

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
April 17, 2014**

B

The meeting was called to order by Jeremy Flack, Chairperson, at 8:45 a.m.

ROLL CALL

Members Present: Crawford, Flack, Hastie, Heusel, Monroe (*via telephone*), Powers
Members Absent: Clark, Nerdrum
Staff Present: Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
Sharie Sell, Human Resources

AUDIENCE COMMENTS – None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include:

C-2 Authorization for Conference/Training - Walker
H-5 IFEBP Public Employee Policy Forum (*Information*)

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

Approved

B. APPROVAL OF MINUTES – March 20, 2014 Regular Board Meeting Minutes

It was **moved** by Heusel and **seconded** by Crawford to approve the March 20, 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
David Bodnar	General	3 years, 3 months	Wayne County

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 – IFEBP Benefits Communication & Technology Institute, July 14-15, 2014 – 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, Nancy Walker has requested the Board of Trustees’ authorization for conference/training in San Jose, CA at Retirement System expense, estimated at \$3,600.00 to attend the 2014 IFEBP Benefits Communication and Technology Conference, to participate in continuing education in her responsibility as Retirement System Staff, and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Nancy Walker to travel to San Jose, CA at Retirement System expense, estimated at \$3,600.00 to attend the IFEBP Investments Institute Conference to participate in continuing education in her responsibility as Retirement System Staff, and

FURTHER RESOLVED, that 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 Heusel and **seconded** by Powers to approve the consent agenda as submitted.

Approved

D. EXECUTIVE SESSION – Securities Litigation Matter

It was **moved** by Hastie and **seconded** by Crawford to convene an Executive Session for the purpose of discussing the Lyondell Chemical Company securities litigation matter.

Approved

Executive session time: 8:46 a.m. – 9:02 a.m.

E. ACTION ITEMS

E-1 Summary Annual Report for FY June 30, 2013

Ms. Walker discussed the drafted Summary Annual Report for the fiscal year ended June 30, 2013, stating that the new format includes all of the information as required in Public Act 314. No suggestions or concerns were raised by the Board.

It was **moved** by Powers and **seconded** by Hastie to approve the Summary Annual Report for FY June 30, 2013 as submitted.

Approved

E-2 Service Purchase Buy Back Request

Ms. Walker brought to the Board's attention a request by an employee who would like to be allowed to purchase additional temporary service time, stating that he was only allowed to purchase one year (out of three) when he became a permanent employee in 1997. A discussion ensued, and it was ultimately decided to deny this request due to: 1) the statute of limitations has clearly passed; 2) this office received no response after a survey was conducted in November 2006 whereby a window was opened for those who questioned their buy-back ability; 3) staff is unable to determine why the employee was limited at buying only one year at that point in time; and 4) this person's paperwork shows that the election period expired past the 30-day time-frame, although the one-year purchase was still allowed. Mr. VanOverbeke suggested that a memo to the employee be drafted for Board approval at the May Board meeting. The Board agreed.

F. DISCUSSION ITEMS

F-1 Bradford & Marzec Update

Mr. Hastie advised the Board of a recent discussion by the Investment Policy Committee as to recent key-staffing changes at Bradford & Marzec, and whether to consider Meketa's recommendation to terminate the relationship and reallocate both the System and VEBA funds to other areas in the portfolio. Mr. Hastie stated that before making any changes, the Committee wanted to discuss this at the Board level due to the long-standing relationship with Bradford & Marzec, and whether it was the consensus that Ms. Marzec should be invited to speak to the IPC on behalf of her firm. After further discussion, it was decided that Ms. Marzec be invited to speak at the May 8th IPC meeting before any final decisions are made by the Committee.

G. REPORTS

G-1 Executive Report – April 2014

INVESCO

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Monday, March 31, 2014 totaling \$6,985,847, comprised of \$3,501,085 of realized gains, and \$3,484,762 of return of capital.

Retirement System's allocable share of distribution: **\$92,999**

EMPLOYEE SELF-SERVICE SOFTWARE CLASSES

More hands-on ESS training was offered in the City Hall basement computer training room on March 26th and will be offered again April 30th. Turnout was light for the March class but class participants were very engaged.

EXPIRATION OF TRUSTEE TERM

Citizen Trustee Mark Heusel's term will expire 5-2-2014. He has agreed to continue as Trustee and his nomination was presented to Council 4-7-2014.

SUMMIT CREDIT ADVISORS

The legal documentation for the newly hired Summit Credit partners is in review at the board attorney's office. Basic contracts are finished and the side letters are in process.

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

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

3/31/2014 Asset Value (Preliminary)	\$461,841,539
2/28/2014 Asset Value (Audited by Northern)	\$458,890,747
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$6,408,217
Percent Gain <Loss>	1.4%
April 16, 2014 Asset Value	\$458,430,618

G-3 Investment Policy Committee Minutes – April 1, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:12 p.m. on April 1, 2014:

Member(s) Present: Clark, Hastie, Monroe
Member(s) Absent: Flack
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Henry Jaung, Meketa Investment Group
Ed Urban, Meketa Investment Group

FEBRUARY 28, 2014 INTERIM UPDATE

Mr. Jaung reviewed the performance update for the period ended February 28, 2014. As of February 28, the Retirement System was valued at \$462.8 million, an increase of approximately \$200,000 for the fiscal year to date, or 0.7%. Both funds remain in compliance with PA 314.

