

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
MAY 28, 2008**

A regular meeting of the Board of Trustees was held on Wednesday, May 28, 2008 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:38 p.m.

TRUSTEES PRESENT

Shirley Barnett

Koné Bowman

Ray Cochran

Charlie Harrison, Chairman

Javier Saucedo, Vice Chair

Devin Scott

Kevin Williams

Debra Woods (*arrived at 1:52 p.m.*)

Andrea Wright

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Laurence Gray, Gray & Company

Tiffany Hartley, Gray & Company

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.

Ellen Zimmermann, Retirement Systems Administrator

Jane Arndt, M-Administrative Assistant

PUBLIC DISCUSSION

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: April 23, 2008

B. Minutes of Special Meeting: April 30, 2008

C. Minutes of Special Meeting: May 13, 2008

D. Communications:

1. Correspondence from Invesco Re: Webcast Summary
2. Correspondence from Invesco Re: Partnership Fund V Q1 Report
3. Correspondence from Julius Baer Re: Portfolio Recap
4. Correspondence from Julius Baer Re: IPO
5. Correspondence from Sullivan Ward Asher & Patton Re: Council Representation
6. Correspondence from Sullivan Ward Asher & Patton Re: Florida Property Inspections
7. Correspondence from HR Re: Marvin Poston
8. Correspondence from GERS Re: PPFDA Pension Adjustment
9. Conference Information:
 - a. 54th Annual Employee Benefits Conference – IFEBP – Nov. 16-19, 2008

- b. Year End Financial Statement Adjustment Training – MGFOA – June 19, 2008
- c. Annual Partners Meeting – Invesco – October 23, 2008

E. Financial Reports:

- 1. Financial Reports – April 2008
- 2. Commission Recapture – April 2008
- 3. Securities Lending – April 2008
- 4. Accounts Payable:
 - a. ADP \$2,289.82
 - b. Gray & Co. 8,104.17
 - c. Ikon 198.59
 - d. Julius Baer 102,518.07
 - e. Kennedy Capital 53,853.00
 - f. Loomis Sayles 39,778.06
 - g. MES (Smith, Kibler) 1,350.00
 - h. Mesirow Financial 41,705.30
 - i. Munder Capital 81,052.00
 - j. Northern Trust 38,528.42
 - k. Oppenheimer Capital 30,026.48
 - l. Pontiac Coffee Break 36.40
 - m. Rodwan Consulting 1,400.00
 - n. Sullivan, Ward, Asher & Patton 1,215.00
 - o. VanOverbeke, Michaud & Timmony 387.50
 - p. Wall Street Journal 276.50
 - q. Visa 15,261.08

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

- 1. Remove from the Rolls:
- 2. Application for Retirement:
 - a. Francisco Reyes – Teamsters 214 29 years, 0 months Age 50

- 1. Final Pension Calculations:
 - a. Kathleen (John) Perry #2202 \$1,052.44
 - b. Lucy Rodriguez #2324 3,554.04 longevity re-calc
 - c. Elizabeth Trevino #2347 2,866.37 longevity re-calc
 - d. Donald Gracey #2399 2,039.17
 - e. Ann LaBarge #2416 1,465.96

F. Disability Examinations:

- a. Matthew Kibler

Chairman Harrison noted a correction on page six of the May 13, 2008 special meeting minutes. In paragraph four the minutes attributed a comment made by Chairman Harrison to Trustee Woods.

RESOLUTION 08–034 By Barnett, Supported by Saucedo
 Resolved, That the consent agenda for May 28, 2008 be approved as amended.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Gray & Company – 2008 First Quarter Performance Review

Mr. Gray provided highlights of the capital markets for the period. The markets anticipate a recessionary period six months prior to the occurrence. The decline in the housing market has trickled into the credit markets which having a negative overall affect on the market.

Unemployment is back up. Consumers are concerned about their jobs, foreclosures and are making spending cutbacks.

Interest rates were reduced 200 basis points during the quarter and have dropped to 2.25%. Many consumers are accustomed to a certain level of spending. Having tapped their homes and home equity loans they have positioned themselves to rely on their credit cards.

Ms. Zimmermann questioned whether there are still usury laws during the discussion regarding how credit card companies have taken advantage of the credit market by raising their rates. Mr. Gray said that many of the companies have raised rates to deter consumers.

