

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
NOVEMBER 28, 2012**

A regular meeting of the Board of Trustees was held on Wednesday, November 28, 2012 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:36 p.m.

TRUSTEES PRESENT

Shirley Barnett
Koné Bowman, Vice Chair
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Leon Jukowski, Mayor
Walter Moore
John Naglick, Secretary
Sheryl Stubblefield
Patrice Waterman
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Alisha Davis, Plante & Moran
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Victor Farnum, GERS Retiree
Ron Gillotte, GERS Retiree
Mattie Lasseigne, GERS Retiree
Larry Marshall, GERS Retiree
Rudy Nartker, P&F Retiree
Carl Samson, P&F Retiree
Jerry Seay, GERS Retiree
Henry Shoemaker, GERS Retiree
Billie Swazer, GERS Retiree
Linda Watson, GERS Retiree

PUBLIC DISCUSSION/UNION REPRESENTATIVES

Chairman Harrison opened the meeting and explained the format for public discussion.

Retiree, Ron Gillotte said he would like to discuss the City's proposal to privatize the Pension System. He stated that the idea of turning over the Retirement System scares him and that a private business could potentially go out of business. The overfunded status of the System provides a level of security for the retirees especially with what has happened over the past couple of years. He is against the idea of privatization and indicated that the Retirement System needs to remain public.

Retiree, Victor Farnum stated that the devil is in the details. He said that if this proposal could help pay for the retirees' healthcare or for better healthcare the Board should look into it. However, he was concerned about who would be in control of the assets and that he does not want someone to mess with his pension benefit.

Retiree, Larry Marshall asked if the Board will further discuss this topic later in the meeting and whether they will accept questions at that time.

Chairman Harrison stated that questions would be accepted. However, since there are a number of people concerned about this issue he would like to move it up on the agenda.

Trustee Jukowski stated that he would support questions during the agenda item.

Trustee Moore questioned whether the Board is being asked to vote on this issue.

Chairman Harrison stated that the Finance Director added this item to the agenda.

Trustee Moore stated that the discussions with the Emergency Manager and Finance Director just began regarding this issue. He cannot understand how the Board could vote on something that was just brought to the meeting. He indicated that he has attended two meetings and that this issue was never brought up for discussion.

AGENDA CHANGES

Ms. Zimmermann reported that she received the new fiduciary liability policy quote from The Huttenlocher Group. She requested that the Board add this item to the Consent Agenda.

RESOLUTION 12-091 By Gaffney, Supported by Barnett

Resolved, That the Board approve the addition of the Chubb Fiduciary Liability Policy quote to the Consent Agenda.

Yeas: 11 – Nays: 0

Chairman Harrison recommended to the Board that the De-risking Portfolio agenda item under New Business be moved to the top on the agenda after the Consent Agenda.

RESOLUTION 12-092 By Jukowski, Supported by Gaffney

Resolved, That the Board approves to move the De-risking Portfolio agenda item under New Business be moved to the top of the agenda.

Yeas: 11 – Nays: 0

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: October 24, 2012

B. Communications

1. Correspondence from AMBS Re: November 2012 Newsletter
2. Correspondence from Artio Re: Organizational Changes
3. Correspondence from First Eagle Re: Hurricane Sandy & October Performance Summary
4. Correspondence from Gray & Company Re: Acquisition of Alternative Asset Mgr Tiburon
5. Correspondence from Gray & Company Re: Large Cap Emerging and Mich Large Cap Summary
6. Correspondence from Invesco Private Equity Re: Fund V Update
7. Correspondence from Loomis Sayles Re: Organizational Changes
8. Correspondence from Munder Capital Re: Organizational Changes
9. Correspondence from Northpointe Capital Re: Q3 Newsletter & October Perf Summary

10. Correspondence from OakBrook Re: October Portfolio Activity
11. Correspondence from P. Britton Re: Privatizing Retirement System
12. Correspondence from J. Naglick Re: Privatizing Retirement System
13. Correspondence from Huttenlocher Group Re: Fiduciary Liability Insurance Quote
14. Conference Information: None

C. Financial Reports

1. Financial Reports – October 2012
2. Capital Calls:
 - a. GrayCo Alts \$76,384
 - b. Mesirow Fund IV 150,000
3. Death Audit
4. Accounts Payable – November 2012
5. Monthly Share Expenses Wire \$12,636.57