BRADFORD & MARZEC UPDATE

Mr. Jaung updated the Committee on a recent transition at Bradford & Marzec, and provided the following background:

- Bradford & Marzec has managed fixed income investments for the Retirement System and VEBA since 1998.
- As of February 28, Bradford & Marzec managed \$56.1 million for the Retirement System (48% of Investment Grade Bonds, 12% of System assets) and \$9.7 million for the VEBA (41% of Investment Grade Bonds, 8% of VEBA assets).
- In January, Bradford & Marzec announced that four members of the investment team had departed, including two senior portfolio managers who had been with the firm for more than 20 years. The team members were Doug Lopez, High Yield Portfolio Manager, Terry Reidt, Investment Grade Credit Portfolio Manager, Hollis Clifford, High Yield Trader, and Ryan White, Credit Analyst.

Mr. Jaung highlighted certain concerns with the departure of the investment team, and noted that while the new senior portfolio managers have fixed income experience, their potential contribution to future performance is uncertain. As a result of the abrupt departures, Meketa recommends that the System and VEBA consider a redeployment of assets to other current funds to replicate Bradford & Marzec in order to get the same yield by using the following breakdown:

With \$56 million in the Ret. System -	\$30 million to short-term government bonds (\$20 m to credit & \$10 m to government)
	\$10 million to bank loans
	\$10 million to Barclay's Agg.
	\$6 million to emerging equity
With \$10 million in the VEBA (smaller mandate) -	\$3 million to bank loans
	\$5 million to Barclay's Agg
	\$2 million to emerging market equity

This would move to a lower fee structure, and generally for core fixed income, it is a very efficient asset class and the spread for active managers is very small. The Committee discussed the recommendation, and decided that this issue should be discussed with the full Board of Trustees in order for additional input given the long history with Bradford & Marzec, and to determine if Ms. Marzec should be requested to come in to discuss the transition and new team members with the IPC before moving forward with other actions or recommendations.

HEDGE FUND PROGRAM ANALYSIS AND OPTIONS

Mr. Urban and Mr. Jaung provided a brief refresher on hedge funds and how to proceed with a direct hedge fund program. The System engaged hedge fund of funds in July 2009. Meketa believes the group works effectively together, but more cost effective options exist. Meketa went on to review the current program composition, an expanded description of hedge fund strategies (following up on February's Retreat discussion), hedge fund asset allocation options to consider, and potential options for building a direct program with a proposed timeline.

Implementation Options:

Combination

- The Trustees may also consider the strategic use of a combination of fund of hedge fund providers and direct hedge fund investment.

- *Benefits of using a hybrid approach include:*
 - *Higher degrees of control for the hedge fund asset class relating to program goals.*
 - *Eliminate conflicting investment manager goals.*
 - *Access to potential allocations not available through a direct program.*
 - *Fund of fund manager specific investment vehicles*
 - *Co-investments*
- *All investments would remain subject to the Trustees evaluation of the investment manager.*

After discussion, Mr. Hastie stated that it appears to be something the Committee wants to move forward with, and it was agreed that further discussion is necessary in order to develop a strategy (defensive, offensive, mix?). Mr. Jaung suggested that managers be invited to present soon, and as far as the hiring process, the program could be up and running in 12-18 months given the frequency of Committee/Board meetings.

PRELIMINARY LIST OF CLEAN ENERGY INVESTMENTS

Meketa Investment Group has reviewed documents for 20+ private market clean energy funds and met with 10+ private market clean energy funds. To date, Meketa has declined to invest in any funds solely focused on clean energy due to economic risk (projects are often heavily reliant on government subsidies which can be changed) and opportunity cost, given the relative attractiveness other private equity and natural resource funds. Meketa provided a representative list of clean energy-focused private market funds, excluding from this list funds that invest in a blend of traditional and clean energy assets. Meketa also has a database of public market clean and alternative energy funds, and as with private market funds, they have not invested in these public market funds. A representative list of public market funds was also provided.

Mr. Monroe expressed his concern with slowly slipping in to making decisions based on an agenda, and who's the next group to approach us with a social agenda. Mr. Hastie stated that at the Retreat there was interest in learning the positive investment premise to consider, and this would be a potentially lower administrative-burden way to implement than divestiture. Mr. Urban explained that this would be an alternative to go into all-separate accounts where you would have the ability to put guidelines in place that would restrict fossil fuel company investment, but would be much more expensive and would limit the investment universe because you would not be able to access the same asset classes in emerging markets or others, and may not make financial sense at that point because you'd have to open up specific country accounts.

