

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
FEBRUARY 27, 2008**

A regular meeting of the Board of Trustees was held on Wednesday, February 27, 2008 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

| | |
|----------------------------|---------------|
| Shirley Barnett | Debra Woods |
| Ray Cochran | Andrea Wright |
| Charlie Harrison, Chairman | |
| Javier Saucedo, Vice Chair | |

TRUSTEES ABSENT

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

OTHERS PRESENT

Laurence Gray, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting: January 23, 2008
- B. Communications:
 - 1. Correspondence from Invesco Re: Private Equity Portfolio Update
 - 2. Correspondence from Julius Baer Re: Proposed IPO
 - 3. Correspondence from Julius Baer Re: Portfolio Recap Q4
 - 4. Correspondence from Peritus Re: February Market Commentary
 - 5. Correspondence from GERS Re: Actuarial Transition
 - 6. Correspondence from GERS Re: Employee Elections for Defined Contributions
 - 7. Conference Information:
 - a. Stars & Stripes 2008 – FRA – April 13-15, 2008
 - b. Investments Institutes – IFEBP – April 13-16, 2008
 - c. Washington Legislative Update – IFEBP – May 19-21, 2008
 - d. Annual Conference – NCPERS – May 16-22, 2008
 - e. Protecting Shareholder Value – BLB&G – Oct. 23-24, 2008

- f. National Training Seminars – GFOA – various
- g. Investment Courses – IFEBP – various
- C. Financial Reports:
 - 1. Financial Reports – January 2008
 - 2. Commission Recapture – January 2008
 - 3. Securities Lending – January 2008
 - 4. Accounts Payable:
 - a. ADP \$2,697.67
 - b. Capital Guardian 23,913.73
 - c. Gabriel, Roeder, Smith & Co 3,675.00
 - d. Gray & Co. 8,104.07
 - e. Ikon 508.70
 - f. Julius Bar 116,157.96
 - g. Kennedy Capital 61,164.00
 - h. Loomis Sayles 39,082.60
 - i. MES (Causey) 2,000.00
 - j. Mesirow Financial 44,529.71
 - k. Munder Capital 89,341.00
 - l. Office Depot 55.78
 - m. Oppenheimer Capital 31,602.82
 - n. Pontiac Coffee Break 20.48
 - o. Rodwan Consulting 1,400.00
 - p. Sullivan, Ward, Asher & Patton 435.00
 - q. VanOverbeke, Michaud & Timmony 4,913.50
 - r. Visa 2,142.56
 - s. Due From PFRS 267.59
- E. Retirements, Refunds, Final Calculations, Re-Examinations
 - 1. Remove from the Rolls:
 - a. Elsie Norris (deceased 01-22-08)
 - 2. Application for Retirement:
 - a. Ann LaBarge – Teamsters Local 214 20 years, 0 months Age 60
 - b. Edgar Woodard – SAEA 9 years, 2 months Age 50
 - 3. Final Pension Calculations:
 - a. Douglas Danielson #2380 \$2,864.20

Trustee Woods questioned whether there was a motion relative to accepting the Mesirow Report on page six of the minutes. Ms. Zimmermann said that neither she nor Ms. Arndt had recorded in their minutes. Chairman Harrison asked if it is necessary to adopt a motion after a manager discussion. Ms. Zimmermann stated that it is permitted but not required.

RESOLUTION 08–007 By Woods, Supported by Saucedo
 Resolved, That the consent agenda for February 27, 2008 be approved.

Yeas: 6 – Nays: 0

Chairman Harrison requested that the Board make a motion to move action items under Unfinished Business and New Business to the front of the agenda because the Board could potentially lose its quorum.

RESOLUTION 08-008 By Woods, Supported by Wright
Resolved, That action items under Unfinished Business and New Business would be moved up on the agenda.

Yeas: 6 – Nays: 0

UNFINISHED BUSINESS

Re: Hospital Deferred Trustee Election

Ms. Zimmermann stated that she received notification from NOMC that James Seibert has been elected as the Hospital Deferred Trustee. She asked that the Board accept the notification of the election results.

RESOLUTION 08-009 By Wright, Supported By Saucedo
Resolved, that the Board accept the election results for Hospital Deferred Trustee.