The equity markets experienced substantial losses for the period. The financial sector reported performance of -14% for the quarter and -27.9% for the twelve-month period. There is still a lot of downside left in the financial markets. Managers who had significant holdings in financials, technology, healthcare and telecommunications or utilities experienced considerable losses. This period was painful for small cap growth (down 12.8%) with all the managers being hit hard. Historically, value-oriented stocks perform well when the economy slows, when the economy is entering a recessionary period or during the early recovery stages.

Treasuries continue to outperform corporate credits in the fixed income market. The Lehman Brothers Long-Term Government was up 12.6%. High yield performance was -3.0% for the quarter and -3.7% for the twelve month period. Peritus was not spared in the mix.

Trustee Woods arrived at 1:52 p.m.

Everything is negative in equities and it is not just a U.S. issue. Mr. Gray explained the global impact using the example of how a mortgage for an over-appraised home on the south side of Chicago was sold off as collateralized debt and that a piece ended up in an international portfolio in Norway which is a very financial conservative country.

He reviewed the total plan and the manager performance. The total fund was \$454.3 million with a return of -6.0% for the current quarter. During the past twelve months performance was a negative 61 basis points relative to the benchmark at -1.7%.

He has talked to all the managers regarding their under performance. Those managers whose three and five year performance numbers are not up to par needs to be addressed.

Mesirow's performance for the quarter was -8.91% versus -8.72%. He stated that since inception their reported performance is 5.7% versus the benchmark at 8.15%.

UIM has been on board since mid-December, 2007 and it is too early to determine their relative performance. Most managers do not report performance numbers for the month, but Ms. Hartley will provide the UIM updated numbers through April.

Munder Capital recorded quarterly performance of -11.19% versus the benchmark at -10.95% and one-year performance of 2.35% versus -4.56%.

Systematic's performance returns for the year were -4.9% versus the benchmark at -14.13% and since inception 5.59% versus 0.28%.

He said he never thought he would see negative numbers from Loomis Sayles. Joe Gatz said that they are sticking by their discipline and historically they have never experienced this kind of under performance. For the quarter, they reported performance of -9.23% versus the benchmark at -6.52%.

Kennedy Capital's performance for the period was -9.39% versus the benchmark at -9.90%. Their returns since inception are 16.82% versus 9.35% for the benchmark.

Even Julius Baer took a bit of a hit this quarter.

Investment managers Munder Capital, Loomis Sayles, Kennedy Capital and Julius Baer continue to do the job they were hired to do.

It is time for a verdict regarding Mesirow's performance and whether their performance beats the benchmark when the fees are subtracted.

Trustee Barnett asked which managers were hired to protect on the downside. Mr. Gray said that they all should.

Trustees Bowman and Cochran left at 2:01 p.m.

The long-term fixed income managers Oppenheimer and Munder have been in the portfolio since 1994. He said that there are only 15 basis points between the best and worse fixed income managers and when you subtract the fees they are only returning 8 to 10 basis points of performance above the index funds.

Trustee Bowman returned at 2:04 p.m.

High yield manager Peritus reported their performance was down 300 basis points for the quarter. Their one-year performance is awful at -11.59% versus the benchmark at -3.37%. They have been verbally put on notice for underperformance.

Trustee Cochran returned at 2:06 p.m.

He said that there have been concerns regarding the Onyx portfolio and poorly written requests for capital calls sent to Ms. Zimmermann. Mr. Kelsen met with Onyx on May 26, 2008 and

walked away optimistic and pleasantly surprised as well as being impressed with Elliott Fullen and Laroy Williams. He will provide a written report at the next meeting.

He addressed the positions in the Onyx portfolio. He said that Second Chance Motors is a company that provides high interest rate automobile loans and makes a lot of money. Trustee Scott asked whether the original proposal stated that Onyx would be investing in Midwest manufacturing. Mr. Gray said that at the end of the day the portfolio will have a Midwest manufacturing concentration. The first four investments in the portfolio were not manufacturing including Second Chance Motors and a company that supplies high tech staffing to aerospace companies. They are currently reviewing potential manufacturing companies.

