

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
January 17, 2019**



The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:45 a.m.

ROLL CALL

Members Present: Crawford, DiGiovanni, Flack, Hastie (10:09 a.m. departure), Lynch, Monroe, Nerdrum (9:09 a.m. arrival), Peariso, Schreier
Members Absent: None
Staff Present: Gustafson, Hollabaugh, Hammond, Orcutt
Others: Michael VanOverbeke, Legal Counsel
Simon Campbell, City Resident (9:08 a.m. arrival)

AUDIENCE COMMENTS

The Board welcomed and introduced themselves to the new Trustee, Joseph Peariso.

A. APPROVAL OF AGENDA

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

Approved

B. APPROVAL OF MINUTES

B December 20, 2018 Regular Board Meeting

Mr. DiGiovanni noted a mistake in the minutes from December 20, 2018. During the Executive Session, he was marked absent but was present.

It was **moved** by DiGiovanni and **seconded** by Schreier to approve the December 20, 2018 Regular Board Meeting minutes as revised.

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
Leslie Herter	Fire	12 Years	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 Schreier and **seconded** by Crawford to approve the consent agenda as submitted.

Approved

D. **ACTIONS ITEMS** – None.

E. **DISCUSSION ITEMS**

E-1 **Actuary Update**

Ms. Orcutt informed the Board that as requested at last month’s meeting, a letter was sent to the Actuary on December 28, 2018, informing Findley that the Board has been unhappy with their performance thus far. The Retirement System has received little to no response from Findley. A lengthy discussion ensued regarding the next steps to this matter, acknowledging since the RFP process was conducted in early 2018, the submissions are still valid. Ultimately, the Board decided to make the following motions:

It was **moved** by Hastie and **seconded** by Nerdrum to terminate Findley, providing Findley with a 30 day termination letter effective 30 days from January 18, 2019.

Approved

It was **moved** by Nerdrum and **seconded** by DiGiovanni to retain Gabriel Roeder Smith & Company as the new Actuary subject to negotiation of appropriate Actuarial Services Contract.

Approved

E-2 **Board Retreat Topics**

The Board discussed some options for the Retreat such as the risk profile of the Investment Policy Statement, Assessing Risk, Benefit Administration and Governance Policy.

E-3 ICMA 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. The addendum has been revised which covers all members in the program as of December 1, 2018 and excludes the indemnification language. The program is to be closed to new participants going forward since neither the Board nor the City will accept the indemnification required by ICMA. A notification will be sent out to employees informing them that the program will no longer be available.

E-4 Trustees' Terms Expiring in 2019

Ms. Orcutt informed the Board that there will be two Trustee Term's expiring this year, Mr. Hastie and Ms. Lynch.

Ms. Orcutt also informed the Board of an upcoming MAPERS One Day Seminar. Mr. Peariso expressed interest in attending.

It was **moved** by DiGiovanni and **seconded** by Schreier to approve any interested Staff or Board Member to attend the One Day MAPERS Seminar.

Approved

F. REPORTS

F-1 Executive Report – January 17, 2019

CARLYLE CAPITAL CALLS

Carlyle requested a capital call of our commitment to the Carlyle Realty Fund VIII in the amount of **\$ 266,919** for the Retirement Plan and **\$ 66,734** for the VEBA on 1/8/19 for the purpose of investment funding as well as management fees and expenses.

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 12/27/18 in the amount of **\$190,048** for the Retirement System and **\$55,897** for the VEBA consisting of a gain on sale and return of capital.

DRA issued a distribution from the Growth and Income Fund VIII on 1/02/2019 in the amount of **\$164,826** for the Retirement System and **\$48,478** for the VEBA consisting of a gain on sale, dividends and return of capital.

SVB CAPITAL CALLS

SVB Fund VIII requested a capital call of our commitment to the Funds in the amount of **\$ 560,000** for the Retirement Plan and **\$ 140,000** for the VEBA on January 23, 2019 for the purpose of funding current investments as well as expenses and management fees.

SUMMIT PARTNERS

Summit Partners issued a distribution from the Credit Fund II on 12/27/18 in the amount of **\$245,491** to the Retirement System and **\$61,372** to the VEBA consisting of net investment gains and recallable capital.

Summit Partners Credit Fund II, L.P. requested a capital call of 2.3% of our commitment to the Funds in the amount of **\$209,533** for the Retirement Plan and **\$52,583** for the VEBA on 1/17/19 which represents a recall of distributions. With these installments, **CAAERS** will have funded 115.4% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

ICMA-RC UPDATE

ICMA sent a revised draft of the self-directed brokerage addendum which covers all members in the program as of December 1, 2018 and excludes the indemnification language. It is the intent that the program will be closed to new entrants going forward as neither the Board nor the City will accept the indemnification language required by ICMA. Both the City and Pension Board legal teams have reviewed the document and it is ready for signature.

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

STAFF OPERATIONS/UPDATE

ED met held an introductory meeting with Joseph Peariso, the newly elected General Member trustee on January 8th. He will be attending his first meeting on the 17th.

The Pension Analyst conducted 4 pre-sessions and processed 9 estimates.

ED will be out of the office January 22 and 23rd.

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

Wendy Orcutt, Executive Director, submitted the Financial Report for the month ended December 31, 2018 to the Board of Trustees:

12/31/2018 Asset Value (Preliminary)	\$476,494,061
11/30/2018 Asset Value (Audited by Northern)	\$495,544,044
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	(\$18,981,612)
Percent Gain <Loss>	-3.7%
January 17, 2019 Asset Value	\$483,149,884

F-3 Investment Policy Committee Minutes – January 8, 2019

Following are the Investment Policy Committee minutes from the meeting convened at 3:12 p.m. on January 8, 2019:

Member(s) Present: Crawford, DiGiovanni, Hastie, Monroe

Member(s) Absent: Flack

Other Trustees Present: None

Staff Present: Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
John Harris, Meketa Investment Group

Mr. Jaung started the meeting by introducing John Harris, who is a new member on the Meketa team. He will be working out of the Chicago Office and will be working with Mr. Jaung on the Retirement System's account.

INTERIM UPDATE AS OF NOVEMBER 30, 2018

As of November 30, 2018, the balance of the Funds were \$494,051,354 for ERS. Fiscal year to date performance was -0.9% for ERS net of fees. Mr. Jaung also reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

Mr. Jaung stated that as equity markets tumbled in December, other asset classes rose, led by Gold Miners, Investment Grade Bonds and Emerging Markets Bonds. The Committee further discussed deciding to look into Emerging Market Bonds once the System has earned back the loss.

UPDATES ON REBALANCING OF THE HIGH YIELD AND BANK LOAN TO EMERGING MARKETS DEBT AND SHORT TERM INVESTMENT GRADE CREDIT

The Committee reviewed the rebalancing of the High Yield and Bank Loans including that the redemption letters had been sent to Stone Harbor and Beach Point. The latter has quarterly liquidity so the cash should be wired in early April.

REVIEW OF ARBORETUM

Mr. Jaung informed the Committee that Meketa has met with Arboretum and recommends that they attend the February IPC Meeting to present for a possible investment opportunity.

REVIEW OF EMERGING MARKETS DEBT

Mr. Jaung provided the Committee with an overview of Emerging Markets Debt, stating that the primary rationale for investing in EMD is to gain exposure to fast-growing, increasingly creditworthy emerging market entities. Mr. Jaung informed the Committee that the leveraged loan and high yield bond proceeds will be funding the Emerging Market Debt local in the first quarter of 2019. Once those transactions settle, Meketa will be looking into the local currency bonds for future investments.

BOARD RETREAT AGENDA

Mr. Jaung discussed potential topics for the Board Retreat agenda regarding the long and short term risk profiles and tactics, as well as the timing and conditions for becoming more aggressive.

The Board will further discuss topics and follow up with Mr. Jaung.

REVIEW OF CASH RAISING PRACTICES

The Committee reviewed the current practices for raising cash. After a brief discussion,

the Committee agreed to raise cash monthly, as needed, giving Mr. Jaung and Ms. Orcutt the discretion to determine which fund(s) to rebalance from. The Committee will be notified of the rebalancing as transactions are made. Ms. Orcutt will further review the current policy and will inform the Committee if any updates are needed.

OTHER

The Committee briefly reviewed their calendars for February’s IPC. Due to scheduling conflicts, the February IPC meeting will be held on February 12, 2019.

ADJOURNMENT

It was **moved** by Crawford and **seconded** by DiGiovanni to adjourn the meeting at 5:09 p.m.
Meeting adjourned at 5:09 p.m.

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

F-4 Administrative Policy Committee Minutes – January 15, 2019

Following are the Administrative Policy Committee minutes from the meeting convened at 3:05 p.m. on January 15, 2019:

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

ICMA UPDATE

Ms. Orcutt informed the Committee that ICMA will be on site January 28-31st for individual consultations.

Ms. Orcutt also updated the committee on the self-directed brokerage account agreement. The addendum has been revised which covers all members in the program as of December 1, 2018 and excludes the indemnification language. The program is to be closed to new participants going forward since neither the Board nor the City will accept the indemnification required by ICMA. The Committee decided it be best to send out a notice to employees that the program will no longer be available.

REVISED GOVERNANCE POLICY – CONTINUED DISCUSSION

The Committee further reviewed and revised the Governance Policy. After further discussion, the Committee decided to have legal counsel update the Governance Policy. The Committee will review the revised policy once received.

OTHER BUSINESS

Ms. Orcutt briefly updated the Committee regarding the issues Staff has experienced with the Actuary. The Board will be discussing further at the upcoming Board meeting.

ADJOURNMENT

It was **moved** by Lynch and **seconded** by Schreier to adjourn the meeting at 4:03 p.m.
Meeting adjourned at 4:03 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

F-5 Audit Committee Minutes – None

F-6 Legal Report

Ms. Orcutt informed the Board that Nancy Niemela and the legal team with the City had recently revised the Retirement and VEBA Ordinance. Ms. Orcutt has forwarded the revised Ordinances to Legal Counsel for review.

Mr. VanOverbeke informed the Board that he will be meeting with the State Treasurer and will better have an idea of what direction the administration will be going in terms of Pension Reform.

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.

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	DTE Energy	\$195.75	Electric Service 11/10/2018-12/12/2018
2	DTE Energy	\$136.31	Gas Service 11/10/2018-12/12/2018

3	VanOverbeke, Michaud & Timmony	\$5,030.40	Legal Services 7/1/18-9/30/18
4	Buck Consultants	\$1,583.33	Hosting Fee for November 2018
5	Afternoon Delight	\$178.35	12/20/2018 Board Meeting Holiday Breakfast
6	Findley	\$20,000.00	Pension disclosure and valuation
7	Midwest Maintenance	\$175.00	General Cleaning - December 2018
8	Meketa Investment Group	\$10,000.00	Investment Consulting Services - December 2018
9	Staples	\$93.35	Miscellaneous Office Supplies
10	AT&T	\$492.63	Phone Services 11/26/18-12/25/18
11	Applied Imaging	\$51.72	Printing Services 12/1/18-12/31/18
12	Culligan	\$27.49	Water Services 1/1/19-1/31/19
13	The City of Ann Arbor Treasurer	\$439.02	IT Kyle Spade's Time July-Oct 2018: 6 Hours: Transmittal Creation & Follow up Triage
14	The City of Ann Arbor Treasurer	\$568.08	IT Kyle Spade's Time April - June 2018: 8 Hours: Transmittal Creation & Triage Research
Total		\$38,971.43	

G-4 Retirement Report – None.

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

H. TRUSTEE COMMENTS / SUGGESTIONS

I. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by DiGiovanni to adjourn the meeting at 10:19 a.m.

Meeting adjourned at 10:19 a.m.

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