

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
December 21, 2017**

B-2

The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:41 a.m.

ROLL CALL

Members Present: Crawford, DiGiovanni (9:28 a.m.), Flack, Hastie, Lynch, Monroe, Nerdrum
Members Absent: Clark, Heusel
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS - None

A. APPROVAL OF AGENDA

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

Approved

B. APPROVAL OF MINUTES

B-1 November 16, 2017 Regular Board Meeting

It was **moved** by Nerdrum and **seconded** by Monroe to approve the November 16, 2017 Regular Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA – None

D. EXECUTIVE SESSION – Disability Applicant Appeal Regarding the Board's Application Denial from the October 19, 2017 Regular Board Meeting

It was **moved** by Hastie and **seconded** by Nerdrum to convene an Executive Session for the purpose of the discussion and review of the Disability Applicant Appeal Regarding the Board's Application Denial from the October 19, 2017 Regular Board Meeting.

Disability session time: 8:43 am. – 8:52 a.m.

E. ACTION ITEMS

E-1 Motion Regarding Disability Applicant Appeal

It was **moved** by Hastie and **seconded** by Nerdrum to acknowledge receipt of the appeal correspondence from Ann Howard, dated November 16, 2017, with regards to the Board's denial of Ms. Howard's initial application for disability retirement, and to direct that the medical director be requested to schedule Ms. Howard to be examined by a Neurologist.

Approved

E-2 Single Candidate Election

Ms. Orcutt informed the Board that Jeremy Flack was the only employee to complete a Declaration of Candidacy Form for the 2017 Fire 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. Flack's new term will begin January 1, 2018 through December 31, 2020.

It was **moved** by Hastie and **seconded** by Crawford to acknowledge Mr. Flack's reappointment to the Board of Trustees effective January 1, 2018 through December 31, 2017.

Approved

E-3 Member Interest Credits for Calendar Year 2017

Conduent submitted a letter regarding the member interest credits, indicating that the computed rate of return for the fiscal year ending June 30, 2017 is 4.9%. The equivalent quarterly return is 1.20% ($1.0120 \times 1.0120 \times 1.0120 \times 1.0120 = 1.049$). Therefore, 1.20% regular interest should be credited to member accounts for the quarter ending March 31, 2018 and each of the remaining three quarters in calendar year 2018.

It was **moved** by Monroe and **seconded** by Nerdrum to acknowledge receipt of the correspondence regarding the member interest crediting rate as calculated by Conduent and approve the 1.20% interest rate to be credited.

E-4 Audited Financial Statements for the Fiscal Year Ended June30, 2017

Ms. Orcutt provided a brief review of the Audited Financial Statements for FYE June 30, 2017. Stating that the Auditors were responsive and great to work with and that the process went smoothly.

It was **moved** by Nerdrum and **seconded** by Crawford to acknowledge receipt of the audit and approve.

F. DISCUSSION ITEMS

F-1 Actuary RFP Candidates – Scheduling of Interviews

Ms. Orcutt informed the Board that the Audit Committee had chosen four finalists to be interviewed:

- Aon Hewitt
- Findley Davies
- Gabriel, Roeder, Smith & Co.
- Milliman

After further discussion, the Board agreed on the four finalists and decided to schedule the interviews at the January Board meeting beginning at 9:00 a.m.

F-2 Legislative Policy Agenda

Mr. Crawford discussed the Legislative Policy Agenda. City Council is considering what legislative changes they would like done at the State level to prioritize their work with the Lobbyist. Mr. Crawford stated that City Council is reaching out to public Boards and Commissions to solicit their input as they review what they would like prioritized and would like to know if the Pension Board would like to add input. The Board had no input at this time.

G. REPORTS

G-1 Executive Report – December 21, 2017

CONSTITUTION CAPITAL PARTNERS

Ironsides Co-Investment Fund III, L.P. (the "Fund" or "Partnership") requested a capital call in the amount of **\$ 483,692** on 12/8/2017. This consisted of **\$ 455,297** for the investment and **\$ 28,395** in Management Fees and expenses. Approximately 10% of the commitment remains unfunded.

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 12/12/17 in the amount of **\$290,742** for the Retirement System consisting of \$ 275,482 in recallable capital and a gain of \$15,260. The VEBA distribution of **\$85,512** consisted of \$81,024 in recallable capital and a gain of \$4,488.

DRA CAPITAL CALLS

DRA requested a capital call of our commitment to the Growth and Income Fund VIII in the amount of **\$ 201,481** for the Retirement Plan and **\$ 59,259** for the VEBA on 12/22/17 for the purpose of funding current commitments. After this call, the remaining commitment to the fund is \$648,519 and \$190,741 respectively.

