

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

The meeting was called to order by Chris Heatley, Vice-Chairperson, at 8:41 a.m.

ROLL CALL

Members Present: Boonstra, Carter, Crawford, Heatley, Kahan, Nerdrum, Pollock
Members Absent: Fraser, Sylvester
Staff Present: Jarskey, Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
Charles Helppie, Echelon Wealth Management, LLC

AUDIENCE COMMENTS

There were no audience comments presented.

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

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

B. APPROVAL OF MINUTES

B-1 February 15, 2007 Regular Board Meeting Minutes

It was **moved** by Boonstra and **seconded** by Crawford to approve the February 15, 2007 regular Board Meeting minutes as presented.
Approved

C. CONSENT AGENDA

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

Preliminary Retirement Resolutions - None

Final Retirement Resolutions

C-1 Approval of the Application for Service Retirement of Alan Aguas

WHEREAS, Alan Aguas (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of February 10, 2007, and

WHEREAS, said Participant has been credited with 30 years and 9 months of service credit (*which includes 4 years military 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 Marcia Agauas, 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 **Alan Agauas** (Participant), effective February 10, 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/Service Retirement of Heemstra

WHEREAS, **Ronald Heemstra** (Participant) has submitted an application for an early/service retirement to the Board of Trustees requesting an effective retirement date of February 17, 2007, and

WHEREAS, said Participant has been credited with 22 years and 3 months of service credit (*which includes 1 year reciprocal credit*), and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for an early/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 with pop-up form of benefit (and nominated Susan Heemstra, 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 an early/service retirement is hereby granted to **Ronald Heemstra** (Participant), effective February 17, 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 (\$ 24,432.18)

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	4,875.98	Office Lease (including monthly escalation fee)
2	Republic Parking System	315.00	Monthly Parking Fee
3	Gray & Company	7,750.00	Investment Consultant Retainer – February 2007
4	SBC / AT&T	213.41	Monthly Telephone Service - 1/14/07 – 2/13/07
5	Arbor Springs Water Co., Inc.	25.50	Monthly Water Service
6	Republic Parking System	72.65	Monthly Parking Validation Fee
7	Kolossos Printing, Inc.	462.96	Printing of Employee Handbooks
8	Kolossos Printing, Inc.	142.15	Printing of Annual Reports
9	301 E. Liberty LLC	26.73	Replacement of fluorescent bulbs
10	State Street Global Advisors	1,712.95	Investment Mgmt. Fees – 10/1/06-12/31/06
11	Gabriel, Roeder, Smith & Company	7,250.00	Actuarial & Consulting Services – 1/1/07-3/31/07
12	Transition Imaging, LLC	492.25	Document Imaging Services
13	Transition Imaging, LLC	929.75	Document Imaging Services
14	Qwest	9.50	Monthly Long-Distance Telephone Service
15	AT&T	153.35	Monthly Toll-Free Telephone Service
	TOTAL	24,432.18	

C-4 Authorization for Conference/Training – 18th Annual Pensions & Financial Services Conference (NASP), June 27-29, 2007 – Willie Powell

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System

(Retirement System) is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

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

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

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

WHEREAS, Willie Powell has requested the Board of Trustees' authorization for conference/training in New York, New York, at Retirement System expense, estimated at \$2,635.00, to attend the NASP 18th Annual Pension and Financial Services Conference, to participate in continuing education in his responsibility as Retirement System Executive Director and in keeping with Board policy, therefore it be

RESOLVED, the Board of Trustees authorizes the conference/training request of Willie Powell to travel to New York, New York, at Retirement System expense, estimated at \$2,635.00, to attend the NASP 18th Annual Pension and Financial Services Conference, to participate in continuing education in his responsibility as Retirement System Executive Director, and

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

C-5 Authorization for Conference/Training – Educational Tour of Timber Facility, April 15-17, 2007 – Chris Heatley, Jeff Kahan, & Nancy Sylvester

