

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
October 18, 2018**



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

ROLL CALL

Members Present: Clark (*Via TX*), Crawford, DiGiovanni, Flack, Hastie, Lynch, Monroe (*9:54 a.m. depart*), Nerdrum, Schreier
Members Absent: None
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others: Michael VanOverbeke, Legal Counsel
Matt Klein, Findley
Amy Kennedy, Findley
David Youngstrom (*Via Tx*), Yeo & Yeo
David Diephuis, City Resident

AUDIENCE COMMENTS

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B September 20, 2018 Regular Board Meeting

It was **moved** by DiGiovanni and **seconded** by Crawford to approve the September 20, 2018 Regular 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
Kirk Pennington	General	13 years, 7 months	Wayne County
Cynthia Redinger	General	4 years, 8 months	Washtenaw County
Sara Higgins	General	2 years, 4 months	Eastern Michigan University

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.

C-2 Purchase of Intervening Military Service Time

Mr. Monroe wanted to make sure that each employee is made aware when expressing interest in purchasing intervening military service time that there is a five year time limit to make up any employee contributions missed while in uniformed service, as provided for in the ordinance, however if the employee received a memorandum of agreement with their union, this exception may be waived. The Board agreed and passed the following resolution:

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, Section 1:555(B) of the Retirement Ordinance, Chapter 18 of the Code of the City of Ann Arbor allows for prior Military Service Credit, and

WHEREAS, the Board is in receipt of an Application for Purchase of Military Service Time, 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 purchase of Intervening Military Service Time:

Name	Employee Group	Requested Military Service Time	Requested Method of Payment	Cost for Purchase of Military Service Time
John Elkins	Police	2 years, 7 months	Single Lump Sum Payment	\$15, 386.67

FURTHER RESOLVED, that the applicant(s) purchasing Intervening Military Service Time be notified of the amount of money necessary to buy the Intervening Military Service Time, and upon full payment, the member(s) shall be credited the service time.

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

Approved

D. ACTION ITEMS

D-1 Resolution to Invest in Constitution Capital as part of the Private Equity Allocation

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, Meketa as the Retirement System's investment consultant, the Investment Policy Committee, and the Board of Trustees have discussed an additional allocation to its private equity, and

WHEREAS, a current private equity manager, Constitution Capital Partners, presented their investment strategies to the Board on March 23, 2018, and

WHEREAS, Meketa and the Investment Policy Committee have recommended an investment with Constitution Capital Partners, Ironsides Partnership Fund V and Direct Investment Fund V with a 50% split in the allocation between the two strategies, so be it

RESOLVED, that the Board of Trustees approves the investment with Constitution Capital Partners in the amount of \$6 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by Monroe and **seconded** by Crawford to approve the resolution to invest \$6 million in Constitution Capital as part of the Private Equity Allocation Program.

Approved

D-2 Resolution to Invest in Summit Partners as part of the Fixed Income Allocation Program

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, Meketa as the Retirement System's investment consultant, the Investment Policy Committee, and the Board of Trustees have discussed an additional allocation to its fixed income portfolio, and

WHEREAS, Meketa has reviewed and recommended to the Investment Policy Committee at its October 2, 2018 meeting, an investment with Summit Partners Credit Fund III, so be it

RESOLVED, that the Board of Trustees approves the investment with Summit Partners Credit Fund III, L.P. in the amount of \$9 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by Monroe and **seconded** by DiGiovanni to approve the resolution to invest \$9 million in Summit Partners as part of the Fixed Income Allocation Program.

Approved

D-3 PRESENTATION: FYE June 30, 2018 Actuarial Valuation

Mr. Klein and Ms. Kennedy from Findley were present to review the drafted Actuarial Valuation for fiscal year ending June 30, 2018. In summary, the following language was included in the presentation:

An actuarial valuation of the City of Ann Arbor Employees' Retirement System was conducted as of June 30, 2018. The purpose of the valuation is to determine the cost implications of the pension plan including a determination of annual funding levels to provide pertinent financial statement disclosure information for the fiscal year ending in June 30, 2018.

Key Assumptions:

- Investment Rate of Return 7.00%
- Inflation: 2.5%
- Amortization Period: 23 years
- Mortality: RP-2014 Healthy Employees and Annuitants, Generational Adjusted back to 2006, under Projection Scale MP-2017. (These tables first used for the June 30, 2018 actuarial valuation).

The funded percentage of the plan at June 30, 2018 is 86.53% compared to the 85.79% for the prior year.

