

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
MAY 30, 2007**

A regular meeting of the Board of Trustees was held on Wednesday, May 30, 2007 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:42 p.m.

TRUSTEES PRESENT

Raymond Cochran (*arrived at 3:16 p.m.*)
Robert Giddings
Charlie Harrison, Chairman
Javier Saucedo, Vice Chair

Devin Scott
Kevin Williams
Debra Woods

TRUSTEES ABSENT

Shirley Barnett (*absent*)
Koné Bowman (*absent*)
Andrea Wright (*excused*)
Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Gwelda Swilley-Burke, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Tom Michaud, VanOverbeke, Michaud & Timmony
Andrew Hughes, Marwood Group
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting: April 25, 2007
- B. Communications:
 - 1. Correspondence from Oppenheimer Re: Portfolio Staff Changes
 - 2. Correspondence from GERS Re: Oppenheimer Watch List Notice
 - 3. Correspondence from Kennedy Capital Re: New Director of Research
 - 4. Correspondence from Julius Baer Re: April Commentary
 - 5. Correspondence from Julius Baer Re: Emerging Market Exposure
 - 6. Correspondence from Systematic Financial Re: Q 1 Mid Cap Value Quarterly Review
 - 7. Conference Information:
 - a. 53rd Annual Employee Benefits Conference – IFEBP – Nov 4-7, 2007
 - b. Mesirow Private Equity Client Conference – Mesirow – Sept 18-19, 2007
- C. Financial Reports:
 - 1. Financial Reports – April 2007
 - 2. Commission Recapture – March 2007

3. Securities Lending – April 2007
4. Accounts Payable:
 - a. ADP \$2,297.79
 - b. City of Pontiac 3,348.16
 - c. Comerica (WAM) 7,211.81
 - d. Gray & Co. 8,104.17
 - e. Ikon 198.59
 - f. Julius Baer 108,665.03
 - g. MES 675.00
 - h. Mesirov Financial 42,087.63
 - i. Munder Capital 84,466.00
 - j. Office Depot 156.00
 - k. Oppenheimer Capital 29,923.08
 - l. Plante Moran 9,400.00
 - m. Scott Harris 150.00
 - n. Slade's Printing 49.00
 - o. Sullivan, Ward, Asher & Patton 27,842.00
 - p. VanOverbeke, Michaud & Timmony 8,618.00
 - q. Visa 3,454.50
 - r. Due to / Due from – Jan – March 1,184.03
- E. Retirements, Refunds, Final Calculations, Re-Examinations
 1. Remove from the Rolls:
 - a. Mildred Gain (deceased 04-27-07)
 - b. Joseph Koren (deceased 05-01-07)
 - c. Thomas White (deceased 04-22-07)
 2. Request to Change Effective Date of Retirement:
 - a. Tommy Jefferson
 3. Application for Retirement:
 - a. Tommy Jefferson – Non Union Court 18 years, 0 months Age 54 (early out reso)
 - b. Sandra Richardson – NOMC 2 years, 6 months Age 60
 - c. Kristine Wood – NOMC 14 years, 6 months Age 60
 - d. Douglas Danielson – SAEA 25 years, 0 months Age 51
 - e. Frances Smith – NOMC 12 years, 6 months Age 55
 - f. Margaret Butki – NOMC 12 years, 6 months Age 60
 - g. Sharon Williams – Non Union Court 17 years, 9 months Age 47 (early out reso)
 4. Final Pension Calculations:
 - a. Hasmukh Dahya #2267 561.75
 - b. Elizabeth Trevino #2347 2,868.34
 - c. Avery Hatchett #2372 2,408.90
 - d. Paula Barach #2375 707.63
 - e. Sandra Richardson #2377 134.42
 - f. Kristine Wood #2379 676.66
 5. Disability Re-Examinations:
 - a. Donald Tottingham

Trustee Woods noted corrections for the minutes regarding who had made motions.

RESOLUTION 07-041 By Saucedo, Supported by Williams
Resolved, That the consent agenda for May 30, 2007 be approved as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

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

Ms. Billings reported that the closing went as planned and that \$1.175 million has been wired to Northern Trust. The settlement agreement and all relative documents have been received, reviewed and are on file in the Retirement Office.

Closed session minutes from the February 21, 2007 and March 28, 2007 meetings need to be approved. She said that it has been a pleasure working with the Board. Chairman Harrison expressed that the Board appreciated the time and effort that went into working on the CAPROC issue.

RESOLUTION 07-042 By Woods, Supported by Scott

Resolved, That the Board approve the closed session minutes from February 21, 2007 and March 28, 2007.

