

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
May 17, 2007**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:42 a.m.

**ROLL CALL**

Members Present: Boonstra, Crawford (8:55), Heatley, Kahan, Nerdrum, Pollock, Sylvester  
Members Absent: Carter, Fraser  
Staff Present: Kluczynski, Powell, Refalo  
Others: Michael VanOverbeke, Legal Counsel  
David Kausch, Gabriel, Roeder, Smith & Company  
Jeff Rentschler, City Retiree  
Bob Stegink, City Retiree  
James Millen, City Retiree  
Roy McCleery, City Retiree  
Douglas Smith, City Retiree  
Sally Jo Smith, City Retiree  
Jeff Rentschler, City Retiree  
Charles Helppie, Echelon Wealth Management, LLC

**AUDIENCE COMMENTS**

Mr. Rentschler stated that he may like to make a comment during the discussion regarding D-1, Proposed Benefit Increase for Retirees.

Ms. Smith asked the Board to consider supporting Item D-1, the proposed benefit increase for retirees.

**A. APPROVAL OF REVISED AGENDA**

Mr. Powell noted the following revision to the agenda:

- C-4 Authorization for Payment of Invoices – New invoices added to resolution

It was **moved** Pollock by and **seconded** by Boonstra to approve the agenda as revised.

**Approved as revised**

**B. APPROVAL OF MINUTES**

**B-1 April 19, 2007 Regular Board Meeting Minutes**

It was **moved** by Boonstra and **seconded** by Pollock to approve the April 19, 2007 regular Board Meeting minutes as presented.

**Approved**

**C. CONSENT AGENDA**

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

**Preliminary Retirement Resolutions**

**C-1 Preliminary Approval of the Application for Service Retirement of Constance**

## Hayes

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Constance Hayes (Applicant)**, dated May 3, 2007, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Constance Hayes** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

### Final Retirement Resolutions

#### **C-2 Approval of the Application for Early/Service Retirement of David Butler**

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

**WHEREAS**, said Participant has been credited with 22 years and 5.5 months of service credit (*which includes 9 months military service 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 Debbie Butler, spouse, 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 **David Butler** (Participant), effective April 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.

**C-3 Approval of the Application for Service Retirement of Mark Hoornstra**

**WHEREAS, Mark Hoornstra** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of April 14, 2007, and

**WHEREAS**, said Participant has been credited with 25 years and 10 months of service credit (*which includes 3 years and 2 months reciprocal credit*), and

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

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

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

**WHEREAS**, said Participant has elected to receive an Option III, 50% Joint & Survivor (Pop-Up) form of benefit (and nominated Donna Hoornstra, wife, as option beneficiary), and

**WHEREAS**, said Participant has requested a 100% annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

**RESOLVED**, that a service retirement is hereby granted to **Mark Hoornstra** (Participant), effective April 14, 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-4 Authorization For Payment of Invoices (\$ 337,813.21)**

**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 – April 2007
4	SBC / AT&T	216.26	Monthly Telephone Service - 3/14/07 – 4/13/07
5	Arbor Springs Water Co., Inc.	25.50	Monthly Water Service
6	Republic Parking System	185.10	Monthly Parking Validation Fee
7	AT&T	97.16	Monthly Toll-Free Telephone Service
8	Qwest	11.08	Monthly Long-Distance Telephone Service
9	Transition Imaging, LLC	500.57	Document Imaging Services
10	Staples Business Advantage	282.73	Misc. Office Supplies
11	Kolossos Printing, Inc.	102.43	New Hire Forms & Retiree Educ. Sess. Programs
12	City of Ann Arbor Treasurer	6.51	Municipal Code Electronic Update & Internet Fee
13	Borders, Inc.	12.72	Retirement Publication
14	Turner Clinic	75.00	Retiree Educational Session / Fee for Speaker
15	Bradford & Marzec, Inc.	36,569.82	Investment Mgmt. Fees: Jan-March 2007
16	Independence Investments	68,437.55	Investment Mgmt. Fees: Jan-March 2007
17	Loomis, Sayles & Company	53,357.36	Investment Mgmt. Fees: Jan-March 2007
18	Oppenheimer Capital	106,386.95	Investment Mgmt. Fees: Jan-March 2007
19	Schwartz Investment Counsel	13,621.00	Investment Mgmt. Fees: Jan-March 2007
20	301 East Liberty LLC	72.68	Monthly Electric Charge – 4/05/07 - 5/02/07
21	Four Points Sheraton Ann Arbor	659.62	Equity Manager Forum – May 1, 2007
22	Four Points Sheraton Ann Arbor	2,265.60	Annual Retiree Educational Session–April 26, 2007
23	Transition Imaging, LLC	712.01	Document Imaging Services
24	Fisher Investments	33,370.32	Investment Mgmt. Fees: Jan-March 2007
25	Heitman Real Estate Securities LLC	6,100.24	Investment Mgmt. Fees: Jan-March 2007
26	State Street Global Advisors	1,744.02	Investment Mgmt. Fees: Jan-March 2007
	<b>TOTAL</b>	<b>337,813.21</b>	