Yeas: 6 – Nays: 0

NEW BUSINESS

Re: Employee Trustee Election

Ms. Zimmermann stated that Trustee Wood's term will end on March 31, 2008. She emailed the election calendar and materials to all the trustees. She requested that the Board approve the election calendar and appoint a trustee to canvass the vote.

Trustee Wright asked what is involved in canvassing the vote. Ms. Zimmermann explained that the trustee who acts as the canvasser officially certifies the vote. Trustee Wright volunteered to canvass the Employee Trustee Election.

Currently, only one person has filed a petition. In the event, that no one else files a petition and there is only one person running unopposed they are automatically designated.

RESOLUTION 08-010 By Saucedo, Supported by Woods
Resolved, that the Board approve the Employee Trustee Election Calendar and appoint Trustee Wright to canvass the election results.

Yeas: 6 – Nays: 0

Re: Retiree Trustee Election/Address Lists

Ms. Zimmermann described the Retiree Trustee Election process. She said that the election notice was sent to retirees with a petition and the election calendar. Nominating petitions and candidate statements were required by February 26, 2008. The ballots and candidate statements

will be mailed to retirees and need to be returned by 9:00 a.m. on March 18, 2008. There are five candidates running for the Retiree Trustee position. They are incumbent Shirley Barnett, Peggy Hardiman, Alvin Love, Walter Moore and Paulette Poehlman. Petitions will be certified on Monday.

Ms. Zimmermann requested that the Board approve the election calendar and appoint a trustee to canvass the election. Trustee Saucedo volunteered to canvass the election results.

RESOLUTION 08-011 By Wright, Supported by
Resolved, That the Board approve the election calendar for the Retiree Trustee Election and appoint Trustee Saucedo to canvass the election.

Yeas: 6 – Nays: 0

Trustee Wright asked if the ballot mailing included a self-addressed stamped envelope. Ms. Zimmermann said that it included a self-addressed envelope.

Ms. Billings stated that a couple of the candidates may submit FOIA's requesting retiree addresses. In the past, the Board felt that it should protect the retirees' reasonable expectation of privacy and not release the information. However, in March, 2007 the Michigan courts ruled that this information does not rise to the level of personal information and it has to be provided when a FOIA is submitted unless there are exigent circumstances. A retiree would have to substantiate the reason to have his/her name removed from the list. There are approximately twenty exceptions under FOIA with very narrow construction.

Under the previous status of the law legal counsel advised that the retiree address list could not be provided and candidate statements were sent with the ballot. This allowed access to the retirees but not direct access.

Ms. Zimmermann noted that access should be limited to those with certified petitions. She also stated that a notice should be sent to the retirees advising them of this change.

Trustees Woods and Saucedo agreed that certified candidates should be required to go through the FOIA process when requesting retiree mailing information. Ms. Zimmermann said that there is normally a ten-day turnaround for FOIA requests.

Chairman Harrison asked if this should be normal Board policy because individuals could request this information for inappropriate motives. There should at least be a process.

Trustee Wright stated that the Board should amend the policy to allow access to the list for certified candidates. There are current candidates that have access to the list as part of their job responsibilities. Ms. Zimmermann said that the election rules can be easily amended if the Board wishes to do so.

Ms. Billings stated that the address list should be limited to certified candidates. Ms. Zimmermann can amend the forms and notify the candidates that they can obtain a copy of the retiree address list under FOIA.

RESOLUTION 08-012 By Woods, Supported by Saucedo

Resolved, That the Board approve to amend the election rules to allow certified candidates to request and receive retiree addresses under FOIA.

Yeas: 5 – Nays 1 (Trustee Woods)
Motion fails

Trustee Wright felt that the ten-day period to process a FOIA request to secure a copy of the retiree address list would not allow candidates sufficient time. She asked if they would be charged a FOIA processing fee. Ms. Zimmermann stated that the Retirement Office may charge a fee to process requests under FOIA. The Retirement Office processes its own and sends a copy to the Law Department. She will notify the candidates.

Ms. Billings confirmed that no special form is necessary other than a written request under FOIA. She said that submitting a FOIA request would best protect the Board.

Re: Capital Guardian Transfer

Ms. Zimmermann requested that the Board approve the transfer of \$531,026 from Capital Guardian to the cash manager account to reimburse for three capital calls for the Invesco private equity investment totaling \$479,443.46 and \$51,582.78 for organizational costs for the Onyx private equity investment.

RESOLUTION 08-013 By Saucedo, Supported by Wright

Resolved, That the Board ratify the transfer of \$531,026 from Capital Guardian to the cash manager account to reimburse for cash calls as recommended by the consultant.

Yeas: 6 – Nays: 0

Trustee Cochran left at 2:05 p.m.

CONSULTANTS

Re: Gray & Company – Fourth Quarter Performance Review

Mr. Gray began the capital markets review stating that he plans to talk less and encourage the trustees to ask more questions. The current economic status impacts everyone with individual portfolios going through a meltdown. The losses associated with sub-prime mortgages have affected the state of the housing market increasing foreclosures which are bringing down home values.

During the fourth quarter large financial corporations were taking huge write downs and reaching out to foreign investors for new capital. There have been a lot of scary stories about investments that include CDO's, CLO's and SIV's or "financial sausage". Banks have no idea

what is included in their investments. Citicorp stock once topped at \$60.00 per share is down to \$24.00 with analysts feeling it is still overpriced and the real value is somewhere from \$16.00 to \$13.00 per share. No one knows how deep the muck is. Tim Gramatovich was right in his market commentary where he asked “if the guys running the banks do not know what they need, how can the government?”.

Commodity prices rose in the fourth quarter driven by energy, industrials and precious metals.

Interest rates continue to drop with another cut expected soon. Interest rates are predicted to fall to 2% to 2.25% but no one knows how far they need to drop to stir the economy. Politically, many believe that Bernanke is a one-term guy because he does not possess the political skills like his predecessor Alan Greenspan. In the 1970's the country went through stagflation which is when the price of core items is up, unemployment is high, the housing market is down, growth of the economy is down and the price of oil and precious metals is up.

There was no Santa rally during the period. For years people used their homes like ATM's. When does this stop? The equity markets declined during the quarter due to the impact of job loss, foreclosures and increased prices which resulted in consumers spending less during the holidays. This upsets the economy since 2/3 of the GDP is driven by consumer spending. Everything in the equity markets was negative for the quarter. The Russell 1000 Growth had year-to-date performance of 11.81%. Growth beat values for three consecutive quarters. This is the first time since 2000 that growth outperformed value for the year.

Sector performance saw energy, utilities and consumer staples return positive performance for the quarter. Manager performance was based on whether they were in the right sectors or eliminated the wrong sectors from their portfolios. Year-to-date top performers were energy at 34.5%, materials at 22.5%, industrials at 12.1% and consumers staples at 14.4%. Global financial markets are taking it on the chin.

Chairman Harrison left at 2:12 p.m.

Trustee Cochran returned at 2:12 p.m.

Fixed income has seen a rush to quality with everyone buying treasuries. There is nowhere else to hide per Tim Gramatovich.

International equity market performance was down for the quarter which revealed that this is not just a U.S. problem but it is a global problem. Emerging market performance produced the most significant returns for the quarter at 3.64%. Housing in Brazil is like traditional housing was forty to fifty years ago and was not affected by the sub-prime issue. Those in mutual funds and ETF's took profits.

Chairman Harrison returned at 2:14 p.m.

The international bond market is evidence that the developed world is facing the same issues with interest rates being reduced globally.

He reviewed the index returns for the period. Growth outperformed value year-to-date at 11.8% versus -0.2%. The intermediate government/corporate bond market year-to-date performance was 10.3%. Emerging market year-to-date performance was 40.3%.

Chairman Harrison asked about the fund's asset allocation. Mr. Gray said that Julius Baer has the ability to go up to 35% exposure in emerging markets. They will move back to developed countries opportunistically. They do their job the right way.

Chairman Harrison asked if changes were necessary to the rest of the portfolio. Mr. Gray said that the problem for Boards is that they are public funds and it is hard to be nimble. By the time they go through the proper due diligence the trend is over. You cannot be as flexible as an individual investor.

Trustee Saucedo asked how things look for the future. Mr. Gray said that there was minimal volatility in January but they still do not know what is yet to come. This is a challenge for traders.

Trustee Woods let at 2:20 p.m.

Mr. Gray said that as of December 31, 2007 total plan value was \$476.8 million with performance for the quarter at -0.7% versus the benchmark at -1.6%. As of January 31, 2008 total plan value is \$464 million. Year-to-date plan performance ex-real estate is 320 basis points over the benchmark.

They are still cleaning up the large cap allocation. Large cap manager Sawgrass was recently funded and has been on board for two months.

Mesirow is still returning poor performance versus their peers.

UIM was funded on December 5, 2007 with their December performance 2.19% versus the S&P at .38%.

The rest of the portfolio is doing well.

Munder made great stock selections in healthcare and consumer staples. Their year-to-date performance at 21.6% is in the 1st percentile.

Systematic performance for the quarter was -3.0% versus the benchmark at -6.0% putting them in the 7th percentile. Their year-to-date performance of 14.6% put them in the 1st percentile. They made good stock selections in utilities, industrial, consumer staples and in the financial sector. They have done a great job since coming on board in March, 2006.

Loomis is steady and continuing to make good stock selections in industrials and technology. Their performance for the quarter was -4.5% versus the benchmark at -7.3%. Their year-to-date performance of 3.5% versus -9.8% put them in the 1st percentile. Their one-year, three-year and

five-year performance ranked them in the 1st percentile with their ten-year performance in the 3rd percentile.

Kennedy Capital had a bad quarter. They missed the sector bet in six out of the nine sectors. Their performance for the period of -6.8% versus -4.6% ranked them in the 81st percentile. Even a top performer can fall out of favor. Their one-year performance ranking was in the 25th percentile, three-year in the 9th percentile, five-year and ten-year performance ranked in the 1st percentile.

Julius Baer performance for the quarter was 1.1% versus the benchmark at 1.8% ranking them in the 1st percentile. Their year-to-date performance ranked them in the 1st percentile at 17.2% versus the benchmark at 11.2%. Current emerging market exposure is 31.5%. The revisions they made to their portfolio have paid off.

Fixed income performance is steady. They have a call into Oppenheimer to discuss the high level of turnover in the portfolio. They are invested 76% in AAA securities. They are buying good quality securities.

Munder's performance continues to be in the top percentile. They are invested 72% to 73% in AAA securities.

High yield manager Peritus continues to experience poor performance. Trustee Barnett questioned their lack of performance and how they charge top fees. Their performance for the quarter was -4.0% versus the benchmark at -1.0%. Year-to-date performance was -3.6% versus 2.2%. Tim Gramatovich is going to Chicago to meet with them to discuss the performance issues.

Capital Guardian has a global portfolio. They are currently taking it on the chin. Their year-to-date performance was 8.5% versus the benchmark at 9.5%.

They were pleased with the top line numbers. New positions are coming online. Mr. Gray concluded the performance report.

Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Legal

CAPROC, LLC Sale of Crosspointe Plaza

Ms. Billings reported that the sale has been completed and the monies have been transferred.

She also stated that the CAPROC Annual Meeting has been tentatively scheduled for April 22, 2008. The independent monitor Lora Lauer has been notified of the tentative date.

In Regard Standard Pacific Securities Litigation

Ms. Billings reported that the system was appointed lead plaintiff and the parties are proceeding through the initial discovery phase.

Proposed Retainer Agreement for Legal Counsel

Ms. Billings reported that there is a copy of the proposed retainer agreement for the trustee's information included in the report. The compensation is guaranteed at the rate of \$150.00 per hour for the next two years. No secretarial fees will be charged.

Unrelated Business Income Tax

Ms. Billings explained that many alternative investments are subject to UBTI. Accordingly, per IRS Section 511 tax exempt entities will be subject to UBTI. Most often only the private sector is subject to UBTI. IRS Section 115 states that there is no UBTI on public pension funds. There are conflicting opinions and the IRS will be issuing an opinion.

Software Services Agreement Between the City of Pontiac Retirement Systems and Gabriel, Roeder, Smith & Company

Ms. Billings reported that she has reviewed the GRS Software Services Agreement and made changes. She recommended that there should be separate signature lines for each retirement system. She removed the line that read "In the event of any conflicts between the specifications, terms and conditions indicated by CPRS and those indicated by GRS, the parties agree to submit to binding arbitration. She does not feel that the retirement systems should relinquish their right to file a lawsuit and agree to binding arbitration in the event of a dispute. She also changed the Release of Liability section removing the line that recognized GRS' liability related to software services being limited to the original price paid for the software

Trustee Barnett asked if there are any alternatives. Ms. Zimmermann said that the programs are expensive and most are canned systems that require customization ranging in price from \$100,000.00 to \$150,000.00. GRS is charging \$3,000 annually for use and maintenance of their software.

Trustee Wright asked why there were invoices for 2004 to 2005 and 2005 to 2006 for GRS. Ms. Zimmermann said that the Retirement Office had been invoiced.

Chairman Harrison said that he relies on the staff to be the judge. Trustee Wright questioned that the price doubled from \$1,500.00 to \$3,000.00 due to the termination of the actuarial contract.

Ms. Zimmermann said that the software is used to calculate pension benefits and finals. The assumption is that GRS is using the appropriate mortality tables and incorporating appropriate IRS regulations. She does not feel there is a huge amount of liability. The Retirement Office maintains the retiree listings and does not think there will be many changes in the program.

RESOLUTION 08-014 By Cochran, Supported by Saucedo

Resolved, That the Board Resolved, that the Board approve and ratify the Chairman's signature for the Gabriel, Roeder, Smith and Company Software Services Agreement subject to final legal review.

Yeas: 6 – Nays: 0

That concluded Ms. Billing's legal report.

Re: Administrator

Northern Trust Money Market Fund

Ms. Zimmermann distributed a copy of a news release from Northern Trust. Mr. Gray explained that Northern Trust is like any other bank that invests in money market funds. He said in the past money market funds were absent of CLO's, CDO's and SIV's or "financial sausage" as he calls them. However, some of the notes and covered investment vehicles issued by Whistlejacket Capital LLC had some of this financial sausage in their investment portfolio which incurred losses.

He said that they had a conference call with David Smith of Northern Trust and told him to put their clients at the top of the list to insure their clients receive coverage for the losses. He also told them to move all their accounts into treasury-oriented investments.

Kennedy Capital Security Issue

Mr. Gray explained that Kennedy Capital utilizes fifty brokerage firms for their investments. One of the brokerage firms Davison recently experienced a security breach in their IT system. The only information affected for funds was name, address and the tax identification number. They have been assured that everything is being mitigated.

Marvin Poston - Disability Retiree

Ms. Zimmermann reviewed the history of disability retiree Marvin Poston. His pension was suspended on November 1, 2007 after several attempts to contact him. On May 17, 2006, he was seen by the Board's Medical Director who found that Mr. Poston was capable of returning to work. Mr. Poston has now requested to return to work.

Human Resources was contacted and asked that they provide a description of the Wastewater Mechanic Repairer. While it is in a different service area it represents at least 60% of the member's former duties as the Stadium Mechanic Repairer.

The member is currently 59 and would be eligible to retire in January, 2009 when he turns 60. He will have 23 years and 2 months of service credit. He will not accrue additional service credit as a non-union employee. She requested direction from the Board.

There was discussion regarding when he was originally told he was capable of returning to work and how the process broke down. It was questioned whether there was a job vacancy. Ms. Billings stated that generally this does not fall under the authority of the Retirement Board. She said that if it has been determined that the member is not disabled the system should not continue to pay a benefit.

The Board directed Ms. Zimmermann to refer this issue to Human Resources and keep the Board in the loop.

Other

Ms. Zimmermann reported that she will be on vacation from March 17, 2008 through March 25, 2008.

Union Representatives – None

PUBLIC DISCUSSION

Trustee Woods asked about the correspondence from Julius Baer. Mr. Gray said that the parent company is going public. They are extracting value from the firm's shares and out of the senior person's hands. It is hard to understand the timing. It is not the best time to register for an IPO and they will probably not move forward with it.

SCHEDULING OF NEXT MEETING

Regular Meeting: March 26, 2008 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 08-015 By Woods, Supported Saucedo
Resolved, That the meeting be adjourned at 2:58 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on January 23, 2008.

Raymond Cochran, Secretary

As recorded by Jane Arndt