

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JULY 26, 2006**

A regular meeting of the Board of Trustees was held on Wednesday, July 26, 2006 at the Municipal & Health Services Credit Union, 144 E. Pike Street, Pontiac, Michigan 48342, Lower Level Conference Room. The meeting was called to order at 1:40 p.m.

TRUSTEES PRESENT

Koné Bowman (*arrived at 1:33 p.m.*)
Raymond Cochran, Secretary
Charlie Harrison, Chairman
Javier Saucedo, Vice Chair

Devin Scott
Kevin Williams (*arrived at 1:50 p.m.*)
Debra Woods
Andrea Wright

TRUSTEES ABSENT

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

OTHERS PRESENT

Laurence O. Gray, Gray & Company
Andrea Coffey-Stewart, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Sheri Cataldo, Sullivan, Ward, Asher & Patton, PC
Wendy Trumbull, Plante & Moran
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

A. Minutes of Special Meeting: June 28, 2006

B. Communications:

1. Correspondence from Northern Trust RE: EquiLend
2. Correspondence from ChrisKen RE: Distribution
3. Conference Information:
 - a. Advanced Investments Institute – IFEBP – Sept. 25-28, 2006
 - b. 52nd Annual Employee Benefits Conference – IFEBP – Oct. 8-11, 2006
- C. Financial Reports:
 1. Financial Reports – June 2006
 2. Commission Recapture – June 2006
 3. Accounts Payable:
 - a. ADP \$2,091.92
 - b. Berwyn Group 161.00
 - c. City of Pontiac 1,674.08

d. Crawford & Winiarski	12,968.75	
e. Gabriel, Roeder, Smith & Co.	4,700.00	
f. Gray & Co.	8,104.17	
g. Ikon	198.59	
h. Office Depot	55.46	
i. Sullivan, Ward, Asher & Patton	13,577.28	
j. Visa	3,427.78	
k. VanOverbeke, Timmony & Michaud	3,968.00	
C. Retirements, Refunds, Final Calculations, Re-Examinations		
1. Remove from the Rolls:		
a. Willie Burton (deceased 06-24-06)		
2. Application for Service Retirement:		
a. Robert Seay – PPFDA	20 years, 10 months	Age 60
b. Odessa McClellan – Non Union	9 years, 9 months	Age 71
c. Elizabeth Trevino - PPFDA	25 years, 2 months	Age 50
c. McKinley Jones - SAEA	14 year, 1 month	Age 61
d. Charlotte Sanabria – Non Union	22 years, 3 months	Age 50
e. Walter Hardin – SAEA	21 years, 6 months	Age 52
f. John Clay – Non Union	12 years, 2 months	Age 60
g. Edith Chill – NOMC	13 years, 3 months	Age 55
h. Carolyn Hindmon – MAPE	19 years, 11 months	Age 59
3. Disability Re-examinations:		
a. Marvin Poston		
4. Application for Refund of Accumulated Contributions:		
a. Cynthia Harvey		\$ 525.63
5. Final Pension Calculations:		
a. Edith Chill	#2344	\$ 525.69

Trustee Wright inquired about the agenda entry under accounts payable for Crawford & Winiarski and what services they provide. Ms. Zimmermann explained that they are an accounting firm and are financial experts for the CAPROC investment.

Trustee Woods expressed concerns regarding the service credit requirement for Odessa McClellan’s retirement approval. Tom Michaud suggested removing this item from the consent agenda for further discussion.

RESOLUTION 06–057 By Cochran, Supported by Saucedo
 Resolved, That the consent agenda for July 26, 2006 be approved as presented except Item C.2.b. that was separated for further discussion.

Yeas: 7 – Nays: 0

Trustee Woods questioned the nine years and nine months of service credit for Odessa McClellan, stating that she thought the requirement was ten years and sixty years of age in order to be eligible to apply for retirement. She said that the position held by Ms. McClellan should have been in Teamsters 214 but that the administration did not comply. She said that she is concerned that there is a conflict between the ordinance and collective bargaining. She also commented that Ms. McClellan's benefit was substantially better as a non-union employee.

Ms. Zimmermann cited Section 12 of the Retirement Ordinance which states that nine months of service credit constitutes a year. Section 15 of the Retirement Ordinance states that an employee with ten years or more of retirement service credit is fully vested. She explained that past practice has been that any employee with nine years and nine months of service credit has been considered eligible under the Ordinance, although their benefit would be calculated on nine years and nine months of actual service credit. She added that the service credit had been administered this way consistently.

Trustee Williams arrived at 1:50 p.m.

Trustees Woods suggested changing the Ordinance to comply with the rules of collective bargaining. Ms. Zimmermann commented that no change is required because it has been administered consistently for all bargaining units. Chairman Harrison asked if the language should be cleaned up. Mr. Michaud said that the service credit policy has been consistently applied and that any deviation from the ordinance could be considered as a change in benefits that could affect each bargaining unit. He added that this could also affect all active employees and retirees.

Trustee Bowman left at 2:06 p.m.

Trustee Wright left at 2:08 p.m.

Trustee Wright returned at 2:10 p.m.

A MOU was suggested as a means to clarify the issue and prevent any problems before reaching the Retirement Office. Mr. Michaud commented that any changes or variations could become an administrative nightmare and could cause more room for error. There would also be no guarantee of consistency. Discussion followed.

Ms. Zimmermann stated that the calculations have been done consistently by the Retirement Office and suggested drafting a letter from the Retirement Office explaining the issue to members. This would create a single point of reference to correct the lack of understanding.

Chairman Harrison agreed that the consistency should be the focus of the Board. He suggested that Tom Michaud put together a clear and concise example for members so they understand the nine years and nine months service credit requirement. He said that a MOU should be avoided because it would require bargaining units to sign off.

RESOLUTION 06–058 By Saucedo, Supported by Cochran
Resolved, That the application for service retirement for Odessa McClellan be approved.

Yeas: 7 – Nays: 0

Trustee Wright left at 2:13 p.m.

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – CAPROC Update

RESOLUTION 06–059 By Saucedo, Supported by Cochran
Resolved, That the Board will move to closed session to discuss pending litigation.

Roll Call:

Ray Cochran	Devin Scott
Charlie Harrison	Debra Woods
Javier Saucedo	Kevin Williams

The Board moved to closed session at 2:13 p.m.

Trustee Bowman arrived at 2:14 p.m.

The Board returned from closed session at 2:27 p.m.

Ms. Billings and Ms. Cataldo left at 2:27 p.m.

Meeting Break at 2:27 p.m.

Meeting Resumed at 2:32 p.m.

Re: Plante & Moran – 2005 Audit Presentation

Ms. Trumbull, the manager on the audit for this year, stated that they continue to be impressed with the organization and manner in which the data is supplied by Ellen Zimmermann and Deborah Munson. She stated that the fund is in good financial shape. Plante & Moran has issued an unqualified opinion which is the best opinion you can receive: the equivalent of an A rating.

She explained that the Management Discussion and Analysis is a non-user financial statement written by management providing basic investment information.

She discussed the Statement of Plan Net Assets describing it as the balance sheet. The fund had total assets of \$489,069,164 and net assets of \$435,457,334 as of December 31, 2005. She outlined the assets and liabilities pointing out how the cash and investments held as collateral for securities lending under assets and amounts due broker under securities lending agreement under liabilities offset one another in the statement.

She summarized the Statement of Changes in Plan Net Assets noting that there was a net increase in net assets held in trust of \$6 million. She commented on contributions stating that stadium contributions had been included. There was a question regarding \$348,935 in administrative expenses. Ms. Zimmermann stated that those included salaries, expenses and overhead and were shared with the Police and Fire Retirement System.

Ms. Trumbull reviewed the Notes to the Financial Statements noting the GASB 40 requirements. Custodial credit rate risk and interest rate risk were discussed. She described credit risk and how the investment policy limits risk and sets the overall quality rating. She told the Board that they utilized Moody's credit rating service. She stated that the pension system limits total assets invested in international equity and fixed income due to foreign currency risk. She told the Board that as of December 31, 2005 the System's reserve is fully funded with reserves for employee contributions of \$4,039,718 and reserves for retired employees of \$154,326,559.

