

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
August 21, 2014**

The meeting was called to order by Jeremy Flack, Chairperson, at 10:46 a.m.

ROLL CALL

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

AUDIENCE COMMENTS – None

A. APPROVAL OF REVISED AGENDA

Three revisions to the agenda include:

- E-2 Resolution to Approve Fee Increase for Investment Consultant
- G-1 Executive Report
- G-6 Legal Report – 2014 Service Provider Disclosure Forms

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

Approved as revised

B. APPROVAL OF MINUTES – July 17, 2014 Regular Board Meeting Minutes

It was **moved** by Hastie and **seconded** by Clark to approve the July 17, 2014 Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA

C-1 Judgment of (Retiree) Divorce – Tracy v. Tracy

**Re: Judgment of Divorce: Michael Alan Tracy v. Maryellen Dolores Tracy
Washtenaw County Circuit Court Case No. 14-505-DO**

WHEREAS, the Board of Trustees is in receipt of an entered Judgment of Divorce dated July 29, 2014, in the referenced domestic relations matter, and

WHEREAS, the Judgment of Divorce provides in relevant part as follows:

RETIREMENT ASSETS: Except as otherwise provided in this Agreement, this Judgment terminates any rights either party has in the other party's pensions, annuities or retirement plans whether vested or unvested, accumulated or contingent.

and

WHEREAS, pursuant to the foregoing provisions of the Judgment of Divorce, Maryellen Dolores Tracy is not entitled to any portion of Michael Alan Tracy's benefits payable from the Retirement System, and

WHEREAS, said matter having been discussed with Legal Counsel who has opined that the terms of the Judgment of Divorce are consistent with applicable law, therefore be it

RESOLVED, that the Board of Trustees acknowledges receipt of said Judgment and will pay future pension benefits consistent with it, and further

RESOLVED, that copies of this Resolution be sent to Theresa A. Rose, Esq.; Michael Alan Tracy; Deborah A. Bonner, Esq.; and Maryellen Dolores Tracy.

C-2 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
Douglas Kelly	General	8 years, 3 months	City of Lansing

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.

It was **moved** by Hastie and **seconded** by Nerdrum to approve the consent agenda as presented.

Approved

D. EXECUTIVE SESSION – Disability Examinations / Medical Reports

It was **moved** by Hastie and **seconded** by Clark to convene an Executive Session for the purpose of discussing medical evaluations for Ralonda Robinson (re-evaluation) and Donald Churches.

Approved

Roll call vote:

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

Executive session time: 10:48 a.m. – 10:55 a.m.

E. ACTION ITEMS

E-1 Motion Regarding Disability Re-Examination Report

It was **moved** by Nerdrum and **seconded** by Clark that the Board acknowledges receipt of the medical report dated July 28, 2014 from Carla Guggenheim, D.O., F.A.C.P., with regards to the independent medical re-evaluation of Ralonda Robinson, noting that the doctor has concluded that she remains totally and permanently incapacitated for duty in the service of the City, and that such incapacity will probably be permanent; the Board therefore grants the continuation of her disability retirement consistent with the Board's Disability Retirement Procedures.

Approved

It was **moved** by Nerdrum and **seconded** by Hastie that the Board acknowledges receipt of the medical report dated August 19, 2014 from Antoine E. Geffrard, M.D. with regards to the independent medical evaluation of non-duty disability retirement applicant Donald Churches, noting that the doctor has concluded that the applicant is totally and permanently incapacitated for duty in the service of the City, and that such incapacity will probably be permanent; the Board therefore grants him a disability retirement consistent with the Board's Disability Retirement Procedures.

Approved

E-2 Resolution to Approve Fee Increase for Investment Consultant

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the City of Ann Arbor Employees' 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 System's investment consultant, Meketa Investment Group, had requested a fee increase effective 7-1-2014, with proposed fees increasing for 2014 through 2016, and

WHEREAS, the Investment Policy Committee (IPC) had discussed and reviewed Meketa's consultant services including ad hoc reports and projects, and

WHEREAS, the IPC has recommended that a fee increase be granted for 2014/2015 and 2015/2016 with further review and discussion at the end of that period, therefore be it

RESOLVED, that the Board concurs with the recommendation of the IPC, thus Meketa's Retirement System consulting fees will be increased to \$108,000 for 2014/2015 and \$118,000 for 2015/2016.

