

**PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM
SUMMARY ANNUAL REPORT TO MEMBERS
DECEMBER 31, 2012**

Dear Retirement System Member:

The Retirement System, which is managed by the Retirement Board, is designed to help you meet your financial needs should you become disabled, retire or die.

The Retirement Board's fiduciary responsibility to you is to supervise the general administration of the System and to invest its assets. Our Board retains professional advisors to assist in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the System, which is governed by the provisions of the City's charter, the City's retirement Ordinance and the Retirement Board's official rules and regulations. Additional information about the System and its financial operation is available in the Retirement Office.

Respectfully Submitted,

***The Board of Trustees
Pontiac General Employees' Retirement System***

Investment Fiduciaries of the System

Board of Trustees

Charlie Harrison, Chairman
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Walter Moore
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Sheryl Stubblefield
Patrice Waterman
Kevin Williams

Actuary

Rodwan Consulting

Investment Consultant

Gray & Company

Investment Managers

Gray & Company
Ambassador Capital
Artio Capital Management
First Eagle Asset Management
GrayCo Alt Partners
Gray Emerging Large Cap Core
Gray Michigan Large Cap Value

Invesco
Kennedy Capital Management
Loomis Sayles
Mesirow Financial
Munder Capital Management
Peritus Asset Management
Sawgrass Asset Management

Other Service Providers:

Custodian of Assets

Northern Trust

Legal Counsel

Sullivan, Ward, Asher & Patton, P.C.

Medical Director

MES Solutions

SUMMARY RESULTS OF ACTUARIAL VALUATION

Your Retirement System's financial objective is to accumulate the assets necessary to pay the promised benefits in an orderly manner. To accomplish this, contribution rates are established in a manner that is designed to keep those rates approximately level as a percentage of payroll from year to year. The Board of Trustees of the City of Pontiac General Employees' Retirement System confirms that the System provides for the payment of the required employer contribution as described in Section 20 m of Michigan Public Act No. 728.

To determine an appropriate employer contribution level for the ensuing year and to gauge how the System's funding is meeting this fundamental objective, an independent firm of actuaries and employee benefit consultants, Rodwan Consulting, conducts annual actuarial valuations.

These valuations are based on your System's past experience, information about current participation and financial markets, and assumptions concerning the System's future demographic and economic activity. The results of the December 31, 2012 valuation, based on the established funding objective, are summarized below:

FISCAL YEAR BEGINNING JULY 1, 2014
 EMPLOYER CONTRIBUTION RATES
 AS A PERCENTAGE OF ACTIVE MEMBER PAYROLL

Contributions For

Computed Employer Rate	0.00%
Member Contributions	0.00%
Valuation Payroll	\$2,742,912

Funded Status **\$ MILLIONS**

Actuarial accrued liabilities	\$ 247.9
Applied assets (smoothed market value)	369.6
 % Funded	 149.1%

Participant Data

Active Members	57
Retirees and Beneficiaries	1,121
Vested Inactive Members	277
 Total Annual Pension Benefits Paid	 \$21,497,123
Average Annual Retirement Benefit	\$19,177
Weighted Average of Member Contributions	0

Accounting Disclosures

Actuarial Cost Method:	Individual Entry Age
Amortization Method:	Level percent of payroll, open
Remaining Amortization Period:	30 years
Asset Valuation Method:	5-year smoothed market value

Actuarial Assumptions

- o Investment Rate of Return 7.5%
- o Projected Salary Increases 5.6% - 9.4%
- o Includes inflation at 4.5%

Employer's Normal Cost as a % of Valuation Payroll 19.81%

Investment Performance

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>7 Year*</u>	<u>10 Year*</u>
Net of Fees	12.30%	8.52%	3.43%	5.20%	6.89%

*7 and 10 year numbers estimated by Gray & Company

Professional Training/Education

2012 Expenditures \$61,768

Itemized Budget

	<u>2012</u> <u>Expenditures</u>	<u>2013</u> <u>Proposed Budget</u>
Wages	\$ 138,023	\$ 197,499
Fringes	75,427	58,374
Postage/Supplies	19,248	15,000
Other Professional Services	265,142	243,368
Bank Fees	210,690	202,201
Investment Management	2,574,884	1,753,172
Training/Education	14,442	4,800
Educational Travel	47,326	30,067
Benefits Payroll	21,479,124	25,504,000
Interest	23,378	100
Insurance	30,000	31,000
Utilities		4,100
Rent		26,550
Miscellaneous	4,553	12,430
Equipment	4,736	22,450
Total	\$24,904,973	\$28,105,111

ACTUARY'S OPINION

It is the actuary's opinion that the contribution rates recommended in the most recent actuarial report are sufficient to meet the System's financial objective.

The System's changes in net plan assets on a plan-year basis:

<u>2012</u>	<u>2011</u>	<u>Net Increase</u>
\$423,528,789	\$395,299,593	\$28,229,196

The Board of Trustees confirms that the System has received the required employer contributions for the years shown above. The System had no "soft dollar" expenses.

The market rate of return on System assets net of expenses for the year ended December 31, 2012 was (2.22%).

Portfolio Composition by Asset Class at December 31, 2012

Domestic Equity	55%
Domestic Fixed Income	18%
International Equities and Fixed Income	15%
Basket Clause Category Securities	8%
Cash	4%
Total	100%