

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
August 18, 2022**

**B**

The meeting was called to order by Board Chairperson, Jeremy Flack, at 8:37 a.m.

**ROLL CALL**

Members Present: DiGiovanni, Flack, Grimes, Hastie, Monroe, Praschan, Schreier  
Members Absent: Lynch, Nerdrum  
Staff Present: Buffone, Gustafson, Hollabaugh, Orcutt  
Others: Michael VanOverbeke, Legal Counsel  
Henry Jaung (*Via TX, 9:22AM depart*), Meketa  
Keith Beaudoin (*Via TX, 9:22AM depart*), Meketa

**AUDIENCE COMMENTS**

**A. APPROVAL OF AGENDA**

It was **moved** by Monroe and **seconded** by Grimes to approve the agenda as submitted.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 July 21, 2022 Regular Board Meeting**

It was **moved** by Monroe and **seconded** by Grimes to approve the July 21, 2022 Regular Board Meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA - None**

**D. ACTION ITEMS - None**

**E. DISCUSSION ITEMS**

**E-1 FYE Results/Recap and Projected Returns**

Mr. Jaung presented the FYE 2022 summary stating that the market value of the ERS was \$570 million at the end of June 2022. The performance for QTD, YTD and FYTD was -8.2%, -10.7% and -4.7%, respectively.

The market value of the VEBA was \$225 million at the end of June 2022. The performance for QTD, YTD, and FYTD was -9.4%, -13.0% and -7.5%, respectively.

In the past fiscal year, Meketa has worked with the IPC to begin to move closer in line with the new target allocations with the following commitments (ERS & VEBS, Respectively):

- Private Debt: \$12 million and \$5 million commitments to Angelo Gordon fund IV
- Infrastructure: Original commitments of \$15 million and \$3 million to J.P. Morgan Infrastructure Investments Fund; Additional commitments of \$14 million and \$6 million to the same fund

- Real Estate: Additional commitments of \$14 million and \$6 million to AEW Core Property Trust
- Private Equity: Commitments of \$10 million and \$3 million to Mesirov Financial Private Equity Fund VIII; Commitments of \$6 million and \$2 million to Arboretum Ventures IV

The Board and Meketa discussed an increased allocation to Natural Resources as it can be constructive for the portfolio, enhancing diversification and adding inflation hedging characteristics. The policy allocation target for Natural Resources is 3% with the current allocation at 2% for ERS. The recommendation would be to invest another 1% of the portfolio to reach the target and Meketa has recommended an investment with State Street Global Advisors S&P Global LargeMidCap Natural Resources Index Strategy.

It was **moved** by Monroe and **seconded** by Schreier to approve the investment with SSGA S&P Global LargeMidCap Natural Resources Index Strategy with a commitment in the amount of 1% (approximately \$6 million), pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

### **Approved**

### **E-2 Innovest Fiduciary Education Training & Work Plan**

Ms. Orcutt informed the Board of Innovest's workplan and upcoming dates. Innovest will be providing a fiduciary educational training at the September Board meeting. They will also be attending the October Board meeting to provide investment menu analysis and mapping recommendations.

## **F. REPORTS**

### **F-1 Executive Report – August 18, 2022**

#### **CONSTITUTION CAPITAL CALLS AND DISTRIBUTIONS**

Ironsides Direct Investment Fund V, L.P. issued a distribution in the amount of **\$263,890** for the Retirement System and **\$ 87,963** for VEBA on 7/28/22.

Ironsides Direct Investment Fund V, L.P. issued a distribution in the amount of **\$69,689** for the Retirement System and **\$ 23,229** for VEBA on 8/12/22.

Ironsides Partnership Fund V, L.P. requested a capital call in the amount of **\$ 96,234** for the Retirement System and **\$ 32,078** for VEBA to fund current investments and pay partnership expenses on 8/9/22.

#### **DRA CAPITAL CALLS AND DISTRIBUTIONS**

DRA issued a distribution from the Growth and Income Fund IX on 8/15/22 in the amount of **\$99,778** for the Retirement System and **\$29,346** for the VEBA consisting of cash from operations netted against management fees.

DRA issued a distribution from the Growth and Income Fund X on 8/15/22 in the amount of **\$47,578** for the Retirement System and **\$31,718** for the VEBA consisting of return of capital(recallable).

## **BLACKROCK CAPITAL CALLS**

BlackRock Global Renewable Power Infrastructure Fund III requested a capital call in the amount of **\$239,768** for the Retirement Plan and **\$89,913** for the VEBA on 7/29/22.

## **ANGELO GORDON CAPITAL CALLS AND DISTRIBUTION**

Angelo Gordon Direct Lending Fund IV Annex, L.P. issued a distribution in the amount of **\$ 80,299** for the Retirement System and **\$ 33,458** for VEBA consisting of investment income on 7/29/22.

Angelo Gordon Direct Lending Fund IV Annex, L.P. requested a capital call in the amount of **\$ 1,200,000** for the Retirement System and **\$ 500,000** for VEBA to fund current investments on 8/25/22.

## **TORCHLIGHT CAPITAL CALL**

Torchlight Investors requested a capital call of our commitment to Debt Fund VII in the amount of **\$900,000** for the Retirement Plan and **\$400,000** for VEBA on 8/8/22 to fund investments.

## **ARBORETUM CAPITAL CALLS**

Arboretum Ventures requested a capital call of our commitment to Fund V in the amount of **\$248,000** for the Retirement Plan and **\$62,000** for VEBA on 8/17/22 to fund investments and pay management fees. With these installments, **CAAERS** will have funded 63% of our total commitments of \$8,000,000 for the Retirement Plan and \$2,000,000 for the VEBA.

## **PENSION ADMINISTRATION SOFTWARE CONVERSION**

Staff continues to meet weekly with Milliman. Please see timeline for updates.

## **FYE/AUDIT UPDATE**

ED and Maria Buffone are meeting with the City and the new audit team on August 12th to determine onsite dates for the end of September. All financial information for the GASB reports was submitted to GRS on August 9.

## **STAFF OPERATIONS/UPDATE**

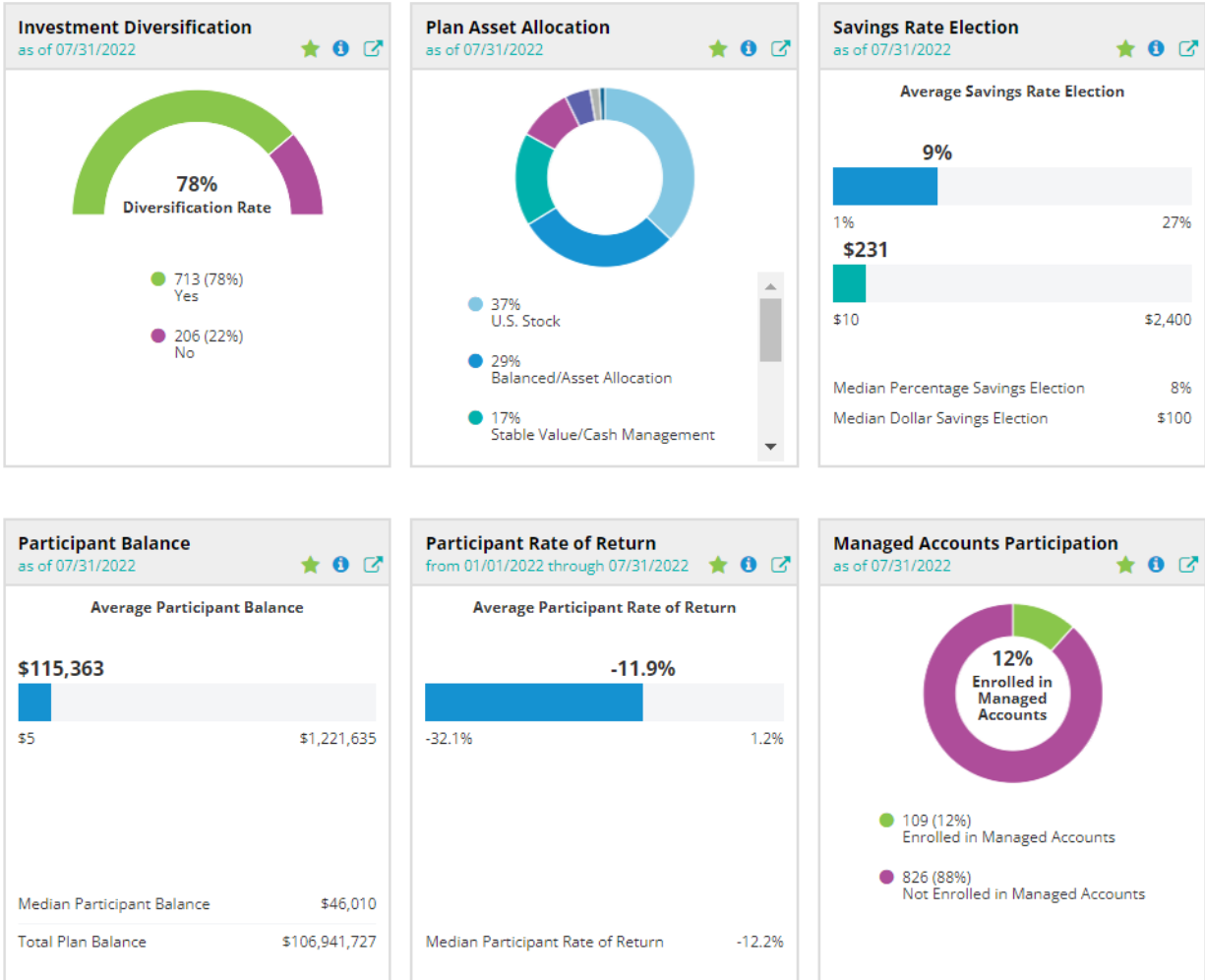
The Pension Analyst processed 56 estimates, 1 payout, 4 final calculations, 4 deceased calcs, 1 deferred calc and 6 pre sessions as well as working on Census Data and research related to the software conversion.

## **MEETINGS AND COMMUNICATIONS WITH CITY STAFF**

ED met with Marti Praschan, Jessica Hull and Debra Buckson, the new HR Director, to discuss the 401,457 Plans, the recent hire of Innovest and the Executive 401a Plan.

### **F-2 Executive Report – MissionSquare (ICMA) Update**

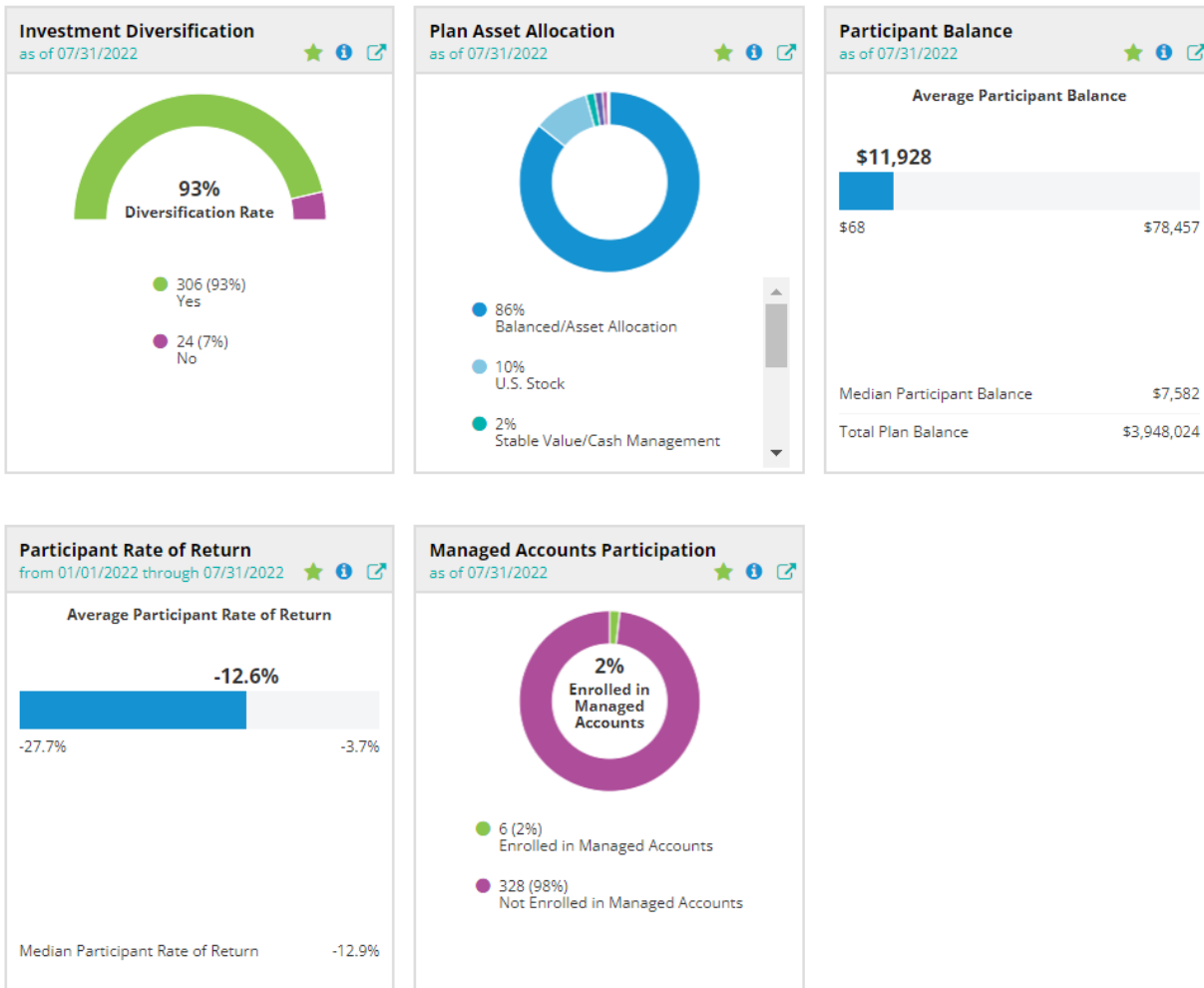
**457 Balance at 8/10/22 - \$ 108,223,000 – Statistics as of 7/31/22**



**Current Items/Education:**

Dan Stewart will be conducting virtual appointments during August 23-25 as well as hosting two webinars – “Investing in Retirement Basics” and “MissionSquare Retirement Will Continue to Work for You”.

**401 Balance at 8/10/22 – \$ 4,060,000 - Statistics as of 7/31/22**



**401 Forfeiture Balance = \$39,000**

**457 Admin Allowance Balance = \$41,000**

**F-3 FY22 Training and Education Expenses**

**FY 22 Travel Expenses**

Trustee/Staff	Conference Name/ Date/Location	Total Spent
Wendy Orcutt	MAPERS Fall Conference 9/18/21-9/21/21 Bay City, MI	\$879.59
Dan Gustafson	MAPERS Fall Conference 9/18/21-9/21/21 Bay City, MI	\$945.23

Marti Praschan	MAPERS Fall Conference 9/18/21-9/21/21 Bay City, MI	\$761.84
Dave Monroe	MAPERS Fall Conference 9/18/21-9/21/21 Bay City, MI	\$986.46
Wendy Orcutt	MAPERS Spring Conference 5/21/22-5/24/22 Traverse City, MI	\$1,275.65
Dave Monroe	MAPERS Spring Conference 5/21/22-5/24/22 Traverse City, MI	\$1,187.94
Dan Gustafson	MAPERS Spring Conference 5/21/22-5/24/22 Traverse City, MI	\$1,153.00
Dan Gustafson	MAPERS 1-Day Conference 3/4/2022 Auburn Hills, MI	\$182.25

**Total            \$7,371.96**

**F-4    City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended July 31, 2022**

Maria Buffone, Accountant, submitted the Financial Report for the month ended July 31, 2022 to the Board of Trustees:

7/31/2022 Asset Value (Preliminary)	\$592,965,265
6/30/2022 Asset Value (Audited by Northern)	\$569,777,492
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	(\$50,810,146)
Percent Gain <Loss>	-7.7%
<b>August 17, 2022 Asset Value</b>	<b>\$599,298,179</b>

**F-5    Investment Policy Committee Minutes – August 9, 2022**

*Following are the Investment Policy Committee minutes from the meeting convened at 3:14 p.m. on August 9, 2022:*

Member(s) Present:        DiGiovanni, Hastie, Monroe, Praschan  
Member(s) Absent:         Flack  
Other Trustees Present:    None

Staff Present: Buffone(via TX), Gustafson(via TX), Hollabaugh, Orcutt  
Others Present: Henry Jaung(via TX), Meketa Investment Group  
John Harris(via TX), Meketa Investment Group  
Keith Beaudoin(via TX), Meketa Investment Group

## **ECONOMIC AND MARKET UPDATE DATA AS OF JUNE 30, 2022**

Mr. Jaung provided an economic update noting that global markets resumed their sell-off in June as inflation surged in the US and Europe.

Persistently high inflation and the expected policy response, the war in Ukraine, lingering COVID-19 issues, and lockdowns in China will all have considerable economic and financial consequences for the global economy.

### **EXECUTIVE SUMMARY**

The next large capital call expected for the ERS and VEBA is for the JP Morgan Infrastructure Fund with calls of \$14 million and \$6 million, respectively expected to be made on October 1<sup>st</sup>. Earlier in the year, Meketa recommended allocating 60% of the 2022 private equity commitments to a venture capital fund for both plans with a \$6 million commitment in the ERs and \$2 million in the VEBA to Arboretum Fund IV.

The remaining 40% will be committed to a buyout fund. Meketa will present potential managers at an upcoming IPC meeting this fall.

### **VEBA CASH NEEDS**

VEBA currently has approximately \$1.6 million in cash. To move more in line with policy targets Meketa recommended to liquidate two funds that have been liquidated or sent notice of liquidation in the ERS portfolio.

In addition to the liquidations, Meketa also recommended selling \$4.5 million from the IR&M 1-10 year TIPS Index Fund. This amount represents approximately 2% of the total plan moving the TIPS allocation from its current allocation of 5% closer to its policy target of 2%.

Meketa presented a schedule of funds to be liquidated between now and the end of September.

- Stone Harbor (EM Debt) - \$ 3 million – Daily Liquidity
- Beach Point (Bank Loans) - \$ 6 million – Monthly Liquidity-90 Day Notice
- IR&M (TIPS) – Daily Liquidity- \$ 4.5 million

It was **moved** by DiGiovanni and **seconded** by Monroe to recommend to the Board to raise \$3 million from Stone Harbor, \$6 million from Beach Point, and \$4.5 million from IR&M to fund expenses and capital calls.

**Approved**

### **RETIREMENT SYSTEM**

Act 314 Compliance Review: All investments are currently in compliance.

June 30, 2022 Performance Update: As of June 30, 2022, the balance of the Funds

was \$570,418,726 for ERS. Fiscal Year to Date performance was -4.7% for ERS net of fees.

## **VEBA**

Act 314 Compliance Review: All investments are currently in compliance.

June 30, 2022 Performance Update: As of June 30, 2022, the balance of the Funds was \$225,902,022 for VEBA. Fiscal Year to Date performance was -7.5% for VEBA net of fees.

## **CURRENT ISSUES**

Natural Resources Equity: Meketa believes that an allocation to Natural Resources can be constructive for many client portfolios, enhancing diversification and adding inflation hedging characteristics. To achieve exposure in a cost-efficient manner, Meketa recommends the Trustees consider a passive implementation strategy. Meketa recommends that clients utilize the Global Large/Mid Cap Natural Resources Index strategy offered by State Street Global Advisors.

Meketa provided an estimate of the impact to the System's fossil fuel exposure should the Board decide to invest in such an index.

Northern Trust Cash Sweep: Northern trust's automated cash sweep service for U.S. dollars provides clients the ability to automatically invest excess cash in one of Northern Trust asset management money market or collective and common funds. Currently this automated facility sweeps all daily USD cash balances, net of purchase and sale activity for that day, to a zero balance, provided that cash is received by established the deadline of end of day.

Beginning on August 2022 Northern Trust will begin moving from the current end of day sweep to a point in time sweep for all fund investment options. The Ann Arbor accounts will be impacted in the following ways:

- New intraday cut off for same day cash sweep will be 2:00 PM CT. Transactions processed or projected by 2:00 PM CT will be included in the days sweep.
- There will be some changes to how these transactions in holdings appear in standard custody reports. The balance of the swept cash will show as a unitized fund holding (cash asset)
- Due to this change, staff and Meketa will want to make sure that the that Northern Trust is accounting for any expected cash prior to 2:00 PM deadline to ensure it is invested in the STIF.

This change will allow for more transparency in reporting:

- Asset Detail reports will break out "invested cash" and "uninvested cash" as two separate line items
- Opening and closing cash balances will show any uninvested cash throughout the month
- Investment Transaction reports will show STIF securities bought and sold throughout the month

Meketa will be presenting at the August 8 Board meeting and will include the cash



sweep and the natural resources topics in their discussion.

## **ADJOURNMENT**

It was ***moved*** by Monroe and ***seconded*** by DiGiovanni to adjourn the meeting at 4:39 p.m.  
**Meeting adjourned at 4:39 p.m.**

### **F-6 Administrative Policy Committee Minutes – August 9, 2022**

Following are the Administrative Policy Committee minutes from the meeting convened at 2:08 p.m. on August 9, 2022:

Committee Members Present: Lynch, Monroe, Praschan, Schreier  
Members Absent: None  
Other Trustees Present: Grimes(Via TX)  
Staff Present: Buffone(Via TX), Gustafson(Via TX), Hollabaugh, Orcutt  
Others Present: None

## **MISSIONSQUARE UPDATES**

Upcoming Education Dates: Dan Stewart is holding one-on-one consultations & webinars August 23-25. Dan Stewart will be reaching out to Police and Fire Chiefs regarding future on-site visits in an effort to increase attendance.

Discussion with City on Executive 401a: Ms. Orcutt met with HR and Ms. Praschan on July 29 regarding the 401a Executive plan. HR is currently managing the plan and the City has mentioned the possibility of the Retirement System assuming oversight for this plan as well. Ms. Orcutt checked with legal counsel to determine if that was a possibility should the City/Board choose to transfer oversight to the Retirement System. Aaron Castle stated that the Board would need to be identified as the Trustee in the Plan Document if such a change was ever made. Ms. Praschan and Ms. Orcutt noted that it would make sense to be consistent with investment menu changes made to the 401, 457 and the Executive 401a as the lineups are currently the same. Innovest stated that there would not be an additional fee to include this plan in the scope of work also.

## **INNOVEST**

Kickoff Meeting Recap: Staff met with Innovest to discuss the work plan. Innovest would like to begin work with Trustee fiduciary education. Innovest will conduct the education session at the September Board meeting.

Draft Communications & FAQ for Participants: Ms. Orcutt provided a draft of communications to be provided for plan participants. The Committee reviewed and made revisions to the draft. The letter and FAQ will be sent via email and posted to A2 News for all employees.

Next Steps: The Committee discussed the possible need for a special committee for Innovest. The Committee discussed the workplan further noting that the plan investment and fee review would need to be completed in October. Innovest advised this will likely take approximately two hours to complete. It was decided that the full Board should be involved and if schedules permit the Committee agreed to have Innovest present at the October Board meeting.

## **DIRECT DEPOSIT FRAUD ISSUE**

Ms. Orcutt informed the Committee of a recent direct deposit fraud issue. A retiree had their identity stolen recently which resulted in their pension direct deposit account to be updated with fraudulent information. Staff reacted quickly and was able to stop payment and make corrections. The retiree has notified Police and Staff has also been working with IT to ensure safety measures are in place. The Committee is interested in having Northern Trust manage future direct deposit changes. Ms. Grimes suggested to confirm Northern Trusts verification processes before further action is taken.

**LETTER FROM RETIREE**

Staff has received a letter from a retiree requesting an increase in monthly pension benefits. Ms. Orcutt will follow up with legal.

**SEPTEMBER MEETING DATE**

The Committee reviewed schedules and planned to meet September 13<sup>th</sup> at 3:00 pm.

**ADJOURNMENT**

It was ***moved*** by Schreier and ***seconded*** by Lynch to adjourn the meeting at 2:59 p.m.  
**Meeting adjourned at 2:59 p.m.**

The Board discussed the direct deposit fraud issues further and agreed to have all direct deposit changes and tax withholding changes processed through Northern Trust.

It was ***moved*** by Grimes and ***seconded*** by Monroe to approve that all direct deposit and tax withholding changes be made through Northern Trust.

**Approved**

**F-7 Audit Committee Minutes – None**

**F-8 Legal Report**

State of Michigan Budget 2022: Governor Whitmer signed and approved the 2022 State Budget in July 20, 2022 that included Section 979a (HB 5783 (H-2) CR-1), which provides for a one-time appropriation of up to \$750 million to the Department of Treasury to establish and operate a grant program for deposit into a local unit’s retirement system(s).

**G. INFORMATION (Received & Filed)**

**G-1 Communications Memorandum**

**G-2 September Planning Calendar**

**G-3 Record of Paid Invoices**

The following invoices have been paid since the last Board meeting.

	<b><u>PAYEE</u></b>	<b><u>AMOUNT</u></b>	<b><u>DESCRIPTION</u></b>
1	<b>American Express</b>	<b>\$1,942.48</b>	RFP Mtg Lunch, GFOA renewal, Mtg supplies, MAPERS, Cleaning
2	<b>Applied Imaging</b>	<b>\$46.93</b>	Printing 7/2022

3	Laura Hollabaugh	\$167.03	DTE Electric 6/14/2022-7/13/2022
4	IRM	\$729.27	Investment Manager Fee Q2 2022
5	Loomis Sayles	\$30,278.01	Investment Manager Fee Q2 2022
6	Meketa	\$10,000.00	Investment Consultant Fee 7/2022
7	Milliman	\$2,250.00	MARC Implementation Fee 7/2022
8	West Arbor Condo Association	\$456.00	Condo Association Fee 8/2022
9	Rhumblin	\$14,651.00	Investment Manager Fee Q2 2022
10	VanOverbeke, Michaud & Timmony	\$10,229.96	Legal Fees 1/1/2022-3/31/2022
11	Independent Medical Evaluations	\$2,350.00	Whitehead Disability ReExam
12	Staples	\$74.51	Misc. Office Supplies
<b>Total</b>		<b>\$73,175.19</b>	

#### **G-4 Retirement Report**

Retirement paperwork has been submitted by the following employee(s):

Name	Retirement Type	Effective Retirement Date	Group	Union	Years of Service	Department/Service Area
Dennis Fischer	Age & Service	September 7, 2022	General	AFSCME	25 Years, 1 Month	Public Services
Gianna Bommarito	Age & Service	August 27, 2022	Fire	FIRE	24 Years, 6 Months	Safety Services
Noel Scott	Age & Service	September 10, 2022	Police	AAPOA	25 Years, 11 Months	Safety Services

#### **G-5 Analysis of Page Views on Retirement System Website**

##### **I. TRUSTEE COMMENTS / SUGGESTIONS**

##### **J. ADJOURNMENT**

It was **moved** by Hastie and **seconded** by Schreier to adjourn the meeting at 9:51 a.m.  
**Meeting adjourned at 9:51 a.m.**

*Wendy Orcutt*

Wendy Orcutt, Executive Director  
City of Ann Arbor Employees' Retirement System