

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
June 19, 2014**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:37 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie (8:41), Heusel, Monroe (via telephone),
Nerdrum (8:52), Powers
Members Absent: None
Staff Present: Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS – None

A. APPROVAL OF AGENDA

It was **moved** by Heusel and **seconded** by Powers to approve the agenda as submitted.
Approved

B. APPROVAL OF MINUTES – May 15, 2014 Regular Board Meeting Minutes

Mr. Monroe noted a slight revision in the invoices listing regarding the DFA training conference.

It was **moved** by Heusel and **seconded** by Crawford to approve the May 15, 2014 Board Meeting minutes as revised.

Approved

C. CONSENT AGENDA – None

D. EXECUTIVE SESSION – Disability Re-Examination Medical Report

It was **moved** by Heusel and **seconded** by Crawford to convene an Executive Session for the purpose of discussing the medical re-examination report for Ralonda Robinson.

Approved

Roll call vote:

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

Executive session time: 8:39 a.m. – 9:03 a.m.

E. ACTION ITEMS

E-1 Motion Regarding Disability Re-Examination Report

It was **moved** by Heusel and **seconded** by Clark that the Board acknowledges receipt of the medical report dated June 3, 2014 from Allen L. Babcock, M.D. with respect to the independent medical re-evaluation of Ralonda Robinson, and to direct that the Executive Director seek a second examination consistent with the diagnosis upon which the doctor was not able to express an opinion, and that in the event that Ms. Robinson must drive outside of a 20 mile radius of the City, that she be reimbursed in mileage.

Approved

E-2 Resolution to Reallocate Funds Among Fixed Income Managers

Mr. Hastie informed the Board that many discussions have been held at the IPC level regarding Bradford & Marzec and their recent staffing changes, stating that after a thorough review of the situation and the new credit manager's performance background, the Committee supports Meketa's recommendation to terminate the manager with a deconstruction and reallocation of the holdings as outlined in the following resolution:

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, the Investment Policy Committee in conjunction with Meketa, the Board's investment consultant, reviewed the performance of fixed income manager Bradford & Marzec, recent personnel and corporate changes, as well as its fee and investment holding structure in comparison with other managers, and

WHEREAS, the review included consideration of the current fixed income investment climate including future interest rate uncertainty, and

WHEREAS, Meketa recommends and the Investment Policy Committee concurs that a similar asset allocation for this portion of the System's fixed income portfolio could be achieved at competitive cost, and similar credit quality, but with lower duration, by deconstructing the Bradford & Marzec holdings and reallocating the component classes of holdings including among current fixed income managers, so be it

RESOLVED, that the Board of Trustees authorizes the liquidation of the entire portfolio of Bradford & Marzec, and the reallocation of the investment to the Northern Trust Barclays Aggregate, Short Term Credit, Short Term Treasury, High Yield and Bank Loans managers, as recommended by Meketa, either in cash or in kind as determined by a transition manager.

It was **moved** by Flack and **seconded** by Monroe to approve the termination of Bradford & Marzec and replace those funds with a mix of investments in the Northern Trust Barclays aggregate, short term credit, short term treasury, high yield, and bank loan managers, based upon the recommendation of the Board's investment consultant, as well as with a reallocation of those funds consistent with the recommendation of the investment consultant, and as provided in the supplement of today's meeting.

Approved

E-3 Meketa Fee Proposal

Mr. Hastie reviewed a fee proposal submitted by Meketa Investment Group at the recent IPC meeting, stating that the Committee felt that it should be presented to the full Board of Trustees for discussion. After discussion, the Board decided to request that Ms. Walker conduct additional research in the area of current investment consultant fees and structures, and report back to the IPC at its next meeting.

