

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
MARCH 29, 2006**

A regular meeting of the Board of Trustees was held on Wednesday, March 29, 2006 at the Shrine Room Main level, City Hall 47450 Woodward Ave., Pontiac, Michigan. The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

Eugene White, Chairman	Javier Saucedo
Ed Hannan, Secretary	Debra Woods
Kevin Williams	Devin Scott
Larry Marshall (<i>arrived at 2:04 p.m.</i>)	

Mayor, Clarence Phillips (*absent*)
Kone Bowman (*excused*)
Shirley Barnett (*excused*)
Robert Giddings (*excused*)

OTHERS PRESENT

Laurence Gray, Gray & Company
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
David Hoffman, Gabriel, Roeder, Smith & Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

Re: Munder Capital Management

Pam Hopkins from Munder Capital informed the Board of Trustees that Tal Gunn the fixed income portfolio manager left Munder last month. His replacement is Paul LaCoursiere. All investments are managed by a team: Mr. LaCoursiere has been with Munder since 2002 and has been working along with Mr. Gunn on the system's fixed income portfolio. Ms. Hopkins introduced Mr. LaCoursiere.

Mr. LaCoursiere is the fixed income portfolio manager. He indicated he has been with the firm for four years and has been managing the portfolio for three years. He has managed the mortgage book and does all the fixed income risk analysis. His background includes work in artificial intelligence. He told the Board that there is currently an eleven person team working on the system's portfolio and that the level of client service will remain the same.

Ms. Hopkins then addressed the Board regarding a change within senior management at the firm with Enrique Chang, President and CIO, leaving on March 17, 2006 to become CFO of American Century Funds, a \$100 billion fund. John Adams, who has been with Munder since

1987, has been appointed President and CIO at the firm. He has the respect and support of the employees. She stated that the change will not affect the level of service and Mr. Gray has been notified. She distributed resumes for Mr. LaCoursiere and Mr. Adams.

Ms. Hopkins & Mr. LaCoursiere left at 1:41 p.m.

Re: Gabriel, Roeder, Smith & Company

Mr. Hoffman discussed the impact on the fund if all system assets were available for funding all system benefits. He distributed a handout explaining that the City's contribution rate would become 0 versus 1.41% for General plus \$130,000.00 for the Stadium totaling approximately \$500,000 in savings. He explained that the change would not be in overall funding but for funding individual groups.

Chairman White asked how many other pension systems in the state are this well-funded. Mr. Hoffman replied there are none that he knows of but that five years ago it was not uncommon.

Trustee Hannan commented that it is one plan and that it has been discussed in the past that it would be best to treat it as one plan. He said that the Board could make it more complicated but since it is one system he prefers it be less complicated. The stadium is now closed and no further contributions should be made. He opined that the Board should make it one plan if nothing legally prevents it.

Mr. Michaud remarked that keeping it simple is better. He said that the assets and liabilities of the fund are seen as one by the law, so it makes sense to streamline in order to cover any liabilities. He said that currently the assets and liabilities of the fund are tracked separately for budgeting purposes yet they are all one fund. While some groups change, assets and benefits stay in the plan.

RESOLUTION 06-025 By Woods, Supported by Williams

Resolved, That the assets and liabilities of the System be consolidated for the 2004 actuarial valuation and for future valuations.

Yeas: 6 – Nays: 0

Mr. Hoffman left at 1:53 p.m.

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda – March 29, 2006

- A. Minutes of Regular Meeting: February 22, 2006
- B. Communications:
 - 1. Correspondence from Capital Guardian Re: Monthly Re-caps January & February 2006
 - 2. Correspondence from Julius Baer Re: February 2006 Portfolio Commentary & 4th Qtr Newsletter
 - 3. Correspondence from Munder Capital Management Re: New CIO
 - 4. Correspondence from ChrsiKen Re: Distribution & Liquidation Status

5. Correspondence from Kennedy Capital Re: Ownership Transfer
6. Correspondence from Robert Davis Re: Request for Insurance Funding
7. Conferences:
 - a. Washington Legislative Update – IFEBP – May 22-24, 2006
 - b. Investments Institute – IFEBP – April 24-26, 2006
 - c. 11th Annual Public Funds Summit – IMN – April 2-5, 2006
 - d. Technology Solutions for Public Fund Management & Operations – IMN – April 3-5, 2006
 - e. 52nd Annual Employee Benefits Conference – IFEBP – Oct 8-11, 2006

C. Financial Reports:

1. Financial Reports – February 2006
2. Securities Lending Report – January 2006
3. Commission Recapture Report – January 2006
4. Accounts Payable:

a. ADP	\$6,625.87
b. Bienstock	666.01
c. City of Pontiac	1,674.08
d. Crawford & Winiarski	4,341.88
e. GE Asset Management	42,743.00
f. Gray & Co.	8,104.17
g. Ikon	595.63
h. Julius Baer	82,607.44
i. Office Depot	67.18
j. Seix Advisors	27,229.14
k. Sullivan, Ward, Asher & Patton (CAPROC)	20,827.97
l. Visa	1,804.58

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

1. Remove from the Rolls:
 - a. Clyde Christian (deceased 03-12-06)
 - b. Diane Higgins (deceased 12-22-05) Option III Benefit of \$690.82/mo to Wm. Higgins
 - c. John Kay (deceased 02-22-06)
 - d. Jacqueline Rae (deceased 03-08-06)
2. Application for Service Retirement:

a. Lavon Cole – NOMC	24 years, 7 months	Age 55
b. Cheryl Everett – NOMC	14 years, 4 months	Age 60
c. David Stamman – Local 2002	30 years, 2 months	Age 50
d. Celeste Thompson – NOMC	20 years, 5 months	Age 55
3. Final Pension Calculations:

a. Michael Rasch	#2169	5,351.88
b. Ricky Cohen	#2300	3,629.24
c. Arthur Mitchell	#2306	4,604.32 (EDRO)
d. Lucy Rodriguez	#2324	3,564.07
e. Gregory Erwin	#2327	3,329.18
4. Request to Change Effective Date of Retirement:
 - a. Richard Hahn (3)

5. Re-Deposit of Accumulated Contributions (revised)
 - a. Alma Moore \$11,071.43 4 years, 11 months restored

RESOLUTION 06-026 By Hannan, Supported by Saucedo
Resolved, That the consent agenda for March 29, 2006 be approved as presented.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Gray & Company – March Recap

Larry Gray briefly described what had happened with the plan over the last month. He told the Board that on March 17, 2006 the Munder/Systematic transfer occurred. He commented that Jeffries handled the transaction which went smoothly at .6¢ per share which is a very good price.

He also told the Board that he visited Oppenheimer Capital and assured them that despite their termination on the domestic equity product that fixed income was fine.

Mr. Gray visited with GE Asset Management's staff regarding their performance. He discussed their performance for the year with returns of 2.1% versus 5.3% for the Russell 1000 Growth index. Their current performance is attributed to poor stock selection and pointed out that recently they have been displayed style drift. He distributed a chart showing that they have been creeping toward value and explained that they are demonstrating core-like attributes. He was assured that this is a temporary situation and that they are cleaning it up. He told the Board that he will continue to research the situation and keep the Board updated. Mr. Gray then asked if the Board had any questions.

Trustee Hannan asked if there was a trend. Mr. Gray replied that GE is drifting toward small cap and value so they are not tracking that benchmark. Over time they will track the growth benchmark but are less inclined to be momentum investors. The question is how long it will continue. They are not adhering to style purity.

Mr. Gray reported that GE Asset Management is about at median for the one-year period. The three-year rankings were better in the 40th percentile and the five-year rankings in the 1st or 2nd percentile.

Mr. Gray informed the Board that the manager inception dates have been added to the quarterly performance report as requested.

He also reported that the ChrisKen liquidation is moving along and that a check from ChrisKen had recently been received.

Lastly, he told the Board that the employees at Kennedy Capital are continuing to benefit from the transfer of ownership to them which he felt was a good trend.

Re: Gray & Company - High Yield Manager Search

Mr. Gray indicated that Andrew Kelsen visited with Seix Advisors on Monday, March 27, 2006. Mr. Gray explained that Seix has a problem with keeping up with the benchmark because they invest in high quality “junk” bonds; they do not purchase below a BBB rated bonds. High-quality junk bonds are an oxymoron. Their return was 9.3% for the quarter versus 13.2% for the index.

Trustee Woods left at 2:00

Mr. Gray described the different bond ratings and how they are classified into two groups “investment grade” which are assigned to the top four quality categories AAA, AA, A and BBB or “junk” bonds with a rating of BB or below. He asked the Board if they would be comfortable with the risk, noting that 25% of the S&P 500 is not investment grade despite the fact that bond holders get preference over stock holders.

Trustee Woods returned at 2:05 p.m.

Trustee Marshall arrived at 2:05 p.m.

He explained that different quality issues act differently in different markets. In 2003, C-rated bonds performed well. Low quality bonds perform well in strong equity markets. .

Mr. Gray brought a broad list of firms for the Board to consider. He discussed the list of firms along with their calendar and trailing year returns, up and down market capture, average coupon (relates to average quality) and risk/return characteristics.

These firms make bets by going down the quality scale. He told the Board that these firms stay within the index. For high yield firms it is imperative to conduct detailed research in the fixed income space as like with equity. It is also important for them to perform detailed credit analysis. He indicated that all of the firms presented are true high yield managers.

Mr. Gray stated that there is no such thing as a conservative high yield manager. A true high-yield manager has the bulk of their portfolio in junk bonds. In order to deliver more performance and high returns, you take more risk. He commented that the current asset allocation of the fund has a high-yield allocation but no high-yield manager. He discussed manager performance versus the Lehman Aggregate High-Yield Index 4-6 years out. He told the Board that all of the managers presented are best of breed. He also commented that they have never had a client who had funds invested in DDJ or Peritus.

Trustee White asked if it is in the best interest of the Board to interview managers and make a decision now or to wait. Trustee Hannan also asked about the current fixed income managers and the amount of assets.

Mr. Gray replied that there is \$21.6 million mandated for high-yield. He told the Board that there is no rush for a change but they should not expect a non-high yield manager to meet the high yield index. He also remarked that there is no reason for the Board to have four core fixed income managers and currently there is no true high yield manager in the space. He again stated that $\frac{1}{4}$ to $\frac{1}{3}$ of the S&P 500 is below investment grade bonds.

He asked the Board if they would consider the idea of interviewing potential high yield managers. Discussion followed by the Board

RESOLUTION 06-027 By Hannan, Supported by Saucedo

Resolved, That the Board of Trustees would hold a special meeting on April 26, 2006 at 9:00 a.m. at Municipal Health & Services Credit Union to hear presentations from the following high yield fixed income managers: JP Morgan, Delaware, Peritus, Babson and DDJ.

Yeas: 7 – Nays: 0

REPORTS

Re: Chairman – None

Re: Secretary - None

Re: Trustees / Committees

Real Estate Committee – None

Re: Medical Director Committee

Trustees White, Scott and Hannan met with the candidates for Medical Director. Trustee Hannan stated that he liked Dr. Campbell. He felt that both candidates were well-qualified however, he liked Dr. Campbell although she had less experience with pension funds. He thought that she brought a fresh perspective, understood the concept of disability and had good insight. He commented that her specialties were internal medicine and physical therapy. He was also impressed that she dictated her report the day the patient is seen and her turn around time for a patient report would be four days. He also felt that offered more locations and that would be more convenient for members.

Trustee Hannan said that both firms stated that fees were negotiable with Medical Evaluation Specialists (Dr. Campbell) stating fees of \$610.00 for both medical and psychiatric evaluations. The other firm's rates were higher.

Trustee Hannan then discussed Dr. Chiodo's qualifications stating that he was equally qualified and had more experience with pension funds which could be a plus or minus. He said that Dr. Chiodo is an attorney which could assist him in not being intimidated by other attorneys. However, Trustee Hannan was concerned that his being an attorney could possibly inhibit him when making a medical determination. He also commented on Dr. Chiodo's turn around time being seven days which was equally acceptable. Trustee Hannan also asked if there was an extra cost to attend meetings. Tom Michaud replied that it is customary for there to be a cost.

Chairman White asked Trustee's Scott opinion of Dr. Campbell stating that the system has not had a medical director since December and felt that the selection should be determined today. Trustee Scott replied saying that he felt Dr. Campbell was very personable, however, he was not comfortable with the marketing person participating in so much of the interview. He was also concerned with Dr. Chiodo being an attorney wondering how it might affect the way he deals with people. He stated that he was not comfortable with either doctor and wanted to get the

decision correct the first time. He asked if there were other firms the Board could bring in to interview. Ms. Zimmermann replied that TEG and MES are two of the larger firms in the area and that they have done an adequate job for the Board in the past.

Tom Michaud stated that there is a shallow pool of this type of firm. He told the Board that it is important to have a comfort level when choosing a medical director. The Board should choose a doctor who understands the standards and one that can support their medical decisions. There are a limited number of organizations that do this type of work. He also stated there have been a number of these firms that have merged to keep from going out of business. He added that the Board could contact other communities to find out what firms they use to help narrow the search.

Trustee White again stated that it is important for the system to have a medical director in place as soon as possible. Trustee Hannan asked if there were any current re-exams needed. Ms. Zimmermann answered that there are re-exams needed but that she was not sure of the number.

There was continued discussion regarding the hiring of a new Medical Director by the Board with Trustee Scott still commenting on his concerns.

Mr. Michaud said that if a medical director was chosen at today's meeting the Board would not be locked into the decision: if the Board is unhappy with the level of service they can terminate the medical director at any time. He also mentioned that it might be advisable to have the newly selected medical director come to a meeting and go over their first report with the Board.

The Board took a 5 minute break at 2:55 p.m.

Meeting resumed at 3:00 p.m.

RESOLUTION 06-028 By Hannan, Supported by Williams
Resolved, That the Board of Trustees will appoint Dr. Campbell from MES as the new Medical Director.

Yeas: 7 – Nays: 0

Re: Administrator

VISA Card Issue

Administrator Zimmermann informed the Board stating that some of the trustees were having problems using their VISA cards with certain on line vendors. She stated that some vendors are requiring the tax identification number as a security check when using a credit card. Ms. Zimmermann told the Board that if anyone is having an issue with their card to let her know and she would handle the problem.

Capital Guardian

Ms. Zimmermann stated that due to the mid-cap restructuring monies had been transferred from Cap Guardian. She told the Board that she had been contacted by Cap Guardian stating that their fees would increase because the total assets held had dropped below a specific level. Mr. Gray assured the Board that he would handle the situation and that the fees would not increase.

Stolen Property

Ms. Zimmermann informed the Board that someone had broken into her home and stolen her work-issued laptop and that a police report has been filed.

Plante & Moran 2005 Audit Fee Schedule

Ms. Zimmermann requested that the Board of Trustees approve the 2005 audit fee schedule for Plante & Moran. She told the Board that the 2005 fee is \$11,215.00 which includes GASB 40 reporting. She stated that the 2005 fee schedule is within \$100 of the 2004 fee schedule of \$9,580.00 if you remove the GASB 40 fee.

RESOLUTION 06-029 By Saucedo, Supported by Williams
Resolved, That the 2005 Plante & Moran audit fee schedule be approved.

Yeas: 7 – Nays: 0

Re: Legal - None

Re: Union Representatives - None

UNFINISHED BUSINESS

Re: Ordinance Cleanup - Pending

Re: Annual Committee Review - Pending
Table to next month for new incoming trustees

Re: Grievance Memos

Ms. Zimmermann stated that she has been unable to meet with Trustee Marshall to compare documentation and go over the grievance information. Trustee Marshall stated that the issue is going to arbitration. Ms. Zimmermann stated that it is still important to schedule a meeting to review the information.

Re: Ethics Policy Review

Trustee Hannan would like to see a section on disclosure incorporated into the ethics policy. He stated that he feels if each trustee would disclose any dinners, lunches, etc. during an open meeting it would avoid any appearance of impropriety. He also commented that he thinks more disclosure is better and that it reflects well on the Board and that it is good public policy. Mr. Michaud was asked to draft a disclosure section for the ethics policy.

Re: Revised Investment Policy

Ms. Zimmermann stated the revision to the investment policy was done to update the asset allocation. She asked the Board to approve the investment policy so it can be forwarded to the managers.

RESOLUTION 06-030 By Woods, Supported by Saucedo

Resolved, That the revised investment policy be adopted and forwarded to the fund's investment managers.

Yeas: 7 – Nays: 0

NEW BUSINESS

Re: Certification of Election Results

Ms. Zimmermann distributed election results to the Board of Trustees. The trustee election results showed that Andrea Wright received the greatest number of votes and was duly elected to the office of Employee Trustee of the General Employees Retirement System. Ms. Zimmermann requested that the Board approve a resolution to adopt the official election results.

Resolution 06-031 By Hannan, Supported by Saucedo

Whereas, a General Election for Employee Trustee to the Board was conducted on March 28, 2006, and

Whereas, the official results of the election have been certified and canvassed

Resolved, that the official election results are hereby certified by the Board of Trustees.

Yeas: 7 – Nays: 0

Re: Software Update for IRS Minimum Distribution Rules

Ms. Zimmermann requested that the Board approve an expenditure to update the pension administration software in order to comply with IRS minimum distribution rules that could limit the amount of the joint and survivor percentage payable to non-spouse beneficiaries. She explained that the current software being used in the Retirement Office has not been updated to incorporate the IRS changes. She requested that the Board approve Choice B at \$4,500 from the GRS proposal which would be split between the two pension funds in the usual proportion.

Resolution 06-032 By Saucedo, Supported by Hannan

Resolved, that the Board of Trustees approved the purchase of an upgrade to the pension administration software for the IRS minimum distribution rules with the cost of \$4,500 to be shared with PFRS in the usual proportion.

Yeas: 7 – Nays: 0

Re: GASB 40 Reporting Capability

Administrator Zimmermann requested that the Board approve the expenditure to acquire the GASB 40 reporting capability through the custodian bank Mellon Trust at a cost of \$6,000. She explained that GASB 40 requires detailed reporting on the quality of securities within the portfolio in order to provide information to maintain an unqualified opinion on the financial statements. She told the Board that the expenditure would be allocated between the two pension funds in the usual proportion.

Resolution 06-033 By Hannan, Supported by Woods

Resolved, that the Board of Trustees approve the purchase of the GASB 40 reporting module from Mellon Trust at a cost of \$6,000 to be shared with PFRS in the usual proportion.

Yeas: 7 – Nays: 0

Trustee Marshall left at 3:21 p.m.

Trustee Marshall returned at 3:22 p.m.

RESOLUTION 06-034 By Woods, Supported by Saucedo

Resolved, That the minutes of the closed session of February 22, 2006 be approved.

Yeas: 7 – Nays: 0

PUBLIC DISCUSSION

Trustee Hannan addressed the Board to formally thank Chairman White and Trustee Saucedo for their commitment and outstanding performance as citizen trustees. He pointed out that citizen trustees use their personal time to attend meetings which shows a true level of dedication. He also stated that since their appointments have expired the Board could see a new mix of trustees. Lastly, Trustee Hannan thanked Trustee Marshall, whose term as employee trustee has expired, for his service on the Board.

SCHEDULING OF NEXT MEETING

Regular Meeting: April 26, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06-035 By Saucedo, Supported Barnett

Resolved, That the meeting be adjourned at 3:26 p.m.

Yeas: 7 – Nays: 0

I certify that the foregoing is true Minutes of the General Employees Retirement System held on March 29, 2006.

Ed Hannan, Secretary

As recorded by Jane Arndt