

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
February 16, 2023**

**B**

The meeting was called to order by Board Vice-Chairperson, Alexa Nerdrum, at 8:36 a.m.

**ROLL CALL**

Members Present: DiGiovanni, Flack(*Via TX*), Foster, Grimes, Monroe, Nerdrum, Praschan  
Members Absent: Lynch, Schreier  
Staff Present: Buffone, Gustafson, Hollabaugh, Orcutt  
Others: Michael VanOverbeke, Legal Counsel  
John Kendall, Nationwide

**AUDIENCE COMMENTS**

**A. APPROVAL OF AGENDA**

It was **moved** by Monroe and **seconded** by Grimes to approve the agenda as submitted.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 January 19, 2023 Regular Board Meeting**

It was **moved** by Monroe and **seconded** by Grimes to approve the January 19, 2023 Regular Board Meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA - None**

**D. ACTION ITEMS**

**D-1 Election of Board Officers (Chairperson, Vice-Chairperson, Secretary)**

It was **moved** by Grimes and **seconded** by Monroe to retain the existing Board Officers for the 2023 term:

Board Chairperson: Jeremy Flack  
Vice-Chairperson: Alexa Nerdrum  
Secretary: David Monroe

**Approved**

**D-2 Appointment of Board Committee Members – APC, IPC & AC**

It was **moved** by DiGiovanni and **seconded** by Grimes to appoint the Committees as follows:

- Investment Policy Committee: DiGiovanni/Chair, Flack, Foster, Monroe, Praschan
  - Administrative Policy Committee: Monroe/Chair, Lynch, Schreier, Praschan
  - Audit Committee: Nerdrum/Chair, Praschan, Monroe
- Approved**

### **D-3 Resolution to Raise Cash from Domestic and Int'l Developed Equities**

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 System's investment consultant, Meketa Investment Group, has evaluated the current asset class allocations relative to their respective targets and determined that the portfolio is slightly overweight in Domestic and International Developed Equities, and

WHEREAS, Meketa as the System's investment consultant, has recommended at the February 7 IPC meeting selling \$5 million from both the Northern Trust Russell 1000 Index and the Northern Trust MSCI EAFE Index in order to raise \$10 million in cash and move closer to its policy target, so be it,

RESOLVED, that the Board of Trustees approves the redemption of \$5 million from both the Northern Trust Russell 1000 Index and the Northern Trust MSCI EAFE Index and the proceeds will be held in cash to fund benefit payments and capital calls.

It was **moved** by Monroe and **seconded** by Foster to approve the redemption of \$5 million from both the Northern Trust Russell 1000 Index and the Northern Trust MSCI EAFE Index and the proceeds will be held in cash to fund benefit payments and capital calls.

**APPROVED**

### **E. DISCUSSION ITEMS**

#### **E-1 Board Retreat Topics**

The Board discussed possible topics for the Board Retreat.

Investment Items – 2023 Asset Allocation Study & a presenter.

Legal – TBD.

GRS – Experience study results FYE 2018-2023.

Innovest – TBD.

Staff will present a final agenda in March for approval.

#### **E-2 2023 Spring MAPERS Conference, May 20-23, 2023**

Ms. Orcutt informed the Board of the upcoming Spring MAPERS Conference. Ms. Orcutt requested that any Board members interested in attending should notify the Retirement Office.

## **F. REPORTS**

### **F-1 Executive Report – February 16, 2023**

#### **ANGELO GORDON CAPITAL CALLS AND DISTRIBUTION**

Angelo Gordon Direct Lending Fund IV Annex, L.P. issued a distribution in the amount of **\$ 226,207** for the Retirement System and **\$ 33,458** for VEBA consisting of investment income on 1/31/23.

#### **CONSTITUTION CAPITAL CALL**

Ironsides Partnership Fund V, L.P. requested a capital call in the amount of **\$ 240,295** for the Retirement System and **\$ 80,098** for VEBA to fund current investments and pay management fees on 2/9/2023.

#### **DRA CAPITAL CALLS AND DISTRIBUTIONS**

DRA requested a capital call of our commitment to the Growth and Income Fund X in the amount of **\$394,737** for the Retirement Plan and **\$263,158** for the VEBA on 2/24/23 for the purpose of funding current commitments.

#### **PENSION ADMINISTRATION SOFTWARE CONVERSION**

Staff continues to meet weekly with Milliman and the system went live on 12/19. Update 1 to fix any outstanding issues was executed on Feb 2. Staff has met with legal several times in the past month to clarify the treatment of vesting service, reciprocal time, military and temp to service purchases. Milliman has modified the MARC system to incorporate the proper treatment of each. Service with Buck was extended until February 28, 2023.

#### **MEETINGS AND COMMUNICATIONS WITH CITY STAFF**

ED and staff met with HR, Payroll and Finance on January 24 to discuss the change in the 457 deferrals which now can be made anytime with the passing of Secure 2.0.

ED and Maria met with Finance and Marti Praschan on January 30 to discuss feedback to provide the auditor regarding issues this year and improvements and expectations for next year end.

#### **STAFF OPERATIONS/UPDATE**

The Pension Analyst processed 47 estimates, 5 final calculations, 4 non-vested calculations, 2 deceased calcs and conducted 3 pre sessions.

Staff continues to spend extensive time testing reports, pension transmittals and calculations for the new MARC system.

### **F-2 Executive Report – MissionSquare (ICMA) Update**

#### **457 PLAN**

**Balance at 2/10/23 - \$ 104,205,000 - Statistics as of 1/31/23**

## Admin Allowance Balance = \$ 37,956

Your Plan Metrics		
	Your Plan	Peer Plans
<a href="#">Retirement Readiness</a>	49.9%	40%
<a href="#">Investment Diversification</a>	89.3%	88.2%
<a href="#">Participation Rate</a>	82.9%	71.3%
<a href="#">Eligible Participants</a> Nice work! Your plan is above average!	548	159
<a href="#">Average Account Balance</a> Nice work! Your plan is above average.	\$79K	\$54K
<a href="#">Average Savings Rate</a> Needs improvement; view details.	3%	5.8%
<a href="#">Rate of Return</a>	-5.37%	-5.78%
Percent of Assets on Loan	N/A	N/A
Participants with Outstanding Loans	N/A	N/A
<a href="#">Yearly Contribution</a>	\$6K	\$5K
<a href="#">Active Saver Pre-Tax Savings Rate</a> Nice work! Your plan is above average!	1.8%	3.1%
Auto Enrollment Rate	N/A	N/A
<a href="#">Participants in Target Date Funds</a> Nice work! Your plan is above average!	243	55
<a href="#">Number of Investments</a>	5	3

Your Plan Features		
	Your Plan	Peer Plans
<b>Offers Managed Accounts</b>	Offered	69%
<b>Target Date Funds Offered</b>	Offered	98%
<b>Number of Investments Offered</b>	50	30
<b>Employer Contributions Offered</b>	Not Offered	N/A
<b>Offers Matching Contributions</b>	Not Offered	0%
<b>Allows After-Tax Contributions</b>	Not Offered	0%
<b>Auto Enrollment</b>	Not Offered	0%
<b>Auto Increase</b>	Not Offered	0%

[View Full Compare](#)

### Current Items/Education:

Bill Sims held onsite/virtual appointments and a webinar on February 7<sup>th</sup> and 9<sup>th</sup>. 15 people attended in person appointments, 8 people attended virtual appointments and 20 attended the webinar.

January 26 – Sent an all employee email with the Innovest flyer announcing the fund changes and upcoming meeting dates available with MSQ.

January 31 - Innovest flyer announcing the fund changes and upcoming meeting dates available with MSQ was in A2 News & Notes.

February 3 – MSQ sent out notice to participants regarding the upcoming fund changes.

### 401A PLAN

**Balance at 2/10/23 – \$ 4,679,000 – Statistics as of 1/31/23**

**Forfeiture Balance = \$ 75,277**

## Full Compare

	Your Plan	Peer Plans
<b>Success Factors</b>		
Retirement Readiness	69.5%	64.3%
Investment Diversification	98%	92.6%
Participation Rate (Avg.)	95.3%	20%
Number of Eligible Participants	300	112
Account Balance (Avg.)	\$13,377	\$52,794
Average Savings Rate	8.7%	7.8%
Rate of Return (Avg.)	-3.17%	-4.94%
Percent of Balances out on loan	0%	1.1%
Percentage of Participants with an Outstanding Loan	0%	N/A
Plan Annual Contributions (Avg.)	\$4,475	\$5,585
Active Saver Pre-Tax Savings Rate	0%	0.6%
Auto Enrollment Rate	0%	N/A
Number of Participants in a Target Date Fund	275	71
Number of Investments	2	3

	Your Plan	Peer Plans
<b>Your Plan Features</b>		
Offers Managed Accounts	Offered	77%
Target Date Funds Offered	Offered	99%
Number of Investments Offered	46	29
Offers Loans	Not Offered	46%
Employer Contributions Offered	Offered	76%
Offers Matching Contributions	Not Offered	0%
Allows After-Tax Contributions	Not Offered	0%
Auto Enrollment	Not Offered	0%
Auto Increase	Not Offered	0%

The Plan Health Dashboard is for educational purposes only. It is a good place to start an analysis, but it should not be considered individualized advice or a recommendation. The information displayed is not intended to provide any suggestion that a plan sponsor engage in or refrain from taking a particular course of action.

### **F-3 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended January 31, 2023**

Maria Buffone, Accountant, submitted the Financial Report for the month ended January 31, 2023 to the Board of Trustees:

1/31/2023 Asset Value (Preliminary)	\$595,474,028
12/31/2022 Asset Value (Audited by Northern)	\$577,007,486
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$22,149,250
Percent Gain <Loss>	3.8%
<b>February 15, 2023 Asset Value</b>	<b>\$592,861,094</b>

### **F-4 Investment Policy Committee Minutes – February 7, 2023**

Following are the Investment Policy Committee minutes from the meeting convened at 3:14 p.m. on February 7, 2023:

Member(s) Present: DiGiovanni, Flack(Via TX), Foster, Monroe, Praschan  
 Member(s) Absent: None  
 Other Trustees Present: None  
 Staff Present: Buffone(Via TX), Gustafson(Via TX), Hollabaugh, Orcutt  
 Others Present: Henry Jaung, Meketa Investment Group

### **ECONOMIC AND MARKET UPDATE DATA AS OF DECEMBER 31, 2022**

Mr. Jaung provided an economic update noting that most asset classes posted gains in the fourth quarter on signs that policy<sub>5</sub> tightening would slow given cooling inflation.

Looking forward, the path of inflation and monetary policy, slowing growth globally, China reopening its economy and the war in Ukraine will all be key.

### **EXECUTIVE SUMMARY & CASH NEEDS**

Over the past 3, 5, 7, and 10 years, the ERS has returned 7.0%, 6.8%, 7.9% and 7.6%. These returns have outperformed the 60% equity/40% Bonds benchmarks as well as the primary benchmark in most periods.

Over the past 3, 5, 7, and 10 years, the VEBA has returned 4.9%, 5.7%, 7.4% and 6.9%. These returns have outperformed the 60% equity/40% Bonds benchmarks as well as the primary benchmark in most periods.

Cash needs for ERS: To fund future benefit payments and capital calls, Meketa recommended to raise \$10 million in cash. Given the strong performance in the month of January, domestic equities and international developed equities have overweighted positions relative to their policy targets. Meketa recommended to sell \$5 million of the Northern Trust Russell 1000 Index and \$5 million of the Northern Trust MSCI EAFE Index.

It was **moved** by Monroe and **seconded** Foster to recommend to the Board to rebalance and sell \$5 million of the Northern Trust Russell 1000 Index and \$5 million of the Northern Trust MSCI EAFE Index.

#### **Approved**

Cash needs for VEBA: Meketa will be performing an asset allocation study for the VEBA at the Board retreat. In the interim months before any potential asset allocation changes are made, Meketa recommended investing in investment grade bonds, specifically a \$6 million purchase of the Northern Trust Barclays aggregate bond index. This fund would be a potential future source of funding for other asset classes depending on the outcome from the retreat. The Committee will discuss this further at a later date.

### **RETIREMENT SYSTEM**

Act 314 Compliance Review: All investments are currently in compliance.