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

1. Remove from the Rolls:
 - a. Judith Dyer (deceased 10-19-12); surv benefit of \$1,112.69/mo to Charles Dyer
 - c. Jessie Searcy (deceased 10-01-12)
2. Application for Service Retirement:
 - a. Charles Rau – Teamsters 214 1 year, 10 months Age 60 PP Term
3. Final Benefit Calculations:

a. Linda Cedillo	#2593	\$1,530.85
b. Debra Woods	#2612	\$1,831.29
c. Selwyn McGhee	#2665	\$ 950.00
4. Overpayment Notices:
 - a. Larry Fultz
 - b. Richie Harris
 - c. Daniel Miller
 - d. Claudia Negrete

RESOLUTION 12-093 By Gaffney, Supported by Long
 Resolved, That the Board approve the consent agenda for November 28, 2012 as amended.

Yeas: 11 – Nays: 0

NEW BUSINESS

Re: De-risking Portfolio

Trustee Naglick indicated that this is an emotional issue so he will be reading from a script.

Trustee Moore asked what the process is for adding an item to the agenda.

Chairman Harrison stated that normally he would go over the items on the agenda with Ms. Zimmermann prior to the meeting. This time the item was added by Trustee Naglick. Ms. Zimmermann contacted him and informed him that the item would be on the agenda.

Ms. Billings stated that it is not improper for a trustee to add an item to the agenda.

Trustee Naglick said that it is the City's goal to preserve some level of retiree healthcare benefits. The millage was repealed. Some will say that the City promised these benefits. However, no one could predict the General Motor's bankruptcy and its effect on the City.

Currently, there is \$136 million in unfunded retiree healthcare liability. In order to preserve the promise the City would have to have set aside \$136 million. De-risking is only one idea they are looking at.

Currently, the Retirement System has \$420 million invested in the stock market and they feel that the assets are at risk. He noted the number of securities litigation cases the Attorney is involved in. He also stated that the System took a 20% hit in 2008 from the stock market.

These assets could be used to buy annuities from a large insurance company like Prudential. The System could offer buyouts to the deferred members or a cost study could be done to increase pension benefits to improve benefits to the retirees and shift the healthcare costs to them.

Currently, there are one thousand people in pay status. He also explained that there is a fixed cost of \$362.00 per month for Medicare Advantage for retirees aged sixty-five and over.

He asked that the Board authorize the Retirement Staff, Trustees, Actuary and Investment Consultant to release the necessary demographic data and explore ideas with outside parties on how to de-risk the portfolio.

City Council also has a role in this plan.

They feel that it is the Board's responsibility to help take care of health insurance.

Trustee Naglick proposed a resolution authorizing the Retirement Staff to release information with Trustee Jukowski supporting the motion. Discussion followed with regard to this issue.

Trustee Barnett asked how this would affect the hospital retirees and their assets in the Retirement System.

Trustee Giddings stated that there were two separate Funds; one for the hospital retirees and one for the City retirees. The hospital retirees participated in the City's Pension Plan. The vesting requirement is ten years which is a long time for healthcare employees. Hospital employees were required to make after-tax contributions of 5% in the Pension System. Actuarially the hospital contributions were to stay in their Plan.

Many hospital employees took out their contributions and forfeited their pension benefit when the hospital privatized on January 1, 1994. At that time the pool of Hospital assets was 200% funded.

He noted that he was the CFO and that the Hospital continued to make additional contributions into the City Plan.

In 2006 or 2007 the Retirement System's actuary determined that the funds should be combined. This was to the advantage of City as it reduced their contributions. There was no advantage for the Hospital. There have been no increases or changes for the Hospital retirees. The Hospital unions never asked for additional benefits. They do not feel that the overfunding attributed to the Hospital contributions should pay for City retiree healthcare. He did note that Hospital retirees once had the option to purchase Blue Cross healthcare but they no longer have that option. The overfunding was created by the Hospital and they have never benefitted from the overfunding.

Trustee Waterman asked how many Hospital retirees there are.

Ms. Zimmermann stated that there are approximately six hundred Hospital retirees.

