

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
September 17, 2020**

B

The meeting was called to order by Board Chairperson, Jeremy Flack, at 8:39 a.m.

ROLL CALL

Members Present: Flack(*Via TX*), DiGiovanni(*Via TX*), Hastie(*via TX*), Horning(*Via TX*), Lynch(*Via TX*), Monroe(*Via TX, 9:53 a.m. depart*), Nerdrum (*Via TX*), Schreier(*Via TX*)

Members Absent: Peariso

Staff Present: Buffone(*via TX*), Gustafson(*via TX*), Hollabaugh(*Via TX*), Orcutt(*via TX*)

Others: Michael VanOverbeke, Legal Counsel(*via TX*)
Henry Jaung, Meketa Investment Group(*8:46 a.m. arrival*)
Keith Beaudoin, Meketa Investment Group(*8:46 a.m. arrival*)
Jim Anderson, GRS(*8:42 a.m. arrival – 9:53 a.m. depart*)
Rich Koch, GRS(*8:42 a.m. arrival – 9:53 a.m. depart*)
Danielle Mathiesen, GRS(*8:42 a.m. arrival – 9:53 a.m. depart*)

AUDIENCE COMMENTS

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B-1 August 20, 2020 Regular Board Meeting

It was **moved** by Monroe and **seconded** by Horning to approve the August 20, 2020 Regular Board Meeting minutes.
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 |
|-----------------|----------------|---------------------------|----------------------------------|
| John Dunlap | Police | 3 Years, 10.5 Months | City of Detroit |
| Roberta Niedson | General | 5 Years, 3 Months | University of Michigan |

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.

C-2 GASB Disclosure 67/68

The disclosure has been received and filed.

It was **moved** by DiGiovanni and **seconded** by Monroe to approve the consent agenda as submitted.

Approved

D. ACTION ITEMS

D-1 Resolution to Invest in Torchlight Debt Fund VII

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, Meketa as the Retirement System's investment consultant, the Investment Policy Committee (IPC), and the Board of Trustees have discussed an additional allocation to opportunistic real estate in accordance with the Pacing Study reviewed at the August 12, 2020 IPC, and

WHEREAS, a potential real estate, Torchlight Investors LLC, presented their investment strategies to the IPC on September 1, 2020, and

WHEREAS, Meketa and the Investment Policy Committee have recommended an

investment with Torchlight Investors, LLC so be it

RESOLVED, that the Board of Trustees approve the investment In Torchlight Debt Fund VII with a commitment in the amount of \$ 9 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by Monroe and **seconded** by DiGiovanni to approve the investment in Torchlight Debt Fund VII with a commitment in the amount of \$ 9 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

Approved

E. DISCUSSION ITEMS

E-1 Return Assumption Discussion

Mr. Anderson discussed the GRS modeling results prepared for the Board and highlighted the trends in the industry. A discussion ensued regarding lowering the discount rate with GRS and Meketa with the Board ultimately deciding to adopt the following resolution:

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

WHEREAS, the Board 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, the Board's investment consultant, projects forward-looking returns to be lower in the next 10-20 years; and

WHEREAS, bond yields are lower than any other period over the last 40 years, and stock valuations are higher than any period over the last 100 years (except 1999-2000); and

WHEREAS, the Retirement System's funded ratio, as calculated by GRS, the Board's actuarial consultant, has been mostly unchanged over the past 5 years despite a strong investment environment; and

WHEREAS, GRS has projected that the Retirement System's funded ratio will not reach 100% funded if lower returns are incurred; and

WHEREAS, the City of Ann Arbor has adopted a consistent but optional policy of increasing actuarially determined annual employer contributions by 2 percent; and

WHEREAS, the Board has discussed this matter amongst the Board members, and with its Actuary and Investment Consultant, therefore be it

RESOLVED, that the Board of Trustees approve a change to the assumed rate of investment return (i.e., the discount rate) utilized by GRS from 7.0% to 6.5% over a 5-year period, with a reduction of 0.1% per year starting with the 2020 valuation analysis; it being understood that the actuary will only recognize the 0.1% reduction for all future years in the valuation, and further

RESOLVED, that the Board will annually review the reduction in the assumed rate of return over this 5- year period to determine if additional modifications or time-line considerations should be addressed, and further

RESOLVED, a copy of this resolution be provided to appropriate City of Ann Arbor representatives, The Board's Actuarial Consultant (GRS), and the Board's Investment Consultant (Meketa).

