REGULAR MINUTES
WASHTENAW COUNTY VEBA BOARD OF TRUSTEES
THURSDAY, May 2, 2013, 1:30 P.M.
220 N. Main St – Board of Commissioner's Meeting Room

Call to Order
Pete Collinson called the meeting to order at 1:34 pm

Roll Call
Monica Boote called the roll

MEMBERS PRESENT: Pete Collinson, Barb Finch, Bob Stanton, Nancy Heine

MEMBERS ABSENT: Conan Smith (excused)

OTHERS PRESENT: Monica Boote and Lisa Everton, Human Resources; Jane Thurston, AWARE, Catherine McClary, Treasurer's Office; Michael Holycross, Graystone Consulting; Gary Lowe, Sheriff Dept

Public Participation from the Floor
None

Approval of Minutes of:
- **A.** February 7, 2013
- **B.** April 16, 2013 (Joint Special Meeting of WCERS/VEBA Boards)

Barb Finch seconded by Bob Stanton motion to approve the regular meeting minutes of February 7, 2013 as amended and the Joint Special Meeting of WCERS/VEBA Board April 16, 2013 minutes as presented. All in favor. Motion carried.

Communications
- **A.** Finance, Monthly Contribution/Distribution Report as of 03.13
- **B.** Adelphia Communications, SEC v Adelphia, Fund Distribution, 1.30.13
- **C.** Bahl & Gaynor, Sector Review: The US Energy Boom
- **D.** Bahl & Gaynor, Sector Review: Transportation
- **E.** Corbin Capital, Commentary, 2.26.13
- **F.** Corbin Capital, Commentary, 3.25.13
- **G.** Morgan Stanley, Status Change, Tradewinds, Acct# 226, 2.13.13
- **H.** Morgan Stanley, Status Change, Tradewinds, Acct# 230, 2.13.13
- **I.** Morgan Stanley, Upcoming Changes to Fees and Services, 3.28.13
- **J.** Morgan Stanley, Important Notice, Asset Allocation Parameters, 4.16.13
- **K.** Penn Square, 3Q12 Report
- **L.** Rehmann, Financial Statements, Years ended December 31, 2012 and 2011
- **M.** WHV, Organizational Announcement, Departure of Jeff Romrell, 2.11.13

Communications on file
- **A.** Bahl & Gaynor, Portfolio Summary, 4Q12
- **B.** Bahl & Gaynor, Portfolio Summary, 1Q13
- **C.** Bahl & Gaynor, Client Privacy Statement
- **D.** Bahl & Gaynor, Part 2A of Form ADV: Firm Brochure, 2.28.13
- **E.** Corbin Capital, Final Performance ,12.12

F. Corbin Capital, Performance Report, 01.13
G. Corbin Capital, Performance Report, 02.13
H. Edgewood Management, Quarterly Statement, 1Q13
I. Hatteras, Core Alternatives, Tax Estimate for 2012
J. J.P. Morgan, Monthly Market Value Statement, 3.31.13
K. J.P. Morgan, Quarterly Performance Report, 1Q13
L. Morgan Stanley, Investment Monitor, Consulting Group Advisor, as of 12.31.12
M. Morgan Stanley, Investment Monitor, Fiduciary Services, as of 12.31.12
N. Morgan Stanley, 1099 Consolidated Tax Statement, 2012
O. Penn Square, Estimated Schedule K-1, 2012
P. Santa Barbara, Part 2A of Form ADV, Brochure, 3.13.13

Bob Stanton seconded by Barb Finch motion to receive and file the Communications and Communications on File as presented. All in favor. Motion carried.

Deputy Bob Stanton asked to discuss the Sherriff's department appointment to the VEBA Board. The current Sherriff's department VEBA Board appointment is Deputy Stanton and the alternate is Deputy Wayne Ahlers. Deputies Ahlers and Stanton are retiring within the next five years (Deputy Ahlers first then Deputy Stanton) so the department would like to groom Deputy Gary Lowe as the new alternate and possibly new appointee before their retirement.