Trustee Wright asked about the Invesco and Mesirow investments. Mr. Gray referred to the Invesco write up included in the agenda. He said that the Invesco Partnership Fund V has invested in the WLR Recovery Fund which is managed by the legendary Wilbur Ross. The portfolio is allocated with 30% to venture capital, 30% to international and 40% allocated to distressed sub par lending. He told the Board that Warren Buffet also has some distressed sub par lending in his portfolio.

Private equity looks exciting specifically in regards to the returns.

Trustee Wright left at 2:09 p.m.

Ms. Hartley reviewed the UIM performance numbers. Every manager returned positive numbers for April, 2008 with Lombardia Capital returning the best returns at 4.74% and Alpha Capital the lowest performer at 3.93%. Collectively, average April performance was 4.24%.

Trustee Wright returned at 2:11 p.m.

Chairman Harrison asked if Mesirow received a watch letter and if they were the only manager. Ms. Zimmermann confirmed that Mesirow was the only manager to receive a watch letter.

Mr. Gray said that Tim Gramatovich from Peritus met with him at his offices to give a complete report and discuss the under performance. Based on their performance, he asked if the Board would like to send a letter of notice to Peritus.

RESOLUTION 08-035 By Barnett, Supported by Cochran

Resolved, That the Board approve to put Peritus on watch for underperformance pursuant to the investment policy statement.

Yeas: 9 – Nays: 0

He will provide a full Mesirow write up and a model of the fixed income portfolio at the next meeting.

Trustee Bowman questioned Onyx having four companies in their portfolio. Mr. Gray said that there are three investment arms within the equity position of Second Chance Motors. There is a

financing arm, capital arm and the distressed lending arm. He said that Wade Ford wants to buy the mezzanine financing arm. The last company in the portfolio is the high level staffing company.

He said that Mr. Kelsen took a critical look and is comfortable with the Onyx investments. However, they need to dial up their administrative level which is deficient in providing standard information. They are accustomed to receiving information structured similar to the Invesco report.

This concluded Mr. Gray's performance report.

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Disability Retiree Income Verifications

Ms. Zimmermann informed the Board that the Retirement Office has been in contact with the IRS regarding the income verifications for the disability retirees. The IRS informed staff that the W-2's will not be available until mid to late June. The forms the disability retirees fill out are only good for a limited number of days, so they will begin the process in July.

Re: Legal

Retiree/Rehire Ordinance Amendment Opinion

Ms. Billings distributed a legal opinion regarding the suspension of benefits for reemployed retirees. She said that a retiree has retained an attorney who provided an opinion stating that the amendment to the ordinance is illegal. She said that she performed extensive research and the law is not 100% clear.

She reviewed her findings with the Board. She said that prior to the amendment a retiree could return to work and continue to receive a pension benefit but could not become part of the retirement system again.

The City Council passed an amendment that stated a retiree must wait thirty days before re-employment and their retirement benefits will be suspended. There is currently a ninety-day grace period for current retiree/rehires who directly or indirectly are employed by the City.

She said that the issue is whether the ordinance amendment is in violation of the State of Michigan Constitution by asserting that a benefit offered by an entity cannot be diminished and/or impaired. She found one case on point.

Her recommendation would be to request declaratory relief from the Court to obtain clarification. The Court would issue a decision the Board could rely on. The alternative would be to let it play out and take the chance of being sued.

Trustee Wright questioned how the Board could be sued. Ms. Billings said that a retiree could file a lawsuit against all entities involved. There is a controversy because the ordinance has already been passed by City Council with the possibility of suspending benefits. Until the Court gives a decision an injunction would be filed against the City Council stopping them from suspending benefits. It could take three to five months to receive a declaratory judgment.

Trustee Wright said she did not feel that Ms. Billing's opinion was clear and the case law stated was not precedential. She also felt that the retiree's attorney's opinion was straightforward and clearly stated that the ordinance is illegal.

Ms. Billings said that the attorney was arguing one side of the issue and he was not 100% right. With regard to her opinion, there is no case law that can be relied on or is directly on point. However, case law leans toward a diminished benefit.

Trustee Wright asked how much it would cost to pursue declaratory relief. Ms. Billings said that it would be less expensive than going through a full blown trial. She said that with declaratory relief there are no expenses for discovery unlike litigation. She also thought that litigation could be covered under the Board's fiduciary liability insurance.

