

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JULY 28, 2010**

A regular meeting of the Board of Trustees was held on Wednesday, June 23, 2010 at the Lion's Den, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

Shirley Barnett

Koné Bowman

Charlie Harrison, Chairman

Leon Jukowski, Mayor

Devin Scott

Patrice Waterman

Kevin Williams

Debra Woods (*arrived at 1:42 p.m.*)

Andrea Wright

OTHERS PRESENT

Alisha Davis, Plante & Moran

Sharon Almonrode, Sullivan, Ward, Asher & Patton, P.C.

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

Laurance O. Gray, Gray & Company

Ellen Zimmermann, Retirement Accountant

Jane Arndt, M-Administrative Assistant

Walter Moore, Retiree

Linda Watson, Retiree

PUBLIC DISCUSSION

Walter Moore stated that he wanted to inform the Board that the Retirement Ad hoc Committee held a meeting to discuss the request from the Emergency Financial Manager regarding the transferring of retirement system funds to pay for retiree healthcare. He indicated that he has questions regarding this issue explaining that he and his father are both retirees from the System. He asked what the Board's position is with regard to the 420 Transfer and if a formal request for the funds has been made.

Chairman Harrison deferred to the Board's legal counsel to describe the 420 Transfer.

Ms. Billings explained that a formal request has not been made. The Board previously instructed her to review this issue; at that time she did not include information pertaining to Public Act 28 of 1966. The Fund must be in compliance with both statutes in order for a transfer to occur.

Mr. Moore confirmed that no formal request has been made. Mayor Jukowski said that the funds are still in the budget although there has been no formal request.

Mr. Moore confirmed that based on Public Act 28 the City cannot transfer funds out of the Retirement System. He referred to Ms. Billings' opinions regarding the issue that he has read. Ms. Billings stated that she added the Public Act 28 disclaimer to her opinion this year.

Mr. Moore asked if Ms. Billings could speak to the setup of a separate account under Internal Revenue Code 420. Ms. Billings said that a 401h account would be setup within the pension system.

Ms. Watson asked if the actuarial report has been completed. She also asked if the Board was aware that the Teamsters were asked to vote on whether they were in favor of transferring funds from the Retirement System.

Ms. Zimmermann explained that the actuarial report has not been completed and is prepared after the audit report.

Mayor Jukowski stated that the Union was asked to vote on this matter because there are conditions that have to be met based on Federal Law in order to transfer assets out of the Retirement System. He indicated that it did not pass.

Chairman Harrison confirmed that the Board was aware of the issue.

APPROVAL OF CONSENT AGENDA

A. Minutes of Special Meeting: May 10, 2010

B. Minutes of Regular Meeting: June 23, 2010

C. Communications

1. Correspondence from Onyx Capital Advisors Re: Hi-Tec Lawsuit
2. Correspondence from Retirement Office Re; Overpayments – Neeley, Lewis
3. Correspondence from AMBS Re: July 2010 Newsletter
4. Correspondence from North Pointe Capital Re: Marketing Director
5. Correspondence from Loomis Sayles Re; Constructive custody
6. Correspondence from Systematic Re: New Partner
7. Conferences:
 - a. Fall 2010 Conference – MAPERS – Sept. 26-28, 2010
 - b. Private Equity Client Conference – Mesirow Financial – Oct. 15, 2010

D. Financial Reports

1. Financial Reports – June 2010
2. Commission Recapture – June 2010
3. Securities Lending – June 2010
4. Capital Call Ratification:
 - a. Mesirow \$225,000
5. Accounts Payable
 - a. ADP \$2,796.17
 - b. GE Capital Information (copier) 116.42

c. Gray & Co.		102,450.23
d. Ikon		58.32
e. MES Solutions		640.00
f. MGFOA		52.50
g. Northern Trust		48,240.69
h. Office Depot		89.22
i. Peritus Asset Management		94,476.22
j. Pitney Bowes		408.56
k. Plante Moran		2,630.00
l. Rodwan Consulting		1,400.00
m. Sawgrass Asset Management		43,612.00
n. Slade's Printing		48.00
o. Sullivan, Ward, Asher & Patton		36,468.59
p. VISA		3,074.21
q. Due to / Due from Q2		105.97
E. Retirements, Refunds, Final Calculations, Re-Examinations		
1. Remove from the Rolls:		
a. Brenda Asher (deceased 06-30-10)		
b. Frances Kessler (deceased 06-10-10)		
c. Nova Stinson (deceased 06-15-10)		
2. Applications for Service Retirement:		
a. Irene Wright – PPMA	4 years, 0 months	Age 60 (off deferred - reciprocal)
b. Karen Perry – Teamster 214	21 years, 3 months	Age 49
c. Denise Hamilton – NOMC	12 years, 7 months	Age 55
d. Merri Dorkins – Teamsters 214	22 years, 5 months	Age 52
e. Barry Smades – Teamsters 214	25 years, 5 months	Age 56
f. Charles Anthony – Local 2002	20 years, 1 month	Age 60
g. Cindy Mowery – Teamsters 214	21 years, 9 months	Age 52
h. Susan Belcher – NOMC	5 years, 6 months	Age 60
i. Rose Rivera – Teamsters 214	22 years, 2 months	Age 47
j. Cynthia Officer – Teamsters 214	23 years, 4 months	Age 49
3. Final Benefit Calculations:		
a. Marie T. Buck	#2571	\$162.36
b. Denise Hamilton	#2577	231.66
c. Susan Belcher	#2582	220.65
4. Pop-ups Effective		
a. Audrey Coon	beneficiary deceased 06-29-10	\$1,199.51
b. Rebecca Shelton	beneficiary deceased 06-12-10	972.75

Chairman Harrison indicated that there was an error in the May 10, 2010 Special Meeting Minutes. He said that the minutes reflected that he and the Mayor met with Paul Elio when in fact he and Larry Gray met with Mr. Elio.

He also informed the Board that Paul Elio contacted him last week regarding a different investment. He said that he told Mr. Elio that any correspondence or communication should be

sent to or go through Larry Gray. He did not discuss the investment with Mr. Elio and instructed him to start with the consultant.

Trustee Wright said that she feels what was recorded in the minutes is a lie and did not take place as recorded. She also disputed that the discussion occurred between Chairman Harrison and Ms. Billings as to where the vote for officers should be added to the agenda. She questioned how the resolution could have eight votes when she was not present to vote to add the item in question to the agenda.

Chairman Harrison said that the comments may have been out of order and may have been made at the top of the agenda.

Ms. Billings indicated that the resolution in question was not to amend the agenda it was to approve the consent agenda.

Trustee Scott said that he did not recall hearing any discussion of adding the vote for Chairman and Vice Chairman to the agenda.

Ms. Zimmermann explained that during that meeting there were multiple conversations going on. It is hard to keep track of every conversation and to take the minutes.

Chairman Harrison and Ms. Billings informed Trustee Scott that the conversation occurred before he arrived.

Chairman Harrison resolved that in order to make sure this does not happen again, he would like to re-do the vote. The item was supposed to be on the last agenda. No ill intentions were meant.

Trustee Wright disagreed with Chairman Harrison and said that the item was not officially added to last month's agenda. She stated that before she left the meeting to prepare for a budget meeting, she specifically asked Ms. Zimmermann if there was anything left on the agenda she should be aware of. She would not have left if she would have known a vote for officers was being held.

Trustee Woods said that she did not send nor receive any emails outside of the meeting with regard to this issue. She had no prior knowledge that she was being nominated for Vice Chairman. She was offended that Trustee Wright would assume she did.

Ms. Zimmermann stated that she understands why Trustee Wright is upset. However, she and Ms. Arndt are taking minutes and it is difficult to keep track of a dozen people in the room and what is left on the agenda. She believed Trustee Wright was in the room at the time.

Ms. Billings said that she did not realize that the agenda was not formally amended adding the vote for officers. The Board should have voted to add this item to the agenda. There was a lot of conversation going on at the time.

Ms. Zimmermann stated that the only time she or her staff would make calls before a meeting is to obtain a quorum. It is not her place to contact the trustees during the meetings to discuss agenda items.

Trustee Wright left at 1:59 p.m.

Chairman Harrison said that he understood why Trustee Wright was upset. However, there were no ill intentions and no attempt to be sneaky. He did not know that Trustee Wright was not returning to the meeting. Trustee Scott was in and out of the meeting. When it became clear the Board would lose its quorum they took care of all action items. He would like to bring the issue back to the Board to insure there is transparency. He wants it to be correct.

Mayor Jukowski said that he remembers the conversation between Chairman Harrison and Ms. Billings. He also understands why Trustee Wright feels she was not included. However, the email that was sent by Trustee Wright disturbed him. Trustee Wright could have easily made a phone call to resolve the issue and a re-vote could have been taken.

Trustee Bowman announced that he has to leave the meeting at 4:30p.m. He asked that the Board move forward.

Ms. Zimmermann stated that there are always several pages of backup which can be provided to the Board.

Ms. Zimmermann distributed documentation indicating that two members, Charles Anthony and Cynthia Officer have changed their retirement dates. She asked that the Board amend the consent agenda to add these items.

RESOLUTION 10-066 By Woods, Supported by Waterman
Resolved, That the Board approve the two additions to the consent agenda for July 28, 2010.

Yeas: 8 – Nays: 0

RESOLUTION 10-067 By Bowman, Supported by Williams
Resolved, that the Board approved the consent agenda for July 28, 2010, as amended.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Plante & Moran – 2009 Audit Presentation

Alisha Davis introduced herself to the Board. She has been on the account for several years and was the Audit Manager this year. She explained that Beth Bialy, the Audit Partner on the account, could not be present at this meeting.

The Independent Auditor's Report is the only part of the report prepared by Plante & Moran. The rest of the report is prepared by the Retirement System.

They have issued an unqualified opinion which is the best opinion that can be given. The financial statements have been fairly stated in all material respects and are in compliance with the accounting standards.

The Statement of Plan Net Assets is the balance sheet. The numbers have not changed much from the last audit report. The investments are listed by type at \$385.5 million with total assets of \$471.0 million. Total liabilities were \$84.8 million resulting in total net assets of \$386.2 million.

The Statement of Changes in Plan Net Assets lists the activity showing how the Fund's net assets were determined. There was a small loss in securities lending of \$5,818.00. The market turnaround resulted in investment income of \$70.4 million. After deductions which include benefit payments and miscellaneous expenses the net increase in net assets was 15% or \$50.2 million. The System has seen some recovery since 2008 when there was a 30% decline in total net assets.

She referred to the membership data with 1,311 retirees and 286 total current employees. This would be more important if the members were making contributions because of the low number of active employees.

The funding status as of December 31, 2008 was 160% which has been consistent over the past few years. She explained that the actuarial report is prepared after the audit so these numbers are always one year behind.

She asked if there were any questions.

Chairman Harrison discussed that 2008 was about as bad as it can get yet the System maintained their funded ratio. It appears that the System can sustain big hits and there is a cushion that allows for large market fluctuations.

Ms. Davis explained that the actuary uses a five-year smoothing method to measure the actuarial value of the assets. If the smoothing method was not used contribution amounts would be inconsistent and constantly changing. Using the fair value of assets would result in a funding ratio of 127% versus the actuarial value of assets at 160%.

She stated that their professional standards require them to provide the following information related to the audit to the Board. The document states their role versus the System's role in accordance with the timing of the audit, any significant audit findings, any difficulties encountered, corrected or uncorrected misstatements or disagreements with management. This communication is required under SAS 114.

Trustee Bowman asked about GASB and its impact. Ms. Davis reported that the City is required to report liability on their books.

She pointed out that alternative investment valuations are based on unaudited financial statements and are used in the actuarial assumption of the System's assets provided to the Board.

She noted that under other recommendations SAS 70 allows service providers to disclose their internal control activities to their customers. She spoke to Ms. Zimmermann and Ms. Munson regarding this auditing standard pointing out that internal control issues with the custodian could impact the pension system.

She indicated that the System has seen significant write-offs including the recent Onyx investment the past couple of years. It is their suggestion that the System thoroughly review and perform formal on going due diligence with these investment opportunities.

Ms. Davis left at 2:25 p.m.

Re: Sullivan, Ward, Asher & Patton

RESOLUTION 10-068 By Supported by
Resolved, That the Board move to closed session to discuss pending litigation

Roll Call:

Trustee Barnett – Yea	Trustee Scott – Yea
Trustee Bowman – Yea	Trustee Waterman – Yea
Chairman Harrison – Yea	Trustee Williams – Yea
Trustee Jukowski – Yea	Trustee Wright – Yea

The Board moved to closed session at 2:26 p.m.
The Board returned from closed session at 3:09 p.m.

Trustee Bowman asked if there is a not to exceed clause.

Ms. Zimmermann indicated that there is a range up to \$25,000.00 but no cap was specified.

Chairman Harrison said that if it is determined that more costs will be incurred a special meeting could be scheduled.

Ms. Almonrode stated that she does not know what the cost of the audit expert will be.

Discussion followed by the Board.

RESOLUTION 10-069 By Woods, Supported by Barnett
Resolved, That the Board authorizes to retain a forensic expert based on an 80%/20% cost split between Detroit/Pontiac, not to exceed \$10,000.00 for Pontiac without further authorization.

Yeas: 8 – Nays: 0

Ms. Almonrode left at 3:14 p.m.

Re: Gray & Company

Mr. Gray distributed the investment performance analysis as of June 30, 2010. The rebalancing schedule was based on \$373 million

He stated that Mr. Kuhn provided detailed information on the total fund review, so he will spare the Board the macro-economic summary.

He indicated that second quarter performance for the S&P 500 was -5.24% and the Russell 2000 at -7.75%.

It is going to be a tough year and there are a lot of concerns with equities and fixed income going forward.

There have been some incredible stock earnings for companies like Caterpillar, 3M, IBM and AT&T. Some of these companies have seen an increase in their earnings of 26%. UPS saw net revenues increase 90%. At one time these companies would write off losses as an accounting mechanism. Their earnings are due to bouncing off the low.

Jobs are the challenge with consumers representing two-thirds of the GDP.

The European crisis is finding its own way slowly but surely.

Trustee Woods left at 3:20 p.m.

He provided a firm update. They recently hired an analyst Justin Addleman and Brad Lyons as a senior consultant with twenty-five years experience. Yolanda Waggoner and Cheryl Hua have joined Gray & Company's Chicago Office.

Chairman Harrison asked whether Mr. Gray would be providing an analysis of GTS Advisors.

Mr. Gray said that it is impossible to tell whether GTS can tell the difference between a good and bad trade. If GTS relies on Credit Suisse to perform the trade then they cannot sign off as a fiduciary if they are passing the work off. GTS prides themselves on being a fiduciary.

Trustee Woods returned at 3:24 p.m.

GTS states they can determine the best of breed vendors in making trades in large, mid and small cap. It is hard to place a value add on their product.

Ms. Billings asked if they can quantify their performance at the end of the road. Mr. Gray said that they can provide the numbers but they find it difficult to determine how to quantify the reward or blame.

Trustee Woods left at 3:29 p.m.

Credit Suisse controls a large number of the trades in the world. They are still at the mercy of the market. Most firms have algorithms and mathematical models that can put values on tracking millions of trades per second. The people who write these algorithms are from MIT and NASA scientists.

GTS claims they can provide best of breed for transitions.

Trustee Woods returned at 3:31 p.m.

Chairman Harrison asked about the Ambassador transition. Mr. Gray stated that it was completed and was handled by Credit Suisse in New York.

REPORTS

Re: Chairman

Chairman Harrison distributed a document reviewing the sessions he attended at the Opal Public Funds Summit East Conference. He said that a session on real estate investments indicated that the investments are paying dividends but overall investment performance shows negating earnings.

Re: Secretary - None

Re: Trustees/Committees

Chairman Harrison informed the Board that it is time to for the Committee to convene to conduct a professional services provider review of the investment consultant. It is the Board's policy to periodically review the professional service firms they hire.

Re: Administrator

FOIA Information

Ms. Zimmermann reported that a FOIA was sent to the City from one member's attorney. A letter was sent to the attorney explaining that the FOIA has to be addressed to the Retirement System.

She also reported that she sent a FOIA to Larry Marshal requesting copies of PAS Forms that have not been provided to the Retirement Office. No response has been received yet.

Reports Section

She described the information included in the Reports Section of the agenda packet.

Included is the Actuarial Report with regard to the Teamsters contract and documents related to the Teamsters who are eligible for early outs from Human Resources.

An article from Pensions and Investments recommending that alternative investments should be avoided by pension plans.

Write ups from her and Ms. Munson on sessions attended at the Spring MAPERS Conference.

An article from Vanguard describing the new disclosure rules being implemented by New York City Pension Funds.

An article from the New York Times stating that the SEC is tightening their rules on public pension funds “pay-to-play” practices.

She also included the letter sent to the new Emergency Financial Manager Michael Stampfler from former EFM Fred Leeb. She has circled the items that pertain to the Retirement System.

CFA Exam – Deborah Munson

She distributed a copy of Ms. Munson’s CFA Level 1 Exam results indicating that Ms. Munson had passed. She also indicated that only 42% of the 60,000 people who took the test passed. Some of the participants who scored in the 70% range did not pass.

URGE – Pension Increase Request

Ms. Zimmermann distributed a letter for the trustees’ information received from URGE sent to the Mayor and the Chairman requesting an increase in their pension benefit. It is not within the Board’s authority to authorize a pension benefit increase.

North Pointe Capital

She referred to correspondence received from North Pointe Capital indicating that Ms. Sarah Schattner has been promoted to Director of Marketing & Client Service.

Signature Authority

She indicated that the signature authority needs to be updated.

Nexos Update

She asked Mr. Gray whether there is an update on Nexos. Mr. Gray stated that an update will be provided in August.

Death Audit Correspondence

Correspondence was sent from the Retirement Office in regard to the death audit conducted in May. Two members Leona Neeley and William Lewis whose deaths were never reported to the Retirement Office were overpaid \$3,004.00 and \$420.00, respectively. The correspondence was sent to notify their estates of the overpayment and to make arrangements for repayment.

EFM Information

She was been told that Mr. Stampfler has directed Human Resources to provide the requested information to the Retirement Office.

Actuarial OPEB Study

She told the Board that an actuarial study on health benefit costs was requested by the former Emergency Financial Manger and Human Resources.

Federal Withholding Issue

Ms. Munson discovered that withholding at the federal level cannot be based on a flat rate. A notice was sent out to a large number of members whose withholding was based on a flat rate indicating that they needed to change their withholding based on marital status and number of allowances. She informed the Board that Ms. Arndt put forth a lot of hard work and effort assisting the members with this issue.

August Meetings

She reminded the Board that the Manager Review Meeting is an all-day meeting being held on August 24, 2010 with the regular meeting being held at the normal scheduled time on August 25, 2010.

Re: Legal

RESOLUTION 10-070 By Barnett, Supported by Waterman
Resolved, That the Board approved the closed session minutes from June 23, 2010.

Yeas: 8 – Nays: 0

Airgas Securities Litigation

Ms. Billings reported that Ms. Zimmermann was deposed for seven hours on July 27, 2010 with regard to the Airgas Securities Litigation. The litigation is proceeding through discovery.

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.

IRS Determination Letter

Ms. Billings reported that she has not received a response from the IRS since her last response to them.

Demand Letter from Attorney M. Drew Siegel & Associates on Behalf of United Investment Manager, Inc.

Ms. Billings said that a demand letter was received from Attorney, M. Drew Siegel indicating that his client Marcellus Taylor was claiming that the System owed United Investment Managers for eighteen days billing in September, 2009.

She referred to her response where she stated that the System did not terminate UIM; they in fact resigned the account. She explained that the System had an “at will” clause giving them the right to terminate UIM with or without cause at any time. She included a copy of UIM’s resignation with her response.

She refuted their claim that the System owed them money. Given the System did not authorize an assignment after the sale of UIM no fees were owed after August 31, 2009. Any payments made by the System would be made to the money managers.

Credit Suisse Agreement

Ms. Billings reported that Credit Suisse accepted all her changes with regard to liability and indemnification.

Loomis Sayles SEC ADV

Ms. Billings referred to a copy of correspondence sent to Larry Gray regarding the SEC ADV Part received from Loomis Sayles.

Miscellaneous Articles

- CCH Pension – 7/9/10 – IRS Advisory Committee Recommends changes to the determination letter process

Ms. Billings explained that this proposal eliminating amendments would make her job much easier.

- GRS Insight, July, 2010 – The GASB’s Preliminary Views on Pension Accounting and Financial Reporting by Employers

Ms. Billings explained that this proposal would add reporting changes which would reduce the amortization from thirty to fifteen years and eliminate smoothing. The liability would not have to be funded based on these requirements but it would help to compare funding of retirement systems.

- NCPERS the Monitor, June/July 2010 – NCPERS Reading Comments That Challenge GASB Preliminary Views for Pension Accounting

Re: Union Representatives – None

UNFINISHED BUSINESS

Re: Election of Board Officers

Chairman Harrison said he would like to re-do the election insure that the trustees feel they were included and that there were no ill intentions.

Ms. Billings said that the item is on the agenda and the floor can be opened for nominations. If only one trustee is nominated a vote will not be needed.

Trustee Barnett nominated Trustee Harrison for Chairman.

RESOLUTION 10-071 By Jukowski, Supported by Williams

Resolved, That the Board of Trustees closes nominations and Trustee Harrison is appointed Chairman of the General Employees Retirement System Board of Trustees

Yeas: 8 – Nays: 0

Nominations were opened for Vice Chairman.

Trustee Williams nominated Trustee Woods for Vice Chairman.

Trustee Bowman nominated Trustee Wright for Vice Chairman

RESOLUTION 10-072 By Waterman, Supported by Scott
Resolved, That the Board of Trustees close nominations and vote for Vice Chairman of the City of Pontiac General Employees Retirement System.

Roll Call:

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

Re: Disaster Recovery Plan

Ms. Zimmermann told the Board that she has nothing new to report.

Re: Budget Fiscal year 2010-2011

Ms. Zimmermann indicated that she has received no further information although Trustee Wright indicated to her that the money related to the 420 Transfer is still in the budget.

NEW BUSINESS

Re: Semi-Annual Rebalancing

Ms. Zimmermann requested that the Board of Trustees approve the cash flow rebalancing plan as recommended by the investment consultant.

Resolution 10-073 By Bowman, Supported by Waterman

Resolved, That the Board of Trustees approve the transfer of \$2,000,000 from Kennedy Capital, \$2,000,000 from Loomis Sayles, \$2,000,000 from Ambassador Capital, \$2,000,000 from Munder Capital and \$2,000,000 from Peritus Asset Management to provide for benefits and operating expenses for the next six months.

Yeas: 8 – Nays: 0

Re: Signature Authority

Ms. Zimmermann explained that the signature authority needs to be updated. Those with current signature authority are the Chairman, the Administrator and the past Secretary, David Flaisher.

It was determined that the signature authority policy would be updated to include the current Chairman, Vice Chairman and the Administrator.

Resolution 10-074 By Bowman, Supported by Scott

Resolved, That the Board approve the signature authority as the Chairman, Vice Chairman and Administrator.

Yeas: 8 – Nays: 0

Mayor Jukowski told the Board that the current EFM is reviewing the budget and understands there are problems and is working to correct it.

Chairman Harrison confirmed that the City is currently working under the Fred Leeb budget.

SCHEDULING OF NEXT MEETING

Special Meeting: August 24, 2010 @ 8:30 a.m. – Marriott Centerpoint – Pontiac, MI

Regular Meeting: August 25, 2010 @ 1:30 p.m. – Shrine Room, Main Level, City Hall

ADJOURNMENT

RESOLUTION 10-075 By Waterman , Supported by Bowman

Resolved, That the meeting be adjourned at 4:03 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 July 28, 2010

As recorded by Jane Arndt