CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
FEBRUARY 21, 2007

A regular meeting of the Board of Trustees was held on Wednesday, February 21, 2007 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342, The meeting was called to order at 1:36 p.m.

TRUSTEES PRESENT

Koné Bowman *(arrived at 2:50 p.m.)*
Shirley Barnett
Raymond Cochran, Secretary
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Debra Woods
Andrea Wright

TRUSTEES ABSENT

Robert Giddings *(excused)*
Devin Scott *(excused)*
Kevin Williams *(excused)*
Mayor, Clarence Phillips *(absent)*

OTHERS PRESENT

Larry Gray, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Reg Greiner, Avondale Ventures, LLC
E.L. Mont, Avondale Ventures, LLC
Joseph Vadapalas, Nexos Capital Partners, LLC
Justo Frias, Nexos Capital Partners, LLC
John McIntire, Nexos Capital Partners, LLC
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: January 24, 2007
B. Communications:
   1. Correspondence from World Asset Management RE: Organizational Update
   2. Correspondence from Oppenheimer Capital RE: Personnel Change
   3. Conference Information:
      a. 53rd Annual Benefits Conference – IFEBP – November 4-7, 2007
      b. Advanced Trustee Studies – NCPERS – July 26-27, 2007
      C. Financial Reports:
   1. Financial Reports – Revised December 2006, Preliminary January 2007
   1. Commission Recapture – December 2006
   2. Securities Lending – December 2006

3. Accounts Payable:

a.	ADP	$2,340.07
b.	Capital Guardian	22,032.44
c.	Comerica (WAM)	7,267.19
d.	Gray & Co.	8,104.17
e.	Kennedy Capital Mgt.	58,631.00
f.	Mellon Global Securities	37,800.67
g.	Mesirow Financial	41,023.97
h.	Munder Capital	81,981.00
i.	Oppenheimer Capital	29,414.48
j.	Pontiac Coffee Break	18.20
k.	Sullivan, Ward, Asher & Patton	10,926.28
l.	Systematic Financial Mgt.	57,845.65
m.	VanOverbeke, Michaud & Timmony	5,130.50
n.	Visa	2,154.52

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

1. Remove from the Rolls:
   a. Cecelia Coombs (deceased 01-18-07)
   b. Frances Felix (deceased 01-23-07)
   c. James O. Fink (deceased 02-01-07): survivor benefit of $1,067.68/mo to Roberta Fink
   d. William Ogg (deceased 01-17-07)
2. Application for Service Retirement:

a.	Kyunghae Lim – NOMC	7 years, 4 months	Age 60
b.	Avery Hatchett – MAPE	29 years, 9 months	Age 50
c.	William Suhart - NOMC	19 years, 3 months	Age 55

3. Final Pension Calculations:

a.	Ann Cassidy	#2186	1,224.46
b.	Odessa McClellon	#2343	822.26
c.	Patrice Waterman	#2353	2,730.98
d.	Linda Reger	#2356	291.63
e.	James Seibert	#2363	511.76
f.	Kyunghae Lim	#2371	572.12
g.	William Suhart	#2374	708.68
h.	Yolanda Pope	#2357	2,187.00

Trustee Cochran noted a correction to Resolution 07-004.

RESOLUTION 07–014 By Woods, Supported by Wright
Resolved, That the consent agenda for February 21, 2007 be approved as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

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

RESOLUTION 07–015 , By Woods, Supported by Sauceda
Resolved, That the Board will move to closed session to discuss pending litigation.

Roll Call:

Shirley Barnett	Javier Sauceda
Raymond Cochran	Debra Woods
Charlie Harrison	Andrea Wright

The Board moved to closed session at 1:39 p.m

The Board came out of closed session at 1:50 p.m.

RESOLUTION 07–016 By Woods, Supported by Sauceda
Resolved, That the Board approve the closed session minutes from the January 29, 2007 meeting.

Yeas: 6 – Nays: 0

Ms. Billings left at 1:50 p.m.

Re: VanOverbeke, Michaud & Timmony
Mr. Michaud deferred his place on the agenda to Mr. Gray.

Re: Gray & Company – Emerging Manager Criteria
Mr. Gray said that originally an emerging manager was considered a woman or minority-owned small company in business less then five years with less then $500 million in assets under management. Generally, the principals were people who had been at high-end firms for many years and then became entrepreneurs. He said according to CALPERS the definition of an emerging manager is any firm with under $2 billion in assets under management. He also said that race and gender were removed from the criteria. He said that internally they have adopted the CALPERS definition.

Studies indicate that these managers do add value to overall portfolio performance investing in traditional asset classes. However, they are willing to take sector bets that the larger firms don’t take. Since many of the larger firms aren’t willing to take these sector bets they tend to be closet indexers. He said that many of the people in the alternative space are experienced and came from large firms that have moved out on their own.

Mr. Gray said that he is scheduled to speak on emerging managers at NCPERS.

Re: Commission Management
Ms. Zimmermann said the commission recapture policy needs to be updated: the Board directed Mr. Gray to bring a draft of the commission recapture policy back to the next meeting.

Mr. Gray said that commission recapture receiving a rebate on the commission from the securities trading company. Years ago, companies charged 20¢ per share to trade securities. The industry changed and began rebating part of the commission back to boards. As an example, if it cost eight cents a share, the trader gave back a third to the boards. It does not cost that much today to make a trade due to efficiencies added by technology. Today trades can be processed for one cent per share or less. Most Boards can now recapture about 60% to 70% of that cost.

Trustee Cochran left at 2:01 p.m

Chairman Harrison asked if the managers are using Magna. Mr. Gray said that not many are. He recommended giving the managers more then one option and not pressuring them to use MAGNA. He recommended putting the policy in place: they will monitor and report to the Board.

Chairman Harrison questioned whether any formal action could be taken with the departure of Trustee Cochran. Mr. Michaud said that no formal action can be taken without a quorum.

The emerging manager presentations were scheduled for 2:00 p.m. Mr. Gray commented that the principal from Avondale was unable to attend the presentation because his flight out of Washington, D.C. was cancelled. He asked if he could conduct a brief overview of the fourth quarter performance of the fund prior to the presentations.

Re: 4th Quarter Performance Review

Mr. Gray reviewed the fourth quarter performance of the fund. He said that this is not a good time for the housing market and that Michigan has the highest rate of foreclosures in the country. He said that he has repeatedly commented on consumers using their homes as piggybanks and that this is no longer an option. There is still a question as to whether business spending can make up the loss from consumer spending. Spending was up during the holidays but most was put on credit cards. Wage rates increased for the period.

Profits are slowing with stock prices increasing. The Fed is in a wait and see position. The yield curve remained very flat which suggests a slowing economy with investors not going beyond two years out.

Value continues to outperform growth and has since March 2000 when the telecom bubble burst. Growth went down and has never recovered. Stock prices are very distressed but investors expect them to rally back. In 2000, the median P/E for the S&P 500 Index was 27 the median P/E for small cap was 10. Today the reverse is true with small cap being overvalued and large cap undervalued but analysts expect a switch soon.

Tech and telecom are back in a real way leading year-to-date performance at 36.8% with energy at 28.6%. All sectors performed well. Russell 1000 Growth Index performance was 9.1% for the year versus the Russell 1000 Value at 22.3%. During the period the gap narrowed with growth performance at 5.9% and value at 8.0%

Fixed income yields were up for the period which was a surprise with the market expecting to see a lot of red ink. This performance was in response to the increase in long-term rates. High yield bonds led the way with performance of 11.9% for the quarter.

International equity continues to show growth in China, India, Japan and the European markets. Singapore is emerging with growth at 7.7% compared to China at 10.7%. A current survey of the U.S. job market revealed that 75% of all U.S. jobs are now in service industries with manufacturing jobs moving overseas to Asia. This was a surprise given the strong manufacturing presence in the U.S. during the 1940's, 1950's and 1960's. Chairman Harrison asked if the 2008 Olympics were included in the growth numbers for China. Mr. Gray said that including the Olympics, the growth numbers are in the 13% to 14% range.

The Chinese government is trying to curb growth by imprisoning those who start companies without obtaining a government permit. The cost of production is low because there are no environmental policies or agencies like the OSHA or the EPA. Companies are basically dumping their waste outdoors.

