

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SEPTEMBER 23, 2009**

A regular meeting of the Board of Trustees was held on Wednesday, September 23, 2009 at the Shrine Room, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:41 p.m.

TRUSTEES PRESENT

Shirley Barnett	Javier Saucedo, Vice Chair
Koné Bowman	Kevin Williams
Charlie Harrison, Chairman	Andrea Wright

TRUSTEES ABSENT

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

OTHERS PRESENT

Claudia Scott, Rodwan Consulting Company	Linda Watson, Retiree
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.	Jules Ruerat, Retiree
Sharon Almonrode, Sullivan, Ward, Asher & Patton, P.C.	
Chris Kuhn, Gray & Company	
Ellen Zimmermann, Retirement Accountant	
Jane Arndt, M-Administrative Assistant	

PUBLIC DISCUSSION

Linda Watson voiced her concerns on the cost and the amount of travel by the trustees. While reviewing the records for 2009, she indicated that \$50,000.00 has been spent on travel through June. She said that the trustees attend approximately fourteen meetings per year and that some spend more time at conferences than at retirement board meetings. Most are gone an average of nine or ten days per year. At the end of the year travel expenses will total somewhere between \$60,000.00 to \$70,000.00 dollars.

She asked why Trustee Bowman is attending two more conferences when his term is expiring at the end of the year. She thinks his attendance at these conferences is not necessary.

She is not implying that there is anything wrong with trustees attending educational conferences but there is the appearance that the trustees are on vacation when their spouses and children accompany them. She feels it is excessive for some trustees to take five or six trips per year. She also feels that the Board should rethink the amount of travel. She thought that the Board

may not be aware how often and how much they are spending on travel. She does not believe that the excessive travel is a wise use of the Retirement System's money.

Chairman Harrison said that he appreciates Ms. Watson's concerns. He explained that the Retirement System does not pay expenses for family members at conferences. The trustees are strictly there for educational purposes and they attend the classes. In their free time they do spend time with their families. He said that the numbers speak for themselves with regard to the funding status. He also said that he does not feel that the travel is excessive. There are some boards where the expenses of one or two trustees represent the entire travel expenses of this Board. The results speak for themselves.

Ms. Billings said that the Board appreciates Ms. Watson's concerns. The Retirement System does not pay for family members to attend conferences. Any extra expenses are covered by the trustee. The Retirement System is only permitted to pay for specific trustee travel expenses. As a fiduciary of the System the trustees have to attend educational conferences.

Trustee Bowman said he would like to address Ms. Watson's comments. He said that no one's seat on the Board is guaranteed. Yes, his term is expiring at the end of the year but that does not prohibit him from coming back as the citizen trustee. He polled the Board as to which members are appointed, elected and the length of their term. He said that he plans to make up a package for his replacement.

Trustee Wright explained that she does not view educational sessions as a vacation. It is very difficult for her to get time away from the office approved to attend conferences. She is also a single parent which makes it even that more difficult. To outsiders it may seem like a vacation but education is an important tool and as a fiduciary it helps her to make good decisions. She stated that the travel expenses are less than 1% of the \$367 million Retirement Fund.

Ms. Zimmermann explained that education is important because the trustees are personally liable for their decisions.

Ms. Watson said that it is about how travel appears from someone on the outside. She is aware how travel works but still feels that they attend too many conferences each year. She has traveled for work and spent her evenings studying for certifications and occasionally attending a meet and greet. However, she feels if it was the trustees' own money they would do some things differently. They spend too much on leaving the car at the airport when they could have someone drop them off and pick them up. She still feels that Trustee Bowman's travel is very unnecessary. They should be cautious with their spending even though the System is over funded. She pointed out that the Fund lost a lot of money on paper this year and they should be watching the small things. She is also concerned about how it looks and that it could raise a lot of questions.

She also questioned the credit limits on the trustees' VISA cards. She feels that a \$5,000.00 credit limit is too high. She does not believe that the trustees need their own credit cards.

Ms. Zimmermann explained that the original limit was lower. However, there were a few occurrences when a trustee would have to pay for another trustee's expenses when they were having trouble with their card. The limit was raised to allow for this type of issue. Chairman Harrison said that no one has ever charged \$5,000.00 on their card. It is strictly used as a safety net.