E-4 Resolution to Retain Northern Trust as Custodial Bank

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 has a policy to review service providers on a regular and scheduled basis, either by RFI or RFP, and

WHEREAS, the Board of Trustees and Meketa, its investment consultant, have requested information regarding custodial bank services and expenses from the major banks providing custodial services, and

WHEREAS, Meketa and the Investment Policy Committee reviewed the options, proposed fee schedules and arrangements presented as well as the performance and capabilities of the current custodian, so be it

RESOLVED, that the Board of Trustees authorizes the continuation of Northern Trust as custodial bank with a restructuring of fees to a single annual fee, and the addition of a new benefits payments service affording retirees on-line access to their payment information.

It was **moved** by Hastie and **seconded** by Crawford to approve the Resolution to Retain Northern Trust as Custodial Bank as presented, including the restructured fee methodology and potential future hedge fund accounting.

Approved

E-5 Resolution to Approve Actuarial Valuation Assumptions and Proposed Costs for GASB 67/68 Work for 2014/2015 Actuarial Valuation

Ms. Nerdrum updated the Board of Trustees of the discussion held at the June 10th Audit Committee meeting with Larry Langer of Buck Consultants; the following resolution was submitted for approval:

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 is responsible for determining the economic assumptions and certain actuarial parameters for the annual actuarial valuation, and

WHEREAS, the Board of Trustees and the Audit Committee have conducted a 5-Year Experience Study in 2013 to review and validate or amend past years' actuarial assumptions, and

WHEREAS, the City of Ann Arbor has adopted a new funding policy for the Retirement System and the Retiree Health Care Benefit Plan & Trust, and

WHEREAS, the Audit Committee requested information from the actuarial consultant regarding the scope of work necessary and the costs for implementing new GASB standards 67 and 68, and

WHEREAS, the Audit Committee and the actuary reviewed the prior year's assumptions, results of the 5-Year Experience Study, and proposed fees, so be it

RESOLVED, that the Board of Trustees accepts the recommendation of the actuary that the same inflation, salary, investment return and demographic assumptions used last year be utilized in the upcoming year's valuation, and

RESOLVED, that the Board of Trustees hereby accepts the proposed fees for the implementation of the new GASB standards.

It was **moved** by Crawford and **seconded** by Nerdrum to adopt the resolution as presented and amended.

Approved

E-6 Approval of Employee Handbook – Final Draft

Mr. Monroe stated that the final draft of the Employee Handbook has been provided and recommended by the APC for Board approval. Mr. VanOverbeke suggested a modification to the disclaimer language in the front of the Handbook, and the Board agreed.

It was **moved** by Crawford and **seconded** by Clark to accept the revised Employee Handbook as the official version, with the additional disclaimer language as suggested by legal counsel.

Approved

F. DISCUSSION ITEMS

F-1 Medical Consultant Update

Ms. Walker stated that the formerly-appointed medical consultant, NIEMAN, appears to be defunct and unavailable for contact, therefore going forward, the System will fall back on our previous medical consultant, MedSource Services/Consulting Physicians.

F-2 Recent Actions by City Council Regarding the Retirement System & VEBA

Ms. Walker informed the Board of a recently-failed amendment at the May 19, 2014 City Council meeting in regards to a "Council Directive Regarding Employee Pension Plan Restructuring", as part of the budget resolution.

G. REPORTS

G-1 Executive Report – June 2014

INVESCO DISTRIBUTION

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Friday, May 30, 2014, totaling \$8,937,393 comprised of \$5,075,967 of return of capital and \$3,861,426 of realized gains.

Partner's allocable share of distribution: \$118,978

INVESCO CAPITAL CALL

INVESCO Mortgage Recovery Loans AIV, L.P. has requested Capital Call #14 in connection with additional funding of portfolio investments.

Total Amount of Drawdown: \$8,021,308

Partner's allocable share of drawdown: \$106,783

SUMMIT CREDIT ADVISORS

The legal documentation for the newly hired Summit Credit Partners has been executed and accounts are set up at the System's custodial bank.

