

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
September 18, 2008**

The meeting was called to order by Chris Heatley, Vice-Chairperson, at 8:44 a.m.

**ROLL CALL**

Members Present: Boonstra, Crawford, Fraser, Heatley, Kahan, Kaur, Nerdrum  
Members Absent: Hescheles, Sylvester  
Staff Present: Kluczynski, Powell  
Others: Michael VanOverbeke, Legal Counsel  
Jeremy Flack, Fire Employee

**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-7 Authorization for Payment of Invoices – additional invoices received

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

**Approved**

**B. APPROVAL OF MINUTES**

**B-1 August 21, 2008 Regular Board Meeting Minutes**

It was **moved** by Kahan and **seconded** by Boonstra to approve the August 21, 2008 regular Board meeting minutes as presented.

**Approved**

**C. CONSENT AGENDA**

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

**Preliminary Retirement Resolutions:**

**C-1 Preliminary Approval of Service Retirement for Darylin Green**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Darylin Green (Applicant)**, dated September 3, 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 **Darylin Green** 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.

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**C-2 Preliminary Approval of Service Retirement for Charles Gaige**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Charles Gaige (Applicant)**, dated September 9, 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 **Charles Gaige** 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 Service Retirement for James Blake**

**WHEREAS**, **James Blake** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of August 16, 2008, and

**WHEREAS**, said Participant has been credited with 32 years and 11.5 months of service credit, and

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

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

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

**WHEREAS**, said Participant has elected to receive an Option II, 100% Joint & Survivor (Pop-Up) form of benefit (and nominated Karen Blake, 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 **James Blake** (Participant), effective August 16, 2008, and further

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

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

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**C-4 Approval of Service Retirement for Gary Lutz**

**WHEREAS**, **Gary Lutz** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of August 2, 2008, and

**WHEREAS**, said Participant has been credited with 26 years and 1.5 months of service credit (*which includes 1 year and 1.5 months reciprocal credit*), and

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

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

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

**WHEREAS**, said Participant has elected to receive an Option II, 100% Joint & Survivor (Pop-Up) form of benefit (and nominated Linda Lutz, 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 **Gary Lutz** (Participant), effective August 2, 2008, and further

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

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

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**C-5 Approval of Service Retirement for Carol Schuler**

**WHEREAS**, **Carol Schuler** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of July 19, 2008, and

**WHEREAS**, said Participant has been credited with 5 years and 3.5 months of service credit, and

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

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

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

**WHEREAS**, said Participant has elected to receive 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 service retirement is hereby granted to **Carol Schuler** (Participant), effective July 19, 2008, and further

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

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

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**C-6 Approval of Deferred Retirement for Versel Jones**

**WHEREAS**, **Versel Jones** (Participant) has submitted an application for a deferred retirement to the Board of Trustees requesting an effective retirement date of August 1, 2008, and

**WHEREAS**, said Participant has been credited with 15 years and .5 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 a 100% 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 **Versel Jones** (Participant), effective August 1, 2008, and further

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

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

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Mr. Crawford relayed frustration from Carol Schuler regarding the retirement process and how long it is taking for her to receive her first benefit check. The Board noted the comment, and Mr. Heatley stated that perhaps staff could follow up on this matter.

**Resolutions:**

**C-7 Authorization for Payment of Invoices (\$18,863.93)**

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	2,868.70	Office Lease ( <i>pro-rated for October 1-10, 2008</i> )
2	Republic Parking System	375.00	Monthly Parking Fee
3	SBC / AT&T	196.00	Monthly Telephone Service – 6/14/08– 7/13/08
4	Arbor Springs Water Co., Inc.	45.25	Monthly Water Service
5	Republic Parking System	84.65	Monthly parking validation fees
6	AT&T	92.30	Monthly Toll-Free Telephone Service
7	NCPERS	150.00	2009 Annual Membership Dues
8	Schwartz Investment Counsel	14,757.00	Investment Manager Fees: 4/1/08-6/30/08
9	Rubber Stamps Unlimited, Inc.	53.70	Rubber stamp for deposits w/new address
10	301 E. Liberty LLC	97.85	Monthly electric fee: 8/7/08 – 9/10/08
11	Staples Business Advantage	143.48	Miscellaneous office supplies
	<b>TOTAL</b>	<b>18,863.93</b>	