Trustee Bowman said that the Council would be willing to suspend enforcement of the ordinance for three to five months because the alternative would be to go to court. It would be best if the Court set precedent for all parties involved. Chairman Harrison said by obtaining a decision from the Court everyone would be on the same page and it would be better to deal with it now because it could get ugly.

There was discussion regarding the validity of the ordinance amendment. Trustee Scott felt it was not right: Trustee Bowman said that everyone has different ideas and opinions.

Trustee Bowman said that the Council is prepared to go to Court and it is common sense to obtain an opinion. He also does not feel that a person should be able to retire and return to work drawing the same salary they received before retiring with some making more than they did before they retired.

Chairman Harrison felt that this discussion was outside the scope of the Board's authority.

Ms. Zimmermann said that it would be prudent for the Board to send a notification to the members since this could affect a number of retirees and it could also help to deter any rumors or miscommunications. This is also important because there are only thirty days left before the amendment is scheduled to be enforced. She felt that filing for a determination under declaratory relief might prevent her staff from having to field numerous member calls regarding this issue.

Chairman Harrison said it would also help to alleviate lawsuits if the decision comes from the Court. This way their fight will not be with the Board, the City or the Council. It is the best thing to do.

Ms. Zimmermann suggested that to ensure there is a paper trail and all the entities have the same information, the attorney should draft a notice to the Council and the Administration including her legal opinion, notifying them of the process and requesting that Council postpone implementation until the Court has provided a decision.

RESOLUTION 08-036 By Barnett, Supported by Bowman

Resolved, That the attorney provide the legal opinion and send a letter to City Council and the Administration describing the process required to file for declaratory relief and requesting that the Council suspend implementation of the ordinance amendment until the Court has provided a decision.

Yeas: 9 – Nays: 0

CAPROC Annual Meeting/Property Inspection

Ms. Lora Lauer attended the CAPROC Annual Meeting on behalf of the Board. It was a brief meeting lasting approximately twenty minutes which included a review of the minutes from the last meeting with minimal information being provided.

The inspection of the Florida properties was completed by Stuart Tompkins and the expert: they found everything to be in order. Mr. Tompkins was satisfied that the funds were being utilized for tenant improvements.

Standard Pacific Securities Litigation

Ms. Billings reported that both parties are proceeding through the initial discovery process.

Sunterra Securities Litigation

Ms. Billings reported that the settlement was rejected and the litigation is proceeding through to trial.

Tetra Technologies Inc. Securities Litigation

Ms. Billings reported that the motion for lead plaintiff status is pending.

Schering-Plough Corporation Securities Litigation

Ms. Billings reported that the system pursued lead plaintiff status and the motion has been denied. There was another institutional investor with larger losses appointed lead plaintiff which is customary.

Coughlin Stoia Portfolio Monitoring Report for the Quarter Ended December 31, 2007

This is a list of the securities litigation cases filed in the fourth quarter of 2007 and provides the information necessary to file a proof of claim.

Article Regarding IRS Increasing Scrutiny on Public Sector Pension Funds; MAPERS Pension Scope: Winter

Ms. Billings provided the attached article for the trustees' information. She said that the article stated that the IRS will increase its scrutiny of public pension plans. The IRS feels that public pension plans have been underserved by the IRS and this is a good time to insure compliance and increase examination to coincide with the determination letter filing process.

She said that the IRS examiners are not knowledgeable when it comes to public pension plans. They are committed to add more resources to the public sector. Whenever she has been involved in the examination process she has had to educate the reviewer.

She referred to an article included in the report written by Michael Asher on alternative investments.

That concluded Ms. Billing's legal report.

Union Representatives – None

UNFINISHED BUSINESS

Re: Section 420 Transfers

Ms. Billings said that the Board requested more information on the memorandum regarding the funding of retiree healthcare with the pension assets.

The Pension Protection Act of 2006 and IRC Section 420 allow for the establishment of a 401(h) account which is a separate account within the pension system that allows qualified transfers from the pension fund to provide medical benefits for retirees. The pension plan must be at a 125% or greater funding level. It is not a separate VEBA. Assets do not leave the system; they are reallocated to pay for retiree healthcare. If the funding level falls below the 125% funding level, the money would have to be transferred back or the City would have to make contributions.

Another requirement of IRC Section 420 is that everyone must immediately become 100% vested in the pension system including those members who terminated employment within one year of the transfer or the IRS will not approve. This provision would have to go through the collective bargaining process.