Trustee Williams said that he does not believe Ms. Watson is questioning the trustees' attendance at educational conferences. What he feels she would like the Board to do is to revisit the education and expense policies. The Board may or may not decide to make changes but it would help to alleviate the issue coming up at each meeting.

Ms. Watson added that the other issue is the fact that the members of the Board have credit cards issued through the Retirement System.

Chairman Harrison said that the trustees only use their credit cards for authorized expenses. He appreciates Ms. Watson's concerns and comments.

APPROVAL OF CONSENT AGENDA

- A. Minutes of Special Meeting: August 25, 2009
- B. Minutes of Regular Meeting: August 26, 2009
- C. Communications
 - 1. Correspondence from Onyx Capital Re: New Staff
 - 2. Correspondence from URGE Re: New Officers
 - 3. Correspondence from Larry Marshall Re: Furlough Days
- D. Conferences:
- D. Financial Reports
 - 1. Financial Reports – August 2009
 - 2. Commission Recapture – August 2009
 - 3. Securities Lending – August 2009
 - 4. Securities Lending Deficiency
 - 5. Capital Call Ratification
 - 6. Due to/ Due From Recap
 - 7. Accounts Payable
 - a. ADP \$2,779.59
 - b. City of Pontiac 1,674.08
 - c. Coffee Break Service 24.68
 - d. Gray & Co. 8,104.17
 - e. Ikon 384.38
 - f. Office Depot 131.52
 - g. Rodwan Consulting 3,200.00
 - h. Stevens Record Management 109.14
 - i. Sullivan, Ward, Asher & Patton 510.50
 - j. Visa 246.89

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

1. Remove from the Rolls:

- a. Kenneth Bierl (deceased 08-27-09): survivor benefit of \$607.59/mo to Kathleen Bierl
- b. Gary Webster (deceased 08-14-09): survivor benefit of \$246.39/mo to Karen Webster

2. Application for Service Retirement:

- a. Kathleen Bernstein - NOMC 20 years, 4 months Age 55
- b. Eric Hoover – Local 2002 34 years, 0 months Age 60
- c. Cheryl A. Yonke - NOMC 12 years, 9 months Age 55
- d. Raymond Lopez 26 years, 0 months Age 59

Ms. Zimmermann distributed copies of the August Turnover Report, the August Securities Lending Report and the Due To/ Due From Report explaining that she compiled the agenda early. She asked that these items be added to the consent agenda.

RESOLUTION 09-069 By Bowman, Supported by Barnett

Resolved, That the Board approve the consent agenda for August 26, 2009 as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – Securities Lending

RESOLUTION 09-070 By Saucedo, Supported by Bowman

Resolved, That the Board move to closed session to discuss securities litigation.

Roll Call:

Shirley Barnett – Yes	Javier Saucedo – Yes
Koné Bowman – Yes	Devin Scott – Yes
Charlie Harrison – Yes	Kevin Williams - Yes

Ms. Arndt, Mr. Ruerat and Ms. Watson left at 2:04 p.m.

The Board moved to closed session at 2:04 p.m.

The Board returned from closed session at 2:34 p.m.

Ms. Arndt, Mr. Ruerat and Ms. Watson returned at 2:34 p.m.

RESOLUTION 09-071 By Bowman, Supported by Wright

Resolved, That the Board direct legal counsel to proceed with the securities litigation on a full contingency basis.

Yeas: 6 – Nays: 0

Re: Gray & Company

Nexos Presentation

Mr. Kuhn said that Nexos was scheduled to be at today's meeting. However, due to the flooding in the Atlanta area he has not had access to his email. He may have received an email informing him that they were unable to attend. The Nexos presentation was moved to the October meeting.

Futures Education Session

Mr. Kuhn said that Jerry Thunelius from Oppenheimer Capital feels that high inflation is coming soon. With the Federal Reserve and government pumping so much money into the economy interest rates are bound to increase. He discussed how during the early 1980's the situation was similar. He used the example of trying to drive a supertanker like a speed boat in reference to the Fed trying to control economic growth and inflation rates.

He said that futures are used to mitigate interest rate risk. Futures contracts are agreements to buy or sell a specified fixed income security, in this case treasuries, at a time and price with a certain maturity in the future.

He discussed the difference between purchasing and selling futures. These instruments can be used to trade more than just stocks. There can be some leverage associated with futures. It is dangerous if you speculate.