**Consent agenda approved as revised**

**D. ACTION ITEMS**

**D-1 Proposed Benefit Increase for Retirees**

Mr. Kausch from Gabriel, Roeder, Smith & Company reviewed a letter from GRS dated May 9, 2007 regarding the July 1, 2007 Benefit Increase Study. The Board noted that proposed Ordinance language that would change the way future benefits will be granted has been submitted, but not yet reviewed, by the City Attorney's Office, therefore the Board is discussing this year's possible increase. Mr. Kausch explained the estimated Pension Adjustment Account, and Mr. Heatley made the following motion:

It was **moved** by Heatley and **seconded** by Sylvester to direct Gabriel, Roeder, Smith & Company to cost out a one-time 2% increase for retirees to be distributed as a separate check, in accordance with Section 1:573 of the Retirement Ordinance (Chapter 18), and ask that GRS bring a report back to the Board of Trustees at the regular Board meeting on June 21, 2007.

**Approved**

**D-2 Proposed 2007-08 Budget & Cash Flow**

Mr. Powell reviewed the proposed 2007-2008 Budget and Cash Flow charts for the Board's approval.

It was **moved** by Pollock and **seconded** by Kahan to approve the budget and cash flow report as submitted.

**Approved**

**E. DISCUSSION ITEMS - None**

**F. REPORTS**

**F-1 Executive Report – May 17, 2007**

**REBALANCING**

It's time to rebalance again to maintain investment policy disciplines and operational needs of the System. Per Gray & Company's recommendation, the cash for operation for the next nine months will be placed into the NTQA Lehman Aggregate Bond Fund at Northern Trust. The following firms and the designated amount to be withdrawn appear below:

- \$7,200,000 from Independence to NTQA Lehman Aggregate Bond
- \$4,800,000 from Loomis Sayles to NTQA Lehman Aggregate Bond
- \$6,000,000 from INVESCO REIT to NTQA Lehman Aggregate Bond

Below is the analysis provided by Gray & Company of the System's Assets as of May 8, 2007:

**Rebalancing Spreadsheet - Ann Arbor Pension  
5/8/2007**

	(I) Actual	Target	Actual %	(I) Target	\$ Over/Under	% Over/Under
Managers	\$	\$		%		
Russell 1000	54.31	56.18	12.08%	12.50%	(1.87)	-0.42%
SSgA	54.13	56.18	12.04%	12.50%	(2.05)	-0.46%
Montag	0.00	0.00	0.00%	0.00%	0.00	0.00%
GLOBALT	0.00	0.00	0.00%	0.00%	0.00	0.00%
Oppenheimer	82.66	80.89	18.39%	18.00%	1.77	0.39%
Loomis	31.77	26.96	7.07%	6.00%	4.81	1.07%
Independence	34.19	26.96	7.61%	6.00%	7.23	1.61%
Subtotal	257.06	247.18	57.20%	55.00%	9.88	2.20%
Managers	Actual	Target	Actual %	Target	\$	%
	\$	\$		%	Over/Under	Over/Under
Thornburg	22.01	22.47	4.90%	5.00%	(0.46)	-0.10%
Fisher	21.83	22.47	4.86%	5.00%	(0.64)	-0.14%
Subtotal	43.84	44.94	9.76%	10.00%	(0.46)	-0.10%
Managers	Actual	Target	Actual %	Target	\$	%
	\$	\$		%	Over/Under	Over/Under

NTQA Bond	3.82	31.46	0.85%	7.00%	(27.64)	-6.15%
INVESCO	12.89	13.48	2.87%	3.00%	(0.59)	-0.13%
Schwartz	25.21	22.47	5.61%	5.00%	2.74	0.61%
Bradford & Marzec	51.68	44.94	11.50%	10.00%	6.74	1.50%
Securities Lending	0.14	0.00	0.03%	0.00%	0.14	0.03%
Cash	1.96	0.00	0.44%	0.00%	1.96	0.44%
Subtotal	95.70	112.35	21.29%	25.00%	(16.65)	-3.71%

Managers	Actual \$	Target \$	Actual %	Target %	\$ Over/Under	% Over/Under
Principal	18.39	17.98	4.09%	4.00%	0.41	0.09%
Intercontinental	12.22	8.99	2.72%	2.00%	3.23	0.72%
INVESCO	17.32	8.99	3.85%	2.00%	8.33	1.85%
Heitman	4.88	8.99	1.09%	2.00%	(4.11)	-0.91%
Subtotal	52.81	44.94	11.75%	10.00%	7.87	1.75%

Managers	Actual \$	Target \$	Actual %	Target %	\$ Over/Under	% Over/Under
	0.00	0.00	0.00%	0.00%	0.00	0.00%
Subtotal	0.00	0.00	0.00%	0.00%	0.00	0.00%
Calculated Grand Total	449.41	449.41	100.00%	100.00%	0.64	0.14%
Entered Grand Total	449.41					

### **PROJECTS**

There have been a number of projects that the Pension Office has been working on for the last several months. In order to get these projects done as expeditiously as possible staff will have to prioritize their work. Staff work will be prioritized as follows:

- (1) Employees who will be retiring in the next 30-90 days
- (2) Pension Gold testing, staff training, parallel processing (running the old and new system concurrently), final testing & transition to new system.
- (3) Retros
- (4) Audit Report
- (5) Actuary Report
- (6) Buybacks

Please note that during July-October the audit and actuary work will displace some of the above priorities.

### **TRANSITION MANAGEMENT**

Gray & Company recommended Global Transition Solutions, Inc (GTS) to be the transition manager for the Oppenheimer portfolio. Legal counsel approved the agreement between the System and GTS. According to the schedule, the transition will be completed on May 25, 2007 including both the buy side and sell side of the transaction. As of May 10, 2007 the assets held by Oppenheimer were valued at \$82,000,467.00.

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Mr. Powell recommended the Board's approval to hire a temporary person to assist with the retroactive payments project, which would enable staff to complete the project within approximately two weeks. Mr. Powell stated that the pay amount for this person would be approximately \$2,500,

taken from the System's contingency account. Mr. Powell stated that the person he would like to hire for this project is Janice Hesse, who is retired from the Finance Department and has experience with calculating FAC's. The Board agreed.

Mr. Crawford requested an update and status of the information for the Voluntary Compliance Program (VCP). Mr. Powell stated that the actuary has devised a special system software for the calculations, and Ms. Jarskey has identified the 108 people, and staff will attempt to have numbers from random samples for Mr. Crawford's review in the following week. Mr. Crawford stated he believes that this is the next step in order to move on with the process. Mr. VanOverbeke stated that he has not seen a draft of what it is that is being proposed to be sent at this point in time, so he does not know what the Attorney's Office is looking to do with an attachment. Mr. VanOverbeke stated that he has suggested to Mr. Powell to do a random sampling of the data to see what it tells us in order to decide what should be sent to meet Mr. Postema's needs. Mr. Crawford stated that he believes what was requested was one or two examples. Mr. VanOverbeke stated that he has not seen any correspondence indicating a request from the Attorney's Office. Mr. Crawford asked when will his department receive the total package after the random samples are finished and reviewed. Mr. Powell stated that once the information is reviewed and responded to by the Finance Department, the pension staff will know how to proceed and how long it might take. Mr. VanOverbeke asked who wrote the letter asking for the random samples, and Mr. Crawford stated that he believes it was "Bob".

Mr. VanOverbeke stated neither he nor Mr. Powell has received that actual letter requesting the information, and asked if Mr. Crawford could forward that letter to him and Mr. Powell. Mr. Powell stated that the only correspondence received was an Email from Mr. Crawford. Mr. Crawford stated that he would try to forward the letter. Mr. Crawford asked what the Board's next step will be after all of the information is completed and reviewed, and if the Board will have to then approve the VCP at that time? Mr. VanOverbeke stated that once he sees the application and what they're proposing, he will be able to form an idea of what the Board's role in that process should be, and at this point, he has not seen anything that the Attorney's Office has put together or any correspondence. Mr. VanOverbeke stated that he doesn't know if the Board will have to take any action on it at all, and that he believes it is really the City requesting the information, but he will be able to formulate and involve the Board in the decision making after he finds out the current status of the process, which is why he has not brought anything to the Board.

**F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended April 30, 2007**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended April 30, 2007, to the Board of Trustees:

4/30/2007 Asset Value (Preliminary)	\$446,587,458
3/31/2007 Asset Value (Audited by Northern)	\$435,974,138
Increase/Decrease in Assets ( <i>excludes non-investment receipts and disbursements</i> )	\$9,138,507
Percent Gain <Loss>	2.1%
<b>May 16, 2007 Asset Value</b>	<b>\$448,968,137</b>

**F-3 Investment Policy Committee Reports – May 1, 2007**

Mr. Heatley reviewed the following IPC minutes:

Following are the Investment Policy Committee minutes from the meeting convened at 9:03 a.m. on May 1, 2007:

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

Member(s) Absent: None  
 Other Trustees Present: Crawford  
 Staff Present: Jarskey, Powell, Refalo  
 Others Present: Larry Gray, Gray & Company

**RETIREMENT SYSTEM QUARTERLY REVIEW FOR THE QUARTER ENDED  
 MARCH 31, 2007**

Mr. Gray reviewed the March 31, 2007 quarterly review. The Fund's total market value as of March 31, 2007 was \$435,372,076. The Fund had a return of 2.09% for the current quarter, and a return of 10.62% for the last twelve months.

Mr. Gray reviewed the Summary of Manager Performance:

<b>Managers</b>	<b>Market Value</b>
Domestic Equity	\$ 244,394,614
International Equity	42,450,099
Fixed Income	80,192,920
Stable Value	12,838,026
Real Estate	52,935,157
Cash & Cash Equivalents	2,561,261
<b>Total Plan</b>	<b>\$435,372,076</b>
Total Equity	286,844,713

**INVESCO, INC. – STABLE VALUE**

Mr. Gray reported that Invesco lost people from their Stable Value Product recently. He stated the process remains the same for Invesco, and when new people come in they theoretically can follow the process. If the Retirement System chooses to get out, it may not be able to get back in because of the changes in the law. Gray & Company doesn't see a problem with the protection of the assets because 75% of the Stable Value Product is farmed out. The part that Invesco manages is relatively small. Gray & Company is constantly watching Invesco.

As a global partner, you have to give a year's notice before departure from either side. This is a problem and part of the legal entanglement.

**DONALDSON & COMPANY UPDATE**

John Withers has left Donaldson & Company. Mr. Gray's recommendation is not to make changes at this time.

**ADJOURNMENT**

It was ***moved*** by Boonstra and ***seconded*** by Kahan to adjourn the meeting at 9:03 a.m.  
**The meeting was adjourned at 9:31 a.m.**

**F-4 Administrative Policy Committee Reports – No Report**

**F-5 Special Projects Committee Report – No Report**

**F-6 Legal Report**

Mr. VanOverbeke stated he has attempted to contact Ms. Fales from the City Attorney's Office in order to set up a meeting to discuss the proposed duty death ordinance language. Mr. VanOverbeke stated he will continue to contact Ms. Fales, and will most likely bring a report to the June 21, 2007 regular Board meeting.

**G. INFORMATION**

**G-1 Communications Memorandum**

The Communications Memorandum was received and filed.

**G-2 June Planning Calendar**

The June Planning Calendar was received and filed.

**G-3 Vendor Contacts - None**

**G-4 Correspondence from James R. Wilson, City Retiree**

Mr. Powell explained that Mr. Wilson has copied the Board on a letter to the Mayor and City Council regarding the mail-order prescription program.

**H. TRUSTEE COMMENTS**

Mr. Boonstra asked the Trustees to be sure to complete the Performance Evaluation for the Executive Director within one week and submit it to the Retirement Office so that the Administrative Policy Committee can move forward with his evaluation in June.

Mr. Heatley asked if any Trustees were interested in Intercontinental Real Estate Corporation's upcoming investments conference in June. There was no interest from the Trustees that were present.

Mr. Kahan stated he may like to attend an upcoming conference given by IFEBP at the Wharton School entitled "Hedge Funds, Real Estate and Other Alternative Investments" being held on July 9-10, 2007 in San Francisco, California. Mr. Heatley stated that he might be interested in attending as well.

It was **moved** by Heatley and **seconded** by Boonstra to allow two Trustees to attend the "*Hedge Funds, Real Estate and Other Alternative Investments*" as discussed, with a conference/training amount not to exceed \$2,500.00.

**Approved**

Mr. Pollock asked that staff re-send the entire electronic Board & VEBA agenda packets when making updates and revisions to future agendas sent by Email.

**I. FUTURE AGENDA ITEMS - None**

**J. ADJOURNMENT**

It was **moved** by Pollock and **seconded** by Kahan to adjourn the meeting at 9:47 a.m.  
**Meeting adjourned at 9:47 a.m.**

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

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