

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
APRIL 21, 2010**

A regular meeting of the Board of Trustees was held on Wednesday, April 21, 2010 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:40 p.m.

TRUSTEES PRESENT

Shirley Barnett

Charlie Harrison, Chairman

Javier Saucedo, Vice Chair

Patrice Waterman

Kevin Williams

Debra Woods

TRUSTEES ABSENT

Leon Jukowski, Mayor (*absent*)

Devin Scott (*absent*)

Andrea Wright (*excused*)

OTHERS PRESENT

Michael Asher, Sullivan, Ward, Asher & Patton, P.C.

Chris Kuhn, Gray & Company

Ellen Zimmermann, Retirement Accountant

Jane Arndt, M-Administrative Assistant

Linda Watson, Retiree

PUBLIC DISCUSSION

Linda Watson restated her concerns that she does not have an issue with trustees attending educational conferences but she has an objection to the number of trustees that attend each conference.

She also asked about the status of the Finance Director Trustee position on the Board. Ms. Zimmermann said that currently the City does not have a Finance Director. There is a CFO position that is held by an employee of Plante & Moran. They are unwilling to agree to be a fiduciary of the System.

Chairman Harrison said that the Board does not have any control of this situation.

Chairman Harrison welcomed Michael Asher from Sullivan Ward to the meeting.

APPROVAL OF CONSENT AGENDA

A. Minutes of Special Meeting: February 23, 2010

B. Minutes of Regular Meeting: March 24, 2010

C. Communications

1. Correspondence from AMBS Re: Monthly Newsletter April 2010
2. Correspondence from Onyx Capital Re: Update
3. Correspondence from MAPERS Re: Local pension Board Takeover Legislation
4. Correspondence from GERS Re: Oppenheimer Capital Watch Listed
5. Correspondence from Artio Global Re: Fact Sheet February 2010
6. Correspondence from Munder Capital Re: Personnel Change
7. Conferences:
 - a. Plan Sponsor National Conference – Plan Sponsor – June 15-17, 2010
 - b. Program for Advanced Trustee Studies – NCPERS – July 26-28, 2010
 - c. Investment Courses – IFEBP – May 24-27, 2010 & July 19-21, 2010
 - d. Washington Legislative Update – IFEBP – May 3-4, 2010
 - e. Stars & Stripes – FRA – June 17-18, 2010

D. Financial Reports

1. Financial Reports – March 2010
2. Commission Recapture – March 2010
3. Securities Lending – March 2010
4. Capital Call Ratification:
 - a. Invesco \$40,175
 - b. Invesco 22,944
5. Accounts Payable
 - a. ADP \$8,184.18
 - b. GE Capital Information (copier) 116.42
 - c. Gray & Co. 8,104.17
 - d. Ikon (copies) 131.60
 - e. Office Depot 282.72
 - f. Peritus Asset Management 96,948.22
 - g. Rodwan Consulting 2,000.00
 - h. Sawgrass Asset Mgmt 44,707.00
 - i. Stevens Record Management 58.99
 - j. Sullivan, Ward, Asher & Patton 9,635.89
 - k. USPS (Postage) 235.72
 - l. VISA 2,150.66

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

1. Remove from the Rolls:
 - a. Louise Adams (deceased 12-14-2009)
 - b. Gay Ryan-Kentros (deceased 03-20-2010)
 - c. Dorothy Salow (deceased 04-05-2010)
2. Applications for Service Retirement:
 - a. Judy Stevens – NOMC 13 years, 2 months Age 60
3. Final Benefit Calculations:

a. Anne Fisken	#2410	\$ 507.12
b. Vivian Spann	#2428	3,060.78
c. Judy Stevens	#2567	609.43

Ms. Zimmermann distributed the securities lending report. She explained that it has been difficult to obtain the reports from Northern Trust in a timely manner.