It was **moved** by Hastie and **seconded** by Clark to approve the Resolution to Approve Fee Increase for Investment Consultant as presented.

Approved

F. DISCUSSION ITEMS

F-1 Request to Revise June IPC Minutes

Mr. Hastie stated that during the IPC's review of Bradford & Marzec on June 3rd, where the Committee decided to move to a different and more index-based strategy, the minutes described Meketa's review of one of Bradford & Marzec's new manager's past performance, which was basically a summary of Meketa's assessment of the performance. It was felt that the minutes lacked some of the details that could have been included, so there has been a request to update the minutes to reflect in more detail Meketa's assessment. Meketa has provided additional detail which the Board has agreed to include into the June 3, 2014 IPC minutes.

It was **moved** by Hastie and **seconded** by Clark, that upon the request of the Investment Policy Committee, to amend the IPC minutes from its meeting held on June 3, 2014 as contained within the Board's regular meeting minutes dated June 19, 2014, to replace the discussion item by the Board's Investment Consultant with respect to the Bradford & Marzec review to provide as follows:

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.

Approved

G. REPORTS

G-1 Executive Report -- August 21, 2014

INVESCO DISTRIBUTION

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Wednesday, July 30,

2014, totaling \$12,986,150 comprised of \$12,049,198 of return of capital and \$936,952 of realized gains.

Partner's allocable share of distribution: **\$172,877**

INVESCO CAPITAL CALL

The System has received a capital call due Tuesday, August 12 from INVESCO Mortgage Recovery Loans AIV, L.P. - Capital Call #16, relating to a \$6,625,629 drawdown of funds to be made in connection with additional funding of portfolio investments.

Partner's allocable share of drawdown: **\$88,203**

ACTUARIAL VALUATION DATA UPDATE

Staff has provided the inactive census data, new hire and termination reports, as well as lump sums and allowances reporting for the Retirement Plan to the actuary and has prepared responses to actuary questions on data.

FIXED INCOME TRANSITION

Northern Trust has been notified of the transition and Russell as transition manager. Bradford & Marzec is liquidating the bank loans and will cease other trading on 8-22-2014. The actual transfers (sales and purchases) of new funds will take place late August and early September.

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

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

7/31/2014 Asset Value (Preliminary)	\$466,650,726
6/30/2014 Asset Value (Audited by Northern)	\$472,371,282
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$18,074,992
Percent Gain <Loss>	3.9%
August 20, 2014 Asset Value	\$472,644,629

G-3a Investment Policy Committee Minutes – July 22, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:17 p.m. on July 22, 2014:

Member(s) Present: Flack (via telephone), Hastie (via telephone), Monroe
Member(s) Absent: Clark
Other Trustees Present: None
Staff Present: Jarskey, Kluczynski, Walker
Others Present: None

MEKETA INVESTMENT GROUP FEE PROPOSAL

Per the June 3rd IPC meeting and June 19th Board meeting, the Committee further discussed Meketa's proposed adjustment in fees for consulting services for both the Retirement System and VEBA Trust. Their proposal highlighted both Funds' performance history, 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. As requested at the prior meetings, Ms. Walker obtained and provided additional information as a market comparison through a survey request via MAPERS, for which there were 22 responses from various retirement systems throughout the state.

A lengthy discussion ensued, and the Committee ultimately decided to propose that Meketa smooth the suggested fee increase over the first two years (thru 2015) more evenly. Regarding the fees and usage of hedge funds, if for some reason, the System decides to not pursue hedge funds in the portfolio, it would expect that the fee increase would not increase past a certain point due to the level of work involved with that specific portion of the portfolio. Mr. Hastie suggested that he send a note with the Committee's proposal to Mr. Urban and Mr. Jaung for their consideration and the Committee agreed.

It was decided that this item be placed on the upcoming August 5th IPC agenda for further discussion with Meketa.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Flack to adjourn the meeting at 4:35 p.m.
Meeting adjourned at 4:35 p.m.