DRA requested a capital call of our commitment to the Growth and Income Fund IX in the amount of **\$ 539,340** for the Retirement Plan and **\$ 158,629** for the VEBA on 12/21/17 for the purpose of funding current commitments.

SUMMIT PARTNERS CREDIT FUND II – CAPITAL CALL

Summit Partners Credit Fund II, L.P. requested a capital call in the amount of **\$137,035** for the Retirement System and **\$ 34,259** for the VEBA on 11/27/2017.

HYBRID/457 UPDATE

Jason Ashline phoned in to the December 5 IPC meeting to discuss the IPS being drafted for the 401 and 457 plans. Jason will attend the February 15 meeting to provide a plan review through 12/30/17.

ED is working with VMT and Jason Ashline regarding a new policy regarding EDRO/QDRO processes as it relates to these two plans. Currently these are being handled by ICMA but all domestic relations orders will need to come to Board for approval.

The council resolution acknowledging the Board as the 457 Plan fiduciary going forward is on the 12/18 Council agenda with an effective date of January 1, 2018. The contract with ICMA can be executed once complete.

ACTUARIAL VALUATIONS

The additional language on the Pension Valuation was completed by Tim Bowen and a revised PDF was sent. The VEBA valuation was approved at the 12/6 Audit Committee meeting. Hard copies are available for those interested.

AUDIT AND FINANCIAL STATEMENTS

The financial statements for both the Retirement System and the VEBA were completed and subsequently approved by the Audit Committee on 12/6. They are on the December agenda for approval by the Board.

STAFF OPERATIONS/UPDATE

The Pension Analyst conducted 6 pre-sessions and completed 14 estimates.

ACTUARIAL RFP

The submissions were reviewed and a brief write up of each firm was drafted along with a fee schedule and summary of relevant criteria. Reference checks are in progress. The Audit Committee is meeting on 12/19 to review and select finalists.

HAPPY HOLIDAYS!

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended November 30, 2017

Corbin Hammond, Accountant, submitted the Financial Report for the month ended November 30, 2017 to the Board of Trustees:

11/30/2017 Asset Value (Preliminary)	\$514,182,587
10/31/2017 Asset Value (Audited by Northern)	\$510,147,288
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$58,868,429
Percent Gain <Loss>	12.4%
December 20, 2017 Asset Value	\$512,928,384

G-3 Investment Policy Committee Minutes – December 5, 2017

Following are the Investment Policy Committee minutes from the meeting convened at 3:08 p.m. on December 5, 2017:

Member(s) Present: Clark *(via TX, dept. @ 4:43p.m.)*, Crawford *(4:02 p.m.)*, DiGiovanni, Flack, Hastie *(dept. @ 5:09p.m.)*, Monroe

Member(s) Absent: None

Other Trustees Present: None

Staff Present: Gustafson *(5:01 p.m.)*, Hammond, Hollabaugh, Orcutt

Others Present: Henry Jaung, Meketa Investment Group
Keith Beaudin, Meketa Investment Group
David Diephuis, City Resident
Jason Ashline *(via TX)*, ICMA-RC

DRAFT INVESTMENT POLICY STATEMENT 401A/457B (JASON ASHLINE, ICMA CALL)

Mr. Hastie gave a brief explanation regarding the Investment Policy Statement, stating that the phone call with Jason Ashline at ICMA-RC is to better determine what should be included in the IPS for monitoring the 401A/457B plan.

The Committee asked the following questions were discussed with Mr. Ashline:

- What review does ICMA do of the basic set of investment options? How does the review work: frequency, process, is there a warning (or watch) list, etc. How much is formulaic and how much is subjective? How can the Retirement System document what ICMA is already doing on the Retirement System's behalf?

Mr. Ashline informed the Committee that ICMA-RC's investment team based in Washington, D.C. use both quantitative and qualitative criteria in the selection, monitoring, and termination of funds. ICMA-RC is an Investment advisor to the Vantage Trust and also a fiduciary to the Vantage Trust which holds the lineup of funds. ICMA-RC has an Investment Due Diligence Program and this is essentially the Investment Policy Statement which guides the ICMA-RC investment management team.

Mr. Ashline stated that the frequency of the review is ongoing. With each manager and sub advisor it is an ongoing process with reporting on a quarterly basis. Internally there is a quarterly review with generated reports when determining to hire or remove managers. ICMA-RC can set up quarterly or semi-annual meetings with the Board to review each fund's analysis and discuss what is being done to monitor each fund.

- What happens if the Retirement System were to add one fund outside the standard list of ICMA funds? Is there additional costs to adding a fund not on the line up?