Deputy Stanton would like Deputy Lowe to join the Trustees at the table in order to be able to answer his questions in preparation of his new duties. According to the VEBA Trust Agreement, Article III, only the five trustees and the AWARE representative are allowed at the table. The agreement does allow for alternates but only the regular representatives can vote if both are present, while the alternate sits in the audience. There is nothing on record regarding alternate training. Members felt that it was okay for Deputy Lowe join the table if it doesn't set a precedent. Currently this is the only position that has an alternate. Discussion was held regarding the AWARE representative and their role. The Human Resources department has received an informal notice of the Sherriff's department plans regarding the representative succession. The Sherriff's department feels this training time is necessary since the VEBA Board only meets on a quarterly basis.

Nancy Heine seconded by Barb Finch motion to allow Deputy Gary Lowe to sit with Deputy Bob Stanton for the purposes of training at the next 3 VEBA Board meetings with no participation or voting rights. All in favor. Motion carried.

Manager Reports
None

Unfinished Business
None

New Business

A. Authorized Signatory Resolution

Barb Finch seconded by Bob Stanton to update and adopt the Authorized Signatory Resolution. All in favor. Motion carried.

VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION
POLICY RESOLUTION

Re: Authorized Signatory Resolution **Adopted: May 2, 2013**

WHEREAS, the Voluntary Employees Beneficiary Association (VEBA) is vested with the authority administration, management and operation, of the VEBA Trust, and

WHEREAS, the following Board Representatives are authorized to act on the VEBA Trust behalf, therefore be it

RESOLVED, that the Chair, Vice Chair or Retirement Administrator are authorized to execute all contracts and legal papers issued on behalf of the VEBA Trust, and further

RESOLVED, the signatures represented below shall be authorized signatories of the VEBA Trust:

Peter Collinson, Chair _____
Signature

Robert Stanton, Vice Chair _____
Signature

Barbara Finch _____
Signature

Nancy Heine _____
Signature

Conan Smith _____
Signature

Monica L. Boote, Retirement Administrator _____
Signature

RESOLVED, the copies of this resolution shall be provided to the appropriate parties.

Administrator's Report - Monica Boote

A. Health Care Expenses

January 2013 Retiree Fringes
Charged to VEBA for Monica Boote

	General	Sheriff	Medical Fund Adjustment	Total	Number of Retirees General	Number of Retirees Sheriff	Number of Retirees Total
Blue Cross/Blue Shield-ERS retirees	619,347.20	172,990.08		**792,337.28**	580	162	742
Medicare Reimbursement-ERS retirees	725.80	430.10		**1,155.90**	7	4	11
Medicare Reimbursement-MERS retirees	-	209.80		**209.80**	-	2	2
Blue Cross/Blue Shield-MPPP retirees	36,306.56	-		**36,306.56**	34	-	34
Blue Cross/Blue Shield-MERS retirees	-	16,017.60		**16,017.60**	-	15	15
	$ 656,379.56	**$ 189,647.58**	**$ -**	**$ 846,027.14**	**621**	**183**	**804**

February 2013 Retiree Fringes Charged to VEBA for Monica Boote

	General	Sheriff	Medical Fund Adjustment	Total	Number of Retirees General	Number of Retirees Sheriff	Number of Retirees Total
Blue Cross/Blue Shield-ERS retirees	617,211.52	171,922.24		**789,133.76**	578	161	739
Medicare Reimbursement-ERS retirees	725.80	430.10		**1,155.90**	7	4	11
Medicare Reimbursement-MERS retirees	-	209.80		**209.80**	-	2	2
Blue Cross/Blue Shield-MPPP retirees	36,306.56	-		**36,306.56**	34	-	34
Blue Cross/Blue Shield-MERS retirees	-	16,017.60		**16,017.60**	-	15	15
	$ 654,243.88	**$ 188,579.74**	**$ -**	**$ 842,823.62**	**619**	**182**	**801**

March 2013 Retiree Fringes Charged to VEBA for Monica Boote

	General	Sheriff	Medical Fund Adjustment	Total	Number of Retirees General	Number of Retirees Sheriff	Number of Retirees Total
Blue Cross/Blue Shield-ERS retirees	615,075.84	171,922.24		**786,998.08**	576	161	737
Medicare Reimbursement-ERS retirees	725.80	430.10		**1,155.90**	7	4	11
Medicare Reimbursement-MERS retirees	-	209.80		**209.80**	-	2	2
Blue Cross/Blue Shield-MPPP retirees	36,306.56	-		**36,306.56**	34	-	34
Blue Cross/Blue Shield-MERS retirees	-	16,017.60		**16,017.60**	-	15	15
	$ 652,108.20	**$ 188,579.74**	**$ -**	**$ 840,687.94**	**617**	**182**	**799**

