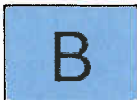


**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
March 20, 2014**



The meeting was called to order by Jeremy Flack, Chairperson, at 8:43 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Monroe, Powers
Members Absent: Heusel, Nerdrum
Staff Present: Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS – None

A. APPROVAL OF REVISED AGENDA

Ms. Walker stated that per Mr. Crawford's request, she has distributed a listing of the System's current policies required under the PA 347 of 2012 Compliance, for discussion during the Legal Report. Ms. Walker also stated that she met with Orlando Copeland from Fisher Investments, who provided her with energy reports for distribution to Trustees. Mr. VanOverbeke stated that he would like to discuss an update of the Lyondell Securities Case during his legal report (F-6).

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

Approved

B. APPROVAL OF MINUTES - January 16, 2014 Regular Board Meeting Minutes
(No meeting was held in February)

It was **moved** by Crawford and **seconded** by Monroe to approve the January 16, 2014 Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA

C-1 Reciprocal Retirement Act – Service Credit

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 acknowledges that, effective July 14, 1969, the City of Ann Arbor adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, to provide for the preservation and continuity of retirement system service credit for public employees who transfer their employment between units of government, and

WHEREAS, the Board acknowledges that a member may use service credit with another governmental unit to meet the eligibility service requirements of the Retirement System, upon satisfaction of the conditions set forth in the Reciprocal Retirement Act, and

WHEREAS, the Board is in receipt of requests to have service credit acquired in other governmental unit retirement systems recognized for purposes of receiving benefits from the Retirement System, therefore be it

RESOLVED, that the Board of Trustees hereby certifies that the following member(s) of the Retirement System have submitted the requisite documentation for the recognition of reciprocal retirement credit:

Name	Classification	Reciprocal Service Credit	Prior Reciprocal Retirement Unit
Brian DePalma	General	3 years, 10 months	City of Lincoln Park

RESOLVED, that the Board of Trustees notes that pursuant to the Reciprocal Retirement Act, said reciprocal retirement credit may only be used for purposes of meeting the retirement eligibility requirements of the Retirement System and that retirement benefits will be based upon actual service rendered to the City and shall be made payable consistent with the City Charter, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended), and further

RESOLVED, that a copy of this resolution shall be provided to the appropriate City and Union representatives and interested parties.

C-2 Authorization for Conference/Training – 2014 Spring MAPERS Conference, May 18-20, 2014 – Monroe, Walker

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) 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, the Board of Trustees acknowledges that the Retirement System has evolved in complexity such that the circumstances 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 requires continuing education, training, and oversight of its advisors, and

WHEREAS, it is necessary, appropriate and incumbent upon Board Trustees and/or Retirement System staff, from time to time, to participate in continuing education, training, and/or conduct due diligence trips in relation to their oversight of Retirement System advisors to ensure that Retirement System participants receive the best possible service, benefit and representation from these responsible persons, and

WHEREAS, David Monroe and Nancy Walker have requested the Board of Trustees' authorization for travel to Mt. Pleasant, Michigan, at Retirement System expense, estimated at \$1,898.00 (collectively), to attend the 2014 Spring MAPERS Conference, to participate in continuing education in their responsibilities as Board Trustee and Retirement Staff and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the travel request of David Monroe and Nancy Walker to travel to Mt. Pleasant, Michigan, at Retirement System expense, estimated at \$1,898.00 (collectively), to attend the 2014 Spring MAPERS Conference, to participate in continuing education in their responsibilities as Board Trustee and Retirement Staff, and

FURTHER RESOLVED, that David Monroe and Nancy Walker comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures.

It was **moved** by Crawford and **seconded** by Powers to approve the consent agenda as submitted.

Approved

D. ACTION ITEMS

D-1 Election of Board Officers – Chairperson, Vice-Chairperson, & Secretary

Mr. Monroe nominated Mr. Flack as the Board Chairperson. Mr. Flack accepted.

It was **moved** by Crawford and **seconded** by Hastie to approve Mr. Flack as Board Chairperson.

Approved

Mr. Monroe nominated Ms. Nerdrum as the Board Vice-Chairperson.

It was **moved** by Monroe and **seconded** by Hastie to approve Ms. Nerdrum as Board Vice-Chairperson.

Approved

Mr. Crawford nominated Mr. Monroe as Board Secretary. Mr. Monroe accepted.

It was **moved** by Crawford and **seconded** by Hastie to approve Mr. Monroe as Board Secretary.