RESOLUTION 10-032 By Woods, Supported by Saucedo
 Resolved, That the Board approve the consent agenda for April 21, 2010 as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Gray & Company

Mr. Kuhn informed the Board that Gwelda Swilley Burke, one of the key members of the team who has been with Gray & Company for 13 years along with Larry and Despy, is leaving to take a position with Callan Associates in their Atlanta Office. Everyone wishes her the best. She had no direct involvement with the System’s account.

Mr. Kuhn distributed the most recent market values and provided an update. As of April 20, 2010 the portfolio valuation was \$416.3 million. It was a little higher a week ago but the market has been a little bumpy since the end of the quarter.

He explained that a number of targets are currently outside of their range. This is due to the projected private equity funding for Invesco and Mesirow being set aside.

Most of you were made aware that there was a change at Oppenheimer with Jerry Thunelius leaving the firm. In the interim the Assistant Portfolio Managers were still there but now the team has left to join Jerry’s new firm.

A notice was received from Oppenheimer, who is part of Allianz, that fixed income managers at Nicholas Applegate are currently managing the funds.

Apparently, Jerry’s leaving was not part of a contract play. The fixed income strategy is going away at Oppenheimer and they suggested that the System transfer the funds to their PIMCO commingled fund which has higher fees and a different philosophy. He was assured that they will work with the System to transition the funds.

This manager was one of the largest and represented a large portion of the Fund’s assets. He was assured by Mr. Thunelius that there are no concerns with the positioning of the portfolio or with the bonds. It should be easy for a new portfolio manager to make the transition. The team at Nicholas Applegate mainly works with convertible and high yield securities. Having them manage the funds for a month or two should be okay.

He reviewed the profile of six potential firms along with Oppenheimer's track record on the quantitative side. He indicated that Mr. Thunelius' new firm is called TCP Global Investment Management. He distributed a performance report for PNC Capital Advisors, Inc. (which is the old Allegiant) that Gray & Company currently uses with other clients. Gray & Company's databases have not been updated to accommodate for the conversion from Allegiant to PNC.

He explained that the Barclays Aggregate Index includes the full spectrum of securities including treasuries, government and corporate related securities, asset backed securities, commercial backed securities and mortgage backed securities.

When interest rates rise the price of bonds goes down. In the intermediate strategy the benchmark maturity of the bonds stops at ten years. He explained that in this type of environment when you shorten duration you incur less losses. This strategy should outperform the Barclay Aggregate strategy and will protect during a rising interest rate cycle.

The screening process returned close to two hundred intermediate government/credit fixed income strategies that best met their requirements. They looked for firms with stable ownership and sufficient assets; they have stable portfolio management teams; they have outperformed over a full market cycle; which have produced consistent superior performance; have attained an attractive track record of risk and return characteristics and up/down capture ratios.

He reviewed the firm profiles. Ambassador Capital Management is the only local firm. He told the Board that one of the principals, Talmadge Gunn, was formerly with Munder Capital. Chairman Harrison confirmed that Mr. Gunn has ownership in the firm.

Bradford & Marzec, LLC located in Los Angeles, California is a woman-owned firm with Zelda Marzec being one of the founding principles of the firm.

Davis Hamilton Jackson is a minority-owned firm with a ratio of 60% minority to 40% woman-owned. They are located in Houston, Texas and are part of Affiliated Managers Group which acquires and invests in managers across a broad investment spectrum. They supply operation and back office services for the managers in their group.

Orleans Capital Management is located in Mandeville, Louisiana but they do have a part-time office in Bloomfield Hills. They are 100% employee-owned.

Smith Graham & Company Investment Advisors located in Houston, Texas is minority-owned and 100% employee-owned.

Weaver Barksdale & Associates located is located in Nashville, Tennessee and is 100% employee-owned.

Mr. Kuhn said that PNC is part of a big institutional bank versus the other managers that are boutique firms. Their fixed income portfolio team is located in Cleveland, Ohio. Even if they produce bad numbers the firm will be fine. He explained that there is good and bad investing

with a large firm. Investors may not receive the same level of attention they get from a smaller firm. He said that Gray & Company favors boutique firms because they are also a boutique firm.