SERVICE PROVIDER FEE AND COMPENSATION DISCLOSURE PROJECT

Pursuant to new regulations under Michigan Public Act 347 passed in 2012, late last year, Board legal counsel created Retirement System service provider disclosure forms for compensation and political contribution with a recommendation that the forms be distributed in April of 2014. Forms have been sent to required service providers with a requested return deadline of May 30. So far most of the service providers for both the RS and the VEBA have returned completed forms. Contacts have been made to remind the missing few.

ACTUARIAL VALUATION DATA REQUEST

Buck has sent the actuarial valuation data request to the System for next year's valuation. Staff had already started the census work and will continue.

RETIREE EDUCATIONAL SEMINAR

The Retiree Educational Seminar was held at the Sheraton May 29th, with a turnout of more than 125. Executive Director presented an update of the results and asset allocation of the Retirement System and the VEBA. Barbara Zaret of the U of M Turner Services and Wellness Program spoke on services available to seniors locally. Attached are some comments from attendees. Thanks to Lora Kluczynski for all of the work to coordinate the seminar!

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

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

| | |
|--|-----------------------|
| 5/31/2014 Asset Value (Preliminary) | \$465,659,082 |
| 4/30/2014 Asset Value (Audited by Northern) | \$460,893,667 |
| Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements) | \$14,360,650 |
| Percent Gain <Loss> | 3.1% |
| June 18, 2014 Asset Value | \$ 467,706,848 |

G-3 Investment Policy Committee Minutes – June 3, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:15 p.m. on June 3, 2014:

Member(s) Present: Clark, Flack (3:20 via telephone), Hastie, Monroe
Member(s) Absent: None
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Henry Jaung, Meketa Investment Group
Ed Urban, Meketa Investment Group

APRIL 30, 2014 INTERIM UPDATE

Mr. Urban reviewed the performance update for the period ended April 30, 2014. As of April 30, the Retirement System was valued at \$461 million, an increase of approximately 0.2% in the month of April, and another 1.5-2.0% for May.

TRUSTEE EDUCATION

Mr. Jaung presented suggestions for conducting further Trustee education going forward, and discussed the following ideas:

- Currently, we hold one full-day investment managers' forum per calendar year. Consider semi-annual format.
- Consider having quarterly conference calls with two to three speakers lasting 60 minutes to 90 minutes.
- Regular due diligence visits to current investment managers and future finalists in searches.
- Regular Meketa Investment Group client conferences; next takes place October 12, 2014 in Boston.
 - Formal presentations on pertinent investment topics.
 - Interactive with opportunity to ask many questions.
- Selective alternative investment conferences with Meketa representatives where we have speaking roles. Meketa practice leaders can act as the guide for the Trustees.

The Committee agreed to begin initiating some or all of Meketa's suggestions, and Mr. Hastie suggested placing these suggestions within the new Education and Travel Policy currently being revised by the Administrative Policy Committee.

BRADFORD & MARZEC REVIEW

Mr. Jaung stated that Meketa has reviewed the performance history of the newly hired portfolio manager, Greg Haendel, at Bradford & Marzec, and proceeded to go through the outline with the Committee. He indicated that Mr. Haendel's track record at his previous firm, Aegon, was strong on an absolute basis as both his Core and Core Plus funds outperformed the Barclay's Aggregate Index. However, during this period, Mr. Haendel had significant overweight exposure to investment grade corporate bonds in the Core fund and investment grade corporate and high yield bonds in the Core Plus fund. This overweight was very beneficial as corporate bonds did extremely well during 2009 to 2012 as spreads tightened quite a bit. This overweight to corporate sector may have caused the tracking error to be very high relative to the benchmark, although the total standard deviation was only marginally higher than that of the benchmark. The Core Plus fund had a high overall standard deviation over the same period with a high tracking error. This may have been the result of the large exposure to high yield bonds. Mr. Jaung stated that when adjusted for the large overweight exposures to corporate and high yield bonds, Mr. Handel's track record is slightly ahead of the benchmark.

Mr. Urban added that part of the decision is based on the fact that it is difficult for fixed income managers to outperform the benchmark after fees. With the current spreads in the corporate sector at historical lows, this sector may not provide the "tail wind" as it did during 2009 to 2012.

