

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 19, 2015**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:36 a.m.

ROLL CALL

Members Present: Clark, DiGiovanni, Flack, Hastie, Heusel (*via telephone, dep. at 9:26*), Lynch, Nerdrum
Members Absent: Crawford, Monroe
Staff Present: Jarskey, Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
Mark Kettner, Rehmann Robson (*9:20 a.m.*)

AUDIENCE COMMENTS – None

A. APPROVAL OF REVISED AGENDA

Since distribution of the packet, an additional item was added to the agenda: Item E-5, Single Candidate Elections memo.

It was **moved** by Nerdrum and **seconded** by Clark to approve the agenda as revised.

Approved

B. APPROVAL OF MINUTES

B-1 October 15, 2015 Regular Board Meeting

It was **moved** by Hastie and **seconded** by Nerdrum to approve the October 15, 2015 Board Meeting minutes as submitted.

Approved

B-2 October 20, 2015 Special-Call Board Meeting

It was **moved** by Hastie and **seconded** by Nerdrum to approve the October 20, 2015 Special-Call Board Meeting minutes as submitted.

Approved

C. CONSENT AGENDA - None

D. PRESENTATION – Audited Financial Statements for the Fiscal Year Ended June 30, 2015

Ms. Nerdrum and Ms. Walker briefly reviewed the Audit Report before Mr. Kettner arrived to the meeting. After Mr. Kettner arrived at 9:20 a.m., he further reviewed the report in greater detail. The Board had no suggested changes or corrections to the report, and decided to approve and accept the report as presented. Statements of Plan Net Position are shown below.

It was **moved** by Nerdrum and **seconded** by Hastie to accept the Audited Financial Statements for the Fiscal Year Ended June 30, 2015.

Approved

**CITY OF ANN ARBOR
EMPLOYEES' RETIREMENT SYSTEM**

**Statements of Plan Net Position
June 30, 2015 and 2014**

	2015	2014
Assets		
Investments, at fair value:		
Equities	\$ 252,990,505	\$ 251,331,219
Fixed income	163,724,181	157,793,902
Other	57,287,249	62,785,977
Total investments	474,001,935	471,911,098
Equity in City of Ann Arbor pooled cash and investments	1,011,379	11,282
Accrued interest and dividends	466,519	621,685
Due from broker for securities sold	1,186,824	3,980,246
Capital assets, net	385,523	397,088
Total assets	477,052,180	476,921,399
Deferred outflows of resources		
Unamortized pension liability changes	72,964	-
Liabilities		
Accounts payable and accrued liabilities	2,893,246	2,823,615
Due to broker for securities purchased	1,325,151	4,141,747
Mortgage payable, due in one year	26,190	25,063
Mortgage payable, due in more than one year	219,473	245,663
Net pension liability	287,187	-
Total liabilities	4,751,247	7,236,088
Net position restricted for pensions	\$ 472,373,897	\$ 469,685,311

E. ACTION ITEMS

E-1 Member Interest Credits for Calendar Year 2016

Buck Consultants submitted a letter regarding the member interest credits for Calendar Year 2016, indicating that the computed rate of return for the fiscal year ending June 30, 2015 is 6.2% (see enclosed worksheet based on 10 year smoothing). The equivalent quarterly return is 1.52% ($1.0152 \times 1.0152 \times 1.0152 \times 1.0152 = 1.062$). Therefore, 1.52% regular interest should be credited to member accounts for the quarter ending March 31, 2016 and each of the remaining three quarters in calendar year 2016.

It was **moved** by Nerdrum and **seconded** by Clark to receive and file the correspondence regarding the member interest crediting rate as calculated by Buck Consultants.

Approved

E-2 Calculation or Retroactive Recalculation of Retirement Benefits as a Result of Contract Modifications (FAC Recalculation Policy)

The Administration Policy Committee recommended the following Policy Resolution for approval:

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 recognizes that a union member may retire after expiration of an applicable collective bargaining agreement and during the pendency of a new collective bargaining agreement, and that a final contract may not be ratified until after the member has separated from service and is in receipt of retirement benefits, and

WHEREAS, the Board acknowledges that collective bargaining agreements may take retroactive effect and that a member and/or a retired member is entitled to receive those benefits contained within the applicable collective bargaining agreement as of its effective date, and

WHEREAS, the Board recognizes that a member may be awarded retroactive Compensation payable in a lump sum as a result of a grievance resolution or arbitration award, and

WHEREAS, the Board also recognizes that a member may be awarded a retroactive lump sum payment as a result of an arbitration award appealing the disciplinary suspension or termination of a member by the City, and

WHEREAS, the Board has determined that it is in the best interest of the Retirement System to establish a policy to provide clarification to all affected parties and to ensure that benefits are calculated in accordance with pertinent collective bargaining agreements and arbitration awards, therefore be it

RESOLVED, that the following guidelines shall apply to the calculation of retirement benefits:

1. Members are entitled to those retirement benefits in effect at the time of retirement.
2. In the event a collective bargaining agreement has expired, a member's benefit shall be based upon the terms and conditions of the expired agreement until such time as a final agreement has been ratified.
3. The Human Resources Department shall forward a copy of all final collective bargaining agreements to the Board.
4. The specific language of a grievance resolution, arbitration award or collective bargaining agreement shall be controlling with respect to the applicability of benefits and/or retroactive benefits to employees and retirees, however, when an agreement is silent as to the specific application of benefits or compensation provisions, the effective term of the agreement shall be indicative of the benefits to be paid to all employees who have retired, or do retire, during the corresponding period.
5. Upon receipt of a final collective bargaining agreement, the Board, acting through its Executive Director, shall determine what amendments, if any, were made which affect the calculation of retirement benefits, and shall review its records to determine if any individual, who previously retired, would be entitled to benefits under the revised agreement.
6. The Finance Department shall provide to the Board revised compensation amounts for those individuals who retired and subsequently received retroactive compensation as a result of subsequent contract ratification.
7. Upon receipt of revised compensation amounts, retirement benefits shall be

recalculated to be consistent with the terms and conditions of the revised collective bargaining agreement, Retirement System provisions and this resolution.

8. The calculation of any retroactive retirement benefit payments shall be made without interest and such benefit payments shall be made in one lump-sum.

9. Any retroactive Compensation paid to an active member that is the result of a newly ratified collective bargaining agreement, shall be included for purposes of calculating Final Average Compensation in the period in which it is received, and not in the period in which it was earned.

10. In the event a member receives a monetary payment as a result of a grievance resolution or arbitration award based upon the member's appeal of a disciplinary suspension or termination by the City, the monetary payment shall be applied by the Retirement Board as set forth in the arbitration or grievance award, resolution, or settlement documentation. In the event the documentation provides for the member to (a) "suffer no loss in pay or benefits," (b) "be reimbursed for all loss wages and benefits", (c) "be reinstated with payment for all wages and benefits," or (d) other similar language, the portion representing loss wages shall be included for purposes of calculating Final Average Compensation over the period in which it would otherwise have been earned, and not in the period in which it was received. Any award where earned income from other employment or from unemployment compensation is deducted from the monetary payment to the grievant will not be deducted for FAC purposes. Appropriate contributions will be assessed on the Final Average Compensation used in the benefit calculation.

11. Except as provided above, in the event a member receives a lump sum payment as a result of a grievance resolution or arbitration award, the lump sum payment shall be included for purposes of calculating Final Average Compensation in the period in which it is received, and not in the period in which it was earned, provided however, that such lump sum payment must qualify as "Compensation" under the Retirement System provisions.

12. In the event a retiree receives a retroactive retirement benefit payment, such amounts will be reported in the year in which it is received, and not in the year in which it was earned.

13. Required employee contributions shall be made on any amounts which are included as Compensation in the calculation or revised calculation of Final Average Compensation and the appropriate adjustments shall be made under the applicable basis recovery rules.

14. The recalculation of benefits shall have no effect on the retiree's previous election of options or designation of beneficiaries, unless specifically authorized by the applicable collective bargaining agreement, grievance resolution or arbitration award.

RESOLVED, that a copy of this resolution shall be forwarded to all appropriate parties.

After a brief discussion, Mr. Heusel recommended that paragraph 10 be amended to include, "...as set forth in the arbitration or grievance award, resolution, or settlement documentation. The Board agreed.

It was **moved** by Hastie and **seconded** by Clark to approve the Calculation or Retroactive Recalculation of Retirement Benefits as a Result of Contract Modifications as amended.

Approved

E-3 Annual Disability Re-Examinations

Ms. Walker 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
Donald Churches	August 21, 2014	August 19, 2014	Yes

It was **moved** by Nerdrum and **seconded** by Clark to request that Mr. Churches be sent for an annual disability re-examination per the Board's policy.

Approved

E-4 Decision of Legal Firm – Further Discussion

At this point in the meeting, Mr. VanOverbeke excused himself from the room during the Board's discussion. Ms. Walker stated that Mr. VanOverbeke has submitted his invoices and is now current with billing for both the System and VEBA. A brief discussion ensued, and the Board ultimately decided that since the Board and Staff are happy with VanOverbeke, Michaud & Timmony's services, the proposal was fair and reasonable, and the System should retain Mr. VanOverbeke as its legal counsel for the next 5-year period with the terms as proposed in the RFP. Mr. VanOverbeke re-entered the meeting at this point and was advised of the Board's decision. Mr. VanOverbeke expressed his appreciation and looks forward to continuing his services with the Retirement System and Retiree Health Care Benefit Plan & Trust.

It was **moved** by DiGiovanni and **seconded** by Clark that after conducting an RFP search process, receiving and reviewing the proposals, and interviews, the Board resolves to continue its relationship with VanOverbeke, Michaud & Timmony, P.C.

Approved

E-5 Single Candidate Elections

Ms. Walker submitted a memo indicating that:

Per the City Clerk's Office, Terry Clark/General Member, and David Monroe/Police Member were the only employees to complete a Declaration of Candidacy Form for the 2015 General

and Police Member Elections. 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.

The new terms will begin January 1, 2016 through December 31, 2018.

It was **moved** by Nerdrum and **seconded** by Lynch that through the Board's Election Policy, Mr. Clark and Mr. Monroe are automatically elected and will remain in their current positions on both Boards for the next three-year term of January 1, 2016 through December 31, 2018.

Approved

F. **DISCUSSION ITEMS - None**

G. **REPORTS**

G-1 **Executive Report – November 19, 2015**

SUMMIT CREDIT PARTNERS

On November 12, 2015 the System received a distribution of **\$115,268**, for the pension plan and **\$28,817** for the VEBA, representing proceeds of partial debt redemptions from Rolland Enterprises, Inc. and net investment income. This brings total cumulative distributions to Limited Partners to 1% of committed capital and 5% of contributed capital.

DRA GROWTH AND INCOME FUND VIII, LLC

On Friday, November 13, 2015, the Retirement System received a distribution of **\$85,081** distribution for the pension plan and **\$25,024** for the VEBA, representing return of capital and dividends from operations, net of advisory fees. The Retirement System's remaining Commitment to the Fund for the pension plans is \$5,483,153 and \$1,612,024 for the VEBA.

INTERCONTINENTAL REIF III

On October 29, 2015, the Retirement System received a distribution in the amount of **\$913,435.81** as the pro rata share of a \$27,000,000 total distribution of proceeds from the sale of the San Antonio Forum investment property.

NEW INVESTMENT

Northern Trust has completed the investment management agreements and other paperwork for the new \$4 million VEBA investment in the blended short term corporate credit/treasury securities fund. The new investment was funded 11-2-2015 with excess cash.

AUDIT AND FINANCIAL STATEMENTS

We have been provided with final audited financial statements for both the Retirement System and the VEBA including an unqualified opinion for both systems.

TRUSTEE ELECTIONS

The Police and General elected Trustee positions expire 12-31-2015. The filing deadline for declaration of candidacy for these positions is November 13th at 5 p.m. If the candidacy declarations result in multiple candidates for the general trustee, the manager at Wheeler Center will be consulted regarding election locations and timing at that facility as well as City Hall. Elections for both positions will be held December 9th and 10th, 2015.

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2015

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2015 to the Board of Trustees:

10/31/2015 Asset Value (Preliminary)	\$465,376,327
9/30/2015 Asset Value (Audited by Northern)	\$450,616,515
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$6,940,593
Percent Gain <Loss>	1.5%
November 18, 2015 Asset Value	\$461,951,187

G-3 Investment Policy Committee Minutes – November 5, 2015

Following are the Investment Policy Committee minutes from the meeting convened at 3:06 p.m. on November 5, 2015:

Member(s) Present: Clark, DiGiovanni, Hastie (via telephone), Monroe
Member(s) Absent: Flack
Other Trustees Present: None
Staff Present: Kluczynski, Walker
Others Present: Henry Jaung, Meketa Investment Group (via telephone)

SEPTEMBER 30, 2015 QUARTERLY INVESTMENT REVIEW

Mr. Jaung presented the Quarterly Investment Review for the quarter ended September 30, 2015:

- *As of September 30, 2015, the Retirement System was valued at \$449.2 million, a decrease of \$24.9 million for the third quarter.*
 - *During the quarter, the Retirement System reported net cash outflows of approximately \$2.0 million.*
- *The Retirement System returned -4.9% for the third quarter, and -2.5% for the calendar year-to-date period, net of fees.*
 - *The Retirement System's third quarter return was driven by volatility across most markets. All asset classes produced negative returns with the exception of investment grade bonds, bank loans, and real estate.*
 - *All equities posted negative performance for the quarter. International emerging markets, international developed markets, and domestic equities returned, -16.1%, -10.3%, and -7.5%, respectively.*
 - *Investment grade bonds achieved the highest return within fixed income (+0.9%), followed by bank loans (+0.1%). Emerging market debt, high yield*

- bonds, and TIPS all declined for the quarter, posting returns of -11.8%, -3.4%, and -0.9%, respectively.
 - Real estate performance was positive at 2.9%, while hedge funds declined 2.5%.
- At the end of September, the Retirement System was within all of its asset allocation target ranges, with the exception of investment grade bonds. The investment grade bond (+1%) overweight primarily offsets the current TIPS underweight (-6%).

DEPARTMENT OF LABOR COMMENTS ON ECONOMICALLY TARGETED INVESTMENTS

Summary:

The U.S. Department of Labor (DOL) issued a recent statement clarifying their position on ETIs (economically targeted investments) and the use of ESG (environmental, social, and governance) considerations.

They explained that their position is that fiduciaries may make economically targeted investments (ETI) if these investments are equivalent to investment alternatives. They also said that considering ESG (environmental, social, and governance) factors is acceptable, in the context of an overall investment review.

Background:

On October 26, 2015, the DOL issued an interpretive bulletin regarding pension funds. Specifically, they addressed ETIs (economically targeted investments) and the use of ESG considerations.

ADJOURNMENT

Meeting adjourned at 4:53 p.m.

G-4 Administrative Policy Committee Minutes – November 10, 2015

Following are the Administrative Policy Committee minutes from the meeting convened at 3:08 p.m. on November 10, 2015:

Committee Members Present:	Heusel (via telephone), Lynch, Monroe
Members Absent:	Crawford
Other Trustees Present:	None
Staff Present:	Jarskey, Kluczynski, Walker
Others Present:	None

FAC RECALCULATION POLICY DISCUSSION (CONTINUED)

The Committee continued their discussion regarding the revised FAC Recalculation Policy, and further modified the lump sum payment language in paragraph 10.

It was **moved** by Lynch and **seconded** by Heusel to recommend final Board approval at the next regular Board meeting on November 19, 2015.

Approved

LEGAL RFP DISCUSSION

The Committee held a brief discussion regarding the Board's recent decision to continue with Mr. VanOverbeke's legal services contingent on certain clarification regarding travel and billing items. The Committee decided to bring these issues up at the regular Board meeting on November 19, 2015.

ADJOURNMENT

Meeting adjourned at 3:54 p.m.

G-5 Audit Committee Minutes – November 10, 2015

Following are the Audit Committee minutes from the meeting convened at 4:04 p.m. on November 10, 2015:

Committee Members Present:	Monroe, Nerdrum
Members Absent:	Clark, Crawford
Other Trustees Present:	None
Staff Present:	Jarskey, Kluczynski, Walker
Others Present:	Mark Kettner, Rehmann Robson

REVIEW OF JUNE 30, 2015 AUDITED FINANCIAL STATEMENTS

Mr. Kettner was present to review the Retirement System and VEBA audited financial statements for the fiscal year ended June 30, 2015, and clarified a range of questions by the Committee. There were no suggested changes or corrections to the reports, and it was understood that Mr. Kettner would also be present at the November 19th Board meeting to review the statements with the Board members.

It was **moved** by Nerdrum and **seconded** by Monroe to accept the Financial Statements as discussed and will recommend approval of the reports at the November 19, 2015 regular Board meeting.