Trustee Giddings also indicated that there is a significant variance between City pension benefits and Hospital benefits. There should be a permanent increase for Hospital retirees. The City has taken advantage of the overfunding created by the Hospital.

Trustee Barnett added that the average Hospital pension benefit is \$500.00 versus the average City benefit of \$2,500.00. Increasing the amount of the members' pension benefit should be an advantage for both groups.

Chairman Harrison stated that the Board knows that he was looking into helping the retirees with their healthcare costs. He met with Trustee Naglick and the Emergency Manager, Lou Schimmel, to find a way to fix some of the issues. They looked at a Section 420 Transfer or providing retirees with increased pension benefits to help with the healthcare costs. He indicated that Hospital retirees have only received one raise in their pension benefits when he sat on City Council.

Trustee Moore indicated that he was Mayor when the Hospital retirees received their increase.

Chairman Harrison stated that what the Finance Director presented at today's meeting was not part of the original discussion. The Emergency Manager had stated that they just needed a little help. From that meeting, he, Trustee Waterman and Ms. Billings began to talk about options. He noted that no issue can go forward without the Board's approval.

That was the discussion at that time and he would not have looked into the issue without having the Attorney present. Last night he, Trustee Waterman and Ms. Billings met with Trustee Naglick and the Mayor. That was the first time they talked about de-risking the portfolio.

Trustee Moore stated that de-risking is not a new idea. It seems that Emergency Manager, Lou Schimmel, took the idea from Lon Britton and is portraying it as something revolutionary in the newspaper. There have been a number of conferences on de-risking.

Chairman Harrison stated that he talked about this with Trustee Naglick and Mr. Kuhn. He has a good understanding of de-risking based on his profession. There is a good chance that there is not enough money in the Fund to buy annuities based on the low interest rates.

Mr. Kuhn stated that the current pension liability is \$255 million. In the current interest rate environment of 3% to 4% it would double the System's liability.

Trustee Bowman indicated that being in the insurance industry he is aware that a number of large insurance companies have failed. There was \$6 million in the General VEBA now there is \$300,000.00. The annuity rate is currently 2.5%. He questioned whether this solution is even legal.

Chairman Harrison stated that the Board's Attorney has a lot of homework to do. They are only a few hours ahead of the Board.

Trustee Bowman recommended that the Board should not give its approval until they get the information from the Attorney.

Trustee Jukowski stated that about a year ago he pushed for a 420 Transfer but there was a disagreement between him and the Attorney and the Board. They do not feel that a 420 Transfer option is viable now. The 420 Transfer would allow the City to take 50% of the investment income and put it toward the cost of retiree healthcare. However, there is no way of knowing if the System will meet the actuarial assumption so that might only cover part of or none of the healthcare obligation. Based on what Chris Kuhn said there might not be enough money to purchase annuities.

Ms. Billings noted that pension assets are to be used to meet pension benefit obligations. You cannot count on a 420 Transfer to meet long-term healthcare obligations.

Trustee Gaffney told the Trustees that when they sit at this table they should be looking out for the pension benefits of the retirees.

She felt that de-risking the Fund creates risk. There are protections in place for public pension systems. There is no protection for insurance companies. She is depending on her pension benefit to be there for her lifetime. She feels that the System should remain public not private. The number one focus of this Board should be to protect the assets of the Retirement System.

Trustee Waterman stated that she wears three hats as a legislator, retiree and trustee. This issue was originally brought to them as a 420 Transfer and then as a cost study to provide increased pension benefits to retirees. She acknowledged that any changes or options would have to come before the legislative body for approval.

Retiree, Linda Watson questioned how the City arrived at the \$136 million healthcare obligation. It seems that the City wants help without providing the data. The City has sold all the assets and there are no revenue streams left.

She stated that she feels bad for the hospital retirees. However, she had relatives that were employees of the Hospital that took wage increases versus pension benefit increases.

She reminded the Board that they assured her and other retirees that they would not approve a 420 Transfer a few years ago.

She also asked if privatizing her pension benefit would cause her benefit to be taxed further.

Chairman Harrison stated that the Board's attorney has a number of things to look including looking at the State Law. He knew it would not be a good idea to push the Board to vote on this issue today. The City did not get into trouble overnight. It is not a good idea to bring an item to the Board for a vote before the Board has time to research the issue. He was trying to be a team player when the City brought up the 420 Transfer option.

Trustee Jukowski indicated that the motion was to allow the City Council and Finance Director to have access to the necessary data in order to explore whether this is feasible. There is no reason to keep delaying the issue.

Ms. Zimmermann indicated that there are legal issues that need to be explored.

Trustee Moore asked who will pay for the expenses to explore these options.

There was discussion regarding whether the Board should pay for the legal fees to research the issue or if the System is obligated to pay for an actuarial cost study.

Ms. Zimmermann stated that it is not normally the Board's obligation to pay for the cost study.

Trustee Naglick indicated that the City would pay for the cost study. He told the Board that System assets could be lost with regard to the fiscal cliff and losses in the stock market due to that issue.

Retiree, Mattie Lasseigne told the Board that they should be looking out for the best interest of the retirees versus that of the City. It seems that the Finance Director and Mayor have a conflict of interest sitting around this table. They have a responsibility to the Retirement Board and the retirees.

Trustee Bowman asked when the Pension System was established.

Ms. Zimmermann stated that it was founded in 1946.

Trustee Bowman stated that 90% of the Retirement System is invested in the stock market. Even with the market volatility in 2008, the System made it through. He questioned whether the statute that was included in Public Act 4 with regard to funds falling below 80% being taken over by the State of Michigan or MERS is still relevant.

Moving assets out of the Fund could put the System in an underfunded status. The Board is at the table to look out for the pension benefits. The bulk of pension fund assets are invested in the stock market, including those for the State of Michigan and MERS.

Chairman Harrison opened up discussion to the public.

Retiree, Henry Shoemaker asked what would happen to the pension assets if the City goes bankrupt.

Trustee Jukowski indicated that the Retirement System is a separate legal entity and that the assets are protected.

Trustee Giddings questioned whether there are assets in the General VEBA.

Mr. Shoemaker said that three or four years the Mayor asked for a study regarding the Retirement assets and the Board voted it down. He questioned why they are bringing it up again.

Trustee Moore stated that the City is using bankruptcy as a hammer over the Board's head. He asked where the City came up with the \$136 million in healthcare liabilities.

Trustee Naglick stated that the City used the most recent actuarial report for the General VEBA which provided the amount needed to be set aside to meet healthcare liabilities.

Trustee Moore asked about the Police & Fire Retirement System and why that Board is not being approached.

Ms. Billings explained that the Police & Fire Retirement System is underfunded.

Trustee Naglick told the Board that the Police & Fire Retirement System is 98% funded and that the Police & Fire VEBA has approximately \$30 million in assets with \$3 million per year needed to cover the retiree healthcare costs. The Police & Fire VEBA reimburses the City for their retiree healthcare costs.

Trustee Gaffney indicated that the \$6 million in assets from the General VEBA went to the City to pay for retiree healthcare costs.

Retiree, Billy Swazer questioned why the funding level went down 2%.

Chairman Harrison explained that the System is funded over 150%. Earlier they were referring to the drop in the stock market in 2008 and how it affected the assets in the System.

Ms. Swazer asked if the Fund went from public to private, who would get the benefit of sending the money to Prudential. She does not want to pay extra taxes on her pension benefit. She is also concerned that many large insurance companies have gone bankrupt. The System assets have weathered the stock market for almost eighty years.

Police & Fire Retiree, Larry Watkins questioned if there is \$29 million in the Police & Fire VEBA and \$230 million in the Police & Fire Retirement System why is the City taking \$505.00 per month out of his pension check to pay for retiree healthcare.

Chairman Harrison told the Board that there is a resolution riding.

Trustee Moore asked how long the Board is going to beat this issue to death.

Chairman Harrison asked if the Board or attendees had anything further to discuss.

Mr. Gillotte stated that the Emergency Manager Law under Public Act 72 is currently being revised. He did not feel that a bankruptcy judge would take away 100% of the retirees' benefits. He questioned whether the cost could be deferred if direct payments were made.

He does not feel that healthcare is part of the Board's authority and they should stick with their fiduciary duties. He encouraged the Board to wait until some of the dust has settled on the legal issues and newfound liabilities. Every year there seems to be new cuts in benefits.

He told the Board that he is against the privatization schemes. No one knows what is needed and it could be different each year. He thanked the Board for hearing the retirees' concerns.