Chairman Harrison reminded the trustees that there is a blackout period with these managers. Ms. Zimmermann explained that when managers are under consideration trustees should not be in contact with these managers until a decision has been made.

Mr. Kuhn discussed the current assets under management for each manager. He explained that most of these managers lump their entire fixed income assets together except for Bradford & Marzec. This is not their lead strategy with a majority of their fixed income assets \$3 billion being in core. The management fees range from 25 basis points to 35 basis points.

Ambassador Capital utilizes a sector rotation strategy which is common among managers. The fixed income managers rate the sectors the same as equity managers. They look at which sectors they expect to outperform and overweight those sectors. They are a top down manager that uses economic indicators and moves toward that sector. They quantify the risk with downside risk measures and equally in strength with credit analysis. When they get to the security they assess the risk of the company.

Bradford & Marzec uses a similar sector rotation with duration approach. They move around the duration in their portfolio which protects on the downside. They look at consumer sentiment, monetary policy and inflation using a more quantitative approach versus a human qualitative approach.

Davis Hamilton anticipates interest rate changes in order to position the portfolio versus the sector rotation approach. They have the most conservative approach and limit their average quality to A or better in intermediate securities. They have a shorter duration than most of the other managers.

Orleans Capital looks to maximize yield with the shortest duration and does not invest in treasuries. They win by collecting more income over the cycle. It is different than what the System had with Oppenheimer. They are a top down manager that looks at economic trends and supply and demand.

Smith Graham & Company is a bottom up manager. They look at bonds and determine which ones are good on a relative basis. They incorporate volatility measures into the portfolio and look to increase the yield in order to offset volatility.

Weaver Barksdale uses a sector rotation strategy. They look to get more yield than the market is providing. They look at corporate bonds similarly to Orleans but use a quantitative and qualitative approach to identify specific bonds for their portfolio.

PNC is similar to Bradford & Marzec. They use a top down approach when determining which sectors to invest in and a bottom up approach to determine which securities in that sector.

They were unable to get the 2010 first quarter quantitative numbers for the managers. Their performance numbers are as of December 31, 2009 as measured against the Barclays Intermediate Index. The returns are gross of fees.

Ms. Arndt questioned if Oppenheimer's performance numbers are skewed because they are being compared to intermediate fixed income managers when they are a core fixed income manager. Mr. Kuhn agreed and said that Oppenheimer's performance and risk adjusted numbers would not be fairly compared with the other managers.

Chairman Harrison questioned the difference between Orleans and the other managers.

Mr. Kuhn said that 2008 was the best year in treasuries in twenty years and that most managers use treasuries to manage interest rate risk. Managers that overweighted treasuries in 2008 would have out performed; managers that underweighted treasuries in 2009 would have out performed. PNC's numbers do not match up with the numbers from their clients; their clients experienced better returns.

He explained the risk adjusted analysis. The higher the up-market capture numbers the better, similar to the batting average column. There have not been a lot of negative quarters in fixed income in the past three years.

He discussed the managers' three-year risk returns. The managers are tightly grouped. It is best if the manager is in the upper left hand quadrant. That would represent excellent returns with less risk being taken. He also pointed out that Ambassador only has a three year track record and that they fall off the other charts.

Chairman Harrison said that there are seven managers and that the Board needs to narrow down the managers. The consensus of the Board was that they would not consider TCP Global Investment Management as one of the manager candidates. He asked the Board if they would prefer Gray & Company to determine which managers to bring in.

Mr. Kuhn said that since the Orleans strategy is much different they would not feel comfortable allocating all the assets to that manager because of their risk position. He suggested that if the Board wants to allocate funds to Orleans they should pair them with one of the other managers.

Chairman Harrison said that the Board needs to consider whether they want one manager or to consider the Orleans strategy that has more risk but also more upside potential.