**Consent Agenda approved as submitted**

**D. ACTION ITEMS**

**D-1 Resolution to Hire Blackrock Multi Manager Partners, LTD & HRJ Capital**

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

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

WHEREAS, Gray & Company has been advising the Investment Policy Committee to add Hedge Funds as an alternative asset to its portfolio to improve the overall performance of the fund and help reduce its volatility, and

WHEREAS, the Investment Policy Committee at its meeting on August 12, 2008 interviewed the following three Hedge Fund firms, HRJ Capital, Blackrock Multi Manager Partners, LTD and Nantucket Multi Managers, LLC, and

WHEREAS, the Investment Policy Committee and Gray & Company recommend hiring HRJ Capital, Blackrock Multi Manager Partners, LTD, and fund them with \$5 million each, and

WHEREAS, the source of the funds for the \$10 million for the Hedge Fund managers will be identified and recommended by the IPC at a later date, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of HRJ Capital and Blackrock Multi Manager Partners, LTD and fund them with \$5 million each after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval, and

FURTHER RESOLVED, that the source of the funds for the \$10 million for the Hedge Fund managers will be identified and recommended to the Board by the IPC at a later date.

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The Board discussed the process that the Investment Policy Committee has been through to investigate alternative funds over the last two years. Mr. Powell stated that the source of funds is yet to be determined by the IPC.

It was **moved** by Heatley and **seconded** by Kahan to approve the Resolution to Hire Blackrock Multi Manager Partners, LTD and HRJ Capital as submitted, subject to the conditions stated in the resolution as well as proper due diligence visits with the companies.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Revised Deferred Retirement Form & Employee Handbook Information**

Mr. Boonstra presented the revised Deferred Retirement Form as submitted by the Administrative Policy Committee, which was revised in order to clarify the deferred retirement communications that are currently in place. The form states clearly that when employees leave on a deferred retirement and choose to withdraw their contributions, they may not be entitled to any further retirement benefits upon obtaining the age of 60 and applying for deferred retirement. Mr. Crawford suggested changing the title to "Deferred Retirement Allowance" instead of Deferred Retirement Benefits. Other minor language changes were discussed, and it was decided that the Board would postpone this item until the October Board meeting in order for Mr. VanOverbeke to make the further revisions.

**E-2 Economic Assumptions Update**

Ms. Nerdrum discussed the issue of whether or not the Board should be changing the expected rate of return, or the interest rate assumption that we use for valuating a liability, and the Audit Committee came to the conclusion at their last meeting that there would be no change in the 7%. Ms. Nerdrum reviewed the minutes from the September 2<sup>nd</sup> Audit Committee meeting (Item F-5), stating that there has been some confusion as far as how our current portfolio is structured, what the expected rate of return is, and how that ties in to the interest rate assumption that we use for valuating liabilities and what additional margin there is, how it is spent and how much we're spending. The

current investment policy states that we are benchmarking towards an 8% rate of return and Gray & Company has stated that the reason they have brought up the change in investment structure was to make sure that we are continuing to meet that 8% and in actuality we had fallen to 7.2%. Ms. Nerdrum stated that the members of the Committee had not realized that we had fallen to 7.2%, and believes that we need to move to the proposed allocation in order to get back to 8%, or 7.99%. Ms. Nerdrum stated that going forward, it will be important for the Board to remember that when approving one-time or lump-sum increases for retirees that the members get a good sense from the actuary of how much it is costing us as a percentage each year, and to make sure that Gray & Company has an understanding of that as well.

## **F. REPORTS**

### **F-1 Executive Report**

#### **CLOSING ON 532 S. MAPLE OFFICE CONDOMINIUM**

On September 3, 2008, the Board's Chairperson, Executive Director and legal counsel met at Absolute Title, Inc. for the closing of 532 S. Maple office condominium for the AAERS Properties, Inc. Base purchase price was \$309,400.00. The enhancements of an additional bath/kitchen sink, insulation, proration of summer and winter taxes, recording and closing fees came to \$10,499.42 for a grand total of \$319,899.42. The Retirement System had an earnest money deposit of \$5,000.00. The payment price minus the earnest deposit came to \$314,899.42. Absolute Title, Inc. placed \$11,140.00 of the \$314,899.42 into an escrow account until RMP Investments, LLC, the seller, completely finish the "white box".

#### **TENTATIVE MOVING DATE**

According to the construction schedule, the final building inspection should take place on Tuesday, September 30, 2008. At this point it appears that the contractor should be able to make his deadlines. If that is the case, the Retirement System will move to the new location the week of October 6th. The Retirement System will be paying a pro-rata share of rent to Larson Realty through October 10, 2008. The amount to stay through October 10th is \$2,868.70.

#### **NOTIFICATION TO RETIREES, EMPLOYEES, VENDORS, ETC, OF THE MOVE**

The Retirees will be notified of the move in mid-September. A reminder will be sent to them later in the fall when we send out the signature verification forms. Deferred Retirees will be notified of the move when the next contribution statements are distributed. Active employees will be notified through the A2 News Notes electronic newsletter on September 30<sup>th</sup>, by City wide e-mail, and an article will appear in the next A2 News Quarterly Newsletter. Vendors, consultants, money managers, etc will be sent letters notifying them of the move.

#### **EXPIRATION OF TRUSTEE TERM**

The Firefighter Member term of Andrew Boonstra will be expiring on December 31, 2008. No other Trustee terms are expiring in 2008.

## INVESCO

The REIT portfolio that was managed by Invesco was terminated on Monday, September 8, 2008. Invesco was able to raise the cash without having to liquidate the portfolio and thereby saving the System transaction costs. Total cash raised was \$9,385,773.00. Seven million will be transferred to the Intercontinental Fund V and the remainder will go into the cash account for cash flow requirements.

## SCHWARTZ INVESTMENT COUNSEL

Do not forget the farewell luncheon Schwartz Investment Counsel will host after the September 18<sup>th</sup> Board Meeting. They will have Zingerman's cater the lunch in after the Board Meeting. The luncheon is tentatively set for 11:00 a.m. on that day. It is hoped all Trustees can remain to be a part of that event.

## WORKING SESSION WITH CITY COUNCIL

The annual Working Session with City Council is scheduled for Monday, October 13<sup>th</sup> at 7:00 p.m.

*(Ms. Kaur departed at this time)*

Mr. Powell asked if the Board would prefer to hold the working session with City Council at a later date since the actuary report has not been received from GRS. Mr. Crawford noted that it may be better to hold the working session in November after the elections so that the new Council members are present for any updates from the Retirement System. The Board agreed, and decided to reschedule the session for November 2008.

### **F-2 Preliminary Investment Reports for the Month Ended August 31, 2008**

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

8/31/2008 Asset Value (Preliminary)	\$408,615,290
7/31/2008 Asset Value (Audited by Northern)	\$403,869,301
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	(\$25,408,054)
Percent Gain <Loss>	-5.7%
<b>September 17, 2008 Asset Value</b>	<b>\$ 385,446,215</b>

### **F-3 Investment Policy Committee Report – September 2, 2008**

Following are the Investment Policy Committee minutes from the meeting convened at 3:45 p.m. on September 2, 2008:

*Member(s) Present: Heatley, Kahan, Sylvester*  
*Member(s) Absent: Hescheles*  
*Other Trustees Present: Boonstra, Crawford (3:52)*  
*Staff Present: Kluczynski, Powell, Refalo (4:28)*  
*Others Present: Larry Gray, Gray & Company*  
*Chris Kuhn, Gray & Company*

**REPORT ON INDEPENDENCE INVESTMENTS  
AND THEIR PEERS' RANGE OF RETURNS**

Mr. Kuhn reviewed the Independence composite versus the small cap growth peer group (12/31/98-6/30/08), which shows that they have ranked 95<sup>th</sup> over the last year. Mr. Gray stated that he has heard of staff changes at Independence Investments, but hasn't been able to confirm them as of this date, which concerns him because usually he is given written notification when someone is about to leave the firm. Mr. Gray stated that when speaking with Independence, he is still receiving the same answer, that their securities are not participating, or performing worse, in this market because their stocks aren't being rewarded. Mr. Gray stated that he is frustrated that he is unable to inform the Committee more than what is being told to him, so he cannot say why the portfolio is not working. Ms. Sylvester asked if the portfolio should be closed and if the funds from this account should be indexed until the Committee figures out what to do with this issue, and Mr. Gray stated that he would like a chance to sit down with Independence at their location to discuss their performance.

The Committee agreed that Mr. Gray should meet with Independence Investments and report back at the all-day manager forum on Friday, October 3<sup>rd</sup>.

**INFORMATION ON SMALL CAP MANAGERS**

Mr. Gray discussed the current small cap portfolio, asking the Committee if it is looking for a true growth manager or more of a core with a growth tilt which is much more muted which means you don't have the volatility that you have with a pure growth manager. After discussion, Mr. Gray stated that he could bring back to the Committee a list of growth or core names for further discussion. The Committee agreed.

**VARIOUS DELIVERABLES FROM GRAY & COMPANY**

Hedge Fund Manager Interviews: The Committee discussed the recent interviews for a hedge fund-of-fund manager, noting that they were all very good firms, and after discussion the Committee decided to recommend to the Board of Trustees that HRJ Capital and Blackrock Multi Manager Partners (Offshore), Ltd. be hired as the new hedge fund managers, splitting the portfolio in half between them at 2.50%.

It was **moved** by Kahan and **seconded** by Sylvester to recommend that the Board of Trustees hire HRJ Capital and Blackrock Multi Manager Partners (Offshore), Ltd. as the two hedge fund-of-fund managers, and that the portfolio be split in half allocating 2.50% to each manager.

**Approved**

Investment Manager Fee Comparisons: Mr. Kuhn briefly discussed a document showing tables representing the performance and fees of each of the System's current investment managers.

**RETIREMENT SYSTEM QUARTERLY REVIEW FOR THE  
QUARTER ENDED JUNE 30, 2008**

Mr. Gray reviewed the June 30, 2008 quarterly review. The Fund's total market value as of June 30, 2008 was \$407,024,000. The Fund had a return of 0.00% for the current

quarter, exceeding the Policy Index, and a return of -5.59% for the last year, out performing the Policy Index.

Mr. Gray reviewed the Summary of Assets as of June 30, 2008:

<b>Managers</b>	<b>Market Value</b>
<i>Domestic Equity</i>	\$ 214,356,000
<i>International Equity</i>	46,666,000
<i>Fixed Income</i>	96,966,000
<i>Real Estate</i>	45,712,000
<i>Cash &amp; Cash Equivalents</i>	3,324,000
<b>Total Plan</b>	<b>\$407,024,000</b>

**ADJOURNMENT**

It was ***moved*** by Kahan and ***seconded*** by Sylvester to adjourn the meeting at 4:30 p.m.  
**Meeting adjourned at 4:30 p.m.**

**F-4 Administrative Policy Committee Report – September 2, 2008**

Following are the Administrative Policy Committee notes from the meeting convened at 1:16 p.m. on September 2, 2008:

Committee Members Present: Boonstra, Sylvester (no quorum)  
 Members Absent: Crawford, Kaur  
 Other Trustees Present: None  
 Staff Present: Powell, Kluczynski  
 Others Present: Michael VanOverbeke, Legal Counsel

**DEFERRED RETIREMENT COMMUNICATIONS**

Mr. VanOverbeke reviewed his revisions to the Deferred Retirement Benefits form and the Employee Handbook with the Committee. The Committee agreed to the revised form and handbook changes and decided to place these as a discussion item on the September 18<sup>th</sup> Board meeting agenda for approval.

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

Mr. VanOverbeke reviewed the drafted language for the Post-Retirement Benefit Increase Ordinance due to questions that Ms. Sylvester had raised regarding what the Board’s options are each year when deciding on a benefit increase. After discussion, the Committee decided to leave the language as is, noting that it has already been sent to City Council once for approval, and they have requested that all of the proposed Ordinance changes be submitted at the same time.

Mr. VanOverbeke reviewed the Duplicate Coverage Ordinance language, stating that he will be making a few more revisions and will present a final draft for the Committee at its

October APC meeting so that the Committee will be able to present a final version to the Board at the October Board meeting.

### **STATUS OF PENSION GOLD PROGRAM**

Mr. VanOverbeke reviewed his understanding of the status of the Pension Gold Program, stating that there is a discrepancy with signing off and paying the current invoices, but the retirement staff is not signing off that it is a formal acceptance of the program because there are still occurrences of bugs in the system that still need to be worked out, and staff doesn't believe that time fixing these problems should be counted against the maintenance hours that we are committed to under the contract. There is an open issue of whether there is sufficient meeting of the minds on what is or is not going to be maintenance and what is or is not a programming issue, and it has been suggested at the Committee level that the I.T. department should be the deciding factor. Mr. Powell stated that LRS has indicated that they would be fair in charging additional maintenance charges and they have noted that they have been working on the bugs for the last year without additional charges.

Mr. VanOverbeke stated that a letter needs to be sent to LRS that explains the issues we've had and the fact that they have not lived up to the implementation schedule which has prevented us from signing off on acceptance of the program. Mr. Powell noted that during the process of setting up the program, the City changed over to a new payroll system which slowed down the production. Mr. Powell stated that he will draft a letter to LRS explaining the System's reluctance to sign off on the program as it currently stands, and that both sides will have to work out a way to agree on what is maintenance versus programming when it comes to future glitches in the program. What we want in writing is that if it is programming issues, then we don't pay for it, but if it is maintenance issues, then we pay for it. Mr. VanOverbeke noted that the letter should be formatted for both parties to sign.

### **ADJOURNMENT**

It was ***moved*** by Sylvester and ***seconded*** by Kaur to adjourn the meeting at 3:00 p.m.  
**Meeting adjourned at 3:00 p.m.**

### **F-5 Audit Committee Report – September 2, 2008**

Following are the Audit Committee minutes from the meeting convened at 4:52 p.m. on September 2, 2008:

Committee Members Present:	Crawford (via telephone), Nerdrum, Sylvester
Members Absent:	Kaur
Other Trustees Present:	Boonstra
Staff Present:	Powell, Refalo
Others Present:	David Kausch, Gabriel, Roeder, Smith & Co. Larry Gray, Gray & Company Chris Kuhn, Gray & Company

### **ECONOMIC ASSUMPTIONS DISCUSSION**

Ms. Nerdrum stated that this discussion is a continuation of the one held at the last AC meeting on August 19<sup>th</sup>. Mr. Armstrong had provided analysis and she believes that the

Committee members were surprised at the results of an 8% expected rate of return as opposed to the expected rate of 7.23%. Mr. Kuhn reviewed the asset classes, targets and ranges of the current Investment Policy as of January 2008 and the proposed Investment Policy changes as of July 2008. The report has been included with these minutes (see attached).

A lengthy discussion ensued regarding the current asset allocation and Mr. Gray stated he would be happy to go over the methods they use to come up with the targets and rates if the Trustees would like further education, and explained that they are using index funds in order to do their modeling, and they are looking for active management on the remainder of the portfolio that is going to net-of-fees outperform what they have modeled. Mr. Kausch stated that two different rates are being discussed; the net-of-fees portfolio in return with alpha that Gray & Company is targeting versus the rate that GRS is going to use to determine the contributions, and historically there has been a difference in those rates in particular with the objective of funding the pension adjustment account for that reason. So the fact that GRS is coming out with a rate of 7.5%, that rate might be different than what Gray & Company is saying, and that isn't necessarily a bad thing. Mr. Kausch believes there can be an actuarial assumed rate of return for the valuation that is different than the target for the Fund overall.

Ms. Nerdrum asked that when given the reason for the movement towards alternative investments, it appears we are back on track for an expected return of close to 8%, and GRS feels comfortable using something less than that for a longer-term horizon and what Gray has used for their modeling given the way that they model versus the way others model. Given those two data points, she asked if there is a reason why we should remain, decrease, or increase our current interest assumption for valuation purposes, and she believes that we should either stay status quo at 7% or potentially raise it. Mr. Kausch stated that GRS has in the past recommended staying the same or lower and does not feel that it should be lower than 6.75% now provided the Committee is going to these proposed methods which sounds like the IPC has already agreed to go with hedge funds. Mr. Kausch suggested that it remain at 7% or talk about increasing, although he wouldn't increase all the way to 8%. Mr. Gray stated that it is a matter of realistically understanding what the capital markets are saying, linking that in with Public Act 314, they cannot take it higher than 10%, so mathematically you are not going to get anything north of 8%.

Ms. Nerdrum noted that the reason for having this discussion is because the Committee's understanding was that they were targeting to an 8% expected return and had an assumption on the liabilities at 7%, and the entire 1% is not being spent, so is there an opportunity to be increasing that 7% to perhaps 7.25% given the way our portfolio is structured? Mr. Gray stated that he would not do that, and even though it would reduce the cost to the City, when looking at a 10-year history of the S&P at 2.9%, he would be very uncomfortable going out and spending something that hasn't turned around yet and proven itself.

Ms. Nerdrum stated at this point the Committee is going to keep the investment assumption as it is at 7%, and the next discussion for the Committee will be regarding the wage inflation.

## **ADJOURNMENT**

It was **moved** by Sylvester and **seconded** by Nerdrum to adjourn the meeting at 5:40 p.m.

**Meeting adjourned at 5:40 p.m.**

### **F-6 Legal Report – Attorney/Client Informational Session**

Mr. VanOverbeke informed the Board that he would like to discuss an attorney-client privilege communication, and suggested that the Board convene an Executive Session at this time.

Roll call vote:

Boonstra - Yes	Heatley - Yes	Kaur - Absent
Crawford – Yes	Hescheles - Absent	Nerdrum - Yes
Fraser – Yes	Kahan - Yes	Sylvester - Absent

*Executive session time: 10:07 – 10:23 a.m.*

## **G. INFORMATION**

### **G-1 Communications Memorandum**

The Communications Memorandum was received and filed.

### **G-2 October Planning Calendar**

The October Planning Calendar was received and filed.

### **G-3 Vendor Contacts**

#### **Bank of Ann Arbor**

##### ***Product: Small Cap Fund***

Contact(s): Stephen J. Seymour, CFA, Senior VP & Senior Investment Officer  
Jonathan F. Bowdler, VP, Commercial Real Estate Manager  
Ann Arbor, Michigan

#### **URDANG**

##### ***Product: Global Real Estate Securities Management***

Contact(s): Tim Jannetta, VP – Institutional & Consultant Relations  
Plymouth Meeting, Pennsylvania

#### **Invesco, Inc.**

##### ***Product: Value Added/Oppportunistic Real Estate***

Contact(s): Cheng-Soon LAU – Asia Managing Director  
Marquette Chester, Marketing Director  
Dallas, San Francisco, Newport Beach, New York, Atlanta

### **G-4 Status of Pending Projects Report**

The Status of Pending Projects Report was received and filed.

## H. TRUSTEE COMMENTS

Mr. Kahan asked about the status of the Temporary Buy-Back Ordinance language, and Mr. Powell informed him that it was sent to the Attorney's Office. They have indicated that they are in the process of re-writing the Ordinance, but have not relayed any information regarding the submitted language as of this date.

## I. ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Fraser to adjourn the meeting at 10:27 a.m.  
**Meeting adjourned at 10:27 a.m.**

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