Yeas: 6 – Nays: 0

Ms. Billings left at 1:51 p.m.

Re: VanOverbeke, Michaud & Timmony – Private Equity Update

Mr. Michaud reported that the legal opinion for the Nexos operating agreement is currently being drafted. An initial close is projected for the end of August. They are expected to provide more complete documentation before that date.

He has reviewed the terms and conditions of the operating documents for Invesco and is currently preparing the legal opinion. They are planning their first close for the end of June or early July.

He distributed a bullet pointed document that summarizes the details of the questions presented to Onyx's legal counsel and their comments. Because Onyx is an initial fund he felt that certain points in their operating agreement required further clarification.

The first question pertained to the management fees specifically addressing the effective date of the fees. Their response was that fees will begin at the initial closing.

The next issue referred to whether fees would be assessed on committed capital after the commitment period, called capital or on invested capital. Chairman Harrison asked why this would be an issue. Mr. Michaud said that you want to insure that fees are not being backdated. Fees are typically assessed starting at the initial closing date on committed capital not just on the

initial draw. Response indicated that this issue is open for discussion as to whether fees will be paid on the fair market value of the assets in the fund after the commitment period. Trustee Giddings questioned if the fee is based on committed capital that there is no incentive to do well.

The length of the commitment period was discussed. This is the period of time when the General Partner can drawdown funds for investments. The commitment period was originally six years and has been changed to four years. This would require an earlier investment of committed capital. Any committed funds not invested after four years will be returned.

There was the issue of the additional fourth tier fee distribution on the investment proceeds. This additional fee layer would be added to the management fee, the 80/20 split and the additional 8% return. This additional fee has been removed.

There was the question of limits on operating expenses. At this time there are no limits on operating expenses.

Changes to breakup fees will be a benefit to the fund. The management fees will decrease after the commitment period and will be tied to the value of the investment. Any outstanding fees that were assessed on committed capital not invested should be applied to reduce management fees.

Organizational fees are reimbursed by the first investor of the fund to cover expenses associated with creating the fund including legal and marketing fees. There is currently no limit on these fees. However, Mr. Dixon has stated that these fees should not exceed \$250,000. This limit should be put in writing. Nexos stated that their organizational fees will be \$800,000. There is a lot of expense involved in setting up and running a fund.

The partnership can be terminated if 74% of the partners agree to end the partnership. However, there is a two-year waiting period. Ms. Zimmermann questioned if it was 74% of the partners similar to the CAPROC investment or 74% of the commitment assets. Mr. Michaud clarified that it is 74% of the commitment assets that can terminate the partnership.

Any amendments or fine-tuning of the operating agreement requires the agreement of the general partner. This is a typical provision in a limited partnership agreement.

The negligence standard was originally gross negligence and has been replaced by the negligence standard of care.

The investment guideline limitations were questioned with the respondent stating that there are no limitations or restrictions on the types of investments. Trustee Scott voiced his concern that there are no controls on the types of investments and stated that he feels that restrictions should be put in place. Chairman Harrison asked if the other alternative investments have limitations on their investments. Mr. Michaud explained that Invesco has limitations and that Nexos' limitations states that they do not invest in real estate.

Onyx has limited their investments to no more than a 20% allocation in any one investment. He referred the Board to the Consultant to go over the drafting of the investment guidelines of the fund.

Onyx is not a registered investment advisor under the Investment Advisors Act of 1940. They also do not acknowledge being a fiduciary to the Retirement System. The fund is registered under Delaware law which recognizes that the general partner has the duty to act in the best interest of the partnership. Ms. Zimmermann asked if most are registered investment advisors and/or fiduciaries. Mr. Michaud said that some are but some are not. Ms. Zimmermann pointed out that the last manager that was not a registered investment advisor was CAPROC.

Trustee Scott asked if Onyx has acquired other investors. Mr. Michaud said that they have not had their first close and there is no way of knowing who the other investors will be. The objective of the fund is to raise \$150 million with a first close scheduled for the end of June or early July and a final close within a year. At this point, the system could be the only investor with others coming in later. There was discussion referring to the City of Detroit's investment in Onyx. Their investment is based on other limited partners coming forward, a 10% match of committed capital with a maximum investment of \$10 million. Trustee Scott asked if it is typical not to know who the other investors are. Mr. Michaud stated that if it was an established fund you would know if there were other commitments. At this point there is no way to tell.

Since there are only a handful of key people, key provisions need to be put in place to protect the fund in the event one of these persons leaves the firm. This provision is currently under discussion.

