

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
December 17, 2009**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:39 a.m.

**ROLL CALL**

Members Present: Crawford, Flack, Hescheles, Kahan, Kaur, Nerdrum, Sylvester  
Members Absent: Fraser, Stanford  
Staff Present: Kluczynski, Refalo  
Others: Michael VanOverbeke, Legal Counsel  
Alan Panter, Abraham & Gaffney  
David Dephuis, City Resident  
David Monroe, Police Department  
Chris Heatley, City Retiree

**AUDIENCE COMMENTS**

Mr. Heatley thanked Mr. Kahan for his service on the Board, stating that it has been a pleasure and an honor to work with him over the years, and that he has done a great job as a Board member and will be missed. Mr. Heatley also stated that he believes Mr. Monroe will do an outstanding job as the next Police representative on the Board.

Mr. Monroe stated that he looks forward to serving on the Board.

**A. APPROVAL OF REVISED AGENDA**

The agenda was revised as follows:

- C-5 Authorization for Payment of Invoices – additional invoices received
- E-1 Certification of Elected Board Members
- H-4 Board Tracking Report

It was **moved** by Kahan and **seconded** by Crawford to approve the revised agenda.

**Approved**

**B. APPROVAL OF MINUTES**

**B-1 November 19, 2009 Regular Board Meeting Minutes**

It was **moved** by Nerdrum and **seconded** by Kahan to approve the November 19, 2009 Board Meeting minutes as presented.

**Approved**

**B-2 December 8, 2009 Special Call Board Meeting**

It was **moved** by Flack and **seconded** by Crawford to approve the December 8, 2009 Special Call Board Meeting minutes as presented.

**Approved**

**C. CONSENT AGENDA**

It was **moved** by Nerdrum and **seconded** by Kahan to approve the Consent Agenda as presented:

**Preliminary Retirement Resolutions**

**C-1 Preliminary Approval for Service Retirement for Walter Steffe**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Walter Steffe (Applicant)**, dated November 20, 2009, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Walter Steffe** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

**C-2 Preliminary Approval for Service Retirement for Ronald Rees**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Ronald Rees (Applicant)**, dated December 4, 2009, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Ronald Rees** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

**C-3 Preliminary Approval for Service Retirement for Louise Wolford**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Louise Wolford (Applicant)**, dated December 7, 2009, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Louise Wolford** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

**Final Retirement Resolutions**

**C-4 Approval of Service Retirement for Thomas Bater**

**WHEREAS**, **Thomas Bater** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of November 2, 2009, and

**WHEREAS**, said Participant has been credited with 30 years and 10.5 months of service credit, and

**WHEREAS**, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

**WHEREAS**, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

**WHEREAS**, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

**WHEREAS**, said Participant has elected to receive an Option III, 50% Joint & Survivor (Pop-Up) form of benefit (and nominated Elaine Bater, wife, as option beneficiary), and

**WHEREAS**, said Participant has requested a 25% annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

**RESOLVED**, that a service retirement is hereby granted to **Thomas Bater** (Participant), effective November 2, 2009, and further

**RESOLVED**, that benefits be paid consistent with the foregoing, and further

**RESOLVED**, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

**Resolutions:**

**C-5 Authorization For Payment of Invoices (\$ 14,246.68)**

WHEREAS, The Board of Trustees is vested with the general administration, management and operation of the Retirement System; and

WHEREAS, Section 13(4) of Public Act 314 of 1965, as amended, provides that an investment fiduciary may use a portion of the income of the system to defray the costs of investing, managing, and protecting the assets of the system, may retain services necessary for the conduct of the affairs of the system, and may pay reasonable compensation for those services; 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 has previously approved a resolution at its regular meeting of June 19, 1997 to have accounts payable services provided through its custodian bank, The Northern Trust Company; and

WHEREAS, the Board is of the opinion that prompt payment to service providers for services rendered is appropriate and in the best interest of the plan; therefore be it

RESOLVED, that the Board of Trustees' custodial bank, The Northern Trust Company, is authorized and directed to provide payment to the following vendors and providers of service in the amount as indicated upon receipt by the Board of appropriate invoices or as required by lease agreements, subject to (a) review and approval of said invoices and lease agreements by appropriate Board representatives and (b) payment authorization signed by Nancy Sylvester/Chairperson, Alexa Nerdrum/Vice-Chairperson, or Jeremy Flack/Secretary, and Willie J. Powell/Executive Director.

	<b>PAYEE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
1	<b>Coverall North America, Inc.</b>	<b>140.00</b>	Office Cleaning Services for September 2009
2	<b>Comcast</b>	<b>75.62</b>	Monthly Cable Fee
3	<b>AT&amp;T</b>	<b>32.98</b>	Monthly Fax Line Service - 10/14/09 - 11/13/09
4	<b>Gabriel, Roeder, Smith &amp; Co.</b>	<b>2,889.00</b>	Supplemental valuations of 3 proposals
5	<b>Consulting Physicians</b>	<b>750.00</b>	I. Davis Medical Consultation – 11/5/2009
6	<b>Afternoon Delight</b>	<b>182.50</b>	Special Board Meeting – 12/8/2009
7	<b>AT&amp;T</b>	<b>56.36</b>	Monthly long-distance phone service
8	<b>Nancy Sylvester</b>	<b>269.19</b>	Travel reimbursement for Penn Capital visit -3/2009
9	<b>Nancy Sylvester</b>	<b>71.67</b>	Travel reimbursement for Mid-sized Pens. Conf.- 5/2009
10	<b>Nancy Sylvester</b>	<b>1,223.72</b>	Travel reimb. for Intercontinental Investor Mtg.- 7/2009
11	<b>DTE Energy</b>	<b>183.81</b>	Monthly Electric Fee dated December 11, 2009
12	<b>DTE Energy</b>	<b>233.05</b>	Monthly Gas Fee dated December 11, 2009
13	<b>Gray &amp; Company</b>	<b>8,138.78</b>	Investment Consultant Retainer – November 2009
	<b>TOTAL</b>	<b>14,246.68</b>	

**C-6 Authorization for Conference/Training**

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, Judi Refalo, Pension Analyst, has requested the Board of Trustees' authorization for her travel to San Jose, California, at Retirement System expense, estimated at \$2,475.00 to attend the IFEBP Certificate Series Certificate in Retirement Plans, to participate in continuing education in her responsibility as Retirement System Staff person, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Judi Refalo to travel to San Jose, California, at Retirement System expense, estimated at \$2,475.00, to attend the IFEBP Certificate Series Certificate in Retirement Plans, to participate in continuing education in her responsibility as a Retirement System Staff person, and

FURTHER RESOLVED, that Judi Refalo comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures.

**Consent agenda approved**

**D. EXECUTIVE SESSION – Disability Retirement Request – Ingram Davis**

Roll call vote to convene an executive session for the purpose of discussing the disability retirement request for Ingram Davis:

Crawford - Yes	Hescheles - Yes	Nerdrum - Yes
Flack – Yes	Kahan - Yes	Stanford - Absent
Fraser – Absent	Kaur - Yes	Sylvester - Yes

*Executive session time: 8:44 – 8:52 a.m.*

**D-1 Motion – Disability Retirement Request**

It was **moved** by Crawford and **seconded** by Nerdrum to acknowledge receipt of the medical report from James D. Relle, M.D. dated November 5, 2009 regarding the disability evaluation for Ingram Davis, noting that the doctor has found that the applicant is physically and totally incapacitated for duty in the service of the City, and that the incapacity will probably be permanent; the Board therefore grants a disability retirement to Mr. Davis.

**Approved, 1 abstained (J. Flack)**

It was **moved** by Kahan and **seconded** by Crawford to note that it is has granted a disability retirement to Mr. Davis, but that the Board is aware that the Retirement Office has received

notification by virtue of receiving a judgment of divorce whereby Mr. Davis' former spouse has a claim to a portion of his retirement benefit, already having been put on notice of the need to get an appropriate domestic relations order entered, and not having done so, the Board will suspend payment of any benefits during the pendency of this matter so as to avoid the payment of benefits to the wrong party, and no action will be taken until receipt of an appropriate judgment order.

**Approved, 1 abstain (J. Flack)**

**E. ACTION ITEMS**

**E-1 Certification of Elected Board Members**

Mr. Powell submitted the following memorandum to certify the newly-elected Board members:

*Ballots from the Pension Board Election held on December 9 and 10 for one General Member representative and one Police Member representative were counted in the City Clerk's Office on Friday, December 11, 2009. The following were the results:*

**General Member Election**

*Jane Allen - 12  
Kenneth J. Bogan - 35  
Terry R. Clark – 188  
Anne M. Warrow - 41*

**Police Member Election**

*David Monroe – 51  
William T. Stanford – 1 (withdrew candidacy prior to election)  
Spring Tremaine – 0*

*Terry R. Clark was declared the winner of the General Member Representative seat on the Employees' Retirement System Board of Trustees in this election with 188 votes. Jeffrey Kahan previously served this seat.*

*David Monroe was declared the winner of the Police Member Representative seat on the Employees' Retirement System Board of Trustees in this election with 51 votes. William Stanford previously served this seat.*

*Mr. Clark and Mr. Monroe will begin their new three-year term on the Employees' Retirement System Board and on the Retiree Health Care Benefit Plan & Trust Board effective January 1, 2010.*

**E-2 Member Interest Credits for Calendar Year 2010**

A letter from Gabriel, Roeder, Smith & Company dated December 9, 2009 indicates that the computed rate of return for the fiscal year ending June 30, 2009 is 6.2%. The equivalent quarterly return is 1.52%, therefore, 1.52% regular interest should be credited to member accounts for the quarter ending March 31, 2010 and each of the remaining 3 quarters in calendar year 2010.

It was **moved** by Nerdrum and **seconded** by Flack to credit the 6.2% annual percentage rate, with an equivalent of 1.52% quarterly rate.

**Approved**

### **E-3 Resolution to Liquidate the Assets of Principal Global Investors**

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 Board of Trustees on the recommendation of Gray & Company adopted a resolution on January 15, 2009 to liquidate approximately \$12 million from the Principal Global Real Estate portfolio for funding for Value Added/Oppportunistic allocations, and

WHEREAS, the credit crisis impacted the commercial real estate market and Principal Global Investors has been unable to honor the System's request, and

WHEREAS, since the January 15, 2009 resolution to liquidate approximately \$12 million from the Principal Global Real Estate, the value of the entire portfolio has fallen to \$12,362,259 as of December 9, 2009, and

WHEREAS, Gray & Company is recommending that the entire portfolio of Principal Global Investors be liquidated when the funds become available and that the funds be utilized for the Value Added / Opportunistic allocations, so be it

RESOLVED, that the Board of Trustees authorizes the liquidation of the entire portfolio of Principal Global Real Estate, and that the funds be utilized for the Value Added / Opportunistic allocations when they become available.

It was **moved** by Flack and **seconded** by Kahan to approve the resolution to liquidate the assets of Principal Global Investors.

**Approved**

### **E-4 Beneficiary Approval Request from Donald Lowenberg, City Employee**

Mr. VanOverbeke explained the Board's policy, and those who normally fall into the category of insurable interest. Mr. Lowenberg has requested that his cousin be named as his beneficiary, and the Board agreed to grant the request.

The Board discussed the Change of Beneficiary Form, and decided that it should be revised to indicate that the form is for active employees, perhaps with a status box near the top, and that the employee's name should be located at the top portion of the form. The Board decided to refer the revision of the form to the Administrative Policy Committee.

It was **moved** by Kahan and **seconded** by Flack to approve Mr. Lowenberg's beneficiary request.

**Approved**

### **E-5 Approval of Contract with Invesco, Inc. as Public Private Investment (PPIP)**

Mr. Flack stated that Mr. VanOverbeke's office has reviewed and approved the contract with Invesco, Inc.

It was **moved** by Flack and **seconded** by Kahan to acknowledge receipt of the opinion from the Board's legal counsel dated December 17, 2009 with regards to the Invesco investment, to note that the contract has been reviewed by legal counsel and approved, that the investment will qualify

under Public Act 314, and authorize that the documents be executed by the appropriate signatures on behalf of the Board.

**Approved**

**E-6 Approval of Contract with Oaktree PPIP Private Fund, L.P. as Public Private Investment**

Mr. Flack stated that Mr. VanOverbeke's office has also reviewed and approved the contract for Oaktree PPIP Private Fund, but a due diligence trip has not been conducted at this time.

It was **moved** by Flack and **seconded** by Kahan to acknowledge the opinion of the Board's legal counsel dated December 17, 2009 with regards to the Oaktree PPIP Private Fund, noting that legal counsel has reviewed and approved the contract and that the investment has been qualified under Public Act 314, and is approved pending a due diligence visit to Oaktree PPIP Private Fund.

**Approved**

**E-7 Approval of Contract with Citigroup Orion Future Fund**

Mr. Flack stated that a due diligence visit was conducted by himself and Chris Kuhn from Gray & Company, and that Mr. VanOverbeke's office has reviewed and approved the contracts. Ms. Kaur stated that she was not at the last meeting when the contracts were presented, so she will abstain from this vote.

It was **moved** by Flack and **seconded** by Kahan to approve the contract with Citigroup Orion Future Fund.

**Approved, 1 abstain (A. Kaur)**

**E-8 Approval of Contract with Optima Futures Fund Limited**

Mr. Flack stated that a due diligence visit was conducted by himself and Chris Kuhn from Gray & Company, and that Mr. VanOverbeke's office has reviewed and approved the contracts.

It was **moved** by Flack and **seconded** by Nerdrum to approve the contract with Optima Futures Fund Limited.

**Approved**

**F, DISCUSSION ITEMS**

**F-1 Proposed Board Retreat Date & Topics**

The Board discussed retreat dates for early next year, and after discussion, decided to hold the Board Retreat on Friday, March 5, 2010. Mr. Hescheles stated that Mr. Kuhn had briefly discussed an idea of covering what investments the Fund is invested in, as well as the reasons for investing in each area, which will benefit many of the new Trustees on the Board; another topic could be the active management versus passive management issue. Ms. Sylvester asked Ms. Kluczynski to send an email in January requesting discussion topics from the Trustees.

**F-2 Proposed Recommendations from the Fiduciary Audit Report**

Ms. Nerdrum stated that the Audit Committee will soon be reviewing the Fiduciary Audit from Ennis Knupp, and Mr. Powell has suggested that the Board act upon three of their suggestions sooner rather than later: 1) Benefit Processing Timeframe, 2) Confidentiality of Member Information, and 3) Pre-approval of Payments. It has been determined that there is no need for the Board to preliminarily approve each retirement, and this adds an extra step that results in a retiree having to wait an additional 30 days for their first benefit payment. Mr. VanOverbeke suggested that the



Total Realized Losses	<u>107,736</u>
Remaining Collateral Deficiency Amount	<b>608,962</b>
Reversal Amount	<b>468,901</b>
Remaining Amount Subject to Reversal	<b>140,061</b>

**VEBA**

Total Collateral Deficiency Amount	153,587
Realized Losses	
Lehman Brothers: 19,613.00	
Cit Group <u>3,639.00</u>	
Total Realized Losses	<u>23,252</u>
Remaining Collateral Deficiency Amount	<b>130,335</b>
Reversal Amount	<b>100,358</b>
Remaining Amount Subject to Reversal	<b>29,977</b>

**G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended November 30, 2009**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended November 30, 2009, to the Board of Trustees:

11/30/2009 Asset Value (Preliminary)	\$355,156,158
10/31/2009 Asset Value (Audited by Northern)	\$347,582,733
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$46,460,266
Percent Gain <Loss>	14.7%
<b>December 16, 2009 Asset Value</b>	<b>\$360,253,878</b>

**G-3 Investment Policy Committee Report – December 1, 2009**

Following are the Investment Policy Committee minutes from the meeting convened at 3:20 p.m. on December 1, 2009:

Member(s) Present: Flack (3:36, via conference call), Hescheles, Kahan  
 Member(s) Absent: Sylvester  
 Other Trustees Present: None  
 Staff Present: Kluczynski  
 Others Present: Chris Kuhn, Gray & Company

**LEE MUNDER CAPITAL PRESENTATION**  
 Don Triveline, Charles S. Glovsky, & James A. Dupont

Mr. Glovsky, Mr. Dupont, and Mr. Triveline were present to review the firm's recent performance and to answer any questions the Committee may have. Mr. Glovsky stated that the System hired their firm in late 2005, and he reviewed the performance numbers from 1999-2005 as well as the period after being hired – 2006 through October 31, 2009. Mr. Glovsky noted that before being

hired by the System, they had outperformed five out of the seven years during a volatile market, and he believes there is a pattern happening. Mr. Glovsky stated that in the last 3+ years there has been a different environment than we saw in 1999-2005, such as huge volatility, below average growth in the economy, and the various crisis' in the banks and financials. Mr. Glovsky stated that 2007 was a high quality year and they should have outperformed that year, but did not because they made mistakes on too many stocks.

Mr. Glovsky stated that this year they are a little ahead of the market and in the month of November they have picked up eight basis points. Currently they are up 2.5% for the year and are set up for a nice comeback in 2010. Mr. Glovsky stated that they should be able to earn back the funds in 3 months to a year and be back in the positive territory within 3 to 6 months. Mr. Glovsky believes it is imminent that the market is going to return back to high quality stocks pretty soon, and the firm is well-positioned for a comeback. Mr. Glovsky stated that the move to Lee Munder from Independence has been a very good move and they have gotten a lot of resources that they didn't have before, and currently they are well-diversified.

Mr. Dupont stated that Mr. Triveline is based in Chelsea and will be the representative for the account. Mr. Triveline stated that prior to working for Lee Munder, which has been seven years; he was the executive director for MAPERS, so he has been involved in the business for about 15 years and was excited to be able to be in the relationship with the Retirement System. Mr. Triveline stated that the account is very important to them and they would like to keep it, and as they stated during the due diligence meeting in October, while they are rebalancing themselves in getting back into play, they would like the Committee to consider accepting a performance-based fee as they move forward and until Mr. Glovsky gets back to where the Committee is comfortable with this portfolio. The Committee had no further questions, and the gentlemen departed the meeting at this time.

The Committee discussed the performance review, and Mr. Hescheles stated that he is leaning toward keeping Lee Munder for a quarter or two with the idea that if we need money to fund other opportunities then it could be taken from their fund, and perhaps we should see if there is better performance early in the year. The reason to keep them around may be due to their 10-year outperformance, and if they revert to their own performance they are going to have a couple of good years coming up if the process and the personnel haven't changed. There could be the potential problem of firing them and then they may have outperformance.

Mr. Kuhn asked if the Committee is willing to consider a performance-based fee that was suggested by Mr. Triveline, which could be to pay them 10 basis points as a management fee for maybe a three year rolling number so when that exceeds the benchmark, a performance-based fee would kick in, which is basically paying them like an index manager until their numbers get back up. Mr. Kahan stated that he is not entirely convinced that they will be able to put it together for their particular asset class, and the downside has been so severe since inception that he is fearful of how severe that downside might be if they miss it again, so his inclination is to move into a temporary index but would be willing to keep an eye on them for another quarter or two. Mr. Flack stated that he is willing to negotiate the performance-based fee with them, as well as having that fund available in case money is needed for other opportunities. Mr. Kahan agreed.

Mr. Hescheles suggested looking at them after the first quarter of 2010 and if they are behind at all, then pull the plug. Mr. Kuhn suggested bringing a few other small cap manager names in January or February and go forward with the steps toward looking at a new manager and during the first quarter interview those firms to see if we feel better about one of them. Mr. Hescheles and Mr. Flack agreed, and Mr. Kuhn should negotiate the performance-based fee.

It was **moved** by Kahan and **seconded** by Flack to watch Lee Munder's first quarter 2010 performance and that they remain on the watch list; that Gray & Company be directed to negotiate a performance-based fee, and to work on a small cap manager review.

**Approved**

Mr. Kuhn will submit a recommendation from Gray & Company to be placed on the December 17, 2009 Board agenda.

### **PROPOSED REVISIONS TO THE INVESTMENT POLICY STATEMENT**

The Committee decided to postpone this item until the January 5, 2010 IPC meeting in order for Ms. Sylvester and Mr. Flack to have a chance to read the document and be present for full Committee review and approval.

### **PROPOSED 2010 BOARD RETREAT TOPICS**

Mr. Kuhn stated that one of the items that Gray & Company is working on is a “Soup to Nuts” portfolio review, starting with the asset classes themselves and their expectations for the near-term (12-36 months) and to note the concerns they have with the global economy, and then work that towards what the asset allocation is for the Fund and the sub-allocations within that and then all the way down to the managers. It is a large topic that may fill a full morning, and Ms. Sylvester has mentioned that she would like to see this discussed. Mr. Hescheles stated that it is a good topic, but would like it summarized into a much shorter time span.

### **REAL ESTATE ALLOCATION**

Mr. Kuhn submitted a recommendation from Gray & Company to exit the Principal/open-ended Core real estate fund strategy and look at some opportunistic plays in real estate in 2010. The Committee agreed to place this item on the December Board meeting agenda for Board approval.

It was **moved** by Flack and **seconded** by Hescheles to recommend that the Board of Trustees amend the \$12 million withdrawal request from Principal to a full liquidation of assets.

**Approved**

### **OAKTREE DUE DILIGENCE VISIT UPDATE**

Mr. Kuhn informed the Committee that there will not be a visit to Oaktree in December, and that nothing has changed, although legal counsel and Oaktree’s attorneys are still negotiating the contract, so it would not have made sense for Mr. Flack to fly out there in case something ended up falling through, so Oaktree has been advised to not count the Retirement System in on the December 8<sup>th</sup> close. Mr. Kuhn stated that we are not missing anything that we can see in the near future.

### **ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Flack to adjourn the meeting at 4:37 p.m.

**Meeting adjourned at 4:37 p.m.**

**G-4 Administrative Policy Committee Report – No Report**

**G-5 Audit Committee Report – No Report**

**G-6 Legal Report – Rollover Notice**

Mr. VanOverbeke presented a revised contribution withdrawal form which includes new required IRC Section 402 language that gives the individual information as to what is taxable in their distribution and their rollover options. Mr. VanOverbeke suggested that the Board approve the information which staff will use to revise the current form to include the new IRC language.

**Re: Notice to recipients of lump sum distributions from the Retirement System**

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**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 Section 402 of the Internal Revenue Code requires the Board to provide notice to recipients of lump sum distributions from the Plan, and

**WHEREAS**, applicable tax law and regulations require said notice to be provided at least thirty (30) days in advance of such distributions, and

**WHEREAS**, legal counsel has prepared a distribution notice and form consistent with IRC Section 402, and

**WHEREAS**, the Board of Trustees has discussed this matter, therefore be it

**RESOLVED**, that the Retirement System is hereby amended to comply with and shall be administered in accordance with the requirements of the Economic Growth and Tax Relief Act of 2001; the Pension Protection Act of 2006; the Worker, Retiree, and the Employer Recovery Act of 2008 to: (1) allow participants to roll over amounts from an eligible employer plan to a Roth IRA, (2) allow non-spouse beneficiaries to roll over distributions to an IRA, and (3) provide relief from the 10% early withdrawal penalty for distributions from governmental plans made to qualified public safety employees after separation from service after attainment of age 50, and further

**RESOLVED**, that the Retirement System is hereby amended to comply with and shall be administered in accordance with the requirements of IRC Section 401(a)(9) and Treasury Regulations establishing the required minimum distribution rules for the Retirement System, and further

**RESOLVED**, that the Board of Trustees hereby adopts the distribution notice and form, and further

**RESOLVED**, that the Retirement System shall be administered consistent with said notice and IRS Notice 2009-68, and further

**RESOLVED**, that the distribution notice and form be provided to recipients of lump sum distributions from the Retirement System consistent with the Internal Revenue Code, and further

**RESOLVED**, that a copy of this resolution shall be provided to all appropriate parties.

It was **moved** by Crawford and **seconded** by Flack to adopt the revised IRC 402 notice and language as well as the form language and to provide that it be put into the current notice to recipients of lump sum distributions from the Retirement System.

**Approved**

**H. INFORMATION**

**H-1 Communications Memorandum**

The Communications Memorandum was received and filed.

**H-2 January Planning Calendar**

The January Planning Calendar was received and filed.

### H-3 Vendor Contacts - None

### H-4 Board Tracking Report

The Board Tracking Report was received and filed.

### H-5 Correspondence from Deborah Sturza, Former City Employee

Ms. Refalo stated that in December 2008 the Board made a change to the deferred retirement policy that indicates that a deferred retiree has 90 days from when they leave the City to decide whether they are going to take out their contributions, and then after that if they decide to take out their contributions, they forfeit their deferred retirement. A question has come up as to whether this change applies to the employees that left the City prior to the policy change last December, or are they "grandfathered" under the old rules. Ms. Sturza left the City in August 2008 and is not sure if she wants to withdraw her contributions at this time. Mr. VanOverbeke stated that Ms. Sturza still has the ability to withdraw a full lump-sum distribution, but she would not be guaranteed a pension at age 60.

It was **moved** by Nerdrum and **seconded** by Flack to grandfather in the individuals who were enrolled in the deferred retirement withdrawal provision prior to the December 18, 2008 approval of the Deferred Retirement Allowance and the Annuity Withdrawal Option.

#### Approved

Mr. VanOverbeke stated that Mr. Powell should create a memo for the file indicating what the past practice was.

### H-6 2010 Board and Committee Meeting Schedule

The 2010 Board and Committee Meeting Schedule was received and filed.

## I. PRESENTATION – Financial Audit for the Fiscal Year Ended June 30, 2009

Alan Panter from Abraham Gaffney, P.C. was present to review the June 30, 2009 Financial Audit. Mr. Panter stated that Audit went this year, he thanked Powell and Jarskey for their

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
Total assets	\$ 335,818,992	\$ 412,765,245
Total liabilities	<u>14,654,879</u>	<u>2,348,549</u>
Assets held in trust for pension benefits	<u>\$ 321,164,113</u>	<u>\$ 410,416,696</u>
Net investment (loss)	\$ (80,536,700)	\$ (24,756,505)
Contributions:		
Plan members	2,815,347	2,725,883
Employer	<u>14,725,702</u>	<u>7,517,024</u>
Total contributions	<u>17,541,049</u>	<u>10,242,907</u>
Retiree pension benefits	24,983,516	23,975,916
Refunds of member contributions	<u>632,944</u>	<u>375,563</u>
Total benefits paid	<u>25,616,460</u>	<u>24,351,479</u>
Benefits paid in excess of contributions	8,075,411	14,108,572
General and administrative expenses	<u>640,473</u>	<u>633,918</u>
Net (decrease) in net assets held in trust	<u>\$ (89,252,584)</u>	<u>\$ (39,498,995)</u>
Ratio of benefits paid to contributions	146%	238%

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assistance. Mr. Panter reviewed highlights of the financial statement for the board. The table below compares key financial information in a condensed format between the current year and the prior year:

It was **moved** by Kahan and **seconded** by Nerdrum to acknowledge and receive the Financial Audit for the Fiscal Years Ended June 30, 2009 and 2008.

**Approved**

**J. TRUSTEE COMMENTS**

Ms. Nerdrum suggested that when Trustees go to conferences and trainings that they provide a report and materials to the Board, which would be helpful to those that did not attend.

The Board members thanked Mr. Kahan for his service, dedication, and commitment to the Board of Trustees. Ms. Sylvester suggested that staff organize a luncheon for Mr. Kahan after January. Mr. Kahan thanked everyone, and stated that serving on the Board has been the greatest honor of his professional life and that he has been very fortunate over the last seven years to be a part of the Board of Trustees.

**K. ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Flack to adjourn the meeting at 10:22 a.m.

**Meeting adjourned at 10:22 a.m.**

**Willie J. Powell, Executive Director  
City of Ann Arbor Employees' Retirement System**