Mr. Ashline stated that the Board, at any time, can choose to add or remove funds from ICMA-RC's standard fund line-up. The Board retains the ultimate control over the funds, and ICMA-RC does have the ability to add or delete funds at the discretion of the Board. If the Board selects/de-selects a fund outside of the ICMA-RC standard fund line-up, the Board would be responsible for monitoring the performance of that fund. ICMA-RC would still produce information on that fund that is contained in the Plan Investment Review document to assist the Board with monitoring activities, but ultimately, it would be the Board and not ICMA-RC that would make the final decisions regarding that outside fund. There are no additional costs to add a fund on ICMA-RC's list.

- What is ICMA-RC's stance on the fiduciary role with regards to participant advice?

Mr. Ashline expressed that ICMA-RC is not a fiduciary to the participants. However, the plans do offer an independent financial engine which is an ERISA 321 Fiduciary through Morning Star.

The Committee decided on one IPS document for both plans and discussed the responsibilities of the Committee and Board. Mr. Beaudin added that the Board may want to include language on their stance on Proxies in the IPS. After further discussion it was decided that Mr. Hastie would redraft the IPS and ICMA-RC would be present for the February Board meeting to review the 12/30/17 analysis and the Board/Committee responsibility can be determined at that time.

INVESTMENT REVIEW

Mr. Beaudin presented a brief Interim Investment Review as of October 31, 2017. As of October

31, 2017, the balance of the Fund was \$510,358,430.

PEER GROUP EQUITY WEIGHTS COMPARISON (US, INTERNATIONAL & EMERGING)

Due to time constraints, this item was postponed.

PRELIMINARY PUT OPTION COST ANALYSIS

Mr. Jaung discussed the following Protective Put Options:

- Put options create a downside floor but are somewhat costly in terms of premium.
- Assume that you want to protect the Fund's domestic equity against a **decline of more than 10% over the next year.**
 - The S&P 500 is currently at 2647. A 10% decline would be to 2382.
 - There is a listed put option that expires 6/29/18 (7 months) with a strike of 2375 (-10.3% current level).
 - The premium for this put option is approximately 1.4% of the current price level of the index.
 - This premium must be paid upfront – your start out 1.4% down, a Fund-level loss of ~0.77%.
 - If the S&P does not decline below 2375 by 6/29/18, the option expires worthless and the Fund has lost the 1.4% equity premium on the asset value protected (the “notional” value of the contract).
 - If the S&P declines below 2375 by 6/29/18, the option is “in the money” and the Fund should exercise it, gaining the difference between the market price and the strike price, BUT...
 - The Fund's equity has still lost 10.3% (the decline from 2647 to 2375) plus the 1.4% premium, a total **equity** decline of 11.7% - this is the true maximum equity loss. This would represent a Fund-level loss of 6.4%.
 - Premiums are most costly for options on international equity.

Mr. Crawford expressed concern regarding the amount of risk assets. After further discussion, Mr. Jaung suggested something to consider would be to take the equity down slightly to the lower end of the range, 4-5% down, and if all goes well, within the next 6-12 months, take the equity down again. The Committee agreed that this was something to look into and would like to review all options available that would help reduce the risk.

ADJOURNMENT

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 5:29 p.m.

Meeting adjourned at 5:29 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

G-4 Administrative Policy Committee Minutes – No Report

Mr. Monroe wanted to clarify the multiplier for retiree's at the date of retirement. Mr. VanOverbeke

informed the Board that the formula is a final FAC times service credit, and according to ordinance, the multiplier at the date of retirement is the multiplier that will be used. Mr. Monroe stated that he wanted to make sure the Board was aware this was how the multiplier worked and to review the ordinance with Mr. VanOverbeke.

G-5 Audit Committee Minutes – December 6, 2017

Following are the Audit Committee minutes from the meeting convened at 1:34 p.m. on December 6, 2017:

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

REVIEW/APPROVAL OF THE VEBA ACTUARIAL VALUATION FOR FYE JUNE 30, 2017

The Committee reviewed and briefly discussed the recent changes made to the VEBA Actuarial Valuation since the first draft submission. There were no suggested changes or corrections to the report.

It was **moved** by Crawford and **seconded** by Monroe to accept the VEBA Actuarial Valuation for FYE June 30, 2017.

Approved

REVIEW/APPROVAL OF RS & VEBA JUNE 30, 2017 AUDITED FINANCIAL STATEMENTS

The Committee reviewed the Financial Statements for the VEBA for the fiscal year ended June 30, 2017. The Committee noted a minor spelling error, but no suggested changes or corrections to the reports in general.

It was **moved** by Crawford and **seconded** by Monroe to accept the VEBA Financial Statements as discussed and amended, and recommend approval of the reports at the December 21, 2017 regular Board meeting.

Approved

The Committee reviewed the Financial Statements for the Retirement System for the fiscal year ended June 30, 2017. No suggested changes or corrections were made to the reports.

It was **moved** by Crawford and **seconded** by Monroe to accept the Retirement System's Financial Statements and recommend approval of the reports at the December 21, 2017 regular Board meeting.

Approved

ADJOURNMENT

It was **moved** by Crawford and **seconded** by Monroe to adjourn the meeting at 2:20 p.m.

Meeting adjourned at 2:20 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)
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G-6 Legal Report - Protecting Local Government Retirement and Benefits Act

Mr. VanOverbeke discussed the following in regards to the Retirement System and VEBA:

House Bill No. 5298 (HB 5298) / Senate Bill No. 686 (SB 686)

Sponsor(s): Reps. Albert, Leutheuser, Howell, Glenn and Lower
Sens. Stamas, Shirkey and Marleau

Revised legislation was proposed and passed by both the House and Senate late last night/early this morning. The revised legislation would still create new state law to be known as the Protecting Local Government Retirement and Benefits Act (the “Act”), however, it is significantly different than the originally introduced bills as analyzed by this office in a prior memorandum issued by this office on December 1, 2017, and is generally consistent with the July 2017 report issued by the Responsible Retirement Reform for Local Government Task Force (the “Task Force”). This memorandum will outline the details of the revised legislation.

For ease of reference the revised legislation will be separated into three categories: (1) Mandated Changes; (2) Required Reporting/Transparency; and (3) Underfunded Local Units.

Mandated Changes

Local units of government (i.e., cities, villages, townships, counties, county road commissions, etc.) (hereinafter “local units”) would be required to implement the following changes and/or restrictions with respect to its pension and retiree health care plans under the revised legislation:

- Local units would be required to have an actuarial experience study conducted by the actuary of the local unit’s retirement system(s) and retiree health care fund(s) at least once every 5 years.
- At least once every 8 years, local units would be required to do one or more of the following:
 - Conduct a peer actuarial audit by an actuary that is not the retirement system or retiree health care fund actuary; and/or
 - Replace the retirement system or retiree health care fund actuary.
- Local units providing retiree health care benefits to former employees as of the effective date of the Act and to new employees hired on or after of July 1, 2018, would be required to pre-fund retiree health care liabilities as follows:
 - At least the normal cost for employees hired on or after July 1, 2018; and
 - Annual premiums due for current retirees.

Required Reporting/Transparency

The following reporting requirements are included in the revised legislation:

- The state treasurer shall establish standardized actuarial assumptions imposed on local

units for reporting purposes.

- Local units will be required to prepare and submit a summary annual retiree health care report to the governing body of the local unit and the department of treasury within 6 months of the end of the local unit's fiscal year. The summary annual retiree health care report must include the following information:
 - The name of the retiree health care fund;
 - The name of the retiree health care fund's investment fiduciaries;
 - The name of the retiree health care fund's service providers;
 - The retiree health care fund's assets and liabilities, and changes in net assets on a plan-year basis;
 - The retiree health care fund's funded ratio;
 - The retiree health care fund's assumed rate of return;
 - The retiree health care fund's actual rate of return on a 1-year, 5-year, and 10-year basis;
 - The retiree health care fund's discount rate;
 - The retiree health care fund's amortization method, remaining amortization time period, and the assumed payroll growth rate;
 - The retiree health care fund's annual required contribution, including the normal cost and amortized payment of unfunded actuarial accrued liability;
 - The retiree health care fund's health care inflation assumption;
 - The number of active and retired participants of the retiree health care fund; and
 - The amount of premiums paid by the retiree health care fund on behalf of retirees.
- The state treasurer shall establish an evaluation system for determining the underfunded status of a local unit of government.
- Beginning January 1, 2018, the state treasurer shall determine a local unit of government as underfunded if any one of the following apply:
 - Any one of the local unit's retiree health care fund(s) is less than 40% funded and the aggregate annual required contribution for all of the local unit's retiree health care fund(s) is greater than 12% of the local unit's annual general fund operating revenues;
 - Any one of the local unit's pension fund(s) is less than 60% funded and the aggregate annual required contribution for all of the local unit's pension fund(s) is greater than 10% of the local unit's annual general fund operating revenues;
 - The local unit has not complied with legally required annual reporting requirements; or
 - The local unit has failed to pre-fund its annual retiree health care liabilities as required under the Act.

