

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
June 21, 2007**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:37 a.m.

ROLL CALL

Members Present: Boonstra, Carter, Crawford, Heatley, Kahan, Nerdrum, Pollock, Sylvester
Members Absent: Fraser
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel
David Kausch, Gabriel, Roeder, Smith & Company
Jeff Rentschler, City Retiree
Douglas Smith, City Retiree
Wes Prater, City Retiree
Barb Prater
Susan Niedzielski, City Retiree
E.L. Weathers, City Retiree (9:50 a.m.)
Charles Helppie, Echelon Wealth Management, LLC

AUDIENCE COMMENTS

Mr. Rentschler stated that he may have comments and/or questions during Item E-2, Proposed Benefit Increase for Retirees.

A. APPROVAL OF REVISED AGENDA

Mr. Powell asked that Item E-2, Proposed Benefit Increase for Retirees, be moved on the agenda for discussion prior to Item D, Executive Session, in order to accommodate Mr. Kausch from Gabriel, Roeder, Smith & Company, as well as the attending retirees. Mr. Powell also noted the following revisions to the agenda:

- C-3 Authorization for Payment of Invoices – New invoices added to resolution
- C-4 Chris Heatley added to the Conference/Training Resolution
- G-6 Two FOIA's received since packet distribution

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

B. APPROVAL OF MINUTES

B-1 May 17, 2007 Regular Board Meeting Minutes

It was **moved** by Heatley and **seconded** by Boonstra to approve the May 17, 2007 regular Board Meeting minutes as presented.
Approved

C. CONSENT AGENDA

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

Preliminary Retirement Resolutions - None

Final Retirement Resolutions

C-1 Approval of the Application for Deferred Retirement of Susan Cameron

WHEREAS, Susan Cameron (Participant) has submitted an application for a deferred retirement to the Board of Trustees requesting an effective retirement date of June 11, 2007, and

WHEREAS, said Participant has been credited with 7 years and 2 months of service credit, and

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

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

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

WHEREAS, said Participant has elected to receive the Straight-Life Option – Terminating at Death, and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that a deferred retirement is hereby granted to **Susan Cameron** (Participant), effective June 11, 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.

C-2 Approval of the Application for Deferred Retirement of Elizabeth Walton

WHEREAS, Elizabeth Walton (Participant) has submitted an application for a deferred retirement to the Board of Trustees requesting an effective retirement date of July 30, 2007, and

WHEREAS, said Participant has been credited with 14 years and 8.5 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 an Option II – 100% Joint & Survivor (Pop-Up) form

of benefit (and nominated James Walton 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 deferred retirement is hereby granted to **Elizabeth Walton** (Participant), effective July 30, 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 (\$ 80,247.44)

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.

	PAYEE	AMOUNT	DESCRIPTION
1	301 E. Liberty LLC	4,875.98	Office Lease (including monthly escalation fee)
2	Republic Parking System	375.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – May 2007
4	SBC / AT&T	245.44	Monthly Telephone Service - 4/14/07 – 5/13/07
5	Arbor Springs Water Co., Inc.	11.50	Monthly Water Service
6	Republic Parking System	96.85	Monthly Parking Validation Fee
7	AT&T	66.79	Monthly Toll-Free Telephone Service
8	Qwest	6.19	Monthly Long-Distance Telephone Service
9	301 East Liberty LLC	90.17	Monthly Electric Charge – 5/02/07-6/04/07

10	Lora Kluczynski	184.42	Petty Cash Reimbursement
11	VanOverbeke, Michaud & Timmony, P.C.	8,092.55	Legal Service Fees – 1/1/07–3/31/07
12	Zingerman’s Catering	116.00	LRS/Pension Gold Training on 5/23/2007
13	Levi, Ray & Shoup, Inc.	965.34	Travel expenses for LRS Representatives, May ‘07
14	Medical Evaluation Specialists	990.47	Medical Evaluation of Jeffrey Harmon – 5/23/2007
15	Oppenheimer Capital	47,896.84	Investment Mgmt. Fees: 4/1/07 – 5/11/07
16	Transition Imaging, LLC	1,139.38	Document Imaging Services
17	Staples Business Advantage	75.38	Miscellaneous Office Supplies
18	Gabriel Roeder Smith & Company	7,250.00	Actuarial & Consulting Services: 4/1/07-6/30/07
19	City of Ann Arbor Treasurer	13.17	Municipal Code Electronic Updates
20	Jeffrey Kahan	5.97	Reimbursement for 2007 Spring MAPERS Conf.
TOTAL		80,247.44	

C-4 Authorization For Conference/Training – Opal’s 2007 Real Assets Investing Forum, September 6-7, 2007 – Jeffrey Kahan, Chris Heatley

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, Jeffrey Kahan and Chris Heatley have requested the Board of Trustees’ authorization for their travel to San Francisco, California, at Retirement System expense, estimated at \$ 3,200.00, to attend the Opal Real Assets Investing Forum, to participate in continuing education in their responsibility as Board Trustees and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the travel requests of Jeffrey Kahan and Chris Heatley to travel to San Francisco, California, at Retirement System expense, estimated at \$ 3,200.00, to attend the Opal Real Assets Investing Forum, to participate in continuing education in their responsibility as Board Trustees, and

FURTHER RESOLVED, that Jeffrey Kahan and Chris Heatley 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 revised

E-2 Proposed Benefit Increase for Retirees (Moved ahead on the agenda)

Mr. Kausch reviewed the July 1, 2007 Updated Benefit Increase Study dated June 11, 2007. Mr. Kausch and Mr. VanOverbeke explained how the various accounts involved operate between the Retirement System and the City.

It was **moved** by Heatley and **seconded** by Kahan to move that the Board of Trustees approve a one-time 2% increase in the retirement allowances of eligible retirees and beneficiaries as of July 1, 2007, and to assist in meeting the estimated \$470,000 actuarial cost of such increase, approve a special transfer of \$470,000 from the Pension Adjustment Account to the Retirement Reserve Fund as of July 1, 2007, and leave the Pension Contingency Reserve at zero as of July 1, 2007.

This increase would be paid in the form of a one-time “bonus” payment to retirees. Mr. Heatley stated that he understands there is an ongoing cost to making a payment of this nature, and the Board has been fortunate to have a couple of real good years and it has been at least two years since the retirees have received a raise, and the System is up over \$50 million in the first eleven months of this fiscal year. Mr. Heatley feels that to pay \$470,000 to the retirees who built this fund, is not asking too much of this Board. Mr. Crawford stated that he is conflicted because he had recently supported the motion at the May Board meeting, and since hearing further explanations of the account operations; he believes that it would be more beneficial to place this amount of money into the VEBA Trust, for long-term healthcare funding. Mr. Kahan asked which fiscal year the retirees last received a benefit increase. Mr. Powell stated that it was the 2003-2004 fiscal year.

Mr. Pollock stated that he agrees with Mr. Crawford, and when looking at the potential funding issues and the ability to take that money and fund the VEBA, arguably most retirees have real physical issues, and he believes that financially overall, that is the best use for the money long-term. Mr. Heatley stated that the Board agreed to separate these issues months ago, so he believes with the recent investment performance, and the fact that when the year 2001 is dropped off from the 5-year rolling average, the picture will look significantly better at the end of this fiscal year. Mr. Heatley stated that for the Board to sit on a \$50 million gain in the Retirement Fund and not be willing to spend a very little percentage to give the retirees this bonus would not be prudent on the Board’s part not to reward the retirees at the same time the System is being rewarded for significant gains, they deserve to be rewarded as well. Mr. Heatley stated that he believes it is very prudent for the Board to have taken this approach as opposed to going with the ongoing raise that has been done in the past, this approach has never been done before and it is very prudent to allow this one-time payment.

