

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
May 15, 2014**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:40 a.m.

**ROLL CALL**

Members Present: Clark, Flack, Hastie, Heusel, Monroe, Nerdrum, Powers (*dep. @ 9:41*)  
 Members Absent: Crawford  
 Staff Present: Kluczynski, Walker  
 Others: Michael VanOverbeke, Legal Counsel

**AUDIENCE COMMENTS – None**

**A. APPROVAL OF REVISED AGENDA**

Revisions to the agenda include:

- D-2 Annual Disability Re-Examinations
- F-1 Revised Executive Report
- F-4 Administrative Policy Committee Minutes – May 13, 2014

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

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

It was **moved** by Monroe and **seconded** by Clark to approve the April 17, 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
Joon Hur	Police	6 years, 11 months	Washtenaw 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.

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

**Approved**

**D. ACTION ITEMS**

**D-1 Service Purchase Buy Back Request**

Ms. Walker reviewed the discussion from the April Board meeting regarding 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. Ms. Walker informed the Board that Mr. VanOverbeke is still working on drafting the letter to Mr. Weible regarding the denial of his request to purchase temporary service time pursuant to the Board's previous discussion, and if the Board is comfortable, she could go ahead and draft the letter for Mr. VanOverbeke's review. The Board agreed.

It was **moved** by Heusel and **seconded** by Monroe to direct Ms. Walker to execute a letter to Mr. Weible denying his request to purchase additional temporary time.

**Approved**

**D-2 Annual Disability Re-Examinations**

Ms. Walker stated that periodically we review the disability retirees who have not yet attained a normal retirement age to determine if they are still disabled, and Ralonda Robinson, whose disability retirement commenced in January 2013, is now due for a re-examination.

*(Mr. VanOverbeke arrived at this time)*

The Board briefly discussed the re-exam policy regarding the need for bringing each re-exam for Board approval. Mr. VanOverbeke advised the Board that the reason for bringing re-exams before the Board is because ultimately the minutes are the best record of what has taken place as far as Board action. The Board decided to leave the policy as is.

It was **moved** by Heusel and **seconded** by Hastie to approve a re-examination for Ralonda Robinson.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Summit Credit Partners – Documents for Legal Review**

Mr. Hastie stated that Mr. VanOverbeke's office has reviewed the agreement with Summit Credit Partners and all the standard agreements are done, but there are one or two that have to do with fiduciary duty still unresolved. Mr. VanOverbeke stated that his office felt the need to bring this issue to the Board's attention, stating that the manager is a fiduciary to the fund, and the investments that they make, but Summit is not willing to sign on as a fiduciary to the Plan, which raises a higher level of scrutiny in mind. In this case they will apply under the basket clause, and Meketa Investment Group has indicated in writing that they feel comfortable with moving forward in hiring Summit in light of this issue, that this is fairly common, and would still be a valid investment allocation. The Board agreed to move forward as recommended by Meketa Investment Group.

**F. REPORTS**

**F-1 Executive Report – May 2014**

**INVESCO**

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Tuesday, April 29, 2014 totaling \$7,165,107, comprised of \$5,513,070 of return of capital, and \$1,652,037 of realized gains.

Partner's allocable share of distribution: **\$95,385**

**INTERCONTINENTAL DISTRIBUTION UPDATE 5-13-2014**

Intercontinental Real Estate Investment Fund III LLC will be making a distribution of 188 664.60, as the Retirement System's prorate share of an overall distributions of \$6,000,000.

**PENSION CLASSES**

A hands-on ESS training was offered in the City Hall basement computer training April 30.

**SUMMIT CREDIT ADVISORS**

The legal documentation for the newly hired Summit Credit Partners has been reviewed by legal. It has been determined that a hire of Summit would need to be accounted for in the asset allocations classification as a "basket clause" investment under Act 314.

**GMEI**

Since the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") became effective, the Commodity Futures Trading Commission (the "CFTC") has finalized many of the rules that implement the regulatory regime outlined by the Dodd-Frank Act. As part of enhanced transparency requirements, all swap counterparties subject to the CFTC's jurisdiction are required to obtain legal entity identifiers issued by an approved provider ("LEIs"). LEIs issued by DTCC-SWIFT, originally known as CFTC Interim Compliant Identifiers ("CICIs"), and now known as Global Market Entity Identifiers ("GMEIs"), must be recertified on an annual basis. Recertification for CAAERS is complete, at an additional cost to the System of \$100. Initial certification was complete in 2013 at a cost of \$200.



## SERVICE PROVIDER FEE AND COMPENSATION DISCLOSURE PROJECT

Pursuant to new regulations under Michigan Public Act 347 passed in 2012, late last year the System with assistance of Board 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 four of the service providers for both the RS and the VEBA have returned completed forms.