Approved

D-2 Committee Appointments

The Board discussed Committee appointments and decided to keep the remaining slate of members and Chairs for each Committee the same with the option to change as needed, with the exception of the APC Chair, which will be taken over by Mr. Monroe.

It was **moved** by Hastie and **seconded** by Clark to keep the members of the Committees as currently exists, with Mr. Monroe taking over as Chair of the APC Committee, and recognizing that the IPC and AC Chairpersons will continue to serve as Chairs, it however being understood that any member of the Board wishing to be on another Committee can certainly notify the Board Chair and through the Board Chair that change will be made.

Approved

- Investment Policy Committee: *Hastie/Chair, Clark, Flack, Monroe*
- Administrative Policy Committee: *Monroe/Chair, Crawford, Heusel*
- Audit Committee: *Nerdrum/Chair, Clark, Crawford, Monroe*

D-3 Drafted 2014 Annual Member Newsletter

Ms. Walker provided a brief review of the proposed newsletter to employees and retirees.

It was **moved** by Crawford and **seconded** by Powers to acknowledge receipt of the annual newsletter and authorize distribution.

Approved

D-4 Retirement System Service Credit Policy

Mr. Crawford and Mr. VanOverbeke reviewed the proposed Service Credit Policy as recommended by the Administrative Policy Committee. Mr. Flack noted a correction to the amount of the firefighters' compensation hours (*108.0 rather than 100.8*). Mr. VanOverbeke stated that upon Board approval, he will begin working on corresponding Ordinance language to forward to City Council for inclusion to Chapter 18 of the City Code.

It was **moved** by Crawford and **seconded** by Clark to approve the Service Credit Policy as revised.

Approved

D-5 Request from City Benefits Group for Retirement Calculations to be sent to ICMA for Inclusion in a Savings Campaign

Ms. Walker informed the Board of a savings campaign being conducted by the City's Benefits Office in conjunction with ICMA. The Retirement Office has been requested to provide estimated retirement calculations for current employees for use in their campaign. Ms. Walker noted that the ESS system will create employee estimates where employees are able to input their ICMA balance, and if an employee were to generate a quarterly contribution statement in the ESS system, an accrued monthly retirement amount is provided on the statement.

Mr. Crawford stated that this issue has been discussed at the APC level, and the Committee felt that it should be a Board decision as to whether or not this information should be provided to the City. The Board discussed various concerns with providing this sort of information to a third party, such as the perception of providing financial planning, the many variables, confidential information, and the fiduciary implications involved, and decided against providing this information.

It was **moved** by Crawford and **seconded** by Clark to notify the City that the Board prefers not to provide individuals projections to a third party, noting that the individuals have the ability to log online at any time and print out a benefit statement that they can take to a third party provider for retirement planning purposes.

Approved

D-6 Resolution to Hire Summit Partners Credit Advisors

Mr. Hastie stated that the Board previously discussed this manager during the recent Board Retreat and had a strong interest in moving forward. It is direct lending, typically to smaller private companies; this is a somewhat illiquid investment to private debt with an 8-10 year holding period. Meketa's recommendation is to hire Summit with a 2% allocation (\$9 million), and as an institutional investor it is worth pursuing. Typically, given where interest rates and potential bond returns are going to be, it is part of diversifying the portfolio:

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 and Meketa, its investment consultant, are reviewing its fixed income asset allocations, and

WHEREAS, the Board of Trustees has discussed the possibility of allocating a portion of its fixed income portfolio to private credit investments, and

WHEREAS, Meketa has reviewed and recommended an investment with Summit Partners Credit Advisors, which operates Summit Partners Credit Fund II, L.P. and which is funding for Fund II, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of Summit Partners Credit Advisors with an intended allocation of 2% of the Retirement System to this investment manager, pursuant to legal review and due diligence.

It was **moved** by Hastie and **seconded** by Crawford to approve the Resolution to Hire Summit Partners Credit Advisors as submitted.

Approved

D-7 Proposed 2014-2015 Expenditure Budget

Ms. Walker reviewed the proposed expenditure budget for the 2014-2015 fiscal year, with no concerns or recommended changes by the Board of Trustees.

It was **moved** by Crawford and **seconded** by Clark to approve the 2014-2015 Expenditure Budget as presented.

Approved

E. DISCUSSION ITEMS

E-1 Summary of Northern Trust Visit on February 13, 2014

Ms. Walker provided a verbal report of her recent visit to The Northern Trust Company in February, stating that she had relayed her service concerns with the representative's manager. Ms. Walker stated that she was impressed with their high-level technology, which leaves the only issue of Northern's fees, stating that if the Board is comfortable, she would suggest that Northern be requested to revise their current fees, otherwise a decision should be made as to whether to conduct a full RFP in the near future. Overall, Ms. Walker stated that she is satisfied with The Northern Trust Company and that their service has improved. The Board agreed with Ms. Walker's suggestion to go forward with a request that Northern re-quote their current fees and report back to the IPC.