Trustee Barnett commented that there is a rumor that the Chinese are interested in purchasing Chrysler. Mr. Gray said that because they have a lot of money they have the ability to buy large industrial and defense companies.

The year-to-date performance of the total plan was 11.8% versus the benchmark of 11.8%.

He said that he would like to focus on large cap. Large cap growth index funds trailed value. He was surprised by the number of managers who missed. Globally 66% to 92% of active managers under perform the index. Mesirow trailed a bit with performance at 17.9% versus the benchmark at 22.3%.

Mid cap managers Munder and Systematic were both hired in March and it is too early to determine performance.

This was the first time that Loomis underperformed with performance below the benchmark. They bought into higher quality companies and low quality reigned. Small cap manager Kennedy Capital's performance was 16.4% versus the benchmark at 18.4%.

International equity manager Julius Baer returned performance of 31.8% versus the benchmark at 26.3%.

Fixed income combined performance for the year at 4.5% net of fees was a positive result. He stated that high yield has to do really well in order to be good net of fees.

Mr. Gray said that the one-year total plan number of 11.8% was very good on a risk adjusted basis and hoped that the Board was pleased with the numbers.

Mr. Gray said that he plans to look at the large cap managers and check their track records. He said that he wants to do a good job of delivering alpha in large cap.

Trustee Cochran returned at 2:17 p.m.

Trustee Wright asked where private equity will reside on the asset allocation chart. Mr. Gray replied that it will be a separate asset class.

Chairman Harrison asked about the Chrisken disposition. Mr. Gray said that the money is with the custodian Northern Trust.

Re: Private Equity Presentations
Mr. Gray stated that the Board heard from the local group Onyx. He will provide a recap of their presentation. He said that to follow protocol he brought two additional managers for review. He said that the managers presenting to the Board are Nexos and Avondale whose managing partner Hank Torbert was unable to attend because his flight was stuck in Washington, D.C.

Deborah Munson arrived at 2:21 p.m.

Re: Avondale Ventures, LLC
Reg Greiner, Venture Partner
E.L. Mont, Venture Partner

Mr. Greiner introduced himself and Mr. Mont to the Board. He said that it was unfortunate that Mr. Torbert was stuck in Washington, D.C. and was unable to attend the presentation.

He said that the majority of the staff has been involved in private equity since college. He worked at UBS where he was responsible for $4 million portfolio with four pension systems. He and Mr. Mont are venture partners.

Mr. Mont reviewed his background stating that he started on the opposite side as an engineer for IBM and was also involved in production and development at Apple. He also worked at the Federal Reserve Bank where he was an audit supervisor conducting forensic audits. He served as a Senior Associate where he led or actively participated in the completion of over $6 billion in multiple leveraged buyouts. As an investment banker for J.P. Morgan Securities he developed the efinance wireless strategy for J.P. Morgan Chase Banks. He also started a company TVChic, a media firm focused on the development of interactive television commerce where he served as Chief Executive Officer where he was responsible for corporate strategy and product development.

Mr. Greiner said that the Avondale Capital Fund I minimum target size is $100 million with typical minimum investments ranging from $3 million to $10 million. They have a strong advisory team in place. Their target niche is middle market telecom/medium. He discussed Mr. Mont's strong background in that area.

The fund structure will have a life cycle of five years with a fund life of ten years with the option of two one-year extensions. Distribution of proceeds will be the standard return of 80% limited partners/20% general partner. The management fee will equal 2% of total committed capital for the first five years and 2% of invested capital thereafter.

Avondale's focus niche is key media and communications lower and medium market companies in the $3 million to $8 million range. They feel this is an essential high growth opportunity and feel their experience in this niche can assist them in finding companies with stable returns.

Mr. Greiner briefly described the management team and their experience. He said that Mr. Torbert has experience with J.P. Morgan Chase. He stated that P.J. Louis has more then twenty-five years of experience and is an expert in forensic audit and the telecom industry. He is a technical writer and has authored more then seven books on the industry.

He said that during his last five years with UBS he has seen huge growth in private equity funds with a number of funds doubling in size. This creates significant opportunities for smaller niche players to more effective price point the larger funds. They have a pipeline in place and deals they could have invested in yesterday.