December 31, 2022 Performance Update: As of December 31, 2022, the balance of the Funds was \$581,399,311 for ERS. Fiscal Year to Date performance was 2.5% for ERS net of fees.

#### **VEBA**

Act 314 Compliance Review: All investments are currently in compliance.

December 31, 2022 Performance Update: As of December 31, 2022, the balance of the Funds was \$234,402,974 for VEBA. Fiscal Year to Date performance was 2.0% for VEBA net of fees.

### **CURRENT ISSUES**

Meketa Capital Market Expectations 2023: Mr. Jaung informed the Committee of capital markets expectations (CMEs) which are the inputs needed to determine the long-term risk and returns expectations for a portfolio. They serve as the starting point for determining asset allocation. Meketa generally sets CMEs once a year and their process

relies on both quantitative and qualitative methodologies. The Committee reviewed the changes from 2022 as it was a difficult year with losses experienced for most asset classes, as interest rates increased, spreads widened and most risk assets declined in value.

Board Retreat Topics: The Committee discussed the upcoming Board Retreat topics. Meketa will provide a 2023 Asset Allocation Study and suggested a presenter as well.

### **ADJOURNMENT**

It was ***moved*** by Monroe and ***seconded*** by Foster to adjourn the meeting at 4:44 p.m.  
**Meeting adjourned at 4:44 p.m.**

**F-5 Administrative Policy Committee Minutes – None.**

**F-6 Audit Committee Minutes – None.**

**F-7 Legal Report**

Mr. VanOverbeke informed the Board of House bill #4001 regarding pension tax. The bill would amend the Income Tax Act to allow a taxpayer beginning in 2023 to choose between the current limitations on the deductibility of retirement and pension income or the limitations specified in the bill. Legal will keep the Board informed of the bill status.

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

**G-1 Communications Memorandum**

**G-2 March Planning Calendar**

**G-3 Record of Paid Invoices**

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

	<b><u>PAYEE</u></b>	<b><u>AMOUNT</u></b>	<b><u>DESCRIPTION</u></b>
1	Loomis Sayles	\$15,002.00	Investment Manager Fee Q4 2022
2	Milliman	\$6,423.00	Pension Admin. Software Transition 12/2022
3	Rehmann	\$2,500.00	FYE 6/30/2022 Audit
4	Rhumblin	\$15,002.00	Investment Manager Fee Q4 2022
5	American Express	\$166.29	Kroger, Panera Bread, Culligan Water
6	Applied Imaging	\$27.49	Printing 1/2023
7	Buck	\$1,924.34	Pension Admin Software 1/2023
8	Laura Hollabaugh	\$157.32	DTE Electric Reimbursement 12/14/2022-1/12/2023
9	Laura Hollabaugh	\$153.35	DTE Gas Reimbursement 12/14/2022-1/12/2023
10	Innovest	\$9,750.00	Advisory Fee January - March 2023
11	Meketa	\$10,000.00	Investment Consulting Fee 1/2023
12	Milliman	\$6,272.24	MARC Implementation Fee 1/2023
	<b>Total</b>	<b>\$67,378.03</b>	

#### G-4 Retirement Report

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

Name	Retirement Type	Effective Retirement Date	Group	Union	Years of Service	Dept./Service Area
Kevin Ernst	Age & Service	March 11, 2023	General	TEAMSTERS	27 Years	Community Services
Brent Kostanko	Disability	December 12, 2022	Fire	FIRE	24 Years, 3.5 Months	Safety Services
Dennis Crum	Age & Service	April 1, 2023	General	TEAMSTERS	16 Years, 7 Months	City Administration
Michael Lencioni	Age & Service	March 14, 2023	Police	AAPOA	30 Years, 10.5 Months	Safety Services
Jeff Butts	Age & Service	March 11, 2023	General	AFSCME	25 Years, 6 Months	Public Services

#### G-5 Analysis of Page Views on Retirement System Website

##### I. TRUSTEE COMMENTS / SUGGESTIONS

##### J. ADJOURNMENT

It was **moved** by Grimes and **seconded** by Monroe to adjourn the meeting at 9:23 a.m.  
**Meeting adjourned at 9:23 a.m.**

*Wendy Orcutt*

Wendy Orcutt, Executive Director  
City of Ann Arbor Employees' Retirement System