It was **moved** by Hastie and **seconded** by Nerdrum to approve a change to the assumed rate of investment return (i.e., the discount rate) utilized by GRS from 7.0% to 6.5% over a 5-year period, with a reduction of 0.1% per year starting with the 2020 valuation analysis.

Approved

Ms. Nerdrum discussed the optional forms of payment assumptions with Mr. Anderson. The Board further discussed the pros and cons to updating the optional forms. Mr. VanOverbeke informed the Board that any change would require City approval since this would be a change to the Plan document(Ordinance). GRS recommended that the assumptions be reviewed and potentially revised at the time of the actuarial assumption review. The Board agreed.

F. **REPORTS**

F-1 **Executive Report – September 17, 2020**

PAYDEN TALF DISTRIBUTION (VEBA)

Payden returned unspent capital in the amount of \$400,000 on 8/26/20.

SUMMIT PARTNERS CAPITAL CALLS AND DISTRIBUTIONS

Summit Partners Credit Fund II, L.P. requested a capital call of .3 % of our commitment to the Funds in the amount of **\$26,848** for the Retirement Plan and **\$6,712** for the VEBA on 9/16/20. With these installments, **CAAERS** will have funded 137.25% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

ACTUARY UPDATE - FYE

The GASB Reports were delivered on August 20 by GRS. Due to the timing the PA 202 information will be included as part of the Annual Valuations. GRS is still waiting on claims data from the City to complete the OPEB Valuation. At this point it is unlikely they will be able to meet the October deadline.

AUDIT UPDATE - FYE

Yeo & Yeo was onsite 8/31 and concluded much of their audit work. Confirmation requests have been sent to Northern Trust. Staff will review drafts of the financial statements upon receipt.

BUCK CONVERSION

The new administration system and ESS Calculator was set to go live by July 31 but the conversion took longer than Buck anticipated. Effective August 10 the old site was inactivated but the new site was not yet₄ accessible. Legal counsel and the City IT

Department have been looped in to the situation. Finally, on September 3 the test site was activated. Dan will be testing all types of calculations and reporting any issues.

STAFF OPERATIONS/UPDATE

The Pension Analyst processed 12 Estimates, 1 Final Calculations, and 2 deceased calculations. As referenced above he is also in the midst of testing the new Buck site.

Ms. Orcutt also informed the Board of the upcoming NCPERS virtual conference. The Board decided to approve attendance for Staff or Trustees who may be interested in attending.

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) is vested with the authority and fiduciary responsibility for the 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 acknowledges that the Retirement System has evolved in complexity such that the circumstances 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 requires continuing education, training, and oversight of its advisors, and

WHEREAS, it is necessary, appropriate and incumbent upon Board trustees and/or Retirement System staff, from time to time, to participate in continuing education, training, and/or conduct due diligence trips in relation to their oversight of Retirement System advisors to ensure that Retirement System participants receive the best possible service, benefit and representation from these responsible persons, and

WHEREAS, Wendy Orcutt has requested the Board of Trustees' authorization for a virtual conference/training, at Retirement System expense, estimated at \$300.00 per person, to attend the 2020 Fall NCPERS Virtual Conference, to participate in continuing education in their responsibility as Retirement System Trustees and Staff, and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the virtual conference/training request Wendy Orcutt, at Retirement System expense, estimated at \$300.00 per person, to attend the 2020 Fall NCPERS Virtual Conference, to participate in continuing education in their responsibility as Retirement System Trustees and Staff, and

RESOLVED, that Wendy Orcutt comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures, and

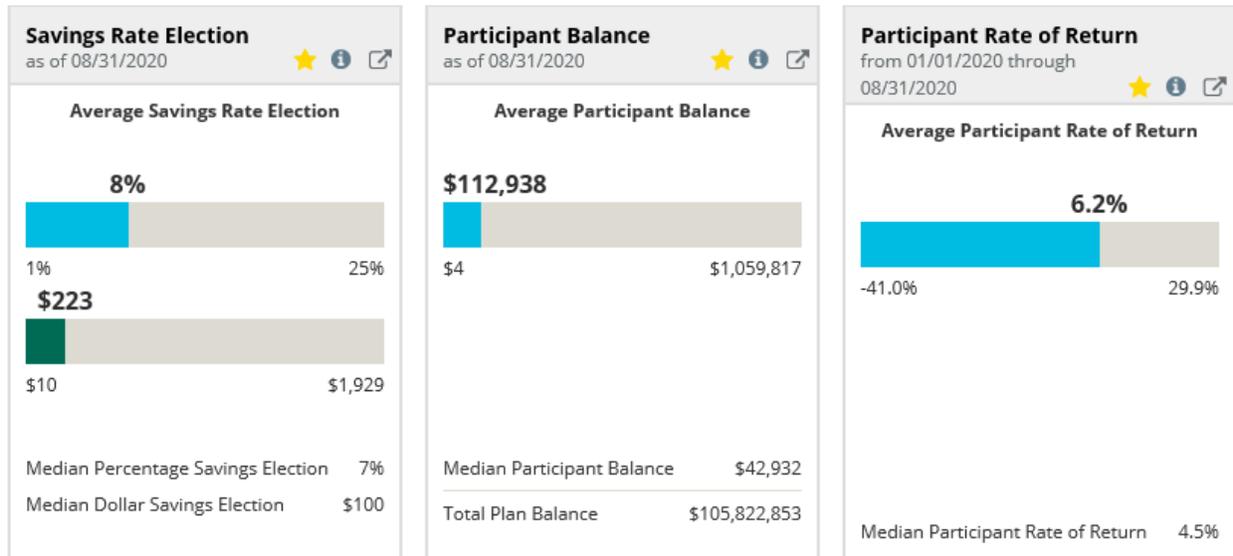
FURTHER RESOLVED, that approval is granted to any other Trustee or Retirement Staff that wishes to attend.

It was **moved** by Nerdrum and **seconded** by Hastie to approve Trustee/Staff attendance to the virtual conference/training at Retirement System expense, estimated at \$300.00 per person, the 2020 Fall NCPERS Virtual Conference, to participate in continuing education in their responsibility as Retirement System Trustees and Staff, and in keeping with Board policy.

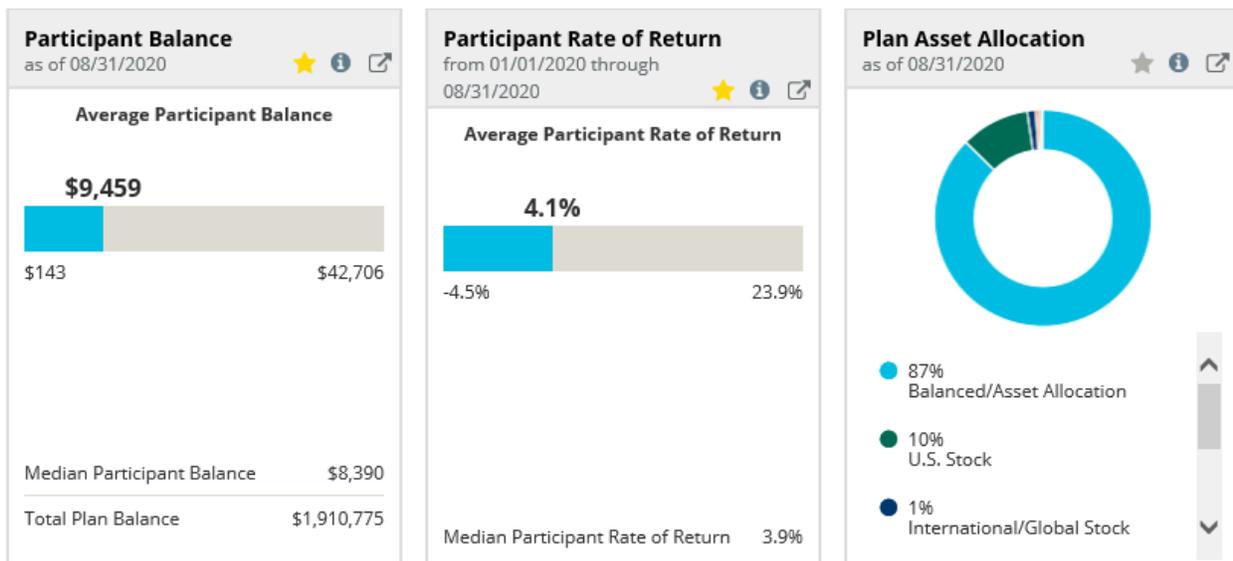
Approved

F-2 Executive Report – ICMA-RC Update

457 Balance at 9/10/20 = \$ 102,662,317 – Statistics as of 8/31/20



401 Balance at 9/10/20 = \$ 1,877,927 – Statistics as of 8/31/20



Current Items/Education:

- Dan Stewart conducted 15 virtual appointments during August 18 and 19. The webinar on August 19 from 12-1 for Dual Plan employees was not as well attended, with only 12 which included Staff.

- Jason Ashline is no longer with ICMA-RC and they are in the process of finding a replacement. A second representative, Gina John, has been added to the Ann Arbor account working along with Dan Stewart.

Other Items:

COVID-19 – To date, 8 employees have requested a CRD from the 457 Plan totaling \$192,000.

F-3 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended August 31, 2020

Maria Buffone, Accountant, submitted the Financial Report for the month ended August 31, 2020 to the Board of Trustees:

| | |
|--|----------------------|
| 8/31/2020 Asset Value (Preliminary) | \$552,209,312 |
| 7/31/2020 Asset Value (Audited by Northern) | \$528,156,364 |
| Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements) | \$30,224,791 |
| Percent Gain <Loss> | 5.6% |
| September 16, 2020 Asset Value | \$546,399,702 |

F-4 Investment Policy Committee Minutes – September 1, 2020

Following are the Investment Policy Committee minutes from the meeting convened at 3:09 p.m. on September 1, 2020:

Member(s) Present: DiGiovanni(via TX), Flack(via TX), Hastie(via TX), Horning(via TX),
Monroe(via TX) (3:57pm arrival)

Member(s) Absent: None

Other Trustees Present: None

Staff Present: Buffone(via TX), Gustafson(via TX), Hollabaugh(via TX), Orcutt(via TX)

Others Present: Henry Jaung(via TX) (4:54 p.m. depart), Meketa Investment Group

Christy Gahr(via TX) (4:22 p.m. depart), Meketa Investment

Group

John Harris(via TX) (4:54 p.m. depart), Meketa Investment Group

Dan Heflin(via TX) (3:15 – 4:09 p.m.), Torchlight

Michael Romo(via TX) (3:15 – 4:09 p.m.), Torchlight

TORCHLIGHT DEBT FUND VII PRESENTATION

Mr. Heflin and Mr. Romo presented on behalf of Torchlight reviewing their firm, Commercial Real Estate Markets and Torchlight Debt Fund VII. The Committee further discussed the presentation with Meketa and decided to move forward with the Torchlight Debt Fund VII.

It was **moved** by Flack and **seconded** by DiGiovanni to recommend to the Board of Trustees to invest \$9 Million from the Retirement System and \$4 Million from VEBA in the Torchlight Debt Fund VII.

INTERIM PERFORMANCE THROUGH JULY 31, 2020

Retirement System:

Act 314 Compliance Review: Mr. Jaung reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

July 31, 2020 Investment Review: As of July 31, 2020, the balance of the Funds was \$527,739,299 for ERS. Fiscal Year to Date performance was 3.8% for ERS net of fees.

VEBA:

Act 314 Compliance Review: Mr. Jaung reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

July 31, 2020 Investment Review: As of July 31, 2020, the balance of the Funds was \$200,446,407 for VEBA. Fiscal Year to Date performance was 4.2% for VEBA net of fees.

The Committee also briefly discussed the discount rate and dropping from 7% to 6.5% or 6.75% over 5 years. The Committee agreed to discuss further with the Audit Committee next week in advance of a decision at the September Board meeting.

CONSULTANT INTERVIEW PREP

The Committee discussed the interview process and timing for the upcoming Investment Consultant RFP Interviews. The Committee will put together interview questions and decided to allow 30 minutes for presentation plus 15 minutes for questions for each candidate.

ADJOURNMENT

It was **moved** by DiGiovanni and **seconded** by Monroe to adjourn the meeting at 5:19 p.m.
Meeting adjourned at 5:19 p.m.

F-5 Administrative Policy Committee Minutes – September 8, 2020

Following are the Administrative Policy Committee minutes from the meeting convened at 3:11 p.m. on September 8, 2020:

Committee Members Present: Lynch(Via TX), Monroe(Via TX), Peariso(Via TX), Schreier(Via TX)
Members Absent: None
Other Trustees Present: None
Staff Present: Buffone(Via TX), Gustafson(Via TX), Hollabaugh(Via TX), Orcutt(Via TX)
Others Present: None

ICMA UPDATE

Education Opportunities: ICMA has provided national webinars available for employees to attend. Staff has sent out the invite to all employees. Mr. Peariso mentioned the webinar he recently attended was educational and beneficial.

Jason Ashline Departure: Ms. Orcutt informed the Committee that Jason Ashline is no longer with ICMA-RC and that a second representative, Gina John, has been added to the Ann Arbor account working along with Dan Stewart. ICMA -RC is in the process of finding a replacement for Jason.

Recent Roth Code Issue: As of last month, the codes have been updated with HR and ICMA, however, there was an issue with one employee this month who was the first to use the Roth Catch Up Contribution code. The deferral was not taken and after researching HR reported that this one union code had not been set up properly. HR subsequently audited all employee codes for accuracy and has corrected the issue. Staff will review ICMA reports later in the calendar year to guard against any employees exceeding IRS deferral limits.

ADMINISTRATION SYSTEM OUTAGE

Ms. Orcutt informed the Committee of recent issues with the Buck Software. As of July, the Employee Self Service website has been down for a system upgrade which is still inactive to date. The Staff's administrative software also became unavailable as of August 10; no notice was given regarding the outage. Last Thursday Buck released the new platform in a testing environment. Pension Analyst is in the process of testing various calculations for accuracy and Staff is working with legal counsel, IT and Buck to ensure the software will return to functionality as soon as possible.

OFFICE UPDATE

The Retirement Office is open by appointment only and Staff is fully operational working remotely. Staff has been in the office weekly to check mail, print and file as needed. The Committee agreed to continue working as is.

ADJOURNMENT

It was **moved** by Schreier and **seconded** by Lynch to adjourn the meeting at 3:41 p.m.
Meeting adjourned at 3:41 p.m.

F-6 Audit Committee Minutes – September 9, 2020

Following are the Audit Committee minutes from the meeting convened at 2:10 p.m. on September 9, 2020:

Committee Members Present: Horning(Via TX), Nerdrum(Via TX), Monroe(Via TX)
Members Absent: None
Other Trustees Present: None
Staff Present: Buffone(Via TX)(4:35p.m. departure), Gustafson(Via TX),
Hollabaugh(Via TX), Orcutt(Via TX)
Others Present: None

GASB STATEMENTS 67/68 AND 74/75

The Committee reviewed the GASB Statements 67/68 & 74/75 for FYE June 30, 2020.

It was **moved** by Monroe and **seconded** by Horning to accept the GASB Statements 67/68 & 74/75 for June 30, 2020 as discussed and recommend receipt and file of the reports at the September 17, 2020 regular Board Meeting.

