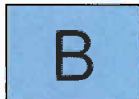


**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 20, 2014**



The meeting was called to order by Jeremy Flack, Chairperson, at 8:42 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Heusel, Monroe
Members Absent: Nerdrum, Powers
Staff Present: Jarskey, Kluczynski, Walker
Others: Aaron Castle, Legal Counsel
Larry Langer, Buck Consultants
Dan Levin, Buck Consultants
David Diephuis, City Resident

AUDIENCE COMMENTS – None

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES – October 16, 2014

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

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Single Candidate Elections

Ms. Walker informed the Board that Jeremy Flack was the only employee to complete a Declaration of Candidacy Form for the 2014 Fire Police Member Election. Per the Board's Rules and Regulations Governing Elections of Board Trustees:

ARTICLE IV – ELECTION

A) Single Candidate Election

If only one candidate has filed the Declaration of Candidacy, the City Clerk's Office shall not hold the election. The Clerk shall notify the Board of Trustees that the candidate is unopposed. The Board, upon such notice, shall declare the unopposed candidate to be the Trustee for the designated term.

Mr. Flack's new term will begin January 1, 2015 through December 31, 2017.

It was **moved** by Monroe and **seconded** by Clark to acknowledge Mr. Flack's reappointment to the Board of Trustees effective January 1, 2015 through December 31, 2017.
Approved

D-2 Resolution to Accept Investment Consultant Recommendations Regarding Securities Lending and Collateral Pool Changes

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, Northern Trust, the System's custodial bank, has communicated to the Retirement System that it intends to change the collateral pool provisions for its securities lending program, in which several fund managers participate, and offers two options; and

WHEREAS, the Investment Policy Committee has requested that Meketa review the System's current participation in the securities lending program, as well as the two proposed options for the new collateral pool; and

WHEREAS, Meketa indicates securities lending programs represent a form of leverage with an uneven risk/reward tradeoff, that securities lending spreads have narrowed, income from the program is shared with the provider, therefore the upside of the program is limited; and

WHEREAS, Meketa generally recommends against securities lending in portfolios that are used to provide stability and liquidity such as investment grade bonds; and

WHEREAS, Meketa recommends that Trustees consider removing IR&M TIPS from the program, and that the Board choose the NILAP collateral pool; so be it

RESOLVED, that the Board of Trustees remove the IR&M TIPS separate accounts from participation in the securities lending program; and

FURTHER RESOLVED, that the Board of Trustees will advise Northern Trust of its election to participate in the NILAP (2a-7) collateral pool for the manager who remains in the securities lending program.

It was **moved** by Crawford and **seconded** by Heusel to approve the Resolution to Accept Investment Consultant Recommendations Regarding Securities Lending and Collateral Pool Changes.

Approved

D-3 Due Diligence: Review of Investment Consultant's Discussion Regarding Prudence of Investments in 36 South Kohinoor Series III Fund and OZ Credit Opportunities Overseas Fund

Mr. Castle reviewed his informational memorandum to the Board of Trustees regarding the two newly-hired hedge fund managers and investment fiduciary language. While the Managers are willing to acknowledge that they are a fiduciary to the Funds and held to a reasonable person standard of care under the Advisers Act, neither Manager is willing to acknowledge that it is an investment fiduciary to the Retirement System or, by extension, that it is subject to the foregoing prudent person standard of care under Act 314. The Board of Trustees, with the assistance of its Investment Consultant must determine whether an investment in the Fund would fall within the asset limitations specified under the Basket Clause. Mr. Castle recommends that the Board seek a written opinion and recommendation from its Investment Consultant regarding the

prudence of an investment in the Kohinoor Series Three Fund and the OZ Credit Opportunities Overseas Fund, L.P., which the Board may then rely upon in furtherance of its due diligence.

It was **moved** by Hastie and **seconded** by Crawford to authorize legal counsel to move forward with the contractual documentation with 36 South and Och-Ziff.

Approved

D-4 Member Interest Credits for Calendar Year 2015

Buck Consultants submitted a letter regarding the member interest credits for Calendar Year 2015, indicating that the computed rate of return for the fiscal year ending June 30, 2014 is 6.6%. The equivalent quarterly return is 1.61% ($1.0161 \times 1.0161 \times 1.0161 \times 1.0161 = 1.066$). Therefore, 1.61% regular interest should be credited to member accounts for the quarter ending March 31, 2015 and each of the remaining three quarters in calendar year 2015.

It was **moved** by Crawford and **seconded** by Monroe to receive and file the correspondence regarding the member interest crediting rate as calculated by Buck Consultants.