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

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

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

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

WHEREAS, Chris Heatley, Jeff Kahan, and Nancy Sylvester have requested the Board of Trustees' authorization for their travel to Atlanta, Georgia, at Retirement System expense, estimated at \$ 3,050.00, to attend a due diligence trip to a timber facility, and 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 Chris Heatley, Jeff Kahan, and Nancy Sylvester to travel to Atlanta, Georgia, at Retirement System expense, estimated at \$ 3,050.00, to attend a due diligence trip to a timber facility, to participate in continuing education in their responsibility as Board Trustees, and

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

Consent agenda approved as revised

D. ACTION ITEMS

D-1 Proposed Committee Members Listing

Mr. Powell noted that at the February Board meeting, the Trustees discussed Committee appointments; resulting in the following proposed Committee lists for approval at the March meeting:

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

It was **moved** by Boonstra and **seconded** by Kahan to approve the Committee member listing as proposed.

Approved

D-2 NCPERS Delegates & Alternates for Annual Conference

Mr. Powell noted that Ms. Carter is the only Trustee that will be attending the NCPERS Annual Conference in May.

It was **moved** by Boonstra and **seconded** by Pollock to authorize Stefani Carter to represent the Retirement System as a Delegate at the Annual NCPERS Conference in May 2007.

Approved

D-3 Proposed Laptop Computer Use Policy

Mr. Crawford presented the proposed Laptop Computer Use Policy as recommended by the Administrative Policy Committee. Mr. Crawford noted that the last page in the policy is a Computer User Statement that must be signed by everyone who will be obtaining a laptop and complying with the policy.

It was **moved** by Boonstra and **seconded** by Kahan to approve the proposed Laptop Computer Use Policy as recommended by the Administrative Policy Committee.

Approved

D-4 Trustee Participation at Meetings by Telecommunication Devices

WHEREAS, the Board of Trustees (the "Board") of the City of Ann Arbor Employee's Retirement System (the "Retirement System") is responsible for the general administration, management and operation of the Retirement System, and

WHEREAS, under extenuating circumstances there are times when Trustees who are unable to be physically present at a regular or special meeting of the Board are available to participate in the meeting via a telecommunication device, and

WHEREAS, the Board is desirous of adopting a policy whereby Trustees who are unable to attend a regular meeting or special meeting of the Board under certain circumstances shall be able to actively participate in the meeting without being physically present via an appropriate and effective telecommunication device, and

WHEREAS, the Board, in recognition of its desire for active participation, observation and discussion of its agenda items at its meetings, further wishes to limit those circumstances in which a Trustee or other designated individuals can remotely participate in its meetings, and

WHEREAS, the Board has discussed this matter with its legal counsel, therefore be it

RESOLVED, that participation in a meeting of the Board by Trustees, the Executive Director, the Board's advisors and consultants and/or other designated individuals through the use of a conference telephone or other similar device shall be used only under special circumstances.

RESOLVED, that such participation in a meeting by conference telephone or any similar communications equipment shall be in a manner through which all persons participating in the meeting, including members of the public who may be attending the meeting, can hear each other, and further

RESOLVED, that active participation in a meeting pursuant to this policy constitutes presence at the meeting whereby a physically absent Trustee may vote on any matter which may come before the Board, and further

RESOLVED, that it is the responsibility of a Trustee or other individual wishing to participate via a telecommunications device (i.e. telephone, interactive television, internet, etc.) to make appropriate arrangements for the successful use of that device at the meeting, and further

RESOLVED, that the minutes of the meeting shall reflect a Trustee's participation by telecommunication device where appropriate, and further

RESOLVED, that this policy shall be administered in accordance with the Open Meetings Act.

It was **moved** by Boonstra and **seconded** by Carter to accept the Trustee Participation at Meetings by Telecommunication Devices resolution as submitted.

Approved

D-5 Annual Employee & Retiree Newsletters

Mr. Powell presented the proposed annual employee and retiree newsletters. The Board discussed and made minor language changes to the "Future Funding for Retiree Healthcare" article on page three.

It was **moved** by Kahan and **seconded** by Pollock to approve the Employee and Retiree Newsletters as revised.

Approved

D-6 Recommendation to Utilize Swisher Commercial Realty as Broker for Future Office Location

Mr. Boonstra presented a recommendation from the Special Projects Committee to utilize Bart Wise from Swisher Commercial Realty as the System's broker to research future office space.

It was **moved** by Boonstra and **seconded** by Pollock to accept the recommendation to utilize Swisher Commercial Realty as the broker for the System's future office space.

Approved

D-7 Recommendation to Use Rhumblin Advisors for the Russell Mid Cap Index Fund

Mr. Powell stated that at the February 15th Board meeting, the Board approved a resolution to liquidate the holdings in Oppenheimer Capital's fund, equally dividing the money between an S&P 400 mid cap index and a Russell mid cap index with either State Street Global Advisors or The Northern Trust Company. Mr. Powell stated that Gray & Company, in contacting Northern Trust and State Street, have found that neither one has a Russell mid cap index that is a commingled or collective fund, but rather in a separate account, which can be more expensive. Gray & Company has contacted Rhumblin Advisors. Rhumblin Advisors uses State Street as their custodian bank. Rhumblin Advisors is proposing to charge 4.85 basis points for their Russell Mid Cap Index. Mr. Powell stated that Mr. VanOverbeke's office has received the contract documents for legal review.

Mr. Heatley stated that he appreciates Gray & Company's suggestion, but he is uncomfortable with approving this item and putting the funds with a company that the Board has never heard of before and has no background information for. After further discussion, the Board decided to send this item to the Investment Policy Committee for further review, and to give the IPC the authority to make a final decision regarding Rhumblin Advisors after their review.

It was **moved** by Kahan and **seconded** by Crawford to send this recommendation to the Investment Policy Committee for further review and authorize the Committee to make the final decision regarding Rhumblin Advisors after their review.

Approved

E. DISCUSSION ITEMS - None

F. REPORTS

F-1 Executive Report – March 15, 2007

THORNBURG INVESTMENT MANAGEMENT

On December 21, 2006 the Board of Trustees approved a contract with Thornburg Investment Management. The contract has been fully executed and funding occurred on March 1, 2007.

Thornburg was funded for \$21,225,000.00. Thornburg and Fisher both have now received \$21,225,000.00 each. The Morgan Stanley portfolio has been fully liquidated in order to fund Thornburg and Fisher.

NORTHERN TRUST SECURITIES, INC. COMMISSION MANAGEMENT PROGRAM

Per the Board's direction, Northern Trust has been added to the Retirement System & Retiree Health Care Benefits Plan's Commission Recapture Programs. Northern Trust replaced Capital Institutional Services, Inc. (CAPIS) as a commission recapture manager. Northern Trust has the ability to recapture commission dollars from both the equity and fixed income side. The Board elected to retain Donaldson & Company Institutional Stockbrokers as the other commission recapture manager. Northern Trust's participation in the commission recapture program became effective March 1, 2007.

TRANSITION MANAGEMENT

Gray & Company has been soliciting bids from transition managers to liquidate seventy-eight million dollars from Oppenheimer Capital. Bids were accepted through Wednesday, February 28, 2007. A transition manager will be selected once all the information is finalized regarding the buy-side of the transaction. Funds will be divided equally between the S&P 400 Mid-Cap Index Fund and the Russell Mid-Cap Index Fund as directed by the Board.