When taking the long position purchasing futures, the purchaser agrees to pay the seller the current market value on the maturity date. When the short position is taken the seller receives the current market price on the settlement date.

Oppenheimer is looking to hedge interest rate risk. Although they are signing up to deliver treasury bonds they can close or roll the contract. Managing duration and interest rate risk exposure assists in controlling how much the portfolio moves with interest rate inflation. When duration is shortened, less money is lost in the market if interest rates go up.

Chairman Harrison left at 2:39 p.m.

He explained that bond futures can contain leverage based on the contract. He discussed how futures contain leverage. The futures contract trades at a significant discount to the par value of the securities it represents; in other words, with a small investment in futures you have a large exposure to Treasury bonds.

Trustee Bowman left at 2:40 p.m.

Less than 10% of all futures transactions actually make it to the delivery stage. Most are either closed before the settlement date or are exchanged for the next contract and are never settled. Treasury futures contracts are executed on a quarterly basis. The exchanging of contracts is called rolling which means the June contract is rolled into the September contract. The futures position is marked-to-market on a daily basis. He said that the exchanging of contracts reduces transactions and does not take on any undue risk.

He used an example to explain how futures work. The contract price for one bushel of apples is \$10.00; the contract size is for 100 bushels of apples, the apple future price is \$10.000 and the

settlement date is 6 months. This means that the locked in price for the contract is \$1,000.00 and the seller has to deliver the 100 bushels of apples on the settlement date. If the market price decreases the seller gains based on the contract. If the market price increases the purchaser realizes a gain.

The Board can take a number of positions. Treasuries can be maintained in the portfolio as is. Treasuries can be sold through a futures contract to offset risk and mitigate interest rate risk. Jerry Thunelius feels he can add 25 basis points of alpha by using futures. He is set in his opinion and will shorten the duration of the portfolio with or without futures.

He explained how futures could allow more income for the portfolio. He showed how duration could be shortened in the portfolio using futures compared to cash. By using futures to shorten the duration could allow for approximately 28 basis points of out performance annually versus converting treasuries to cash. Trustee Wright commented that by shortening the duration six months to nine months per year can add 20 basis points of performance.

Chairman Harrison returned at 2:48 p.m.

Ms. Zimmermann requested that the Investment Policy Statement specifically state that futures can only be used to shorten duration. Mr. Kuhn said that the IPS can be adjusted to only allow for futures to shorten and not lengthen duration.

Chairman Harrison asked if this would cover the portfolio on the upside and protect on the downside. He also asked if they are still considering Core Plus. Mr. Kuhn said that Core Plus cannot currently be used based on the basket clause provision.

Ms. Billings recommended that the language in the agreement be in conformance with Section 20 of Public Act 314.

Mr. Kuhn said that he and Larry Gray have a lot of confidence in Jerry Thunelius and his team. He understands that their turnover is high. He wants the trustees to feel comfortable and not just take their recommendation.

Trustee Wright said that she appreciated the examples and gained a better understanding of the concept.

Chairman Harrison stated that Trustee Bowman had to leave the meeting but will return shortly. He suggested that the Board move forward with the agenda and come back to vote on allowing Oppenheimer to use futures to shorten duration in the portfolio when there is a quorum.

Trustee Wright confirmed that the IPS needs to be revised in order to use futures to shorten duration in the portfolio. Mr. Kuhn said that he drafted two versions of the IPS one with and one without futures.

He reviewed the changes needed to the IPS which allow Oppenheimer to manage futures to shorten duration in the portfolio on page ten and page fourteen of the IPS with the Board.

Mr. Kuhn stated that the Board needs to adopt the Investment Policy Statement.
Mr. Kuhn distributed the current Minority Brokerage List that had previously been approved.

RESOLUTION 09-072 By Wright, Supported by Barnett
Resolved, That the Board of Trustees approve the Investment Policy Statement that allows the use of futures for hedging interest rate risk.

Yeas: 6 – Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees/Committees - None

Re: Administrator

Ms. Zimmermann reported that the Member Benefit Statements and the Summary Annual Report have been sent out to members.

Re: Legal

CompuCredit Corp

Ms. Billings reported that a hearing on the Defendants' Motion to Dismiss has not yet been scheduled.

