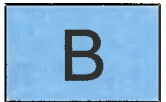


**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
February 21, 2019**



The meeting was called to order by Jeremy Flack, Board Chairperson, at 8:43 a.m.

ROLL CALL

Members Present: Crawford, DiGiovanni, Flack, Hastie, Lynch, Monroe, Nerdrum (*Via TX 9:00 a.m.*), Peariso, Schreier
Members Absent: None
Staff Present: Gustafson, Hollabaugh, Hammond, Orcutt
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS

A. APPROVAL OF AGENDA

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

Approved

B. APPROVAL OF MINUTES

B January 17, 2019 Regular Board Meeting

It was **moved** by Monroe and **seconded** by Schreier to approve the January 17, 2019 Regular Board Meeting minutes.

Approved

C. CONSENT AGENDA

C-1 EDRO Certification Resolution – Danielle LaLonde v. Jeffrey LaLonde

WHEREAS, the Board of Trustees is in receipt of an Eligible Domestic Relations Order dated October 29, 2018, wherein Jeffrey Lalonde, the Alternate Payee, is awarded certain rights to the benefits of Danielle LaLonde, the Participant, and

WHEREAS, the Alternate Payee is entitled to a portion of the Participant's benefits payable the Retirement System which is subject to either the Participant or the Alternate Payee making an application for the same, and

WHEREAS, the payments from the plan to the Alternate Payee shall begin when the Participant commences benefits from the Retirement System, unless the Alternate Payee elects to commence his share of the Participant's benefit at any time after the Participant reaches his earliest retirement date, and

WHEREAS, the Board's policy is to require that the cost for the actuary's calculations are to be borne by the parties to the domestic relations proceedings, and the order provides that the parties agree to equally share any such costs, and that the Alternate Payee's share of said costs shall be in proportion to the amount awarded to him under the parties' EDRO, and

WHEREAS, said matter having been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order and will administer benefits consistent with said order upon application of either the Participant or the Alternate Payee, and further

RESOLVED, that a copy of this Resolution be immediately attached as the top sheet of the Participant's pension file and other appropriate records be retained by the Retirement System relative to this matter, and further

RESOLVED, that copies of this resolution be sent to Danielle LaLonde, the Participant; Jessie Scott Wood, Esq., the Alternate Payee; and the Board's Actuary.

C-2 Authorization for Conference/Training – Northern Trust Passport Training, April 15-16, 2019 - Orcutt

WHEREAS, the Board of Trustees (Board) of the City of Ann Arbor Employees' Retirement System (Retirement System) is vested with the authority and fiduciary responsibility for the 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, the Board of Trustees acknowledges that the Retirement System has evolved in complexity such that the circumstances 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 requires continuing education, training, and oversight of its advisors, and

WHEREAS, it is necessary, appropriate and incumbent upon Board trustees and/or Retirement System staff, from time to time, to participate in continuing education, training, and/or conduct due diligence trips in relation to their oversight of Retirement System advisors to ensure that Retirement System participants receive the best possible service, benefit and representation from these responsible persons, and

WHEREAS, Wendy Orcutt, Executive Director, has requested the Board of Trustees' authorization for travel to Chicago, Illinois, at Retirement System expense, estimated at \$ 528.00, to visit Northern Trust, The System's Custodial Bank, to participate in passport training to participate in continuing education in her responsibility as Retirement System Staff person, therefore be it

RESOLVED, the Board of Trustees authorizes the travel and training request of Wendy Orcutt to travel to Chicago, Illinois, at Retirement System expense, estimated at \$ 528.00, to visit Northern Trust to participate in passport training to participate in continuing education in her responsibility as Retirement System Staff person, and

FURTHER RESOLVED, that Wendy Orcutt comply with all travel and reporting requirements as contained in the Board of Trustees previously adopted Travel and Training Policy and Procedures.

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

Approved

D. ACTIONS ITEMS

D-1 Election of Board Officers

It was **moved** by Schreier and **seconded** by Crawford to retain the existing Board Officers for the 2019 term:

Board Chairperson: Jeremy Flack, Fire Trustee
Vice-Chairperson: Alexa Nerdrum, Citizen Trustee
Secretary: David Monroe, Police Trustee

Approved

D-2 Appointment of Board Committee Members

Mr. Peariso stated that he would like to be appointed to the Administrative Policy Committee.

It was **moved** by DiGiovanni and **seconded** by Monroe to appoint the Committees as follows:

- Investment Policy Committee: Hastie/Chair, Crawford, DiGiovanni, Flack, Monroe
- Administrative Policy Committee: Monroe/Chair, Lynch, Schreier, Peariso
- Audit Committee: Nerdrum/Chair, Crawford, Monroe

Approved

D-3 Resolution to Hire Arboretum Ventures

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 allocation to Private Equity, and

WHEREAS, the potential manager, Arboretum Ventures presented their investment strategy to the IPC on February 12, 2019, and

WHEREAS, Meketa and the Investment Policy Committee have recommended an investment with Arboretum Ventures Fund V, in the amount of \$ 8 million, as it provides exposure to Private Equity, so be it

RESOLVED, that the Board of Trustees approves the hiring of Arboretum Ventures with a commitment in the amount of \$8 million, pending review of investment management documents by the Board's legal counsel and any recommended additional due diligence.

It was **moved** by DiGiovanni and **seconded** by Crawford to approve the resolution to hire Arboretum Ventures investing \$ 8 million in Arboretum Ventures Fund V.

Approved

D-4 Correction of Errors Policy Draft

Ms. Orcutt presented the Correction of Errors Policy Draft to the Board informing them that this policy is a guideline for the correction of administrative errors resulting in overpayment or underpayment of benefits to a member/beneficiary. Mr. Schreier and Mr. VanOverbeke discussed the legalities regarding overpayment of benefits to beneficiaries, stating that the beneficiary is responsible for repaying the overpayment, not the estate.

The Board reviewed the policy and made the following motion:

It was **moved** by Monroe and **seconded** by Schreier to approve the Correction of Errors Policy as presented.

Approved

D-5 Proposed March 22, 2019 Board Retreat Agenda

The Board reviewed the proposed agenda for the 2019 Board Retreat. The Board discussed and agreed to change the March Board meeting to the morning of the Board Retreat. Mr. Crawford outlined the sustainability checklist that would be discussed by the Actuary at the retreat.

Ms. Nerdrum questioned the Gabriel, Roeder & Smith Actuary Agreement, whether there should be language regarding protection regarding errors made by the Actuary. Legal Counsel will look into a possible addendum to the contract regarding the language.

Ms. Orcutt informed the Board that ICMA-RC's review will be moved from March to the April Board meeting. Mr. Hastie requested that the administration and oversight of the DC Plans be a topic at the Board Retreat. Ms. Orcutt and Mr. Hastie will collaborate the discussion topic for the Retreat.

It was **moved** by Crawford and **seconded** by DiGiovanni to approve the Board Retreat Agenda as revised.

Approved

E. DISCUSSION ITEMS

E-1 2019 Spring MAPERS Conference – May 18-21, Shanty Creek Resort

Ms. Orcutt informed the Board of the upcoming MAPERS Conference. Ms. Orcutt requested that any Board Members interested in attending should notify the Retirement Office.

It was **moved** by Monroe and **seconded** by Schreier to approve any interested Staff or Board Member to attend the 2019 Spring MAPERS Conference.

Approved

F. REPORTS

F-1 Executive Report – February 21, 2019

UPDATES ON REBALANCING OF THE HIGH YIELD AND BANK LOAN TO EMERGING MARKETS DEBT AND SHORT TERM INVESTMENT GRADE CREDIT

Upon liquidation of \$ 10,000,000 from Sky Harbor effective February 1, 2019, \$6.5 million was purchased in the NT 1-5 Credit Bond Fund and \$3.5 million in Stone Harbor. Upon receipt of the \$5,000,000 from Beach Point in April, the remaining \$3.5 and \$1.5 million will be purchased in the respective funds to complete the rebalance.

DRA DISTRIBUTIONS

DRA issued a distribution from the Growth and Income Fund VIII on 2/14/19 in the amount of **\$115,630** for the Retirement System consisting of \$ 149,167 in dividends and return of capital netted against \$33,537 in management fees. The VEBA distribution of **\$34,008** consisted of \$43,872 in dividends and return of capital netted against \$9,864 in management fees.

DRA issued a distribution from the Growth and Income Fund IX on 2/15/19 in the amount of **\$94,924** for the Retirement System consisting of \$ 121,515 in dividends netted against \$26,591 in management fees. The VEBA distribution of **\$27,919** consisted of \$35,740 in dividends netted against \$7,821 in management fees.

SUMMIT PARTNERS

Summit Partners Credit Fund II, L.P. requested a capital call of 1.8% of our commitment to the Funds in the amount of **\$167,693** for the Retirement Plan and **\$41,293** for the VEBA on 2/11/19 which represents a recall of distributions. With these installments, **CAAERS** will have funded 117.2% of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

Summit Partners Credit Fund II, L.P. requested a capital call of 3.8% of our commitment to the Funds in the amount of **\$346,982** for the Retirement Plan and **\$86,475** for the VEBA on 2/26/19 which represents a recall of distributions. With these installments, **CAAERS** will have funded 121 % of our total commitments of \$9,200,000 for the Retirement Plan and \$2,300,000 for the VEBA.

CARLYLE UPDATE

ED and Corbin Hammond met with Matt Boole from the Carlyle Group on February 6 for a brief update on Fund VIII. A 5% capital call is anticipated in June 2019.

RAISE CASH FOR BENEFITS AND EXPENSES

The NT EAFE Index was utilized to raise cash in the amount of \$ 2,000,000 per direction from Meketa. This trade was effective January 28, 2019.

The NT Russell 1000 Index was utilized to raise cash in the amount of \$ 4,000,000 for ERS and \$ 2,000,000 effective February 21, 2019 per direction from Meketa.

ACTUARY UPDATE

The contract for services with Gabriel, Roeder, Smith & Co. (GRS) has been finalized, reviewed by Legal Counsel and is ready for signature.

ICMA-RC UPDATE

ICMA is in receipt of the executed self-directed brokerage addendum which closed the program effective December 1, 2018. There is no online access unless you are already enrolled in the program and ICMA call center staff has been notified of the change should they receive any inquiries.

EXPENSE REPORT INFORMATION

Effective Jan. 1, 2019, the new standard mileage rate is .58 cents per mile for miles driven on business or for travel. The IRS recommends standard mileage rates for business based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas and oil.

STAFF OPERATIONS

The Pension Analyst conducted 8 pre-sessions and processed 16 estimates.

The annual Poverty Increases were completed in January. Increases were applicable to 94 retirees resulting in a total annual increase of approximately \$29,000.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended January 31, 2019

Corbin Hammond, Accountant submitted the Financial Report for the month ended January 31, 2019 to the Board of Trustees:

1/31/2019 Asset Value (Preliminary)	\$493,609,415
12/31/2018 Asset Value (Audited by Northern)	\$476,643,955
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$20,103,448
Percent Gain <Loss>	4.2%
February 21, 2019 Asset Value	\$498,960,434

F-3 Investment Policy Committee Minutes – February 12, 2019

Following are the Investment Policy Committee minutes from the meeting convened at 3:13 p.m. on February 12, 2019:

Member(s) Present: DiGiovanni, Hastie, Monroe
Member(s) Absent: Crawford, Flack
Other Trustees Present: Joe Peariso
Staff Present: Gustafson, Hammond, Hollabaugh, Orcutt
Others Present: Henry Jaung, Meketa Investment Group
Jan Garfinkle, Arboretum Managing Partner
Tom Shehab, Arboretum Managing Partner
Paul McCreadie, Arboretum Partner & COO

MEKETA CORPORATE DEVELOPMENT – MERGER WITH PCA

Mr. Jaung update the Committee regarding the Pension Consulting Alliance (PCA) Merger, stating that the transition has been positive thus far. PCA is a leading investment consulting and advisory firm that is joining the Meketa Investment Group. Mr. Jaung stated that this will not constitute a change in the control of Meketa, but will add more resources, experience and services to their platform.