F. REPORTS

F-1 Executive Report – February/March 2014

REBALANCING

For the Retirement System, the rebalancing of \$5 million from each of the large cap (Russell 1000) mid cap (S&P 400 Index), and small cap (Loomis Sayles) managers (total of \$15 million) to \$10 million to the Barclays Aggregate Bond Fund (investment grade credit), and \$5 million to cash is complete.

VANGUARD

The \$4 million proceeds of the liquidation of Duff & Phelps REIT have been reinvested in a Vanguard REIT Index Fund.

CITY COUNCIL

Larry Langer from Buck presented the actuarial results to City Council at a working session on February 10, 2014. Council focused on funded levels, investment earnings assumptions, contributions, projections and employee trends. Buck emphasized that the System's conservative investment assumption of 7%, our policy of experience studies every 5 years to assure that our demographic assumptions remain valid for our member groups, and the City's proactive policy with regard to the funding policy are all prudent, and contribute to a stable Retirement System.

The Executive Director also included a set of slides summarizing results of a MAPERS survey in the Council packet. Time constraints prevented presentation of these items at the session, however Council was assured that ED can be contacted to respond to any questions that may arise after Council members' review.

NORTHERN TRUST

A visit to the System's custodial bank was conducted for due diligence and to discuss service and pricing on Feb. 13, 2014.

FIDUCIARY LIABILITY

The City assisted the System with a request for quotes for fiduciary liability insurance. Chubb came in with the lowest quote at this time; \$28,000.

BOARD RETREAT

The Board Retreat on February 28th was well-attended. Larry Langer, Meketa, and board counsel Michael VanOverbeke presented. Meketa reviewed the System's performance, and noted that as of December 31, the Retirement System calendar YTD returns are 14.5% net of fees, fiscal YTD returns are 9.3% net of fees and 4th Q returns are 5.0% net of fees.

By asset category, Domestic equity returns +17.1%
International Developed Equity +16.2%
Investment Grade Bonds +1.3%
High Yield Bonds +6.4%
Emerging Market debt down -4.5%

VEBA returns are calendar YTD 14.8% Fiscal YTD 9.1%, and 4th Q 4.6% net of fees. Return drivers are very similar to the Pension plan.

Larry Langer from Buck discussed the current trends in the public sector and provided a GASB 67 update. (GAS 67 applies to **plan's** financial statements and GASB 68 applies to the employer's financial statements). The actuary reports that the staff and the Board should be prepared to address communications issues and "headline risk" when the new reporting is fully implemented.

Summit Partners also gave a presentation on private credit investment.

PENSION CLASSES

More ESS training will be offered in the basement computer training room March 26 and April 30.

EXPIRATION OF TRUSTEE TERM

Citizen Trustee Mark Heusel's term will expire 5-2-2014.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended February 28, 2014

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended February 28, 2014 to the Board of Trustees:

2/28/2014 Asset Value (Preliminary)	\$458,859,647
1/31/2014 Asset Value (Audited by Northern)	\$454,838,882
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$969,281
Percent Gain <Loss>	0.2%
March 19, 2014 Asset Value	\$458,988,830

F-3 Investment Policy Committee Minutes – No Report

F-4 Administrative Policy Committee Minutes – February 11, 2014

Following are the Administrative Policy Committee minutes from the meeting convened at 3:15 p.m. on February 11, 2014:

Committee Members Present: Crawford, Heusel (*via telephone*), Monroe
Members Absent: None
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Michael VanOverbeke, Legal Counsel

PART-TIME SERVICE CREDIT – REVISED/DRAFTED LANGUAGE

Mr. VanOverbeke reviewed the revised/drafted language for the "Crediting of Retirement System Service Credit Policy", specifically, additional revisions made since the January APC meeting which includes the addition of language stating the purpose of the policy, definition and illustration additions, and other minor revisions.

It was **moved** by Monroe and **seconded** by Heusel to recommend that a copy of this draft be forwarded to the full Board of Trustees with this Committee's recommendation that the Board consider adoption of the policy as presented.

Approved

REQUEST FROM CITY BENEFITS GROUP FOR RETIREMENT CALCULATIONS TO BE SENT TO ICMA FOR THEIR INCLUSION IN A SAVINGS CAMPAIGN

Ms. Walker discussed a savings campaign being conducted by the City's Benefits Office in conjunction with ICMA. The Retirement Office has been requested to provide estimated retirement calculations for current employees for use in their campaign. The Committee discussed various concerns with providing this sort of information to a third party, such as the perception of providing financial planning, the many variables, confidential information, and the fiduciary implications involved. Ms. Walker stated that the ESS system will create employee estimates where employees are able to input their ICMA balance. It was decided to take this item to the full Board for further discussion at the February meeting, but the consensus is that the Committee would be uncomfortable with providing individual member retirement estimates to a third party.

It was **moved** by Monroe and **seconded** by Heusel to recommend to the Board of Trustees that employee calculations not be provided to the Benefits Office for purposes of an ICMA Savings Campaign.

Approved

DRAFTED EMPLOYEE HANDBOOK

The Committee decided to postpone discussing the drafted employee handbook until after Mr. Monroe and Ms. Walker meet to review Mr. Monroe's various suggestions and concerns. The item will be placed on the March 11th APC agenda.

ADJOURNMENT

It was **moved** by Heusel and **seconded** by Monroe to adjourn the meeting at 4:23 p.m.

Meeting adjourned at 4:23 p.m.

F-5 Audit Committee Minutes – No Report

F-6 Legal Report – Public Act 347 of 2012 Compliance

Mr. VanOverbeke briefly discussed the PA 347 of 2012 Compliance which includes a checklist of required policies, and stated that in reviewing Ms. Walker's listed policies he does not see anything of concern noting that all of the policies are currently in place, although some may need updating such as the Code of Ethics and Travel Policy, which he will work with the APC and forward updated samples for potential revisions.

Mr. VanOverbeke distributed a memo of a brief update on the ongoing Lyondell Chemical Company securities case. Mr. VanOverbeke stated that decisions will need to be made going forward, and suggested that the matter be discussed under a closed session at the April Board meeting due to a request for further information between now and then. The Board agreed.

G. INFORMATION (Received & Filed)

G-1 Communications Memorandum

G-2 April Planning Calendar

G-3 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	DTE Energy	199.12	Monthly Gas Fee dated February 12, 2014
2	DTE Energy	173.42	Monthly Electric Fee dated February 12, 2014
3	Buck Consultants	1,583.33	Actuarial/Consulting Services through January 31, 2014
4	Buck Consultants	900.00	EDRO Calculations – Ernest Close
5	Hasselbring-Clark Co.	28.41	Monthly copier cost per copy – January 2014
6	Coverall North America, Inc.	140.00	Office cleaning services for February 2014
7	AT&T	229.30	Monthly telephone service
8	City of Ann Arbor	4.63	Municipal Code Supplement – Web Services
9	DLA Piper LLP (US)	89.10	Securities Litigation defense svcs/Lyondell – Inv. #2957303
10	Jeremy Flack	538.00	Travel Reimbursement – DFA Conference, 2/3-5/2014
11	West Arbor Office Condo Assoc.	990.98	Bi-annual condo association dues

12	Graphic Sciences, Inc.	417.38	Annual scanning of fiscal year retiree & accounting files
13	Bradford & Marzec	38,982.73	Investment Mgmt. Fees – 10/1/13 – 12/31/13
14	Income Research & Management	2,461.76	Investment Mgmt. Fees – 10/1/13 – 12/31/13
15	The Wall Street Journal	903.60	2-year subscription renewal
16	Afternoon Delight	304.25	Annual Board Retreat – 2/28/2014
17	Coverall North America, Inc.	140.00	Office cleaning services for March 2014
18	DLA Piper LLP (US)	104.00	Securities Litigation defense svcs/Lyondell – Inv. #2965902
	TOTAL	48,190.01	

G-4 Retirement Report

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Rodney Whitehead	Age & Service	March 20, 2014	Police	25 years, 5 months	Safety Services Police
Lori Martin	Early/ Age & Service	February 28, 2014	General	24 years, 3 months	Public Services Water Treatment Plant
Glenn Maggard	Age & Service	March 22, 2014	General	27 years, 5 months	Public Services Water Treatment Plant
David Glassford	Deferred	June 1, 2014	General	18 years, 8 months	Public Services Field Operations
Keith Zeisloft	Age & Service	March 29, 2014	General	12 years, 2 months	15 th District Court

G-5 Board Retreat Notes – February 28, 2014

G-6 AEW Correspondence: “A Look Back at 2013 – We Think the Founders Would be Proud”

G-7 Robbins Geller Litigation Report

H. TRUSTEE COMMENTS – None

I. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 10:16 a.m.
Meeting adjourned at 10:16 a.m.


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