Underfunded Local Units of Government

The following remedial provisions are part of the revised legislation and would apply to those local units of government determined to be underfunded:

- The state treasurer may waive determination of underfunded status for a local unit if the treasurer determines that the underfunded status is being adequately addressed.
 - To receive consideration for a waiver of underfunded status the local unit's administrative officer and governing body must approve a waiver application and a plan demonstrating the underfunded status is being adequately addressed.
- The legislation would create the Municipal Stability Board consisting of three (3) members, with knowledge, skill, or experience in accounting, actuarial science,

retirement systems, retirement health benefits, or government finance, appointed by the governor as follows:

- One resident of the state representing state officials;
 - One resident of the state representing local officials; and
 - One resident of the state representing employees and retirees.
- The Municipal Stability Board would have the following responsibilities:
 - Annually review and update a list of best practices to assist underfunded local units in developing a corrective action plan;
 - Review and vote on approval of any corrective action plan(s) submitted by a local unit;
 - Monitor an underfunded local unit's compliance with the Act and any corrective action plan implemented by the local unit.

A copy of HB 5298 and SB 686, as revised and passed by each chamber, may be found at www.legislature.mi.gov. The revised legislation must now sit for 5 days in the other chamber before any action to adopt the legislation can be taken. During this time, we will be working to clarify technical concerns with some of the language contained in the revised legislation. Despite these minor concerns, the revised legislation represents a significant improvement from the bills that were originally introduced. We will provide periodic updates regarding any significant changes and/or the ultimate adoption of the Act.

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.

	PAYEE	AMOUNT	DESCRIPTION
1	DTE Energy Gas	51.24	Monthly Gas Fee dated 10/12/17-11/8/17
2	DTE Energy Electric	193.50	Monthly Electric Fee dated 10/11/17-11/8/17
3	Income Research Management	4011.10	Investment Managing Fee Period Ended 9/30/17
4	Staples	101.23	Miscellaneous Office Supplies
5	Culligan of Ann Arbor/Detroit	153.20	Water service – 8/1/17 – 11/30/2017
6	Hasselbring-Clark Co.	68.20	Monthly copier cost per copy 10/1/17-10/31/17
7	MAPERS	100.00	Membership Renewal
8	Corbin Hammond	135.00	GFOA Webinar 12/7/17 Reimbursement
9	Midwest Maintenance Services	175.00	Office cleaning services for October 2017
10	Meketa Investment Group	10,000.00	Investment Consultant Retainer - October 2017
11	Staples	34.22	Miscellaneous Office Supplies
12	AT&T	602.09	Monthly telephone service 11/13 – 12/12
13	Midwest Maintenance Services	87.50	Office cleaning services for November 2017
14	Culligan of Ann Arbor/Detroit	31.74	Water Service 12/1/17-12/31/17
15	Meketa Investment Group	10,000.00	Investment Consultant Retainer - November 2017
	TOTAL	25,729.02	

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
Linda Shaw	Age & Service	December 27, 2017	General	26 years, 3 months	Public Works
Robert Girbach	Age & Service	December 27, 2017	General	23 years 9 months	Public Services
Gary Bellisario	Age & Service	December 28, 2017	General	11 years 3 months	Public Services
Beth Nieman	Age & Service	December 29, 2017	General	30 years 3 months	Public Services
Betsy Cornellier	Age & Service	February 14, 2018	General	16 years 10 months	Housing Commission
William Lamb	Age & Service	December 27, 2017	General	26 years 4 months	Public Services
Patricia Bookvich	Age & Service	December 29, 2017	General	18 years 5 months	Public Services
Robert Coon	Age & Service	December 30, 2017	General	31 years 5 months	Public Services
Douglas Fick	Age & Service	December 27, 2017	General	20 years 3 months	Public Services
Colleen Pulcifer	Age & Service	February 21, 2018	General	10 years 2 months	Public Services
Thomas Kooy	Age & Service	January 12, 2018	Police	25 years	Safety Services

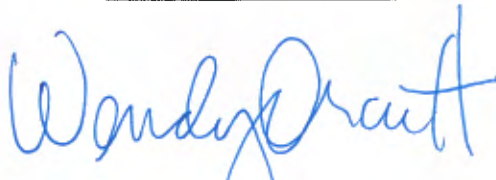
H-5 Analysis of Page Views on City Intranet / Retirement System Page

I. TRUSTEE COMMENTS / SUGGESTIONS

Ms. Orcutt confirmed the date of the Board Retreat with the Board which will be held on March 23, 2018.

J. ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Monroe to adjourn the meeting at 10:13 a.m.
Meeting adjourned at 10:13 a.m.



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