There was discussion on what types of protections are included in the operating agreement. Terrell & Associates has replaced UHY as the independent auditor of the fund. This protects the fund by building in a third party independent review process. There are provisions that prohibit the fund to invest in transactions with UBTI. The most favored nation clause will be included to insure that all investors receive the same benefits.

At this time the General Partner does not intend to operate under ERISA or the Department of Labor regulations.

There have been no side letters of agreement added to the operating documents to date.

There was discussion regarding the Fund and the liability under Delaware law. Delaware law provides the largest body of case law and commentary for limited partnerships. The General Partner is bound by the duty of loyalty and care under Delaware law guidelines.

Onyx's counsel is still working on finalizing the operating agreement. No changes or updates have been made to the documents to date but they plan to make the noted changes within the next couple of weeks.

Currently, the General Partner has the authority to appoint investors to the Advisory Board. To minimize loss and liability, limited partners should not participate in the Advisory Board of the

Fund. By limiting involvement the limited partner is only liable for their committed capital in the Fund. When investing in the fund the limited partner hires the general partner to run the Fund. Mr. Michaud recommended that the Board maintain passive investor status. Ms. Zimmermann reminded the Board that this information had not been conveyed in a recent investment. During that investment, members of the Board had attended meetings and had representation on the Advisory Board.

Mr. Michaud summarized the outstanding issues. The issues included organizational and operating expenses, management fees based on fair market value versus committed capital of the Fund and the Advisory Board appointments. He also stated that the Consultant should review the documents and investment guidelines of the Fund.

Chairman Harrison thanked Mr. Michaud for the update and the format of the documentation. He suggested that Larry Gray review the documents and report back at the next meeting.

Re: Gray & Company – First Quarter Performance Report

Ms. Burke introduced herself to the trustees. She said that the last contact she had with the Board was at the finals presentation for the consultant search two years ago.

She reviewed the first quarter performance of the fund. Sub-prime mortgages and the downturn in the Asian market were the big news of the quarter. The quarter ended on a positive note despite the market decline in February. GDP was estimated at 2.3% for the first quarter; however, the revisions have come in and GDP was actually reported at 1.9% down from the previous quarter. The Federal Reserve is holding rates at 5.25%. There are still concerns with inflation because the economy is slowing but not slow enough. Consumer spending is down but the market continues to move upward. Unemployment is very low at 4.4%.

The S&P 500 index earnings came in higher for the quarter than expected. Growth for the year is not expected to reach the double digit numbers of the past but should perform in the high single digits. The yield curve continues to remain relatively flat with maturities in the intermediate bond area being most attractive.

On February 27, 2007 the US market dropped 4.3% as the Chinese market dropped 9.9%. The Chinese central bank has raised interest rates three times to slow growth with the one-year lending rate at 6.39%. However, even with these aggressive measures, growth for the first quarter was 11.1%.

Japan raised their interest rates from 0% six months ago to 0.5% now, and all the hedge fund managers who had been borrowing money for free started to realize that this source for leverage was drying up. Caution should be taken by the central bank to not cause deflation by slowing the economy too quickly.

On a long-term basis the Russell 1000 Value index continues to outperform the Russell 1000 Growth index. There was very little difference in the first quarter between large cap value and large cap growth with the Russell 1000 Value returning 1.24% and the Russell 1000 Growth returning 1.19%. Value has consistently outperformed growth for the past six to seven years but

the market is looking for a reversal. Small cap outperformed large cap for the quarter. However, large cap growth outperformed small cap growth for the year. The S&P 500 was up 11.83% for the year ending March 31, 2007. Small and mid cap have had a significant run. Those who have bought large cap in this down market have found good value.

The EAFE Index at 4.1% was the strongest performer in the broad markets followed by the NAREIT at 2.6%. This has been a strong market for REITs since the housing market slow down there is considerable demand for rentals amongst consumers. The NAREIT at 17.1% outperformed the S&P 500 for the year.

Mid cap equity led in the domestic equity market in the first quarter. Financials, information technology and consumer discretionary sectors underperformed. Telecommunications, materials and utilities have outperformed the other sectors both in the current quarter and for the past twelve months.

Fixed income performed better than expected for the period with long-term credits showing moderate returns. High yield led the way at 2.6% for the period and 11.6% for the year.

European stocks did well with returns at 3.9%. Japanese stocks were up 3.5% for the period. Emerging markets did not fare as well with performance of 2.73% for the quarter but were strong for the year at 23.7%.

The international bond market remained flat for the period. U.S. currency dropped again which was better for those U.S. holders of international bonds.

