

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 15, 2018**

B

The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:57 a.m.

ROLL CALL

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

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 October 18, 2018 Regular Board Meeting

It was **moved** by Nerdrum and **seconded** by Clark to approve the October 18, 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
Becky Arold	General	2 years, 7 months <u>8 years, 5 months</u> 11 years	City of Brighton City of Novi

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

Approved

D. EXECUTIVE SESSION – Personnel Matter

It was **moved** by Clark and **seconded** by Monroe to convene an Executive Session for the purpose of discussing a personnel matter.

Approved

Roll call vote:

Clark – Yes	Flack – Yes	Monroe – Yes
Crawford – Yes	Hastie – Absent	Nerdrum – Yes
DiGiovanni - Absent	Lynch - Yes	Schreier - Absent

Executive Session time: 8:59 a.m. – 9:16 a.m.

It was **moved** by Clark and **seconded** by Monroe to acknowledge and receipt the memo from the Executive Director dated November 15, 2018 and to approve the recommendation as set forth therein.

Approved

E. ACTION ITEMS

E-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	December 20, 2017	Yes

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

Approved

E-2 2019 Board Meeting Schedule

January 17, 2019	July 18, 2019
February 21, 2019	August 15, 2019
March 21, 2019	September 19, 2019
April 18, 2019	October 17, 2019
May 16, 2019	November 21, 2019
June 20, 2019	December 19, 2019

It was **moved** by Nerdrum and **seconded** by Crawford to approve the 2019 Board Meeting Schedule as presented.

Approved

E-3 Summary Annual Report for the Fiscal Year Ended June 30, 2018

Ms. Orcutt presented the Summary Annual Report for the fiscal year ended June 30, 2018, noting the updates that were added to the language and the inclusion of additional Dual Plan Provisions. The Board reviewed and made revisions to the report.

It was **moved** by Crawford and **seconded** by Nerdrum to approve the Summary Annual Report as amended provided that a copy be forwarded to all Trustees upon completion with the opportunity for comment in regards to further corrections.

Approved

F. DISCUSSION ITEMS

F-1 Proposed Board Retreat Dates

After checking their schedules, the Board tentatively scheduled the next Board Retreat for March 22, 2019.

F-2 City Council Policy Agenda

Mr. Crawford informed the Board of the Legislative Policy Agenda. City Council is considering legislative changes they would like done at the State level to prioritize their work with the Lobbyist. Mr. Crawford stated that City Council has reached out to all public Boards and Commissions to solicit their input. Should the Pension Board like to submit any input, the deadline is December 21, 2019. The Board had no input at this time.

G. REPORTS

G-1 Executive Report – November 15, 2018

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 10/19/18 in the amount of **\$ 181,407** for the Retirement System consisting of \$ 85,243 in gains and recallable capital of \$96,164

The VEBA distribution of \$ 53,355 consisted of \$ 25,071 in gains and recallable capital of \$28,284.

DRA issued a distribution from the Growth and Income Fund VIII on 11/6/18 in the amount of **\$ 148,989** for the Retirement System consisting of \$ 47,220 in gains and return of capital of \$ 101,769. The VEBA distribution of \$ 53,355 consisted of \$ 13,888 in gains and return of capital of \$29,932.

CONSTITUTION CAPITAL PARTNERS

Ironsides Direct Investment Fund V, (the "Fund" or "Partnership") requested a capital call in the amount of **\$ 1,818,061.76** on 11/14/18. This was comprised of capital for investments, management fees and expenses.

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 **\$ 163,615** for the Retirement Plan and **\$ 40,904** for the VEBA on 11/1/18 which represents a recall of distributions. With these installments, **CAAERS** will have funded 112.1% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

Summit Partners Credit Fund III, L.P. requested a capital call in the amount of **\$ 1,470,114** for the Retirement Plan and **\$ 408,365** for the VEBA on 11/14/18 to fund current commitments and to fund a new investment. With this initial installment, **the System** will have funded 16.3% of our total commitments of \$9,000,000 for the Retirement Plan and \$2,500,000 for the VEBA.

SVB CAPITAL CALLS

SVB Fund VIII requested a capital call of our commitment to the Funds in the amount of \$ **528,000** for the Retirement Plan and \$ **132,000** for the VEBA on November 7, 2018 for the purpose of funding current commitments.

RAISE CASH FOR BENEFITS AND EXPENSES

The NT Russell 1000 Index and the NT Barclays Aggregate Bond Index funds were utilized to raise cash in the amount of \$ 5,000,000 from each per direction from Meketa. These trades will be effective November 13, 2018.

ANNUAL BOARD ELECTIONS / APPOINTMENTS

The deadline for Declarations of Candidacy is 5:00 p.m., November 9, 2018. A status update will be provided at the November Board meeting.

FIDUCIARY LIABILITY INSURANCE

The applications were completed and returned to the City for the policy period March 1 2018 – 2019.

BENEFITS ADMINISTRATION SYSTEM UPDATE

On October 25, ED and Staff had a conference call with our current service team at Conduent and the new Buck team to discuss the transition timeline for the benefits administration services. Buck will be introducing a new platform for the administration software and transitioning to a new service team in the first quarter of 2019. The new version of the software is anticipated to go live in August of 2019. Both service teams will be working together behind the scenes until early 2020. Updates will be provided to the Board throughout the transition.

ICMA-RC UPDATE

ED, City legal staff, HR and Aaron Castle are meeting on November 8 to discuss potential resolutions regarding the language in the self-directed brokerage agreement. A status update will be provided at the November Board meeting.

STAFF OPERATIONS/UPDATE

The Pension Analyst conducted 5 pre-sessions and processed 24 estimates.

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

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

10/31/2018 Asset Value (Preliminary)	\$495,638,453
9/30/2018 Asset Value (Audited by Northern)	\$517,509,188
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	(\$4,955,202)
Percent Gain <Loss>	-1.0%
November 13, 2018 Asset Value	\$491,231,572

G-3 Investment Policy Committee Minutes – November 6, 2018

Following are the Investment Policy Committee minutes from the meeting convened at 3:06 p.m. on November 6, 2018:

Member(s) Present: Clark, Crawford, Flack (Via TX @ 3:38 p.m.), Hastie, Monroe
Member(s) Absent: DiGiovanni
Other Trustees Present: None
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
Keith Beaudoin, Meketa Investment Group
David Diephuis, City Resident

PERFORMANCE REVIEW THROUGH Q3 2018

As of September 30, 2018, the balance of the Funds were \$517,537,301 for ERS. Fiscal year to date performance was 2.5% for ERS net of fees.

ACT 314 COMPLIANCE

Mr. Jaung reviewed the Act 314 Compliance, stating that all investments are currently in compliance. Meketa recommended that Summit Partners Credit Funds be classified under the “Basket Clause” rather than under the “Non-Investment Grade Bonds”. The Committee agreed with this recommendation.

LOOMIS SAYLES DISCUSSION

Mr. Jaung informed the Committee that currently, there are two different small cap active managers for the ERS and VEBA. Loomis Sayles manages the ERS assets and Southern Sun manages the VEBA assets. Mr. Jaung questioned if Loomis Sayles should be the sole small cap active manager and if not, who are the best candidates to manage the small cap active assets for both the ERS and VEBA. After further discussion, the Committee decided to keep Loomis Sayles as the active small cap manager for ERS.

The Committee also discussed having Loomis Sayles present for the December meeting if possible to further discuss their performance and philosophy.

STONE HARBOR EMERGING MARKETS DEBTS FUND RECOMMENDATION

Mr. Jaung updated the Committee regarding Stone Harbor’s performance stating that they have been underperforming. Meketa has met with Stone Harbor and after further review are recommending that the Committee consider replacement. The Committee agreed with Meketa’s recommendation. Meketa will begin the search for a replacement manager within Emerging Markets Debt and plan to finalize in early 2019.

RAISE CASH

The Committee discussed the amount of cash needed to supplement the City contributions to pay benefits and fund current capital calls. The committee decided to rebalance a total of \$10 Million, raising \$5 million from US Equities (Russell 1000 Index Fund) and another \$5 million from Investment Grade Bonds (Barclays Aggregate Index Fund).

It was **moved** by Crawford and **seconded** by Clark to issue \$10 million dollars in two tranches; one of \$5 million from US Equities and the other in \$5 million from Investment Grade Bonds.

Approved

ADJOURNMENT

It was **moved** by Clark and **seconded** by Monroe to adjourn the meeting at 4:55 p.m.
Meeting adjourned 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

G-4 Administrative Policy Committee Minutes – November 13, 2018: Cancelled

G-5 Audit Committee Minutes – None

G-6 Legal Report - Eligible Rollover Distributions

Mr. VanOverbeke informed the Board of the following:

Section 401(a)(31) of the Internal Revenue Code (the "Code") requires a qualified plan to permit its members to defer the payment of income tax on lump sum distributions by electing to have an otherwise taxable distribution paid directly to another eligible plan and/or account. This is commonly referred to as a "rollover". Section 402(f) of the Code requires a qualified plan to provide a written safe harbor explanation to any recipient of an "eligible rollover distribution." The written explanation must cover the rollover rules, the mandatory income tax withholding on distributions

not directly rolled over, the tax treatment of distributions not rolled over (including the special tax treatment available for certain lump sum distributions), and when distributions may be subject to different restrictions and tax consequences after being rolled over. Code section 402(f) also requires that this explanation must be given within a reasonable period of time before the plan makes an eligible rollover distribution.

The Internal Revenue Service (IRS) recently issued Notice 2018-74 which modifies the model safe harbor explanation that may be used to satisfy the requirements of section 402(f) of the Code. The safe harbor explanation, as modified, takes into account certain

legislative changes and recent guidance, including guidance on self-certification of eligibility for a waiver of the deadline for completing a rollover as described in Rev. Proc. 2016-47.

It was **moved** by Crawford and **seconded** by Nerdrum to adopt the revised safe harbor notice for use by the Retirement System and incorporate the necessary modifications.

Approved

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

H-1 **Communications Memorandum**

H-2 **November Planning Calendar**

H-3 **Record of Paid Invoices**

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

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	DTE Energy	\$47.67	Gas Service 9/12/18-10/9/18
2	DTE Energy	\$292.78	Electric Service 9/12/18-10/9/18
3	Income Research Management	\$4,037.61	Investment Management Fee period ended 9/30/18
4	Yeo & Yeo	\$1,650.00	Services through 9/30/18
5	Loomis Sayles	\$29,373.77	Investment Management Fee 7/1/18 - 9/30/18
6	AT&T	\$636.29	Phone Service 9/14/18-10/13/18
7	Findley	\$750.00	Pelzel EDRO Calculations
8	NCPERS	\$250.00	Membership renewal through 12/31/2019
9	Allstar Alarm	\$90.00	Fire Alarm Monitoring 11/1/18-1/31/2019
10	Applied Imaging	\$55.76	Printing Services 9/1/18-9/30/18
11	Findley	\$12,500.00	Experience Study including presentation & meeting
12			
	Total	\$49,683.88	

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
Matthew Naud	Early Age & Service	December 1, 2018	General	17 years	City Administration
Ira Harrison	Age & Service	December 8, 2018	Fire	25 years, 2 months	Safety Services

Sean Lee	Age & Service	January 19, 2019	Police	25 years	Safety Services
John Elkins	Age & Service	December 1, 2018	Police	22 years, 2 months	Safety Services
Tracy Kilburn	Early Age & Service	December 31, 2018	General	7 years, 2 months	Public Services
Mark Lloyd	Deferred Age & Service	November 1, 2018	General	5 years, 1 months	Community Services
Rita Tipton	Age & Service	December 15, 2018	General	29 years, 8 months	15th District Court

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

I. TRUSTEE COMMENTS / SUGGESTIONS

J. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Clark to adjourn the meeting at 10:48 a.m.
Meeting adjourned at 10:48 a.m.

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