Mr. Pollock stated that since it is a nominal amount, perhaps waiting to see what happens when 2001 is rolled off, and that it may show to be more meaningful to the retirees long-term. Ms. Carter stated that she will not be voting on the motion due to her being a City retiree and believes it would be a conflict of interest because she would gain financially if the motion would pass. Ms. Carter stated that her concern is that there are recent retirees who are making considerably more than the longer-term retirees who are struggling, so the 2% across the board bothers her because it doesn’t take into account the process the Board was trying to do before by helping the longer-term retirees. After further discussion, the Board decided to call the vote:

Roll call vote on Mr. Heatley’s previous motion:

Boonstra - Yes	Fraser - Absent	Nerdrum - Yes
Carter - Abstain	Heatley - Yes	Pollock - No
Crawford - No	Kahan - Yes	Sylvester - Yes

Motion passes 5-2

D. EXECUTIVE SESSION – Disability Evaluation

It was **moved** by Kahan and **seconded** by Pollock to convene an executive session for the purpose of discussing the disability retirement application submitted by Jeffrey Harmon.

Roll call vote:

Boonstra - Yes
Carter - Yes
Crawford - Yes

Fraser - Absent
Heatley - Yes
Kahan - Yes

Nerdrum - Yes
Pollock - Yes
Sylvester - Yes

Approved

Executive session time: 9:15 – 9:48 a.m.

E. ACTION ITEMS

E-1 Disability Discussion

It was **moved** by Boonstra and **seconded** by Carter to acknowledge receipt of the medical report from Joseph E. Burkhardt, D.O., dated May 23, 2007 with regards to the disability application of Mr. Jeffrey Harmon, that the Board grant the disability retirement noting the Board's desire that Mr. Harmon undergo a medical re-examination in six months consistent with the doctor's recommendation and conclusion that the disability may not be permanent, and that he may be better in six months, and further that the Board grant this as a duty-disability retirement subject to review by the Executive Director of Mr. Harmon's incident reports and a memo to the file indicating that there are no issues with regards to whether or not this was out of and in the course of employment with the City of Ann Arbor.

Approved

E-2 Proposed Benefit Increase for Retirees

Moved for discussion prior to Item D, Executive Session.

E-3 Proposed Pay Adjustment for Executive Director

Mr. Boonstra reviewed the following resolution as submitted by the Administrative Policy Committee:

RE: Resolution to Approve Executive Director's Salary Adjustment Effective July 1, 2007

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

WHEREAS, The Board of Trustees identified some specific goals and objectives for the Executive Director for fiscal year 2006-2007, and

WHEREAS, The Executive Director has successfully completed the goals and objectives assigned to him by the Board, and

WHEREAS, The Administrative Policy Committee, along with written input from Trustees of the Board, has evaluated the Executive Director and agrees that the Executive Director has satisfactorily discharged his duties as Executive Director over the last fiscal year, and

WHEREAS, The Administrative Policy Committee recommends that the Executive Director salary be adjusted upward by 3% effective July 1, 2007, be it

RESOLVED, That the Board adjusts the Executive Director salary upward by 3% effective July 1, 2007, and

FURTHER RESOLVED, That the Administrative Policy Committee and the Executive Director jointly

develop specific performance objectives to be approved by the Board for fiscal year 2007-2008.

It was **moved** by Boonstra and **seconded** by Carter to approve the Resolution to Approve Executive Director's Salary Adjustment Effective July 1, 2007.

Approved

Mr. Boonstra asked for the Board's input as to future goals and objectives for Mr. Powell, and Ms. Sylvester added that it was the APC's desire to have each of the Trustees submit at least one goal that could be assigned to Mr. Powell if possible.

F. DISCUSSION ITEMS

F-1 July Board Meeting During Art Fair

Mr. Pollock had asked for this item to be placed on the agenda in case the Board wanted to change the July meeting date due to parking issues during the annual Art Fair. Mr. Pollock stated that since most Trustees are already downtown, that this is a non-issue, and the Board decided to leave the date as scheduled, for July 19, 2007.

F-2 Real Estate Discussion Items: 1) Board as Landlords, 2) Approval of Price/Area Range

Mr. Kahan stated that this item has been placed on the agenda by the Special Projects Committee after their discussion as to whether the Board would be interested in leasing out a portion of its space if it finds property that is larger than what the System needs, as well as the SPC's desire to have a price and area range approved in order to give to Mr. Wise with Swisher Commercial Real Estate so that he knows what kind of price range in properties to present to the Committee. Mr. Kahan advised the Board of a property on S. Main Street that it has been considering as an example of what kind of price and area range the System is reviewing. Ms. Sylvester added that Mr. Wise had explained the additional costs involved with new construction, including basic electrical and phone wiring, as well as walls and partitions. A discussion ensued regarding the S. Main property and other possibilities after Mr. Wise presents additional information at future meetings.

Mr. Powell stated that at the May meeting, the Board had approved a one-year lease with Larson Realty and asked him to attempt to further negotiate a month-to-month extension clause or a percentage-out clause. Mr. Powell stated that in speaking with the representative from Larson, they are unwilling to provide those options in the current proposed lease agreement, but they are keeping the current rates for the upcoming year. Mr. Powell asked the Board if it wishes to have Ms. Sylvester sign the proposed agreement without the additional clauses. The Board agreed to sign the one-year lease extension.

A discussion ensued regarding the possibility of the Retirement Office utilizing space in the City Center Building in the interim of buying future property. It was decided that to uproot and move the entire office would be a massive disruption of daily operations and would not be practical or financially beneficial for that short-term period of time.

Mr. Kahan asked the Board if it agrees to the rough dollar amount as discussed, using the S. Main property as an example. The Board agreed. The Board discussed the possibility of leasing out space in the future if need be, and it was decided that at this time, the Board does not want to enter in to that option, unless a "perfect" property is found that would accommodate the Board and still have much extra space.

G. REPORTS

G-1 Executive Report – June 21, 2007

LARSON REALTY

At the April 19, 2007 Regular Board Meeting, the Board approved a one-year lease agreement with Larson Realty from September 1, 2007 through August 31, 2008 with the base rent of \$24.00 per sq.ft (\$4,324.00 monthly) remaining unchanged from the current lease rate (please refer to the lease proposal on the next page). However, the Board directed the Executive Director to further negotiate a month-to-month or a percentage-out clause in the contract. The Larson Realty Group has been unwilling to add a month-to-month or a percentage-out clause in the contract. The information below is taken from an e-mail from the Larson Realty Group explaining their position:

“... I spoke with Eric Larson about the early termination after the eighth month which we would allow, however, we can not agree to a fee less than the amount owed for the entire lease period. In other words, City of AA would still be responsible/obligated to pay the amount owed under the full term; it would be your choice on whether or not to move-out early. We typically do not allow for early terminations; the few rare cases have all been for longer term leases (i.e. 7 – 10 year terms).”

My recommendation is that we execute the proposed lease amendment without a month-to-month or percentage-out clause.

MID-CAP INDEX FUND

The Oppenheimer portfolio was liquidated during the week of May 21, 2007. The System purchased the S&P 400 Mid-Cap Index at Northern Trust and the Russell Midcap Index at Rhumblin. As of June 13, 2007 the System's S&P 400 Mid-Cap was valued at \$40.7 million and the Russell MidCap at \$40.8 million.

PENSION GOLD

Pension Gold representatives came to the Retirement Office for two days and conducted a training session on the new administrative software with the staff. Staff is conducting very extensive testing on the new administrative software. The testing will likely run through the end of June. Parallel testing of the new software is scheduled to begin on July 1, 2007. A parallel run is where the new system will run a designated batch of data and the old system will run the same data. The new system is then compared with the old system for accuracy.

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

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

5/31/2007 Asset Value (Preliminary)	\$455,041,208
4/30/2007 Asset Value (Audited by Northern)	\$446,587,458
Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>)	\$11,026,621
Percent Gain <Loss>	2.5%
June 20, 2007 Asset Value	\$450,576,067

G-3 Investment Policy Committee Reports – June 12, 2007

Mr. Heatley reviewed the following IPC minutes:

Following are the Investment Policy Committee minutes from the meeting convened at 3:07 p.m. on June 12, 2007:

Member(s) Present: Boonstra, Heatley, Kahan (3:16), Sylvester
Member(s) Absent: Pollock
Other Trustees Present: None
Staff Present: Jarskey, Powell, Refalo
Others Present: Gwelda Swilley-Burke, Gray & Company

JP MORGAN DISCUSSION ON INFRASTRUCTURES

Clarence Lewis, Jr., Vice President
Michael O'Brien, Managing Director

Mr. Lewis introduced himself and stated that he is the investment point contact for a number of public funds in the Michigan area and some outside of the area. Mr. Lewis has been in the business for 20 years, and Mr. O'Brien heads up all of the marketing and client relations for JP Morgan Real Estate capabilities. Mr. Lewis stated that Infrastructures is a new asset class to the United States, and in less than twelve months they have grown the fund to over \$900 million in assets and have exceeded the billion-dollar mark to date. JPMorgan Chase and its heritage organizations have been doing business in Michigan since 1854, and are committed to strengthening the local communities where they operate. They have 4,974 employees in the State of Michigan, and 125 employees in the Ann Arbor area.

Commitment to Michigan:

- *Contributed more than \$4.8 million to Michigan charities in 2006*
- *Provided 18,000 mortgage loans totaling \$2.5 billion in 2006*
- *Provided more than \$258 million in community development loans and investments in 2006*
- *Originated more than 48,000 small business loans totaling \$923 million in 2006*

Mr. Lewis stated they have \$1,053.3 trillion in assets under management as of March 31, 2007:

- *\$496.4 billion in fixed income*
- *\$362.1 billion in equity*
- *\$91.8 billion in asset allocation*
- *\$103.0 billion in real estate and alternatives*

Mr. O'Brien explained infrastructure as essential facilities and services, upon which the economic productivity of a community depends, and assets involved in the movement of goods, people, water and energy. Mr. O'Brien stated that it makes good sense for a pension system to have this alternative investment included in their portfolio.

Examples of assets:

- Transportation Assets: *Bridges and tunnels, toll roads, railroads, rapid transit links, airports, seaports.*
- Regulated Assets: *Electricity transmission, oil and gas pipelines, electricity and gas distribution, water distribution, wastewater collection and processing systems.*

Overview of JPMorgan Infrastructure Investment Fund

- *Focus on infrastructure assets that offer the greatest protection against inflation, e.g. transportation and regulated assets*
- *Approximately 40-60% North America, 25-40% Western Europe, and 10-20% other OECD countries*
- *Typically have stable returns and potential for growing cash flow, targeting a net 10-12% IRR*

- Majority of return from cash yield, with opportunity for modest capital appreciation
- Long-term strategy supported by a perpetual-life structure

Investment strategy: The Fund will invest in the core to value-added areas of the risk-return spectrum, with a focus on core plus assets, representing approximately three-quarters of the opportunities in OECD countries.

Mr. O'Brien noted that the correlation is low to other assets, there is a low turnover of assets, and most returns come from long, predictable cash flow streams. Mr. O'Brien stated that they have structured their fund as an open-ended infinite life vehicle, where they buy the concessions on the assets with the expectation that they are going to hold them for a very long time, and for the individual investors that participate in the fund, there is a liquidity mechanism that after the first four years there is no cost with putting in a redemption request. This presentation was concluded after a brief question and answer session.

ING CLARION – COMMERCIAL MORTGAGE BACKED SECURITIES

Scott D. Harris, CRE, MAI, Director

Mr. Harris provided an executive summary, which indicates that the target base case net return of the ING Clarion Debt Opportunity Fund II is 15+%.

Investment Objective: The Fund's investment objective is to achieve significant capital appreciation and current income by investing in a diversified portfolio of real estate debt investments, including:

- Subordinate CMS
- B-notes
- Mezzanine loans
- CDOs

Key Terms:

- Target fund size: \$500 million
- \$25 million co-investment
- Final close: September 2007
- Commitment period: 3 years from final close
- Expected life of fund: 6 years from final close

ING Clarion Debt Opportunity Fund 1 has realized a net cash flow return of 23% to date. Mr. Lewis stated that ING Clarion is the world's largest real estate advisor with \$826.0 billion in assets under management. ING Clarion has nationwide market coverage through a network of regional and local offices:

- 34 offices throughout the U.S. (including 10 regional offices)
- Over 550 employees located throughout the U.S.
- More than 800 investments in markets throughout the U.S.
- Global research team of 40 (including 14 in the U.S.)

