telephone), Hastie, Monroe, Rogers
Member(s) Absent: None
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Henry Jaung, Meketa Investment Group
Ted Urban, Meketa Investment Group
David Diephuis, City Resident

RETIREMENT / VEBA INTERIM INVESTMENT REVIEW

Mr. Jaung stated that as of February 29th, the Retirement fund was at \$412.1 million, up \$10 million from January 31st, and the System is within target range for all asset classes. Mr. Urban stated that Beach Point Capital was funded on April 2nd with \$8 million from domestic equities, \$4 million from the Russell 1000, and \$4 million from the S&P 400; at the same time, the fund rebalanced an additional \$8 million from the Russell 1000 and S&P 400 to the Barclay's Aggregate Index. \$2 million was also drawn from the Russell 1000 for benefit payments. Mr. Urban stated that the Emerging Market Debt Agreements are in the process of being finalized, so that mandate will be ready to fund very soon. Meketa's recommendation for funding the Emerging Market allocation would be to draw the funding from domestic equities proportionately from the Russell 1000 (\$4 million), S&P 400 (\$2 million), and Loomis Sayles (\$2 million). As a reminder, this allocation is 2% of the Fund (roughly \$8 million).

Mr. Urban stated that as of February 29th, the VEBA fund was at \$89.2 million, up 1% from March, and the VEBA is within target range for all asset classes.

Optima CIO Termination: *On March 1, 2012, Meketa Investment Group learned that Optima's CIO and head of the Optima Discretionary Macro Fund (Macro Fund), Fabio Salvodelli, was asked to leave the firm. The System currently has \$5.7 million invested in the Macro Fund. Following the announcement, Meketa Investment Group spoke with senior members of the Optima investment team, and will continue to monitor the transition and update the Investment Policy Committee on the firm's progress. Meketa does not recommend any further action at this time. While Mr. Salvodelli's departure is a significant change for the Optima investment team, Meketa does not believe that it compromises the investment process.*

FIXED INCOME PROGRAM REVIEW

Background: In 2011, the Retirement System and VEBA approved asset allocation policies that include new allocations to TIPS, bank loans, and emerging market debt. At the March meeting, the Trustees approved an emerging market debt allocation to Stone Harbor. On April 2, the Funds made an initial bank loan investment with Beach Point.

Meketa discussed their Fixed Income Program Review, which provided an update on the Funds' progress and suggests next steps for consideration. The Committee discussed holding an Investment Manager Forum in June to further discuss Meketa's recommendations, get updates from the managers, and feedback from other Trustees. It was decided that a date should be set prior to the May IPC meeting.

HIGH YIELD BOND MANAGER SEARCH - REVIEW OF SEMI-FINALIST CANDIDATES

Meketa provided a comparison of several high yield bond managers for the Committee's consideration, and three managers were chosen for interviews at the upcoming May 1st IPC meeting.

ADJOURNMENT

The meeting was adjourned at 6:08 p.m.

F-4 Administrative Policy Committee Minutes – No Report

F-5 Audit Committee Minutes – No Report

F-6 Legal Reports

Lyondell Matter / Letter from Chubb Group of Insurance Companies:

Mr. VanOverbeke briefly reminded the Board of this litigation matter, and stated that staff has received a letter from the Board's insurance carrier, Chubb Group, who had informally indicated previously that they were not going to provide coverage and we had insisted that we receive something in writing and a basis for that. Chubb has indicated that they are denying coverage because they do not feel it is a claim for a wrongful act of the System. Mr. VanOverbeke stated that while it clearly is a claim, the key is that it doesn't fall within what is considered a wrongful act. Mr. VanOverbeke stated that the System received a preferential distribution, in other words, we made more on an investment than we otherwise would have, so there is no claim in the complaint that we did anything wrong, the claim is that due to a merger transaction, we received a return on our investments that we would otherwise not have received. Mr. VanOverbeke stated that his office will research their correspondence and perhaps create a response. Mr. Heusel stated that since the case is still pending, it may be wise to hold off on a response until finding out the results of the court action. Mr. VanOverbeke agreed.

Sonoco Products Co.:

It was **moved** by Heusel and **seconded** by Clark to convene an Executive Session for the purpose of discussing a current securities litigation case and perhaps trial and/or settlement strategy disclosure of which would perhaps impair our ability to proceed in this case.

