

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
January 15, 2009**

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

ROLL CALL

Members Present: Crawford, Flack, Fraser, Heatley, Hescheles, Kahan (8:45), Nerdrum, Sylvester
Members Absent: Kaur
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel
David Diephuis, City Resident

Ms. Sylvester welcomed Mr. Flack, Fire Trustee, to the Board of Trustees.

AUDIENCE COMMENTS - None

A. APPROVAL OF AGENDA

It was **moved** by Heatley and **seconded** by Nerdrum to approve the agenda as submitted.
Approved

B. APPROVAL OF MINUTES

B-1 December 18, 2008 Regular Board Meeting Minutes

It was **moved** by Heatley and **seconded** by Crawford to approve the December 18, 2008 regular Board Meeting minutes as presented.
Approved

C. CONSENT AGENDA

It was **moved** by Hescheles and **seconded** by Nerdrum to approve the following Consent Agenda:

Preliminary Retirement Resolutions

C-1 Preliminary Approval for Early/Service Retirement for Bryan Weinert

WHEREAS, the Board of Trustees is in receipt of an application for early/service retirement from **Bryan Weinert (Applicant)**, dated December 19, 2008, 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 early/service retirement of **Bryan Weinert** 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-2 Approval of Service Retirement for Eddie Collins

WHEREAS, Eddie Collins (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of December 2, 2008, and

WHEREAS, said Participant has been credited with 18 years and 4 months of service credit (*which includes 6 years and 6.5 months reciprocal credit, and 3 years and 10 months military 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 II, 100% Joint & Survivor (Pop-Up) form of benefit (and nominated Sharon Collins, wife, as option beneficiary), and

WHEREAS, said Participant has requested no 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 **Eddie Collins** (Participant), effective December 2, 2008, 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.

C-3 Approval of Service Retirement for Ann Mattson

WHEREAS, Ann Mattson (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of January 1, 2009, and

WHEREAS, said Participant has been credited with 14 years and 9 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 II, 100% Joint & Survivor (Pop-Up) form of benefit (and nominated James Mattson, husband, as option beneficiary), and

WHEREAS, said Participant has requested no 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 **Ann Mattson** (Participant), effective January 1, 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.

C-4 Approval of Service Retirement for David Whalen

WHEREAS, **David Whalen** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of December 6 , 2008, and

WHEREAS, said Participant has been credited with 31 years and .5 months of service credit (*which includes 20 years and 8 months reciprocal 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 Wanda Whalen, wife, as option beneficiary), and

WHEREAS, said Participant has requested a 100% 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 **David Whalen** (Participant), effective December 6, 2008, 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 (\$ 20,686.84)

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, Chris Heatley/Vice-Chairperson, or Jeffrey Kahan/Secretary, and Willie J. Powell/Executive Director.

	PAYEE	AMOUNT	DESCRIPTION
1	Coverall North America, Inc.	140.00	Office Cleaning Services for January 2009
2	AT&T	52.25	Monthly Long Distance Telephone Service
3	Comcast	151.68	Monthly Cable Fee (2 mths)
4	University Office Equipment	81.71	Quarterly Copier Maintenance Contract
5	Afternoon Delight	186.16	December 2008 Board Meeting
6	Gabriel, Roeder, Smith & Co.	19,898.00	Cons. Svcs, Contribution Scenarios, & misc. fees
7	Nancy Sylvester	114.43	Travel Reimbursement – Intercont. Due dil. 9/08
8	Nancy Sylvester	1.23	Travel Reimbursement–2008 Spring MAPERS 6/08
9	Nancy Sylvester	61.38	Travel Reimbursement – NCPERS PATS Prog 7/08
	TOTAL	20,686.84	

C-6 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
Clifford Blackford	Fire	3 Years, 7 Months	State of Michigan
Michael Reddmann	Fire	5 Years, 5 Months	Wayne 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.

C-7 EDRO Certification – Jacqueline Steinaway v. Jeffrey Steinaway

WHEREAS, the Board of Trustees is in receipt of an Eligible Domestic Relations Order (“EDRO”) dated November 17, 2008, wherein Jeffrey D. Steinaway, the Alternate Payee, is awarded certain rights to the benefits of Jacqueline H. Steinaway, the Participant, and

WHEREAS, the Alternate Payee is entitled to claim a portion of the Participant’s retirement benefit which is subject to the Alternate Payee filing an application for same, and

WHEREAS, said matter had been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law including Public Act 46 of 1991 (MCLA 38.1701) as applicable, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order, will pay pension benefits consistent with said order subject to an application being filed by the Alternate Payee or the Participant seeking payment, and further

RESOLVED, that upon application of either the Alternate Payee or the Participant this file be forwarded to the Board’s actuary for calculation of the benefits, and further

RESOLVED, that a copy of this resolution be immediately attached as the top sheet of the pension file and other appropriate records be kept for the Retirement System relative to this matter, and

RESOLVED, that copies of this resolution be sent to Paul L. Decocq, Esq., attorney for the Alternate Payee; Robert C. Gardella, Esq., attorney for the Participant; and the Board’s actuary.

C-8 EDRO Certification – Holli Neeb v. Eric Ronewicz

WHEREAS, the Board of Trustees is in receipt of an Eligible Domestic Relations Order (“EDRO”) dated October 3, 2008, wherein Holli Neeb, the Alternate Payee, is awarded certain rights to the benefits of Stephen Eric Ronewicz, the Participant, and

WHEREAS, the Alternate Payee is entitled to claim a portion of the Participant’s retirement benefit which is subject to the Alternate Payee filing an application for same, and

WHEREAS, said matter had been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law including Public Act 46 of 1991 (MCLA 38.1701) as applicable, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order, will pay pension benefits consistent with said order subject to an application being filed by the Alternate Payee or the Participant seeking payment, and further

RESOLVED, that upon application of either the Alternate Payee or the Participant this file be forwarded to the Pension Board’s actuary for calculation of the benefits, and further

RESOLVED, that a copy of this resolution be immediately attached as the top sheet of the pension file and other appropriate records be kept for the Retirement System relative to this matter, and

RESOLVED, that copies of this resolution be sent to James A. Evashevski, Esq., attorney for the Alternate Payee; Monika Holzer Sacks, Esq., attorney for the Participant; and the Board’s actuary.

Consent agenda approved

D. ACTION ITEMS

D-1 Proposed 2009 Interest Credit on Member Contributions

A letter from Gabriel, Roeder, Smith & Company dated December 9, 2008 indicates that the computed rate of return for the fiscal year ending June 30, 2008 is 9.2% and the equivalent quarterly return is 2.22%. Therefore, 2.22% regular interest should be credited to member accounts for the quarter ending March 31, 2009 and each of the remaining 3 quarters in calendar year 2009.

Mr. Powell stated that this item was postponed at the last meeting in order to seek further information from Gabriel, Roeder, Smith & Company as to how they came up with the 9.2%, and they have since submitted a detailed calculation which is included in the packet. After review of the calculation sheet, Ms. Nerdrum helped to explain the smoothing process, and the Board agreed to approve a motion to accept the quarterly rates for crediting regular interest on member accounts for each of the four quarters beginning with the January 1 - March 31 quarter following.

It was **moved** by Heatley and **seconded** by Crawford to approve the proposed Member Interest Credits for Calendar Year 2009 as submitted by Gabriel, Roeder, Smith & Company.

Approved

D-2 Resolution to Approve Deposit of Distributions from Intercontinental Real Estate Corporation Fund 3 into Cash Account for the Payment of Benefits and Expenses

Mr. Heatley reviewed the following resolution as submitted by the Investment Policy Committee:

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 Retirement System is in receipt of a letter from Intercontinental Real Estate Corporation that states the only way to reinvest a distribution from a previous Intercontinental Fund (i.e. IREIF III) into US REIF requires that the distribution be treated as a new investment and such an investment may be subject to a potential waiting period (before being reinvested) depending on the queue for incoming investments, and

WHEREAS, the Investment Policy Committee discussed the letter with Gray & Company and upon Gray & Company's advice, recommends for the near term that the distributions from Intercontinental Fund 3 be deposited in the Cash Account for payment of benefit allowances and other retirement expenses, so be it

RESOLVED, that the Board of Trustees authorizes for the near term the distributions from Intercontinental Fund 3 be deposited in the Cash Account for payment of benefit allowances and other retirement expenses.

It was **moved** by Heatley and **seconded** by Hescheles to approve the Resolution to Approve Deposit of Distributions from Intercontinental Real Estate Corporation Fund 3 into Cash Account for the Payment of Benefits and Expenses.

Approved

D-3 Resolution to Approve the Liquidation of \$12 Million from Principal Global Investors

Mr. Heatley reviewed the following resolution as submitted by the Investment Policy Committee:

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, Gray & Company recommends liquidating approximately \$12 million from the Principal Global Real Estate portfolio because the current allocation to Real Estate exceeds the Investment Policy Guidelines and Michigan Public Act 314, and because of the current weakness of Core Real Estate assets; and to reallocate the funds in with accordance the Board's approved asset allocation plan, and

WHEREAS, Gray & Company states that there is currently a queue of approximately 6 months or longer for investors wanting redemptions from the Principal portfolio and that the Retirement System should get in line immediately, so be it

RESOLVED, that the Board of Trustees authorizes the liquidation of approximately \$12 million from Principal Global Real Estate portfolio and the funds to be allocated in accordance with the Board's approved asset allocation plan.

It was **moved** by Heatley and **seconded** by Kahan to approve the Resolution to Approve the Liquidation of \$12 Million from Principal Global Investors.

Approved

D-4 Resolution to Hire MacKay Shields and Penn Capital Management as High Yield Bond Managers

Mr. Heatley reviewed the following resolution as submitted by the Investment Policy Committee:

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, Gray & Company has been advising the Investment Policy Committee to add some High Yield managers to the portfolio in order to take advantage of some of the opportunities that currently exist in the market, and

WHEREAS, the Investment Policy Committee interviewed the following four firms for High Yield managers on January 6, 2009: Artio Global Investors, Lyster Watson, MacKay Shields, and Penn Capital Management, and

WHEREAS, the Investment Policy Committee and Gray & Company recommend funding Mackay Shields and Penn Capital Management by dividing the High Yield allocation evenly between the two firms, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of both MacKay Shields and Penn Capital Management with each receiving 1.25% of the portfolio, and

FURTHER RESOLVED, that MacKay Shields and Penn Capital Management be added to the portfolio after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval.

It was **moved** by Heatley and **seconded** by Crawford to approve the Resolution to Hire MacKay Shields and Penn Capital Management as High Yield Bond Managers.

Approved

D-5 Proposed Annual Actuarial Services Fees

Mr. Powell reviewed a letter from GRS dated December 29, 2008 which includes a fee proposal for Actuarial Services beginning January 1, 2009 equaling \$31,800, payable quarterly. Mr. Powell submitted a cost analysis comparing last year's fees to the proposed fees for 2009, which results in a rate change of 6.71% from last year. Mr. Powell stated that Mr. Armstrong has indicated that the steeper fee rates were outlined in the Proposal for Actuarial and Consulting Services RFP dated May 9, 2008. The Board discussed the proposal and decided that this rate is much too high considering the current market, although Ms. Nerdrum stated that the fees do seem reasonable to her, but she does not have data regarding other public sector plans and fee structures, and the percentage increase does seem high. Mr. Powell noted that the fees have not changed dramatically over the last few years. Mr. Heatley stated that a 3% increase would be more reasonable, and perhaps the Board should offer GRS a counter-proposal. Mr. Hescheles stated that this is not a good business decision on their part when seeing that the account is down 30%. Mr. Powell recommended contacting Mr. Armstrong to communicate the Board's discussion to see if they can bring the fees down, at least to 3%. The Board agreed.

It was **moved** by Heatley and **seconded** by Flack to deny the request from Gabriel, Roeder, Smith &

Company to raise their service fees by 6.71% until further discussion with Mr. Armstrong about lowering the proposed fees, and that this item be postponed until the February 19th regular Board meeting.

Approved

D-6 Annual Report & Summary Annual Report for the Year Ended June 30, 2008

Mr. Powell presented the June 30, 2008 Annual Report and Summary Annual Report for the Board's approval. Mr. Powell stated that the Summary Annual Report will be posted on our website as well as on the City's A2Central website, and the full Annual Report will be emailed to the City Council Members.

It was **moved** by Nerdrum and **seconded** by Flack to approve the Annual Reports for the year ended June 30, 2008 as submitted.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Executive Report – January 15, 2009

ANNUAL BOARD RETREAT

The Annual Board Retreat is scheduled for Tuesday, February 3, 2009 at the Washtenaw Intermediate School District at 1819 S. Wagner Rd., Ann Arbor. The proposed agenda appears below:

AGENDA

- | | |
|--------------------|---|
| 8:30 – 9:00 a.m. | Continental Breakfast |
| 9:00 – 10:15 a.m. | Administrative Policy Overviews
<i>- Michael VanOverbeke, Legal Counsel</i> |
| 10:15 – 10:30 a.m. | BREAK |
| 10:30 – 11:00 a.m. | Funding Amortization Period
<i>- Gabriel, Roeder, Smith & Company</i> |
| 11:00 – 11:30 a.m. | Funding Value of Assets Restricted to the Range of 80% to 120% of Market Value
<i>- Gabriel, Roeder, Smith & Company</i> |
| 11:30 – 12:30 p.m. | LUNCH & Ret. System/VEBA Quarterly Reviews for 12/31/2008 |
| 12:30 – 2:00 p.m. | Review of Historical Performance - Gray & Company

1) The Total Fund's Gross and Net to Benchmarks
2) The Performance of Terminated Managers and the Replacement Managers
3) Analysis of Long-Term Returns and Net Figures |
| 2:00 – 2:15 p.m. | BREAK |
| 2:15 – 3:15 p.m. | Strategic Planning for 2009
1) Investments & Funding
2) Administrative Operations
3) New Business Initiatives |
| 3:15 – 3:30 p.m. | Retreat Overview & Final Comments |

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended December 31, 2008

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended December 31, 2008, to the Board of Trustees:

12/31/2008 Asset Value (Preliminary)	\$315,784,545
11/30/2008 Asset Value (Audited by Northern)	\$313,811,346
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$(112,984,987)
Percent Gain <Loss>	-25.4%
January 14, 2009 Asset Value	\$ 303,876,964

F-3 Investment Policy Committee Report – January 6, 2009

Following are the Investment Policy Committee minutes from the meeting convened at 2:07 p.m. on January 6, 2009:

Member(s) Present: Heatley, Hescheles, Kahan (2:25-4:30), Sylvester
Member(s) Absent: None
Other Trustees Present: Crawford
Staff Present: Kluczynski, Powell, Refalo
Others Present: Larry Gray, Gray & Company
Chris Kuhn, Gray & Company
David Diephuis, City Resident

BOARD RESOLUTION & BOARD-APPROVED MOTION REGARDING INTERCONTINENTAL REAL ESTATE'S FUND V

Mr. Gray noted that the resolution should be revised to indicate "US REIF" instead of "Fund V" throughout the document.

INTERCONTINENTAL LETTER TO BOARD OF TRUSTEES REGARDING US REIF

Mr. Gray reviewed a letter from Intercontinental Real Estate Corporation dated November 24, 2008, which indicates that the only way to reinvest a distribution from a previous Intercontinental Fund (i.e. IREIF III) into US REIF requires that the distribution be treated as a new investment. Therefore, such an investment may be subject to a potential waiting period (before being reinvested) depending on the queue for incoming investments. Mr. Gray stated that in other words, Intercontinental won't take the money and hold it, they would have to call Mr. Powell, even on the open-ended fund, and then we would send the funds in when they are ready to accept them.

Mr. Kuhn stated that at the last IPC meeting, the Committee discussed revising the asset allocation, and one of the concerns right now is with core real estate and the idea is to reduce the allocation to Principal and core real estate. Mr. Heatley summarized that the plan would be to cash out approximately \$12 million out of Principal Global and as we draw down on Fund III, shift some of that into Intercontinental. Mr. Kuhn stated that there is also some rebalancing to be done and Principal will be a key contributor to that. Mr. Heatley stated he has spoken with someone from Principal who advised him that there is a queue to get out and it is rather long so we should get our name in line. Mr. Kuhn stated that regarding Intercontinental, it is hard to tell when the \$13 million will be coming to us, and he guesses that it will be pushed back and so it might be a year or two before we start seeing any big redemptions from there, so for the time being he would consider those assets

somewhat locked up in that space.

Mr. Gray stated that he still likes the asset and the asset class and what it can do for the portfolio, it just seems there is a timing issue and the money would physically have to come out and be held until they call. Mr. Powell raised the question of where to place the money in the mean time, perhaps a STIF account since we don't know how long the holding period will be. Mr. Gray agreed, and stated that the Board of Trustees would have to understand and approve the transaction.

It was **moved** by Hescheles and **seconded** by Sylvester to revise the resolution as discussed and present it to the Board of Trustees for approval at the January 15, 2009 regular Board meeting.

Approved

It was **moved** by Sylvester and **seconded** by Hescheles to liquidate approximately \$12 million from the Principal Global Real Estate portfolio based on 1) the current over allocation to real estate (exceeds Investment Policy guidelines and Michigan P.A. 314 limitations), and 2) the current weakness of Core real estate assets, to use it for rebalancing the Board-approved asset allocation plan and for benefits and expenses at the time of redemption.

Approved

HIGH YIELD MANAGER PRESENTATIONS

The Committee received presentations from the following high yield managers (presentation booklets are available for viewing in the Retirement Office):

- Artio Global Investors
- Lyster Watson
- MacKay Shields
- Penn Capital Management

After the presentations, the Committee held a discussion regarding the four managers, and decided that everyone would be comfortable with hiring two managers in this space. The Committee agreed that MacKay Shields and Penn Capital Management would complement each other, and Mr. Gray agreed that these are both solid firms.

It was **moved** by Sylvester and **seconded** by Heatley to hire both MacKay Shields and Penn Capital Management as high yield bond managers, and split the allocation 50/50 between the two managers.

Approved

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Heatley to adjourn the meeting at 5:11 p.m.

Meeting adjourned at 5:11 p.m.

F-4 Administrative Policy Committee Report – January 6, 2009

Following are the Administrative Policy Committee minutes from the meeting convened at 1:05 p.m. on January 6, 2009:

Committee Members Present:	Crawford, Kaur, Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell, Refalo
Others Present:	None

Mr. Powell asked that the agenda be amended to include a discussion regarding the recent Audit

procedures. The Committee agreed.

It was **moved** by Crawford and **seconded** by Kaur to add the Audit discussion as requested by Mr. Powell.

Approved

PROTOCOL FOR AUDIT

Mr. Powell stated that he has concerns with the way the audit process was handled recently by Abraham & Gaffney. Mr. Powell stated that a draft copy of the Retirement and VEBA audits as well as internal control comments were sent by Email to himself at the same time as they were sent to the City so he did not get a chance to review any of the documents or make any comments prior to everything being sent to the City. Mr. Powell stated that he did speak to Mr. Panter personally, advising him that he was very disappointed because there were mistakes in the drafted financial statements that should have been cleaned up before being sent to the City, and that this was not the proper way to handle the audit process. Mr. Powell stated that he had also not been made aware that Mr. Panter had contacted Alexa Nerdrum during the audit process, and he believes that all communications should have gone through him rather than conversing directly with a Board member. Mr. Powell suggested that the Committee, or the Audit Committee, look into having the Retirement System hire its own auditor, although it may cost more, but the audit process would be more independent.

Mr. Crawford stated that the reason everything was sent at one time could have been because it took longer than usual for the auditors to receive the Retirement and VEBA information and he might have had to meet a certain deadline, although Mr. Panter should have still sent a draft of the audit for Mr. Powell's review ahead of time. Mr. Crawford noted that Mr. Panter has also contacted the Chair of the City's Audit Committee in the past, so that is not unusual. Ms. Sylvester stated that she has long believed that the System should have its own auditor, at least periodically, or possibly having a separate contract with Abraham & Gaffney so that they would report directly to Mr. Powell. After further discussion, the Committee agreed to refer this issue to the Audit Committee, and to request that Mr. Powell contact Mr. Panter in order to obtain a written response explaining the recent communication procedures and process. Mr. Panter's response should be presented to the Audit Committee for discussion at their next meeting.

DEFERRED RETIREMENT COMMUNICATIONS

Mr. VanOverbeke, who could not attend the meeting, had submitted additional scenarios for the Committee's discussion, which Ms. Refalo distributed for review. The Committee began to discuss the documents and suggested minor language changes, subsequently determining that Mr. VanOverbeke should be present for this discussion due to the need for clarification of certain definitions. The Committee decided to postpone this issue, and perhaps ask Mr. VanOverbeke for his thoughts either during the next Board Retreat in February, or to place this item on the APC meeting agenda in March. Ms. Sylvester asked that any questions the Committee members may have can be forwarded to Mr. Powell so that he can consolidate them for Mr. VanOverbeke beforehand.

ADJOURNMENT

It was **moved** by Kaur and **seconded** by Crawford to adjourn the meeting at 1:57 p.m.

Meeting adjourned at 1:57 p.m.

F-5 Audit Committee Report – January 13, 2009 - Verbal Report

Ms. Nerdrum provided a verbal report for the Audit Committee meeting held on January 13, 2009, stating that the Committee had reviewed the proposals that were submitted for the fiduciary audit and decided to potentially hire the firm Ennis Knupp and plan to meet with Jeanna Cullins, the person

who would be in charge of the engagement, to make sure there is a full understanding of the services they provide. Ms. Nerdrum stated that their meeting is scheduled for Tuesday, January 27th.

F-6 Legal Report

Mr. VanOverbeke stated that the Board had previously approved him to file a Qualified Plan Determination Letter with the IRS regarding the VCP file. Mr. VanOverbeke stated that he has had discussions with Bob Stephenson, special counsel for the City, regarding a lot of amendments that need to be made to the Plan. Because all of the amendments have not been completed as anticipated for the Plan, both he and Mr. Stephenson feel that they should withdraw the Qualified Plan Determination Letter filing which is not required at this point, and instead to file in Cycle E which would give us until January 31, 2011 which will allow us to get a Qualified Plan Determination Letter on the Plan as it is going to be amended which would be more appropriate because the Plan will be completely amended at that point.

It was **moved** by Crawford and **seconded** by Nerdrum to concur with the recommendation of the Board's legal counsel, as well as the City's Special Counsel, and submit a request to the IRS to withdraw our current filing request for a Qualified Plan Determination Letter and to instead submit that request in Cycle E.

Approved

Mr. VanOverbeke updated the Board on the amendments to Public Act 314 which governs all public employee retirement systems in the State. House Bill 6500 (which deals with investment abilities) did get passed and is now PA 425 of 2008 and is effective this year. Because of the overload of all of the bills that were signed prior to the end of the year, they don't have it posted yet, but Mr. VanOverbeke will provide the Board with a copy as soon as they are able to obtain the final version.

G. INFORMATION

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 February Planning Calendar

The February Planning Calendar was received and filed as revised.

G-3 Vendor Contacts - None

G-4 Status of Pending Projects Report

The Status of Pending Projects Report was received and filed.

H. TRUSTEE COMMENTS

Ms. Sylvester asked for the Board's permission to refer an item to the Administrative Policy Committee regarding the current Insurable Interest Policy because questions have come up regarding who can be named as an employee's beneficiary. The Board agreed to refer this item to the APC for review.

I. MOTION TO RECESS

It was **moved** by Heatley and **seconded** by Kahan to make a motion to recess in order to convene the VEBA Board meeting so that there will be no loss of a quorum before the upcoming Executive Session.

Approved

J. EXECUTIVE SESSION – Attorney-Client Privilege

NOTE: POSTPONED UNTIL THE FEBRUARY BOARD MEETING DUE TO WEATHER CONDITIONS.

K. ADJOURNMENT

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

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