

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

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

ROLL CALL

Members Present: Crawford, Flack, Fraser, Kahan, Nerdrum, Sylvester
Members Absent: Hescheles, Kaur, Stanford
Staff Present: Jarskey, Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
David Kausch, Gabriel, Roeder, Smith & Company
Carrie Barchak, Gabriel, Roeder, Smith & Company
Jeanna Cullins, Ennis Knupp & Associates
Amy McDuffee, Ennis Knupp & Associates
Phil Ristenbatt, ITSU

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Ms. Powell requested that the Executive Session be moved to the end of the agenda because he is waiting on information from Consulting Physicians, and that Item C-7 has been revised since the distribution of the agenda packet:

- C-7 Authorization for Payment of Invoices – additional invoices received.

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

B. APPROVAL OF MINUTES

B-1 September 17, 2009 Regular Board Meeting Minutes

It was **moved** by Kahan and **seconded** by Nerdrum to approve the September 17, 2009 regular Board Meeting minutes as presented.
Approved

C. CONSENT AGENDA

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

Preliminary Retirement Resolutions

C-1 Preliminary Approval for Early/Service Retirement for Mark Nastos

WHEREAS, the Board of Trustees is in receipt of an application for early/service retirement from **Mark Nastos (Applicant)**, dated September 23, 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 early/service retirement of **Mark Nastos** 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 of Early/Service Retirement for Albert Roper

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Albert Roper (Applicant)**, dated October 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 **Albert Roper** 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-3 Approval of Early/Service Retirement for Michael Bergren

WHEREAS, **Michael Bergren** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of September 5, 2009, and

WHEREAS, said Participant has been credited with 25 years 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% Modified Joint & Survivor (Pop-Up) form of benefit (and nominated Catherine Bergren, 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 **Michael Bergren** (Participant), effective September 5, 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 Samuel Hopkins

WHEREAS, **Samuel Hopkins** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of September 19, 2009, and

WHEREAS, said Participant has been credited with 32 years and 3.5 months of service credit (*which includes 28 years and 6 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 the Straight-Life Option – Terminating at Death, 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 a service retirement is hereby granted to **Samuel Hopkins** (Participant), effective September 19, 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-5 Approval of Service Retirement for Robin Mulder

WHEREAS, **Robin Mulder** (Participant) has submitted an application for a service retirement to the

Board of Trustees requesting an effective retirement date of September 9, 2009, and

WHEREAS, said Participant has been credited with 25 years 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 Mark Mulder, 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 **Robin Mulder** (Participant), effective September 9, 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-6 Approval for Deferred/Service Retirement for Sharon Struble

WHEREAS, **Sharon Struble** (Participant) has submitted an application for a deferred retirement to the Board of Trustees requesting an effective retirement date of November 1, 2009, and

WHEREAS, said Participant has been credited with 12 years and 6 months of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a deferred 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 the Straight-Life Option – Terminating at Death, 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 deferred retirement is hereby granted to **Sharon Struble** (Participant), effective November 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.

Resolutions:

C-7 Authorization For Payment of Invoices (\$ 47,672.63)

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	Gray & Company	8,159.80	Investment Consultant Retainer – September 2009
2	Coverall North America, Inc.	140.00	Office Cleaning Services for October 2009
3	Ennis, Knupp & Associates	27,500.00	2 nd of four installments for services provided
4	Staples Business Advantage	250.56	Miscellaneous office supplies
5	City of Ann Arbor Treasurer	12.65	Municipal Code Supplements/Updates
6	Transition Imaging	149.00	Digital Imaging Services – Invoice #1187
7	Transition Imaging	341.50	Digital Imaging Services – Invoice #1188
8	AT&T	82.08	Monthly fax telephone-line service
9	Consulting Physicians, P.C.	750.00	A. Straub Disability Examination – 9/17/2009
10	Willie Powell	804.21	Travel Reimbursement– 2009 Fall MAPERS
11	Willie Powell	61.44	Travel Reimbursement – 2009 Spring MAPERS
12	Gabriel, Roeder, Smith & Company	612.50	Attendance/travel to 9/1/09 Audit Comm meeting
13	Gabriel, Roeder, Smith & Company	7,675.00	Normal actuarial/consulting services: July-Sept. 2009
14	AT&T	50.14	Monthly Toll-Free Telephone Service
15	University Office Equipment	117.92	Quarterly Copier Maintenance Contract
16	International Foundation (IFEBP)	890.00	2010 Annual Membership Dues
17	Comcast	75.83	Monthly Cable Fee
	TOTAL	47,672.63	

C-8 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
Tara Gilles	General	5 Years, 6 Months	City of Ypsilanti
Kimberly Kolter	General	8 Years, 1 Month	Kalamazoo County
Daniel Krueger	Fire	8 Years, 7 Months	City of Bay City

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.

Consent agenda approved

D. EXECUTIVE SESSION – Disability Retirement Request – *Moved to end of agenda*

E. PRESENTATION – 62nd Annual Actuarial Valuation for the Year Ended June 30, 2009

Mr. Kausch reviewed the Actuarial Valuation for the year ended June 30, 2009. The computed contribution rates for the fiscal years beginning July 1 are shown below:

Computed contribution rates and general comments for the fiscal years beginning July 1 are shown below:

	<u>2010</u>	<u>2009</u>
City's Total Contribution Rate	18.24%	13.76%
City's Total Dollar Contribution	\$ 9,979,760	\$ 7,559,781

COMMENT A: The Retirement System's financial experience was unfavorable during the year ending June 30, 2009. The experience loss was primarily the result of lower than expected investment return. Other sources of losses included lower turnover than expected and higher rates of retirement. The computed City contribution rate increased this year and the funded percentage decreased. Due to unrecognized investment losses scheduled to be phased in over the next four years, the contribution rate is likely to increase in the absence of market investment returns significantly above 7%. Valuation assets are currently 132.7% of market value. Based on the market value of assets, the funded ratio would be approximately 23% lower and the contribution rate would be approximately 17% of payroll higher.

COMMENT B: As a result of the May 31, 1994 amendment to Section 1:580 of the Retirement System Ordinance, the Retirement System has "first call" on the millage revenue.

COMMENT C: There were no retiree health care expenses paid out of the Retirement System during the last three years. The City contributed \$5,318,375 in the year ending June 30, 2009 for corrective transfers of retiree health premiums.

COMMENT D: The city enacted an Early Retirement Window for Police which closed June 30, 2009. Members electing to retire under the window were granted two additional years of service with the option of purchasing a third year and had to retire by July 1, 2009. The City contributed \$2,512,821 on June 30, 2009 to fund the estimated increase in actuarial accrued liability attributable to the window. Members electing to retire under the window were reported and are shown as active members as of June 30, 2009. For purposes of this valuation, the net increase in actuarial accrued liability for those retiring on July 1, 2009 under the window was reflected in the actuarial accrued liability for active members. In conjunction with the early retirement window, the City eliminated 18 Police positions. The reduction in the number of Police positions is reflected in the annual required contribution.

CONCLUSION: The employer contribution requirement to the Retirement System for the fiscal year beginning July 1, 2010 is \$9,979,760. The employer contributions as shown DO NOT include any provision for the payment of federal social security taxes. It is the actuary's opinion that the required contribution rates determined by the most recent actuarial valuation are sufficient to meet the System's financial objective, presuming continued timely receipt of required contributions.

Ms. Sylvester asked what the results would be if the Board switched to a 30-year amortization period, and Mr. Kausch stated that the contribution rate would be approximately \$2 million with a 30-year amortization period, which would mean a "real dollars" savings for the City if the Board switches to the 30-year amortization. Mr. Kausch stated that some of the cautions about switching to a 30-year amortization would be: 1) 30 years is the longest period allowed under State Law and under GASB; 2) once you move to 30 years you are unable to do it again next year, so Mr. Kausch cautioned the Board to reserve using that until they really feel like they absolutely have to use it, judging by the fact that there probably will be contribution increases over the next four years. Mr. Kausch cautioned the Board on lowering the contribution rate on the contributions coming in if there is a negative reserve. Ms. Nerdrum noted that the amortization could be changed to 20 or 25 years,

and using 15 years is more conservative so we are funding at a faster rate than most other municipalities, but the common approach is to use 30 or something longer than 15, and other options would be to lengthen the corridor, reductions or layoffs in the workforce, and benefit cuts. Ms. Nerdrum stated that lengthening the amortization period would be the least painful and probably would push us to where the market is, and is a choice that the Board would have control over.

After further discussion, the Board decided to adjust the amortization period to extend to a 30-year closed amortization and to revisit the situation each year.

It was **moved** by Nerdrum and **seconded** by Kahan to adjust the amortization period in this fiscal year to extend to a 30-year closed amortization rolling down to 25-years, with the understanding that the amortization status will be revisited each year, and that Gabriel, Roeder, Smith & Company will be requested to reissue the report with the new amortization schedule for presentation at the November Board meeting.

Approved

F, PRESENTATION – Fiduciary Audit Report with Ennis Knupp & Associates

Ms. Cullins and Ms. McDuffee presented the Fiduciary Audit Review, stating that the project was completed within six months, and she thanked the Board and Staff for their time and cooperation. The six areas of the audit included:

- Benefits Processing
- Member Education and Counseling Services
- Confidentiality of Members' Information
- Internal Controls
- Personnel Practices
- Governance Policies

Ms. Cullins stated that she found the System to be fundamentally sound, and feels the benefits are being processed generally consistent with best practices. Ms. Cullins stated that the Board should be commended for having an Audit Committee, and that they were very impressed with the System's Governance Manual, which is also consistent with best practices, but noted that it is a Plan document and should be adhered to. Ms. Cullins discussed the Fiduciary Review Recommendations Discussion Guide which summarizes her firm's recommendations so that the Board can review, discuss, and prioritize their suggestions. Below is a brief summary of the firm's findings, while there are additional considerations and recommendations for each area:

The **Benefits Processing** section of the report indicates that the current process in place serves its intended purpose of processing benefits in a satisfactory timeframe, although it could be shortened by eliminating the preliminary Board approval for retirement applications. Ms. Cullins noted that the Board is so involved initially in the process in terms of the administrative process, which makes it very interesting because appealing to a preliminary approval would mean that the Board would be appealing to itself. Ms. McDuffee reviewed further suggestions for benefits processing.

Member Education and Counseling Services: The report indicates that the System is delivering the components of its member education and counseling services program in a timely and appropriate manner. Delivery of quarterly statements is representative of best practices, and the System currently provides information that primarily relates to its benefit structure and process.

Confidentiality of Members' Information: The report indicates that the System is currently using a set of best practice policies that are clear, actionable, and set high level direction and expectations for Staff and key stakeholders, and Staff is appropriately attuned to the sensitivity of this topic.

Internal Controls: The report indicates that the System has many internal controls in place; but its risk controls could be improved in a number of areas. Developing and implementing a comprehensive strategic plan is consistent with best practices, and the Board uses its annual Board retreat to engage in general strategic planning. It does not, however, engage in a formalized strategic planning process.

Personnel Practices: Compared to the peer systems in the customized survey and industry data, the System's current staffing levels are reasonable. While enhancements could be made, overall, Ennis Knupp finds that the System's staff position descriptions set forth the essential functions required and in most cases they are also consistent with best practice. Ennis Knupp recommends that standard operating procedures and enhanced job descriptions be created in the event of unexpected staff departure.

Mr. Crawford asked Ms. Cullins to explain their procedures for researching staff skills and size, and Ms. Cullins stated that they reviewed the job descriptions and approached this area in terms of the job descriptions list minimum requirements and preferred requirements; Ennis Knupp did not question whether or not the requirements the Board has established were adequate or inadequate; they took the requirements that the Board has established as the minimum requirements that it had determined are appropriate for the position, which goes back to the Board's philosophy in terms of customer service and their expectations. Ms. Cullins stated that the staff was interviewed, and that she is aware of other pension funds of this size and the report states that the process is based on industry surveys, customized survey, and their knowledge and expertise, so they did not just look at the document and say the established requirements are inappropriate.

Mr. Crawford questioned the staffing survey in the report and did not feel that Ennis Knupp used comparable groups. Ms. Cullins stated that the Greenwich Study shows a mixture of larger and smaller groups, but the customized survey included pension systems of comparable size. Mr. Crawford stated that he expected a more extensive analysis of what jobs are and are we adequately staffed. Ms. Cullins stated that they did do a customized survey, and for the scope of work and for the fees associated with the scope of work, typically they would not have done a customized survey. Ms. Cullins noted that common practice isn't always best practice because public pension funds are often constrained in terms of their authority, their budget and procurement process, and their ability to attract and retain staff. This is an issue for pension funds throughout the country, and often times the independent systems typically suffer with having the ability to have adequate staffing because others such as the City, City Council, or State legislature do not necessarily understand the requirements or the philosophy that the board has with respect to the services that they want to provide, so they feel there is adequate staffing or the rest of the city or state is having a reduction in forces so the retirement system must have a reduction in force as well, so they impose those sorts of requirements on pension funds without getting into really understanding the impact that that will have on their ability to carry out their functions. Labor intensive functions require more staff, and providing benefits services is more labor intensive than providing only administrative services, therefore, more staff is required for the benefits function. This is why it is difficult to determine what is adequate because you really have to get into a discussion of philosophy.

The report indicates that the System has a staff size of 3.75; three full-time equivalent positions and one part-time position. Ennis Knupp found that the System's staff size is within range of the customized peer group, and in line with the 2008 Greenwich Study's average of 5.2 staff for systems that provide benefits services and have assets between \$501 million and \$1 billion that are externally managed; and that each current System staff member fulfills a distinct role that cannot be eliminated.

Governance Policies: The report indicates that the System has in place a number of policies that

are typically recommended, and has compiled them into a useful governance manual. The development of this type of manual is consistent with best practices and serves as a solid foundation for good governance. The current governance manual is excellent, and defines many of the roles and responsibilities associated with the management and control of the System; however, it could be enhanced in several areas. Ms. Cullins also recommended the Board perform an annual self-assessment.

Mr. Crawford discussed the Board composition which is part of the City Charter, and asked what Ms. Cullins' view is on the composition of this Board, and what is best practice in terms of the relationship of a member being beneficiaries of the System versus ones who are not. Ms. Cullins stated that typically what is found as a good structure is to have members on the board which represent the beneficiaries and participants because it gives perspective, especially when coming up with the Board's customer service philosophy and getting member opinions of what they want, and if the board members are unaware of what is important to the participants and beneficiaries then what you may be trying to give them may not be what they want. Having that type of representation on the Board is important, and Ms. Cullins also feels it is important to have experts on a board because she has been an executive director of a pension fund and a general counsel, and she sees how lay trustees can be enamored with outside service providers because they don't really understand what they are saying, but they may not have experience in a particular area and that lack of experience makes them very dependent on their service providers, whether it be their consultant, actuaries, and their money managers. While trustees can delegate responsibility, ultimately they are still responsible for the end-product and monitoring their service providers and when they make that delegation there is also a responsibility for making sure that the delegation itself is prudent.

Ms. Cullins stated that if you don't have a certain level of expertise or exposure that makes it very difficult because you don't really know the questions to ask. Ms. Cullins believes that the best boards are boards that are made up of a mixture of individuals and it is very important that they be independent of the plan sponsor, or the City, because they have different fiduciary duties, different loyalties, and they should not be encumbered by other views. Often times there will be situations where the people who are sitting on the board may be the city's budget director, a representative from city council, and they have competing interests and it is very hard for them to understand that when you come in the board room, you may only have one interest. If the board is only made up of those individuals often time their focus is very skewed and they are looking at the needs of the city or the state as a whole and not the need of the beneficiaries and participants which is supposed to be their only focus. If those people then have control over your budget or your ability to hire staff, then they do to you indirectly what they can't do directly and that creates a problem.

Ms. Cullins stated that in terms of recommended "next steps", she recommends the Board go through and determine whether it agrees with the priorities that have been suggested and whether or not it agrees or rejects the particular recommendations; and then assign it a level of priority if you agree with it, if the Board does not agree with it, it would be beneficial for the Board to articulate why it does not agree. Ms. Cullins also suggested the Board review the considerations to see what is agreeable or not, preferably beginning with the Audit Committee and subsequently the full Board.

Ms. Nerdrum asked if Ennis Knupp recommends looking at another batch of sample retiree files given the results of the first batch that came up with a few discrepancies. Ms. McDuffee recommended that the System create an internal control where a staff member would pull a batch of ten calculations every quarter for an extensive review because that will help over the long term.

It was **moved** by Nerdrum and **seconded** by Flack to acknowledge the presentation of the Fiduciary Performance Review by Ennis Knupp and to receive and file the report.

Approved

(Mr. Fraser departed at 11:03 a.m.)

G. ACTION ITEMS

G-1 Resolution to Approve GTS Advisors as Transition Manager

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 on Transition Management services, and

WHEREAS, Global Transition Solutions (GTS) gave an educational presentation to the Investment Policy Committee on July 7, 2009, and

WHEREAS, Global Transition Solutions (GTS) is the only independent brokerage consultants in the country that focus their efforts on identifying the best broker/dealers in each asset class and then utilize these broker/dealers for transitions, and

WHEREAS, Gray and Company has thoroughly reviewed the people and process utilized by Global Transition Solutions (GTS), and recommends that the Retirement System retains Global Transition Solutions (GTS) for transitional services, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of Global Transition Solutions (GTS) as transitional manager, and

FURTHER RESOLVED, that Global Transition Solutions (GTS) acknowledges their fiduciary responsibility to the Retirement System in their contract and that the contract is an at will contract where the Retirement System may terminate the contract at any time, and

FURTHER RESOLVED, that Global Transition Solutions (GTS) is hired as the transitional manager after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval.

It was **moved** by Crawford and **seconded** by Kahan to approve the resolution to Approve GTS Advisors as the System's Transition Manager.

Approved

H. DISCUSSION ITEMS

H-1 December 1, 2009 Special Board Meeting – Legal Counsel Interviews

Mr. Powell suggested holding two special meetings, one for the review of the Legal Counsel RFPs as well as one for the actual interviews in order to receive full Board participation, because if it were to be held at the Committee level, not all Trustees would be eligible to vote. Mr. Powell suggested that the RFP reviews be done on November 3rd, in place of the APC meeting that day. The Board agreed.

It was **moved** by Crawford and **seconded** by Nerdrum to schedule a special meeting for November 3, 2009 at 2:00 p.m. for the purpose of reviewing the legal counsel RFP responses and that the APC meeting be postponed.

Approved

The Board discussed a date to hold the upcoming legal counsel interviews, and it was decided that a special Board meeting will be held on Tuesday, December 8, 2009 at 2:00 p.m.

I. REPORTS

I-1 Executive Report – October 15, 2009

BRADFORD & MARZEC

An allocation of \$7.5 million within the City of Ann Arbor Retiree Health Benefits Plan & Trust was given to Bradford & Marzec for their fixed income strategy. Bradford & Marzec's target allocation is 14%. As of Thursday, October 8, 2009 the market value of the Bradford & Marzec allocation was \$7,514,921, which was 12.39% of the Retiree Health Benefits Plan & Trust's portfolio. The \$7.5 million for Bradford and Marzec was transferred from the Ann Arbor Barclays Aggregate Bond Fund.

POVERTY ADJUSTMENT LETTERS

Letters were sent out to retirees and/or beneficiaries whose benefits payments were affected by the downward adjustments of the July 1, 2009 CPI, as reported by Gabriel, Roeder and Smith to the Board of Trustees.

TRUSTEE BOARD ELECTIONS

Election notices for the terms of Jeffrey Kahan (General Representative) and William Stanford (Police Representative) were electronically posted to the City of Ann Arbor Retirement System's Web Site, the City's A2 News, A2 Central and Ultipro. Hard copies were also sent to the various departments for posting.

The deadline for candidates to file the Declarations of Candidacy with the City's Clerk Office is Friday, November 6, 2009 at 5:00 p.m.

U.S. REAL ESTATE INVESTMENT FUND, LLC

Intercontinental's U.S. Real Estate Investment Fund, LLC (US REIF) made a distribution to the Retirement System in the amount of \$118,991.50, which constituted the System's' pro rata gross share of an overall distribution of \$8,096,799.25. The Fund withheld \$19,455.87 for payment of management fees, resulting in a net distribution of \$99,535.63. Intercontinental has reinvested the net distribution into US REIF as authorized by the Retirement System's dividend reinvestment plan letter. Intercontinental will report the number of reinvested shares as part of the third quarter 2009 reporting.

I-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended September 30, 2009

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

9/30/2009 Asset Value (Preliminary)	\$355,551,780
8/31/2009 Asset Value (Audited by Northern)	\$346,195,171
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$42,860,875

Percent Gain <Loss>	13.6%
October 14, 2009 Asset Value	\$ 360,153,500

I-3 Investment Policy Committee Report – October 6, 2009

Following are the Investment Policy Committee minutes from the meeting convened at 1:43 p.m. on October 6, 2009:

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

Mr. Powell asked the Committee to revise the agenda to include an issue regarding Principal Global Investors. The Board agreed.

PRINCIPAL GLOBAL INVESTORS

Mr. Powell stated that in January 2009 the Board approved a resolution as recommended by the IPC to withdraw \$12 million out of the Principal fund, which at the time had assets valued at approximately \$20 million (which have decreased since that time). Mr. Powell informed the Committee that the resolution still stands and suggested that the Committee request the Board to reconsider or disregard the original resolution because if and when those funds become available, the \$12 million will be withdrawn and consequently the account would be liquidated; or the Committee could ask for a lower amount to come out of the queue. Mr. Kuhn stated that Principal has not been the strongest performer within that space, but does a decent job, and this may be an opportune time to look at adding on the higher risk side in that space. There is still a lot of stress ahead in the real estate market, and from researching and discussing this with managers; Mr. Kuhn stated that they are looking at buying opportunities they haven't seen in 15 years. Mr. Gray suggested that he submit a letter for the Committee to back up the change of resolution request, and the Committee agreed to place this issue on the November IPC agenda.

Mr. Kuhn suggested that the Committee look at the Public Private Investment Program (P.P.I.P.). Invesco has a strategy that is part real estate and part fixed income, so it is not basket-claused, and Oak Tree is another company with a strategy in the distressed/high yield world which would be strictly fixed income. PPIP's are time-sensitive, and in the case of Oak Tree, the funds could be pulled from some of the fixed income managers, preferably by the end of the year, the allocation would make up anywhere from 2% to 5% of the total portfolio. Mr. Kuhn suggested having the two PPIP managers make presentations at the next IPC meeting in November. The Committee decided to change the date of the November meeting to Monday, November 9th at 1:30 p.m. in order to discuss the various issues and conduct the manager presentations.

INDEPENDENCE / LEE MUNDER CAPITAL – PERFORMANCE HISTORY

Mr. Kuhn reviewed the performance for Independence/Lee Munder, and noted that the Committee will probably see a lot of managers coming up short of their benchmarks for the last quarter. Mr. Kuhn stated that Lee Munder is still operating with the same team as Independence with the only change being their address, and a due diligence visit is scheduled for October 13th to visit their current operations. Mr. Powell reminded the Committee that Independence is still on the watch list. Mr. Kuhn stated that in looking at the 10-year number, they are actually trailing at this point, but this is one of those managers that can put together a good year and make back everything for you, and small cap growth is going to be the most volatile of the equity managers. Relative to the other managers, they may have good numbers next quarter, and after the upcoming visit, Gray & Company will have the new

numbers to report at the November meeting.

PROPOSED REVISIONS TO THE INVESTMENT POLICY STATEMENT

Mr. Kuhn reviewed the drafted revised Investment Policy Statement with the Committee, noting some minor language changes, including those suggested by Ms. Sylvester at a prior meeting. Mr. Kahan stated that he did not have his copy with his revisions with him, and suggested that the draft be reviewed at the November meeting. The Committee agreed, and Mr. Kuhn stated he would add the new revisions as discussed and will bring the new draft back for the November 9th meeting.

GTS ADVISORS

Mr. Powell stated that David Bergman from GTS Advisors had made a presentation to the Committee earlier this year, and would like to know if the Committee is interested in utilizing his firm as a transition manager. Mr. Kuhn explained that GTS monitors all of the transitions that are going on in the market so when they see one go through, they actually grade the manager on how well the manager does, basically in nine style boxes, and rank the managers in those style boxes, and are then able to relate the top performers to companies looking for certain management styles. GTS would then perform all of the transition work, as opposed to finding the cheaper companies, they are trying to actually put a more quantitative and qualitative analysis into the process. Mr. Kuhn stated it is very difficult to put a number behind costs that cannot be measured, so it is difficult for Gray & Company to come back and say how much their firm will be able to save the System. In looking at the Plan, he doesn't anticipate a lot of transitions, but they would also take a look at how our current managers are performing.

Mr. Gray stated that they are in favor of the idea, it is just hard to say how much the System would be saving. Mr. Kuhn stated that it would not put the Committee into a scramble mode if a transition manager is needed immediately, because they would be readily available to handle the transitions by finding a broker to liquidate and buy-in. Mr. Kuhn noted that there would be no cost unless a transition is made, so it would be a good idea that the contract state that the manager be hired "at-will" in case the System decides to terminate them at any point, and Gray & Company could also provide a letter to include in the Board packet for further clarification.

It was **moved** by Kahan and **seconded** by Hescheles to recommend that the Board of Trustees hire GTS Advisors as its transition manager on an "at-will" basis.

Approved

ADJOURNMENT

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

Meeting adjourned at 2:55 p.m.

I-4 Administrative Policy Committee Report – No Report

I-5 Audit Committee Report – October 6, 2009

Following are the Audit Committee minutes from the meeting convened at 3:10 p.m. on October 6, 2009:

Committee Members Present:	Crawford, Nerdrum
Members Absent:	Kaur, Sylvester
Other Trustees Present:	None
Staff Present:	Jarskey, Refalo, Powell, Kluczynski
Others Present:	David Kausch, Gabriel, Roeder, Smith & Company

ACTUARIAL PRESENTATION

Mr. Kausch distributed and reviewed drafted copies of the Executive Summary from this year's Actuarial Valuation, and the "City's Computed Contributions to the Retirement System" with the alternate amortization period of 30 years, as requested by the Committee at the September meeting. Mr. Kausch stated that the City's total contribution rate has gone up from 13.76% in 2009 to 18.24% for 2010, which is after adjusting for the payroll decrease for the police retirement window, and is slightly more favorable than the projection that was done last December. The assets were a little more favorable and there were some experience losses outside of the assets that offset some of the gains, mainly low turnover which produced the single highest loss. The actuarial accrued liabilities as of June 30, 2009 were \$455,219,372 which is up from June 30, 2008, which were \$430,437,634.

Regarding amortization periods, Mr. Kausch cautioned against the 30-year, and recommends that the System stay with the 15-year amortization in order to continue to receive the required contributions so that the employer reserve does not go into the negative. Mr. Kausch knows of other cities with the 30-year amortization who will have to start looking at other options. Mr. Kausch stated that he will present the final valuation at the October 15, 2009 Board meeting, and will include the alternate 30-year amortization information for the Board's review in case it chooses to change the amortization period.

REVIEW OF DRAFTED FIDUCIARY AUDIT REPORT WITH ENNIS KNUPP

The Committee conducted a conference call with Jeanna Cullins, Amy McDuffee, and Saba Hashmi from Ennis Knupp for the purpose of reviewing the final draft of the Fiduciary Performance Review.

The meeting ended at approximately 5:40 p.m

I-6 Legal Reports

1) **Executive Compensation** – (Postponed to the November Board meeting)

2) **Raiford EDRO Update**

Mr. VanOverbeke stated that the packet includes correspondence from Mr. Raiford's attorney, and he has spoken with the attorney to discuss Mr. Raiford's financial situation. Mr. VanOverbeke suggested that in lieu of filing a litigation at this time, that Mr. Raiford be asked if he is willing to submit to a creditor exam or deposition, affidavit or sworn statement as to what all of his assets are. Mr. VanOverbeke would like to get something from Mr. Raiford showing where he is at financially which will be a lot cheaper than filing a formal litigation.

It was **moved** by Nerdrum and **seconded** by Kahan to authorize legal counsel to schedule and depose Mr. Raiford prior to filing any form of action on this matter.

Approved

J. INFORMATION

J-1 Communications Memorandum

The Communications Memorandum was received and filed.

J-2 November Planning Calendar

The November Planning Calendar was received and filed.

J-3 Vendor Contacts - None

J-4 Board Tracking Report

The Board Tracking Report was received and filed.

K. TRUSTEE COMMENTS - None

MOTION TO RECESS;

It was **moved** by Nerdrum and **seconded** by Kahan to recess the meeting at 11:40 a.m.
Meeting recessed at 11:40 a.m.

MEETING RECONVENED:

It was **moved** by Nerdrum and **seconded** by Kahan to reconvene the meeting at 11:50 a.m.

The Board conducted an Executive Session for the purpose of discussing a non-duty disability retirement request from Anna M. Straub, City Employee.

Roll call vote:

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

Executive session time: 11:50 – 12:03 a.m.

It was **moved** by Nerdrum and **seconded** by Flack to acknowledge receipt of the medical opinion dated September 17, 2009 from Dr. Robert Gordon, D.O. with regards to the disability examination of Anna M. Straub, it being noted that the doctor has indicated that Ms. Straub is mentally or physically totally incapacitated for duty in the service of the City in the same or similar position said member held at time of disability, and that such incapacity will probably be permanent. The Board therefore grants Ms. Straub a non-duty disability to retirement consistent with the Board's policies and procedures.

Approved

L. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Kahan to adjourn the meeting at 12:03 p.m.
Meeting adjourned at 12:03 p.m.

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