

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
December 20, 2018**



The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:57 a.m.

ROLL CALL

Members Present: Clark (*Via TX*), Crawford, DiGiovanni, Flack, Hastie, Lynch, Monroe, Schreier
Members Absent: Nerdrum
Staff Present: Gustafson, Hollabaugh, Hammond, Orcutt
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B November 15, 2018 Regular Board Meeting

It was **moved** by Crawford and **seconded** by Monroe to approve the November 15, 2018 Regular Board Meeting minutes as submitted.
Approved

C. CONSENT AGENDA

C-1 Authorization for Conference/Training – GFOA Annual Conference, May 18-22, 2019

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, Corbin Hammond, Accountant, has requested the Board of Trustees' authorization for his travel to Los Angeles, California, at Retirement System expense, estimated at \$2,081.30, to attend the GFOA Annual Conference, to participate in continuing education in his responsibility as Retirement System Staff person, therefore be it

RESOLVED, the Board of Trustees authorizes the conference and training request of Corbin Hammond to travel to Los Angeles, California, at Retirement System expense, estimated at \$2,081.30, to attend the GFOA Annual Conference, to participate in continuing education in his responsibility as Retirement System Staff person, and

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

It was **moved** by Monroe and **seconded** by Schreier to approve the consent agenda as submitted.

Approved

D. EXECUTIVE SESSION – Disability Re-Examination Review

It was **moved** by Monroe and **seconded** by Hastie to convene an Executive Session for the purpose of reviewing the Disability Re-Examination.

Approved

Roll call vote:

Clark – Yes

Flack – Yes

Monroe – Yes

Crawford – Yes

Hastie – Yes

Nerdrum – Absent

DiGiovanni - Yes

Lynch - Yes

Schreier - Yes

Executive Session time: 8:45 a.m. – 8:52 a.m.

E. ACTION ITEMS

E-1 Motion Regarding Disability Re-Examination Review

It was **moved** by Schreier and **seconded** by Lynch to acknowledge receipt of the medical report from Allen Babcock, M.D. dated November 28, 2018, with regards to the independent medical re-examination of disability retiree Lynn Hart, and direct that a copy of the medical report and evaluation be forwarded to the City for confirmation as discussed in closed session.

Approved

E-2 Resolution to Rebalance Assets

WHEREAS, the Board of Trustees is vested with the general 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 has an approved Investment Policy Statement in order to effectively monitor its portfolio, and

WHEREAS, the Investment Policy Statement recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions, and

WHEREAS, the Investment Policy Statement has established a range for each asset class to control risk and maximize the effectiveness of the System's assets, and

WHEREAS, when an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back to the target allocation, and

WHEREAS, the System's investment consultant, Meketa, has evaluated the Retirement System's current asset class allocations relative to their respective targets and determined that the Retirement System is overweight in High Yield Bonds and Bank Loans. Meketa recommends the System reduce Sky Harbor Broad High Yield by 2% and Beach Point Leveraged Loans by 1% and transfer 2% to Investment Grade Bonds (Northern Trust 1-5 Year Credit Bonds) and 1% to Emerging Markets Debt (Stone Harbor EM Local Currency Debt), so be it

RESOLVED, that the Board of Trustees authorizes the Executive Director to reallocate funds per Meketa Investment Group's December 4th Rebalancing Recommendation.

It was **moved** by DiGiovanni and **seconded** by Monroe to approve the resolution to reallocate funds per Meketa Investment Group's December 4th Recommendation.

Approved

E-3 Member Interest Credits for Calendar Year 2019

Findley submitted a letter regarding the member interest credits, indicating that the computed rate of return for the fiscal year ending June 30, 2018 is 5.9%. The equivalent quarterly return is 1.44%. Therefore, 1.44% regular interest should be credited to member accounts for the quarter ending March 31, 2019 and each of the remaining three quarters in calendar year 2019.

It was **moved** by Crawford and **seconded** by Monroe to acknowledge receipt of the correspondence regarding the member interest crediting rate as calculated by Findley and approve the 1.44% interest rate to be credited.

Approved

E-4 Single Candidate Election

Ms. Orcutt informed the Board that Dave Monroe was the only employee to complete a Declaration of Candidacy Form for the 2018 Police Member Election. Per the Board's Rules and Regulations Governing Elections of Board Trustees:

ARTICLE IV – ELECTION

A) Single Candidate Election

If only one candidate has filed the Declaration of Candidacy, the City Clerk's Office shall not hold the election. The Clerk shall notify the Board of Trustees that the candidate is unopposed. The Board, upon such notice, shall declare the unopposed candidate to be the Trustee for the designated term.