Merrill Lynch Bond Litigation

Ms. Billings reported that the settlement is still pending in the United States District Court for the southern District of New York. They will continue to monitor this situation on behalf of the Board.

The DIRECTTV Group, Inc. Derivative Litigation

Ms. Billings reported that the Complaint for Breach of Fiduciary Duties was filed and the litigation is in the initial phase of discovery.

Immucor, Inc. Securities Litigation

Ms. Billings reported that the Complaint for Violation of the Federal Securities Laws and Demand for Jury Trial was filed and the litigation is in the initial phase of discovery.

IRS Determination Letter

This matter is currently pending with the IRS.

Coughlin Stoia Portfolio Monitoring Report for the Quarter Ended March 31, 2009

This report is for the trustees' information.

Correspondence to Mr. Randal Yakey at the Oakland Press

Ms. Billings referred to correspondence sent to Mr. Yakey with regard to his FOIA Request. His request was approved, however, per the Public Employee Retirement System Invest Act, Public Act 314 information regarding alternate investments is exempt from disclosure. She reported that Ms. Zimmermann and her staff pulled together all the information requested in a timely manner.

Union Representatives – None

UNFINISHED BUSINESS

Re: Investment Policy Statement – See Consultants

NEW BUSINESS

Re: Securities Lending Realized Loss

Ms. Zimmermann referred to documentation received from Northern Trust regarding the reduction of client payables and the reversal of the securities lending collateral pool deficiency. The twelve-month adjusted fee split period effective October 1, 2008 will be ending on September 30, 2009. The benefit from the adjusted fee split is \$22,918.00; the share of the 2008 cash contribution is \$131,522.00; making the total benefit from the Northern Trust action \$154,440.00. The table depicts that there was a total collateral deficiency amount of \$1.1 million in September, 2008 for the System. Total realized losses to date are \$150,793.00. The total amount due by December 15, 2009 is \$169,249.00 including \$18,456.00 which is the purchase of Lehman Brothers sub-fund unit assets. There is \$943,000.00 still sitting in the remaining collateral deficiency amount to date.

FOIA Request

Trustee Wright asked if she could review any information that pertains to her that is being sent out as part of the FOIA. Ms. Billings stated that the information had already been provided to Mr. Yakey. Ms. Zimmermann assured Trustee Wright that all account numbers and any confidential information was blacked out.

United Investment Managers Sale

Mr. Kuhn said that Larry Gray was owner of United Investment Managers, a manager of managers investment firm. The System has two mandates, large cap value and all cap, that are currently being managed by UIM. Late last month Mr. Gray sold UIM because it had become a financial burden. He had a gentleman's agreement with the buyer who agreed to keep the firm intact during the first quarter after the transaction. However, the new ownership immediately cut two or three of the employees and a number of other staff members left on their own. The company is a shell of what it was.

Trustee Bowman arrived at 3:10 p.m.

Trustee Bowman asked if the person that bought the company was involved in a securities litigation issue. Mr. Kuhn said that Larry Gray performed due diligence before making the sale and felt comfortable with the new ownership. Obviously, the person did not follow through with their agreement. They have been in contact with the managers and Gray & Company is watching them. He recommended that the Board put UIM on watch and if they feel comfortable they could have Gray & Company take over. They would then be responsible for terminating managers. It would not be a significant change.

Chairman Harrison said that the new owner is acting like a corporate raider. Based on what has happened, the level of trust has been broken. Apparently, the new owner is now trying to call back people but no one has come back. He asked Ms. Billings what options the Board has with regard to putting UIM on watch or sticking with them.

Ms. Billings said that she just became aware of the sale before the meeting started. They have an at will contract and could be terminated immediately. As far as termination versus watch is concerned, they have lost the confidence of the Board and there is no requirement that a manager be put on watch.

Trustee Saucedo asked what went wrong. Mr. Kuhn said that UIM had become a financial burden based on what happened in the market during the past year. Larry Gray stayed on as long as he could because he was looking out for the employees. He felt that the new ownership would keep things going.

UIM's timber fund did not grow assets as planned. The fund was estimated to be \$100 million to \$200 million. With timber prices driven down and equities down 40%, Larry Gray was writing checks out of his personal account to make payroll. UIM had already been through a round of salary cuts. He basically gave the company away. Any compensation he receives will be two years down the road and based on the assets under management at that time.