Approved

E. **DISCUSSION ITEMS** – *None*

F. **REPORTS**

F-1 **Executive Report** – *November 20, 2014*

DRA CAPITAL CALLS

On October 29, 2014, DRA called capital for the Retirement System investment in the amount of **\$692,593**: a pro-rata share of the total capital call of \$110,000,000. After this capital call the remaining Commitment to the Fund is \$7,051,851.00.

On October 29, 2014, DRA called capital for the VEBA investment in the amount of **\$203,704**: a pro-rata share of the total capital call of \$110,000,000. After this capital call the remaining Commitment to the Fund is \$2,074,074.00.

INVESCO MORTGAGE DISTRIBUTION

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Friday, October 31, 2014, totaling \$5,695,350 comprised of \$2,378,633 of return of capital and \$3,316,717 of realized gains. Partner's allocable share of distribution: **\$75,818**.

SUMMIT CAPITAL CALLS

The first drawdown for the Retirement System Fund in the amount of **\$239,200** was called Monday, November 3, 2014. This installment represents 2.6% of the total commitment of \$9,200,000, with an unfunded commitment of \$8,960,800.

The first drawdown for the VEBA in the amount **\$59,800** was called Monday, November 3, 2014. This installment represents 2.6% of the total commitment of \$2,300,000, with an unfunded commitment of \$2,240,200.

DRA DISTRIBUTIONS

Pursuant to Article IV, Section 4.1 of the Fund Agreement, the fund made a distribution to the Retirement System on November 14, 2014 in the amount of **\$8,815**. The return of capital is

recallable and upon the distribution the remaining commitment to the Fund is \$7,051,851.

Pursuant to Article IV, Section 4.1 of the Fund Agreement, the fund made a distribution to the VEBA on November 14, 2014 in the amount of **\$2,593**. The return of capital is recallable and upon the distribution the remaining commitment to the Fund is \$2,074,074.00.

STANDARD PACIFIC CAPITAL

The manager documentation for this new fund, part of the hedge fund program, including a side letter has been approved by legal and is ready for signature.

ACTUARIAL VALUATION

The Retirement System and VEBA actuarial valuation reports and the GASB 67 disclosures for the Retirement System have been received, reviewed by the Audit Committee, and are now before the Board for approval.

MANAGER CHANGES

Thornburg International Equity has remitted 90% of its redemption proceeds to the System. \$24,000,000 has been invested in the Northern Trust EAFE Index fund, with the balance of the investment proceeds, about \$2.3 million, expected to be transmitted to the System Monday, November 18th.

PENSION TRAINING

An additional training session was held October 29, 2014 with a full class.

TRUSTEE SEAT UP FOR RE-ELECTION

Jeremy Flack was the only candidate filing for election for Fire Trustee.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2014

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2014 to the Board of Trustees:

10/31/2014 Asset Value (Preliminary)	\$472,806,743
9/30/2014 Asset Value (Audited by Northern)	\$469,258,932
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$26,959,530
Percent Gain <Loss>	5.8%
November 19, 2014 Asset Value	\$ 474,011,975

F-3 Investment Policy Committee Minutes – November 6, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:09 p.m. on November 6, 2014:

Member(s) Present: Clark, Flack (via telephone), Hastie
Member(s) Absent: Monroe
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Edward Urban, Meketa Investment Group

SEPTEMBER 30, 2014 INVESTMENT PERFORMANCE REVIEW

Before reviewing the investment performance, Mr. Jaung discussed the World & Capital Markets review, and also informed the Committee that everything is in compliance with Public Act 314. Mr. Jaung reviewed the performance update for the period ended September 30, 2014. As of September 30, the Retirement System was valued at \$468.7 million, a decrease of \$6.8 million for the fiscal year to date. The System returned -1.1% for the third quarter, net of fees, and reported net cash outflows of approximately \$2.1 million. At the end of September, the System was within all of its asset allocation target ranges. In late August and early September, the Bradford & Marzec portfolio was transitioned to other existing investment grade bond, high yield, and bank loan managers.

36 SOUTH & OCH ZIFF CONTRACTS UPDATE

Mr. Urban discussed a memorandum from legal counsel regarding the contract negotiations for 36 South and Och Ziff, the new hedge fund managers, which included the following information:

In accordance with the foregoing, in order for the Retirement System's investment in the Funds to be qualified under Section 20c of Act 314, the managers of the respective Funds, OZ Management LP and 36 South Capital Advisors LLP (collectively, the "Managers") must be retained to act as an investment fiduciary under Act 314. This office has requested that both Managers acknowledge a fiduciary relationship and standard of care consistent with Act 314 pursuant to terms of a side letter agreement between each respective Manager and the Retirement System. However, both Managers have refused to do so, indicating instead that they will only serve as a fiduciary to the Fund they manage to the extent applicable under the Fund documents and the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Furthermore, it is noted that the standard of care to which the Managers are held under the Fund documents and the Advisers Act is not the prudent person standard of care to which the Board of Trustees is held under Act 314.

In accordance with the foregoing, the Retirement System's investment in the Funds would not qualify under Section 20c of Act 314 and the Board must look elsewhere under Act 314 to qualify its investment in the Funds. Based on this office's review of the legal documentation pertaining to each Fund, it is the considered opinion of this writer that the Board look to Section 20d of Act 314 (i.e., the "Basket Clause") if it intends to proceed with an investment in the Fund.

Mr. Urban stated that this is a typical response from hedge fund managers due to the structure and guidelines that they follow, and it was decided that Meketa will work with Mr. VanOverbeke's office and submit a letter for Board approval that will indicate the intent to place these funds under Section 20d of Act 314 (i.e., the "Basket Clause").

POST-TRADE UPDATE ON THE FIXED INCOME TRANSITION

On September 8, 2014 Russell Implementation Services Inc. (Russell) completed a transition assignment on behalf of the City of Ann Arbor Employees Retirement System and the City of Ann Arbor Retiree Health Care Benefits Plan and Trust (collectively, the Plan). The transition involved the liquidation of assets from Bradford and Marzec to fund allocations to several commingled bond funds. Highlights of the transition were as follows:

- *Implementation shortfall (IS) of the transition portfolio versus the transaction free target portfolio over the implementation period from the close of 29 August to the close on 3 September was -37 bps at the portfolio level.*
- *Implementation shortfall is the result of the controllable costs which were -28.8 bps and an opportunity cost of -8.2 bps.*
 - *The controllable costs were in line with the estimated costs for this transition.*
 - *The implementation shortfall was in line with the estimated range of outcomes for this transition, -29 bps +/- 45 bps at one standard deviation.*
- *Seamlessly coordinated with the Plan, Meketa, and Northern Trust to ensure smooth transition process for all parties.*
- *Communicated updates throughout the pre-implementation, implementation, and post-implementation period.*

SECURITIES LENDING REVIEW

Currently, the Retirement System and VEBA participate in a securities lending program for its separate accounts custodied by Northern Trust. Recently, the Funds received a request from Northern Trust to select a new collateral investment pool for its securities lending program. Meketa presented a review of the Funds' securities lending program and a recommendation regarding the collateral pool. Meketa ultimately recommended that the Trustees consider removing the IR&M TIPS separate accounts from participation in the program.

Currently, the Funds invest in the NT Core USA collateral pool. Northern Trust will no longer be offering this pool and has asked the Funds to select a new pool before January 23, 2015. Given modest returns and to limit risk in the collateral pool, Meketa Investment Group recommends selecting the NILAP (2a-7) collateral pool, subject to legal review of fund documents.

*It was **moved** by Flack and **seconded** by Clark to take Meketa's two recommendations regarding securities lending, as discussed, to the Board of Trustees for approval at the November Board meeting.*

Approved

FOSSIL FUEL DISCUSSION

Mr. Hastie discussed next steps on this item, and believes that the Committee should move forward to address a letter to City Council which reflects the Board's feelings on the fossil fuel divestment issue. Mr. Hastie stated that after the Board's prior discussion following the last presentation by the Energy Commission members, the feeling was that pursuing a fossil fuel exclusion program is not realistic in today's environment, although it appears that there are some indices that are not too far away from being available. There are many studies that have been inconclusive, so he believes that at this time there is a small amount of interest to research an alternative/clean energy type of investment platform, which should be looked at within the next few months by the Committee. Mr. Urban stated that Meketa could provide a list of alternatives for clean energy investments across public and private markets for discussion. Mr. Jaung noted that the average costs of these investments were extremely high, and most underperformed the equity market dramatically.

SCHEDULE FOR LUNCH TIME MANAGER CALLS

The Committee discussed future topics of discussion for the quarterly lunchtime manager calls,

and it was decided that the next should be with emerging markets (Vontobel), followed by a high yield equity manager, with additional topics to be determined at a later time.

ADJOURNMENT

It was ***moved*** by Flack and ***seconded*** by Clark to adjourn the meeting at 5:35 p.m.
Meeting adjourned at 5:35 p.m.

F-4 Administrative Policy Committee Minutes – November 10, 2014

Following are the Administrative Policy Committee minutes from the meeting convened at 3:10 p.m. on November 10, 2014:

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

REVISED DRAFT – ETHICS POLICY

The Committee reviewed the drafted Ethics Policy as submitted by legal counsel, and decided that the only addition at this time should be Trustee participation and attendance language under the Fiduciary Duties section of the Policy (page 6). The Committee decided to further review the Policy at the December APC meeting after Ms. Walker has added the suggested language before recommending the final draft to the full Board at the December 18th regular meeting.

DASHBOARD CONCEPTS

Due to time constraints, this item was postponed until the December APC meeting.

ADJOURNMENT

It was ***moved*** by Crawford and ***seconded*** by Heusel to adjourn the meeting at 4:03 p.m.
Meeting adjourned at 4:03 p.m.

F-5 Audit Committee Minutes – November 10, 2014

Following are the Audit Committee minutes from the meeting convened at 4:06 p.m. on November 10, 2014:

Committee Members Present:	Clark, Crawford, Monroe, Nerdrum
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Kluczynski, Walker
Others Present:	Larry Langer, Buck Consultants (via telephone) Dan Levin, Buck Consultants (via telephone) Kevin Peng, Buck Consultants (via telephone)

DRAFTED 2014/2015 ACTUARIAL VALUATIONS

The Committee reviewed the drafted 2014/2015 Actuarial Valuations for both the City of Ann Arbor Employees' Retirement System and the Retiree Health Care Benefit Plan & Trust with Larry Langer, Dan Levin, and Kevin Peng from Buck Consultants. After general discussion, it

was determined that there were no suggestions or changes to be made to either report, and the Committee decided to recommend approval of both Valuations to the full Boards at the November regular Board meetings.

It was **moved** by Crawford and **seconded** by Monroe to forward the two Actuarial Reports to the full Board of Trustees for approval at the November 20th regular Board meetings.

Approved

EMPLOYEES' RETIREMENT SYSTEM GASB 67 DISCLOSURES FOR FISCAL YEAR ENDED JUNE 30, 2014, BASED ON VALUATION DATE OF JUNE 30, 2014

Buck Consultants reviewed the Employees' Retirement System GASB 67 Disclosures for fiscal year ended June 30, 2014, based on Valuation date of June 30, 2014. The Committee had no suggested changes to the disclosure, and decided to forward the information to the Board of Trustees for approval at the next regular Board meeting.

It was **moved** by Crawford and **seconded** by Clark to recommend that the Board of Trustees approve the GASB 67 Disclosure for the fiscal year ended June 30, 2014 at the November 20th regular Board meeting.

Approved

ADJOURNMENT

It was **moved** by Crawford and **seconded** by Clark to adjourn the meeting at 5:31 p.m.

Meeting adjourned at 5:31 p.m.

BOARD DISCUSSION:

REQUEST FOR AUDIT COMMITTEE TO APPROVE JUNE 30, 2014 AUDIT REPORT

It was **moved** by Crawford and **seconded** by Hastie that due to timing issues, the Board of Trustees will delegate the Audit Committee to officially accept this year's Audit Report on behalf of the Board at its December 9, 2014 meeting contingent upon the auditor confirming that it is in final form, reviewing it with the Audit Committee so the Committee and Board have the report prior to the AC meeting, and the Committee being comfortable with the final report.

Approved

F-6 Legal Report – None

G. PRESENTATION: Actuarial Valuation for the FY Ended June 30, 2014 & GASB 67 Disclosures (Larry Langer, Buck Consultants)

Mr. Langer attended the meeting with Mr. Levin in order to present the Annual Actuarial Valuation for the Year Ended June 30, 2014. Highlights and key takeaways from the presentation included the following:

Results of this valuation deviated from last years valuation due to many legitimate reasons:

- Market value returns of 14.23% compared to 7% assumed
- Payroll increased by 6.4% compared to 3.5% assumed
- Individual salary increases were higher than expected

Overall, the above events resulted in the funded status to be higher than anticipated and employer contributions to be higher than anticipated based on the June 30, 2013 projections.

Market returns were greater than the 7% assumed rate of return, resulting in higher funded ratio than expected as of June 30, 2014 based on the projections using the June 30, 2013 actuarial valuation assumptions and data.

The actuarial accrued liability increased from \$507 million to \$523 million during the past year. In an open plan such as the City of Ann Arbor Employees' Retirement System, liabilities are expected to grow from one year to the next as more benefits accrue and the membership approaches retirement.

The employer normal cost contribution increased from last year as a direct result of an increase in payroll. The amortization payment for unfunded actuarial accrued liability decreased as the unfunded actuarial accrued liability decreased from \$100 million to \$90 million. The actuarial employer contribution decreased from last year due to better than expected investment experience.

Key Takeaways:

- During the year ended June 30, 2014, greater investment returns and higher salaries resulted in a higher employer contribution and higher funded ratio when compared to the projections based on the June 30, 2013 census and valuation assumptions.
- 2015/2016 employer contribution is \$12,233,000
 - 2014/2015 employer contribution was \$ 12,327,000
 - Based on projection from June 30, 2013 valuation, we expected \$12,077,000
- Funded Ratio of 82.88%;
 - June 30, 2013 funded ratio was 80.24 %
 - Based on projection from June 30, 2013 valuation, we expected a funded ratio of 82.35%
- The funded ratio is projected to improve over the next several years as a result of the Board funding policy as well as the fact that the market value exceeds the actuarial value of assets for the second year consecutively. In addition, the City of Ann Arbor General Pension Policy is currently projected to result in the Retirement system achieving 100% funding under a scenario of 2% revenue growth which would drive contribution increases of 2% in the future. Expect significant changes in the date 100% funding is achieved under the City of Ann Arbor general Pension Policy.

It was **moved** by Monroe and **seconded** by Hastie to receive and file the Actuarial Valuation Report and presentation, and direct that a copy of the Report be forwarded to the City as an indication of the required contributions for the fiscal year beginning July 1, 2015.

Approved

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

H-1 **Communications Memorandum**

H-2 **December Planning Calendar**

H-3 **Record of Paid Invoices**

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

	PAYEE	AMOUNT	DESCRIPTION
1	DLA Piper	650.00	Securities Litigation defense svcs/Lyondell-Inv. #3055048
2	AT&T	256.04	Monthly telephone service
3	DTE Energy	60.33	Monthly Gas Fee dated October 10, 2014
4	DTE Energy	238.09	Monthly Electric Fee dated October 10, 2014
5	Comcast	82.80	Monthly Cable Fee
6	Loomis, Sayles & Company	40,949.29	Inv. mgmt fees: July 1, 2014 – Sept. 30, 2014
7	Allstar Alarm LLC	90.00	Quarterly alarm monitoring – Nov 2014-January 2015
8	Rehmann Robson	2,340.43	Progress audit billing for June 30, 2014
9	Bergeron Backflow Services, Inc.	189.00	Test fire protection backflow prevention devices
10	Hasselbring-Clark Co.	36.60	Monthly copier cost per copy
11	Buck Consultants	6,505.83	Actuarial services through 6/30/2014 & 6/30/14 hosting fees
12	Buck Consultants	4,821.25	Actuarial services through 12/31/2013
13	Comcast	82.81	Monthly Cable Fee
14	Meketa Investment Group	9,166.66	Investment Consultant Retainer - October 2014
15	City of Ann Arbor Treasurer	240.00	Fire inspection – 3/21/2014
16	City of Ann Arbor Treasurer	120.00	Fire inspection – 10/10/2013
17	Staples Advantage	203.64	Miscellaneous Office supplies
18	Fisher Investments	60,475.26	Investment advisory fees – 7/1/2014-9/30/2014
	TOTAL	126,508.03	

H-4 Retirement Report

Retirement paperwork has been submitted by the following employee(s):

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Steven Sheldon	Deferred	8/18/2014	General	4 years (10 years reciprocal credit)	CDBG Community Services

I. TRUSTEE COMMENTS

Mr. Monroe discussed the recent City Council meeting, stating that he and Mr. Flack were present to speak on the discussion regarding the potential of a future defined contribution plan. Mr. Monroe feels that it would be a good idea for the Board to request a meeting with the City's Labor Committee in order to offer further assistance and to be involved in their discussions. Mr. Crawford stated he feels that the Board has already offered its assistance, and he doesn't believe that it is a role of the Board to get involved with Plan changes, but rather to administer the System. After further discussion, Mr. Crawford suggested that if there is enough Board interest, then staff should contact Ms. Wilkerson in order to find out if the Labor Committee would be willing to meet in the near future, being sure to copy the Mayor and City Council.

J. ADJOURNMENT

It was **moved** by Hastie and **seconded** by to Monroe adjourn the meeting at 10:36 a.m.
Meeting adjourned at 10:36 a.m.


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