ING Clarion Capital Overview

The principals of ING Clarion Capital have been analyzing, structuring or investing in real estate related and structured products since 1986.

- SEC Registered Investment Advisor formed in 1995
- Team of 34 professionals based in New York
- Seasoned portfolio management team:

- Daniel Heflin and Stephen Baines (senior portfolio managers) each have over 20 years of experience
- The 5 portfolio managers have an average of 13 years of experience
- More than \$3 billion in assets under management in high yield and investment grade strategies including:
 - Core/Core Plus
 - High Yield
 - Long/Short
 - Opportunistic

Mr. Harris reviewed the portfolio's composite performance, stating that their fundamental investment approach has led to outperformance of industry benchmarks. The strong portfolio performance of the ING Clarion Debt Opportunity Fund 1 led to a net IRR of 23% to investors to date. ING Clarion Capital believes that market conditions are favorable for high yield real estate debt investments. Mr. Harris reviewed the various performance charts in the report.

ING Clarion Debt Opportunity Fund II – Summary

Objective: Achieve 15+% base case net returns by investing a portfolio of commercial real estate related debt

Acquisition Approach

- Source deals through longstanding relationships
- Evaluate preliminary cash flow analysis to screen collateral
- Perform due diligence
 - Site visits
 - Legal review
 - Bond/Rating Agency modeling
- Negotiate final pool and terms

Portfolio Management Approach

- Diversify portfolio
- Moderately leverage
- Hedge against interest rate effects
- Utilize securitization to maximize returns
- Perform continuous surveillance

Mr. Harris noted that a lot of pension funds place this product in their fixed income portfolio rather than the real estate portfolio. Mr. Harris briefly discussed infrastructures, and stated that ING does not have a U.S. infrastructure fund yet, and the one they have right now is strictly European.

GLOBAL TRANSITION SOLUTIONS – TRANSITION REPORT

Katherine Menard, Regional Director
John T. Place, Chief Executive Officer

Mr. Place stated that GTS is a transition brokerage-trading consultant in New York, and are based in Philadelphia. GTS provides two plans to fiduciaries, and their sole purpose for existing is to provide them non-conflicting guidance in the area of transition management and program trading. As the industry's only independent transition management advisor, GTS has developed a transition trade performance evaluation process geared specifically towards selecting the most qualified transition broker(s).

Ms. Menard reviewed the following executive summary:

Global Transition Solutions (GTS) has completed the following post-trade analysis for the domestic equity transition on behalf of the City of Ann Arbor Employees' Retirement System. The transition involved:

- The reallocation of approximately \$74.5 million from one separately managed terminated fund

- manager to fund two new portfolios.
- GTS coordinated all pre-transition processes with the underlying custodian, fund managers, and other interested parties associated with this transition.
- GTS also managed the coordination process between the custodian and fund managers with respect to all transfers, funding and settlements of trade activity.

Ms. Menard reviewed the trading process for the Committee, including the market environment, trading attributes, broker selection, and transition costs.

The Committee discussed hiring GTS for future transitions, and decided to place this item for discussion on the IPC agenda for July 10, 2007.

ADJOURNMENT

The meeting was adjourned at 5:04 p.m.

G-4 Administrative Policy Committee Reports – June 12, 2007

Following are the Administrative/Personnel Policy Committee minutes from the meeting convened at 2:00 p.m. on June 12, 2007:

Committee Members Present:	Boonstra, Carter, Heatley (2:44), Sylvester
Members Absent:	Crawford
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell
Others Present:	None

EXECUTIVE SESSION: EXECUTIVE DIRECTOR EVALUATION

It was **moved** by Boonstra and **seconded** by Sylvester to convene an Executive Session for the purpose of conducting the annual performance evaluation for Willie Powell, Executive Director.

Roll call vote:

Boonstra - Yes	Heatley - Absent
Carter - Yes	Sylvester - Yes
Crawford - Absent	

Executive session time: 2:01-2:49 p.m.

It was **moved** by Boonstra and **seconded** by Sylvester to recommend that the Board of Trustees approve a 3% pay increase to Mr. Powell effective July 1, 2007.

Approved

BOARD GOVERNANCE POLICIES

Mr. Boonstra stated that this item will be postponed until the July 10, 2007 APC Meeting due to time constraints.

POVERTY INCREASE DISCUSSION

Mr. Boonstra stated that this item will be postponed until the July 10, 2007 APC Meeting due to time constraints.

ADJOURNMENT

Meeting adjourned at 2:52 p.m.

G-5 Special Projects Committee Report – June 12, 2007

Following are the Special Projects Committee minutes from the meeting convened at 1:08 p.m. on June 12, 2007:

<i>Committee Members Present:</i>	<i>Boonstra, Kahan, Sylvester</i>
<i>Members Absent:</i>	<i>Crawford, Heatley</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Kluczynski, Powell, Refalo</i>
<i>Others Present:</i>	<i>Bart Wise, Swisher Real Estate</i>

SESSION WITH BART WISE, SWISHER COMMERCIAL REAL ESTATE

The main discussion at this month's meeting was the property at 2080 S. Main Street. Mr. Wise also provided information on seven additional sites including 505 E. Huron, a condominium in downtown Ann Arbor. The Committee decided that this site was too pricey and large. Mr. Wise stated he had a lot of positive feedback regarding the property at 2080 S. Main Street after the recent site visit, and submitted the following comments:

- Price – low sale price, at \$540,000, because of flexibility in building size.*
- Appearance – Committee members prefer the building style over W. Stadium and S. Maple.*
- Free Standing – other than W. Stadium, this is the only free standing option.*
- Timing – with Summer/08 expiration of current lease, the timing fits well for new construction at 2080 S. Main.*
- Location – the S. Main address makes it easier for members to find, yet on-site parking is better than downtown.*

It was suggested that if an offer were going to be made for 2080 W. Stadium, it would be for \$200 per square foot. Ms. Sylvester stated that before making a recommendation to the Board of Trustees, she would like to review an analysis showing the results of financing vs. paying cash for the property.

Other items to be considered and discussed at the next SPC meeting:

- Tax exempt status*
- Additional properties that may come up before the July 10th SPC Meeting*
- What is included in the price: “vanilla box” vs. shell of building*
- Ask the Board how it feels about being landlords if a portion of a property is leased out (discussion item for the June 21st Board meeting).*
- Seek Board approval for a price and area range, rather than a set price*

ADJOURNMENT

Meeting adjourned at 1:55 p.m.

G-6 Legal Report – FOIA Requests

Mr. VanOverbeke reviewed the two following FOIA Requests that were received within the last week:

- 1) International Coal Group
- 2) WXYZ-TV

Mr. VanOverbeke stated that Mr. Powell will be sending letters to both of the representatives of the above entities, requesting a 10-day extension for each FOIA. Mr. VanOverbeke stated that his office is working on these requests and will provide reports at a future meeting.

H. INFORMATION

H-1 Communications Memorandum

The Communications Memorandum was received and filed.

H-2 July Planning Calendar

The July Planning Calendar was received and filed.

H-3 Vendor Contacts - None

H-4 News Article, "Office Builders Feeling the Pinch", Submitted by Jeff Kahan

The Board acknowledged the news article submitted by Mr. Kahan.

I. TRUSTEE COMMENTS

Ms. Carter submitted and reviewed her report regarding the recent 2007 Annual NCPERS Conference that she attended in May, and submitted conference materials for the Trustees' review.

Mr. Pollock advised the Board that he will be out of town on business during the next Board meeting in July, and will not be able to attend.

J. FUTURE AGENDA ITEMS - None

K. ADJOURNMENT

It was **moved** by Heatley and **seconded** by Crawford to adjourn the meeting at 10:41 a.m.
Meeting adjourned at 10:41 a.m.

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