Approved

ACCOUNTING NUMBER PRESENTATION FOR FUTURE ACTUARIAL VALUATIONS

This item was postponed until the next Audit Committee meeting, tentatively scheduled for May 10, 2016.

ADJOURNMENT

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

Meeting adjourned at 4:52 p.m.

G-6 Legal Report – Meeting with Governor

Mr. VanOverbeke stated that his firm has received a request through MAPERS to meet with representatives of the Governor, who would like to get more involved with some more pension related initiatives and state laws, and Mr. VanOverbeke asked the Board members to forward any thoughts or topics they feel need attention, and Mr. VanOverbeke added that retiree healthcare and the funding status of troubled plans will likely be discussed.

H. **INFORMATION** (Received & Filed)

H-1 **Communications Memorandum**

H-2 December Planning Calendar

H-3 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Hasselbring-Clark Co.	113.39	Monthly copier cost per copy – Aug. & Sept. 2015
2	Meketa Investment Group	10,000.00	Investment Consultant Retainer - September 2015
3	Comcast	85.31	Monthly Cable Fee
4	City of Ann Arbor Treasurer	599.85	ITSU Service Charge (K. Spade) for September 2015
5	International Foundation (IFEFP)	1,250.00	2016 Membership Dues
6	NCPERS	250.00	2016 Membership Dues
7	Terry Clark	746.18	Travel reimbursement – 2015 Fall MAPERS
8	Anthony DiGiovanni	966.68	Travel reimbursement – 2015 Fall MAPERS
9	DTE Energy	18.56	Monthly Gas Fee dated October 12, 2015
10	DTE Energy	247.83	Monthly Electric Fee dated October 12, 2015
11	Rehmann Robson	2,340.43	9/1/2015 Progress billing for 6/30/15 Audit
12	AT&T	365.07	Monthly telephone service
13	Loomis, Sayles & Company	41,917.00	Investment mgmt fees: 7/1/2015 – 9/30/2015
14	Allstar Alarm LLC	90.00	Quarterly alarm monitoring – Nov. 2015-January 2016
15	Staples Advantage	81.21	Miscellaneous Office supplies
16	Fisher Investments	57,065.12	Investment mgmt fees: 7/1/2015 – 9/30/2015
17	Buck Consultants	6,511.93	1 st Qtrly installment for Valuation & Sept. hosting fees
18	Robertson Morrison, Inc.	195.00	Routine qtrly maintenance – 4/22/2014-4/22/2016
19	Lora Kluczynski	285.45	Petty cash reimbursement
20	Income Research & Management	1,998.88	Investment mgmt fees: 7/1/2015 – 9/30/2015
21	Meketa Investment Group	10,000.00	Investment Consultant Retainer - October 2015
22	City of Ann Arbor Treasurer	333.25	ITSU Service Charge (K. Spade) for October 2015
23	Culligan of Ann Arbor/Detroit	76.98	Water service – June-October 2015
24	B Green and Clean	385.00	Office cleaning services for August-October 2015
25	Comcast	85.31	Monthly Cable Fee
	TOTAL	136,008.43	

H-4 Retirement Report

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

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Sue Arnett	Age & Service	November 9, 2015	General	25 years, 4 months	15 th District Court
Michael Courtney	Age & Service	November 14, 2015	General	16 years, 3 months <i>(which includes 11 years, 9 months reciprocal credit)</i>	Financial & Administrative Assessor's Office

Keith Lussenden	Age & Service	December 10, 2015	General	12 years, 10 months <i>(which includes 3 years, 6 months reciprocal credit)</i>	Community Services Planning & Development
Elizabeth Rolla	Age & Service	December 12, 2015	General	25 years, 4 months	Public Services Project Management
Bryant Micou	Age & Service	January 9, 2016	General	21 years, 1 month	Public Services Field Operations
Kevin Cook	Age & Service	January 15, 2016	Fire	25 years, 1 month	Safety Services Fire Department

I. TRUSTEE COMMENTS

Ms. Nerdrum inquired about the status of Mr. Paquin's healthcare request, and Ms. Walker stated that he has been permitted by the Benefits Office to enroll with the City's healthcare plan beginning January 1, 2016.

J. ADJOURNMENT

It was **moved** by Clark and **seconded** by Nerdrum to adjourn the meeting at 9:41 a.m.
Meeting adjourned at 9:41 a.m.



**Nancy R. Walker, Executive Director
City of Ann Arbor Employees' Retirement System**