

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
July 17, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:31 a.m.

ROLL CALL

Members Present: Boonstra, Crawford, Fraser, Heatley, Hescheles, Kahan (8:42),
Kaur, Nerdrum, Sylvester
Members Absent: None
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS

A. APPROVAL OF REVISED AGENDA

Mr. Powell stated that the following items have been revised since the distribution of the agenda packet:

- C-3 Authorization for Payment of Invoices – additional invoices received
- D-3 Gray & Company Contract - replaced by the redlined/edited version from Michael VanOverbeke's office

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

B. APPROVAL OF MINUTES

B-1 June 19, 2008 Regular Board Meeting Minutes

It was **moved** by Crawford and **seconded** by Nerdrum to approve the June 19, 2008 regular Board meeting minutes as presented.
Approved

C. CONSENT AGENDA

It was **moved** by Boonstra and **seconded** by Kaur to approve the following consent agenda as submitted:

Preliminary Retirement Resolutions:

C-1 Preliminary Approval of Service Retirement for Judy McAllister

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Judy McAllister (Applicant)**, dated June 11, 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 service retirement of **Judy McAllister** 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 Service Retirement for Larry Thoms

WHEREAS, the Board of Trustees is in receipt of an application for early/service retirement from **Larry Thoms (Applicant)**, dated June 16, 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 **Larry Thoms** 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: - None

Resolutions:

C-3 Authorization for Payment of Invoices (\$ 28,176.53)

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.

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	301 E. Liberty LLC	4,911.00	Office Lease <i>(including monthly escalation fee)</i>
2	Republic Parking System	375.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – June 2008
4	SBC / AT&T	260.65	Monthly Telephone Service – 4/14/08– 6/13/08
5	Arbor Springs Water Co., Inc.	25.50	Monthly Water Service
6	University Office Equipment	93.54	Quarterly Copier Maintenance Contract
7	301 E. Liberty LLC	103.20	Monthly Electric Charge – 5/09/08 - 6/13/08
8	Gabriel, Roeder, Smith & Co.	7,450.00	Actuarial & Consulting Services – 4/1/08-6/30/08
9	Gabriel, Roeder, Smith & Co.	2,694.00	Supplemental Actuarial Valuations- <i>Benefit Increase</i>
10	Medical Evaluation Specialists	625.00	Medical Re-examination of Leza Scott – 6/10/2008
11	A.R. Brouwer Company	546.00	Reimbursement for building permit – 532 S. Maple
*12	Borders, Inc.	34.36	Payment for pension publication
13	GFOA	155.00	Membership renewal for 7/1/08-6/30/09
14	Transition Imaging, LLC	151.50	Digital imaging and database building of ERS records
15	Transition Imaging, LLC	681.75	Digital imaging and database building of ERS records
16	Qwest	11.52	Monthly Long-Distance Telephone Service
17	Republic Parking System	102.60	Monthly parking validation fees
18	301 E. Liberty LLC	79.21	Monthly electric charge – 6/13/08-7/10/08
19	Affinity Valuation Group, LLC	1,500.00	Appraisal Report for 532 S. Maple property
20	AT&T	126.58	Monthly Toll-Free Telephone Service
21	Lora Kluczynski	92.12	Travel Reimb. For IFEBP Conference – March 2008
22	The Wall Street Journal	408.00	Subscription renewal
	TOTAL	28,176.53	

C-4 Purchase of Military Service Time

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, Section 1:561(e) of the Retirement Ordinance, Chapter 18 of the Code of the City of Ann Arbor allows for prior Military Service Credit, and

WHEREAS, the Board is in receipt of an Application for Purchase of Military Service Time, 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 purchase of Military Service Time:

Name	Department	Requested Military Service Time	Requested Method of Payment	Cost for Purchase of Military Service Time
Scott Fouty	Police	6 Months	Payroll Deduction	\$ 1,475.24

FURTHER RESOLVED, that the applicant(s) purchasing Military Service Time be notified of the amount of money necessary to buy the Military Service Time, and upon full payment, the member(s) shall be credited the service time.

