

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
Minutes of September 24, 2008**

A regular meeting of the Board of Trustees was held on Wednesday, September 24, 2008 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:28 p.m.

TRUSTEES PRESENT

Shirley Barnett	Javier Saucedo, Vice Chair
Koné Bowman <i>arrived 2:15pm</i>	Debra Woods
Ray Cochran, Secretary	Kevin Williams
Charlie Harrison, Chairman	Andrea Wright

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Devin Scott (*excused*)

OTHERS PRESENT

Chris Kuhn, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Sandra Rodwan, Rodwan Consulting
Claudia Scott, Rodwan Consulting
Denise Jones, Rodwan Consulting
John Gordon, Energy Opportunities Capital Management
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant
Linda Watson, Retiree

PUBLIC DISCUSSION

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting: August 27, 2008
- B. Communications
 - 1. Correspondence from Gray & Co. – Re: Lehman Brothers & Merrill Lynch
 - 2. Correspondence from Northern Trust Re: Lehman Brothers
 - 3. Correspondence from Munder Capital Re: Money Market Mutual Fund Business
 - 4. Correspondence from Artio Global Investors Re: Q3 CIO Letter
 - 5. Correspondence from SWAP Re: Newsletter
 - 6. Correspondence from SWAP Re: CAPROC Correspondence
 - 7. Correspondence from Oppenheimer Re: Lehman Brothers
 - 8. Conference Information:
 - a. Global Shareholder Activism – Institutional Investor – Dec. 4-6, 2008
 - b. 2009 Legislative Conference – NCPERS – Feb 1-3, 2009
 - c. Invesco Private Capital Annual Meeting – Invesco – Oct. 23, 2008

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- d. 3rd Annual Middle Atlantic States Public Employee Ret Sys Forum – IMN – Oct 27-28, 2008
 - e. Public Pension Financial Forum – Oct. 19-22, 2008
 - f. Public Funds Summit – Opal Financial Group – Jan. 7-9, 2009
- C. Financial Reports:
- 1. Financial Reports – August 2008
 - 2. Commission Recapture – July 2008
 - 3. Securities Lending – August 2008
 - 4. Accounts Payable:
 - a. ADP \$2,651.04
 - b. Capital Guardian 22,409.96
 - c. Coffee Break 37.45
 - d. Gray & Co. 8,104.17
 - e. Ikon 199.89
 - f. Mesirow Financial 39,966.36
 - g. NCPERS 150.00
 - h. Rodwan Consulting 1,400.00
 - i. Sullivan, Ward, Asher & Patton 3,211.50
 - j. Visa 1,800.00
- D. Retirements, Refunds, Final Calculations, Re-Examinations
- 1. Remove from the Rolls:
 - a. Patrick Thomas McKeever (deceased 09-09-08) : survivor benefit of \$1,674.86/mo to beneficiary, Margaret McKeever
 - 2. Application for Retirement:
 - a. Tony Ramirez – Local 2002 25 years, 0 months Age 54
 - b. Berlin Wayne Batey – Local 2002 13 years, 2 months Age 60
 - 3. Final Pension Calculations:
 - a. Edgar Woodard – SAEA #2424 \$ 5,788.59
 - b. Robert W. Jones – NOMC #2445 1,030.42
 - c. Lucinda Hoisington - NOMC #2453 287.85
 - 4. Refund of Accumulated Contributions
 - a. Norma Nixon \$1,873.30

Trustee Barnett noted that it was she, not Ms. Billings, who commented on the Oppenheimer turnover.

RESOLUTION 08–061 By Saucedo, Supported by Wright
 Resolved, That the consent agenda for August 27, 2008 be approved as amended.

Yeas: 7 – Nays: 0

RESOLUTION 08–062 By Saucedo, Supported by Barnett
 Resolved, that Trustees Harrison, Barnett, Bowman, Woods and Saucedo be approved to attend the Opal Financial Group Public Funds Summit, with the cost to be paid from the earnings of the Fund.

Yeas: 7 – Nays: 0

CONSULTANTS

Re: Rodwan Consulting – 2007 Actuarial Valuation

Ms. Rodwan introduced herself and her associates, Ms. Scott and Ms. Jones, and thanked the Board for the opportunity to work with them. This is the valuation for the year ended December 31, 2007. The purpose of the valuation is to 1) compute the liabilities for the promised benefits to be paid, 2) compute the City's contribution rate, if any, to the Retirement System and 3) to assess how well funded the System was. The valuation looks good this year.