Chairman Harrison said that he did not feel there was any reason to put UIM on watch. The same people are not at the helm. The Board can either put UIM on watch or terminate them.

Trustee Barnett asked what UIM does. Mr. Kuhn said that they manage the all cap and large cap strategies. UIM was responsible for hiring the best managers and revising the strategy. He used Allegiant as an example of one of the managers in the portfolio. The all cap strategy runs against the Russell 3000 Index and the large cap value strategy runs against the Russell 1000 Value Index. Ivory Day was a key member of the staff who was responsible for allocations and optimization. Historically, UIM has good performance results. However, the same people who managed the managers are no longer there.

Trustee Wright said that she was disappointed that UIM did not send out a letter or correspondence regarding the impending sale which is a requirement of other managers. She also feels that the manager should be terminated but feels that transferring the investment over to Gray & Company could be considered a conflict of interest. She originally thought that having UIM manage the investment was also a conflict. Ms. Billings said that she has not looked at this

issue from a legal perspective and does not feel the Board should make a quick decision. This is a lot of money. The investment is \$62 million.

Trustee Wright asked if the manager is terminated whether the money can be put into an index fund. It just seems there should be other options. She is not comfortable making this decision today.

Mr. Kuhn said that many consulting firms make these decisions for their clients. UIM was a new model that allowed Gray & Company to split the businesses. He would suggest having Gray & Company take over the strategy and manage the managers instead of terminating the managers. When UIM was watching over the allocation they were being paid to monitor the performance of the managers. Gray & Company would be assuming the role of UIM and contacting managers for their monthly performance results.

Chairman Harrison said that without a contract no one would be keeping an eye on the managers. He said that he felt the letter regarding the sale should have come from the new owner of UIM. He feels that the Board is handcuffed.

Trustee Wright asked what the correct resolution should be and whether they should terminate UIM. Ms. Billings said she needs time to review the contract and confirmed with Mr. Kuhn that Gray & Company is still watching the managers.

Trustee Wright asked if Larry Gray has a percentage ownership in the company. Mr. Kuhn said that he has no ownership in the company.

There was discussion on how to proceed with the termination of UIM. Currently, the new ownership of UIM has the authority to terminate managers. A letter needs to be sent out letting the managers know that UIM is no longer representing them if the management is transferred to Gray & Company. If UIM is terminated technically the Board and the Retirement Office would be responsible for monitoring and servicing the managers. Ms. Zimmermann stated that they would have to set up separate contracts with the managers and the current management fees may not apply. It could be much more complex than what we thought. The managers would have the System's money with no contracts in place. A temporary solution needs to be found.

Mr. Kuhn said that Gray & Company could assume the role UIM had managing the accounts. Ms. Zimmermann said that if the Board does not have confidence in the new UIM they could temporarily put the accounts with Gray & Company which would be one contract versus nine. Gray & Company could mirror the UIM contract and then the managers could be transferred.

Ms. Billings said that she has to review the structure of the contract and would like an opportunity to meet with Larry Gray.

Mr. Kuhn said that a temporary solution could be to put a short-term contract with Gray & Company in place.

Trustee Williams said that he feels this is a conflict of interest.

RESOLUTION 09-072 By Bowman, Supported by Wright

Resolved, That the Board approve the termination of United Investment Managers and replace the manager with Gray & Company assuming the same contract terms and conditions pending legal review.

Yeas: 6 – Nays: 0

Chairman Harrison asked if a special meeting needs to be scheduled. It was determined if there are no legal issues a special meeting will not be necessary.

Chairman Harrison stated that there is a no compete clause

Trustee Bowman was provided a brief overview of the Investment Policy Statement revisions and the addition of futures language to the IPS.

RESOLUTION 09-073 By Wright, Supported by Barnett

Resolved, That the Board adopt the Investment Policy Statement with changes allowing the use of futures by Oppenheimer Capital to shorten duration in the fixed income portfolio.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING AND ADJOURNMENT:

Regular Meeting: October 28, 2009 1:30 p.m. – City Council Conference Room, Second Floor, City Hall

ADJOURNMENT

RESOLUTION 09-074 By Barnett, Supported by Bowman

Resolved, That the meeting be adjourned at 3:46 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 September 23, 2009

As recorded by Jane Arndt