PRELIMINARY ASSET ALLOCATION REVIEW

Mr. Jaung reviewed the asset allocation study noting the expected return and probability compared to last year. In 2018, there was 48% probability of reaching the expected return of 6.9%. Currently, for 2019, Meketa estimates a 58% probability of reaching an expected return of 7.5%. There has been a dramatic increase mostly due to better valuations and history.

ARBORETUM VENTURES PRESENTATION

Representatives from Arboretum Ventures were present to review their firm, including their history, team overview, performance, and investment process.

It was **moved** by DiGiovanni and **seconded** by Monroe to recommend to the Board of Trustees to invest \$10-12 Million in Arboretum Ventures Fund V (AV V), pending the final amount with Meketa's recommendation from the pacing study.

Approved

2018 PERFORMANCE REVIEW AND INTERIM UPDATE AS OF JANUARY 31, 2019

Mr. Jaung reviewed the December 31, 2018 performance with the Committee stating that 2018 was a tough year based upon the relative and absolute basis, however, the retirement system did do well ending in the top 17% with - 6.5 return net of fees.

As of January 31, 2019, the balance of the Funds were \$496,552,935 for ERS. Fiscal year to date performance was 0.4% for ERS net of fees. Mr. Jaung also reviewed the Act 314 Compliance, stating that all investments are currently in compliance.

RECENT AND NEXT CASH LIQUIDATIONS FOR BENEFIT PAYMENTS

Ms. Orcutt informed the committee that cash was needed for benefits. The committee decided to rebalance a total of \$4 Million. Ms. Orcutt will work with Meketa to determine where to rebalance from and will need the cash by the end of February.

BOARD RETREAT AGENDA

Mr. Jaung stated that he will need about 2 hours for investment topics on the Board Retreat Agenda and will discuss asset allocation and probability of reaching returns.

The committee also discussed the March IPC meeting and decided to cancel due to the Board Retreat.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by DiGiovanni to adjourn the meeting at 5:22 p.m.

Meeting adjourned at 5:22 p.m.

IPC Project Tracking Table		
Description	Originated	Status
<i>Draft Investment Policy Statement 401A/457B</i>		<i>Pending</i>
<i>Board's Preliminary Financial Report: Add benchmark info on reports – stock market index</i>		<i>Pending</i>
<i>Custom Benchmarks</i>		<i>Pending</i>
<i>Condo Mortgage</i>	<i>6/5/18</i>	<i>Pending</i>

F-4 Administrative Policy Committee Minutes – February 19, 2019

Following are the Administrative Policy Committee minutes from the meeting convened at 3:03 p.m. on February 19, 2019:

*Committee Members Present: Lynch, Monroe (Via TX 3:44 p.m.), Schreier
Members Absent: None
Other Trustees Present: Peariso
Staff Present: Gustafson, Hollabaugh, Orcutt
Others Present: None*

ICMA UPDATE

Ms. Orcutt updated the committee on the self-directed brokerage account agreement. The addendum has been revised which covers all members in the program as of December 1, 2018 and excludes the indemnification language. The program is closed to new participants going forward since neither the Board nor the City will accept the indemnification required by ICMA. The Committee decided to have notice sent out to employees via A2 News Notes informing them that this option is no longer available. Notification will be sent via letter to current participants in the program as soon as possible.

Ms. Orcutt also informed the Committee that Nancy Lange, CFP from ICMA-RC, has offered to speak at the Retiree Luncheon. The topics will be presented at the Ex-Officio meeting next week for a final decision.

CORRECTION OF ERRORS POLICY DRAFT

Ms. Orcutt presented the Correction of Errors Policy Draft to the Committee informing them that this policy is a guideline for the correction of administrative errors resulting in overpayment or underpayment of benefits to a member/beneficiary. The Committee reviewed the policy, making some revisions. The policy will be revised and presented to the Board for final approval.

PENSION OVER-PAYMENT UPDATE

Ms. Orcutt updated the Committee regarding two incidents of overpayment of benefits to members/beneficiaries. Both parties have been contacted and are scheduled to re-pay the overpayment. Mr. Schreier questioned the policy for overpayment to a beneficiary; after a brief discussion, the Committee agreed to discuss further with legal counsel.

OTHER

Ms. Orcutt informed the Committee of the following updates:

- Ms. Orcutt will be out of the office February 28 – March 8, 2019 for medical reasons and will work remotely when possible.
- The actuary has been confirmed to attend the Board Retreat.
- The Governance Policy is being revised by legal counsel and is anticipated to be available for review at the Board Retreat.

The Committee also discussed next month's schedule and decided to move the next APC meeting date to March 19, 2019.

ADJOURNMENT

It was ***moved*** by Lynch and ***seconded*** by Schreier to adjourn the meeting at 4:00 p.m.
Meeting adjourned at 4:00 p.m.

APC Project Tracking Table		
Description	Originated	Status
Revised Governance Policy	7/24/18	Pending
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) - Continue to discuss priorities and next steps on implementation	October 2009	Placed back on pending list on 8-9-2016

F-5 **Audit Committee Minutes – None**

F-6 **Legal Report - None**

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

G-1 **Communications Memorandum**

G-2 **March 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	DTE Energy	\$109.34	Gas 12/13/18-1/11/19
2	DTE Energy	\$174.76	Electric 12/13/18-1/11/19
3	Staples	\$68.32	Miscellaneous office supplies
4	Buck Global, LLC	\$1,583.33	December hosting fees
5	Allstar Alarm	\$90.00	Fire Alarm Monitoring 2/1/19-4/30/19
6	MAPERS	\$60.00	Joe Peariso Registration
7	Corbin Hammond	\$420.00	GFOA Conference Registration Reimbursement May 2019

8	AT&T	\$470.09	Phones 12/26/18-1/25/19
9	Loomis Sayles	\$23,971.26	Q4: 10/1/18 - 12/31/18 Management Fees
10	Hexavest	\$21,304.47	Q4: 10/1/18-12/31/18 Management Fees
11	Wendy Orcutt	\$972.02	Uplift Desk Reimbursement
12	Laura Hollabaugh	\$238.46	Petty Cash Reimbursement
13	Income Research Management	\$4,002.01	Management Fee 10/1/18-12/31/18
14	Buck Global, LLC	\$1,583.33	Hosting Fee January 2019
15	Culligan	\$33.74	Water Service 2/1/19-2/28/19
16	Meketa Investment Group	\$10,000.00	Investment Consulting Services January 2019
Total		\$65,081.13	

G-4 Retirement Report

Name	Retirement Type	Effective Retirement Date	Group	Years of Service	Department/Service Area
Craig Martin	Age & Service	February 20, 2019	Police	25 years	Safety Services
Kathleen McMahon	Deferred Age & Service	February 12, 2019	General	6 years, 1 month	Financial & Administrative
Elaine Eichbauer	Age & Service	March 1, 2019	Police	16 years 10 months	Safety Services
Sheila Johnson	Deferred Age & Service	March 1, 2019	General	7 years, 6 months	Public Services
Jennifer Sartori (Lyle Death Benefit)	Age & Service	November 7, 2018	Police	30 years, 2 months	Safety Services
Abigail Elias	Age & Service	April 13, 2019	General	23 years	City Attorney

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

H. TRUSTEE COMMENTS / SUGGESTIONS

Mr. Crawford informed the Board that the City will be submitting an RFP for a consultant to advise the City of different ways the contribution volatility could be reduced.

Mr. Crawford also informed the Board that the City is interested in using the same Actuary as the Retirement System and will be contacting Gabriel, Roeder & Smith & Co.

I. ADJOURNMENT

It was **moved** by Monroe and **seconded** by Crawford to adjourn the meeting at 9:45 a.m.

Meeting adjourned at 9:45 a.m.

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