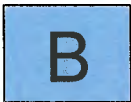


**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
November 15, 2018**



The meeting was called to order by Jeremy Flack, Board Chairperson, at 10:49 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Lynch, Monroe, Nerdrum
Members Absent: DiGiovanni, Hastie, Schreier
Staff Present: Gustafson, Hollabaugh, Orcutt
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS - None

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B-1 October 18, 2018 Regular Board Meeting

It was **moved** by Nerdrum and **seconded** by Clark to approve the October 18, 2018 Board Meeting minutes as submitted.
Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Resolution to Terminate Southern Sun and Hire Loomis Sayles as Small Cap Equity Manager

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retiree Health Care Benefit Plan & Trust, 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, Meketa as the Retirement System's investment consultant, the Investment Policy Committee, and the Board of Trustees have discussed the replacement of Southern Sun as a Small Cap Equity Manager, and

WHEREAS, the Investment Policy Committee (IPC) has reviewed material presented by Meketa Investment Group, its investment consultant, regarding Southern Sun's performance, and

WHEREAS, Loomis Sayles, an investment manager for the Retirement System has a comparable investment strategy, and

WHEREAS, Meketa and the Investment Policy Committee have recommended that Southern Sun be terminated and the liquidated funds be invested with Loomis Sayles, so be it

RESOLVED, that the Board of Trustees approves the termination of Southern Sun and approves the hiring of Loomis Sayles with a commitment in the amount of approximately \$ 3,700,000 pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by Crawford and **seconded** by Clark to approve the resolution to terminate Southern Sun and Hire Loomis Sayles as Small Cap Equity Manager.

Approved

D-2 Summary Annual Report for the Fiscal Year Ended June 30, 2018

Ms. Orcutt presented the Summary Annual Report for the fiscal year ended June 30, 2018, noting the updates that were added including the additional requirements now in effect for retiree health care plans per the State of Michigan. The Board reviewed and made revisions to the report.

It was **moved** by Nerdrum and **seconded** by Crawford to approve the Summary Annual Reports as amended provided that a copy be forwarded to all Trustees upon completion with the opportunity for comment in regards to further corrections.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Investment Policy Committee Minutes – November 6, 2018

Following are the Investment Policy Committee minutes from the meeting convened at 3:06 p.m. on November 6, 2018:

*Member(s) Present: Clark, Crawford, Flack (Via TX @ 3:38 p.m.), Hastie, Monroe
Member(s) Absent: DiGiovanni
Other Trustees Present: None
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
Keith Beaudoin, Meketa Investment Group
David Diephuis, City Resident*

PERFORMANCE REVIEW THROUGH Q3 2018

As of September 30, 2018, the balance of the Funds were \$517,537,301 for ERS. Fiscal year to date performance was 2.5% for ERS net of fees.

ACT 314 COMPLIANCE

Mr. Jaung reviewed the Act 314 Compliance, stating that all investments are currently in compliance. Meketa recommended that Summit Partners Credit Funds be classified under the "Basket Clause" rather than under the "Non-Investment Grade Bonds". The Committee agreed with this recommendation.

LOOMIS SAYLES DISCUSSION

Mr. Jaung informed the Committee that currently, there are two different small cap active managers for the ERS and VEBA. Loomis Sayles manages the ERS assets and Southern Sun manages the VEBA assets. Mr. Jaung questioned if Loomis Sayles should be the sole small cap active manager and if not, who are the best candidates to manage the small cap active assets for both the ERS and VEBA. After further discussion, the Committee decided to keep Loomis Sayles as the active small cap manager for ERS.

The Committee also discussed having Loomis Sayles present for the December meeting if possible to further discuss their performance and philosophy.

STONE HARBOR EMERGING MARKETS DEBTS FUND RECOMMENDATION

Mr. Jaung updated the Committee regarding Stone Harbor's performance stating that they have been underperforming. Meketa has met with Stone Harbor and after further review are recommending that the Committee consider replacement. The Committee agreed with Meketa's recommendation. Meketa will begin the search for a replacement manager within Emerging Markets Debt and plan to finalize in early 2019.

RAISE CASH

The Committee discussed the amount of cash needed to supplement the City contributions to pay benefits and fund current capital calls. The committee decided to rebalance a total of \$10 Million, raising \$5 million from US Equities (Russell 1000 Index Fund) and another \$5 million from Investment Grade Bonds (Barclays Aggregate Index Fund).

It was **moved** by Crawford and **seconded** by Clark to issue \$10 million dollars in two tranches; one of \$5 million from US Equities and the other in \$5 million from Investment Grade Bonds.

Approved

ADJOURNMENT

It was **moved** by Clark and **seconded** by Monroe to adjourn the meeting at 4:55 p.m.
Meeting adjourned at 4:55 p.m.

IPC Project Tracking Table		
Description	Originated	Status
Draft Investment Policy Statement 401A/457B		Pending
Board's Preliminary Financial Report: Add benchmark info on reports – stock market index		Pending
Custom Benchmarks		Pending
Condo Mortgage	6/5/18	Pending

F-2 Preliminary Investment Reports for the Month Ended October 31, 2018

Wendy Orcutt, Executive Director, submitted the Financial Report for the month ended October 31, 2018, to the Board of Trustees:

10/31/2018 Asset Value (Preliminary)	\$169,854,495
9/30/2018 Asset Value (Audited by Northern)	\$177,093,716
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	(\$1,580,396)
Percent Gain <Loss>	-0.94%
November 15, 2018 Asset Value	\$169,451,629

F-3 Legal Report - None

G. TRUSTEE COMMENTS / SUGGESTIONS - None

H. FUTURE AGENDA ITEMS - None

I. INFORMATION (Received & Filed)

I-1 Record of Paid Invoices

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

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	Yeo & Yeo	\$1,650.00	Services through 8/31/18
2	Findley	\$12,500.00	Experience Study including presentation & meeting
3	Rhumblin	\$861.00	Investment Management Fee 7/31/18-9/30/18
4	Southern Sun	\$7,475.00	Investment Management Fee 6/30/18-9/30/18
5	Yeo & Yeo	\$1,650.00	Services through 9/30/18
6	Income Research Management	\$1,331.06	Investment Management Fee period ended 9/30/18
	Total	\$25,467.06	

J. ADJOURNMENT

It was **moved** by Clark and **seconded** by Nerdrum to adjourn the meeting at 11:01 a.m.
Meeting adjourned at 11:01 a.m.



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