

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
January 15, 2015**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:36 a.m.

**ROLL CALL**

Members Present: Clark, Crawford, Flack, Heusel, Monroe, Powers  
Members Absent: Hastie, Nerdrum  
Staff Present: Kluczynski, Walker  
Others: Michael VanOverbeke, Legal Counsel

**AUDIENCE COMMENTS – None**

**A. APPROVAL OF REVISED AGENDA**

Ms. Walker stated that the agenda has been revised to include:

- E-1 - Drafted Ethics Policy
- F-4 – 1/13/2015 APC Minutes
- F-6 – Legal Report
- G-5 – Correspondence from AEW Capital Management

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

**Approved**

**B. APPROVAL OF MINUTES – December 18, 2014**

It was **moved** by Heusel and **seconded** by Clark to approve the December 18, 2014 Board Meeting minutes as submitted.

**Approved**

**C. CONSENT AGENDA**

**C-1 Reciprocal Retirement Act – Service Credit**

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees acknowledges that, effective July 14, 1969, the City of Ann Arbor adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, to provide for the preservation and continuity of retirement system service credit for public employees who transfer their employment between units of government, and

WHEREAS, the Board acknowledges that a member may use service credit with another governmental unit to meet the eligibility service requirements of the Retirement System, upon satisfaction of the conditions set forth in the Reciprocal Retirement Act, and

WHEREAS, the Board is in receipt of requests to have service credit acquired in other governmental unit retirement systems recognized for purposes of receiving benefits from the Retirement System, therefore be it

RESOLVED, that the Board of Trustees hereby certifies that the following member(s) of the Retirement System have submitted the requisite documentation for the recognition of reciprocal retirement credit:

Name	Classification	Reciprocal Service Credit	Prior Reciprocal Retirement Unit
William Meeks	General	7 years, 1 month	University of Michigan

RESOLVED, that the Board of Trustees notes that pursuant to the Reciprocal Retirement Act, said reciprocal retirement credit may only be used for purposes of meeting the retirement eligibility requirements of the Retirement System and that retirement benefits will be based upon actual service rendered to the City and shall be made payable consistent with the City Charter, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended), and further

RESOLVED, that a copy of this resolution shall be provided to the appropriate City and Union representatives and interested parties.

It was **moved** by Crawford and **seconded** by Heusel to approve the Consent Agenda as submitted.

**Approved**

**D. ACTION ITEMS**

**D-1 Resolution to Move IR&M Capital Management Funds from a Separately-Managed Account to a Commingled Fund**

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the City of Ann Arbor Employees' 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, Meketa Investment Group had previously advised the Investment Policy Committee to add a Treasury Inflation Protected Securities Manager (TIPS) to the portfolio congruent with a new asset allocation policy; and

WHEREAS, the Investment Policy Committee selected Income Research and Management as the best fit for the Retirement System to achieve its portfolio strategic objective in the addition of a TIPS Manager, with the understanding that IR&M offered a separately-managed account, and that a commingled fund might be available in the future; and

WHEREAS, the Retirement System funded IR&M as a separately-managed account initially, so be it

RESOLVED, that since IR&M now offers a commingled fund investment structure with a slightly lower investment fee, the Retirement System allocation to IR&M shall be moved to the commingled fund after completion of legal documentation.

It was **moved** by Crawford and **seconded** by Clark to approve the resolution to Move IR&M Capital Management Funds from a Separately-Managed Account to a Commingled Fund.

**Approved**

**D-2 Summary Annual Report for FY Ended June 30, 2014**

Ms. Walker provided a brief review of the Summary Annual Report for June 30, 2014, stating that the report will be made public as soon as the final budget numbers are finalized. Mr. Crawford suggested minor footnote clarifications to the report and it was decided that the report be approved subject to the updates and revisions.

It was **moved** by Powers and **seconded** by Clark to approve the Summary Annual Report for the fiscal year ended June 30, 2014.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Ethics Policy - Draft**

Mr. Monroe stated that the APC has forwarded the drafted Ethics Policy for further discussion with the full Board of Trustees in order to get additional feedback regarding language pertaining to gifts, gratuities, and meals provided by vendors. A lengthy discussion ensued with Mr. VanOverbeke providing further clarification on certain language, and suggested adopting guidelines in the Policy rather than setting specific limits. The Board decided that this item be placed on the upcoming Board Retreat agenda in order to allow more time for discussion as well as to get input from Trustees who are not present at this meeting.

**F. REPORTS**

**F-1 Executive Report – January 15, 2015**

**INTERCONTINENTAL DISTRIBUTION**

Intercontinental Real Estate Investment Fund III, LLC made a distribution in the amount of **\$ 786,422.38** on December 18, 2014 as the System's pro rata share of an overall \$25,000,000, distribution from the sale of a portfolio property.

**SUMMIT CAPITAL CALLS**

The third drawdown for the Retirement System Fund in the amount of **\$266,800** was called Monday, December 29, 2014. This installment represents 2.9% of the total commitment of \$9,200,000, bringing the total funding called to date to 10.7% of the commitment.

The third drawdown for the VEBA in the amount **\$66,700** was called Monday, December 29 2014. This installment represents 2.9% of the total commitment of \$2,300,000, bringing the total funding called to date to 10.7% of the commitment.

**MANAGER CHANGES**

Citigroup Orion's redemption form has been submitted for receipt of proceeds in mid January, to be invested in 36 South and TSE capital around Feb. 1<sup>st</sup>. TSE Capital documents are in progress and should be completed shortly. Och-Ziff is waiting until closer to time of investment to finalize documentation.

## BOARD RETREAT

The Board retreat is scheduled for February 27th, at the WISD building. Buck has indicated they would like to be included at the Retreat to discuss the amortization approach (for the unfunded liability) in the pension fund. Meketa has been requested to discuss system modeling and target returns and allocations.

## TRAINING

New pension ESS training: Thursday, January 29<sup>th</sup>, 3:00-4:30 p.m.  
Tuesday, February 24<sup>th</sup>, 10:00-11.30 a.m.

## EXPENSE REPORT INFORMATION

Effective Jan. 1, 2015, the new standard mileage rate is 57.5 cents per mile for miles driven on business or for travel. The IRS recommends standard mileage rates for business based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas and oil.

## CITY COUNCIL PRESENTATION

Executive Director will need to coordinate with Buck on the annual City Council presentation regarding the actuarial results. At this time, the best option for RS staff would be a meeting in March.

### **F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended December 31, 2014**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended December 31, 2014 to the Board of Trustees:

12/31/2014 Asset Value (Preliminary)	\$472,591,040
11/30/2014 Asset Value (Audited by Northern)	\$476,553,824
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$31,095,448
Percent Gain <Loss>	6.7%
<b>January 14, 2015 Asset Value</b>	<b>\$465,238,259</b>

### **F-3 Investment Policy Committee Minutes – January 6, 2015**

Following are the Investment Policy Committee minutes from the meeting convened at 3:13 p.m. on January 6, 2015:

**Member(s) Present:** Clark, Flack, Hastie, Monroe (3:20)  
**Member(s) Absent:** None  
**Other Trustees Present:** None  
**Staff Present:** Jarskey, Kluczynski, Walker  
**Others Present:** Edward Urban, Meketa Investment Group  
Henry Jaung, Meketa Investment Group

## INTERIM FUND PERFORMANCE REVIEW

Before reviewing the investment performance, Mr. Jaung gave a recap of 2014, current oil prices and impact, and the 2015 outlook. Mr. Urban conducted the performance review for the quarter ended October 31, 2014, and stated that the System was valued at \$472.3

million at that time, and currently, all asset classes are within the target ranges. Mr. Urban noted that the current passive allocation at the Fund level is 63%, which is a pretty high number. At the last IPC meeting, Mr. Hastie had asked Meketa what that level was when they were hired in 2011, which was 45%, so in the past four years that level increased by almost 20 percentage points of the total Fund level, which is a really meaningful shift and will save the Funds significant fees going forward. Mr. Urban provided a review of the various manager performances for the quarter ended October 31, 2014.

Mr. Jaung stated that IR&M has created a commingled pool which currently contains two other clients, and Meketa recommends investing in this portfolio, which gives a little more liquidity and is a little less expensive at 8 basis points versus 10 basis points. The recommendation would be to get out of the separate accounts for both the City of Ann Arbor Employees' Retirement System and Retiree Health Care Benefit Plan & Trust, and IR&M would bear all of the accounting and legal fees involved in operating the commingled fund.

It was **moved** by Monroe and **seconded** by Flack to recommend to the Board of Trustees that the IR&M TIPS portfolio be moved to the IR&M Commingled Fund for both the Retirement System and VEBA funds. A resolution will be placed on the January 15th Board agenda for approval.

**Approved**

Mr. Urban stated that an asset allocation and rebalancing discussion will be conducted at the upcoming Board Retreat, and the December 31st performance review will be discussed in greater detail at the February 3rd IPC meeting.

**REVIEW OF POTENTIAL "CLEAN" ENERGY INVESTMENTS  
AVAILABLE IN MUTUAL FUND UNIVERSE**

Mr. Jaung reviewed recent news articles regarding fossil fuel investments and divestments, which indicate that "engagement" is gaining more traction recently. Mr. Jaung reviewed a list of public and private market funds involved with clean and alternative energy, including the following summary:

Meketa Investment Group has reviewed documents for 20+ private market clean energy funds and met with 10+ private market clean energy funds.

- To date, MIG has not invested in any funds solely focused on clean energy due to economic risk as these projects are often heavily reliant on government subsidies which are still in flux.
- We have attached a representative list of clean energy-focused private market funds.
- We did include some funds that invest in a blend of traditional and clean energy assets.

Meketa Investment Group also has a database of public market clean and alternative energy funds.

- As with private market funds, we have not invested in these public market funds.
- A representative list of public market funds has been provided.

Meketa's recommendation is to hold off a while until the investment thesis changes, and wait for regulations and tax issues to settle down before moving into this area. A discussion ensued regarding the social aspects of this area, and Mr. Jaung stated that there are very few funds that have 100% or a majority of investments in clean energy. Mr. Hastie noted that he

will work on drafting a letter to City Council as previously discussed and bring it to the Committee in the near future for review.

### **HEDGE FUND INVESTMENT TIMELINE**

Recently, the IPC voted to transition to a direct hedge fund program for efficiency and cost savings, and to date, the Committee has approved four direct hedge fund investments. Mr. Urban reviewed the notice dates and estimated delivery dates for funding the newly approved mandates.

### **SCHEDULE FOR LUNCH TIME MANAGER CALLS**

The Committee discussed the next lunchtime manager call, and it was decided that a call should be scheduled on either January 22<sup>nd</sup> or 29<sup>th</sup> with Vontobel. Mr. Urban stated that he would follow up to get that scheduled.

### **IPC MEETING SCHEDULE**

The Committee decided to hold its next meeting as scheduled on Tuesday, February 3<sup>rd</sup>, but the March 3<sup>rd</sup> meeting will be cancelled and a performance review will be provided during the Board's retreat on February 27<sup>th</sup> along with other investment topics on that agenda.

### **ADJOURNMENT**

It was **moved** by Flack and **seconded** by Clark to adjourn the meeting at 5:17 p.m.  
**Meeting adjourned at 5:17 p.m.**

### **F-4 Administrative Policy Committee Minutes – January 13, 2015**

Following are the Administrative Policy Committee minutes from the meeting convened at 3:08 p.m. on January 13, 2015:

Committee Members Present:	Crawford, Heusel (via telephone), Monroe
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Kluczynski, Walker
Others Present:	None

### **REVISED DRAFT – ETHICS POLICY**

The Committee further reviewed the drafted Ethics Policy, specifically, language regarding gifts and gratuities, meals, conferences, and compared language from ERISA's conduct policy. The Committee decided to remove the political contributions section from the Policy since it was not applicable to the System. It was decided that Ms. Walker would incorporate certain language from the ERISA document regarding gifting, and that the Committee would like to get the Board's feedback at the next regular meeting on these items, anticipating many diverse opinions, before moving forward.

Mr. Heusel departed at this time (4:10 p.m.)

### **DISABILITY RETIREMENT PROCESS – DRAFTED LETTER**

Ms. Walker stated that in light of recent misunderstandings at the City regarding the disability retirement process and the impression that being granted a disability retirement would be a "formality" for certain employees, she has submitted a drafted letter for the Committee's review.

The letter regarding the disability retirement process will be directed to the City's Human Resources Department in order to clarify in detail the process which must be followed and the requirements which must be met before a member of the Retirement System will be granted a disability retirement. The Committee agreed that the letter should be sent on behalf of the Board of Trustees.

### **ADJOURNMENT**

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 4:44 p.m.  
**Meeting adjourned at 4:44 p.m.**

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Ms. Walker briefly reviewed the drafted letter to Human Resources regarding clarification of the disability retirement process which details the process to be followed and the requirements which must be met before a member of the Retirement System will be granted a disability retirement. Mr. Crawford asked Mr. VanOverbeke for clarification regarding an applicant's actual date of disability retirement after Board approval, and Mr. VanOverbeke stated that it can vary depending on the person's situation.

Mr. VanOverbeke stated that an employee may be working in a light duty capacity and still be deemed totally and permanently disabled, but cannot be both a disability retiree and an active member of the System at the same time, so the question is what is their effective date of retirement. It is the latter of their last date of employment or their date of application, so it is possible for the employee to remain working in a light duty capacity for some period of time through an agreement with the City even though they have been deemed disabled, though they may be subject to a re-exam after a period of time.

F-5 **Audit Committee Minutes – None**

F-6 **Legal Report – Lyondell Securities Litigation, Tse Capital/PA 314, & Trustee Fiduciary Responsibility**

### **LYONDELL CHEMICAL SECURITIES LITIGATION**

Mr. VanOverbeke reviewed the Settlement Agreement as approved at the December Board meeting and suggested that a motion be made to acknowledge receipt of the correspondence and payment direction.

It was **moved** by Crawford and **seconded** by Clark to acknowledge receipt of the correspondence from the Board's legal counsel dated January 14, 2015 regarding the Weisfelner v Fund 1 (Lyondell) matter.

**Approved**

### **TSE CAPITAL**

Mr. VanOverbeke reviewed the legal opinion regarding the new investment with Tse Capital, which outlines the qualification of the investment in the Fund under the Public Employee Retirement System Investment Act, Public Act 314 of 1965 (basket clause) as amended.

It was **moved** by Crawford and **seconded** by Monroe to acknowledge receipt of the January 9, 2015 opinion from legal counsel with regards to Tse Capital Offshore Fund, and to acknowledge legal counsel's review of the investment documents, and authorize them to be executed by appropriate signatories on behalf of the Board of Trustees.

**Approved**

## TRUSTEE FIDUCIARY RESPONSIBILITY

Mr. VanOverbeke stated that in light of the fiduciary discussion at the end of the December 2014 Board meeting, he has drafted a letter to the City as requested, which clarifies a Trustee's fiduciary responsibility on the Board as cited in Chapter 18 of the City Code of Ordinances as well as Public Act 314. The letter refers to language regarding a Trustee's expected attendance at meetings, as well as language stating that Trustees shall suffer no loss in compensation on account of their services as a Trustee. The Board agreed that the letter be forwarded from the Board of Trustees to the appropriate individuals as discussed.

### G. INFORMATION (Received & Filed)

#### G-1 Communications Memorandum

#### G-2 February Planning Calendar

#### G-3 Record of Paid Invoices

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

	<b>PAYEE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
1	DTE Energy	173.16	Monthly Gas Fee dated December 10, 2014
2	DTE Energy	170.15	Monthly Electric Fee dated December 10, 2014
3	Buck Consultants	1,583.33	Monthly hosting fees – November 2014
4	Buck Consultants	1,583.33	Monthly hosting fees – September 2014
5	Hasselbring-Clark Co.	54.31	Monthly copier cost per copy – November 2014
6	Hasselbring-Clark Co.	44.06	Monthly copier cost per copy – December 2014
7	Nancy Walker	35.84	Mileage reimbursement – P. Janovits final onsite appt.
8	Afternoon Delight	166.75	December Board meetings – 12-18-2014
9	Rehmann Robson	819.14	3 <sup>rd</sup> installment for annual audit work
10	Rehmann Robson	3,091.75	Additional work of new GASB 67 standards
11	AT&T	257.40	Monthly telephone service
12	Bradford & Marzec	23,827.03	Investment management fees: 7/1/2014-8/22/2014
	<b>TOTAL</b>	<b>31,806.25</b>	

#### G-4 Retirement Report – No Report

### H. TRUSTEE COMMENTS - None

### I. ADJOURNMENT

It was **moved** by Clark and **seconded** by Monroe to adjourn the meeting at 10:18 a.m.  
**Meeting adjourned at 10:18 a.m.**



Nancy R. Walker, Executive Director  
City of Ann Arbor Employees' Retirement System