The total fund market value is \$477.8 million. Performance for the quarter was 3.0% versus the policy benchmark at 2.3%. Most managers met or outperformed the benchmark for the period. There is still the issue of Julius Baer emerging markets allocation that needs to be addressed. Chairman Harrison asked what the actuarial target rate of return is. Ms. Zimmermann stated that it is 7.5%.

The total fund performance for the year was 10.7% less real estate versus the policy benchmark of 9.7%. The bulk of the performance was attributed to domestic equity. Specifically, mid cap manager Systematic and small cap manager Loomis Sayles.

World Asset Management is an index manager that tracks the returns of the S&P 500. They provide good returns with little risk. However, for this period, active large cap managers did better than the index beating the S&P. Before this quarter, active management had not paid off over the past three years.

Northern Trust Russell 1000 Growth Index tracked the R1000 Growth Index. They ranked in the 37th percentile for the quarter.

Large cap value manager Mesirow returns were flat in the first quarter due to poor stock selection in information technology and an underweight in energy. Their performance was

below the median manager for the quarter at the 84th percentile and for the year at the 66th percentile.

Mid cap value manager Systematic returned outstanding performance for the quarter beating the benchmark in eight out of 10 sectors. Total returns for the period were 7.7% net of fees. Their performance ranked in the 1st percentile for the quarter and the 10th percentile for the year.

Mid cap growth manager Munder performance was slightly below the benchmark for the quarter. Their underperformance is due to a slight underweight in consumer discretionary and health care sectors and poor stock selection. This quarter brought their long-term performance down. They still rank above the median manager in the 16th percentile for the quarter and the 23rd percentile for the year. Most mid cap growth managers did not do well for the year.

Loomis Sayles has consistently beaten the index and has done well for a long period of time. Their long-term performance is ahead of the benchmark for all periods measured. First quarter performance was 4.5% versus the benchmark at 1.5% and one-year performance was 11.1% versus 10.4%. Their performance has continually ranked in the top quartile.

Kennedy Capital had another good quarter at 3.0% versus the benchmark at 2.0%. However, their out performance fell slightly below their peer group. Even with the slippage for the period, they have been a good consistent performer and ahead of their peers for the long-term.

Julius Baer has again displayed out performance for the quarter at 4.3% versus the benchmark at 4.1% and their peers at 3.4%. Their performance for the year was 22.1% versus 20.2% for the benchmark and 18.0% for their peers, respectively. They have done a good job, ranking at the 17th percentile for the quarter, the 8th percentile for the year and the three-year ranking in the 3rd percentile.

Julius Baer recently sent a letter asking to increase their emerging market exposure from 25% to 35%. This additional allocation will become effective on October 31, 2007 for all investors. The letter asked that the client sign off on the request. Trustee Giddings expressed concern and commented that this could have a negative impact on the portfolio. There was also mention about whether opportunities in China and India will continue to fuel emerging market growth. Chairman Harrison asked if they are pushing the envelope and questioned if there is a top limit. Ms. Burke responded that Julius Baer is requesting to go to 35%.

There was discussion as to whether it is time to split the investment currently held by Julius Baer. It was reported in the newspaper that UBS who owns 10% of Julius Baer has sold their shares. There has been no information indicating who bought the shares. Because of the organizational changes it was determined that they should be put on watch.

RESOLUTION 07-043 By Saucedo, Supported by Woods
Resolved, That the Board put international equity manager Julius Baer on watch.

Yeas: 6 – Nays: 0

Fixed income manager Oppenheimer Capital matched the index at 1.5% and outperformed the median manager at 1.2% for the quarter. However, their one-year performance was below the benchmark at 6.2% versus 6.6% for the benchmark. Performance for the quarter can be attributed to overweight in the corporate sector offset by an underweight in the mortgage sector. Oppenheimer has ranked above the median in all periods.

Fixed income manager Munder Capital was ahead of the benchmark for the quarter with performance of 1.7% versus 1.5%. Their out performance was due to their over-weightings to the corporate and mortgage sectors. They have added value for the short and long-term with rankings in the top quartile.

High yield fixed income manager Peritus was ahead of the Merrill Lynch High Yield Master and the median manager for the quarter at 3.0% versus 2.7% and 2.6%, respectively. For the period they ranked in the 12th percentile.

They are a new manager in the portfolio and are continuing to deploy money. They currently have more than half of their allocation invested with \$10 million remaining in cash. There is concern with paying a management fee on the cash held in account.

Global fixed income manager Capital Guardian was ahead of all indexes for the quarter with performance of 1.6%. Their performance was attributed to their country allocations, emerging market and high yield holdings. Their one and five-year numbers are strong at 8.9% and 9.6% versus the benchmark at 7.8% and 9.0%.

No returns were reported from CAPROC due to the lack of financial statements.

Chrisken is currently in liquidation. Distributions have been received with remaining distribution being held in reserve for closing.

Meeting break at 2:58 p.m.

Meeting resumed at 3:05 p.m.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Trustee Cochran arrived at 3:16 p.m.

Legal

Mr. Michaud reported that a deposition regarding the Home Depot securities litigation was held at City Hall earlier in the month. He reported that Ms. Zimmermann did a great job during her deposition and was given a favorable opinion by the team from Lerach Coughlin. As the litigation continues there will be a number of requests for documents and compliance that will be handled by the Retirement Office. It is encouraged that the Board send a representative to the proceedings. Ms. Zimmermann requested to attend the upcoming Home Depot securities litigation proceedings.

RESOLUTION 07-044 By Williams, Supported by Giddings
Resolved, That the Board approve Ms. Zimmermann's attendance at the Home Depot securities litigation hearing.

Yeas: 6 – Nays: 0

Union Representatives – None

UNFINISHED BUSINESS

Re: Ordinance Clean-up – Continue to next meeting

There is a copy of the amendment in the packet. Due to recent travel, some of the trustees need more time to review.

Re: Defined Contribution Plan for SAEA Employees

Ms. Zimmermann stated that she forwarded an additional request to Human Resources and has received no response.

NEW BUSINESS

Re: Proposed Actuarial Fees for Calendar 2007

Ms. Zimmermann requested that the Board approve the actuarial fees for 2007. Chairman Harrison asked how long Gabriel, Roeder & Smith has been the actuary and what the amount of the fee was for the previous year. Ms. Zimmermann said that they have been the actuary for sometime and that the last fee was approximately \$17,500.00.

Trustee Saucedo asked if the rates have been recently reviewed. Ms. Zimmermann reported that the Police and Fire Retirement System has out and feel that based on the level of service the fees are high.

Chairman Harrison asked if the service is the same or better from the last time the service was sent out for bid. Ms. Zimmermann said that the service is about the same as it was when the last

actuarial service provider search was conducted. During the last search they assigned a new person who was very good and professional. Now the service is more piece work.

Chairman Harrison asked if in Ms. Zimmermann's opinion the level of service warrants looking. She responded that it would not hurt to conduct a search. Chairman Harrison inquired if a survey should be conducted. Ms. Zimmermann felt it was not necessary since most of the work and interaction with GRS is with staff.

Trustee Woods also felt that GRS was slow when the union and Human Resources have requested cost studies. Ms. Zimmermann stated that in all fairness GRS is not totally to blame for the length of time it takes to put together a cost study.

Ms. Zimmermann said that if both boards piggyback the search for actuarial services they can split the cost. It does not hurt to see what is available. Chairman Harrison asked the status of the Police and Fire Retirement System search. She replied that they are currently developing the RFP with Gray & Company.

Ms. Zimmermann recommended that the Board approve the proposed fees for calendar year 2007.

RESOLUTION 07-045 By Saucedo, Supported by Woods

Resolved, That the Board approved the Gabriel, Roeder, Smith & Company proposed fees for the regular retainer services for calendar year 2007 and the 2006 Annual Actuarial Valuation and proceed with RFP process for actuary services.

Yeas: 7 – Nays: 0

Legislative Update

Mr. Michaud reported that in Lansing during the past two weeks proposals have been submitted to limit public pensions and public benefits. There is also a House Bill that would impose a limit on the tax exempt status of pension earnings. Currently pension benefits are not taxable at the State level. It also appears that the State is reaching down from Lansing to affect change in local retiree health care coverage. There appears to be an attack on public pensions in an attempt to find revenue for the State. It is important to voice your objections. A full report will be presented at the Spring MAPERS Conference.

Re: Inter-fund Transactions

Ms. Zimmermann requested that the Board approve the inter-fund transactions to reimburse costs incurred on behalf of the system. Chairman Harrison asked if there could ever be a situation when the City would not be financially able to repay the fund. Trustee Cochran stated that payroll is a top priority.

RESOLUTION 07-046 By Woods, Supported by Scott

Resolved, That the Board approve the inter-fund transactions.

Yeas: 7 – Nays: 0

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: June 27, 2007 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 07-040 By Saucedo, Supported Woods
Resolved, That the meeting be adjourned at 3:28 p.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on May 30, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt