

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 19, 2009**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:34 a.m.

ROLL CALL

Members Present: Crawford, Flack, Fraser, Hescheles, Kahan, Nerdrum, Sylvester
Members Absent: Kaur, Stanford
Staff Present: Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
David Kausch, Gabriel, Roeder, Smith & Company
John Mallows, Gabriel, Smith & Company
Jeff Rentschler, City Retiree
Jack Ceo, City Retiree
David Dephuis, City Resident
Karen Sydney, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Mr. Powell suggested that the agenda be revised as follows:

- C-3 Authorization for Payment of Invoices – additional invoices received
- C-6 Authorization for Conference/Training – Willie Powell
- K-1 Closed session to discuss securities litigation issue
- K-2 Disability request (Items D & D-1) moved to end of agenda

It was **moved** by Nerdrum and **seconded** by Flack to approve the revised agenda.

Approved

B. APPROVAL OF MINUTES

B-1 October 15, 2009 Regular Board Meeting Minutes

It was **moved** by Flack and **seconded** by Crawford to approve the October 15, 2009 Board Meeting minutes as presented.

Approved

B-2 November 3, 2009 Special Call Board Meeting

It was **moved** by Crawford and **seconded** by Flack to approve the November 3, 2009 Board Meeting minutes as presented.

Approved

C. CONSENT AGENDA

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

Preliminary Retirement Resolutions

C-1 Preliminary Approval for Service Retirement for Thomas Bater

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Thomas Bater (Applicant)**, dated October 1, 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 **Thomas Bater** 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 Early/Service Retirement for Lloyd Vogel

WHEREAS, **Lloyd Vogel** (Participant) has submitted an application for an early/service retirement to the Board of Trustees requesting an effective retirement date of October 10, 2009, and

WHEREAS, said Participant has been credited with 20 years and 11 months of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for an early/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 with pop-up form of benefit (and nominated Dawn Vogel, wife, as option beneficiary), and

WHEREAS, said Participant has requested a 50% annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that an early/service retirement is hereby granted to **Lloyd Vogel** (Participant), effective October 10, 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-3 Authorization For Payment of Invoices (\$ 249,369.39)

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.

| | PAYEE | AMOUNT | DESCRIPTION |
|----|--------------------------------------|------------------|--|
| 1 | Coverall North America, Inc. | 140.00 | Office Cleaning Services for September 2009 |
| 2 | DTE Energy | 246.16 | Monthly Gas Fee dated November 11, 2009 |
| 3 | DTE Energy | 458.69 | Monthly Electric Fee dated November 11, 2009 |
| 4 | Comcast | 75.62 | Monthly Cable Fee |
| 5 | AT&T | 597.23 | Monthly Long-Distance Telephone Service |
| 6 | Ennis, Knupp & Associates | 55,000.00 | 3 rd & 4 th of four installments for services provided |
| 7 | Staples Business Advantage | 252.86 | Miscellaneous office supplies |
| 8 | Transition Imaging | 384.00 | Digital Imaging Services – Invoice #1190 |
| 9 | Abraham & Gaffney, P.C. | 2,200.00 | Final billing for year-end fieldwork for FY 6/30/2009 |
| 10 | Allstar Alarm, LLC | 90.00 | 3 Months Central Station Monitoring (Nov-January) |
| 11 | Jeremy Flack | 478.01 | Travel Reimbursement– Citigroup/Optima due dil. |
| 12 | Nephron Associates, P.C. | 60.07 | Fee for medical records – I. Davis |
| 13 | Bradford & Marzec, Inc. | 35,861.43 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |
| 14 | Fisher Investments | 42,042.70 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |
| 15 | Lee Munder Capital Group | 37,065.80 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |
| 16 | Loomis, Sayles & Company | 39,408.00 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |

| | | | |
|--------------|------------------------------|-------------------|---|
| 17 | Rhumblin Advisers | 3,542.61 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |
| 18 | Schwartz Investment Counsel | 10,240.00 | Investment Mgmt. Fees – 7/1/09 – 9/30/09 |
| 19 | AT&T | 95.23 | Monthly Long-Distance Telephone Service |
| 20 | Levi, Ray & Shoup, Inc. | 8,996.40 | Annual software maintenance – Pension Gold |
| 21 | Gabriel, Roeder, Smith & Co. | 3,894.50 | 10/6/09 AC Mtg. & Revised Valuation Report |
| 22 | City of Ann Arbor | 4.63 | Municipal Code Supplement/Update |
| 23 | Gray & Company | 7,965.44 | Investment Consultant Retainer – October 2009 |
| 24 | Lora Kluczynski | 270.01 | Petty cash reimbursement |
| TOTAL | | 249,369.39 | |

C-4 Dwight W. Johnston v. Delia O. Johnston EDRO Correspondence & Resolution

WHEREAS, the Board is in receipt of an Eligible Domestic Relations Order dated August 27, 2009, wherein Delia O. Johnston, the alternate payee, is awarded certain rights to the benefits of Dwight W. Johnston, the participant, and WHEREAS, said order purports to divide the benefits payable to the Participant before his effective date of retirement, and

WHEREAS, the Participant has already retired and has been in receipt of benefits from the Retirement System since his effective date of retirement of December 24, 2004, and WHEREAS, said matter had been discussed with legal counsel who has opined that the applicable terms of said court order are inconsistent with the provisions of the Retirement System and applicable law, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order, rejects said court order as inconsistent with Plan provisions and applicable law and hereby indicates that it will not pay pension benefits in accordance with the terms of said order until such time as an acceptable order is presented to the Retirement System, and further

RESOLVED, that a copy of this resolution be immediately attached as the top sheet of the Participant's 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 the Participant and the Alternate Payee.

C-5 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 |
|-----------------|----------------|---------------------------|----------------------------------|
| Ronald Heemstra | Fire | 1 Year, 2 Months | State 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-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, Willie Powell has requested the Board of Trustees' authorization for conference/training in San Francisco, California, at Retirement System expense, estimated at \$2,740.75, to attend the Preventing Knowledge Collapse Succession & Transition Planning Strategies for the Public Sector Conference, to participate in continuing education in his responsibility as Retirement System Executive Director and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Willie Powell to travel to San Francisco, California, at Retirement System expense, estimated at \$2,740.75, to attend the Preventing Knowledge Collapse Succession & Transition Planning Strategies for the Public Sector Conference, to participate in continuing education in his responsibility as Retirement System Executive Director, and

FURTHER RESOLVED, that Willie Powell 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 – *Moved to K-2 on the agenda*

E. ACTION ITEMS

E-1 Approval of Contract with GTS Advisors, Transition Manager

Mr. Flack stated that the Investment Policy Committee is recommending approval of the contract to hire GTS Advisors as the System's Transition Manager, and noted that legal counsel has reviewed and approved the contract.

It was **moved** by Kahan and **seconded** by Flack to authorize execution of the contract with GTS Advisors by the Board Chairperson.

Approved

E-2 Resolution to Hire Invesco, Inc. as Public Private Investment (PPIP)

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 invest in the Public Private Investment Program (PPIP) offered by the United States Treasury Department in conjunction with private investors, and

WHEREAS, Invesco is one of nine managers pre-qualified by the U.S. Treasury to manage and to raise a Public Private Investment Fund (PPIF) under the Legacy Securities Program, and

WHEREAS, the Investment Policy Committee interviewed the following two firms for the Public Private Investment Program on November 9, 2009: Invesco and Oaktree, and

WHEREAS, the Investment Policy Committee and Gray & Company recommend funding Invesco and Oaktree by dividing the Public Private Investment Program (PPIP) allocation between the two firms, so be it

RESOLVED, that the Board of Trustees authorizes allocating 3% of the portfolio to Invesco to invest in their Public Private Investment Program (PPIP), and

FURTHER RESOLVED, that the 3% allocation to Invesco for its Public Private Investment Program (PPIP) be allocated after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval; and qualification of the investment under Public Act 314 of 1965, as amended, by the Board's legal counsel.

It was **moved** by Kahan and **seconded** by Hescheles to hire Invesco, Inc. as one of the System's Public Private Investment Partnership managers, with an allocation of 3% of the portfolio and contract approval.

Approved

E-3 Resolution to Hire Oaktree PPIP Private Fund, L.P. as Public Private Investment

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 invest in the Public Private Investment Program (PPIP) offered by the United States Treasury Department in conjunction with private investors, and

WHEREAS, Oaktree PPIP Private Fund, L.P. is one of nine managers pre-qualified by the U.S. Treasury to manage and to raise a Public Private Investment Fund (PPIF) under the Legacy Securities Program, and

WHEREAS, the Investment Policy Committee interviewed the following two firms for the Public Private Investment Program on November 9, 2009: Invesco and Oaktree, and

WHEREAS, the Investment Policy Committee and Gray & Company recommend funding Invesco and Oaktree by dividing the Public Private Investment Program (PPIP) allocation between the two firms, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of Oaktree and allocating 2% of the portfolio to them, to invest in their Public Private Investment Program (PPIP), and

FURTHER RESOLVED, that the 2% allocation to Oaktree for its Public Private Investment Program (PPIP) be allocated after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval; qualification of the investment under Public Act 314 of 1965, as amended, by the Board's legal counsel; and a due diligence visit by Trustees and/or staff.

It was **moved** by Flack and **seconded** by Hescheles to hire Oaktree PPIP Private Fund, L.P. as one of the System's Public Private Investment Partnership managers, with an allocation of 2% of the portfolio, and subject to contract approval and due diligence visit to their firm.

Approved

F, DISCUSSION ITEMS

F-1 Post-Retirement Benefit Increase – Pending Ordinance Language

Mr. Powell stated that the Ex-Officio Retiree Committee has submitted the following letter for discussion:

We would appreciate being placed on the formal agenda at the next Pension Board meeting to discuss the matter of the pending request for the ordinance change to the Post-Retirement benefit Increases. This change has now been "pending" for a considerable period of time with no resolution in sight.

We would like to address this matter formally at the Board meeting of November 19, 2009, to see what should be done to urge movement on this issue. It is of vital importance to the current retirees that we represent as members of the Ex-Officio Retiree Committee. Thank you for your consideration of this matter.

Mr. Rentschler asked about the status of this Ordinance change, noting that the language was first approved by the Board approximately 2½ years ago, and has been at the Attorney's Office for quite a while. Mr. Crawford stated that there are six Ordinance adjustments that the Board has forwarded to the City, and the City is in the process of reviewing the entire Ordinance, including clarification of existing language. The team is meeting weekly and a lot of progress has been made, but Mr. Crawford is unsure if it will be completed by the first of the year. Mr. Rentschler stated that he would hate to see this proposed change drag out again this year because it would cost the City if another one-time bonus is approved in 2010, and that wouldn't be the case if the post-retirement benefit increase language were approved by City Council. Mr. Ceo stated that when looking at the Actuarial Report, there are 111 retirees who are age 80 years or older, and this benefit change would greatly benefit the older retirees who are in need of the increase, and it seems that there is a real equity issue involved here, and he encourages the City to help these retirees who served the City for a long period of time and who have now been retired for a long period of time. Ms. Sylvester stated that she appreciates Mr. Rentschler and Mr. Ceo attending to voice their comments.

G. REPORTS

G-1 Executive Report – November 19, 2009

TRUSTEE BOARD ELECTIONS

The deadline for candidates to file the Declarations of Candidacy with the City Clerk's Office was Friday, November 6, 2009 at 5:00 p.m. The following persons filed a Declaration of Candidacy form for the General Member vacancy:

- Jane Allen, City Attorney's Office
- ~~Joshua Baron, ITSD~~ *(has withdrawn his candidacy form)*
- Kenneth J. Bogan, Finance Division
- Terry R. Clark, Public Services - Field Operations
- Anne M. Warrow, Public Services - Engineering

Jeffrey Kahan chose not to file for re-election. The Police Representative Candidates are:

- David Monroe
- William T. Stanford
- Spring Tremaine

The Pension Board election is scheduled for December 9 and 10, 2009. The polls will be open from 8:00 a.m. to 5:00 p.m. As per the Board's election policy the main polling site for all employees is the City Clerk's Office, however, the below outlying polling sites are provided for the convenience of the members.

W.R. Wheeler Service Center:

See Coordinators Elaine Bater (43310) and Lisa DeWolfe (43309):

- Forestry/Horticulture Division
- Parks Operations/Maintenance Division
- Radio Division
- Signal and Sign Division
- Fleet Services Division
- Solid Waste Collection Division
- Street Maintenance Division
- Utilities Field Division

- Airport Employees
- Technical Services Unit

Accommodations will be provided for the night-shift at this location (*time to be determined*).

49 S. Dixboro Rd.: See Coordinators Delores Painter (43820) or Antoinette Wilcox (43810):

- **Utilities Wastewater Treatment Plan Division**

919 Sunset: See Coordinator Jan Evanski (43906):

- Utilities Water Treatment Plan Division

FOSTER SWIFT COLLINS & SMITH, P.C.

The Board requested that Foster Swift Collins & Smith, P.C. be asked to provide the names of the approximately 15 municipal retirement systems that they indicated they served in the RFP. It has been well over a week that Foster Swift Collins & Smith was contacted and to date they have not disclosed the names of the approximately 15 municipal retirement systems. The Executive Director recommends excluding the firm from the interview process.

The Board unanimously agreed to exclude Foster Swift Collins & Smith P.C. from the RFP/Interview process.

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2009

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2009, to the Board of Trustees:

| | |
|---|----------------------|
| 10/31/2009 Asset Value (Preliminary) | \$347,555,750 |
| 9/30/2009 Asset Value (Audited by Northern) | \$355,647,626 |
| Calendar YTD Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>) | \$37,088,631 |
| Percent Gain <Loss> | 11.7% |
| November 18, 2009 Asset Value | \$358,098,970 |

G-3 Investment Policy Committee Report – November 9, 2009

Following are the Investment Policy Committee minutes from the meeting convened at 2:44 p.m. on November 9, 2009:

Member(s) Present: *Flack, Hescheles, Kahan, Sylvester*
 Member(s) Absent: *None*
 Other Trustees Present: *None*
 Staff Present: *Powell, Kluczynski*
 Others Present: *Larry Gray, Gray & Company*
 Chris Kuhn, Gray & Company

Due to time constraints, the PPIP presentations were moved ahead on the agenda.

PUBLIC PRIVATE INVESTMENT PROGRAM (P.P.I.P.) PRESENTATIONS
Copies of the presentations are available for viewing in the Retirement Office

Oaktree PPIP Private Fund, L.P.

Douglass Allen & Keith Gollenberg

Invesco, Inc.

Marquette Chester, Managing Director Public Funds

Darin Turner, Associate Portfolio Manager

Marvin E. Flewellen, CFA,

Keri Hepburn, Senior Director

Josh Seegopaul, VP, WL Ross & Co. LLC

The Committee discussed the presentations and reviewed the Asset/Manager Allocation Table submitted by Gray & Company. Mr. Kuhn stated that these firms are mainly fixed income, with Invesco having part in real estate, and he has already spoken with the Board's legal counsel, who agreed that they could be split between fixed income and real estate. Mr. Powell asked Mr. Kuhn to obtain something in writing from legal counsel regarding their opinion of the PPIP firms. After discussing the asset allocation suggestions, the Committee decided to allocate 3% to Invesco, and 2% to Oaktree for the PPIP products.

It was **moved** by Sylvester and **seconded** by Hescheles to recommend that the Board of Trustees hire each of the two firms as PPIP managers, allocating 3% to Invesco, Inc., and 2% to Oaktree PPIP Private Fund, L.P.

Approved

SEPTEMBER 30, 2009 QUARTERLY REPORT

The Fund's total market value as of September 30, 2009 was \$356.27 million. The Fund had a return of 10.89% for the current quarter, and a return of -3.11% for the last twelve months.

Summary of Assets as of September 30, 2009:

| Managers | Market Value |
|-------------------------|----------------------|
| Domestic Equity | \$ 183,539,000 |
| International Equity | 38,308,000 |
| Fixed Income | 90,490,000 |
| Real Estate | 24,156,000 |
| Alternative Composite | 7,504,000 |
| Cash & Cash Equivalents | 12,276,000 |
| Total Plan | \$356,273,000 |

PROPOSED REVISIONS TO THE INVESTMENT POLICY STATEMENT

Due to time constraints, the Committee agreed to postpone this item until the December 1, 2009 IPC meeting.

GRAY & COMPANY LETTER TO IPC RE: PRINCIPAL GLOBAL INVESTORS

Mr. Kuhn reviewed a letter dated November 9, 2009 regarding Real Estate Allocation and Principal Global Investors, whose performance has been disappointing, particularly in the core space. Gray &

Company believes that this is the time to look for opportunistic in real estate, with the idea to break it out even more and the strategy that we have with Invesco falls into the Value Add/Opportunistic space. Mr. Kuhn suggested that the Committee take a closer look at different strategies in February, and that the Committee consider closing down Principal Global Investors. Gray & Company's letter indicates that the credit crisis impacted the commercial real estate market and Principal has been unable to honor the System's request for funds. At this time Gray & Company does not anticipate the System receiving funds from Principal until sometime in 2010. Furthermore, the \$12 million pending withdrawal now represents almost the entire balance at Principal. A \$12 million reduction to Principal would achieve the target funding level for the Value Added/Opportunistic allocation and maintain approximately \$8 million in assets with the manager.

Gray & Company's updated real estate recommendation –

1. To reduce the exposure to Core from 20% to 0% within the real estate allocation and completely liquidate the Principal account. This recommendation is based on the opportunities in other real estate strategies and the disappointing performance from Principal.
2. To increase the exposure to Core Plus from 40% to 50% within the real estate allocation. This recommendation is based on the expected performance from the Intercontinental US REIF strategy over other core strategies.
3. To increase the exposure to Value Added and Opportunistic from 40% to 50% within the real estate allocation. This recommendation is based on the expected opportunities in real estate associated with the financial crisis.

We anticipate increasing the exposure to Core real estate in the coming years, utilizing a portion of the proceeds from the Value Added / Opportunistic strategies to fund the new strategy. The overall recommendation is based on our research and experience, attempting to maximize the risk-adjusted return from the real estate allocation.

ADJOURNMENT

The Committee decided to have Lee Munder Capital attend the December IPC meeting in order to provide clarification on certain concerns for the Committee.

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

G-4 Administrative Policy Committee Report – No Report

G-5 Audit Committee Report – No Report

G-6 Legal Reports

Public Act 314 Update

Mr. VanOverbeke provided an update to the amendments to Public Act 314 which involve investment laws. Originally, moving private equity out of the basket clause was contemplated and giving all systems the ability to invest in private equity as a separate asset class, they had also contemplated recognizing high yield as an appropriate investment outside of the basket clause; Treasury and MERS were both very uncomfortable with that, so instead House Bill 5323 contemplated increasing the basket size limitations to an additional 10% in each of the different tiers. It still gives an additional 5% indirect real estate and 5% direct real estate, so that is still recognized in the proposed changes as well as an additional 10% into foreign investments. These proposals still have to get through the Senate side, and Mr. VanOverbeke sees this happening early

next year.

Executive Compensation Reform

Mr. VanOverbeke reminded the Board of this issue that has been discussed at the last few Board meetings, and the Board had requested further clarification as to why certain companies were added to the listing. Grant & Eisenhofer has identified certain companies as having paid extraordinarily high amounts of incentive compensation at a time when those companies' financial statements were overstated. Included were financial institutions which engaged in highly speculative derivatives swaps and other types of transactions to create illusory profits upon which incentive compensation was based. When the truth came out about these excessively risky swap transactions, the stock prices of these companies plummeted, but the executives kept their millions of dollars in compensation. Grant & Eisenhofer had requested that the Board give them permission to send correspondence to numerous companies asking them to revisit how they determine executive compensation to act in a fiduciary capacity to the Trustees and to the extent that compensation was paid out of bonuses that weren't truly earned or are based on fraudulent numbers or numbers that were overstated in light of what was happening with the market, and they are seeking to get those bonuses back and seek to review the compensation.

Mr. VanOverbeke stated that the reason there are so many names on the list come from the System's Rhumblin account which is the System's index that has a little bit of everything in it, so it puts the Board in the position of having great exposure to a lot of these different companies. This is not an initiation of litigation or a commitment to another course of action, but basically a demand letter on behalf of all shareholders asking that the Board fulfill its fiduciary duty and take some affirmative steps in this regard.

It was **moved** by Hescheles and **seconded** by Crawford to take no action on this item.

Mr. Hescheles stated that moving forward would take time away from these executives to do their jobs to deal with attorneys and people going after them through any capitalism work, and obviously there have been some problems in the past that do not need to be rehashed, and we don't need more people getting involved in the companies that we're investing in to try to throw them off course.

After further discussion, the Board took a voice vote on Mr. Hescheles' motion, which failed 5-2.

Motion fails 5-2 (Hescheles, Flack)

It was **moved** by Kahan and **seconded** by Nerdrum to take action on this item and request Grant & Eisenhofer to move forward with issuing a letter on behalf of the Board of Trustees.

Motion carries 5-2 (Hescheles, Flack)

H. INFORMATION

H-1 Communications Memorandum

The Communications Memorandum was received and filed.

H-2 December Planning Calendar

The December Planning Calendar was received and filed. Mr. Powell noted that the Special Retirement Board meeting on December 8, 2009 starts at 10:00 a.m. rather than 2:00 p.m.

H-3 Vendor Contacts

The Vendor Contacts information was received and filed.

H-4 Board Tracking Report

The Board Tracking Report was received and filed.

H-5 Legal Counsel Response to Audit Letter

Legal Counsel's response to the Audit Letter was received and filed.

I. PRESENTATION – 62nd Annual Actuarial Valuation (Revised) for the Year Ended June 30, 2009

David Kausch and John Mallows were present to discuss the revisions to the Actuarial Valuation that was presented at the October 15th Board meeting. Mr. Kausch stated that at the last meeting, the Board adopted an amortization period of 30 years (closed) instead of 15 years, which has been included within the revised report. Mr. Kausch noted that the numbers are exactly the same, and the Board had no comments or concerns with the revised report.

It was **moved** by Fraser and **seconded** by Nerdrum to acknowledge the presentation of the Actuarial Report as of June 30, 2009 at both the October and November Board meetings, to acknowledge receipt of the Report, and direct that a copy be forwarded to the employer (*City*) with an indication of the required employer contribution rate for the fiscal year beginning July 1, 2010.

Approved

J. TRUSTEE COMMENTS - None

MOTION TO RECESS:

It was **moved** by Nerdrum and **seconded** by Flack to recess the meeting at 9:41 a.m.

Meeting recessed at 9:41 a.m.

It was **moved** by Crawford and **seconded** by Flack to reconvene the meeting at 10:25 a.m.

Approved

K. EXECUTIVE SESSION

K-1 Securities Litigations

Mr. VanOverbeke suggested that the Board enter into an executive session for the purpose of discussing the Pepsi Bottling Group, Inc. and CardioNet Shareholder Litigation updates.

Roll call vote:

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

Executive session time: 10:25 – 10:32 a.m.

It was **moved** by Crawford and **seconded** by Fraser to authorize settlement of the Board's securities derivative cases in the PepsiAmericas, Inc. and Pepsi Bottling Group, Inc. Shareholders Litigation.

Approved

It was **moved** by Kahan and **seconded** by Crawford to acknowledge the Board's proceeding in the derivative and shareholder action with regards to the IMS Health acquisition matter.

Approved

K-2 Disability Retirement Request

The disability retirement request was postponed until the December 17, 2009 regular Board meeting.

L. ADJOURNMENT

It was **moved** by Kahan and **seconded** by Crawford to adjourn the meeting at 10:35 a.m.

Meeting adjourned at 10:35 a.m.

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