She stated the System is very well funded at 153%. Annual required contributions are small due to the health of the system. The current actuarial assumption for investment return is 7.5%. Chairman Harrison asked whether there are a lot of systems that are over-funded. Ms. Trumbull replied that most are 80% to 90% funded.

There was a question regarding the 393% contribution in 2004. Ms. Trumbull answered that the amount included the stadium contributions that had recently been incorporated.

She reviewed the letter of comments and recommendations and described the GASB requirements for retiree health care benefits with regard to the VEBA. She explained that a lower projected rate of return and the required actuarial assumption to fund the system could increase the City's liability. Chairman Harrison asked how this would affect the credit ratings of the City and if they are based on a curve. Ms. Trumbull said that she was not sure how bonding creditors determine the ratings. Ms. Zimmermann mentioned that the Medicare Part D reimbursement has a reporting provision option that could potentially reduce liability. Ms. Trumbull said that she would look into the issue.

Trustee Woods left at 2:49 p.m.

She mentioned that in the past they have suggested a document storage and disaster recovery system for the documents and records stored in the Retirement Office. She explained that Ms. Zimmerman is working toward an appropriate solution.

Trustee Woods returned at 2:50 p.m.

She added that there were some miscellaneous differences in accounts receivables/payable that were nominal. Their recommendation was to reconcile the differences. This concluded Ms. Trumbull's report.

Ms. Trumbull left at 2:52 p.m.

Re: Gray & Company

Investment Policy Statement

Ms. Stewart referred to the changes reviewed in the trustee development session on July 25, 2006. She said that there were two revisions that needed to be approved by the Board. The first change was on page 15 under Domestic Fixed Income Manager: item number two changing the credit rating from B to CCC. The second revision was on the same page removing item number six under Domestic Fixed Income Manager that eliminated the duration limitation. She indicated that actively managed portfolios' duration can exceed seven years for a particular manager. Trustee Scott asked about the credit rating change. Ms. Stewart replied that the limit was written when Seix Advisors was the high yield portfolio manager and that they were unable to buy down into the lower rated credits.

Trustee Bowman left at 2:58 p.m.

Trustee Bowman returned at 2:58 p.m.

RESOLUTION 06-061 By Woods, Supported by Scott
Resolved, That the Board approve to adopt the amended Investment Policy Statement.

Yeas: 7 – Nays: 0

Munder Mid Cap Benchmark

Ms. Stewart told the Board that Munder Mid Cap portfolio is currently compared against the Russell 1000 Mid Cap Growth Index. She said that they have asked if they can measure their performance against the S&P 400 Mid Cap Index which is the same benchmark used by the Police and Fire Retirement System.

Chairman Harrison asked if this would change the style. Ms. Stewart said that it would change the style very little and that the difference was only eight stocks between the two indices.

RESOLUTION 06-060 By Saucedo, Supported by Cochran
Resolved, That the Board approve Munder Capital Management to change their benchmark to the S&P 400 Mid Cap Index.

Yeas: 7 – Nays: 0

Trustee Bowman left at 3:02 p.m.

Peritus Status

Mr. Gray advised the Board that Peritus was required to supply a full ADV during the manager search process. Gray & Company recently discovered that Peritus falsified information on the RFP and did not disclose that they are currently involved in litigation. He told the Board that it is an issue not related to their investment activity.

He said that rigorous due diligence was recently performed by a major insurance company, SEI and a number of major law firms and from an investment standpoint Peritus was found to be in good standing. He asked if the Board wanted to go forward with this manager.

Trustee Scott asked for Mr. Gray's opinion on the situation. Mr. Gray said that even Ed Taylor from Alpha Marketing Partners was unaware of the legal proceedings. Mr. Gray said that he was much disturbed by their lack of disclosure. It is now the Board's decision as to whether to proceed.

RESOLUTION 06-061 By Saucedo, Supported by Cochran
Resolved, That the Board approve to continue with Peritus as the manager for high yield investments.

Yeas: 6 – Nays: 0

Trustee Woods left at 3:06 p.m.

Real Estate

Mr. Gray said that he had heard there was concern regarding the \$35,000 fee for conducting the due diligence on the Turks & Caicos real estate investment. He said that this is not part of their standard process: it is a one-of-a-kind project that involves direct real estate outside of the United States. He mentioned that they are currently getting out of a direct real estate deal and if the proper due diligence had been performed that may not have happened.

He said that if you think courts in the United States, especially the Delaware Court, are difficult, you have not dealt with the international courts. He said that he and Andrew Kelsen are going down August 1, 2006 and meet with the main principles: the developer, the contractor (Johnston who is a major resort contractor in the Caribbean) and the accountants.

Mr. Gray said that until they perform the initial due diligence, they were going to take a conservative posture. They would wait to determine if they needed to spend the \$10,000 to retain a U.S.-based international real estate attorney until after the preliminary review was completed.

Trustee Scott asked what the negative side of the investment could be and whether they could get the money back if it falls through. Mr. Gray said that the worse that could happen would be for them to lose the entire investment and the \$10 million evaporates. Mr. Michaud said that legally it could be ugly trying to recover the investment.

Mr. Gray said that this is all speculation and by performing the proper due diligence they will ensure that the members of the system are secure in knowing whether this is a good investment. He said that he would be giving the Board his best advice whether it is to invest or not to invest: his reputation is at stake.

Chairman - None

Secretary

Trustee Cochran informed the Board that he received a document from Paulette Poehlman the Risk Management Administrator. He believed it was regarding the Medicare Part D Reimbursements. He will provide a copy to Ms. Zimmermann.

Trustees / Committees

Re: Real Estate Committee – None

Re: Personnel Committee - None

Re: Annual Committee Review

A copy of the committee listings were distributed to the Board. There was discussion regarding number of trustees on the personnel and service provider review joint committees with the Police and Fire Retirement System. Chairman Harrison felt that because the General System is a larger Board and incurs more of the expense they should have more members on the committee. Ms. Zimmermann stated that the joint committee has always had an equal number of members from each Board, so there was an equal vote on issues.

There was discussion that due to the number of trustees on the service provider review committee it could slow down the process and become less efficient. Ms. Zimmermann requested that she and a staff member be maintained on the committee. She explained that the staff member is the primary user of the system.

Trustee Woods was added to the Ordinance Clean-up Committee and the Directed Brokerage/Commission Recapture Committee.

RESOLUTION 06-062 By Saucedo, Supported by Cochran
Resolved, That the 2006 Board Committee Listing be approved as amended.

Yeas: 6 – Nays: 0

Administrator

Babin Re-Examination

Ms. Zimmermann stated that Trustee Barnett had asked about Joseph Babin's re-examine at the last meeting: it has been scheduled for August 2, 2006.

Website

The website update has begun and is expected to be complete within a month.

Custodian RFP

Ms. Zimmermann will email custody information to the trustees on the Service Provider Review committee and set a date for the first joint meeting.

Munder Capital Sale

An article from Pensions & Investments Daily regarding the sale of Munder Capital was distributed to the trustees.

Fiduciary Liability Insurance

Ms. Zimmermann said that she was unable to procure a quote without an agent and asked for direction. Chairman Harrison said that he felt that since Steve Fladger is an agent with local ties he should receive the business since he contributes to the City. Ms. Zimmermann was instructed to place the bid for fiduciary insurance through Mr. Fladger.

Legal - None

Union Representatives – None

UNFINISHED BUSINESS

Re: Ordinance Clean-up – Tabled to next meeting

NEW BUSINESS

Re: Semi-Annual Cash Flow Rebalancing

Ms. Zimmermann explained the semi-annual need to rebalance the portfolio back to target and to provide for benefit payments and operating expense. She requested approval of the plan as recommended by the consultant.

RESOLUTION 06-063 By Saucedo, Supported by Cochran

Resolved, That the semi-annual cash flow re-balancing plan as recommended by the consultant be approved as presented.

Yeas: 6 – Nays: 0

Re: Minute Master Services

RESOLUTION 06-064 By Saucedo, Supported by Cochran

Resolved, That the fees for the 2006 annual Minute Master update service be approved.

Yeas: 6 – Nays: 0

Re: Letter to Retirees

RESOLUTION 06-063 By Saucedo, Supported by Cochran

Resolved, That the updated letter of reassurance to retirees be approved for distribution.

Yeas: 6 – Nays: 0

PUBLIC DISCUSSION

RE: Resolution 06-050 – Payroll Error Policy

Phyllis Long, Payroll Administrator addressed the Board regarding Resolution 06-050 (Payroll Error Policy) from the May 31, 2006 Meeting. She thanked the Board for the opportunity to address them and said that she was not there to cause contention but to understand and obtain clarification from the Board. She asked what compensable wage errors were being found and why the Board felt it necessary to create a policy to specifically address payroll issues.

Tom Michaud said that in the retirement ordinance under section 2.13 compensation means a member's salary or wages paid by the City for services rendered by him to the City. However, in some cases a member's compensation is not all paid in money, so the Board has the authority to fix the value of that part of his compensation not paid in money. He said that there is a long list of case law consensus on what comprises compensable wages.

Ms. Long stated that many times errors occur and can only be addressed and corrected when the accurate paperwork is received. She also said that when a problem is discovered every effort is made to correct the issue by her office.

Ms. Zimmermann stated that the Retirement Office verifies wages for each individual for every year of employment included in the FAC. She said that the office uses the member's W-2 and double checks each PAS Form for hourly rate, pay class and pay code. This information is used to determine the correct base wage for the pension benefit calculation. She said it was felt that a policy needed to be in place to ensure that the Retirement Office was consistent and that the process was well documented.

Ms. Long commented that if there is a big problem both systems should be in sync and discrepancies should be addressed. She suggested a meeting to go over the issue. Ms. Zimmermann agreed that a meeting would be beneficial. Trustee Scott commented that he took up the issue because it was his department that was referred to in the payroll error policy.

RESOLUTION 06-064 By Cochran, Supported by Saucedo

Resolved, That the Board approve to change the name of the Payroll Error Policy in Resolution 06-050 to the Payroll Policy.

Yeas: 6 – Nays: 0

CAPPP Education Classes

Trustee Woods stated that she was recently notified that she was in error when she attended Part I of the CAPPP Employee Health Classes. She told the Board that in March she took Part I and did not pass the test due to a recent health issue. She said that if she was not approved to take Part II of the Employee Health segment she would not spend the money to retake the test.

Chairman Harrison asked why the Board wouldn't be interested in taking those classes adding that they contain information on Medicare Part D, etc. Tom Michaud replied that he is a big advocate of trustee education, however, using the pension trust fund assets to pay for and attend education classes for topics not directly related to their trustee duties could be construed as improper.

Chairman Harrison asked about sessions at conferences that deal with both topics and that some trustees are also VEBA members. Mr. Michaud said that education should apply to separate and distinct roles and responsibilities.

Conference Attendance

There was discussion regarding when trustees should arrive and depart educational conferences as well as where they stay while at the conference. Chairman Harrison said that the trustees have always stayed at the hotel where the conference is hosted and were allowed to arrive a day early and leave the day after the conference. It was determined that those attending the 2006 Fall MAPERS Conference on Mackinac Island would arrive on Saturday the day before the conference.

To avoid future traveling issues the Board will pass a resolution to determine length of stay and accommodations for each future conference.

SCHEDULING OF NEXT MEETING

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

ADJOURNMENT

RESOLUTION 06 -065 By Saucedo, Supported Scott
Resolved, That the meeting be adjourned at 4:04 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing is true Minutes of
the General Employees Retirement System
held on July 26, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt