

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 16, 2017**

The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:38 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Lynch, Monroe
Members Absent: DiGiovanni, Heusel, Nerdrum
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS - None

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-1 October 19, 2017 Regular Board Meeting

It was **moved** by Monroe and **seconded** by Crawford to approve the October 19, 2017 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
Gianna Bommarito	Fire	8 Months	Washtenaw Intermediated School District
Jamie Giordano	Police	5 Months <u>1 year, 10 months</u> 2 years, 3 months	Livingston County Washtenaw County

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 Hastie and **seconded** by Monroe to approve the consent agenda item as submitted.

Approved

D. ACTION ITEMS

D-1 Annual Disability Re-Examinations

Ms. Orcutt submitted a memo indicating that:

Per the Board's Policies and Procedures, disability retirees who have not met voluntary retirement age may be recalled for a medical re-examination at least once each year during the first five years after their approved disability retirement, then at least once in every three-year period thereafter.

Per the policy amendment approved on July 21, 2011, the Re-Exam policy states:

*The Retirement Board shall review the files of all disability retirees twice a year to determine which retirees must undergo a medical re-examination by the Board's Medical Director. **The files shall be reviewed each May for disability retirements that commenced or had a re-examination in the prior year January through June time frame, and each November for disability retirements that commenced or had a re-examination in the prior year July through December timeframe.***

The following person would qualify for a medical re-examination per the Board's policy:

DISABILITY RETIREE	DATE BOARD GRANTED DISABILITY	DATE OF LAST RE-EXAMINATION	EXECUTIVE DIRECTOR'S RECOMMENDATION FOR RE-EXAMINATION
Lynn Hart	October 15, 2015	November 23, 2016	Yes

It was **moved** by Hastie and **seconded** by Clark to direct the disability re-examination of Lynn Hart consistent with the Board's Disability Retirement Procedures.

Approved

D-2 2018 Board Meeting Schedule

January 18, 2018	July 19, 2018
February 15, 2018	August 16, 2018
March 15, 2018	September 20, 2018
April 19, 2018	October 18, 2018
May 17, 2018	November 15, 2018
June 21, 2018	December 20, 2018

It was **moved** by Crawford and **seconded** by Hastie to approve the 2018 Board Meeting Schedule as presented.

Approved

E. DISCUSSION ITEMS

E-1 Proposed Board Retreat Dates

After check their schedules, the Board tentatively scheduled the next Board Retreat for March 23, 2018. The Board also discussed Actuarial Interviews and when to schedule. After further discussion, the Board decided to conduct the interviews at the January Board Meeting.

F. REPORTS

F-1 Executive Report – November 16, 2017

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 10/23/17 in the amount of **\$50,065** for the Retirement System consisting of \$ 43,656 refund of capital and a gain of \$6,409. The VEBA distribution of **\$14,725** consisted of \$12,840 refund of capital and a gain of \$1,885.

DRA DISTRIBUTIONS

DRA will issue a distribution from the Growth and Income Fund VIII on 11/15/17 in the amount of **\$157,152** for the Retirement System consisting of \$190,145 in dividends, \$2,550 in capital and management fees of \$35,543. The VEBA distribution of **\$46,221** consists of \$55,925 in dividends, \$750 in capital and management fees of \$10,454.

SVB CAPITAL CALLS

SVB Fund VIII requested a capital call of our commitment to the Funds in the amount of **\$ 252,000** for the Retirement Plan and **\$ 63,000** for the VEBA on 11/3/17 for the purpose of funding current commitments. After these installments, AAERS will have funded approximately 15 % of total commitments of \$8,000,000 for the Retirement Plan and \$2,000,000 for the VEBA.

DUAL PLAN/457 TRANSITION UPDATE

Jason Ashline and Virous McKenzie, Supervisor of Plan Sponsor Services with ICMA were onsite on October 23 to train Staff on EZ-Link. Kim Barry from HR also attended to share her expertise and answer questions.

The City has agreed to retain \$50,000 of the Administrative Allowance to cover potential transition costs. ED sent a memo regarding this to HR for approval at their request. The Board's concerns surrounding the transition of the Roth IRA were relayed to Robyn Wilkerson in HR. The City stated that they would continue to administer that program.

Brock Hastie presented a draft IPS for review at the November IPC meeting.