He summarized Avondale's investment experience stating that the amount of capital collected has returned fives times realized and unrealized value to their investors. He used the example of the Yes Network (New York Yankees Entertainment and Sports Network) stating that their net worth is more then the New York Yankees baseball team. He said that they have an outreach of extensive investment experience.

He reviewed their investment experience depicting their collective roles in media and communications companies for the past ten years.

Mr. Mont said that Avondale has a great number of relationships with media and financial institutions. He added that media and communications is a $950 billion industry with 800 middle market companies. There is a large enough supply to make transactions.

Mr. Greiner said that there are a great number of opportunities in the small and middle market media and communications sectors with many of the companies in the emerging stage

Mr. Mont said that there is a lot of innovation from the small and middle-market. He discussed the youth market and how My Space is an example of a still small company in its early and emerging stage. He said it is a robust industry based on digitization.

He reviewed their selected transaction pipeline. He said that the deals would be an equity or sub debt in the $5 million to $35 million target investment set.

Chairman Harrison about how often would they venture outside of the communications sector. Mr. Greiner said that they probably won't: Avondale is a niche firm. They would stay in the sector but they could participate in larger deals.

Chairman Harrison also asked if they are in for the long-term or in and out. Mr. Mont asked if he was referring to their exit strategy. He said if the investment is good and continues to grow they would stay in to provide operations expertise to grow the company. Mr. Greiner said that the first five years would be to grow the investment the next five would harvest the investment.

Trustee Wright asked if the fund was started in 2006. Mr. Greiner replied that the fund was launched on Labor Day, 2006.

Chairman Harrison confirmed that the target was $100 million to $175 million. He asked what the date of the first close of the fund will be. Mr. Greiner replied that they anticipate the first close to be six to nine months from inception. He said they have some committed limited partners that are looking to invest. Chairman Harrison asked about their target investors. Mr. Greiner said they are targeting institutional investors. He said that it speeds recordings.

Mr. Gray asked if they have any committed capital. Mr. Mont replied that they have $4 million in committed capital and $12 million to $15 million in soft circle money.

Mr. Michaud asked the target amount of their initial close. Mr. Greiner said that first close will be $40 million to $45 million.

Trustee Barnett asked where there office is located. Mr. Greiner said that they are located in New York.

Mr. Greiner and Mr. Mont left at 2:47 p.m.

Mr. Gray said the Avondale presentation would have been better if AJ & Hank Torbert were able to attend. They are a good firm. The results for these firms are from their prior firms.

Trustee Bowman arrived at 2:50 p.m.

Re: Nexos Capital Partners, LLC
Joseph Vadapalas, Managing Partner
Justo Frias, Managing Partner
John McIntire, Managing Partner

They have an anchor investor Parish Capital that has committed capital to the fund. They are currently going ahead with two deals. The fund will consist of $225 million to buyout or provide growth capital to invest exclusively in companies owned and/or managed by Hispanics in the Hispanic market with enterprise values up to $75 million. The average will be $15 million to $30 million companies. All the companies will be U.S. companies.

There was a brief introduction describing the principal’s prior experience and backgrounds. They all started at Chase Manhattan twenty-five years ago from college. Mr. Bohorquez worked at WestSphere where he managed core private equity funds before his retirement. Mr. Frias worked as the COO in Mexico and the CEO in the U.S. for Grupo Gigante which is the third largest retailer in Mexico. Mr. McIntire y Salazar retired from Goldman Sachs in 2004 where he was a partner and head of Latin America. All the principals have extensive backgrounds in the Hispanic market.

Mr. Frias said that they feel there is a great opportunity in this niche market of 45 million Hispanics who represent approximately one half of the U.S. population growth. This equates to $800 million in buying power which is larger then the economies of Mexico or Brazil. He said that Hispanic companies are growing three times faster then the U.S. average with an estimated 30,000 Hispanic-owned companies with revenues more then $1 million.

Mr. Bohorquez stated that there are three separate investment opportunities. The first generation companies are those that serve the existing Hispanic markets such as retailing, bodegas or financial services such as places to cash paychecks because many Hispanics do not have bank accounts. The second generation companies are emerging markets such as mainstream financial, healthcare products and services or large retailers like Gigante. The third generation represents companies that are federal, state or local contracts or corporate suppliers of goods and services.

Their entry strategy is to target multiples of five to seven times the EBITDA with enterprise values less then $75 million. Their exit strategy is to target multiples of seven to nine times plus the EBITDA. He said the key in private equity is that you get good value based on earnings, profitability and size. With growth of 10% per year it's like an emerging market without the foreign exchange. They can increase in size by internal growth and roll-ups or consolidation in fragmented markets. They have easier access to the $30 million to $40 million companies then the large investors.

Trustee Cochran left at 3:10 p.m.

Mr. McIntire told the Board about two of their current fund investment plans. The first Southwest Credit is a micro ticket commercial equipment/vehicle leasing company. The CEO is a Mexican-American who is an UCLA systems graduate. They have reached an agreement to purchase 74% interest in Southwest Credit for $10 million. The current generated lease internal rate of return is 30% to 40% with a return on in the 7% to 8% range. This is seven to eight times the industry standard. They expect a lot of growth from this company.

The next fund investment is Dr. Pacheco Naturalmente. This is a Los Angeles-based Hispanic-owned retailer of premium health supplements including personal care products similar to Herbalife. Dr. Luis Pacheco is a graduate of Columbia Medical School with his residency at USC. He has a local call-in show in Los Angeles and on March 17, 2007 he will go national. The company distributes product via an 800 number and at six retail stores in the Los Angeles area. Nexos is contemplating investing $6 million to $9 million for a 40% to 60% share in the company. They also want to assist with creating business and retail plans. They are looking for distribution channels such as kiosks and starting a Hispanic Web MD product.

Mr. Gray asked if they have commitments. Mr. McIntire said that Parish Capital has committed $10 million and the Chicago Teachers have committed $5 million. They also have several big firms that are very positive; CALPERS with a possible $25 million commitment, Lehman Brothers, Crossroads and J.P. Morgan.

It is still early but they anticipate their first close in the second quarter at $75 million.
Mr. Bohorquez, Mr. Frias and Mr. McIntire left at 3:20 p.m.

Meeting break at 3:20 p.m.

Meeting resumed at 3:30 p.m.

Charlie Harrison	Javier Sauceda	Larry Gray
Shirley Barnett	Debra Woods	Tom Michaud
Koné Bowman	Andrea Wright	Ellen Zimmermann
		Jane Arndt

Mr. Gray recapped the presentations stating that both are first funds whose principals have experience in this asset class. He said that the principals at Avondale and Nexos are of the same caliber and age bracket. He pointed out that John McIntire worked at Goldman Sachs and that Eduardo Bohorquez has a PhD from Harvard.

He told the Board that Gray & Company has invested $5 million on behalf of the Chicago Transit Authority. Both firms met the criteria and that the Board should look at the past backgrounds and records of the principals. He asked if there were any questions.

Chairman Harrison commented that Mr. Gray completed the specific financial due diligence on Onyx. Mr. Gray said that he did a very thorough job. Trustee Wright asked if this financial due diligence was conducted for all three firms. Mr. Gray replied that the same due diligence was conducted for all three firms.

Chairman Harrison asked they have received the operating agreement from Onyx. Mr. Gray said that it was received but that it has not been forwarded to the attorney. He spoke with Elliott Fullen and that he plans to move back to the US. Trustee Sauceda asked if all the principals were on board for Onyx. Mr. Gray said that they were but that Mr. Fullen was still in Singapore.

Trustee Wright asked where the offices for each firm were located. Onyx will be in Atlanta; Nexos is in Los Angeles and New York and Avondale is in New York.

Chairman Harrison asked about each firm's commitments. Mr. Gray said that Avondale currently has $4 million in committed capital; Nexos has $10 million and Onyx has $20 million pending from Detroit contingent on other matches before funds are released.

Chairman Harrison asked if the selection is for $5 million. Mr. Gray said that there is a total of $10 million. The amount is entirely up to the Board.

Trustee Woods asked about the Nexos fee schedule. Mr. Gray told the trustees not to base their decisions on the fees but rather on the background and depth of the firm.

Chairman Harrison said that some trustees want to vote on one firm and other trustees want to vote for two. In order to move on the resolution the Board needs all six votes. Trustee Sauceda said that he wants to vote for two or wait for the full Board.

Mr. Gray told the trustees that the total fund is approximately $470 million with 10% available for basket clause investments. Out of the $47 million, there is $10 million allocated to private equity, and $23 million allocated to Peritus; which leaves approximately $14 million to allocate to alternatives. Mr. Gray said that the Board does not have to spend it all today.

Trustees Sauceda and Barnett said that they want to allocate monies to two firms. Trustee Sauceda commented that Avondale and Nexos principals both come from big investment companies. Mr. Gray said that the Hispanic market is good and the guys from Nexos have money lining up behind them.

Trustee Sauceda asked about the backgrounds of the Onyx principals. Mr. Gray said that Elliott has experienced with Borden Chemical, but not as long as the principals at Nexos and Avondale.

RESOLUTION 07-017 By Wright, Supported by Barnett
Resolved, that the Board approve the investment of $5 million to Nexos Capital Partners, LLC and $5 million to Onyx Capital subject to contract review and fee negotiation.

Yeas: 6 – Nays: 0

Roll Call:

Trustee Barnett – yea	Trustee Sauceda – yea
Trustee Bowman – yea	Trustee Woods – yea
Chairman Harrison – yea	Trustee Wright - yea

REPORTS

Re: Chairman
Chairman Harrison reminded the Board that the professional service provider surveys need to be turned in so the committee can meet.

Re: Secretary - None

Re: Trustees/Committees

Trustee Wright approached the Chairman about creating and sending out a one-page newsletter from the Board on a quarterly or semi-annual basis clear up misconceptions members have regarding the role of the Board. Chairman Harrison asked if the Board was okay with the concept. He asked that Trustee Wright create a draft and bring to the next meeting.

It was suggested that the trustees email topics for the newsletter to Trustee Wright. Mr. Michaud said he could assist with examples of newsletters other Boards send out.

Re: Administrator

FOIA Request – David T. Lonier
Ms. Zimmermann told the Board that the Retirement Office received a FOIA request, a copy of which is provided along with her response to the Law Department. It related to both retirement systems. She does not know what information the Legal Department provided to the requester.

Raytheon Securities Litigation
Ms. Zimmermann told the Board that a check from Raytheon Company for $109,284 and Raytheon Company warrants were received as part of a securities litigation settlement. The warrants will be given to the manager to sell.

Mesirow Contract
At that the last meeting there was discussion regarding the status of the Mesirow contract. Ms. Zimmermann reported that the first close was postponed and is scheduled sometime within the next few weeks.

Retirement Office Internal Controls
Ms. Zimmermann explained that under Mellon many transactions required a letter of direction, for example when moving money between managers. Now that Northern Trust is the custodian there are a number of transactions like the one above that can be done online. Because this is a small office it is important to make sure that we are operating at the proper level of internal controls. She has scheduled a meeting with the auditor Plante Moran to get their perspective to alleviate any issues that could adversely affect the audit opinion.

Ms. Zimmermann stated that the Police and Fire Retirement System have requested that the joint personnel committee convene. Trustee Wright asked why a meeting was requested. Ms. Zimmermann said the purpose is to review personnel salaries.

Ms. Zimmermann was directed to schedule the meeting for March 8, 2007 at 11:00 a.m.

Re: Legal

Judge Leo Bowman – Request to Purchase Service Credit
Judge Leo Bowman sent a request to the Retirement Office inquiring if he could purchase generic time toward retirement. He currently has twenty-three years of service and is leaving for a new position. When his estimate was calculated he did not have the age and service credit needed in order to retire. The Judge legally disagreed with the Retirement Office determination. A legal opinion was requested and is included in the agenda materials.

RESOLUTION 07-018 By Woods, Supported by Wright
Resolved, that the Board receive and file the Bowman legal opinion.

Yeas: 6 – Nays: 0

Service Credit for Part-Time Employment

Mr. Michaud reviewed his legal opinion on service credit specifications for part-time employees regarding an adopted MOU dated June, 2006 for the SAEA bargaining unit and a proposed MOU.