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
Samuel Hopkins	Fire	28 Years, 6 Months	City of Lansing

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 – Pension Gold Teaming Conference – Refalo

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims, and

WHEREAS, the Board of Trustees acknowledges that the Retirement System has evolved in complexity such that the circumstances prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims requires continuing education, training, and oversight of its advisors, and

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

WHEREAS, Judi Refalo, Pension Analyst, has requested the Board of Trustees' authorization for her travel to Springfield, Illinois, at Retirement System expense, estimated at \$1,360.00 to attend the Pension Gold Teaming Conference 2008, to

participate in continuing education in her responsibility as Retirement System Staff person, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Judi Refalo to travel to Springfield, Illinois, at Retirement System expense, estimated at \$ 1,360.00, to attend the Pension Gold Teaming Conference 2008, to participate in continuing education in her responsibility as a Retirement System Staff person, and

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

C-7 Authorization for Conference/Training – 2008 Fall MAPERS Conference, September 15-19, 2008 – Heatley, Powell

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, Chris Heatley and Willie Powell have requested the Board of Trustees' authorization for conference/training in Acme, Michigan, at Retirement System expense, estimated at \$ 1,600.00 (\$800.00 each), to attend the 2008 Fall MAPERS Conference, to participate in continuing education in their responsibility as Retirement System Trustees and Staff and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Chris Heatley and Willie Powell to travel to Acme, Michigan, at Retirement System expense, estimated at \$1,600.00 (\$800.00 each), to attend the 2008 Fall MAPERS Conference, to participate in continuing education in their responsibility as Retirement System Trustees and Staff, and

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

C-8 Authorization for Conference/Training – IFEBP 54th Annual Employee Benefits Conference, November 16-19, 2008 – Powell, Sylvester

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, Nancy Sylvester and Willie Powell have requested the Board of Trustees' authorization for conference/training in San Antonio, Texas, at Retirement System expense, estimated at \$5,735.00 to attend the 54th IFEBP Annual Employee Benefits Conference, to participate in continuing education in their responsibilities as a Board Trustee/Staff and in keeping with Board policy, therefore be it

RESOLVED, the Board of Trustees authorizes the conference/training request of Nancy Sylvester and N. Gail Jarskey to travel to San Antonio, Texas, at Retirement System expense, estimated at \$5,735.00, to attend the 54th IFEBP Annual Employee Benefits Conference, to participate in continuing education in their responsibilities as a Board Trustee/staff, and

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

C-9 Authorization for Due Diligence Visit – Intercontinental Real Estate Corporation, September 11-12, 2008 – Sylvester

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, Nancy Sylvester has requested the Board of Trustees' authorization to conduct a due diligence visit with Intercontinental Real Estate Corporation in Boston, Massachusetts, at Retirement System expense, estimated at \$850.00, and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes Nancy Sylvester to travel to Boston, Massachusetts, at Retirement System expense, estimated at \$850.00, to conduct a due diligence visit with Intercontinental Real Estate Corporation, and

FURTHER RESOLVED, that Nancy Sylvester 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 as submitted

D. ACTION ITEMS

D-1 Proposed Executive Director's Goals & Objectives for FY 2008/2009

Mr. Boonstra presented the proposed Goals & Objectives for the Executive Director on behalf of the Administrative Policy Committee.

It was **moved** by Heatley and **seconded** by Boonstra to approve the Executive Director's Goals & Objectives as recommended by the Administrative Policy Committee.

Approved

D-2 Revised RFI/RFP Policy

Ms. Nerdrum presented and reviewed the revised RFI/RFP Policy on behalf of the Audit Committee, stating that there will now be a minimum six year rotation for RFP's for the actuary, custodian bank, fiduciary auditor, investment consultant, legal counsel, and medical director. The other change in the policy indicates that every three years the

Board of Trustees will determine whether or not an RFI for service providers should be made at that point in time.

It was **moved** by Crawford and **seconded** by Boonstra to approve the revised RFI/RFP Policy as presented by the Audit Committee.

Approved

D-3 Proposed Investment Consultant Contract with Gray & Company

Mr. Heatley stated that the Investment Policy Committee has conducted a Request for Information for investment consultants, for which ten responses were received. The Committee then narrowed the firms down to four, and ultimately decided to retain Gray & Company due to the services that they provide as well as their reasonable and competitive consulting fees.

It was **moved** by Boonstra and **seconded** by Kahan to accept and renew the contract with Gray & Company, and to authorize execution of the contract by the Board Chair.

Approved

D-4 Proposed Liquidation of Invesco REIT Portfolio

Mr. Heatley stated that as part of the restructuring in our asset allocation, Gray & Company recommends that we move out of the REIT's partly because they are closely correlated to the equity markets, and by going to more of a core plus or direct investment in real estate, we will lower that correlation. Gray & Company has recommended the liquidation of Invesco REIT (approximately \$8 million), and move some of that into the Intercontinental Fund V, and some into the Lehmann Aggregate Bond Fund to meet our cash flow needs.

Liquidation of Invesco's REIT Portfolio

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 Investment Policy Committee in consultation with Gray & Company, the Board's investment consultant, desires to eliminate REITs as an asset class in the portfolio since REITs and equities correlation coefficient tend to move in unison, and

WHEREAS, the Investment Policy Committee and Gray & Company recommends liquidating the Invesco REIT portfolio and transferring the assets to Intercontinental Fund V and to the Lehman Aggregate Bond Fund, the funds transferred to the Lehman Aggregate Bond Fund will be used to meet future cash needs of the System, be it

RESOLVED, that the Board of Trustees authorizes the liquidation of Invesco's REIT portfolio and transfer of the assets to Intercontinental Fund V and to the Lehman Aggregate Bond Fund.

It was **moved** by Kahan and **seconded** by Nerdrum to approve the resolution to liquidate the Invesco REIT portfolio as recommended by the Investment Policy Committee.

Approved

D-5 Proposed Changes to Asset Allocation & Investment Policy Statement

Mr. Heatley stated that the Investment Policy Committee, along with Andrew Kelsen of Gray & Company, has been reviewing the issue of alternative investments for about a year and a half, and has gone through a number of different exercises, a number of educational components including having firms come in for presentations, as well as sending Committee members to different alternative investment conferences and on-site locations. Mr. Heatley reviewed a chart submitted by Gray & Company that was structured based on our assumed rate of return that needs to be met and how much money that we currently have under management to come up with this asset allocation. The big change is that we will be looking at hedge fund-of-funds, followed by private equity, timber, and increasing the allocation in the international space.

Mr. Crawford asked if the Committee is locked in to only utilizing Gray & Company to bring in managers for interviews and presentations, and Mr. VanOverbeke confirmed that the Committee is not locked in, and may bring in any firms that they wish to review. Mr. Hescheles stated that he believes the Committee should move slowly on this, and that alternative investments are a hot space right now. Mr. Heatley agreed, stating there is no hurry, and that the Committee has been looking at this issue for about 18 months and as a result, Gray & Company has made this asset allocation recommendation for the Board's approval.

It was **moved** by Boonstra and **seconded** by Kahan to approve the recommended asset allocation changes, as well as the subsequent changes to the Investment Policy Statement.

Approved

D-6 Resolution to Add Intercontinental Real Estate Corporation's "Fund V"

Mr. Heatley presented the following resolution, explaining that Intercontinental Real Estate Corporation's "Fund V" is primarily investing in core-plus real estate, which is more of a direct investment than in any of our REIT products, and is an open-ended fund which we can get out of on a quarterly basis. A small percentage of the fund is going to be invested in opportunistic real estate hoping to boost the returns over a standard core or core plus. The Committee plans to take \$7 million from the REIT portfolio and put it into Fund V with \$4.5 million designed to be available to us if we find opportunistic funds separate from Intercontinental, which is a similar process to what was done with the Heitman account in the past. Returns from Fund III, which is a ten-year closed-end fund, would also be placed into the Fund V account.