Accrued liabilities were \$257,940,349 at December 31, 2007; the funding value of assets was \$433,028,186. The ratio of funding was 167.9%. The liabilities were a little less than the last year due to fewer employees and less raises than assumed.

The smoothed value of assets takes in five years of capital gains and/or losses. The smoothed assets value was \$433,028,186 and the market value was \$487,905,596. The investment return was 10.62% versus the assumed rate of 7.5%. Salaries increased less than was assumed resulting in an experience gain.

Ms. Rodwan said the Retirement Office staff provided excellent data. There were 295 active members, down 29 from the prior year. Retirees and beneficiaries increased 17 from the prior year to 1,086. Vested inactive members (deferred) remained about the same at 258.

The normal cost for the City as a percentage of active payroll was 16.26%, the administrative expense was 2% and the temporary funding credit was 18.26%. The City's contribution rate will be 0% for the fiscal year beginning July 1, 2009. Because the assets are in excess of the liabilities, it totally offsets the contribution. The excess was \$175,087,837. Because assets exceeded liabilities, the employer contribution was totally offset.

Chairman Harrison asked if this level of funding is common. Ms. Rodwan replied that it is not the norm to be so well funded. Chairman Harrison asked if the annual required contributions had been made. Ms. Zimmermann replied that they had. Ms. Rodwan reviewed the history of the assets and liabilities noting that the current funding rate was about the same as it was in 1999. Since 1995, the assets increased 80% and the accrued liabilities increase about 50%.

The components of the year's gains were reviewed and the actuarial gain for the year 2007 was \$23,618,453 or 8.9% of the actuarial accrued liability.

Ms. Rodwan said the plan's experience was favorable this year and the transfer to the Reserve for Retired Benefit Payments of \$5,205,693 should be made.

She reviewed the assumptions noting that they are the same as was used by the previous actuary. Discussion followed regarding the mortality tables and whether they should be updated since NOMC has a different mortality table than the City. Ms. Rodwan said she would recommend, if

mortality tables are changed, that all members use the same table. The other assumptions seem to be reasonable.

Ms. Rodwan explained how the funding value of assets was computed using a five-year smoothing method. Returns may not be as good going forward but smoothing will help. She reviewed the schedule of historical returns. It was noted that there are now 30 people over age 90, or about 3% of the plan which is pretty high. The actuary uses the actual member data for each active member and retiree.

Since 1995 assets have increased by about 80%; accrued liabilities increased about 50%. The System is at nearly the same funding level as it was in 1999.

In conclusion, the System is well funded, the assets are sufficient to offset contributions and it is recommended that the transfer to the Retiree Reserve be made.

RESOLUTION 08-063 By Woods, Supported by Saucedo
Resolved, That the Board of Trustees accept the actuarial valuation report for December 31, 2007, approve the contribution rate of 0% and approve the recommended transfers.

Yeas: 7 – Nays: 0

Ms. Rodwan, Ms. Scott and Ms. Jones left at 2:05 pm

Re: Gray & Co.

Energy Opportunities Fund Presentation

Mr. Gordon introduced himself and said he was there to discuss energy as an investment. Oil demand is going up and supply is going down. They have an investment product to take advantage of the market that was developed by Louis Crane. There is a lack of transparency in Saudi Arabian oil reserves. The amount of oil in South America is not known. The inventories of the major oil-producing countries are inflated. Matt Simmons was the largest investment banker in the energy sector. He wrote a book called *Twilight in the Desert*. Simmons & Company and Orleans Capital formed a 50/50 joint venture that combines the best of the two companies' research and fund raising capabilities. Energy Opportunities has two employees: Ferrell Crane and Scott Gill.

Trustee Bowman arrived at 2:15

This is a long only portfolio with about 45 US equity names with 45% international exposure. They also have an international fund and can create a customized fund. They have \$441 million in assets under management and 8 of their 20 clients are in Michigan. They were formed in 2000.

He reviewed the fund performance saying that they can provide a hedge against the broader market. Demand for oil is huge. Demand for oil in OECD nations has declined. The growth in

oil demand (1.8M bbl) has come from non-OECD countries. In OECD countries, car ownership is 534 per 1,000. In China it is 18 per 1,000. EOCM expects demand in developing countries to continue to increase.

Gas is a finite resource and with today's technology we only get about 45% out of the field and the easy stuff is gone. Today it is complicated, difficult and expensive to extract the remaining reserves. Approximately 12.5% of world crude production came from four fields and they are in decline. These oil fields are aging. Oil-producing countries won't be shipping as much in the future. They will keep back this supply to meet the growing demand in their own countries. New discoveries are not sufficient to replace what's being used. Assuming an 8% per year decline rate, the oil industry must find and develop more than 29 million barrels per day of production over the next five years just to hold 2012 supply constant with 2007 levels.

There are rampant capital expenditures across the board to find more oil. Only 6% of known reserves are being tapped now. Oil majors' spending represents less than 6% of industry spending. Oil producing countries are spending the money. Supply has been flat for 3.5 years. Exploration will cost more money. This vehicle is ideal for international growth. You can't have growth without demand for oil. 90% of the revenues of the companies in the space come from international sources. Their fixed costs remain unchanged and they are able to capitalize on increasing rents, leases, etc. for their services, technologies. They are heavily weighted in oil services as demonstrated on page 28. Investors who purchased the oil service basket in 1968 enjoyed a 24-fold return by 1980. They believe that the world will transform its energy sources and usage. Currently, we don't have the technology to get the other 55% of fossil fuels. The firms are growing by 65% and grow with no added costs – just increasing rates. They were up 26% through June of this year, but this is very volatile. It is not too late to get in.

Mr. Gordon left at 3:05 pm

Financial Markets

Mr. Kuhn said there has been a lot of bad news in the past three or four weeks: Merrill Lynch was sold, Lehman Brothers went under, Fannie Mae and Freddie Mac were taken over by the government. Ironically, going into this week, the S&P financial sector had the best results for the quarter to date with returns of 13%. Some banks, like Bank of America, have done well. Chairman Harrison asked about Merrill Lynch. Mr. Kuhn said they had to "find a dance partner" and got cents on the dollar.

These are unprecedented times and the government is finding partners for firms. He explained how the government called in bank heads asking them to find a solution for Lehman. No one stepped up. In the case of Bear Stearns, the government helped out. The government then asked the bankers what would happen that Monday. Last weekend the same thing happened with AIG and the \$700 billion bail-out package. Goldman Sachs and Morgan Stanley will become deposit banks now. The government is trying to prevent a run on the banks like in the 1930's.

Our portfolio had no exposure to Lehman stocks, just to fixed income, which Oppenheimer held. We will see the impact on their performance. That was a direct impact, however, there are also

indirect impacts. Mr. Kuhn said that deposit banks (money center banks) are leveraged 10 times as a rule. Investment banks were leveraged at 40 to 50 times. He discussed how the Lehman CEO had begun to look for a partner earlier in the year, but no deal could be struck. Hedge funds shorted them and the price slid and as it did, the CEO would not sell. In the end, there were no buyers.

Northern Trust Securities Lending

The System has a securities lending program through Northern Trust. Northern Trust has relationships with firms (including Lehman Brothers) that borrow stocks to short them. When we lent securities, Lehman Brothers gave us cash (102% for domestic, 105% for international collateral). Northern Trust manages the cash in a collateral pool that is like a money market fund; a collective pool. When Lehman (the borrower) returns the securities, we return the collateral. We share the interest that the collateral earns with Northern Trust (65%/35%). When Lehman went bankrupt, Northern Trust did not get all of the securities back. Northern Trust used the collateral it held to buy the securities in the market. Ms. Zimmermann indicated that Northern Trust had received back or re-purchases 99.02% of the securities we lent for the Retirement System's portfolio.

The final issue is that NT was investing the collateral in an account that held a Lehman short-term bond. The price of the bond is now trading at \$.13 on the dollar. There are other securities in this account that have also been impaired. Northern Trust declared a capital deficiency (the NAV of the pooled account is worth less than \$1). Cynthia Billings said that she, Ms Zimmermann and Mr. Kuhn had just participated in a conference call with NT. Several securities in the pool had lost value and Northern Trust fears a run on the securities lending pool. Participants in the pool were assigned a % of the loss based on their percent of the pool. GERS pro-rata share is -\$1,111,719.92, but there is an offsetting gain of \$26,263.79. Ms. Zimmerman indicated that at this point, it is an unrealized loss.