Approved

FYE UPDATE – AUDIT AND ACTUARY

Ms. Orcutt informed the Committee that the onsite Audit work with Yeo & Yeo was completed August 31st and went well. The Actuary is currently on track to complete the ERS valuation by October but due to the delay in claims data the OPEB report may be pushed to November.

RETURN ASSUMPTION DISCUSSION

The Committee agreed with the IPC regarding the discount rate and will continue the discussion with the Board to make a decision. No further information is needed from the Actuary.

OPTIONAL FACTORS DISCUSSION

The Committee discussed the materials provided by GRS regarding the mortality tables. Ms. Nerdrum informed the Committee that she needed more clarification from GRS as the provided materials did not fully answer the questions. Ms. Nerdrum will be reaching out to Jim Anderson for a better explanation.

OCTOBER AUDIT COMMITTEE DATE/TIME

The Committee discussed schedules and noted that GRS is projecting to have the reports complete by 10/6. The Committee will plan to meet on 10/13/2020 unless otherwise noted.

ADJOURNMENT

It was ***moved*** by Horning and ***seconded*** by Monroe to adjourn the meeting at 2:55 p.m.
Meeting adjourned at 2:55 p.m.

F-8 Legal Report

Election Policies and Procedures:

Mr. VanOverbeke informed the Board to review the current Board election policy to review potential issues that may arise due to the COVID-19 Pandemic. It is more challenging to address issues and conflicts in the midst of an election, so Mr. VanOverbeke encouraged the Board to review and revise as necessary.

G. INFORMATION (Received & Filed)

G-1 Communications Memorandum

G-2 September Planning Calendar

G-3 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 | Applied Imaging | \$36.87 | Printing July 2020 |
| 2 | Culligan | \$11.00 | Water Service August 2020 |
| 3 | GRS | \$1,500.00 | EDRO Calculation: J. Ballou |
| 4 | GRS | \$2,400.00 | GASB 67/68 Valuation Q3 2020 |
| 5 | GRS | \$6,600.00 | Pension Valuation Q3 2020 |
| 6 | GRS | \$1,500.00 | EDRO Calculation: J. Steinaway |
| 7 | Meketa Investment Group | \$10,000.00 | Investment Consulting 7/2020 |

| | | | |
|--------------|--------------------------------|--------------------|--|
| 8 | Staples | \$63.99 | Window Envelopes for Deferred Statements |
| 9 | Applied Imaging | \$10.22 | Printing August 2020 |
| 10 | ATT | \$651.57 | Phone Service 7/26/2020-8/25/2020 |
| 11 | West Arbor Condo Association | \$2,457.00 | Condo Association Dues 1/2020 - 9/2020 |
| 12 | Culligan | \$11.00 | Water Service September 2020 |
| 13 | DTE | \$135.22 | Electric Service 7/15/2020-8/31/2020 |
| 14 | Meketa Investment Group | \$10,000.00 | Investment Consulting 8/2020 |
| 15 | RNA Facilities Management | \$163.00 | Office Cleaning 8/2020 |
| 16 | VanOverbeke, Michaud & Timmony | \$7,702.20 | Legal Fees 4/1/2020 - 6/30/2020 |
| 17 | Robertson Morrison | \$230.00 | Routine Maintenance HVAC |
| 19 | Yeo & Yeo | \$2,800.00 | 6/30/2020 Audit |
| Total | | \$46,272.07 | |

G-4 Retirement Report

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

| Name | Retirement Type | Effective Retirement Date | Group | Years of Service | Department/Service Area |
|------------------|-----------------|---------------------------|---------|--------------------|-------------------------|
| Kathleen Wiseley | EDRO Recipient | September 1, 2020 | N/A | N/A | N/A |
| William Dale | Age & Service | September 27, 2020 | General | 22 Years, 8 Months | Public Services |

G-5 Analysis of Page Views on Retirement System Website

H. TRUSTEE COMMENTS / SUGGESTIONS

I. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Hastie to adjourn the meeting at 10:02 a.m.
Meeting adjourned at 10:02 a.m.

Wendy Orcutt

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