Resolution to Add Intercontinental Real Estate Corporation's "Fund V"

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 change its real estate strategy and invest directly in real estate properties through open-ended funds, closed-ended funds, limited partnerships, and other institutional quality real estate investment vehicles and to liquidate the current REIT strategies, and thereby obtain superior diversification benefits, and

WHEREAS, The Investment Policy Committee held a Special Investment Policy Meeting on April 29, 2008 and interviewed the following two firms for direct real estate investing: JP Morgan – Urban Renaissance Property Fund and Intercontinental Real Estate Corp. – U.S. Real Estate Investment Fund, LLC , and

WHEREAS, The Investment Policy Committee and Gray & Company recommend funding the Intercontinental Real Estate Fund V with \$7 million from the liquidation of the REIT portfolio, and

WHEREAS, \$4.5 million of the \$7 million that will be transferred into the Intercontinental Real Estate Fund V is designated as temporary funding to be used for future Opportunistic Real Estate as the Board identifies them, be it

RESOLVED, that the Board of Trustees authorizes funding the Intercontinental Real Estate Fund V with \$7 million from the liquidation of the REIT portfolio and that \$4.5 million of the \$7 million is designated as temporary funding to be used for future Opportunistic Real Estate opportunities as the Board identifies them, and

FURTHER RESOLVED, that Intercontinental Real Estate Fund V 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 Kahan and **seconded** by Boonstra to approve the resolution to Add Intercontinental Real Estate Corporation's Fund V to the System's investment portfolio.

Approved

It was **moved** by Heatley and **seconded** by Kahan to approve reinvesting the returns from Intercontinental Real Estate Corporation's Fund III into Fund V as they come in.

Approved

E. **DISCUSSION ITEMS - None**

F. **REPORTS**

F-1 **Executive Report**

LIQUIDATION OF HEITMAN PORTFOLIO

Per the Board's directive at the Regular Meeting on June 19, 2008, the REIT portfolio of Heitman has been liquidated. All trades are expected to settle by Tuesday, July 15, 2008. The anticipated cash from the liquidation is 3,856,559.00. A dividend payment of

\$12,370.35 will also be paid on July 15. The total cash raised will be \$3,868,969.35. The cash will be transferred to the cash account to meet the System's cash needs. The Northern Trust Company liquidated Heitman's portfolio for a commission rate of \$0.015/share.

JEFFREY HARMON

Jeffrey Harmon provided staff a list of his new doctors with a signed medical release form. Staff contacted the doctors for their medical reports. The office has now received the medical reports and a medical examination has been scheduled for July 22, 2008 at 9:00 a.m. Per the Board's instruction, a different doctor was scheduled for Jeff. Also in accordance with the Board's directions, staff communicated to a Client Representative of Consulting Physicians that Mr. Harmon stated that the previous doctor's examination was brief and not thorough. The Client Representative will follow through with the complaint.

APPRAISAL OF NEW OFFICE SPACE

The Affinity Valuation Group was selected to appraise the office condominium and produce a Summary Appraisal Report that is compliant with the Uniform Standards of Professional Appraisal Practice (USPAP). The report should be ready sometime next week.

Real estate discussion: Mr. Powell stated that the staff has received the appraisal report from Affinity Valuation Group for the property at 532 S. Maple, and he will be sending a copy to the City in the near future. The report indicates that the appraised value of the property is \$442,000, and the City has agreed to loan the System up to \$400,000. Mr. Powell stated that the builder has estimated that the final inspection of the office would be on August 29, 2008, and that the deadline to be out of the current office is on August 31, 2008. Mr. Powell asked the Board to consider requesting a further month's lease extension going to the end of September with Larson Realty Group in case there are further delays with the building process. The Board agreed, and added that perhaps the request should include even a further option going to the end of October if necessary.

It was **moved** by Boonstra and **seconded** by Heatley to authorize Mr. Powell to negotiate a 30-day lease extension until September 31, 2008 with Larson Realty Group, with an additional 30-day option into October if necessary.