After further discussion, it was decided that a determination should be made at Board level as to if or how to move forward, and to have the Energy Commission come in one more time, perhaps at the May or June Board meeting, to give a valid proposition on why not only the divestment is interesting, but to shed light on why the other things are interesting as well, and then make a determination afterwards as to what course to take. Mr. Hastie stated he will communicate with the Energy Commission representatives to see if they are interested in attending either the May or June Board meeting.

UPDATE ON CUSTODIAL BANK FEES

This item was not discussed due to time constraints.

INFORMATIONAL: MEKETA INVESTMENT GROUP 2014 DISCLOSURE BROCHURE

This item was not discussed due to time constraints.

ADJOURNMENT

Meeting adjourned at 5:56 p.m.

G-4 Administrative Policy Committee Minutes – April 8, 2014

Following are the Administrative Policy Committee minutes from the meeting convened at 3:06 p.m. on April 8, 2014:

<i>Committee Members Present:</i>	<i>Crawford, Heusel, Monroe</i>
<i>Members Absent:</i>	<i>None</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Kluczynski, Walker</i>
<i>Others Present:</i>	<i>None</i>

SERVICE PURCHASE BUY BACK QUESTION

Ms. Walker presented an issue where a current employee has inquired as to whether he could be permitted to buy back prior temporary time, even though he has already purchased one year of that time with the understanding that one year was all he was able to purchase back in 1997. The employee claims that he had more years of uninterrupted service that he feels he should have been able to purchase. Ms. Walker stated that in consultation with legal counsel, it was felt that too much time has passed (17 years) and without further research, staff is unsure of what policies and Ordinance language were in place at that time.

The Committee further discussed the issue and agreed that considerable time has passed, but decided that more research could be done to verify why employees were told they could only purchase one year of service credit during that time period. It was agreed that staff would attempt to locate the rationale and report to the full Board at the April 17th meeting so that a determination and response could be made by the Board of Trustees.

DRAFTED EMPLOYEE HANDBOOK

The Committee reviewed the revisions to the drafted Employee Handbook, making several additional minor language changes and deciding that once these revisions are completed, the Committee will review the handbook once more at the May 6th APC meeting and recommend final approval at the May 15th regular Board meeting.

ADJOURNMENT

*It was **moved** by Heusel and **seconded** by Crawford to adjourn the meeting at 4:37 p.m.
Meeting adjourned at 4:37 p.m.*

G-5 Audit Committee Minutes – No Report

G-6 Legal Report: Michigan Legislative Update - HB 4001 & 4804

Mr. VanOverbeke briefly discussed proposed amendments to House Bill 4001 – Freedom of Information Act (FOIA), and House Bill 4804 - Public Employment Relations Act (PERA).

H. INFORMATION (Received & Filed)

H-1 Communications Memorandum

H-2 May Planning Calendar

H-3 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	DTE Energy	158.63	Monthly Gas Fee dated March 13, 2014
2	DTE Energy	166.95	Monthly Electric Fee dated March 13, 2014
3	Buck Consultants	1,583.33	Actuarial/Consulting Services through February 28, 2014
4	Comcast	166.08	Monthly Cable Fee (2 months)
5	Hasselbring-Clark Co.	40.70	Monthly copier cost per copy – February 2014
6	Meketa Investment Group	8,750.00	Investment Consultant Retainer - February 2014
7	AT&T	219.11	Monthly telephone service
8	DLA Piper LLP (US)	187.20	Securities Litigation defense svcs/Lyondell – Inv. #2974710
9	Staples Advantage	173.88	Miscellaneous Office supplies
10	Nancy Walker	118.00	Travel reimb.– Northern Trust due diligence 2/13/2014
11	Meketa Investment Group	8,750.00	Investment Consultant Retainer - March 2014
12	Staples Advantage	62.58	Miscellaneous Office supplies
13	Coverall North America, Inc.	140.00	Office cleaning services for April 2014
14	Shred-it USA - Detroit	151.20	On-site shredding service 3/27/2014
15	Dollar Bill Copying	1,098.39	Printing of annual member newsletters
16	MAPERS	275.00	N. Walker registration for 2014 Spring Conference
17	MAPERS	275.00	D. Monroe registration - 2014 Spring Conference
18	Comcast	92.55	Monthly Cable Fee
19	N. Gail Jarskey	99.00	Reimbursement for Excel Training/Fred Pryor Seminars
20	DLA Piper	468.00	Securities Litigation defense svcs/Lyondell – Inv. #2981181
21	Fisher Investments	62,418.46	Investment Mgmt. Fees – 1/1/14 – 3/31/14
	TOTAL	85,394.06	

H-4 Retirement Report – No Report

I. TRUSTEE COMMENTS

Mr. Flack expressed his appreciation to Mark Heusel for his decision to remain on the Board of Trustees for another term.

J. ADJOURNMENT

It was **moved** by Heusel and **seconded** by Hastie to adjourn the meeting at 10:04 a.m.
Meeting adjourned at 10:04 a.m.



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