In closing, Meketa believes that combination of very low cost passive investments and specialist fixed income managers that the System currently employs will create a low cost core plus fixed income structure that would be very competitive to an all active structure.

It was **moved** by Clark and **seconded** by Flack to recommend to the Board of Trustees at the June 19th Board meeting that Bradford & Marzec be replaced with a blend of indices as

discussed.

Approved

REVIEW OF CUSTODY RFI SENT OUT IN 2013

Mr. Jaung stated that Meketa has prepared a better-detailed request for information (RFI) which will be sent to suitable custody peers in the future, and Mr. Urban gave a brief review of the revised RFI. Ms. Walker informed the Committee that after discussions with Northern Trust, they came back with an all-in quote which removed the transaction costs. Mr. Jaung informed the Committee that he had personally spoken with every candidate that responded in order to get additional information on the RFI, and Mr. Hastie agreed that the last search was thoroughly performed. After discussion, the Committee agreed to accept Northern's revised fee structure and continue with their services at this time.

It was **moved** by Clark and **seconded** by Flack to recommend to the Board of Trustees at the June 19th Board meeting to accept The Northern Trust Company's all-in-one fee proposal and continuing with their services.

Approved

MEKETA INVESTMENT GROUP FEE PROPOSAL

Mr. Jaung discussed a proposed adjustment in fees for Meketa's investment consulting services, and outlined both the Retirement System and VEBA's performance history and significant growth since they were hired in 2011. Included in the proposal was a detailed, all-inclusive, fee listing which would cover July 1, 2014 through June 30, 2017. It was noted that the proposal reflects both Funds' asset growth as well as the additional costs involved in restructuring the upcoming hedge fund program, which will involve a lot of work, including direct hedge fund searches. The Committee discussed the proposal in a brief private session, and ultimately decided that this proposal should be discussed with the full Board of Trustees at the June 19th regular meeting. In the meantime, staff was requested to obtain additional information such as market comparisons, perspectives and percentages.

AEW CORE PROPERTY TRUST ADVISORY BOARD ELECTIONS

Ms. Walker stated that AEW Capital Management has submitted an invitation to those interested in serving on their Advisory Board. There were no Committee members interested in sitting on their Advisory Board at this time.

JULY IPC MEETING

Mr. Hastie stated that he would not be able to attend the IPC meeting in July, and the Committee decided to cancel the July meeting and hold the next meeting as scheduled on August 5th. Mr. Hastie also requested that Meketa attend the September 18th regular Board meeting for the presentation being made by the Energy Commission representatives regarding fossil fuels. Mr. Jaung agreed, and noted that the August and September IPC meetings should focus on the hedge fund program.

ADJOURNMENT

It was **moved** by Flack and **seconded** by Clark to adjourn the meeting at 5:37 p.m.

Meeting adjourned at 5:37 p.m.

G-4 Administrative Policy Committee Minutes – June 10, 2014

Following are the Administrative Policy Committee minutes from the meeting convened at 3:13

p.m. on June 10, 2014:

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

DRAFTED EMPLOYEE HANDBOOK

The Committee further reviewed various language changes and modifications to the Employee Handbook, ultimately deciding that Mr. Monroe will meet with Ms. Walker to finalize the wording with the hopes that it will be submitted to the Board of Trustees for final approval at the June 19th regular Board meeting.

MEMBER TAX ISSUE – VERBAL UPDATE

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

DRAFTED EDUCATION & TRAVEL POLICY

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

DRAFTED ETHICS POLICY

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

ADJOURNMENT

Meeting adjourned at 4:09 p.m.