### **F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended April 30, 2014**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended April 30, 2014 to the Board of Trustees:

4/30/2014 Asset Value (Preliminary)	\$460,885,673
3/31/2014 Asset Value (Audited by Northern)	\$461,831,512
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$7,592,842
Percent Gain <Loss>	1.6%
<b>May 14, 2014 Asset Value</b>	<b>\$460,293,911</b>

### **F-3 Investment Policy Committee Minutes – May 8, 2014**

Following are the Investment Policy Committee minutes from the meeting convened at 3:10 p.m. on May 8, 2014:

Member(s) Present: Clark, Flack (3:20), Hastie, Monroe  
Member(s) Absent: None  
Other Trustees Present: None  
Staff Present: Jarskey, Kluczynski, Walker  
Others Present: Henry Jaung, Meketa Investment Group  
Ed Urban, Meketa Investment Group  
Zelda Marzec & Greg Haendel, Bradford & Marzec (4:12)

### **MARCH 31, 2014 INTERIM UPDATE**

Mr. Jaung reviewed the performance update for the period ended March 31, 2014. As of March 31, the Retirement System was valued at \$461.8 million, an increase of approximately \$32.5 million for the fiscal year to date. The System returned 0.9% for the first quarter and 10.3% for the fiscal year to date, net of fees. At the end of March, the System was outside of its target range for investment grade bonds. The investment grade bond overweight allocation is offset by TIPS underweight. Both funds remain in compliance with PA 314.

### **SUMMIT PARTNERS CREDIT FUND II, LP**

Following legal review of fund documents, legal counsel issued a memorandum to the Trustees regarding the Credit Fund II on May 1. The memorandum addresses "concerns arising as a result of the office's review and negotiation of the subscription documentation between the Retirement System and the Fund in light of pertinent Michigan law." Specifically, the memo highlights that Summit has indicated that it will not act as an investment fiduciary to the Retirement System, but rather has a fiduciary obligation to act in the best interests of the Fund pursuant to the Fund documents and applicable Delaware law. Accordingly, the Retirement System's investment in the Fund would not qualify under Section 20c of Act 314 and the Board

must look to Section 20d (i.e., the "Basket Clause") if it intends to proceed with an investment in the Fund.

Meketa Investment Group notes that very few managers of private commingled funds will agree to take on the role of a fiduciary (i.e., for purposes of ERISA or its state law equivalents), as such managers and their funds are structured to avoid holding "plan assets." 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. Meketa Investment Group notes that the Summit Partners Credit Fund II investment would not cause the Retirement System or VEBA to violate the constraints of the Basket Clause, and furthermore, it is noted that while an investment is authorized by Act 314, the principle of prudence shall be the predominant consideration.

From an investment perspective, Meketa Investment Group believes Summit Partners is a well-qualified manager and the Credit Fund II is suitable for the Retirement System and VEBA Investment. Additionally, it should also be noted that the Fund documents contain language requiring the Retirement System, to the extent not prohibited by applicable Michigan law, to submit to jurisdiction in the courts of the State of Delaware and waiving its right to a jury trial. Meketa Investment Group notes that this is a common provision for commingled fund and private market investments. Mr. Hastie suggested that the Committee refer this item to the full Board of Trustees for discussion at the May Board meeting to get their input, as well as Mr. VanOverbeke's if further clarification is needed. The Committee agreed.

#### **HEDGE FUND DISCUSSION**

Meketa provided a Hedge Fund of Funds Program Analysis and Options for going forward (if the Committee wishes) with a hedge fund program. Mr. Urban provided a review of strategies such as Global Macro, Fixed Income, Event Driven, and Long-Short Equity. The Committee decided to move forward with learning more about the program options, and Meketa agreed to bring in their hedge fund person to further discuss the process.

#### **BRADFORD & MARZEC UPDATE**

Zelda Marzec and Greg Haendel from Bradford & Marzec were present to review new staff members, their general philosophy, and current performance. Mr. Haendel, the new Investment Grade Portfolio Manager, provided the Committee with his investment history and reviewed the firm's sector allocation comparison: portfolio vs. benchmark. Ms. Marzec and Mr. Haendel departed at 5:50 p.m. Mr. Jaung stated that he would like to do further research on the new members' investment history, and report back to the Committee at the June 3<sup>rd</sup> IPC meeting before making further recommendations. The Committee agreed.

#### **ADJOURNMENT**

**Meeting adjourned at 6:02 p.m.**

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**Energy Commission presentation discussion:** Mr. Hastie stated that the Energy Commission representatives would like to attend a future Board meeting to further discuss the divestiture in fossil fuels issue, and wanted to find out which meeting they could attend. After discussion, it was determined that the September 18, 2014 Board meeting would be preferred.

#### **F-4 Administrative Policy Committee Minutes – May 13, 2014**

Following are the Administrative Policy Committee minutes from the meeting convened at 3:12 p.m. on May 13, 2014:

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

### **MEMBER TAX ISSUE**

Ms. Walker presented an issue which arose late last week regarding a retirant who had her address and state of taxation changed by a Northern Service representative in error last May. The bank customer service representative changed the address back to the correct address, but neglected to change the taxation state back to the correct state of Michigan. This caused the retirant's Michigan tax to be underwithheld for about half the year. The retirant acknowledges that she noticed her benefit increase by about \$150.00 but did not inquire as to the cause with the Retirement System office. Per Northern, direct deposit recipients receive an advice statement containing a warning if the retirant's state of residence is different from the taxation state. The retirant did not notice this warning. The retirant became aware of the cause of the increased benefit when she received her 1099-R Form. She is now requesting that the Retirement System pay her penalty, interest and tax caused by Northern's error. Northern has been asked whether they are willing to reimburse either the System or the participant directly for the amount of the interest and penalty.

Ms. Walker indicated to the retiree that there is no provision in the plan for us to pay the actual tax, but that she would make the request known to the System as far as reimbursement for the tax penalty and the interest, as well as a request to Northern for them to consider paying this, as it happens that it was their representative's error. Ms. Walker stated that at this time there has been no response back from Northern Trust. The Committee discussed the issue, and feels that it should be Northern's responsibility to reimburse her for the interest and penalty, but noted that the issue is between her and Northern Trust. Mr. Crawford stated that if they refuse to pay, we are not in the business to cover our agent's issues. Ms. Walker stated that going forward, perhaps we should adopt Northern's self-service system so that retirees are able to make changes online. It was suggested that staff request something from Northern regarding their procedures and how this may be prevented from happening again in the future. The Committee decided to wait to see what Northern Trust decides to do as far as reimbursing the retiree.

### **DRAFTED EMPLOYEE HANDBOOK**

Mr. Monroe stated that he has given a draft of the handbook to three coworkers to review for comments and suggestions, but has not received any responses as of yet, so he recommended placing this on the June APC agenda for possible approval at the June Board meeting. Another area in the handbook being reviewed is the new Charter language on Board composition, and retirees being elected as Trustees on the Board, and Ms. Walker stated that she is still waiting on clarification from the Attorney's Office.

Mr. Crawford stated that from a fiduciary standpoint, the Committee should refocus on the administrative issues from the fiduciary audit. The Committee decided to continue the review of the audit at the June APC meeting.

### **REVIEW OF EDUCATION/TRAVEL POLICY & ETHICS POLICY**

The Committee briefly discussed the drafted policies as submitted by Mr. VanOverbeke, and decided that staff should re-draft the copies to fit the System, and bring them back to the June APC meeting for further review. Topics should include requirements for new Trustees to attend a certain amount of conferences per year, and perhaps less for longer-term Trustees (focusing



on Trustee education on governance and investments), and to clarify the expectation of training and make sure Trustees are clear on expectations. The Committee also discussed creating an attendance policy (added to Tabled/Pending items).

**ADJOURNMENT**

**Meeting adjourned at 4:16 p.m.**

**F-5 Audit Committee Minutes – No Report**

**F-6 Legal Report: Recent Legal Issues and Decisions**

Mr. VanOverbeke presented a summary of recent legal issues and decisions having to do with public retirement and healthcare plans within the State of Michigan.

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

**G-1 Communications Memorandum**

**G-2 June Planning Calendar**

**G-3 Record of Paid Invoices**

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

	<b>PAYEE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
1	DTE Energy	106.04	Monthly Gas Fee dated April 11, 2014
2	DTE Energy	176.98	Monthly Electric Fee dated April 11, 2014
3	Buck Consultants	5,721.25	Actuarial/Consulting Services - 12/31/2013 + Gilbreath EDRO
4	Buck Consultants	1,583.33	Monthly hosting fees for March 2014
5	AT&T	221.66	Monthly telephone service
6	Staples Advantage	109.18	Miscellaneous Office supplies
7	Loomis, Sayles & Company	42,285.01	Investment Mgmt. Fees – 1/1/14 – 3/31/14
8	Hasselbring-Clark Co.	57.67	Monthly copier cost per copy
9	Allstar Alarm LLC	90.00	Quarterly alarm monitoring – May-July 2014
10	The Berwyn Group	1,000.00	Insurance special audit & analysis April-March 2014
11	Income Research & Management	2,495.63	Investment Mgmt. Fees – 1/1/14 – 3/31/14
12	David Monroe	1,154.86	Dimensional Fund Advisors Training - Feb. '14
13	VanOverbeke Michaud & Timmony PC	6,431.25	Legal services: 1/1/2013 - 3/31/2013
14	VanOverbeke Michaud & Timmony PC	5,661.25	Legal services: 4/1/2013 - 6/30/2013
	<b>TOTAL</b>	<b>67,094.11</b>	

**G-4 Retirement Report**

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

<b>Name</b>	<b>Type of Retirement</b>	<b>Effective Date</b>	<b>Group</b>	<b>Years of Service</b>	<b>Service Area</b>
<b>Kenneth Jones</b>	Age & Service	July 19, 2014	General	26 years, 6 months <i>(which includes 4 months military service credit)</i>	Public Services Fleet & Facility

H. TRUSTEE COMMENTS - *None*

I. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Clark to adjourn the meeting at 9:45 a.m.  
Meeting adjourned at 9:45 a.m.



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