

MINUTES
WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION
Board of Commissioners Meeting Room 220 N. Main St., Ann Arbor, MI 48107
May 28, 2013 – 8:30 am

Scott Miller called the meeting to order at 8:35 am

Monica Boote called the roll.

MEMBERS PRESENT: Kelly Belknap, Nancy Heine, Scott Miller, Conan Smith, Dan Smith, Deb Schmitt (8:49 am),
Verna McDaniel (9:28 am)

MEMBERS ABSENT:

OTHERS PRESENT: Monica Boote and Lisa Everton, Human Resources; Brian Green, Graystone Consulting;
Tom Michaud, VanOverbeke Michaud & Timmony; Catherine McClary, Treasurer's Office;
Roberta Allen, AWARE Representative

Public Participation

None

Approval of Minutes – April 16, 2013 (Joint Special Meeting of WCERS/VEBA Boards)
April 23, 2013 (WCERS Regular Meeting)

Conan Smith seconded by Kelly Belknap motion to approve the minutes of April 16, 2013 (Joint Special Meeting of WCERS/VEBA Boards) and April 23, 2013 (WCERS Regular Meeting) as presented. All in favor, motion carried.

Approval of Consent and Regular Agendas

Dan Smith seconded by Kelly Belknap motion to approve the Consent and Regular Agendas as amended including the Supplemental Agenda. All in favor, motion carried.

CONSENT AGENDA

A. Communications

1. Washtenaw County Finance, STIF report through 4.30.13
2. Common Sense, Performance Summary, as of 3.31.13
3. Common Sense, Performance Summary, as of 4.30.13
4. Loomis Sayles, Economic Climate Change & the Long-Term View on Yields, May 2013
5. Manning & Napier, Account Information, 4.15.13
6. Research Affiliates, Fundamentals, March 2013
7. Robbins Geller Rudman & Dowd, Class Action Settlements Report, due June 2013
8. Santa Barbara, Dividend Growth Commentary, 1Q13

B. Communications on File

1. Advocate, The, Spring 2013
2. Alliance Bernstein, Account Summary, 4.30.13
3. CRM, Form ADV Part 2, Brochure, 5.9.13
4. CRM, Portfolio Summary, as of 4.30.13
5. Common Sense, Statement, as of 4.30.13
6. Enhanced RAFI International, Statement, as of 3.31.13
7. J.P. Morgan, Form ADV Part 2A, Firm Brochure, 5.3.13
8. J.P. Morgan, Form ADV Part 2B, Brochure Supplement, 5.3.13
9. J.P. Morgan, Monthly Market Value Statement, Acct# 133290, as of 4.30.13
10. J.P. Morgan, Monthly Transaction Statement, Acct# 133290, as of 4.30.13
11. J.P. Morgan, Monthly Flash Report, Acct# 256880, as of 4.30.13
12. J.P. Morgan, Monthly Market Value Statement, Acct# 256880, as of 4.30.13
13. J.P. Morgan, Monthly Transaction Statement, Acct# 256880, as of 4.30.13
14. J.P. Morgan, Monthly Flash Report, Acct# 256890, as of 4.30.13
15. J.P. Morgan, Monthly Market Value Statement, Acct# 256890, as of 4.30.13
16. J.P. Morgan, Monthly Transaction Statement, Acct# 256890, as of 4.30.13

17. Loomis Sayles, Monthly Reports, as of 4.30.13
18. Loomis Sayles, Form ADV Brochure and Brochure Supplement, 5.1.13
19. Morgan Stanley Smith Barney, Updated ADV Brochures, 4.30.13
20. Robbins Geller Rudman & Dowd, Litigation Report, 1Q13
21. Robbins Geller Rudman & Dowd, Portfolio Monitoring Report, 4.26.13
22. Santa Barbara, Performance Summary, as of 3.31.13
23. SEI Trust Company, Monthly Statement, 4.30.13

C. Payment of Bills

| Vendor | Description of Services | Amount Due | Invoice # |
|--------------------------|-------------------------------|------------|---------------------|
| Washtenaw County Finance | Audit Cost Distribution | 8,000.00 | |
| Brandywine Global | Management Fee, as of 3.31.13 | 1,359.47 | 20130331-225-3101-A |
| Santa Barbara | Management Fee, 1Q13 | 14,257.18 | 20130402000905M |
| WHV | Management Fee, 1Q13 | 13,515.00 | WCERS 1Q13 |
| Buck Consultants | WCERS Valuation Progress | 5,950.00 | 2146682 |

D. Service Retirement Application

| Name | Department | Employee Group | Date | Type | Eligibility |
|------------------------|---------------|----------------|---------|-----------------|------------------------|
| Gary M. Brown | CSTS | Deferred | 6.1.13 | Deferred/Vested | Age 60 With 8 Years |
| Severina Redgate-Folts | Public Health | 2733B | 7.27.13 | Service | Rule of 75, Min Age 50 |
| Maureen L. Smith | Public Health | 2733B | 6.1.13 | Service | Age 60 With 8 Years |

E. Service Retirement Finals

| Name | Retirement Date | Employee Group | Type | FAC | Years of Service |
|-----------------|-----------------|----------------|---------|-------------|------------------|
| Ava Adler | 1.12.13 | 2733JC | Service | \$57,442.51 | 18Y |
| Audrey Shemwell | 3.23.13 | 2733B | Service | \$42,668.18 | 15Y 2M |

F. Intent to Purchase Prior Public / Military Service

1. Prior Public
2. Prior Military

G. Final Purchase Approval Resolutions – Prior Public / Military Service

1. Prior Public
2. Prior Military

H. Application for Refund of Contributions & Termination of Membership

| Name | Termination Date | Vested | Approximate Distribution Amount |
|---------------------------------------------------------------|------------------|--------|---------------------------------|
| Kristen A. Duprey | 1.7.13 | No | \$2202.85 |
| Tracy M. Levely | 5.17.13 | No | \$454.88 |
| Katherine J. Potts | 6.29.12 | No | \$19,351.83 |
| Sean M. Sturgeon | 2.12.13 | No | \$9,443.85 |
| Ronald E. Tart Beneficiary of Deferred Member Michele Tart | 2.28.85 | Yes | \$34,024.34 |
| The Estate of Nancy Willett | 9.12.11 | No | \$20.96 |
| Bernadette N. Richardson | 5.10.13 | No | \$1,274.90 |
| November Taylor | 5.24.13 | No | \$7,062.06 |

I. Application for Deferred Retirement Benefit

| Name | Termination Date | Department | Employee Group | Required Service for Vesting |
|---------------------|------------------|-----------------------|----------------|----------------------------------|
| Alicia Doty-Densemo | 8.26.11 | Community Corrections | Non-Union | 8 or more years credited service |

J. Pension Benefit Changes

1. Termination of Benefits

Noreen Gurney, deceased 5.19.13, Straight Life
Mary O'Dell, deceased 4.4.13, Straight Life

2. Life Insurance – Death Benefit

Noreen Gurney, deceased 5.19.13, beneficiary Glenn A. Gurney, \$2,000
Mary O'Dell, deceased 4.4.13, beneficiary George H. O'Dell, \$2,000

3. Payment to Survivor

None

4. Popup to Straight Life

None

L. EDRO / DRO

None

REGULAR AGENDA

Investment Consultant's Report – Brian Green

A. Performance Report, 1Q13

Brian Green led the 1Q13 and April 2013 performance report update discussion. Mr. Green encouraged the Trustees to read the market commentary about the currency world and gold markets (pages 8 – 9 and page 11 respectfully). In the "What would a currency war look like?" article, Japanese markets and strong revenues seen in the last year in those markets are jumpstarting their economy with aggressive policy intervention to weaken the yen.

In the overview of first quarter updates, real estate benchmarks were updated in the 4/30/13 report. The fund was up 5.3% for a slight outperformance of the policy index in the first quarter. While the fund is slightly underperforming for the trailing one year it has been outperforming overall for the trailing three, five and to twenty year trailing periods. The cash balance of \$17.8M appears skewed due to the \$11M used to fund the Loomis Sayles Fixed Income portfolio on April 1, 2013 and funding of the Brandywine Fixed Global portfolio at the end of March, therefore a more accurate cash balance would be \$3.8M or 1.7% of the portfolio. Nothing has changed with manager performance with the exception of the addition to fixed income and the NCREIF Index update which represents all privately held real estate by institutions. Both the strategic and special situation real estate funds had good results for the first quarter with core real estate up. The cash fund saw a small increase this quarter up 0.02%.

The April 30th performance report has fixed income up with the addition of Brandywine and Loomis Sayles. Other portfolio changes include the termination of Munder and Systematic and the additions of Manning & Napier and CRM portfolios. Performance improvements were led by Bahl & Gaynor which was up 3.15%, Research Affiliates up 6.74% and Brandywine up 3.55% for the month of April.

(Deb Schmitt, arrived)

Themes from a market standpoint include the rally of the Japanese stock market up in excess of 40% for the first quarter of 2013 and 78-79% in last 12 months a function of the economic policy changes made. This trend boosts the underweighted international equity market which is up 50% so far this year. Dividend stock is outperforming the broader S&P 500 markets at a 5 - 6 % margin due to the S&P dividend aristocrat stocks which consists of a select 61-62 stocks that have paid consistent or increased dividends each year for the last 25 years.

B. Hedge Fund Asset Class Review

Currently the only existing hedge fund allocation is with Common Sense Capital in long-short equities that focus on maximizing the impact of security selection and varying the proportion of long and short positions to achieve a targeted degree of market exposure. Since a larger percentage of hedge funds are now allowable, there is an advantage to diversification to reduce the volatility and maximum drawdown of the investment portfolio. The goal is to be conservative, transparent and readily explainable while avoiding problem areas including excessive leverage and those funds that are highly liquid. The recommendation would be to have three interviews and one review with the existing manager, Common Sense. The June meeting would include general hedge fund education, conduct the review with Common Sense and interview Corbin Capital, a firm currently working with VEBA. Subsequently the July meeting would include interviews with Blackstone and Millennium. Millennium is unique in its approach with trading and research teams made up of individual hedge fund managers creating a larger umbrella that has a fund to fund approach by means of one organization with a number of different trading desks underneath it which has been very successful for them.

C. Hedge Fund Performance Overview

MSCI ACWI is a proxy for the global equity market as a whole and for the last ten years has produced a 5.74% return with a standard deviation of risk at 19.61%. HFRI fund to funds composite which is a combination of all the underlying hedge fund returns that creates an index average universe or benchmark.

Returns from hedge funds are net of fees or actual earnings. The Sharpe Ratio is a measure of return on the risk or compensation for risk, the higher risk the higher the compensation expected. With Blackstone, Corbin, and Millennium the Sharpe Ratio is 3-10 X more than the equity market ratios with consistent earnings on returns. Millennium's average return vs. the market, allows no more than a 10% loss in money manager portfolios. This is a new approach to stop loss measures in a difficult marketplace. Corbin and Blackstone are more traditional with large client bases.

Mr. Green recommends providing education and interviewing/reviewing Corbin Capital and Common Sense in June and then in July interviewing Blackstone and Millennium.

Conan Smith inquired as to how the Up/Down Capture vs. Equity Market – Long Term graph on page five should be interpreted. Mr. Green referred trustees to page seven in which the data is specific to hedge funds only. The ideal scenario would be to have the up capture more than 100 and the down capture less than 100. The recommendation would be to have a 10% allocation to hedge funds, utilizing the current assets held in the Vanguard total market index fund. The other equity managers would remain unchanged. The 10 yr expectation for hedge funds will give equity like returns with less volatility. Hedge funds have underperformed the equity markets for the last 10 years therefore they should be more stable. Hedge funds would just be a part of the portfolio as an asset class at or near the actuarial target. The goal is to sacrifice a small portion of the upside capture for less downside capture.

Trustees discussed the possibility of splitting the hedge fund allocation between two managers. Mr. Green explained that while the target is 10% a good start would be 8% (with the possibility of 4% to each manager). The interview process may result in two viable managers from the four interviewed/reviewed.

Catherine McClary requested a description of the portfolio changes since Graystone took over in January of 2011. Mr. Green directed Trustees to the 4/30/13 Performance Report. Manager's with inception dates from 2010 or earlier are pre-existing managers and those from 2011 and later constitute changes made following Graystone's tenure. Domestic equity has had a complete overhaul with the exception of Loomis Sayles which was changed from a small cap allocation to a small/mid cap allocation for broader opportunities. International allocations have seen a complete overhaul, retaining Research Affiliates, WHV and Earnest Partners. No change in the JP Morgan Core Bond index which goes back to 1983. Additions from a fixed income standpoint have been Brandywine and Loomis Sayles. No changes to real estate portfolios have been made. There have been broad sweeping changes from an equities standpoint with slight adjustments in fixed income. Ms. McClary would like to see these changes in writing since eleven out of the sixteen holdings are new.

(Verna McDaniel arrived)

Scott Miller commented that it has been one of the worst decades on record for equities markets, therefore in theory hedge funds should have been at their best. For better comparison Mr. Miller requests more hedge fund data from

different decades. Mr. Green reported that the funds in question have only been available since the mid to late 1990's and the HFRI index since the mid 1980's. Mr. Miller would like the MSCI ACWI benchmark to be included on all the charts as well as the MSCI US especially since the funding will be from the Vanguard fund.

Dan Smith commented on the overall asset target policy allocation of 25% on contrarian type of investments; real estate, hedge funds and private equities of which hedge funds would only be a portion. Hedge funds in general are expensive and Mr. D. Smith would want to proceed cautiously because of the expense ratios. Mr. Green explained that hedge funds have two layered fees. Corbin for example has a 1% management fee with an additional 5% fee based on any profits made over 5% in essence splitting the profits 95% and 5% with them and creating incentives to generate revenue. This top and secondary fee structure averages out to 3 - 3.5% overall. Mr. D. Smith is still cautious about adding to portfolio because of these fees and expense of fund compared to domestic equities. Mr. Green encouraged Trustees as part of the interview process to ask about the fee structure.

Ms. McClary would also like to also see the S&P 500 along with Common Sense included in the comparison charts to which Mr. Green agreed to provide.

Trustees discussed the fee structure further. Mr. Green explained that if a hedge fund is on the downside the fee structure can be seen as a type of consideration since hedge fund managers have high water marks and will not profit share until they are back to the highest water mark.

Conan Smith seconded by Verna McDaniel motion to establish interviews with the three providers recommended and a review of the current provider, Common Sense, leaving the determination of the schedule for these interviews up to the Chair. Motion carried by a vote of 6-1. Dissent: Dan Smith.

Legal Advisor's Report – Tom Michaud

Tom Michaud requested to hold his report to the end of the meeting and go into closed session to discuss items under the attorney-client privilege.

Other Advisor's Comments

Catherine McClary expressed her appreciation with the Board to allow her to express her concerns and make suggestions.

Unfinished Business

- A.** Education Policy
- B.** AWARE Liaison Resolution

Conan Smith opened the discussion for feedback on the education policy changes he has proposed and requested a conference call with Monica Boote and Tom Michaud for more discussion later in the week. Mr. C. Smith's thought process is that since representation from retirees has been deemed important with the AWARE Liaison Resolution and since the majority or very close to the majority of participants now are retirees and the beneficiaries of the plan they should have a say in the management of the plan. Mr. C. Smith proposed to reiterate the Resolution and assign the AWARE participant the same educational opportunity rights as any other Board member. There are no precedents to compare to.

Scott Miller opened the floor for comments. Roberta Allen, AWARE representative clarified Section III.B. and stated that AWARE is open to all retirees not just one particular group or union.

Dan Smith commented on Mr. C. Smith's awareness of unnecessarily increasing the size of the board and that the Board might like to take this opportunity to see if there are reasons to increase the size of the board membership therefore taking away the need to change the policy. Perhaps also including the County Treasurer in the interest of maintaining an odd number of members. According to the legal advisor, Tom Michaud, the structure of the Board is a consideration outside this board's authority. The composition of the whole board is subject to collective bargaining.

Mr. C. Smith will have a final draft of his proposal available for presentation at the next meeting.

New Business

A. Disability Retirement Application – L. Fairchild

Monica Boote asked for the board to authorize the creation of the necessary appointments for the medical review of L. Fairchild to begin the disability retirement process.

Verna McDaniel seconded by Kelly Belknap motion to begin the disability retirement application process for L. Fairchild. All in favor, motion carried.

Retirement Administrator's Report – Monica Boote

None

Report of the Chair

Prior to today's meeting there was some discussion regarding the calendar issues associated with Buck's report presentation at the June 25th meeting with Larry Langer. It is unclear whether or not the report will be available to members before the meeting or be distributed to members at the meeting. Discussion was had about the best way to present the information. Mr. Miller would like to move forward with a special meeting on the same date as the WCERS regular board meeting June 25, 2013 after the regular meeting in conjunction with VEBA members. Conan Smith expressed interest in having the Buck presentation moved earlier, and changing the WCERS regular meeting to the later time, so invitations to all of the BOC members could be extended.

Conan Smith supported by Dan Smith motion to hold a Special Meeting of both the WCERS and VEBA boards with an invitation extended to the BOC members and any other interested parties to begin at 8:00 am, June 25, 2013 and reschedule the WCERS regular meeting to a 10:15 start time. All in favor, motion carried.

Verna McDaniel will invite the BOC members and Kelly Belknap will extend invitations to any other stakeholders.

Mr. Miller suggests having an all day educational retreat in the Fall of 2013. The last retreat was in 2011 and has historically been held during the week. Fund managers would be invited grouped by asset classes and the investment climate would be discussed. Trustees supported the proposition. Monica Boote will work with Brian Green and Michael Holycross to produce an agenda and invitation list.

Issues, Concerns and Trustee Comments

Nancy Heine seconded by Conan Smith motion to proceed into closed session.

Monica Boote called a roll call vote. All in favor, motion carried.

The board returned to public session at 10:20 am.

Conan Smith supported by Deb Schmitt motion to accept the legal advisor's recommendation and to file a legal complaint and seek appointment as the lead plaintiff in Avid Technologies, Inc Securities Litigation. All in favor, motion carried.

Adjournment:

Dan Smith supported by Verna McDaniel motion to adjourn at 10:22 am. All in favor, motion carried.

Upcoming Board Meetings

- Special Meeting, WCERS and VEBA Boards,
June 25, 2013 at 8:00 am
BOC Conference Room,
220 North Main Street, Ann Arbor, MI
- Regular Meeting, June 25, 2013 at 10:15 am
BOC Conference Room,
220 North Main Street, Ann Arbor, MI.