Approved

Roll call vote:

<i>Clark – Yes</i>	<i>Hastie – Yes</i>	<i>Nerdrum - Absent</i>
<i>Crawford - Absent</i>	<i>Heusel – Yes</i>	<i>Powers - Absent</i>
<i>Flack – Yes</i>	<i>Monroe - Yes</i>	<i>Rogers - Yes</i>

Executive session time: 9:49 a.m. – 10:00 a.m.

It was **moved** by Hastie and **seconded** by Monroe to acknowledge receipt of the correspondence dated April 12, 2012 from the Board's legal counsel, noted as confidential attorney-client privilege, and to approve the mediation recommendation therein.

Approved 5-1 (Heusel abstained)

G. INFORMATION (Received & Filed)

G-1 Communications Memorandum

G-2 May Planning Calendar

G-3 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 March 2012
2	Comcast	76.23	Monthly Cable Fee
3	Meketa Investment Group	8,750.00	Investment Consultant Retainer – February 2012
4	Hasselbring-Clark	36.46	Monthly copier cost per copy
5	AT&T	56.74	Monthly toll-free service
6	Robertson Morrison Inc.	540.00	Automatic routine maintenance / 2012 fee
7	ADP, Inc.	225.00	Processing Tax Return Charge for W. Powell
8	Buck Consultants	1,583.33	Monthly hosting fees for February 2012
9	DTE Energy	212.20	Monthly Gas Fee dated March 14, 2012
10	DTE Energy	234.45	Monthly Electric Fee dated March 14, 2012
11	Robertson Morrison Inc.	172.50	Maint/repairs on cooling & heating unit on roof
12	Comcast	76.23	Monthly Cable Fee
13	AT&T	60.79	Monthly toll-free service
14	Hasselbring-Clark	41.40	Monthly copier cost per copy
15	AT&T	163.83	Monthly telephone service
16	Coverall North America, Inc.	140.00	Office Cleaning Services for April 2012
17	Staples Advantage	164.27	Miscellaneous office supplies
18	Meketa Investment Group	8,750.00	Investment Consultant Retainer – March 2012
19	Afternoon Delight	316.10	Annual Board Retreat – 3/30/2012
20	VanOverbeke, Michaud & Timmony, P.C.	10,619.00	Legal services: 4/1/2011-6/30/2011
21	VanOverbeke, Michaud & Timmony, P.C.	10,132.50	Legal services: 7/1/2011-9/30/2011
22	Nancy Walker	500.00	Travel advance: IFEBP Investments Institute 4/2012
	TOTAL	42,991.03	

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
Angella Abrams	Early/ Age & Service	May 5, 2012	Police	23 years, 7 months <i>(includes 2 years & 11 months military service credit)</i>	Safety Services/Police
Deborah Bryant	Age & Service	May 12, 2012	General	25 years	Financial/Admin. ITSU

G-5 Board Retreat Outline

G-6 Chapter 18 & Chapter 21 Ordinance Revisions:

- A. Annuity Savings Fund and Early Retirement Language**
- B. Various Police and Fire Collective Bargaining Revisions**
- C. Chapter 21 – Firefighter Healthcare Bargaining Revisions**

G-7 The Future of Corporate Reform-GMI Ratings' 2012 Public Funds Forum

H. TRUSTEE COMMENTS

Mr. Clark stated that there has been a recent settlement between the City and AFSCME on a health care issue that resulted in the favor of AFSCME employees and retirees. Mr. Clark is concerned that the term "severance pay" was used for disbursement of the payout checks, which he fears could change the figures for the retirees that were still employed at that time. Ms. Walker stated that she has received the settlement agreement, which has been signed by both the HR Director and the AFSCME President, and indicates the following:

"Under either payment choice, this amount will not be considered pensionable wages and the Union agrees that receipt of this settlement amount shall not be used as a basis for recalculating the current pensions of members who have retired."

Mr. Monroe inquired about the possibility of attending the upcoming CAPP program in June.

It was **moved** by Hastie and **seconded** by Clark to pre-approve Mr. Monroe's request to attend the IFEBP CAPP Parts 1 and 2 training sessions on June 19-22, 2012.

Approved

I. ADJOURNMENT

It was **moved** by Heusel and **seconded** by Monroe to adjourn the meeting at 10:10 a.m.

Meeting adjourned at 10:10 a.m.



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