Mr. Monroe's new term will begin January 1, 2019 through December 31, 2021.

It was **moved** by Crawford and **seconded** by Hastie to acknowledge Mr. Monroe's reappointment to the Board of Trustees effective January 1, 2019 through December 31, 2021.

Approved

E-5 Certification of Elected Board Member

Ballots from the Pension Board Election held on December 12th and 13th for one General Member representative were counted in the City Clerk's Office on Friday, December 14, 2018. The following were the results:

General Member Election

Jennifer Grimes - 46
Joseph Peariso - 78
James (Don) Ratliff – 6
Anne Warrow - 22

Joseph Peariso was declared the winner of the General Member Representative seat on the Employees' Retirement System Board of Trustees in this election with 78 of votes. Terry Clark previously served this seat.

Joseph Peariso will begin his new three-year term on the Employees' Retirement System Board, and on the Retiree Health Care Benefit Plan & Trust Board effective January 1, 2019.

It was **moved** by Crawford and **seconded** by Schreier to acknowledge Mr. Peariso's appointment to the Board of Trustees effective January 1, 2019 through December 31, 2021.

Approved

F. DISCUSSION ITEMS

F-1 ICMA Verbal Update

Ms. Orcutt informed the Board that ICMA-RC will be onsite January 28 – January 31, 2019 for individual meetings.

Ms. Orcutt also provided an update regarding the brokerage agreement. City staff from HR and Legal are working with ICMA on a draft for a tri-party agreement regarding the self-directed brokerage. ICMA was able to find documents from the late 1990's allowing these accounts. Currently, per instruction from the City, ICMA is not allowing new entrants to this program until the issue is resolved.

F-2 City Council Policy Agenda

Ms. Orcutt reminded the Board of the Legislative Policy Agenda. City Council is considering legislative changes they would like done at the State level to prioritize their work with the Lobbyist. Should the Pension Board like to submit any input, the deadline is December 21, 2018. The Board had no input at this time.

F-3 March Board Meeting & Retreat Dates

Ms. Orcutt reminded the Board of the Board Retreat Date and March Board Meeting date, noting that they are back to back. The Board discussed whether or not to have a March Board Meeting. It was decided to further discuss at the February Board Meeting.

F-4 Actuary Update

Ms. Orcutt informed the Board about some recent issues Staff has experienced with the Actuary. After further discussion, the Board decided that it would be prudent to inform the Actuary that they are unhappy with their performance thus far.

G. REPORTS

G-1 Executive Report – December 20, 2018

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 11/14/18 in the amount of **\$140,952** for the Retirement System consisting of \$ 175,581 in dividends and return of capital netted against \$34,629 in management fees. The VEBA distribution of **\$41,456** consisted of \$51,641 in dividends and return of capital netted against \$10,185 in management fees.

DRA issued a distribution from the Growth and Income Fund VIII on 12/11/18 in the amount of **\$52,815** for the Retirement System and \$15,534 for the VEBA consisting of dividends, gains and return of capital.

DRA issued a distribution from the Growth and Income Fund IX on 11/15/18 in the amount of **\$72,406** for the Retirement System consisting of \$94,438 in dividends netted against \$22,032 in management fees. The VEBA distribution of **\$31,296** consisted of \$37,776 in dividends netted against \$6,480 in management fees.

DRA CAPITAL CALLS

DRA requested a capital call of our commitment to the Growth and Income Fund IX in the amount of **\$647,208** for the Retirement Plan and **\$190,355** for VEBA on 12/19/18 for the purpose of funding current commitments.

CONSTITUTION CAPITAL PARTNERS

Ironsides Co-Investment Fund III, L.P. issued a distribution in the amount of **\$837,358** on 11/21/2018. This was net of **\$31,298** in Management Fees and Expenses.

Ironsides Partnership Fund III requested a capital call in the amount of **\$439,437** on 12/28/18 for the purpose of funding current commitments.

SUMMIT PARTNERS

Summit Partners Credit Fund II, L.P. requested a capital call of 1.0% of our commitment to the Funds in the amount of **\$91,284** for the Retirement Plan and **\$22,821** for the VEBA on 11/30/18 which represents a recall of distributions. With these installments, **CAAERS** will have funded 113.1% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

Summit Partners Credit Fund III, L.P. requested a capital call in the amount of **\$34,893** for the Retirement Plan and **\$ 9,692** for the VEBA on 12/13/18 to fund current commitments. With this installment, **the System** will have funded 16.7% of our total commitments of \$9,000,000 for the Retirement Plan and \$2,500,000 for the VEBA.

Summit Partners Credit Fund III, L.P. requested a capital call in the amount of **\$ 829,540** for the Retirement System and **\$ 230,428** for the VEBA on 12/18/18 to fund current commitments. With this installment, **the System** will have funded 25.9% of our total commitments of \$9,000,000 for the Retirement Plan and \$2,500,000 for the VEBA.

RAISE CASH FOR CAPITAL CALLS & EXPENSES - VEBA

The NT Russell 1000 Index was utilized on December 10, 2018 to raise cash in the amount of \$1,000,000 per direction from Meketa.

ICMA-RC UPDATE

City staff from HR and Legal are working with ICMA on a draft for a tri-party agreement regarding the self-directed brokerage. ICMA was able to find documents from the late 1990's allowing these accounts. Currently, per instruction from the City, ICMA is not allowing new entrants to this program until the issue is resolved.

ICMA-RC will be onsite January 28 – January 31 for individual meetings.

SUMMARY ANNUAL REPORTS AND RELATED DOCUMENTATION

The reports for the System and VEBA were submitted to the State on December 7, 2018 along with the PA 530 Form that is now required. The City of Ann Arbor Finance Department submitted form 5572 which is also required under PA 202.

STAFF OPERATIONS/UPDATE

The Pension Analyst conducted 2 pre-sessions, processed 14 estimates and is working on the minimum benefit calculation.

HAPPY HOLIDAYS!

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended November 31, 2018

Wendy Orcutt, Executive Director, submitted the Financial Report for the month ended November 30, 2018 to the Board of Trustees:

11/30/2018 Asset Value (Preliminary)	\$495,527,393
10/31/2018 Asset Value (Audited by Northern)	\$494,074,946
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$(2,517,853)
Percent Gain <Loss>	-0.5%
December 20, 2018 Asset Value	\$475,108,814

G-3 Investment Policy Committee Minutes – December 4, 2018

Following are the Investment Policy Committee minutes from the meeting convened at 3:06 p.m. on December 4, 2018:

Member(s) Present: Clark (Via TX), Crawford (4:17p.m. departure), DiGiovanni (3:26 p.m. arrival), Monroe
Member(s) Absent: Flack, Hastie
Other Trustees Present: None
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
Keith Beaudoin, Meketa Investment Group
Joseph Gatz, Loomis Sayles
Joseph Beauptant, Loomis Sayles
David Diephuis, City Resident

Performance Update

As of October 31, 2018, the balance of the Funds were \$493,302,552 for ERS. Fiscal year to date performance was -1.9% for ERS net of fees. Mr. Jaung also reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

Mr. Beaudoin informed the Committee that the High Yield bonds and Bank Loans currently are overweight compared to the policy. Meketa recommended to rebalance and reduce both the High Yield Bonds and Bank Loans and increase the allocations to Investment Grade Bonds and Emerging Market Debt. After further discussion, the committee made the following motion.

It was **moved** by DiGiovanni and **seconded** by Crawford to rebalance the portfolio by reducing 2% from High Yield Bonds and 1 % from Bank Loans with 2% funding the Investment Grade 1-5 YR Bonds and 1 % funding the Emerging Market Debt.

Approved

Emerging Market Debt Review

Mr. Jaung briefly reviewed emerging market debt stating that the primary rationale for investing in EMD is to gain exposure to fast-growing, increasingly creditworthy emerging market entities. EMD also offers higher yields than U.S. governmental bonds, though the asset class has some risks.

After further review, the Committee decided to discuss this topic at the next IPC meeting when more members would be present.

Loomis Sayles Presentation

Mr. Beaupartant and Mr. Gatz presented on behalf of Loomis Sayles reviewing their firm, including their history, team overview, stock selection, and investment process.

The meeting adjourned without a quorum at 5:00 p.m.

IPC Project Tracking Table		
Description	Originated	Status
Emerging Markets Debt	12/4/2018	Pending
Draft Investment Policy Statement 401A/457B		Pending
Board's Preliminary Financial Report: Add benchmark info reports – stock market index		Pending
Custom Benchmarks		Pending
Condo Mortgage	6/5/18	Pending

G-4 Administrative Policy Committee Minutes – December 11, 2018

Following are the Administrative Policy Committee minutes from the meeting convened at 3:08 p.m. on December 11, 2018:

Committee Members Present: Lynch, Monroe
Members Absent: Schreier
Other Trustees Present: None
Staff Present: Gustafson, Hollabaugh, Orcutt
Others Present: None

ICMA VERBAL UPDATE

Ms. Orcutt informed the Committee that a reminder has been posted on the A2 News Notes for all employees regarding the ICMA contribution limit increase and the timing on deferral changes.

Ms. Orcutt also updated the committee on the self-directed brokerage account agreement. Human Resources and Legal Counsel are working with ICMA on a draft for a tri-party agreement. ICMA found documents from the 1990's approving these accounts. Currently, ICMA is not allowing new entrants to this program until this issue is resolved, per instruction from the City.

OTHER BUSINESS

Ms. Orcutt informed the Committee about some recent issues Staff has experienced with the Actuary. This will be discussed further with the Board at the next meeting.

DISCUSS APC MEETING SCHEDULE - JANUARY

The Committee reviewed the schedule for January and decided to schedule the next APC meeting for January 15th, 2019. The Committee may consider changing meeting times to a different week in the future.

REVISED GOVERNANCE POLICY – CONTINUED DISCUSSION

The Committee further reviewed and revised the Governance Policy. The Committee will continue to review and revise the policy at the next meeting.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Lynch to adjourn the meeting at 4:20 p.m.
Meeting adjourned at 4:20 p.m.

APC Project Tracking Table		
Description	Originated	Status
Revised Governance Policy	7/24/18	Pending
Discussion on Benefit Multiplier Associated with Employee Group Change	November 2017	Pending
Revision to Death Policy	September 2017	Pending
Attendance Policy	2014	Pending
Fiduciary Audit Recommendations & Considerations (Ennis Knupp report) - Continue to discuss priorities and next steps on implementation	October 2009	Placed back on pending list on 8-9-2016

G-5 Audit Committee Minutes – None

G-6 Legal Report

Mr. VanOverbeke provided the Board with a legislative update stating that the Lame Duck session is coming to an end and does not seem to be as much of an issue as anticipated.

Mr. VanOverbeke also informed the Board of the securities action memo submitted regarding TreeHouse Foods, Inc. The Retirement System currently holds shares of TreeHouse Foods, Inc.; legal is currently investigating potential breaches of duties and is awaiting response from the served litigation demand.

H. INFORMATION (Received & Filed)

H-1 Communications Memorandum

H-2 January Planning Calendar

H-3 Record of Paid Invoices

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

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	DTE Energy	\$199.55	Electric Services 10/10/18-11/9/18
2	DTE Energy	\$92.22	Gas Services 10/10/18-11/9/18
3	Robertson Morrison Inc.	\$230.00	Quarterly Routine Maintenance 11/2018
4	Staples	\$108.44	Miscellaneous Office Supplies
5	Buck Consultants	\$1,583.33	October Monthly Hosting Fee

6	Applied Imaging	\$42.90	8/1/18-8/31/18 Printing
7	Applied Imaging	\$71.14	10/1/18-10/31/18 Printing
8	Applied Imaging	\$52.56	7/1/18-7/31/18 Printing
9	MAPERS	\$200.00	2019 Membership Renewal Fee
10	Culligan	\$32.74	Water Services 11/1/18-11/30/18
11	Meketa Investment Group	\$10,000.00	Investment Consulting Fee October 2018
12	Midwest Maintenance	\$175.00	October Cleaning Services
13	Buck Consultants	\$1,583.33	September Hosting Fee
14	Applied Imaging	\$81.00	Printing Services 11/1/2018 - 11/30/2018
15	AT&T	\$523.37	Phone Services 10/26/18 - 11/25/18
16	Midwest Maintenance	\$134.61	Cleaning Services November 2018
17	Med Source	\$900.00	Disability Re-Exam: L. Hart
18	Culligan	\$38.99	Water Services 12/1/18-12/31/18
19	Meketa Investment Group	\$10,000.00	Investment Consulting Fee November 2018
Total		\$26,049.18	

H-4 Retirement Report

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

Name	Retirement Type	Effective Retirement Date	Group	Years of Service	Department/Service Area
Tamera Jones	Deferred Age & Service	January 1, 2019	Fire	3 years, 4 months	Safety Services
Jeffrey Ford	Age & Service	January 10, 2019	Police	22 years, 3 months	Safety Services
Nancy Niemela	Age & Service	January 19, 2019	General	14 years 2 months	City Attorney
Bradley Ruppel	Early Age & Service	January 12, 2019	General	20 years	Community Services

H-5 Analysis of Page Views on City Intranet / Retirement System Page

I. TRUSTEE COMMENTS / SUGGESTIONS

J. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Schreier to adjourn the meeting at 10:05 a.m.

Meeting adjourned at 10:05 a.m.

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