The council resolution acknowledging the Board as the 457 Plan fiduciary going forward will be on the December agenda with an effective date of January 1, 2018.

ACTUARIAL VALUATION PROGRESS

The request for the additional language on the Pension Valuation were sent to Tim Bowen. The updated valuation will be shared with the Board and posted on the website upon receipt. The City is reviewing the ESI data for accuracy prior to Conduent moving forward with the VEBA valuation.

AUDIT AND FINANCIAL STATEMENTS

Draft financial statements for both the Retirement System and the VEBA were provided. Staff reviewed, answered questions and provided additional information at the request of the Auditor. Upon receipt of the revised valuation from Conduent, Staff will be updating the footnotes with the 6/30/17 information as well as the new RSI pertaining to GASB 74. Yeo & Yeo will be in attendance at December 12 Audit Committee Meeting.

STAFF OPERATIONS/UPDATE

The Pension Analyst conducted 12 pre-sessions (7 live meetings and 5 via phone) and completed 15 estimates.

ACTUARIAL RFP

The RFP was issued on October 4, 2017 and we received submissions from 7 firms. Staff will be reviewing and a summary will be prepared for review at the December Audit Committee meeting.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2017

Corbin Hammond, Accountant, submitted the Financial Report for the month ended October 31, 2017 to the Board of Trustees:

10/31/2017 Asset Value (Preliminary)	\$509,687,539
9/30/2017 Asset Value (Audited by Northern)	\$506,661,774
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$51,971,277
Percent Gain <Loss>	11%
November 15, 2017 Asset Value	\$505,014,036

F-3 Investment Policy Committee Minutes – November 7, 2017

Following are the Investment Policy Committee minutes from the meeting convened at 3:13 p.m. on November 7, 2017:

Member(s) Present: Crawford (*Dept. 4:18p.m.*), DiGiovanni, Flack (*Via TX 3:35p.m.*), Hastie, Monroe
Member(s) Absent: Clark
Other Trustees Present: None
Staff Present: Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
Keith Beaudin, Meketa Investment Group
David Diephuis, City Resident

PERFORMANCE UPDATE FOR THE QUARTER ENDED SEPTEMBER 30, 2017, INCLUDING THE ACT 314 COMPLIANCE REVIEW

As of September 30, 2017, the balance of the Funds were \$507,442,198 for ERS and \$162,274,486 for VEBA. Year to date performance was 9.7% for ERS and 10.8% for VEBA, net of fees. Mr. Jaung also reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

Mr. Jaung indicated that VEBA currently has a cash allocation of 4%, and since there is no need for a large cash balance, would like to rebalance those funds to the two areas that are currently underweight, Developed Market and Emerging Market Equity. After further discussion, the Committee decided to make the following motion:

It was **moved** by DiGiovanni and **seconded** by Monroe to take 3% of the current cash allocation and rebalance to policy target adding 2% and 1% to Developed Market Equity and Emerging Market Equity, respectively.

Approved

SUMMARY REVIEW OF 2017 ACTIVITIES

Mr. Hastie stated that the Mr. Jaung provided a good summary of the 2017 activities at the September Board Meeting, indicating that 2017 was a busy and productive year. Most of what was done during the Fiscal Year 2017 has worked out well.

POTENTIAL ITEMS FOR 2018

Mr. Jaung discussed the following topics for consideration for 2018:

- Continue to monitor the pacing studies for both private equity and real estate and add commitments when necessary.
- Identify new private senior debt investments as Summit winds down.
- Consider shifting to more neutral positions via-a-vis U.S. and non-U.S equity holdings
- Monitor the defensive hedge fund position; is there a better way to “hedge”?

Mr. Jaung discussed the Secular Decline in Investment Returns, comparing the return rates from the 1980's to today's rates. In the 80's there were only two investment asset class choices available, U.S. Bonds and U.S. Stocks. Today, there are more asset classes available such as emerging markets, high yield, private equity, etc. By aggregating these asset classes, the expected return of a diversified portfolio such as Ann Arbor's, is expected to yield the 7% return rate in the long term.

Mr. Crawford indicated that the plan is more mature now and is concerned the City would struggle with the contributions due to market volatility. From a sponsor standpoint, de-risking is good. Mr. Crawford would like to know if there were other options available to address the risk issue or the return decline. Mr. Crawford is questioning whether to consider annuitizing the portfolio to reduce the risk. After further discussion, the Committee decided to have Meketa and possibly the Actuary look into this.

2018 BOARD RETREAT TOPICS

Mr. Jaung discussed the following topics for the 2018 Board Retreat:

- Annually, managers of specific asset classes are brought in to discuss their outlooks and challenges in current market conditions. Last year, hedge fund managers, Och-Ziff, Tse Capital, and 36 South presented to the Board.
- This year, bringing in private market managers is recommended.
- As of September 30, 2017, the Retirement System has 7% invested in real estate and 2% in private equity. The VEBA had 9% in real estate and less than 1% in private equity.
 - Meketa recommends inviting real estate managers, DRA and AEW, and private equity managers, Constitution and SVB, for an interactive discussion.
- Consider inviting a geopolitical/economist from Northern Trust to discuss the current global climate.

Mr. Jaung questioned if the Committee would like to have managers brought in for the Board Retreat for interviews. Mr. Hastie indicated that the Board Retreat is more strategic as opposed to manager interviews that can be conducted at any other IPC meeting. The Committee briefly discussed timing for the Board Retreat and also agreed that the February IPC would be a better venue to interview potential private debt managers.

IPS DRAFT DOCUMENT

Mr. Hastie stated that he had prepared a draft IPS document for the 401A/457B and would like to briefly discuss with the Committee. He stated as part of a new plan, it is best practice to have a policy in place. Mr. Hastie has drafted an Investment Policy Statement for the 401A/457B plan and would like the Committee to further review. This policy would be put into place to better govern the plan. Mr. Hastie and Ms. Orcutt will be scheduling a call with ICMA prior to the next IPC meeting to further discuss this policy.

ADJOURNMENT

It was **moved** by DiGiovanni and **seconded** by Monroe to adjourn the meeting at 4:58 p.m.

Meeting adjourned at 4:58 p.m.

IPC Project Tracking Table		
Description	Originated	Status
IPS Draft Document		Pending
Board's Preliminary Financial Report: Add benchmark info on reports – stock market index		Pending
Custom Benchmarks		Pending

F-4 Administrative Policy Committee Minutes – November 14, 2017

Following are the Administrative Policy Committee minutes from the meeting convened at 3:08 p.m. on November 14, 2017:

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

**DISCUSSION OF UPDATED SERVICE CREDIT POLICY TO REFLECT
ORDINANCE SECTION NUMBER CHANGES**

Ms. Orcutt informed the Committee of the incorrect ordinance section numbers currently on the Service Credit Policy. The Committee reviewed and agreed to have the policy updated to reflect the correct section numbers.

ADMINISTRATION UPDATES

Dual Plan Update: Ms. Orcutt gave a brief update regarding the dual plan. The City has approved a \$50,000 allowance for administrative costs. The City will continue to administer the Payroll Roth IRA. Mr. Monroe was under the impression that there is a Payroll Roth and a 457 Roth option and would like clarification from ICMA.

Board Election Update: Ms. Orcutt updated The Committee regarding the Board Elections. Jeremy Flack is uncontested and a replacement for Mark Heusel will be appointed by City Council.

Personnel Request: Ms. Orcutt wished to discuss a personnel matter with the Committee. Staff briefly stepped out.

COMCAST CABLE

Ms. Orcutt informed the Committee that the Retirement Office has monthly Cable service through Comcast that is currently not being used and would like to cancel the service. The Committee agreed that the service was no longer needed and could be canceled.

INTEREST CALCULATION POLICY – LEGAL REVIEW/OPINION

The Committee reviewed the legal review/opinion stating as follows:

The Retirement System is crediting interest as of a Member's date of retirement or date of death in accordance with Sections 1:552.1, 1:557, and 1:559 of the Retirement Ordinance. Non-Vested former members who, by definition, are no longer members of the Retirement System, should not be credited with interest on their accumulated contributions after they separate from employment with the City.

After a brief discussion, the Committee agreed to adopt a written policy consistent with the legal opinion governing how and when interest is credited to Members' accumulated contribution accounts.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Lynch to adjourn the meeting at 4:17 p.m.
Meeting adjourned at 4:17 p.m.

APC Project Tracking Table		
Description	Originated	Status
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) - <i>Continue to discuss priorities and next steps on implementation</i>	October 2009	Placed back on pending list on 8-9-2016
Revised Governance Policy - sections regarding Committees (<i>from 2012 Retreat, pending meeting w/legal counsel</i>)	2012 Retreat	Pending

F-5 Audit Committee Minutes – November 14, 2017

Following are the Audit Committee minutes from the meeting convened at 4:18 p.m. on November 14, 2017:

Committee Members Present: Clark, Crawford, Monroe, Nerdrum
 Members Absent: None
 Other Trustees Present: None
 Staff Present: Hollabaugh, Orcutt
 Others Present: None

INITIAL DISCUSSION OF RFP SUBMISSIONS – REVIEW CRITERIA

Ms. Orcutt informed the Committee of the number of submitted RFP's and questioned how the Committee would like to review the submissions. The Committee reviewed the list of submitted RFP's and discussed the best way to review submissions as a Committee. After further discussion, it was decided that the Committee would review electronic versions of the submitted RFP's as well as a spreadsheet highlighting the submissions prepared by Ms. Orcutt. The Committee scheduled a tentative meeting for December 19th, 2017, to further review the submissions and decide on finalists.

Ms. Orcutt also gave a brief update regarding the VEBA Actuarial Valuation informing the Committee that the Valuation has not yet been updated by Conduent.

ADJOURNMENT

It was **moved** by Clark and **seconded** by Monroe to adjourn the meeting at 4:52 p.m.
Meeting adjourned at 4:52 p.m.

AC Project Tracking		
Description	Originated	Status
Actuarial Funding Policy Draft (from July 17, 2014 Board Meeting)	7/17/2014 Board meeting	Tentative – Late 2015 to early 2018 (project for Buck Consultants)

F-6 Legal Report - No Report

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.

	PAYEE	AMOUNT	DESCRIPTION
1	Staples Advantage	154.69	Miscellaneous Office supplies
2	Hasselbring-Clark Co.	58.56	Monthly copier cost per copy
3	Med Source Services/Consulting Physicians	875.00	Independent Exam & Report – Disability Evaluation: A. Howard 10.11.17
4	Comcast	81.41	Monthly Cable Fee
5	Terry Clark	909.64	MAPERS Travel reimbursement
6	Robertson Morrison Inc.	220.00	Routine Maintenance 3/17/16-3/17/18, Quarterly inspection/Filter
7	Midwest Maintenance Services, Inc.	175.00	Office cleaning services for September 2017
8	Meketa Investment Group	10,000.00	Investment Consultant Retainer - September 2017
9	City of Ann Arbor Treasurer	852.13	ITSU Service Charge (K. Spade) for July - September 2017
10	Loomis, Sayles & Company	27,401.83	Investment management fees: 7/1/2017 – 9/30/2017
11	Conduent HR Consulting	2,499.12	Monthly hosting fee for September & EDRO Calculation
12	Hexavest	15156.25	Management Fees 8/1/17 – 9/30/17
13	NCPERS	250.00	Membership renewal through 12/31/2018
14	DTE Energy	285.53	Electric Service 9/12/17 – 10/10/17
15	DTE Energy	16.00	Gas Service 9/13/17 – 10/11/17
16	Allstar Alarm	90.00	Central Station Monitoring 11/1/17-1/31/18
17	AT&T	587.51	Monthly telephone service
18	Laura Hollabaugh	203.49	Petty Cash Reimbursement
	TOTAL	59,816.16	

G-4 Retirement Report

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

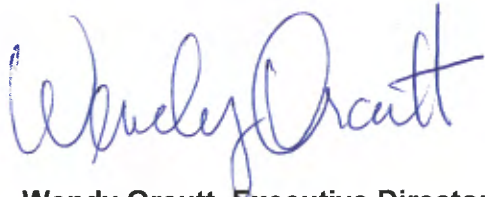
Name	Retirement Type	Effective Retirement Date	Group	Years of Service	Department/Service Area
David White	Age & Service	December 9, 2017	General	15 years, 4 months	Public Services
Daniel Krueger	Age & Service	January 20, 2018	Fire	26 years	Safety Services
Brian Miller	Age & Service	January 16, 2017	General	26 years 2 months	Public Services

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

I. **TRUSTEE COMMENTS / SUGGESTIONS** - None

J. **ADJOURNMENT**

It was **moved** by Crawford and **seconded** by Clark to adjourn the meeting at 9:15 a.m.
Meeting adjourned at 9:15 a.m.



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