G-3b Investment Policy Committee Minutes – August 5, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:17 p.m. on August 5, 2014:

Member(s) Present:	Clark, Flack (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 Brian Dana, Meketa Investment Group

JUNE 30, 2014 QUARTERLY PERFORMANCE REVIEW

As of June 30, 2014 the Retirement System was valued at \$472.6 million, an increase of \$43.3 million for the fiscal year. During the fiscal year, the System reported net cash outflows of approximately \$17.5 million. The System returned 3.3% for the second quarter and 14.0% for the fiscal year, net of fees. Mr. Jaung reviewed the PA 314 Compliance report, stating that everything is currently in compliance.

TIMELINE OF HEDGE FUND REVIEW & TRANSITION

Per Meketa's recommendation last month, Russell Investments was approved by the Board of Trustees to manage the fixed income transition of approximately \$67 million (\$57 million/Retirement System and \$10 million/VEBA) subject to legal review of transition agreements and contract negotiation. After discussions with Northern Trust, Russell, and Bradford & Marzec, Meketa recommends working towards a transition date of September 2, 2014. The Committee agreed.

HEDGE FUND PROGRAM CONSTRUCTION

Mr. Dana provided an educational session on the allocation, construction, and ongoing monitoring of a direct Hedge Fund Program. The Committee decided to pursue further

education and presentations by potential managers in the upcoming months.

MEKETA INVESTMENT GROUP FEE PROPOSAL

A letter dated August 4, 2014 was sent to Meketa Investment Group in response to their recent fee proposal. Mr. Jaung stated that they have received the letter and accept the Committee's proposition as expressed in the letter. Mr. Jaung stated that Meketa appreciates the time and effort the Committee members took in considering their proposal.

UPCOMING IPC MEETING SCHEDULE

The Committee reviewed the timing of upcoming Committee meeting dates, and due to individual schedules, conferences, and Election Day, decided that the IPC meetings will be held on the following dates for the remainder of 2014:

- **Thursday**, September 4, 2014 at 3:00 p.m.
- **Tuesday**, October 7, 2014 at 3:00 p.m. (normal schedule)
- **Thursday**, November 6, 2014 at 3:00 p.m.
- **Tuesday**, December 2, 2014 at 3:00 p.m. (normal schedule)

ADJOURNMENT

It was **moved** by Clark and **seconded** by Monroe to adjourn the meeting at 5:48.m.
Meeting adjourned at 5:48 p.m.

G-4 Administrative Policy Committee Minutes – None

G-5 Audit Committee Minutes – None

G-6 Legal Report – 2014 Service Provider Disclosure Forms (Received & Filed)

H. INFORMATION (Received & Filed)

H-1 Communications Memorandum

H-2 September Planning Calendar

H-3 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Meketa Investment Group	8,750.00	Investment Consultant Retainer - June 2014
2	Coverall North America, Inc.	140.00	Office cleaning services for July 2014
3	Hasselbring-Clark Co.	64.15	Monthly copier cost per copy
4	Comcast	92.32	Monthly Cable Fee
5	Staples Advantage	80.38	Miscellaneous Office supplies
6	Robertson Morrison, Inc.	195.00	Routine Maintenance 2-Year Agrmt - 4/22/14-4/22/2016
7	Robertson Morrison, Inc.	424.00	Repair to air unit on roof - 6/12/14
8	AT&T	269.24	Monthly telephone service
9	DTE Energy	14.10	Monthly Gas Fee dated July 14, 2014
10	DTE Energy	282.06	Monthly Electric Fee dated July 14, 2014
11	VanOverbeke, Michaud & Timmony P.C.	9,549.75	Legal Services – 10/1/13 – 12/31/13
12	DLA Piper	175.50	Securities Litigation defense svcs/Lyondell – Inv. #3021490

13	Allstar Alarm LLC	90.00	Quarterly alarm monitoring – August-October 2014
14	Loomis, Sayles & Company	43,899.50	Inv. Mgmt Fees – 4/1/2014 – 6/30/2014
15	Income Research & Management	2,542.22	Investment Mgmt. Fees: April-June 2014
	TOTAL	66,568.22	

H-4 Retirement Report - None

H-5 IFEBP Certificate of Attendance for Nancy Walker

I. TRUSTEE COMMENTS - None

J. ADJOURNMENT

It was **moved** by Hastie and **seconded** by Nerdrum to adjourn the meeting at 11:08 a.m.

Meeting adjourned at 11:08 a.m.



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