

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
NOVEMBER 30, 2005**

A regular meeting of the Board of Trustees was held on Wednesday, November 30, 2005 at the Shrine Room Main level, City Hall 47450 Woodward Ave., Pontiac, Michigan. The meeting was called to order at 1:34 p.m.

TRUSTEES PRESENT

Eugene White, Chairman	Robert Giddings
Kevin Williams	Javier Saucedo
Ed Hannan, Secretary	Paulette Poehlman
Debra Woods	Shirley Barnett
Larry Marshall (<i>arrived at 1:50 p.m.</i>)	
Charlie Harrison (<i>excused</i>)	
Mayor, Willie Payne (<i>absent</i>)	

OTHERS PRESENT

Andrea Coffey-Stewart, Gray & Company
Andrew Kelsen, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda –November 30, 2005

- A. Minutes of Regular Meeting: October 26, 2005
- B. Communications:
 - 1. Correspondence from Seix Advisors RE: CIO Retirement
 - 2. Correspondence from GE Asset Management RE: Portfolio Commentary
 - 3. Correspondence from Julius Baer RE: October 2005 Portfolio Commentary
 - 4. Correspondence from Capital Guardian RE: Performance Update
 - 5. Correspondence from ChrisKen RE: Liquidation Distribution / Proxy / Liquidation Update
 - 6. Correspondence from members RE: COLA and Funded Status
 - 7. Conferences:
 - a. REIP – IIRUSA – Feb 5-7, 2006
 - b. Mid-Sized Pension Management Conference – UNC – Jan 29- Feb 1, 2006
- C. Financial Reports:

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1. Financial Reports – October 2005
2. Securities Lending Report – September 2005
3. Commission Recapture Report – September & October 2005
4. Accounts Payable:
 - a. ADP \$3,942.17
 - b. American Arbitration Assn. (CAPROC) 19,441.78
 - c. Berwyn Group (death audit) 230.00
 - d. City of Pontiac 1,674.08
 - e. Comerica (WAM) 5,251.43
 - f. Diversified Medical Records (Graves) 15.00
 - g. Gray & Co. 8,014.17
 - h. Ikon 208.52
 - i. Loomis Sayles 39,913.65
 - j. MGFOA 70.00
 - k. Munder Capital 32,553.00
 - l. Oppenheimer Capital 64,368.31
 - m. Seix Advisors 26,989.94
 - n. Slade's Printing Company 168.00
 - o. Specialists Orthopedic Surgery 37.11
 - p. Sullivan, Ward, Asher & Patton (CAPROC) 5,060.90
 - q. VanOverbeke, Michaud & Timmony 4,654.65
 - r. Visa 350.00

D. Retirements, Refunds, Final Calculations, Re-Examinations

1. Remove from the Rolls:
 - a. Alvah Tibbetts (deceased 11-08-05)
 - b. Ethel McCray (deceased 10-29-05)
 - c. Helen Lekas (deceased 11-06-05)
 - d. Sylvia Brimm (deceased 11-06-05)
 - e. Violet Allen (deceased 10-01-05)
 - f. Abbie McAlpine (deceased 11-14-05)
2. Application for Service Retirement:

a. Ester Jiminez – Non-union	26 years, 10 months	Age 50
b. Patricia Williams – SAEA	14 years, 10 months	Age 64
c. Emilie Stach – NOMC	12 years, 7 months	Age 60
d. Maria Delgado – Teamsters 214	25 years, 0 month	Age 50
3. Final Pension Calculations:

a. Joseph Babin	#2244	1,767.28
b. Alvin Love	#2261	6,084.83
c. Frederick Jackson	#2264	3,197.18
d. Rayfus Jones	#2270	5,444.98
e. Denise Cobb	#2272	2,072.57
f. Cynthia Smith	#2279	3,349.75
g. Emilie Stach	#2312	419.27
h. Maria Delgado	#2314	1,382.73
4. Request to Change Effective Date of Retirement:

- a. Richard Hahn (2)
- b. William Martinez
- c. Paulette Poehlman (2)
- d. Mark Sharpe (2)
- 5. Disability Re-Examinations:
 - a. Rodney Graves

RESOLUTION 05–151 By Poehlman, Supported by Barnett
 Resolved, That the consent agenda for November 30, 2005 be approved as presented.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Sullivan Ward Asher & Patton – CAPROC Update

RESOLUTION 05–152 By White, Supported by Saucedo
 Resolved, That the Board of Trustees go into closed session to discuss pending litigation with CAPROC, LLC, et al.

Roll Call

Eugene White, Chairman – yea	Debra Woods - yea
Ed Hannan, Secretary - yea	Robert Giddings – yea
Paulette Poehlman - yea	Javier Saucedo - yea
Kevin Williams – yea	Shirley Barnett – yea

Andrea Coffey-Stewart, Andrew Kelsen and Jane Arndt left at 1:40

Moved to Closed Session at 1:40 p.m.

Returned from Closed Session at 1:47 p.m.

RESOLUTION 05–153 By Saucedo, Supported by Williams
 Resolved, That the Board of Trustees approve the minutes from the closed session held on October 26, 2005.

Yeas: 8 – Nays: 0

Trustee Woods and Cynthia Billings left at 1:47p.m.

Trustee Marshall arrived at 1:50p.m

Andrea Coffey-Stewart, Andrew Kelsen, Jane Arndt and Trustee Woods returned at 1:50p.m.

Re: Gray & Company – 3rd Quarter Performance Report

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Ms. Coffey-Stewart reviewed the Capital Markets Analysis stating that even though 3rd quarter GDP growth estimates were lowered by 50 basis points due to Hurricane Katrina, economists still expected to see growth of 3.7%. The Federal Reserve raised rates twice during the quarter from 3.25% to 3.75%. She also stated that inflation has been running at 4.7% and is expected to decrease during the ensuing months.

Allen Greenspan's last official day in office is January 31, 2006. He is expected to raise rates one last time. His predecessor Ben Bernanke will stay in tune with Greenspan with no wide shift changes expected. Ben Bernanke could become the longest serving Federal Reserve Chairman.

The S&P 500 index gained 3.6% in the 3rd quarter. Investors continued to aggressively invest in small cap versus large cap. Small cap stocks continued to outperform large cap during the 3rd quarter. Year-to-date large cap outperformed small cap due to a strong 1st quarter.

Growth stocks outperformed value stocks for the quarter. The Russell 1000 Growth index returned 4.0% versus 3.9% for the Russell 1000 Value index. Year-to-date, value has outperformed growth. The Russell 1000 Value index is up 5.7%, versus 2.2% for the Russell 1000 Growth index. Longer term, the trend has been that value has substantially outperformed growth.

International equities outperformed domestic equities. The MSCI EAFE index was up 10.4% for the quarter and up 25.8% year-to-date. Both Europe and Asia showed signs of stronger economic growth. International bonds suffered from a falling dollar over the last year.

REITs continued to post strong returns. The NAREIT index rose 2.5% during the quarter, and has risen 20.8% over the last twelve months.

Long-term government bonds were down 2.6% while high-yield bonds rose 0.9%. Most foreign bond markets were up when measured in local currency, but were flat when measured against the dollar. Japan was down 3.5% for the quarter and was the only country to post large negative returns.

Ms. Coffey-Stewart discussed the Fund overview which showed a return of 2.96% for the quarter and a return of 10.9% for the last twelve months. She pointed out the action item which stressed the continued implementation of asset allocation changes.

Third quarter asset allocation showed the old targets from NEPC. Trustee Hannan asked what timetable Gray and Company has in mind. Ms. Coffey-Stewart said that they are aggressively looking to make asset allocation changes. They will ask the Board to vote to search for a new high-yield manager but prefer to wait on core real estate.

The summary of manager performance showed the total plan at 3.0% outperformed the policy benchmark of 2.6% for the quarter.

Large cap equity struggled this quarter underperforming due to poor stock and sector selections.

Small cap equity exceeded the benchmark. Loomis Sayles outperformed the index in 7 out of 10 sectors, while Kennedy Capital was the star outperforming the index by 26%. Their new management is doing well.

Julius Baer did a good job with international equity this quarter exceeding the benchmark. They have a great international product. They are closed to new investors. However, each stock purchase costs money. Gray is looking at actual cost of maintaining a separate account compared to a commingled product. If the fund is netting more by keeping the separate account, they would recommend no change. The account generates a good amount of income for the fund through securities lending. If it is not cost effective, they will look at the international commingled trust.

Fixed income contributed to total return with most managers outperforming the benchmark this quarter. Oppenheimer did well with their security selection in mortgages.

Seix Advisors underperformed the benchmark, but contributed a positive return. Ms. Coffey-Stewart stated that Seix Advisors underperformed all three benchmarks for the quarter. She further commented that Seix is a “high-quality high-yield” manager who invests in BB and high B rated securities. Their performance is being compared to managers in the universe that are allowed to invest in CCC and below issues which is why there is a significant difference in returns. She also mentioned that they were asked to look at managers who can invest in CCC and below issues.

Net return for CAPROC is 0. ChrisKen is not calculating returns. Monies received from ChrisKen are a cash distribution not a return.

Ms. Coffey-Stewart reviewed the current layout of managers and explained that they will be making adjustments. She also told the Board that if they have any additions or changes to the format of the report, to let her know so she can make any necessary design revisions.

Trustee Poehlman left at 2:10 p.m.

Trustee Poehlman returned at 2:15 p.m.

There was discussion regarding removing Citigroup World Government Bond Index from the indices. Trustee Giddings asked what we used for new asset allocation. Tom Michaud commented that in terms of consistency that the Board would need to sign off on what the managers use as a comparison. Ms. Zimmermann reiterated that when making investment policy changes the manager signs off.

Trustee Woods left at 2:22p.m.

Mid-Cap Equity Managers

Andrew Kelsen from Gray & Company reviewed the Mid-Cap Growth and Mid-Cap Value Managers. He referred to a memorandum showing a number of manager requests received from

the Board members to add to the search. Mr. Kelsen reviewed the list of managers from the memorandum pointing out that Lee Munder is a somewhat blended product. He also commented that TCW's performance was not in line with 3 and 5 year risk numbers.

He also commented to the Board that Northpointe Capital had been added to the final list based on a trustee request after a thorough review and explanation of their lack of performance versus the benchmark for the past three years. It was noted that Northpointe had exceeded the benchmark over the past 5 years and had experienced two bad quarters (4th Quarter 2002 and 2nd Quarter 2003) which attributed to their low 3-year performance returns.

Mr. Kelsen reviewed the final list of Mid-Cap Growth Manager candidates. He discussed each manager's total managed assets and their current allocation of assets in their mid-cap growth equity product. He discussed the mid-cap ranks on the risk return chart.

Mr. Kelsen explained Gray & Company's position regarding characteristics they look for in a firm:

- 1) A clearly defined investment philosophy which can provide consistent results and has a high probability of being repeated in the future.
- 2) Highly talented investment personnel who are strongly motivated and energized to provide excellent performance results.
- 3) Firms who place their client's interests ahead of their own revenue projections.

The Board viewed raw data representing growth and value returns by quarter, year-to-date; 1-year and 3-year. Managers are ranked and scored based on return versus benchmark and evaluated risk. The calendar year returns were presented for the list of investment managers based on their performance.

Mr. Kelsen described risk adjusted returns and discussed why Gray & Company uses them as a tool to measure the performance results of a manager. Ms. Zimmermann asked him to define evaluated risk. Mr. Kelsen explained that by comparing a manager against a risk adjusted return you can better determine their true performance over a market cycle. He also showed a listing of how the managers measured against the Mid Cap Growth Risk Adjusted Return vs. the Russell Mid Cap Growth for 3-year and 5-year time periods. It depicted their performance in up and down markets.

He reviewed the portfolio characteristics of the managers including the manager's average market weighting of stocks, number of holdings, concentration of their portfolio and diversification.

The managers were then analyzed based on their market capitalization, or total dollar value. NCM Capital Management is buying big stocks which is not traditional for Mid Cap. He reviewed the breakdown of risk vs. return for 3-year and 5-year returns. The 3-year chart

showed growth performance down. The 5-year chart showed a breakout of growth versus value for the last 5-7 years.

Finally, Mr. Kelsen summarized each manager, depicting the investment philosophy and listing key personnel. Mr. Kelsen pointed out that Disciplined Growth Investor's, Inc. were recently selected for a final presentation by one of their clients.

Trustee Woods returned at 2:22p.m

Chairman White commented that they should interview three managers and that the Board needs to make a decision.

RESOLUTION 05-154 By Barnett, Supported by Williams
Resolved, That Munder Capital Management, Northpointe Capital and U.S. Bancorp are finalists for Mid Cap Growth Manager interview.

Yeas: 9 – Nays: 0

Trustee Giddings asked what Board member recommended North Pointe. Ms. Coffey-Stewart said she would find out from Mr. Gray.

Ms. Zimmermann told the Board that a special meeting has to be setup to interview the potential managers. After discussion it was determined that the meeting should be setup on January 24, 2006 with Mid Cap Growth Manager presentations starting at 9:00 a.m. and Mid Cap Value Manager presentations at 1:00 p.m.

Mr. Kelsen stated that value is a difficult space with 1/3 being closed to new investors.

Trustee Saucedo left at 3:10 p.m.

Trustee Giddings commented that RS had encountered SEC judgment problems. Mr. Kelsen explained that any manager with a mutual fund arm has experienced trading inquiries.

RESOLUTION 05-155 By Hannan, Supported by Barnett
Resolved, That RS Investments, Systematic Financial Management and Wedge Capital Management are finalists for Mid Cap Value Manager interview.

Yeas: 8 – Nays: 0

Core Real Estate

Andrew Kelsen developed a list of managers in marketplace although the Board is not currently searching for managers.

A core allocation should be a diversified representation of office, retail, apartment and multi-family. It is important to look at the fund, fees and size. When evaluating real estate funds' performance it is important to look a quarter back.

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Mr. Kelsen explained the different types of funds:

Open Ended Core Funds – Always open to investors

Closed End Private Real Estate – Get investors then close fund (generally 7-12 year term)

Closed End Private Real Estate Fund of Funds – Look at number and put together a diverse portfolio

Ms. Zimmermann asked Mr. Kelsen to define 20% carry. He explained that participation in profits is typically over a hurdle rate. The preferred annual rate is the hurdle rate.

Trustee Hannan asked if there is a preference between open and closed. Mr. Kelsen explained that Closed is a higher performer with a finite pool of money which is typically closed (definitive partner). Open Ended is a specified investment with more liquidity. Trustee Giddings asked if investment is regulated. Mr. Kelsen answered yes.

Mr. Kelsen went over the prospectus with the Board.

High Yield

Mr. Kelsen suggested that the Board make a decision on whether they want to replace their current high-yield manager. If the Board determines a change is needed, they do not want to pick an off-the-shelf product. He said that it will take some in-depth research to put together a list of potential managers. He plans to bring the books back in February for the Board's review.

Ms. Zimmermann asked how this change would impact the asset allocation with Seix versus a true high-yield manager. Will it affect the target rate? Mr. Kelsen said it would not affect the target rate since they used Citibank High Yield Master in asset allocation model which used an 8% risk assumption profile.

RESOLUTION 05–156 By Barnett, Supported by Hannan

Resolved, That Gray & Company begin a search to replace Seix Advisors as the Fund's high-yield manager.

Yeas: 8 – Nays: 0

Trustee Hannan asked whether the Board should advise Seix. Ms. Coffey-Stewart said it was not necessary.

Andrea Stewart-Coffey and Andrew Kelsen left at 3:45 p.m.

REPORTS

Re: Chairman – None

Re: Secretary – None

Re: Trustees / Committees
Real Estate Committee – None
Personnel Committee - None

Re: Administrator

The retiree COLA was paid in November with \$1,113,368 being distributed.

\$1.17 million was received from ChrisKen. The annual proxy needs to be signed. Chairman White was authorized to sign the proxy.

Ms. Zimmermann suggested to the Board that a general information seminar for employees be held. Trustee Woods asked where the seminars would be held. Ms. Zimmermann stated that she anticipated using the Council Chambers. Trustee Giddings asked if the hospital would be included in the seminar. It was determined that a separate seminar should be held.

Trustee Marshall asked about the topic and if the employees are interested. Ms. Zimmermann stated that the employer is obligated to ensure that the employees have a basic understanding of how the system works and how it pertains to them. She also commented that the seminars should be geared toward the unions and held on a consistent basis. Trustee White commented that he agreed that the employees should possess a general understanding of the pension system.

RESOLUTION 05–156 By Barnett, Supported by Hannan
Resolved, That the Retirement Office put together a general information seminar for employees.

Yeas: 8 – Nays: 0

Re: Legal

Tom Michaud presented information regarding securities litigation.
Mr. Michaud will provide written detail .

RESOLUTION 05–157 By Barnett, Supported by Hannan
Resolved, That the attorney go forward with the recommended action in regard to the securities litigation cases.

Yeas: 8 – Nays: 0

Re: Union Representatives - None

UNFINISHED BUSINESS:

Re: Ordinance Clean-up

The first reading of the ordinance amendment was approved by City Council and the second reading is scheduled.

Re: Employee Trustee Special Election

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Resolution 05-158 By Poehlman, Supported by Hannan

Resolved, That the Board of Trustees approves the schedule for the special election to fill the vacancy of the employee trustee position created by Trustee Poehlman's retirement.

Yeas: 7 – Nays: 0

Re: NOMC Overfunding

Tom Michaud distributed the legal opinion to the Board of Trustees. The opinion addressed the October 13, 2005 memorandum received from John P. Bueno, Chairperson of the Pontiac City Council regarding a potential request from the NOMC Board of Trustees to obtain assets currently held in the GERS pension fund.

The 10-page response stated that the Board is prohibited from dispersing funds from the retirement systems assets for any purpose other than to pay for retirement benefits. The assets fund the system and are held in trust to ensure payment of qualified plan benefits.

It stated that the Board has fiduciary responsibility to protect the funds. It also stated that there are labor agreements and constitutional issues that prohibit retirement assets held in trust to be dispersed for any other purpose. These protections are built into the system.

Mr. Michaud stated that there is nothing noted in previous agreements or ordinances which states assets are to be transferred twelve years after NOMC became a private entity. He also stated that given the findings, the Board has good grounds to deny access to the assets.

Trustee Giddings commented that he was involved with the privatization plan and that there was never any intent to retain the assets.

There is a Pontiac City Council Sub-Committee meeting scheduled for December 5, 2005 to review the request from the NOMC Board of Trustees.

Resolution 05-159 By Barnett, Supported by Hannan

Resolved, That the opinion be received, filed and forwarded to City Council Sub-Committee.

Yeas: 7 – Nays: 0

Re: Member Survey

Ms. Zimmermann passed out the detailed results of the customer satisfaction survey. The results showed that 96% of the members of the system rated the Retirement Office between Average and Excellent with most responses in the Very Satisfactory or Excellent categories. Ms. Zimmermann also stated that when the surveys came in any unresolved issues received were addressed immediately by the office.

Resolution 05-160 By Woods, Supported by Hannan

Resolved, That the member customer satisfaction survey be received and filed.

Yeas: 7 – Nays: 0

Trustee Marshall left at 4:05 p.m.

NEW BUSINESS

Re: Inter-fund Transfers

Resolution 05-161 By Woods, Supported by Hannan
Resolved, That the inter-fund transactions to reimburse the City of Pontiac be approved.

Yeas: 6 – Nays: 0

Re: Disability Income Verification Status

Ms. Zimmermann stated the IRS has been slow in processing the Disability Income Verifications. Todate, we have received 7 out of 20 verifications.

Resolution 05-162 By Woods, Supported by Hannan
Resolved, That the status of Disability Income Verifications be acknowledged and the staff be instructed to follow the recovery procedure for those whose income exceeds the limits.

Yeas: 6 – Nays: 0

Re: Annual Committee Review

Tabled.

PUBLIC DISCUSSION

None

SCHEDULING OF NEXT MEETING

Special Meeting: January 24, 2006 at 9:00 a.m. in the Lower Level Conference Room of Municipal & Health Services Credit Union, 144 E. Pike Street, Pontiac, Michigan.

Regular Meeting: January 25, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 05–163 By Woods, Supported Giddings

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Resolved, That the meeting be adjourned at 4:19 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing is true Minutes of
the General Employees Retirement System
held on November 30, 2005.

Ed Hannan, Secretary
As recorded by Jane Arndt