

BOARD RETREAT MINUTES

For the City of Ann Arbor Employees' Retirement System and
Retiree Health Care Benefit Plan & Trust
Friday, March 11, 2016
Washtenaw Intermediate School District

Board Members Present: Flack, Clark, Crawford, DiGiovanni, Hastie, Lynch, Monroe, Nerdrum

Board Members Absent: Heusel

Staff Present: Jarskey, Kluczynski, Walker

Others: Henry Jaung - Meketa Investment Group
Val Geba – Meketa Investment Group
Michael VanOverbeke - VanOverbeke, Michaud & Timmony, P.C.
Larry Langer - Buck Consultants (*a.m.*)

The Board Retreat convened at 9:00 a.m.

ACTUARIAL PRESENTATIONS

Larry Langer, Buck Consultants

Mr. Langer discussed the upcoming Actuarial Valuation, the current Funding Policy, and the public sector landscape comparable to the Retirement System. Mr. Langer stated that the System has a stable policy, and could decrease to a 15-year amortization. It was agreed that a stochastic model would be useful in order to determine whether the System should go from a 25 to 20 amortization schedule or 25 to closed amortization schedule. Mr. Langer stated that he would work up a projection for the Board's review.

NORTHERN TRUST PRESENTATIONS

Lindsay Amborski, Patrick Flanagan, James Dominguez, and Seung Yoon

Members from The Northern Trust Company presented a general overview of the comprehensive custodial services provided to the System and the VEBA Plan, as well as Global Securities Lending, and Northern Trust Asset Management performance.

VONTOBEL ASSET MGMT. DISCUSSION

Meketa Investment Group

Mr. Jaung informed the Board of recent management changes at Vontobel Asset Management, ultimately suggesting that both the Retirement System and VEBA discontinue the investment management relationship and liquidate the funds for placement into Northern's Emerging Market Non-Lending Index Fund, which has lower fees, until the Board decides on future investments. The Board agreed and made the following motion:

It was **moved** by Hastie and **seconded** by Flack to terminate the investment management relationship of both the Retirement System and the VEBA Plan with Vontobel Asset Management, Inc., and that upon liquidation of the portfolio, the assets be invested in the Northern Trust Emerging Market Non-Lending Index Fund subject to legal counsel review and execution of the Fund documents by appropriate Board signatory.

Approved

ASSET ALLOCATION & INVESTMENT REVIEW

Meketa Investment Group

Retirement System Year-End Overview

- As of December 31, 2015, the Retirement System was valued at \$453.6 million, an increase of \$4.4 million from the end of the third quarter.
 - During the quarter, the Retirement System reported net cash outflows of approximately \$6.9 million.
- The Retirement System returned 2.5% for the fourth quarter, and -0.1% for the calendar year, net of fees.
 - The Retirement System's fourth quarter return was driven by gains from the U.S. and international developed equities and real estate.
 - All equities posted positive performance for the quarter. Domestic, international developed markets, international emerging markets equities returned 5.5%, 4.8%, and 0.1%, respectively.
 - All fixed income investments produced losses for the fourth quarter. Bank loans and emerging market debt fared best for the quarter, both returning -0.1%. High yield bonds, TIPS and investment grade bonds returned -2.1%, -0.7%, and -0.5%, respectively.
 - Real estate performance was positive at 5.1%, while hedge funds declined 2.2%.
- At the end of December, the Retirement System was within its asset allocation target ranges. The investment grade bond overweight (+5%) mostly offset the current TIPS underweight (-6%).

VEBA Year-End Overview

- As of December 31, 2015, the VEBA was valued at \$128.6 million, an increase of \$3.1 million for the fourth quarter.
 - During the fourth quarter, the VEBA reported net cash inflows of approximately \$59,000.
 - The VEBA returned 2.3% for the fourth quarter, and -1.8% for the calendar year, net of fees.
 - The VEBA fourth quarter return was driven by gains from the U.S. and international developed markets equities and real estate.
 - All equities posted positive performance for the quarter. International developed markets, domestic, and international emerging market equities returned 4.9%, 4.6%, and 0.4%, respectively.
 - All fixed income investments produced losses for the fourth quarter. Bank loans and emerging market debt fared best for the quarter, both returning -0.1%. High yield bonds, investment grade bonds, and TIPS returned -2.1%, -0.8%, and -0.7%, respectively.
 - Real estate performance was positive, at 4.6% for the quarter.
- At the end of December, the VEBA was within its asset allocation target ranges, with the exception of investment grade bonds. The investment grade bond overweight (+11%) mostly offset the current TIPS underweight (-7%).

The asset allocation discussion was not discussed at this time due to time constraints.

NON-U.S. INVESTMENTS FORUM

DFA, Vontobel, Fisher Investments, Stone Harbor

A general discussion ensued with four of the System's Non-U.S. Investment Managers regarding the global economy, forecasts and the upcoming presidential election. Each manager provided a presentation booklet with additional information.

PLAN DESIGN REVIEW

VanOverbeke, Nerdrum, Walker

Ms. Nerdrum and Mr. VanOverbeke conducted a discussion regarding various plan designs used by other public and private retirement systems, i.e., Hybrid and "side-by-side DB/DC plans", with the understanding that the City is looking at changes to the current defined benefit plan, which may result in adoption of a new program. A lengthy discussion ensued regarding the way these plans work and the potential costs and effects it would have to the current Plan. No additional motions or actions were taken at this time.

DRA CAPITAL CALL

It was **moved** by Flack and **seconded** by DiGiovanni to transfer funds for the DRA Capital Call in the amount of \$5 million for the Retirement System, and \$1 million for the Retiree Health Care Benefit Plan & Trust, which is due on March 24, 2016.

Approved

The Board Retreat was adjourned at 4:22 p.m.