It also states that healthcare benefits cannot be reduced or negotiated to drop out certain classes of employees.

Trustee Barnett asked if this included hospital retirees. It was determined that this provision did not include hospital retirees. When the hospital was privatized in 1994 the plan was terminated and all hospital members of the system became vested.

Trustee Barnett said that the retirement system would not be over funded without the contributions made by the hospital employees. The hospital employees put the money in and the City is going to take it and spend it. She said that it is not fair since this would fund healthcare for City retirees and the hospital retirees would get nothing and a number of hospital retirees do not have healthcare.

Trustees Wright and Bowman left at 3:05 p.m.

Chairman Harrison asked how it would work. Ms. Billings said that all bargaining units would have to agree to this or it cannot be done. It has to include 100% of the employees. Ms. Zimmermann said this would be similar to when the hospital privatized with the plan immediately vesting all the members.

Trustees Wright and Bowman returned at 3:06 p.m.

A recent provision would allow municipalities to prefund retiree healthcare for up to ten taxable years. The transfer would be done each year and cannot fall below the 120% funding level for the ten-year transfer.

Chairman Harrison asked what would happen if the funding fell below 120% and the City did not have the money to pay back. Ms. Billings said that that the funding level would not be based on the actuarial funding basis. The valuation would be based on the IRC 412 requirements. If the funding level fell below 120% money would have to be shifted out of the 401(h) account and back to the pension account.

Chairman Harrison asked what would happen to the VEBA if the liability was transferred to a 401(h) account. Ms. Billings said that IRC provisions indicate that the VEBA would be depleted. The employer would not be able to transfer funds to the VEBA to fund the same liability.

Trustee Barnett said there has always been a question of whether the City could get their hands on the pension fund and the answer appears to be yes.

Ms. Billings said that all unions would have to bargain and agree to begin immediate 100% vesting. Non union changes would require an ordinance amendment. All the unions have to agree. Normally, the City Council would have to authorize the contracts.

Re: Hospital Deferred Trustee

Ms. Zimmermann said that she notified the Board that James Seibert had been elected as the Deferred Trustee to replace Robert Giddings. She explained that Mr. Seibert came into the Retirement Office after being sworn in and obtained a trustee handbook; she provided a brief overview of trustee duties. As he was leaving, it was discovered that he is in pay status and receiving a benefit from the System, therefore, he is not eligible to be the Deferred Trustee. A new Hospital Deferred Trustee needs to be seated.

Trustee Barnett stated that the petitions were sent out without auditing the list. James Seibert was the only person who sent back a petition. She has had one deferred member, Melinda Lyons, who showed interest in the trustee position and asked if she could be seated.

Chairman Harrison said that the process cannot be circumvented and they will have to repeat the petition process.

The Retirement Office was directed to send out the notices of vacancy and petitions.

Re: Kenneth Smith Disability

Ms. Zimmermann explained that Kenneth Smith has been scheduled for two disability re-exams and had not shown up at either appointment and the retirement system has received an invoice for \$200.00 in no-show fees. He contacted the office on April 30, 2008 when he did not receive his check to setup a new appointment.

The medical report has not been received but the Medical Director faxed over a statement that Mr. Smith is totally and permanently disabled and should continue his status as a disability retiree. She wanted to inform the Board so his disability benefit could be reinstated as quickly as possible.

RESOLUTION 08-037 By Woods, Supported by Williams

Resolved, That the Board approve to reinstate Kenneth Smith's disability benefit based on the recommendation of the Medical Director.

Yeas: 9 – Nays: 0

NEW BUSINESS

Re: Retiree Notice of Retire/Rehire Ordinance

Ms. Zimmermann requested that the Board approve to send a communication to the retirees regarding the retire/rehire ordinance amendment.

RESOLUTION 08-038 By Woods, Supported by Wright

Resolved, That the Board approve the Retirement Office to send a communication regarding the retire/rehire ordinance amendment to retirees.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: June 25, 2008 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

General Employees Retirement
Regular Meeting,
May 28, 2008

RESOLUTION 08-039 By Woods, Supported Saucedo
Resolved, That the meeting be adjourned at 3:28 p.m.

Yeas: 9 – 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 28, 2008.

Raymond Cochran, Secretary
As recorded by Jane Arndt