April 2013 Retiree Fringes Charged to VEBA for Monica Boote

	General	Sheriff	Medical Fund Adjustment	Total	Number of Retirees General	Number of Retirees Sheriff	Number of Retirees Total
Blue Cross/Blue Shield-ERS retirees	615,075.84	171,922.24		**786,998.08**	576	161	737
Medicare Reimbursement-ERS retirees	725.80	430.10		**1,155.90**	7	4	11
Medicare Reimbursement-MERS retirees	-	209.80		**209.80**	-	2	2
Blue Cross/Blue Shield-MPPP retirees	36,306.56	-		**36,306.56**	34	-	34
Blue Cross/Blue Shield-MERS retirees	-	16,017.60		**16,017.60**	-	15	15
	$ 652,108.20	**$ 188,579.74**	**$ -**	**$ 840,687.94**	**617**	**182**	**799**

B. Requesting approval for the following invoices:

Vendor	Description of Services	Amount Due	Invoice
Washtenaw County	Audit Cost Distribution	6800.00	
Buck Consultants	Progress Billing on Valuation	2850.00	2142429
Edgewood Management	Consulting Fees, 1Q13	10293.45	2889016
Hancock Bank	Management Fees, 1Q13	4805.47	3709
Loomis Sayles	Management Fees, 1Q13	11232.72	154715
Morgan Stanley	Management Fees,	32579.03	041713 VEBA
	Bahl & Gaynor – Lg Core	*802.24*	
	JP Morgan – Fixed	*4734.00*	
	Hancock Horizon – Lg Growth	*994.38*	
	Loomis – Lg Value	*1811.78*	
	Alternative Inv	*2313.96*	
	Edgewood – Lg Growth	*997.41*	
	WHV – Int'l	*2443.87*	
	CG Advisor	*4477.97*	
	Santa Barbara – Dvd Growth	*1058.51*	
	WHV Int'l – Manager & Retention Fees	*9032.62*	
	Santa Barbara Dvd Gr – Manager & Retention Fees	*3912.29*	

C. Bills paid requiring approval

Vendor	Description of Services	Amount Due	Invoice
Morgan Stanley	Management Fees,	34327.74	021913 VEBA
	Tradewinds Int'l	*1443.59*	
	Bahl & Gaynor – Lg Core	*645.42*	
	JP Morgan – Fixed	*5076.30*	
	Hancock Horizon – Lg Growth	*913.43*	
	Tradewinds – Smid Value	*1879.10*	
	Loomis – Lg Value	*1682.80*	
	Alternative Inv	*2412.87*	
	Edgewood – Lg Growth	*956.12*	
	WHV – Int'l	*1866.97*	
	CG Advisor	*1006.84*	
	Santa Barbara – Dvd Growth	*861.85*	
	Tradewinds Int'l – Manager & Retention Fees thru 2/14/13	*2502.44*	
	Tradewinds Sm Val – Manager & Retention Fees thru 2/19/13	*3619.31*	
	WHV Int'l – Manager & Retention Fees	*6472.72*	
	Santa Barbara Dvd Gr – Manager & Retention Fees	*2987.98*	

Monica Boote requested authorization to process payment for the health care expenses from January 2013 through April 2013 and for payment of the invoices as presented.

Bob Stanton seconded by Barb Finch motion to approve the expenditures of healthcare funds, invoices and bills already paid as presented. All in favor. Motion carried.

Report of Investment Consultant - Michael Holycross

- **A. Market Commentary, 3.2013**
- **B. Quarterly Performance Report, 1Q13**
- **C. Watch List Presentation, 1Q13**
- **D. Cash Flow Review, 4.2013**

Michael Holycross led the discussion of the Performance Measurement Report. Under tab one, Market Commentary, the executive summary is authored by the new Chief Investment Officer of Morgan Stanley Wealth Management, Mike Wilson, and presented in a more concise format.

Under tab 2 of the report, the Large Cap Equity S&P 500 Index is up 10.6% compared to over 12% a year ago in the first quarter. Emerging markets are currently in flat to negative territory in the first quarter of this year. Tradewinds, who was terminated about 90 days ago, continued to underperform which is why we have an underperformance trailing one year in the combined account compared to the manager allocation index.

Ten year trailing return is up at 8.13%, which is a significant return considering the market volatility and 60% of the portfolio allocated to equities in that time frame while the S&P 500 Index was at 8.53%. With a beginning market value of $20.4M, a net flow of $32M and investment earnings of $29M for an ending market value of $82M.

In terms of asset allocation, private equity is underperforming currently due to the sub-par performance of Hatteras and their termination is recommended as well as an asset allocation study. Today's market simply allows for better opportunity. The underlying managers are less diversified therefore two managers in large cap large growth equities should help with diversification and dampen volatility. Loomis has had a terrific quarter, as well as Bahl & Gaynor. Ben Bernake and the federal government is in discussion to slowly pull back on the marketplace stimulus, which is inevitable, and cause a rise in interest rates which would be harmful to fixed income but helpful increasing equity returns. The Board does not have a large cushion of cash to redeploy. Providing more dividend paying stock such as Santa Barbara and Bahl & Gaynor is an important part of the portfolio income stream.

Internationally, WHV has underperformed the EAFE (Europe, Australia, Far East) Index because it is heavily invested in energy and mining stocks on a global basis where economic growth is expected. Europe is in a recession and has cut interest rates by 25 basis points and the U.S. is slowly crawling out of this economic downturn. WHV's interest lies in investing in the infrastructure of these growing nations and will be a positive contributor over the long term.

Fixed Income core portfolio has a 2.4% average coupon with JP Morgan. This increases or decreases with bond prices. The yield on the ten year treasury has an inverse relationship to the price of bonds. As interest rates rise, the price of bonds decreases thus creating a need to further diversify the portfolio. Japan and the U.S., the largest global debtors, constitute 65% of the global fixed income index fund. Templeton has zero weight in U.S. treasuries and currently U.S. treasuries are perceived as safest to buy globally with the least amount of risk involved despite being one of the largest global debtors.

In hedge funds, Corbin has a better return rate rising above the benchmark while Hatteras has had the better opportunity for outsized returns so due diligence dictates that we terminate Hatteras at the next quarter and in the meantime Mr. Holycross will provide education about alternative asset class allocations in the asset allocation study to be performed.

In real estate, Penn Square is rolling out of the 'J' curve with capital return and no meaningful capital call expected. They have about 22-23 real estate investments on a global basis with a 10-12% targeted return expected over the next 5 years.

Trustees discussed the intervention of the federal government over the last number of years. Is their current involvement indicative of a typical involvement cycle for the federal government? The federal government contributed to the cycle lowering interest rates which in turn produced the real estate boom but it had gotten away from the government before it could have been slowed down to recover, interest rates were kept too low for too long, and the economic activity has not increased enough along with inflation, the GDP growth rates and unemployment. Has the federal government ever intervened to this degree before? No, but so far the interventions have worked from the standpoint that we pushed up the prices on risk assets on a global basis. Basically, we have borrowed returns from the future because of what the federal government has done. The Morgan Stanley return expectation for the next 7-10 years, intermediate term, and for the next 20 years or long term will be done in an asset allocation study to set the building blocks for the creation of return expectations.

Trustees discussed the liquidation of Hatteras and the creation of new allocations dictated by the study in private equity and private real estate. Mr. Holycross explained that the removal of Hatteras is the strategy with other clients as well, keeping similar exposures with new managers. While it may seem that their performance was in line, Hatteras should have been able to provide higher returns because of their diversification.

Trustees also discussed the definition of net flow, the formation of the VEBA Board and its management.

Mr. Holycross requested a motion to terminate and liquidate the assets of the Hatteras fund.

Barb Finch seconded by Bob Stanton motion to terminate and liquidate Hatteras at the next quarter provided Graystone offers asset allocation education to the Board. All in favor. Motion carried.

Trustees expressed interest in looking at the Watch List which is created for underperforming managers. Mr. Holycross informed the Trustees that the Watch List is now done on a quarterly basis instead of monthly since the Board now has quarterly meetings and that the Hatteras termination would not triggered the Watch List since they were not underperforming. The market simply has allowed for better opportunities.

Advisor's Comments
None

Report of the Chair
None

Adjournment

Bob Stanton seconded by Barb Finch motion to adjourn at 2:33 p.m. All in favor. Motion carried.

Upcoming Board Meeting

- Regular Meeting
  Thursday, August 1, 2013
  1:30 – 3:30 p.m.
  220 N. Main St, Ann Arbor, MI