Approved

F-2 Preliminary Investment Reports for the Month Ended June 30, 2008

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended June 30, 2008, to the Board of Trustees:

6/30/2008 Asset Value (Preliminary)	\$411,254,937
5/31/2008 Asset Value (Audited by Northern)	\$431,485,315
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	(\$23,903,451)
Percent Gain <Loss>	-5.4%
July 16, 2008 Asset Value	\$ 399,025,006

F-3 Investment Policy Committee Report – July 1, 2008

Following are the Investment Policy Committee minutes from the meeting convened at 2:05 p.m. on July 1, 2008:

Member(s) Present: Heatley, Kahan (2:10), Sylvester
Member(s) Absent: None
Other Trustees Present: Crawford, Boonstra
Staff Present: Kluczynski, Powell, Refalo
Others Present: Jack Timmony, Legal Counsel
Larry Gray, Gray & Company
Andrew Kelsen, Gray & Company

REVIEW OF RFI's FROM INVESTMENT CONSULTANTS

Mr. Powell stated that at the last IPC meeting, the Committee discussed the Requests for Information that were submitted by ten investment consultants, and decided to further review the RFI's for five of the firms: Asset Consulting Group, Gray & Company, New England Pension Consultants, Prime, Buchholz & Associates, and Segal Advisors. Mr. Powell stated that he has checked references on the above firms, and all those contacted were very happy with the performance of their consultants. Mr. Powell stated that after reviewing all of the requests, he recommends that the Committee ask that the Board of Trustees retain the services of Gray & Company considering their commitment to the System and reasonable fee schedule. The Committee agreed that they are comfortable with Gray's services and sees no reason to pursue further research on other firms at this time.

It was **moved** by Sylvester and **seconded** by Kahan to recommend to the Board of Trustees to remain with Gray & Company and accept their proposed fee schedule.

Approved

Mr. Powell was asked to send the remaining firms a letter thanking them for their participation in the RFI process.

INDEPENDENCE INVESTMENTS DISCUSSION

The Committee decided to hold a closed session for the purpose of discussing attorney-client privileges regarding whether there exists legal liability of Independence Investments for breach of fiduciary duty and other matters.

It was **moved** by Kahan and **seconded** by Sylvester to go into a closed session under the attorney-client privilege of reviewing communications from the attorney relative to Independence Investments.

Roll call vote to go into closed session:

Heatley – Yes
Sylvester – Yes
Kahan - Yes

Approved

Also present will be Trustees Boonstra and Crawford, and Mr. Gray and Mr. Kelsen of Gray & Company.

Closed session time: 2:40 – 3:34 p.m.

Performance Review of Independence Investments:

Mr. Gray stated that there was a discussion with Independence Investments at the recent manager meeting in May regarding the recent trading issues, and he has not been able to receive clear answers either there or in follow up meetings. Mr. Gray stated that occasionally things do go wrong, and usually managers trade in cycles, and when they get so far below their respective benchmark, there is concern that there is no way that they can catch up, much less get to a net-of-fee above the benchmark discussion, which appears that this is the current situation. It has been difficult to get a clear understanding either internally or externally from the manager of what is happening inside the portfolio, and what might be the solution to turning it around. Independence's over weightings in healthcare, financials and information technology have demolished their performance over the last full quarter (March 31, 2008), and due to the serious consistent under performance, Gray & Company recommends that Independence be terminated and the transition of the assets be discussed at the next Board meeting.

The Committee discussed what to do with the money from Independence Investments if/when they are terminated, such as transferring the money to an index or to an active manager. Mr. Gray was asked to obtain the Abel Noser report from Independence. Also, Mr. Gray is to recommend three managers in the small cap space and provide detailed information on their net performance. He will also provide a comparative analysis of Independence versus their peer group. After further discussion, it was decided to direct Independence Investments to cease the directed brokerage program effective immediately.

It was **moved** by Kahan and **seconded** by Sylvester to authorize Mr. Powell to send a letter to Independence Investments to cease directive brokerage.

Approved

PRESENTATIONS BY GRAY & COMPANY

Real Estate Assets

Mr. Gray and Mr. Kelsen reviewed Real Estate Allocation informational charts showing the theoretical return/risk in Core Real Estate, Core Plus/Value Added Real Estate, and Opportunistic Real Estate. Mr. Kelsen stated that currently the Plan has a 10% allocation to real estate which equals approximately \$42 million. The strategy that Gray & Company is recommending is for the Plan to allocate in the private equity direct real estate spectrum 50% to core real estate, 30% to core plus/value added real estate, and 20% to opportunistic real estate. Gray & Company believes that to obtain superior diversification benefits, they recommend that the Board invest directly in real estate properties through open-ended funds, closed-ended funds, limited partnerships, and other institutional quality real estate investment vehicles and to liquidate the current REIT strategies. They further recommend the opportunistic real estate allocation have a global reach with no significant allocations to developmental real estate investments.

Mr. Kelsen discussed Intercontinental Real Estate's Fund 5 product, which is more diversified and open-ended, and could be funded with the returns from the current Intercontinental product (Fund 3). Mr. Kelsen suggested taking \$2.5 million to initial a relationship with it and as they start to return capital out of their other fund, just roll the money back in so that it does not come out of the portfolio and remains with a manager that the Committee is comfortable with, and the opportunistic real estate managers would be added over time. Mr. Kelsen stated this would establish a protocol that as they return capital until they're topped off at 30% just continue to send the capital right back. Mr. Gray stated that Intercontinental is an open-ended fund and money could be easily withdrawn for rebalancing. Ms. Sylvester noted that the Committee has already received a presentation by Intercontinental regarding their Fund 5 product as well as a presentation from JP Morgan, which covers the due diligence process, so a recommendation could be made to the Board of Trustees at this time.

Mr. Kelsen noted that there is currently approximately \$9 million in the Invesco real estate fund (REIT), which could be liquidated and transferred to the core plus/value added real estate. Ms. Sylvester suggested taking 20% of \$8.4 million (\$2.5 million), and at least as a holding place, transferring the whole amount in holding for future opportunistic funds. Mr. Kelsen stated that he will pursue that idea with Intercontinental to make sure that we have the liquidity to get back out on a quarterly basis. Mr. Kelsen stated that if he were to run across a good opportunistic manager on a quarterly liquidation cycle, it would work. Mr. Gray suggested transferring a portion into the Fund 5 product, and another portion to utilize the System's cash needs.

It was **moved** by Sylvester and **seconded** by Kahan to recommend that the Board of Trustees liquidate the Invesco Real Estate Fund.

Approved

It was **moved** by Sylvester and **seconded** by Kahan to recommend to the Board of Trustees to take \$7 million to fund Intercontinental Real Estate's Fund 5 product, pending legal counsel approval as to asset allocation, with the remaining \$2 million going into the Lehmann Bond Fund for the System's cash needs.

Approved

Alternative Assets

Mr. Kelsen stated that the Committee has previously discussed alternative assets, and decided to split timber, private equity, and hedge funds into three equal sectors. Mr. Kelsen stated that Gray & Company has three hedge fund managers ready to come in to make presentations to the Committee. Gray & Company recommends the use of Fund-of-Funds for the private equity and hedge fund mandates. The hedge fund allocation may be funded within the next several months. The private equity allocation may be funded over several years to obtain vintage year diversification. The timber allocation may be funded in the next several months.

It was **moved** by Sylvester and **seconded** by Kahan to direct Gray & Company to arrange for the three hedge fund managers to make presentations at the August 5, 2008 IPC meeting.

Approved

Mr. Kelsen suggested bringing in the private equity managers after the hedge funds managers have been hired, and then move on to the timber or natural resources products.

Broad Asset Allocation

Mr. Gray discussed an introduction to Global Investing, stating that more and more portfolios are taking on international asset allocations. Mr. Gray stated that his firm is recommending to all of their clients not a definitive international increase, but for global investing, meaning the managers who have the opportunity to buy both U.S. and international depending on where the opportunities might lie. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices.