The Board determined that they would let Gray & Company determine which managers to bring in.

Mr. Kuhn said that he would work with Ivory Day to run through the list of managers to find the best fit with Munder Capital.

The Board decided they would hold a special meeting to interview the managers.

RESOLUTION 10-033 By Woods, Supported by Saucedo
Resolved, That the Board hold a special meeting on May 12, 2010 to interview managers to replace fixed income manager Oppenheimer Capital.

Yeas: 6 – Nays: 0

REPORTS

Re: Chairman

Re: Secretary - None

Re: Trustees/Committees - None

Re: Administrator

GRS Software Upgrade

Ms. Zimmermann distributed a copy of a letter from GRS with the proposed fees for the benefit plan changes. She told the Board that she signed and returned the agreement in order to get the necessary updates in place, so members' pension calculations can be finalized.

Trustee Barnett confirmed that the cost would be split 50%/50% with the Police & Fire Retirement System.

RESOLUTION 10-034 By Waterman, Supported by Williams
Resolved, That the Board approves to split the proposed cost of the GRS software update 50/50 with the Police & Fire Retirement System in order to add new benefit multipliers to the pension administrator software.

Yeas: 6 – Nays: 0

Accountant Practice CFA Exam

Ms. Zimmermann stated that the Accountant has asked if the Board would be willing to pay the cost of \$150.00 for her to take the practice CFA Exam.

RESOLUTION 10-035 By Waterman, Supported by Williams
Resolved, That the Board approves to pay for the practice CFA Exam for Retirement Accountant, Deborah Munson from the investment earnings of the Fund.

Yeas: 6 – Nays: 0

Disaster Recovery

General Employees Retirement
Regular Meeting,
April 21, 2010

Ms. Zimmermann reported that she found a good consultant for the disaster recovery project. She is meeting with the consultant next week to go over a proposal. One of the items it will address is the scanning and backup of files in the Retirement Office. Currently, if there is a fire the files could be lost and there would not be a way to recover most of the information. This project will not be cheap and will require the hiring of temporary manpower. The proposal will also include assistance in finding a replacement for the GRS software.

Onyx Capital

Ms. Zimmermann distributed a copy of a letter sent by the F. Logan Davidson, a law firm representing the City of Detroit General Retirement System. They have concerns that Onyx Capital breached their contractual and fiduciary duties under the Limited Partnership Agreement by not producing audited financial statements, not holding an annual meeting of the partners and because it paid itself managements fees in excess of what is allowed. He asked that this System join in their investigation and possible legal proceedings against the General Partner. She asked if Mr. Asher could speak to this issue and provide more information with regard to the limited partners.

Mr. Asher said that the General Partner (Onyx Capital) is required to provide timely accounting information in accordance with the Limited Partnership Agreement so their investments can be evaluated. He feels that the Board should rely on Gray & Company to be responsible in attaining those records for the System. He does not believe that if the City of Detroit brings action against Onyx Capital that all the limited partners have to join the lawsuit. He is not sure why they feel that all the limited partners have to take part.

Chairman Harrison said that he feels the City of Detroit is trying to counteract recent negative headlines regarding their Funds. This System performed its due diligence. If and when this System needs to get involved our legal team will advise us.

Re: Legal

Airgas Securities Litigation

This securities litigation came up between meetings. It was presented to Chairman Harrison; however, he was unable to get into the office to sign the Retainer Agreement. He authorized the Administrator to sign the paperwork on his behalf. Mr. Asher asked that the Board ratify the Administrator's signature on the Retainer Agreement in the matter of the Airgas Securities Litigation.

RESOLUTION 10-036 By Woods, Supported by Saucedo

Resolved, That the Board ratify the Administrator's signature on the Airgas Securities Litigation Retainer Agreement.

Yeas: 6 – Nays: 0

The Schweitzer – Mauduit International Securities Litigation

Mr. Asher reported that the Motion for Lead Plaintiff is pending. They will keep the Board apprised with respect to this matter.

Stryker Securities Litigation

Mr. Asher reported that the Motion for Lead Plaintiff status is pending. They will keep the Board apprised with respect to this matter.

Psychiatric Solutions, Inc. Litigation

Mr. Asher reported that an investor with greater losses was appointed lead plaintiff in this matter. The System will join the litigation as a class member.

Arena Resources

Mr. Asher reported that this is a derivative action. The Plan Administrator signed the retainer agreement on behalf of the Retirement System. He asked that her signature on the retainer agreement be ratified at this time.

RESOLUTION 10-037 By Woods, Supported by Waterman
Resolved, That the Board ratify the Administrator's signature on the Arenas Resources Derivative Litigation Retainer Agreement.

Yeas: 6 – Nays: 0

IRS Determination Letter

Mr. Asher reported that the matter is still pending with the IRS.

Crossman EDRO

Mr. Asher reported that the amended Crossman EDRO has been approved.

February 24, 2010 Closed Session Minutes

Mr. Asher requested that the Board approved the closed session minutes from February 24, 2010.

RESOLUTION 10-038 By Barnett, Supported by Woods
Resolved, That the Board approve the closed session minutes from February 24, 2010.

Yeas: 6 – Nays: 0

He discussed how other firms are competing for lead plaintiff status in the Northern Trust case. He recommended that the Board pass a motion to approve applying for lead plaintiff status if they join the litigation as lead plaintiff.

RESOLUTION 10-039 By Barnett, Supported by Woods
Resolved, That the Board approve legal counsel to apply for lead plaintiff status in the Northern Trust Securities Lending Litigation if applicable.

Yeas: 6 – Nays: 0

Onyx Capital – Refer to Administrator

Distressed Municipal Pension System Act

Mr. Asher said that legislation has been introduced in both the House and Senate that potentially could see distressed public retirements systems in Michigan taken over by the Michigan Employees Retirement System (MERS). Introducing similar bills in both legislatures speeds up the process. MAPERS is currently working to negate this legislation.

Chairman Harrison asked if this System falls under this legislation.

Mr. Asher said that in order to be considered a distressed pension system two of the following would have to occur. The City fails to make their contributions; the contributions total 30% of payroll; the contributions exceed 15% of the City's total revenues; the contributions represent 25% of the City's assets; a trustee is convicted of misuse of pension trust funds and if performance returns over a ten-year period are 2% less than MERS performance numbers.

Mr. Kuhn said that MERS is 75% funded and that this System has outperformed MERS.

There was discussion whether the City could withhold contributions or force the System into MERS. Based on the language it seems that the State Treasurer has the sole authority to make that determination. However, MERS is technically outside of the State Government. Mr. Asher said that he thinks there would be conflicts with the Collective Bargaining Agreements.

MAPERS has suggested that the pension systems contact their representatives to convey the negative implications of this legislation. Mr. Asher suggested that the trustees attending MAPERS check into the issue and talk about it while at the conference and convey their concerns.

The Wall Street Journal Article, March 29, 2010 – Gurus Urge Bigger Pension Cushion

Mr. Asher reported that proposed revisions in the accounting standards (GASB) are recommending that liabilities and assets be restated for public pension systems.

Union Representatives – None

UNFINISHED BUSINESS

Re: Disaster Recovery – Refer to Administrator

Ms. Zimmermann said that under the Reports Section she has included the benefit changes in the Collective Bargaining Agreements for Local #2002, AFSCME, AFL-CIO and the Supervisory & Administrative Employees Associations (SAEA) previously requested by the trustees.

NEW BUSINESS

SCHEDULING OF NEXT MEETING AND ADJOURNMENT:

Regular Meeting: May 19, 2010 @ 1:30 p.m. –Shrine Room, City Hall

ADJOURNMENT

RESOLUTION 10-040 By Williams, Supported by Saucedo
Resolved, That the meeting be adjourned at 3:05 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 April 21, 2010

As recorded by Jane Arndt