He said that the Retirement Office maintains service credit and that the SAEA MOU would defer the authority of determining service credit from the Retirement Office to the Director of Human Resources. He said that this does not provide a degree of certainty when the responsibility is under the sole discretion of the Human Resources Director. He said this would take the responsibility for service credit away from the Board. If the Board is not responsible for this there are no provisions in place to set the process, procedures or standards.

Anytime there is a pension change there has to be a cost study done by the actuary prior to granting the benefit pursuant to Public Act 728. Without the cost study the whole process is invalid. Granting pension benefits without a cost study would certainly increase the liability to the pension system.

The service credit system is the foundation of how the system is funded. The actuary uses service credit to maintain liability and to determine the funding for the system. These findings are reported annually and it is important that the actuary has an accurate basis for the findings of their report. Service credit is not a moving target. If you move back the start date it increases the liability and cost. Sometimes there are misunderstandings between seniority and service credit. For example, hire date versus membership date.

Trustee Woods said that City Council has voted on it and that they approved the contract. Mr. Michaud said that if it has been approved it will have to be costed out. He said that the MOU gives no specifics and if the Human Resources Director is allowed to use his discretion the Board may have to deal with it on a case by case basis with a cost study and MOU for each instance. The Union and the City will have to do a complete audit.

Chairman Harrison asked if the contract would be invalid until the cost study is done. Mr. Michaud said that the cost study has to be done seven days prior to signing. Trustee Wright asked who would pay for the study. Mr. Michaud said whoever negotiated the contract.

Mr. Michaud said that the contract language is so broad that it opens the system up to liability. It makes the Board's responsibility more complicated and confusing. If their responsibility is being taken away, the liability should go with it.

Trustee Wright asked if the contract has been approved how the Board gets it changed. Mr. Michaud said that the Retirement Ordinance, as amended by collective bargaining, provides the benefits and that the Board administers it not the Human Resources Director. If it is not done correctly the Board is liable. The Board pays for only what is approved. If there is a question, the Board makes the determination.

Trustee Wright said that she is non-union and does not want Human Resources to control the service credit. She asked about the process needed to amend the Retirement Ordinance.

Chairman Harrison stated that if there is a discrepancy determining a calculation the Board is vested with the fiduciary responsibility to be consistent and comply with what is authorized. Mr. Michaud added that the Human Resources Director can also make changes to the FAC (Final Average Compensation) at his discretion under the MOU. This would have to be documented on a case by case basis. He added that part-time service credit has not been credited in the past. This would affect the liability of the pension system if he is randomly assigning compensation and service credit. This is the Board's liability and the Board is responsible for making sure it is implemented properly and protect against opening Pandora's box. One cannot make changes without documentation or it can jeopardize the System.

Trustee Bowman said he would take the opinion back to City Council to discuss with his colleagues.

Trustee Woods said that the Human Resources Director was putting this language into the collective bargaining contracts even when it was removed by their business agent.

Mr. Michaud told the Board that the reason the system is so well funded is because past members of the system and former trustees have worked hard to protect the fund by following the rules.

RESOLUTION 07-019 By Wright, Supported by Barnett
Resolved, that the Board approve the part-time service credit legal opinion.

Yeas: 6 – Nays: 0

Union Representatives – None

UNFINISHED BUSINESS

Re: Fiduciary Liability Insurance
Mr. Michaud said that he contacted Steve Fladger and that he is working with CHUBB on getting the issues resolved. He should have the answers within the next couple of days. He will bring the information to the next meeting.

Re: Ordinance Clean-up
Redraft Ordinance– postponed.

Re: Service Credit
See legal report above.

NEW BUSINESS

Re: Employee Trustee Election Calendar

Re: Leonard Smith Retirement Application

RESOLUTION 07-020 By Wright, Supported by Sauceda
Resolved, that the Board approve the Leonard Smith retirement application

Yeas: 6 – Nays: 0

Re: Securities Litigation

Mr. Michaud updated the Board on pending securities litigation.

RESOLUTION 07-021 By Woods, Supported by Sauceda
Resolved, that the Board receive and file the securities litigation report.

Yeas: 6 – Nays: 0

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: March 28, 2007 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 07-022 By Barnett, Supported Sauceda
Resolved, That the meeting be adjourned at 4:58 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing is true Minutes of the General Employees Retirement System held on January 24, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt