

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
MAY 19, 2010**

A regular meeting of the Board of Trustees was held on Wednesday, May 19, 2010 at the Shrine Room, Main Level, 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

Charlie Harrison, Chairman

Leon Jukowski, Mayor

Devin Scott

Patrice Waterman

Kevin Williams

Debra Woods

Andrea Woods

TRUSTEES ABSENT

OTHERS PRESENT

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

Chris Kuhn, Gray & Company

Ellen Zimmermann, Retirement Accountant

Jane Arndt, M-Administrative Assistant

Fred Leeb, City of Pontiac Emergency Financial Manager

Mattie Lasseigne, Retiree

Linda Watson, Retiree

PUBLIC DISCUSSION

Linda Watson questioned the Gray & Company charge of \$115,562.71 under Accounts Payables. She asked if this is a monthly billing. Ms. Zimmermann explained that Gray & Company receives an \$8,000.00 monthly consulting fee. They also oversee two groups of managers for the System. The Board pays Gray & Company for this on a quarterly basis, they then pay the managers.

Ms. Watson asked about the Onyx investment and what legal steps are being taken to secure the assets. Ms. Billings explained that the investment is involved in SEC litigation and because Ms. Watson does not have attorney-client privilege she cannot discuss the details with the public at this time.

Ms. Watson also asked Chairman Harrison if he is related to the Farr's by blood or marriage. Chairman Harrison said he is not related to the Farr's and has no affiliation with Onyx. He said that a lot of this false information is being written and spread through blogs. He has even heard that his son is involved with the investment. There is no truth whatsoever in any of these claims.

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: April 21, 2010

B. Minutes of Special Meeting: May 10, 2010

C. Communications

1. Correspondence from AMBS Re: Monthly Newsletter May 2010
2. Correspondence from Sawgrass Asset management Re: March Newsletter
3. Correspondence from MAPERS Re: Local pension Board Takeover Legislation
4. Correspondence from Piedmont Investment Advisors Re: New Staff
5. Correspondence from Artio Global Re: Q1 CIO Letter

D. Financial Reports

1. Financial Reports – April 2010
 2. Commission Recapture – March 2010
 3. Securities Lending – April 2010
 4. Capital Call Ratification:
 - a. Mesirow \$150,000
 - b. Invesco 55,337
 5. Accounts Payable
 - a. ADP \$2,693.75
 - b. Artio Global Investors 73,266.54
 - c. Coffee Break 44.80
 - d. GE Capital Information (copier) 116.42
 - e. Gray & Co. 115,562.71
 - f. Kennedy Capital 54,956.00
 - g. Loomis Sayles 41,205.88
 - h. Munder Capital 76,171.00
 - i. Northern Trust 44,995.66
 - j. Office Depot 249.71
 - k. Pitney Bowes 449.28
 - l. Rodwan Consulting 1,400.00
 - m. Stevens Record Management 72.62
 - n. Systematic 55,674.86
 - o. VISA 8,930.56
- E. Retirements, Refunds, Final Calculations, Re-Examinations
1. Remove from the Rolls:
 2. Applications for Service Retirement:
 - a. Jo Ann Purty – SAEA 19 years, 2 months Age 56
 - b. Lewis Vaughn – Non-union 4 years, 4 months Age 60 (reciprocal)
 - c. Marlene Struckman – PMEA 14 years, 9 months Age 60
 3. Final Benefit Calculations:
 - a. Gerald Henry #2472 \$338.62
 4. Pop-ups Effective
 - a. Kay Reynolds beneficiary deceased 05-07-10 \$305.35
 - b. Richard Downey beneficiary deceased 02-10-10 998.38

c. Sheila Causey

beneficiary deceased 07-15-08

210.72

Trustee Wright asked if the Pitney Bowes invoice is paid monthly. Ms. Zimmermann said that the lease is \$598.00 per quarter and is split between GERS and Police & Fire; postage is additional. The Retirement Office is keeping track of the mailings so each System is charged appropriately.

Ms. Zimmermann distributed the securities lending report for April 2010. She explained that it usually arrives too late to include with the agenda packets. She also distributed a capital call from Invesco for \$55,337.00.

RESOLUTION 10-046 By Jukowski, Supported by Wright
Resolved, That the Board approve the April 2010 Securities Lending Report and the Invesco Capital Call for \$55,337.00 be added to the consent agenda.

Yeas: 9 – Nays: 0

RESOLUTION 10-047 By Woods, Supported by Williams
Resolved, That the Board approve the consent agenda for May 19, 2010 as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company – 2010 1st Quarter Performance Reports

Mr. Kuhn apologized for not getting the performance reports to the trustees before the meeting. He said they were held up because there was a difference between the Peritus and Northern Trust market value numbers. They wanted to look at the data.

Ms. Zimmermann asked if the value has been reconciled. Mr. Kuhn said that he is comfortable with the numbers from Northern Trust. Peritus is arguing that two bonds that are not being fairly valued.

Chairman Harrison questioned whether the market value was incorrect in the year-end numbers and could the first quarter numbers be skewed. Mr. Kuhn said it is a pricing issue with the bonds. However, this is a short-term performance issue and will occur from quarter to quarter. Longer-term the pricing issue is not a factor; Northern Trust and the manager have agreed on the purchase price of each security and will agree on the sale/maturity price of each security. High yield bonds are not as liquid as other issues and this is typical with high yield managers.

Chairman Harrison asked if the second quarter numbers could trail. Mr. Kuhn said that they may or they may not.

Ms. Billings pointed out that Peritus's performance was 78% last year and asked if their actual numbers would still be above the benchmark. Mr. Kuhn confirmed that their performance would be well above the benchmark. He explained that Northern Trust over valued the bond. Usually

the manager is more accurate because they are making the trades and know the value. The manager is benefitting from the higher custodian value.

Ms. Zimmermann said that in one period the market value may be less and in the next quarter the value may be more and wash. The System uses the Northern Trust market value for payment whether the manager agrees or not. In the IPS and the contracts the manager agrees to reconcile with Northern Trust. This item is not material to statements as a whole.

Mr. Kuhn said that this is common in the high yield space because the bonds are smaller in size and traded less frequently. Northern Trust takes the average of three quotes to set the market value.

Mr. Kuhn reviewed the capital markets headlines indicating that the financial breakdown in Greece has caused problems globally.

He reviewed the inflation indicators including the Consumer Price Index, Producer Price Index and the Commodities Index. Commodities have been down for the quarter which includes gold, copper, oil, sugar and cotton. Most of the time commodities move in the same direction. However, recently they have been going in different directions. Commodity performance was down 5% for the quarter. It consistently moves up and down but has been down most of the time during the past three to five years.

The Fed funds rate has not changed. They are waiting to see if the economy is in a recovery or if it is a stimulus recovery. The yield curve did not move this quarter and is significantly higher than a year ago.

Chairman Harrison questioned whether the changing dynamics in the market has altered the high yield rationale. High yield's out performance is over and is flattening out. He asked if adjustments should be made.

Mr. Kuhn said that fixed income total returns have been positive for the past three months based on the interest component, approximately 1% over the quarter. They were getting the same type of income returns when the bonds appreciated in value and were yielding 4% but have come back down. The credit spreads impact the bond value. When spreads narrow corporate bonds appreciate.

Chairman Harrison said that it is not the time to increase high yield because it will start going downhill. Mr. Kuhn said that the high yield spreads are currently averaging 800 basis points over treasuries. When the spreads were closer to 1,300 basis points the fear is that companies will not be able to make interest and principle payments. At that time high yield offered more attractive risk to reward benefits. It is not a good area to be in when spreads widen because bonds will lose value. When credit spreads get close to their ten-year average, Gray & Company's opinion would be to be neutral to negative for high yield.

Chairman Harrison if it pleased the board to take a look at the allocation at the next meeting considering the market outlook. He pointed out that the System does not want to chase the

market. Mr. Kuhn said that they may suggest tweaking the allocation but he would not take a lot away from the long-term allocation.

Chairman Harrison confirmed that the Board would like the consultant to come back with a report taking a look at the asset allocation with reference to the market outlook. Mr. Kuhn will bring recommendations to the next meeting.

Mr. Kuhn reviewed the domestic equity markets. The Russell 2000 Value was up 10% for the quarter. Most of the equity styles are up 50% to 60% for the year but the three-year returns are in the red. The five year numbers are positive.

The financial sector was up 11.98% for the quarter and was 83.47% for the year, yet the three year return was (23.03%). This demonstrates the recent difficulties in financials.

International returns were positive. Italy and Spain's returns were negative because they are also experiencing fiscal problems like Greece. The international fiscal issues have affected performance. The effect on currency has strengthened the dollar overall; in U.S. terms it has been flat.

As of March 31, 2010 the total fund value was \$404.2 million. Performance was up 5.02% for the quarter and 37% for the year. These are very strong performance numbers. The total plan value has returned top numbers with three-year numbers still in the black.

Domestic equity managers struggled. Systematic and Kennedy were the only managers to have benchmark-like returns. Equity managers had a hard time keeping up with the benchmark because a lot of the performance was from stocks that had fallen in value and these were low quality stocks your managers would not own because of the risk.

Chairman Harrison described how the Fund's managers have lower standard deviations and will not give up as much in a down market. Mr. Kuhn said the System's managers did a great job when the market was tough. He noted that Alliance (Oppenheimer) has just been replaced by Ambassador for fixed income.

Mr. Kuhn said that Systematic earned 57% for the year but the benchmark return was 72%. It is hard to apologize for your performance at 57% but you underperformed the benchmark by 15%. This year they are up 5% and their three-year numbers are well ahead of the benchmark.

Artio was slightly behind the benchmark but their five-year numbers are good.

Fixed income managers Allianz and Munder are in line with the benchmark.

Ms. Billings reported that she is wrapping up the Ambassador Capital contract before she leaves for the MAPERS Conference. The trustees asked if they were able to negotiate a lower management fee. Ms. Billings reported that Mr. Kuhn was able to reduce the management fee to 22 basis points. The trustees thanked Mr. Kuhn for his efforts in getting the fee reduced.

Mr. Kuhn stated that there are still opportunities for Peritus with performance of 9.74% versus the benchmark at 4.82%. Their three-year performance is trailing the benchmark, however, their portfolio does not look anything like the benchmark.

The total plan returns of 5% put this Fund in the top 4% of the plans. This means that 96% (or 200) plans under performed compared to this Fund. He said it is not a fair comparison. In their database this Fund's size would be average. Some of the plans are very small and some are very large with funds of \$1 billion or more. They also have different investment guidelines. In Michigan, this Fund has to comply with Public Act 314 which has very strict guidelines. Most plans use the prudent investor rule. This makes the Fund's performance even that much better.

As of May 14, 2010 the total plan value is at \$399 million down from \$404 million. The Fund has lost some performance and paid bills but most of this can be attributed to the bad day a couple of weeks ago in the market. The asset allocation is close to its targets and the Fund is still funding the private equity investments.

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees/Committees - None

Re: Administrator

Directed Brokerage Request – Julie Moll (Wells Fargo)

Ms. Zimmermann distributed correspondence received from Julie Moll regarding her move from Smith Barney to Wells Fargo. Ms. Moll indicated that she would like to continue serving the Board.

Chairman Harrison confirmed that Ms. Moll is currently on the directed brokerage list. He questioned whether there are any issues that would keep her off the list at her new firm and asked whether she would be held under the same guidelines.

Ms. Zimmermann said that Ms. Moll as confirmed that the schedule will be the same. Ms. Moll negotiated a discounted rate for the System and, based on the number of trades, the rate can be lower. She asked that if the Board approved to continue with Ms. Moll that the brokerage policy be revised for the new firm name.

Trustee Scott questioned why the Board is required to revise the policy. Ms. Zimmermann explained that the terms are the same and that the change was the firm name and account number.

Ms. Billings said that the Board just needs to amend the name of the trader and the firm name on its Brokerage List.

Ms. Zimmermann said that she will bring back the policy for approval. Ms. Billings explained that the only change needed is to change the name of the firm from Smith Barney to Wells Fargo on the sheet with the list of designated brokerage firms. This should not necessitate a language change in the IPS.

Chairman Harrison was assured that each brokerage firm would be treated the same way.

Mr. Kuhn said that each investment manager is given the recommended brokerage list submitted by the Board. The manager is asked to allocate trades based on the System's list. All brokerage firms are treated the same way.

RESOLUTION 10-048 By Barnett, Supported by Scott

Resolved, That the Board retain Julie Moll as a local directed brokerage and amend the policy if necessary.

Yeas: 8 – Nays: 1 (Wright)

Plante & Moran Audit Process

Ms. Zimmermann reported that Plante & Moran has just about finished their audit fieldwork.

Onyx Capital Advisors FOIA

Ms. Zimmermann reported that she received a FOIA from Money Management Letter asking whether the System still retains Onyx as a manager. She will bring the FOIA request and response to the next meeting.

Re: Legal

Trustee Waterman asked for a point of privilege to continue the meeting agenda and move the closed session to the end of the meeting.

Airgas Securities Litigation

Ms. Billings reported that she received correspondence from Bernstein Litowitz requesting non-privileged documents from the Retirement System. She provided copies of the minutes and a list of trustees and staff per the request.

The Schweitzer – Mauduit International Securities Litigation

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

Stryker Securities Litigation

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

Arena Resources

Ms. Billings reported that this litigation is still pending.

IRS Determination Letter

Ms. Billings reported that she received correspondence from the IRS with regard to the determination letter. The determination letter is the IRS's stamp of approval. Per the Internal Revenue Code (section 401(a), the System is required to be a qualified plan. The process is very involved. She referred to attached correspondence from the IRS. She said it is very common for the IRS to have additional questions during the process.

Onyx Capital

Ms. Billings reported on this litigation in closed session.

Robbins Geller Rudman & Dowd LLP Corporate Governance Bulletin, Second Quarter 2010

Ms. Billings stated that this information is for the trustees' information. She told the Board that they are doing their fiduciary duty by pursuing securities litigation. Securities litigation settlements have increased and the firms hired by the Board are doing a good job.

Union Representatives – None

UNFINISHED BUSINESS

Re: Disaster Recovery

Ms. Zimmermann said that she had identified a potential consultant to work with to the disaster recovery plan. She reported that the Police & Fire Retirement System Board has asked that she obtain additional bids.

Re: Recommended Budget Fiscal Year 2010 – 2011

Ms. Zimmermann distributed a page created from the budget regarding increased medical benefit costs. She also noted that the budget includes a \$6.8 million transfer from the General Employees Retirement System to cover retiree healthcare.

Trustee Barnett asked if there is any further information regarding where the \$6.8 million is coming from. Ms. Zimmermann said that she did not know where the number came from and that the former Administration had looked into a 420 transfer. She is not sure whether the \$6.8 million is coming from this Fund.

Trustee Barnett asked if the Board needs to take action. Ms. Billings presented her written opinion regarding an IRC section 420 transfer and the additional State law restrictions on pension asset transfers to fund retiree health care. The discussion is reported under New Business.

NEW BUSINESS

Re: Actuarial Study Request – Section 420 Transfer

Ms. Billings reported that as a general rule, the Retirement System cannot fund retiree healthcare; it can only pay for pension benefits.

Mr. Leeb has asked for an actuarial study to determine whether a Section 420 transfer can be done. Under Section 420 of the Internal Revenue Code a transfer of excess pension assets is allowed into a 401(h) account within the pension fund to pay for retiree healthcare costs. Section 420 states that the pension plan must be at a 125% or greater funding level. She reported this to the Board in the past but did not reference the State statute at that time.

In Michigan, pension systems are not only governed by the IRS, they are also governed by state law, including Michigan Public Act 28 of 1966. One does not trump the other. She distributed copies of the State Statute.

The State Statute is a simple one page mandate that states that 50% of the interest earned on contributions put into the Retirement System can be used to fund retiree healthcare. Since the City is not making contributions to the Retirement System there can be no earnings on contributions.

She emphasized that both the IRS and State directives have to be met in order for funds to be transferred. In this case the IRS mandate may be met but the State Statute is not and it would be a violation of the State statute. The tests must be run side by side. Ms. Billings said that at this point the City would have to file a lawsuit against the Retirement System to force a transfer. Based on her research, such a transfer is impermissible; if the trustees were to approve it in violation of the law, they could be personally liable. Further, they should not rely on governmental immunity especially if they act outside the scope of their authority.

Trustee Scott asked what tests have to be run. Ms. Billings explained that the tests are the requirements of both Section 420 of the Internal Revenue Code and the State Statute. She also stated notwithstanding the constraints of the State statute, under a section 420 transfer, all current City employees would become immediately 100% vested in the Retirement System including those who have left within one year of the transfer. This would require negotiations with the unions.

Chairman Harrison confirmed that the City cannot go back to when contributions were being made. Ms. Billings said that the State statute looks at the annual contributions and interest earned.

Ms. Billings restated that in Michigan two laws have to be met before excess assets can be transferred; the IRC and PA 28 of 1966.

Mayor Jukowski asked what the employer contributions are to the Retirement System. Ms. Billings said that the City does not make contributions to the General Retirement System.

She wanted the City to be aware of the State statute before paying for an actuarial study to implement a section 420 transfer.

Trustee Woods asked what this has to do with the budget. Ms. Billings explained that the trustees are in violation of the law and the trust if pension assets are used for unauthorized purposes. Trustee Woods asked if it is the Board's responsibility to approve the budget. Ms. Billings said that it is the trustees' responsibility to protect pension fund assets and they would be in violation of their federal or state law. The City would have to file a lawsuit against the Retirement System and obtain a Court order requiring the transfer.

Mr. Leeb said that no one is going to ask the Board to do anything illegal: the question is what is legal. As the Emergency Financial Manager and the preparer of the budget he received a legal opinion that it is legal for the City to transfer pension fund assets. Nothing illegal will be done and it will not be done precipitously. They are not trying to steal money from the Pension Fund. There will be a full opportunity of discussion. He still wants the actuary to prepare a report for informational purposes at this time. He has already spoken with an attorney about this issue and the information he received does not agree with what the System's attorney reported.

Chairman Harrison recommended that both legal counsels meet to discuss the issue and report back to the Board at the next meeting. Ms. Billings is acting on the information she obtained based on the Internal Revenue Code and the Michigan statute that governs pension assets. He understands that the City has budget needs but the Board has the fiduciary responsibility to take the advice of their legal counsel and to protect pension assets.

Trustee Williams felt that Mr. Leeb's attorney should approach the Board's legal counsel. Mr. Leeb agreed that his attorney would contact Ms. Billings.

Trustee Wright asked who would be paying for the actuarial report. Ms. Zimmermann stated that all actuarial reports have to come through the Administrator. Ms. Billings stated that this would be in line with the settlor function and that the City would be required to pay for the report.

RESOLUTION 10-049 By Woods, Supported by Waterman
Resolved, That if the Retirement System's legal counsel is approached by the Emergency Financial Manager's legal counsel, that she be authorized to enter into a discussions regarding the transfer of excess pension fund assets under Internal Revenue Code Section 420 and Michigan Public Act 28 of 1966.

Yeas: 9 – Nays: 0

Ms. Zimmermann distributed budget comparisons. She described the differences between the recommended, adopted and current budget figures.

Trustee Scott asked why the memorandum and budget document were generated. Ms. Zimmermann stated that it is the Accountant's job to review and analyze the budget costs. Normally the changes in the budget are small year to year but this year there are large cost increases. She stated that no action is being taken. This is for the trustees' information and review.

RESOLUTION 10-050 By Woods, Supported by Waterman
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

| | |
|-------------------------|------------------------|
| Trustee Barnett – yea | Trustee Waterman – yea |
| Trustee Bowman – yea | Trustee Williams – yea |
| Chairman Harrison – yea | Trustee Woods – yea |
| Mayor Jukowski – yea | Trustee Wright – yea |
| Trustee Scott - yea | |

The Board moved to closed session at 2:59 p.m.

Trustee Barnett left at 3:08 p.m.

The Board returned from closed session at 3:19 p.m.

RESOLUTION 10-051 By Jukowski, Supported by Waterman
Resolved, That the Board authorize the Chairman to sign the retainer agreement for Sybase, Inc. shareholder derivative action.

Yeas: 8 – Nays: 0

SCHEDULING OF NEXT MEETING AND ADJOURNMENT:

Regular Meeting: June 23, 2010 @ 1:30 p.m. –Shrine Room, City Hall

ADJOURNMENT

RESOLUTION 10-052 By Williams, Supported by Bowman
Resolved, That the meeting be adjourned at 3:20 p.m.

Yeas: 8 – 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 19, 2010

As recorded by Jane Arndt