Employer Contributions of \$13,445,765 were made to the fund during the period June 30, 2017 to June 30, 2018. The actuarially determined contribution (ADC) for the 2018-2019 plan year was \$13,464,778. The ADC for the 2019-2020 plan year is \$14,092,966. Assuming all assumptions are met, it is projected that the plan would be 100% funded in 2037.

Although the funded percentage of the plan has improved slightly from the prior year, the Actuarial Employer Contributions have increased from the prior year. The main source of this increase is an increase in salary scale for Police and Fire divisions from the prior valuation

It was **moved** by Nerdrum and **seconded** by Crawford to remove the \$700,000 administrative expense load to the normal cost and accept the FYE June 30, 2018 Actuarial Report as revised.

Approved

It was **moved** by Nerdrum and **seconded** by DiGiovanni to recess for the purpose of holding the VEBA Board meeting to continue the Actuarial Valuation Presentation for VEBA.

Approved

BOARD RECESS

The Board was called to recess at 9:28 a.m. for the purpose of holding the VEBA Board meeting to continue the Actuarial Valuation Presentation for VEBA.

Meeting recessed at 9:28 a.m.

The meeting was reconvened at 10:15 a.m.

D-4 PRESENTATION: FYE June 30, 2018 Audited Financial Statements

Mr. Youngstrom, Auditor from Yeo & Yeo, called into the Board Meeting to review the June 30, 2018 audited financial statements with the Board, stating that the audit went well. The Board found no suggested changes or corrections.

It was **moved** by Nerdrum and **seconded** by Crawford to accept the FYE June 30, 2018 Audited Financial Statements as submitted.

Approved

E. DISCUSSION ITEMS

E-1 MAPERS Conference Re-Cap from Attendees

Ms. Orcutt briefly reviewed the Fall MAPERS Conference, highlighting topics from various sessions.

E-2 Intervening Military Service Purchase

Ms. Orcutt informed the Board that during the approval process for John Elkin's Intervening Military Service Purchase, the question arose regarding the five year time limit. Mr. VanOverbeke explained to the Board that this was in the USERRA Federal Law, which allows the City to be more permissive in the Ordinance rather than more restricted.

F. REPORTS

F-1 Executive Report – October 18, 2018

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 10/10/18 in the amount of **\$ 76,405** for the Retirement System and **\$22,472 for the VEBA** for a return of capital and gain on sale.

SUMMIT PARTNERS

Summit Partners Credit Fund II, L.P. requested a capital call of 2.3% of our commitment to the Funds in the amount of **\$ 213,103** for the Retirement Plan and **\$ 53,276** for the VEBA on 10/17/18 which represents a recall of distributions. With these installments, **CAAERS** will have funded 110.3% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

ANNUAL BOARD ELECTIONS / APPOINTMENTS

Election notices were sent for electronic posting on October 5th. The deadline for Declarations of Candidacy is 5:00 p.m., November 9, 2018.

ACTUARIAL AND AUDIT DATA

The audit reports are drafted and were reviewed by staff. Revised drafts will be reviewed at the October 9 Audit Committee meeting with final Board approval scheduled for October 18, 2018.

Drafts of the Actuarial Reports for the Retirement System and VEBA were reviewed by the Audit Committee on October 9. Findley will be in attendance at the Board meeting on October 18 to present the Final drafts.

ICMA-RC UPDATES

ED had a conference call with City legal staff, HR and Aaron Castle on October 9 to further discuss the language in the self-directed brokerage agreement. A status update will be provided at the October Board meeting.

ICMA-RC will be onsite October 29 – November 1 for individual meetings as well as two Lunch & Learns held at City Hall. The seminar topics for this quarter are “Retirement Investing Simplified” and “10 Question Retiree Guide”.

ED spoke with Jason Ashline regarding the investment manager watch list and the review/selection process. He suggested having one of the ICMA portfolio managers from D.C. attend a meeting to give the Board a detailed review of their processes in the coming months.

STAFF OPERATIONS/UPDATE

The Pension Analyst conducted 3 pre-sessions and processed 12 estimates.

ED will be out of the office October 29 – November 2.

The City has implemented a Paid Parental Leave policy for non-union employees effective October 1, 2018. Eligible employees would be entitled to up to 240 hours of Paid Parental Leave to use within twelve (12) months following the date of birth or the permanent legal placement of a minor child.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended September 30, 2018

Corbin Hammond, Accountant, submitted the Financial Report for the month ended September 30, 2018 to the Board of Trustees:

9/30/2018 Asset Value (Preliminary)	\$517,409,463
8/31/2018 Asset Value (Audited by Northern)	\$520,032,684
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$14,760,744
Percent Gain <Loss>	2.9%
October 18, 2018 Asset Value	\$503,831,812

F-3 Investment Policy Committee Minutes – October 2, 2018

Following are the Investment Policy Committee minutes from the meeting convened at 3:16 p.m. on October 2, 2018:

*Member(s) Present: DiGiovanni, Hastie, Monroe
Member(s) Absent: Clark, Crawford, Flack
Other Trustees Present: None
Staff Present: Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group*

PERFORMANCE REVIEW THROUGH AUGUST 2018

As of August 31, 2018, the balance of the Fund was \$519,154,301. Mr. Jaung also reviewed the PA 314 Compliance, stating that everything is currently in compliance.

Mr. Jaung informed the committee that the Ironside V fund recommendation of \$6 million for the Retirement Board was not shown in the Board minutes and wanted to confirm the action on this matter. The Committee decided that they will discuss further at the upcoming Board meeting.

PACING STUDIES FOR PRIVATE EQUITY AND PRIVATE REAL ESTATE

Mr. Jaung briefly reviewed the studies and stated that the Pacing studies are done each year and adjustments are made annually. For real estate the ERS is currently at 7% and for Private Equity ERS is at 2%.

POTENTIAL MANAGER SEARCHES – SMALL CAP AND EMERGING MARKETS DEBT

Mr. Jaung stated that he will be watching Loomis Sayles Small Cap and Stone Harbor EMD for potential replacement. Meketa is meeting with Stone Harbor in the coming weeks and will update the IPC of the outcome.

SUMMIT PARTNERS CREDIT FUND III

Mr. Jaung reviewed the Summit Partners Credit Fund III with the Committee and recommended that the Retirement System commit \$9 million to Summit Partners Credit Fund III. After further review, the Committee agreed with the recommendation and to discuss with the Board.

REVIEW OF THE ASSET ALLOCATION

This item was postponed until the next IPC Meeting.

ADJOURNMENT

Meeting adjourned without a quorum at 4:55 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 – October 16, 2018

Following are the Administrative Policy Committee minutes from the meeting convened at 3:14 p.m. on October 16, 2018:

Committee Members Present: Lynch, Monroe, Schreier
Members Absent: None
Other Trustees Present: None

Staff Present: Gustafson, Hollabaugh, Orcutt
Others Present: None

UPDATE ON OUTSTANDING CHECKS

Ms. Orcutt updated the committee regarding the status of outstanding checks. Staff had made multiple attempts to contact those with outstanding checks via last known phone numbers and addresses, internet searches and contacting Human Resources to verify they had no updated contact information. After final mailings to the last known addresses, legal counsel was contacted to confirm it was appropriate to redeposit the funds until parties were located. The remaining outstanding checks from those who did not respond were redeposited into the Retirement System. All is documented in each person's file. When/if response is received, payment will be reissued.

Ms. Orcutt informed the Committee that a City Resident raised concern regarding the redeposit of the outstanding checks. Ms. Orcutt discussed the process again with legal counsel. Counsel subsequently drafted a memo to the Board confirming their opinion.

ICMA VERBAL UPDATE

Ms. Orcutt updated the committee of the self-directed brokerage account agreement. The addendum contains indemnification language that would be a breach of the Board's fiduciary duties. Ms. Orcutt, Jason Ashline, Human Resources and legal counsel from both the City and the Board have spoken and are continuing to work on this matter until resolved.

Ms. Orcutt also updated the Committee of the upcoming onsite ICMA Visits scheduled for October 29 – November 1, 2018 for employees.

PERSONNEL MATTER

Ms. Orcutt wished to continue discussion on a personnel matter with the Committee. Staff briefly stepped out.

REVISED GOVERNANCE POLICY – CONTINUED DISCUSSION

The Committee briefly reviewed the policy and agreed to continue reviewing further at the next APC meeting.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Lynch to adjourn the meeting at 4:15 p.m.

Meeting adjourned at 4:15 p.m.

F-5 Audit Committee Minutes – October 9, 2018

Following are the Audit Committee minutes from the meeting convened at 1:03 p.m. on October 9, 2018:

Committee Members Present:	Clark (Via TX at 1:15 p.m.), Crawford, Nerdrum
Members Absent:	Monroe
Other Trustees Present:	None
Staff Present:	Gustafson, Hammond, Hollabaugh, Orcutt
Others Present:	Matt Klein, Findley (Via TX)

REVIEW DRAFTS OF RS. & VEBA ACTUARIAL VALUATIONS FOR FYE JUNE 30, 2018

The Committee reviewed the Actuarial Valuations Reports for both the Retirement System and VEBA with Matt Klein from Findley. Ms. Nerdrum questioned the administrative expense load of \$700,000 that had been approved as a result of the Experience Study. Mr. Klein and the Committee discussed this further and the Committee decided to follow up with Meketa Investments regarding the expense load.

Mr. Crawford also questioned the large increase in the normal cost rate for the 2020 fiscal year contribution. Mr. Klein informed the Committee that the large increase was driven by the salary scale changes to the Police and Fire groups that were adopted from the Experience Study.

Mr. Crawford also noted that he would like Findley to include a paragraph in the Valuations explaining the key changes. Mr. Klein agreed that Findley could provide this. Findley will make the discussed changes and have the final drafts prepared for the October Board Meeting.

REVIEW DRAFTS OF RS. & VEBA JUNE 30, 2018 AUDITED FINANCIAL STATEMENTS

The Committee reviewed the Financial Statements for both the Retirement System and VEBA. Ms. Orcutt informed the Committee of the changes on the Retirement System Statements including updates to the dual plan language and the Reconciliation of Plan Fiduciary Net Position to account for the Defined Contribution plan assets. The changes in the VEBA statements include the GASB report information. Ms. Nerdrum questioned the different inflation rate for VEBA. Ms. Orcutt will follow up with the auditors regarding the inflation rate.

It was **moved** by Crawford and **seconded** by Clark to take the Retirement System Financial Statements to the October Board Meeting for Approval.

Approved

It was **moved** by Crawford and **seconded** by Clark to take the VEBA Financial Statements to the October Board Meeting for Approval.

Approved

DISCUSSION ON RECORD RETENTION

This item was postponed due to time constraints.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Nerdrum to adjourn the meeting at 2:06 p.m.

Meeting adjourned at 2:06 p.m.

AC Project Tracking		
Description	Originated	Status
Actuarial Funding Policy Draft	7/17/14 Board Meeting	Tentative – Late 2015 to early 2018 (project for Actuary)
Record Retention Discussion	10/9/18 AC Meeting	Pending

F-6 Legal Report

Mr. VanOverbeke updated the Board regarding the Uniform Assumptions and that he is waiting for the elections to see what that outcome may bring.

G. INFORMATION (Received & Filed)

G-1 Communications Memorandum

G-2 November 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	AT&T	\$637.87	Phone Services 8/14/18-9/13/18
2	DTE Energy	\$343.28	Electric Services 8/11/18-9/11/18
3	DTE Energy	\$41.05	Gas Services 7/13/18-9/11/18
4	Buck Global, LLC (Conduent)	\$1,583.33	July 2018 Hosting Fees
5	Buck Global, LLC (Conduent)	\$1,583.33	August 2018 Hosting Fees
6	Staples	\$68.59	Miscellaneous Office Supplies
7	Wendy Orcutt	\$896.85	MAPERS Fall Conference Travel Reimbursement
8	Midwest Maintenance Services	\$175.00	September 2018 Cleaning Services
9	Culligan	\$26.49	Water Service 10/1/18-10/31/18
10	Meketa Investment Group	\$10,000.00	Investment Consulting Services September 2018
11	City of Ann Arbor Treasurer	\$439.02	Kyle Spade's Time IT Dept. October - December 2018
12	Staples	\$139.10	Miscellaneous Office Supplies
13	Yeo & Yeo	\$1,650.00	Services through 8/31/2018

14	Arbor Inspection Services	\$250.00	Annual Fire Inspection Sept. 2018
15	Hexavest	\$22,651.07	Management Fees July - September 2018
16	IFEBP	\$1,440.00	Membership Renewal 1/1/2019 - 12/31/2019
Total		\$41,924.98	

G-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
Elizabeth Patten	Age & Service	October 21, 2018	Police	22 years, 1 month	Safety Services
Dayle Lane	Age & Service	November 3, 2018	General	10 years	15th District Court
Patrick Aviotti	Deferred Age & Service	October 1, 2018	Fire	13 years	Safety Services
Diane Palfreyman	Deferred Age & Service	October 1, 2018	General	14 years	Housing Commission

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 10:46 a.m.
Meeting adjourned at 10:46 a.m.



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