Mr. Kuhn said Northern Trust wanted to make sure that everyone was treated equally. If someone buys Lehman and pays off the bond debt, we'll be made whole. Northern is very guarded about details, possibly fearing a lawsuit. Ms. Billings said they will be held to a fiduciary standard and can be sued if there was negligence. Trustee Saucedo asked if we should stop utilizing the securities lending program. Mr. Kuhn indicated that if the board did, they would recognize the \$1 million loss immediately. Discussion followed.

Fixed Income / Core Plus

Trustee Harrison asked if core-plus is still a good play. Mr. Kuhn said that core fixed income adds very little above the benchmark and that net of fees they're at the benchmark. Core-plus dips into below investment-grade securities and add about 70bps net of fees annually. To Gray & Co, it makes sense. A lot of distressed debt is coming to market. Good companies allow managers to add value by buying below value. Oppenheimer does a decent job. They're not ready to draw conclusions on one month or quarter. Munder has not been doing core-plus as long. It's a relatively small strategy for them. Gray & Co does not recommend Munder due to lack of experience.

Manager Updates

Trustee Harrison asked if Mr. Gray will be reporting back next month on Mesirow. Per Mr. Kuhn, he will. An analysis of Onyx's strategy from Gray & Co was sent to the Retirement Office.

Meeting Break at 3:23p.m. to 3:30 p.m.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Brokerage Policy

Ms. Zimmermann explained that the brokerage policy adopted at the last meeting was revised to reflect the lower commission rates from Smith Barney and asked for approval of the revised version.

RESOLUTION 08-064 By Cochran, Supported by Woods Resolved, That the revised Brokerage Policy be adopted.

Yeas: 8 – Nays: 0

Hospital Retiree Insurance Coverage

A copy of a letter to hospital retirees of NOMC was distributed to the Board indicating that due to the bankruptcy of the hospital, retirees will no longer have medical, dental or life insurance effective October 20, 2008. The letter provides web sites and phone numbers for alternate sources of insurance. Ms. Zimmermann said the Retirement Office had a lot of calls from retirees on the issue.

She provided a draft letter to be sent to NOMC retirees that tells them that their pension is safe and that dental is available to those who are willing to pay the premiums if they contact the City Risk Management office. She indicated the hospital has not yet informed the Retirement Office about the deductions currently being taken from retiree checks for insurance and she has requested them to do so.

Trustee Barnett said that retirees cannot convert their life insurance because the hospital changed companies less than five years ago and retirees were not informed. She asked if life insurance could be provided through the City if the retirees paid the premiums. Trustee Bowman asked how many there are. Trustee Barnett replied about 500 people. Trustee Bowman said that is enough to form their own group. Chairman Harrison questioned whether it could be done and

whether it was legal. Ms. Billings said the city attorney could look into it if the City is willing to administer it.

Discussion followed about coverage ending October 20th. Trustee Cochran offered to look into it. Ms. Billings offered to look into the provisions of COBRA as the hospital's letter said it is not available for them and she recalled some specific cases where it may be. Trustees Bowman and Cochran will bring this to the Council Finance Committee.

Capital Calls

There have been several capital calls for investments since the first of the year. In an effort to insure that all have come to the Board for approval, Ms. Zimmermann presented a detailed listing of the calls and amounts for the Board to ratify. She will bring them monthly going forward.

RESOLUTION 08-065 By Barnett, Supported by Saucedo
Resolved, that the list of capital calls for 2008, as presented, be ratified.

Yeas: 8 – Nays: 0

Records Storage

The PFRS Board directed the administrator to look into the cost for off site storage of old records because the current storage space at Wesson Street is not a secure facility. Ms. Zimmermann is gathering bids. The first quote indicated that the initial move of the records would cost approximately \$400 and would cost about \$65 monthly thereafter. The PRFS Board asked the GERS Board whether they would share this cost.

RESOLUTION 08-066 By Saucedo, Supported by Williams
Resolved, That the cost of moving old retirement office records to a secure storage site be shared between PFRS and GERS in the usual proportion.

Yeas: 8 – Nays: 0

Change of Meeting Date

Ms. Zimmermann asked to change the meeting date for October from the 22nd to the 29th.

RESOLUTION 08-067 By Barnett, Supported by Saucedo
Resolved, that the regular meeting of the GERS Board of Trustees be changed from October 22, 2008 to October 29, 2008.

Yeas: 8 – Nays: 0

Computer Replacement

The IT Department is having difficulty obtaining quotes. Ms. Zimmermann is continuing to follow up on this; there are concerns about losing data.

Trustee Bowman left at 3:45 pm

Re: Legal

Sunterra Securities Litigation

Ms. Billings reported that the mediation was unsuccessful and the litigation is proceeding through to trial. Going forward, there is a need for approval to admit an attorney to the California bar on this case.

RESOLUTION 08-068 By Woods, Supported by Saucedo
Resolved, That the Board of Trustees approve the admission of an attorney for representation in California for the Sunterra securities litigation case.

Yeas: 7 – Nays: 0

Eagle Hospitality Properties Securities Litigation

Ms. Billings reported that the Court granted preliminary approval of the settlement and the final approval will be heard on October 13, 2008.

Nexos Capital Partners LLC

Ms. Billings reported that at the last meeting she reviewed the contract with the Board and was comfortable with the changes and terms of the agreement: a copy of the documents is provided.

CAPROC

Ms. Billings reported that substantial payments are coming due October 30, 2008 from CAPROC and CAPROC is in the process of refinancing one of its projects to secure the funds necessary. She said Mr. Tompkins is working with CAPROC's attorney to see that the Boards' interests are not impaired.

Bernstein Litowitz Portfolio Monitoring

Ms. Billings reported that most all of their clients use two firms to monitor securities litigation: Coughlin Stoia and Bernstein Litowitz. She realized that GERS is not currently using Bernstein Litowitz. There is no additional cost for the monitoring service and she recommends adding them. Discussion followed.

RESOLUTION 08-069 By Barnett, Supported by Cochran
Resolved, That the Board of Trustees retain Bernstein Litowitz for portfolio monitoring services.

Yeas: 7 – Nays: 0

CompuCredit Corporation Litigation

Ms. Billings reported that CompuCredit Corporation allegedly committed market fraud when they issued materially false statements which caused their stock to trade at artificially inflated prices. The retirement system is pursuing lead plaintiff status based on their losses of \$236,000.

Miscellaneous Articles

Ms. Billings brought some articles of interest to trustees regarding IRS scrutiny of public plans and other topics.

Union Representatives – None

Trustees

Ms. Billings said that she reviewed the travel voucher as previously approved by the Board. The form requires the supervisor's and mayor's signatures. She was asked whether the signatures could be taken off the form. They can be taken off the form; there is no requirement in the policy so no change would be needed. The City travel policy indicates the mayor's signature is needed, however, the City's travel policy excludes the Retirement System.

Discussion followed regarding the approval process and its application.

RESOLUTION 08-070 By Barnett, Supported by Wright

Resolved, That the Board of Trustees eliminate the signatures of the mayor and department head from the Board travel form.

Yeas: 6 – Nays: 0 – Abstained: 1 (Cochran)

UNFINISHED BUSINESS

Re: Hospital Deferred Trustee – Tabled To Next Meeting

Re: Defined Benefit to Defined Contribution Election

Ms. Billings said that in 2004 the City adopted a 401(a) plan. Any non-union employees hired after June 30, 2004 were eligible to join either the defined benefit plan or the defined contribution plan during their first six months of employment. After six months, if no election had been made, they were automatically enrolled in the defined benefit plan.

There were two employees who were not advised and never given the choice. They were automatically enrolled in the defined benefit plan. The City was not in compliance and has agreed that the two employees can enroll in the 401(a) plan. They will have to sign a waiver to forego benefits in the defined benefit plan.

Ms. Billings recommended that the Board allow the members to withdraw from the defined benefit plan.

Trustee Cochran said he has sent a request to the two individuals advising them that they must make an election by October 6th in writing.

Re: Ordinance Amendment for NOMC

Ms. Zimmermann said that the ordinance amendment was approved and a copy is in the agenda packet for the trustees.

Re: Travel

NEW BUSINESS

Re: Change of October Meeting Date (See Administrator's Report)

Re: Document Storage (See Administrator's Report)

SCHEDULING OF NEXT MEETING

Regular Meeting: October 29, 2008 at 1:30 p.m. – Shrine Room, Main Level, City Hall.

ADJOURNMENT

RESOLUTION 08-071 By Saucedo, Supported by Barnett
Resolved, That the meeting be adjourned at 4:33 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 September 24, 2008.

Raymond Cochran, Secretary
As recorded by Ellen Zimmermann