Historically, the global approach has provided returns that fall between the domestic and international equity markets. These results are to be expected based on the composition of the index; the two largest components of the MSCO ACWI are the US and EAFE indices. The Standard Deviation of the global style is slightly less than either of the major components. Mr. Gray suggested that the allocation for the global assets be at 5% (taking 3% from large cap, 1% from mid cap, and 1% from international). The Committee expressed interest in entering into global investing, noting that further research should be done later in the year, after some of the other transactions have been implemented as discussed. Mr. Gray stated he would provide further documentation, including several scenarios, for the Committee's review in the near future.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Kahan to adjourn the meeting at 5:30 p.m.
Meeting adjourned at 5:30 p.m.

F-4 Administrative Policy Committee Report – July 1, 2008

Following are the Administrative Policy Committee minutes from the meeting convened at 1:03 p.m. on July 1, 2008:

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

EXECUTIVE DIRECTOR'S PROPOSED GOALS & OBJECTIVES FOR FY 2008/2009

Mr. Boonstra distributed a listing of the suggested goals and objectives that he received from some of the Trustees. The Committee discussed the status of the Pension Gold software, and Mr. Powell stated that the program appears to be a beta site, and a lot of problems are still being worked out, but it is already in place and hopefully it will be up and running properly soon. Ms. Refalo helped to explain some of the problems that staff has discovered, such as the program integrating with the office's new computers, as well as integrating with the City's new payroll system which was brought in during the

implementation and transferring process. Mr. Crawford suggested that the Committee have both I.T. and the Pension Gold representatives come in for a meeting to discuss the ongoing problems and extra time that it is taking staff to get this program running. The Committee would also like to know if the program is indeed a beta site, and if so, they would like it noted that they were not aware of this. Ms. Sylvester asked that Mr. Powell arrange a meeting or conversation with the other parties before the next APC meeting to straighten out this issue before bringing it back to the APC in August.

The Committee continued to discuss the proposed goals and objectives and after discussion, decided upon the following list for Board recommendation:

1. Status review of Pension Gold with I.T.S.U. and LRS at August 2008 APC meeting.
2. Better accuracy of materials presented at Board meetings.
3. Completion of Fiduciary Audit.
4. Assess the RFP/RFI governance process for all service providers.
5. Make sure communications materials sent out to participants and retirees are clear and concise to minimize future misunderstandings.
6. Coordinate and facilitate office transition.
7. 3-Year Retiree Signature Verification Process.
8. Cross training with Staff.

It was **moved** by Sylvester and **seconded** by Kaur to recommend to the Board of Trustees that the Executive Director's goals and objectives for fiscal year 2008/2009 be accepted as discussed.

Approved

DEFERRED RETIREMENT COMMUNICATIONS

Mr. Powell presented a revised Deferred Retirement Form and Retirement Handbook with revised language. The Retirement Handbook is given to employees and explains various retirement options. Mr. Powell explained that the issue is in regards to employees who elect a deferred retirement and decide to withdraw their contributions from the System when they leave the City. In some cases, they have no pension benefit payable to them when they reach retirement age because the contribution portion has been depleted. Mr. Powell stated that the pension amount is based upon an employee's FAC, benefit multiplier and years of service. When the employee leaves employment with the City, their FAC and years of service are frozen, but the contributions keep growing and can grow large enough to fully fund their pension benefit when they reach retirement age. The benefit is funded by the City's portion and the employee's contribution amount. If the contributions are left in, all the employee would receive is their money back. They would not receive the City's portion because the contributions have paid for the full benefit.

The Committee discussed how to revise the language on the form to make this issue clearer and easier for employees to understand so that they realize that if they withdraw their contributions at the time they leave employment with the City, they may not be eligible to receive a monthly benefit when they reach retirement age. It was decided that the APC members would submit their suggested changes to the form to Mr. Powell for a further discussion with Mr. VanOverbeke on the day of the next regular Board meeting.

**CONSOLIDATION OF ORDINANCE CHANGES TO BE
FORWARDED TO CITY COUNCIL**

Due to time constraints, this item was postponed until the August APC meeting agenda.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Kaur to adjourn the meeting at 2:03 p.m.
Meeting adjourned at 2:03 p.m.

F-5 Special Projects Committee Report – No Report

F-6 Audit Committee Report – July 8, 2008

Following are the Audit Committee minutes from the meeting convened at 4:45 p.m. on July 8, 2008:

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

RFI vs. RFP CLARIFICATION

Mr. Powell reviewed the System's RFP/RFI Policy, which indicates that a Request for Proposal should be done for all service providers at a minimum of five years, and a Request for Information should be done every three years as part of Trustees' fiduciary responsibility to assure the plan is receiving the optimal level of service at the best price. Ms. Nerdrum suggested that the Committee consider doing an RFP every six years and an RFI on a three-year interim period, with a clause stating that an RFP may be conducted when the Committee chooses. Ms. Sylvester mentioned the recent consensus that an RFI may not be all that valuable of a tool, so she is not sure that the Committee should be bound by having to do an RFI unless there is a caveat that allows the Committee to do so if it deems necessary.

Mr. Crawford agreed, stating that an RFP could be done every six years with an RFI being done on an as-needed basis. Ms. Kaur suggested bringing the RFI decision to the Board of Trustees every three years as the policy states, and the Board would decide if an RFI is necessary at that time. The Committee discussed which providers to include in the RFP/RFI process. Mr. Powell suggested creating a schedule of future RFP's for approval by the Board of Trustees. The Committee agreed, and after further discussion drafted the following schedule:

Fiduciary Audit – 2009	Investment Consultant – IPC to decide
Actuary – 2010	Custodial Bank – APC to decide
Legal Counsel – APC to decide	Medical Director – APC to decide

It was **moved** by Crawford and **seconded** by Sylvester to recommend to the Board of Trustees that the decision to conduct an RFP be brought to the Board at least every six years on a rotating basis for the six service providers as discussed, and at the three year mark the Board may consider conducting an RFI at their discretion. The Audit

Committee will bring recommendations for the Fiduciary Audit RFP and the Actuarial RFP, and the remaining RFP's will be recommended by other Committees as listed in the schedule as discussed.

Approved

PROPOSED FIDUCIARY AUDIT SCHEDULE

Mr. Powell submitted the following schedule for conducting the Fiduciary Audit:

- October 6, 2008 Send out RFPs to at least 3-4 different firms.
- November 14, 2008 RFP deadline – due to Retirement System Office.
- December 2, 2008 Review and possible selection of fiduciary audit candidates for interviews.
- January 6, 2009 Interviews and selection of final candidate.
- January 15, 2009 Retirement Board meeting – Recommendation to Board of Trustees to hire desired firm.
- 1st week of February Begin fiduciary audit process.

It was **moved** by Crawford and **seconded** by Sylvester to recommend that the Board of Trustees approve the Fiduciary Audit Schedule as submitted.

Approved

GRS SOFTWARE SERVICES / RESPONSE FROM BRAD ARMSTRONG

Ms. Nerdrum reviewed a letter from Gabriel, Roeder, Smith & Company dated June 18, 2008 regarding specifics on the actuarial software that is utilized by the Retirement System. The letter indicates that GRS owns the source code and software, and that the System owns a license to the software. Should the System ever decide to terminate its relationship with GRS, the System could either continue using the service and pay an updated hosting charge, or terminate its relationship with GRS altogether along with the support of the software.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Crawford to adjourn the meeting at 5:25 p.m.

Meeting adjourned at 5:25 p.m.

Fiduciary audit schedule discussion: Ms. Nerdrum reviewed the Audit Committee minutes, and asked that the Board approve the Fiduciary Audit Schedule as outlined in the minutes.

It was **moved** by Crawford and **seconded** by Heatley to approve the fiduciary audit schedule as outlined in the Audit Committee minutes.

Approved

F-7 **Legal Report – No Report**

G. **INFORMATION**

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 August Planning Calendar

The August Planning Calendar was received and filed.

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

I. ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Nerdrum to adjourn the meeting at 9:46 a.m.
Meeting adjourned at 9:46 a.m.

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