G-5 Audit Committee Minutes – June 10, 2014

Following are the Audit Committee minutes from the meeting convened at 4:09 p.m. on June 10, 2014:

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

2014/2015 VALUATION DISCUSSION

The Committee discussed a letter submitted by Larry Langer at Buck Consultants which outlined the GASB 67/68 Disclosure for the System. Mr. Langer was asked to verify certain duties of the Retirement System versus the City in terms of financial statement reporting for the new standards. It was determined that certain questions should be directed to Mark Kettner, the auditor with Rehmann Robson, for further clarifications regarding effective dates of 67 versus 68, the liability issues, and with 67, whether anything that this office needs to do differently in an accounting perspective. In the meantime, the Committee decided to recommend to the full Board that the current assumptions remain unchanged at 7%.

It was **moved** by Crawford and **seconded** by Monroe to recommend to the Board of Trustees that the assumptions as outlined in last year's 5-Year Experience Study, and incorporated in last

year's Valuation Report, remain unchanged for this year's Valuation as supported by the System's actuary.

Approved

ADJOURNMENT

It was ***moved*** by Crawford and ***seconded*** by Clark to adjourn the meeting at 5:12 p.m.
Meeting adjourned at 5:12 p.m.

G-6 Legal Report - None

H. INFORMATION (Received & Filed)

H-1 Communications Memorandum

H-2 July 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 | 61.60 | Monthly Gas Fee dated May 13, 2014 |
| 2 | DTE Energy | 216.25 | Monthly Electric Fee dated May 13, 2014 |
| 3 | Buck Consultants | 900.00 | Maggard EDRO Calculations |
| 4 | Buck Consultants | 1,583.33 | Monthly hosting fees for April 2014 |
| 5 | AT&T | 220.91 | Monthly telephone service |
| 6 | Staples Advantage | 47.00 | Miscellaneous Office supplies |
| 7 | Coverall North America, Inc. | 140.00 | Office cleaning services for May 2014 |
| 8 | Hasselbring-Clark Co. | 41.82 | Monthly copier cost per copy |
| 9 | Meketa Investment Group | 8,750.00 | Investment Consultant Retainer - April 2014 |
| 10 | Comcast | 83.05 | Monthly Cable Fee |
| 11 | Government Finance Officers Assoc. | 160.00 | Membership dues: 7/1/2014-6/30/2015 |
| 12 | Bradford & Marzec | 39,942.54 | Investment Mgmt. Fees: 1/1/2014 – 3/31/2014 |
| 13 | Kolossos Printing, Inc. | 55.50 | Retiree educational seminar programs |
| 14 | Meketa Investment Group | 8,750.00 | Investment Consultant Retainer - May 2014 |
| 15 | David Monroe | 455.08 | 2014 Spring MAPERS Reimbursement |
| 16 | Sheraton Ann Arbor | 4,168.45 | 2014 Retiree Educational Seminar |
| 17 | Coverall North America, Inc. | 140.00 | Office cleaning services for June 2014 |
| 18 | DLA Piper LLP (US) | 93.60 | Securities Litigation defense svcs/Lyondell – Inv. #3003121 |
| 19 | Nancy Walker | 518.68 | 2014 Spring MAPERS Reimbursement |
| | TOTAL | 66,327.81 | |

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 |
|-------------|---------------------------|-----------------------|--------------|--|-------------------------|
| Paul Kampa | Age & Service | June 30, 2014 | General | 17 years, 8 months <i>(which includes 12</i> | Public Services WWTP |

| | | | | | |
|-------------------------|---------------|---------------|---------|--|--|
| | | | | <i>years and 2 months reciprocal credit)</i> | |
| Helen Kersten | Age & Service | July 2, 2014 | General | 6 years, 9 months | Public Services Customer Service |
| Thomas McMurtrie | Age & Service | July 3, 2014 | General | 23 years, 9 months | Public Services Systems Planning |
| Edmund Sajewski | Age & Service | July 6, 2014 | General | 18 years | Public Services WWTP |
| James Baker | Age & Service | July 12, 2014 | General | 12 years, 5 months | Community Services Planning & Development |

I. **TRUSTEE COMMENTS** - None

J. **ADJOURNMENT**

It was **moved** by Nerdrum and **seconded** by Crawford to adjourn the meeting at 10:22 a.m.
Meeting adjourned at 10:22 a.m.

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