PROPOSED ORDINANCE CHANGES

Because the legal counsel from the Attorney's Office assigned to work with the Retirement System has been off work due to illness, the review process by the City has been delayed for an unusual length of time. A meeting with the Attorney's Office was scheduled for February 23, 2007 to discuss the Proposed Duty-Death Amendment and the Proposed Post-Retirement Benefit Adjustment. However, the attorney from the City was unable to keep the appointment due to an emergency meeting within the city that she was required to attend. Staff is seeking an opportunity to reschedule the meeting with her.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended February 28, 2007

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended February 28, 2007, to the Board of Trustees:

2/28/2007 Asset Value (Preliminary)	\$435,748,908
1/31/2007 Asset Value (Audited by Northern)	\$436,752,102
Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>)	\$1,415,539
Percent Gain <Loss>	0.3%
March 14, 2007 Asset Value	\$ 435,748,000

F-3 Investment Policy Committee Reports – February 13, 2007 & March 6, 2007

Following are the Investment Policy Committee minutes from the meeting convened at 3:10 p.m. on **February 13, 2007**:

Member(s) Present: Boonstra, Heatley, Kahan (3:24), Pollock, Sylvester
Member(s) Absent: None

Other Trustees Present: Crawford
 Staff Present: Kluczynski, Powell
 Others Present: Larry Gray, Gray & Company (via teleconference)
 Gwelda Swilley-Burke, Gray & Company (via teleconference)
 Charles E. Helppie III, Echelon Wealth Management, LLC
 Matt Horning, City Treasurer

RETIREMENT SYSTEM QUARTERLY REVIEW FOR THE QUARTER ENDED DECEMBER 31, 2006

Mr. Gray reviewed the Capital Market Review in the report, stating that for most of the quarter economists have been saying the economy is slowing down, including construction and manufacturing, and that over 75% of Americans now work in the service economy where job gains were strong. Wage growth now stands at 4.2% up from 4% last year. Profit growth for the fourth quarter for S&P is expected to come in at 7% to 9%. The consensus forecast for 2007 is for pre-tax growth of only 6%, yet stocks soared in the fourth quarter with the S&P 500 up 6.7%, and ended the year up 15.79%. The Russell 1000 Value index posted a return of 8.00% for the quarter, which compares to the Russell 1000 Growth index, which posted a gain of 5.93%.

Ms. Swilley-Burke reviewed the December 31, 2006 quarterly review. The Fund's total market value as of December 31, 2006 was \$433,652,470. The Fund had a return of 5.52% for the current quarter, and a return of 14.56% for the last twelve months.

Ms. Swilley-Burke reviewed the Summary of Manager Performance:

Managers	Market Value
Domestic Equity	\$ 239,844,768
International Equity	49,946,307
Fixed Income	77,283,903
Stable Value	12,698,854
Real Estate	51,113,180
Cash & Cash Equivalents	2,765,459
Total Plan	\$433,652,470
Total Equity	289,791,075

Ms. Swilley-Burke noted that Loomis Sayles underperformed both the Russell 2000 Value Index and the median small cap value manager during the fourth quarter of 2006, basically with stock selections such as finance, technology, and energy, which were their weakest selections. Before reviewing Oppenheimer Capital's performance, Mr. Gray noted that the calendar year of 2006 was very tough for active managers across the Board, and according to recent data, among large cap managers, nearly 66% of core and growth managers trailed their relevant indexes. When looking at value, in the large cap space, more than 90% of the value managers underperformed. A full three quarters of the growth and core managers on the mid cap side could not outperform their relevant benchmarks, and 80% of the value managers underperformed their relevant benchmarks. Among small cap managers, 70% of growth managers trailed their relevant indexes and 90% of core and value managers underperformed their relevant indexes.

Mr. Gray stated that Oppenheimer Capital is so far behind, that he worried about them ever being able to catch up, when looking at the 90% of managers that underperformed, Oppenheimer is near the bottom of the list so he would like to recommend that they be terminated and move the money to a core index, which is simple, we get the growth exposure, still have the value exposure, and the

decision is done. Mr. Gray suggested that half of the money from Oppenheimer could be growth-indexed so that we have equal style weighting, and stated that he would hate for the growth segment of the market to take off and we miss the boat. Another option would be to shift Oppenheimer entirely into a core index in order to be exposed to both sides of the market. After further discussion with Mr. Gray, the Committee decided to terminate Oppenheimer Capital and transfer 50% of that 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.

It was **moved** by Kahan and **seconded** by Pollock to recommend to the Board of Trustees that Oppenheimer Capital be terminated, and that 50% of their account be transferred to an S&P 400 Mid Cap index Fund and the remaining 50% be transferred to a Russell 2500 Mid Cap Index Fund.

Motion passes 3-2

Mr. Gray was asked to provide an Active vs. Passive Investment Management Quantitative Study for the Committee's information in order to further research this issue before the February Board meeting. Mr. Gray stated that he could have it emailed the following day.

THORNBURG ADDENDUM LETTER

Mr. Gray stated that similar to recent requests by Bradford & Marzec, Thornburg Investment Management has submitted a letter requesting more latitude regarding the Committee's Investment Policy Statement. Mr. Gray stated that in looking at their requests versus other international managers, they are perfectly reasonable and normal. Mr. Gray stated that he has also looked at it relative to Public Act 314, and it would be well within the guides to allow them to do some of their proposed changes, and would not present any conflicts with the Investment Policy Statement. Mr. Powell asked for his approval of the requested changes in writing, and Mr. Gray stated that he could forward a letter the following day.

It was **moved** by Pollock and **seconded** by Boonstra to recommend to the Board of Trustees approval of the proposed addendum changes to the Investment Policy Statement as proposed by Thornburg Investment Management, pending written approval by Gray & Company and legal counsel.

Approved

PROPOSED SCHEDULES FOR 2007 MANAGER FORUMS

Mr. Powell presented proposed schedules for this year's manager forums, which will be all-day sessions held at the Sheraton in Ann Arbor. The proposed dates are Tuesday, June 5, 2007 and Tuesday, September 11, 2007. Ms. Sylvester noted that the MAPERS Conference is usually in the May/June timeframe, and Mr. Powell verified that MAPERS will be held June 3-5 this year, so the Committee decided to hold the spring manager forum on Tuesday, May 1, 2007, which would include the quarterly review by Gray & Company.

It was **moved** by Boonstra and **seconded** by Pollock to approve the 2007 Manager Forum schedules as revised.

Approved

ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Pollock to adjourn the meeting at 4:10 p.m.

The meeting was adjourned at 4:10 p.m.

Following are the Investment Policy Committee minutes from the meeting convened at 3:13 p.m. on **March 6, 2007:**

Member(s) Present: Boonstra, Heatley, Kahan, Sylvester

Member(s) Absent: Pollock
Other Trustees Present: None
Staff Present: Jarskey, Powell
Others Present: Larry Gray, Gray & Company
Andrew Kelsen, Gray & Company
Charles E. Helppie III, Echelon Wealth Management, LLC
Matt Horning, City Treasurer

ALTERNATIVE INVESTMENT - TIMBER

Mr. Kelsen introduced himself, stating that he is the Director of Alternative Investments at Gray & Company, and he will be presenting Timberland Investments, which is a growing asset for their firm. Mr. Kelsen reviewed his presentation, including the following overview:

- *Timberland Investments provide valuable diversification and volatility reduction*
- *Timberland Investments provide attractive real returns*
- *Growing asset class*
- *Unique risk and return characteristics*

Timberland Investments are generally the direct acquisition of timberland properties managed by a timberland investment management organization, also known as a "TIMO". They realize returns through the purchase, management, and disposition of institutional timberland properties. Since 1980, the industry has grown from \$100 million to \$23 billion at the end of 2006.

Although timberland is a relatively new investment for institutional investors, it is not a new investment asset. Timberland is one of the oldest forms of investment, similar to agriculture. The following statistics illustrate the size, complexity and diversity of the forest products industry.

- *The U.S. forest products industry is the largest in the world. It accounts for 7% of total U.S. manufacturing output.*
- *The industry ranks in the top 10 for manufacturing employers in 46 states, and employes 1.6 million people industry-wide.*
- *The industry produces products valued in excess of \$230 billion each year, including \$23 billion in exports.*
- *One-third of the United States is forested, about 747 million acres. The annual growth of America's commercial forests exceeds harvests by 33% each year.*
- *In excess of 270 million acres of federal land have been set aside by government agencies for use as wildlife refuges, parks, and wilderness areas.*
- *More than 95% of the bark and wood residues generated from lumber and plywood manufacturing are used to generate energy (electricity and heat) and create other products, which virtually eliminates waste.*

Mr. Kelsen reviewed regional timber statistics and investment returns charts. Total return of Timberland asset management is a function of:

- *Biological growth of trees – As trees grow older and larger, they can be used for more valuable products.*
- *Appreciation in value of trees and lumber – Primarily due to supply and demand dynamics.*
- *Cash flows realized during life of investment – Timberland generates cash as timber is harvested and sold to saw mills and paper mills. Other sources of cash flow include hunting leases and pine straw sales.*
- *Appreciation in the value of land – Timberland often contains valuable mineral resources.*

Timberland – Source of Returns

- *Biological Growth is highly predictable, unidirectional, and occurs independently of all other factors. Biological growth presents a stabilizing and positive return component.*
- *Timber Prices are dependent on a variety of factors; are often difficult to predict; and, obviously, are not always positive. Over the last century, timber prices have consistently trended above inflation.*

Timberland investments are long-term, illiquid, closed end, limited partnerships typically structured with a 10-15 year lifespan. TIMO's receive an annual management fee on invested capital and an incentive fee on gains over a real return hurdle rate. Depending on the funds stated objectives and type of control of the forest the fund has acquired, cash flows can be distributed regularly or more strategically. On the same model of private real estate and private equity, managers provide quarterly investment reports and audited annual reports.

Ms. Sylvester complimented Mr. Kelsen on his presentation, stating that it was very well put together and very easy to follow.

ADJOURNMENT

*It was **moved** by Heatley and **seconded** by Kahan to adjourn the meeting at 4:20 p.m.
The meeting was adjourned at 4:20 p.m.*

F-4 Administrative Policy Committee Reports – March 6, 2007

Following are the Administrative/Personnel Committee minutes from the meeting convened at 2:31 p.m. on **March 6, 2007**:

<i>Committee Members Present:</i>	<i>Boonstra, Carter, Crawford,</i>
<i>Members Absent:</i>	<i>Heatley, Sylvester</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Kluczynski, Powell</i>
<i>Others Present:</i>	<i>Jeff Rentschler, City Retiree</i>

TELECONFERENCING POLICY (DRAFT)

The Committee reviewed a teleconferencing policy resolution as submitted by Mr. VanOverbeke, and after discussion and minor language changes (see other side), decided to recommend the Policy to the Board of Trustees at the March 15, 2007 regular Board meeting.

*It was **moved** by Boonstra and **seconded** by Carter to recommend that the Board of Trustees approve the "Trustee Participation at Meetings by Telecommunication Devices" policy resolution.
Approved*

FUTURE AGENDA ITEM

Mr. Boonstra noted that a future agenda item for the Committee to consider would be Mr. Powell's annual performance evaluation. The Committee noted that the evaluation would be added as a future agenda item.

ADJOURNMENT

*It was **moved** by Boonstra and **seconded** by Carter to adjourn the meeting at 2:57 p.m.
Meeting adjourned at 2:57 p.m.*

F-5 Special Projects Committee Report – March 6, 2007

Following are the Special Projects Committee minutes from the meeting convened at 1: p.m. on **March 6, 2007**:

<i>Committee Members Present:</i>	<i>Boonstra, Crawford, Kahan</i>
<i>Members Absent:</i>	<i>Heatley, Pollock, Sylvester</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Jarskey, Kluczynski, Powell (1:25), Refalo</i>
<i>Others Present:</i>	<i>Bart Wise, Swisher Real Estate Jeff Rentschler, City Retiree</i>

Q&A SESSION WITH BART WISE, SWISHER COMMERCIAL REAL ESTATE

Mr. Wise discussed available office condominiums and proposed site locations in the local Ann Arbor area. Mr. Wise stated he has been in the real estate business for 20 years.

PROJECTED TIMELINE FOR PURCHASE OF OFFICE SPACE

The Committee discussed creating a timeline to determine the steps to generate targets for purchasing future office space. The Committee decided it would like to select a broker, direct Mr. Powell to negotiate a one-year lease with Larson Realty with the option to extend, and at the April SPC meeting have the broker help the Committee with developing a 6-8 month timeline which includes arranging site visits, further education, and creating a list of priorities for future office space and space needs.

*It was **moved** by Boonstra and **seconded** by Crawford to recommend to the Board of Trustees that Bart Wise with Swisher Commercial Real Estate be acquired to assist in researching a future office location for the Retirement System.*

Approved

ADJOURNMENT

*It was **moved** by Boonstra and **seconded** by Crawford to adjourn the meeting at 2:21 p.m.
Meeting adjourned at 2:21 p.m.*

F-6 Legal Reports

Mr. VanOverbeke stated that at the October 2006 meeting, the Board approved moving forward on a securities derivative case called EFI (Electronics for Imaging), which is part of the Loomis small cap portfolio. Mr. VanOverbeke stated that although the Board moved in October to proceed, there is now a request before the Board is to authorize dismissal of the case that was remanded to the Federal Court, and for the shareholders, the best forum for this case is going to be the circuit court.

It was **moved** by Pollock and **seconded** by Boonstra to accept Mr. VanOverbeke's recommendation to authorize the dismissal of the Board's cause of action at this point.

Approved

G. INFORMATION

G-1 Communications Memorandum

Mr. Powell noted two conferences from the Opal Financial Group, and the Communications Memorandum was received and filed.

G-2 April Planning Calendar

The April Planning Calendar was received and filed.

G-3 Vendor Contacts - None

H. TRUSTEE COMMENTS

Ms. Carter stated that Nancy Sylvester did a great job at the City Council meeting on Monday, March 12th. Ms. Carter apologized for not being able to attend the March Board meeting, and was unable to contact the office that morning. Ms. Carter discussed recent headlines regarding an individual who did work for the government for \$100 million, and was running the business from his basement, and stated that she believes that this is why it is important for Trustees to conduct due diligence trips, in order to make sure that the businesses that the Board deals with are legitimate.

Mr. Boonstra stated that a Fire employee group has asked if Mr. VanOverbeke would be able to provide an educational seminar to their group in the near future. After discussion, the Board agreed that as long as the group was paying for Mr. VanOverbeke's time, there would be no problem with their request.

Mr. Pollock noted correspondence he received from Charles Helppie from Echelon Wealth Management, and asked Mr. Helppie to forward the article to the Board members through Mr. Powell.

Mr. Crawford stated that he is very proud and happy that the firefighters are taking the lead and have an interest in the System by requesting an educational seminar, and hopes that some of the other employee groups will show this kind of interest.

Mr. Kahan stated that when Gray & Company is contacted regarding additional information on Rhumblin Advisors, he would be interested in getting information on one, two, or three other managers who might be able to provide that service, even if their fees are slightly higher. Mr. Powell stated that he would advise Mr. Gray of the request.

I. FUTURE AGENDA ITEMS - None

J. ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Kahan to adjourn the meeting at 9:53 a.m.

Meeting adjourned at 9:53 a.m.

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