

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
February 15, 2007**

The meeting was called to order by Chris Heatley, Chairperson, at 9:20 a.m.

ROLL CALL

Members Present: Boonstra (*via teleconference, 9:30 dep.*), Crawford (9:26), Heatley, Kahan, Nerdrum, Sylvester
Members Absent: Carter, Fraser, Pollock
Staff Present: Jarskey, Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
Jeff Rentschler, City Retiree
Charles Helppie, Echelon Wealth Management, LLC

AUDIENCE COMMENTS

Mr. Rentschler requested two issues be forwarded to the Administrative Policy Committee for discussion and verification: 1) A retiree who divorced through an EDRO with an ex-spouse who could be receiving higher benefit increases than intended, and 2) Poverty level adjustments for police and fire retirees. Mr. Powell stated that he would put these items on future APC meeting agendas.

A. APPROVAL OF REVISED AGENDA

Mr. Powell noted the following revisions to the agenda:

- C-3 Authorization for Payment of Invoices – New invoices added to resolution
- C-5 Approval for Conference/Training – Chris Heatley
- D-3 Termination of Oppenheimer & Transfer of Their Holdings
- D-4 Proposed Addendum Letter from Thornburg Investment Management
- F-4 Administrative Policy Committee Report
- F-5 Special Projects Committee Report

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

Approved as revised

B. APPROVAL OF MINUTES

B-1 January 18, 2007 Regular Board Meeting Minutes

It was **moved** by Sylvester and **seconded** by Kahan to approve the January 18, 2007 regular Board Meeting minutes as presented.

Approved

C. CONSENT AGENDA

It was **moved** by Sylvester and **seconded** by Kahan to approve the following Consent Agenda:

Preliminary Retirement Resolutions - None

Final Retirement Resolutions

C-1 Approval of the Application for Service Retirement of James Hawley

WHEREAS, James Hawley (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of December 29, 2006, and

WHEREAS, said Participant has been credited with 9 years and 11 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 III, 50% Modified Joint & Survivor (Pop-Up) form of benefit (and nominated Susan Hawley, 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 Hawley** (Participant), effective December 29, 2006, 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-2 Approval of the Application for Deferred/Service Retirement of Stephen Hawley

WHEREAS, Stephen Hawley (Participant) has submitted an application for a deferred retirement to the Board of Trustees requesting an effective retirement date of January 1, 2007, and

WHEREAS, said Participant has been credited with 14 years 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 **Stephen Hawley** (Participant), effective January 1, 2007, and further

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

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

Resolutions:

C-3 Authorization For Payment of Invoices (\$304,291.71)

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

	PAYEE	AMOUNT	DESCRIPTION
1	301 E. Liberty LLC	4,708.89	Office Lease (<i>including monthly escalation fee</i>)
2	Republic Parking System	315.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – January 2007
4	SBC / AT&T	239.70	Monthly Telephone Service - 12/14/06 – 1/13/07
5	Arbor Springs Water Co., Inc.	31.25	Monthly Water Service
6	Qwest	7.22	Monthly Long-Distance Telephone Service
7	Afternoon Delight	208.68	January 2007 Board Meeting
8	Lora Kluczynski	183.25	Petty Cash Reimbursement
9	Cottage Inn Catering Services	524.52	Annual Board Retreat – 1/26/2007
10	AT&T	65.57	Monthly Toll-Free Telephone Service
11	Bradford & Marzec, Inc.	36,016.86	Investment Management Fees: 10/1/06-12/31/06
12	Independence Investments	65,075.58	Investment Management Fees: 10/1/06-12/31/06

13	Loomis, Sayles & Company	51,196.23	Investment Management Fees: 10/1/06-12/31/06
14	Oppenheimer Capital	105,025.25	Investment Management Fees: 10/1/06-12/31/06
15	Schwartz Investment Counsel	13,373.00	Investment Management Fees: 10/1/06-12/31/06
16	Staples Business Advantage	118.64	Miscellaneous Office Supplies
17	301 E. Liberty LLC	74.36	Monthly Electric Charge – 1/08/07 - 2/05/07
18	Republic Parking System	90.15	Monthly Parking Validation Fee
19	Heitman Real Estate Securities LLC	7,440.91	Investment Management Fees: 10/1/06-12/31/06
20	VanOverbeke, Michaud & Timmony, P.C.	11,846.65	Fees for Legal Services: 10/1/06-12/31/06
	TOTAL	304,291.71	

C-4 Authorization for Conference/Training – NCPERS Annual Conference, May 18-24, 2007 – Stefani Carter

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, Stefani Carter has requested the Board of Trustees' authorization for conference/training in Honolulu, Hawaii, at Retirement System expense, estimated at \$4,176.54, to attend the NCPERS Annual Conference, to participate in continuing education in her responsibility as a Board Trustee and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Stefani Carter to travel to Honolulu, Hawaii, at Retirement System expense, estimated at \$4,176.54, to attend the NCPERS Annual Conference, to participate in continuing education in her responsibility as a Board Trustee, and

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

C-5 Authorization for Conference/Training – Institutional Real Estate Conference, February , 2007 – Chris Heatley

Mr. Heatley asked for the Board's approval for his attendance at the Institutional Real Estate Conference on February , 2007 in Phoenix, Arizona, with the estimated cost at \$1,475.00.

Consent agenda approved as revised

D. ACTION ITEMS

D-1 Election of Board Officers and Committee Appointments

At the request of the Board Chair, Mr. VanOverbeke conducted the following election of Board Officers.

CHAIRPERSON:

Mr. Heatley nominated Ms. Sylvester as Chairperson. Ms. Sylvester accepted.

It was **moved** by Crawford and **seconded** by Heatley to close nominations and cast a unanimous ballot for Ms. Sylvester as Chairperson.

Approved

VICE-CHAIRPERSON:

Ms. Sylvester nominated Mr. Kahan as Vice-Chairperson. Mr. Kahan declined.

Ms. Sylvester nominated Mr. Heatley as Vice-Chairperson. Mr. Heatley accepted.

It was **moved** by Sylvester and **seconded** by Kahan to close nominations and cast a unanimous ballot for Mr. Heatley as Vice-Chairperson.

Approved

SECRETARY:

Ms. Sylvester nominated Mr. Kahan as Secretary. Mr. Kahan accepted.

It was **moved** by Heatley and **seconded** by Sylvester to close nominations and cast a unanimous ballot for Mr. Kahan as Secretary.

Approved

The Board discussed Committee appointments; resulting in the following proposed Committee lists:

Investment Policy Committee:

Chris Heatley – Chair
Andy Boonstra
Jeff Kahan
Nancy Sylvester
Rob Pollock

Administrative Policy Committee:

Andy Boonstra – Chair
Stefani Carter
Tom Crawford
Chris Heatley
Nancy Sylvester

Audit/Actuary Committee:

Co-Chairs: Rob Pollock & Alexa Nerdrum
Tom Crawford
Nancy Sylvester

Special Projects Committee:

Co-Chairs: Andy Boonstra & Jeff Kahan

Tom Crawford
Chris Heatley
Nancy Sylvester

The Board decided to have the proposed Committee lists placed on the March 15, 2007 Board meeting agenda for final discussion and approval.

D-2 Proposed Annual Report & Summary Annual Report for the Fiscal Year Ended June 20, 2006

Mr. Powell submitted the Proposed Annual Report & Summary Annual Report for the Fiscal Year Ended June 20, 2006 for the Board's approval. Mr. Powell stated that language regarding PA 28 (page 12) will not appear in future annual reports. Mr. VanOverbeke suggested that the following sentence be added to the report on page 12, "*On May 18, 2006, the Retirement Board elected not to utilize Public Act 28 to pay the current cost of retiree health care expenses, which effectively discontinues the future use of Public Act 28.*" The Board agreed.

It was **moved** by Sylvester and **seconded** by Nerdrum to approve the Annual Report & Summary Annual Report for the Fiscal Year Ended June 20, 2006 as revised.

Approved as revised

D-3 Termination of Oppenheimer Capital & Transfer of Their Holdings

Ms. Sylvester reviewed the following (revised) resolution with the Board as recommended by the Investment Policy Committee. After discussion regarding transition fees and managers, as well as whether to terminate Oppenheimer Capital as soon as possible, the Board agreed to approve the following resolution as revised, including additional language composed by legal counsel to terminate Oppenheimer as soon as administratively possible and allow the Executive Director to utilize a transition manager to obtain the best execution cost in liquidating Oppenheimer's holdings:

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 Board of Trustees has an approved Investment Policy Statement in order to effectively monitor on a ongoing basis its investment managers; and

WHEREAS, the Investment Policy Statement stipulates that any investment manager that has a rolling three year total fund return (gross of fees) that is less than the manager's market index be placed on the watch list; and

WHEREAS, the Board of Trustees, at its September 15, 2005 Regular Board Meeting, placed Oppenheimer Capital ("Oppenheimer") on its watch list, and

WHEREAS, the Manager's Termination Procedures, outlined in the Investment Policy Statement says that shorter-term performance should incorporate a time period of at least three years and that if a money manager fails to generate a return in excess of the 40th percentile return of the appropriate style group, then the Board may decide to terminate its contract with the manager, and

WHEREAS, according to Gray & Company's quarterly Performance Report Period Ending December 31, 2006, Oppenheimer is in the 100th percentile for one year in the Gray & Company Mid Cap Value Equity Universe and has trailed its benchmark since inception three years ago, and

WHEREAS, the Investment Policy Committee, along with its Investment Consultant, Gray & Company, recommends that, Oppenheimer be given a notice of termination, therefore be it

RESOLVED, that Oppenheimer Capital be terminated as soon as administratively possible, and

FURTHER RESOLVED, that the Executive Director transfer 50% of Oppenheimer's Account to an S&P 400 Mid Cap Index Fund and the remaining 50% to a Russell 2500 Mid Cap Index Fund with either Northern Trust Company or State Street as approved by the Executive Director subject to the negotiation of best cost and approval of appropriate contracts, and

FURTHER RESOLVED, that the appropriate Board signatories be authorized to execute any and all required documents to carry out the Board's directives provided by this resolution, and

FURTHER RESOLVED, that the Executive Director, upon review and recommendation of Gray & Company, is authorized to utilize a transition manager to obtain the best execution cost in liquidating Oppenheimer's holdings.

It was **moved** by Sylvester and **seconded** by Kahan to approve the resolution to Terminate Oppenheimer Capital as soon as administratively possible, and direct that the Executive Director transfer 50% of Oppenheimer's Account to an S&P 400 Mid Cap Index Fund and the remaining 50% to a Russell 2500 Mid Cap Index Fund.

Approved

D-4 Proposed Addendum Letter from Thornburg Investment Management

Ms. Sylvester stated that the Investment Policy Committee, along with Gray & Company, recommends approval of the addendum letter dated February 12, 2007, by which several terms and conditions are listed as overriding provisions within the Investment Policy Statement. All items listed by Thornburg Investment Management are within the scope and limitations of the Statement with the exception of the following item:

- Emerging market exposure will typically be limited to 30% of the portfolio value

This request exceeds the allowances of the Statement, which limits exposure to non-EAFE securities up to 15% of the total portfolio. Gray & Company's opinion is that since the manager will utilize this increased limitation opportunistically in an effort to increase the overall performance of the Fund, the request is supported.

It was **moved** by Kahan and **seconded** by Crawford to approve the proposed addendum letter from Thornburg Investment Management.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Executive Report – February 15, 2007

PROPOSED ORDINANCE CHANGES

Staff received a fax on January 25, 2007 from Gabriel Roeder Smith & Company stating that the proposed ordinance changes for both the Duty Death and Post Retirement Benefit Increase as "...amended ...will have no material effect on contributions or liabilities to the Retirement System."

The letter from Gabriel Roeder Smith & Company was provided to comply with Michigan Public Act 728 of 2002 Sec. 20h. (3), which requires that a System provide a supplemental actuarial analysis of any proposed pension benefit change to the Board and to the decision-making body (City Council) at least 7 days before adoption.

Upon receipt of the letter, staff immediately forwarded the information to the City Attorney's Office asking them to expeditiously forward the proposed ordinance changes to Council. A meeting was requested for Tuesday, February 13, 2007 from 10:00 a.m. to 11:00 a.m. with the Attorney's Office.

NEW INTERNATIONAL EQUITY MANAGERS

On December 21, 2006 the Board of Trustees approved contracts with Fisher Investments Institutional Group and Thornburg Investment Management. The contracts with Fisher Investments Institutional Group have been fully executed. Funding of \$21,225,000.00 took place for Fisher Investments on February 1, 2007. It is still unclear when funding will occur for Thornburg since there are some concerns from Thornburg regarding the Board-approved Investment Policy Statement and Manager Guidelines. Legal counsel is reviewing the matter. Thornburg said they would forward to the Retirement Office a letter requesting waivers of certain requirements of the Investment Policy Statement from the Board of Trustees. At this time it looks like the earliest for funding for Thornburg would be March, but it could be April or later. In the interim the approximately \$21 million will remain invested with Morgan Stanley.

RETIREMENT SYSTEM & VEBA TRUST PRESENTATIONS TO CITY COUNCIL

As discussed at the January Board meeting, the annual Working Session with City Council has been scheduled for Monday, March 12, 2007 at 7:00 p.m. in the City Hall Council Chambers.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended January 31, 2007

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended January 31, 2007, to the Board of Trustees:

1/31/2007 Asset Value (Preliminary)	\$433,649,620
12/31/2006 Asset Value (Audited by Northern)	\$405,135,493
Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>)	\$3,530,847
Percent Gain <Loss>	0.8%
February 14, 2007 Asset Value	\$440,099,954

F-3 Investment Policy Committee Reports – None

The February 13, 2007 Investment Policy Committee Report will be presented at the March 15, 2007 Board meeting. Ms. Sylvester stated that in the near future, the Committee should take a long-term view of the year ahead and look at the decision-making process, whether it's hiring/firing managers or asset allocation. Mr. Powell noted that the Money Manager Forums will be held on Tuesday, May 1, 2007 (Equity Managers) and on Tuesday, September 11, 2007 (Fixed Income & Real Estate Managers). Each are all-day sessions to be held at the Sheraton in Ann Arbor. Mr. Powell added that all other Committee meetings besides IPC will be cancelled for those two dates. Mr. Heatley stated that at the March IPC meeting, he would like the Committee to discuss the forestry/forest products allocation that was also discussed at the Retreat in January.

F-4 Administrative Policy Committee Reports – February 13, 2007

Following are the Administrative/Personnel Committee minutes from the meeting convened at 2:36 p.m. on February 13, 2007:

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

LAPTOP COMPUTER USE POLICY (DRAFT)

The Committee reviewed the City's computer use policy as revised by Mr. Powell, and decided to adopt the policy with the revisions.

It was **moved** by Heatley and **seconded** by Crawford to adopt the City's computer use policy as revised.

Approved

ADJOURNMENT

It was **moved** by Heatley and **seconded** by Crawford to adjourn the meeting at 2:37 p.m.

Meeting adjourned at 2:37 p.m.

F-5 Special Projects Committee Report – February 13, 2007

Following are the Special Projects Committee minutes from the meeting convened at 1:05 p.m. on February 13, 2007:

Committee Members Present: Boonstra, Crawford, Heatley (1:35), Kahan
Members Absent: Pollock, Sylvester
Other Trustees Present: None
Staff Present: Kluczynski, Powell, Refalo
Others Present: John Shipman, Milliken Realty Company

Q&A SESSION WITH JOHN SHIPMAN, MILLIKEN REALTY COMPANY

Mr. Shipman discussed available office condominiums in the local Ann Arbor area. The Committee discussed office requirements such as size and parking, as well as the differences between multiple condominium buildings and stand-alone buildings. Mr. Shipman gave a brief history of his firm, which deals exclusively with commercial real estate. The Committee asked Mr. Shipman to further research some of the properties and report back with any additional properties that become available in the near future.

UPDATED LEASE VS. BUY CASH FLOW ANALYSES

Mr. Powell reviewed the lease vs. buy cash flow analyses, and the Committee decided that clearly it would be more beneficial to purchase property rather than to continue to lease, and it also appears that borrowing the money would be more cost-effective. Mr. Powell was asked to check with legal counsel to find out if it is legal for the System to borrow money.

PROJECTED TIMELINE FOR PURCHASE OF OFFICE SPACE

The Committee discussed a proposed timeline to determine the steps to generate targets for purchasing future office space. The Committee decided it would like to review more available properties, bring in another broker's perspective at the March SPC meeting, and at that meeting, to create a list of priorities for future office space and space needs.

ADJOURNMENT

It was ***moved*** by Boonstra and ***seconded*** by Crawford to adjourn the meeting at 2:36 p.m.
Meeting adjourned at 2:36 p.m.

F-6 Legal Reports – No Report

G. INFORMATION

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 March Planning Calendar

The March Planning Calendar was received and filed.

G-3 Vendor Contacts - None

G-4 Annual Board Retreat Notes

The Annual Board Retreat Notes were received and filed.

H. TRUSTEE COMMENTS

Ms. Sylvester stated that in the near future, the Board should take a holistic view of what it is doing and not get too involved in the day-to-day or month-to-month topics, but take a broad view of our policies and what we have in the Fund.

Mr. Heatley stated that in speaking with Tom Gantert of the Ann Arbor News, he is requesting a response from the Board regarding the future funding of retiree healthcare costs. Mr. Powell stated that he could also check with GRS to see how the System compares to other communities that also have a VEBA Trust for inclusion in the Board's response. Mr. Kahan stated that the Board's response should be relatively simple and it would be important to find funding levels of comparable systems throughout the state and/or region if it is readily available, and it would be important to emphasize that we are one of the few pension systems in the state/region that pre-funds healthcare to the tune of \$62 million. Mr. Gantert has indicated that the article should be published soon.

I. FUTURE AGENDA ITEMS - None

J. ADJOURNMENT

It was ***moved*** by Sylvester and ***seconded*** by Kahan to adjourn the meeting at 10:29 a.m.
Meeting adjourned at 10:29 a.m.

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