Ms. Watson told the Board that they should not do anything now.

Retiree, Mattie Lasseigne asked if the City is asking to explore de-risking, buyouts,

Trustee Giddings left at 3:02 p.m.

Chairman Harrison indicated that they are looking at all those options.

Trustee Naglick confirmed that they are looking at de-risking the portfolio, buyouts of deferred vested members and a cost study to enhance retiree pension benefits. They would need the demographic information for approximately one thousand of the GERS retirees including age, gender, benefit amount, etc.

Trustee Giddings returned at 3:05 p.m.

Trustee Jukowski said that he has an obligation to the Board. However, he does wear two hats. If the Board votes to sue the City he abstains from voting because he cannot vote to sue himself.

As far as retiree healthcare is concerned, he has a private small business and he sometimes has to forego coverage. He does not feel this is a conflict as a member of the Board. He is concerned that based on the financial condition of the City the retirees could lose their healthcare a few years down the road. He feels that the Board has an obligation to know the answers.

Trustee Giddings stated that if the City is looking at de-risking the portfolio for the security of Fund assets he does not have a problem looking at options.

He asked if Alisha Davis from Plante Moran has any clients that have looked into or have bought annuities for their pension plan obligations.

Ms. Davis indicated that she specializes in government plans and that none of her clients had.

Trustee Gaffney stated that she does not like the term de-risking. She feels that annuities or privatization would increase retirement risk. She is not opposed to gathering information but she does not feel comfortable with privatizing the System.

Trustee Moore stated that the Board has an obligation and duty to look at options to help the membership. However, he does not feel that these issues should be negotiated in the newspaper.

Trustee Stubblefield said that as a representative of the retirees and an active member she hopes to collect a pension benefit. She does not feel there is enough information to make a decision. But, the Board could provide data to look at these options. The Retirement System is in an unusual position being over funded. If the Board authorizes the release of data the City can look at ideas that might work.

Trustee Bowman stated that as a Board member it seems that there is more to this than just having access to the data.

Trustee Barnett stated that regardless of the ideas, the City still wants the Retirement System assets. The Retirement Board is not responsible for retiree healthcare.

Trustee Naglick indicated that they are just trying to be upfront about obtaining the data. He explained the cost study process and noted that the City always pays for cost studies they initiate. The City Council may also want access to the data.

Ms. Zimmermann told the Board that any requests for cost studies should come through the Retirement Office and that the same process should be followed.

She also told the Board that currently the Retirement Office Staff has a number of major projects there are working on including: separating records for the Police & Fire Retirement System, getting ready to move, early payroll, year-end accounting which includes getting ready for the audit and actuarial valuation.

Chairman Harrison indicated that he asked the representatives of the City not to push this issue.

RESOLUTION 12-094 By Naglick, Supported by Jukowski

Resolved, That the Board authorize the Retirement Office Staff to provide demographic data including age; gender and pension benefit amounts to the City to explore ideas for de-risking the portfolio.

Roll Call:

Trustee Barnett – No Trustee Moore -No

Trustee Bowman – No
Trustee Gaffney – No
Trustee Giddings – Yea
Chairman Harrison – Yea
Trustee Jukowski – Yea

Trustee Naglick - Yea
Trustee Stubblefield - Yea
Trustee Waterman - Abstain
Trustee Williams - No

Motion Failed

It was noted by the Board that a special meeting could be called to revisit this issue but a quorum would be required.

Mr. Farnum, Mr. Gillotte, Mr. Marshall, Mr. Nartker, Mr. Seay, Mr. Samson, Mr. Shoemaker and Mr. Watkins left at 3:29 p.m.

CONSULTANTS

Re: Plante & Moran – Audit Presentation 2011

Ms. Davis apologized and told the Board that she did not realize that Plante & Moran was on the General VEBA agenda.

Ms. Davis stated that conducting this year’s audit was more challenging with the City’s financial issues, waiting on the valuations and pending contribution issues. She acknowledged Ms. Zimmermann and her staff’s assistance.

The Independent Auditor’s Report is the only part of the audit prepared by Plante & Moran. They issued an unqualified opinion which is the highest opinion they can issue.

She noted that the Statement of Plan Net Assets has not changed from the previous audit report and that they are comfortable with the numbers.

She reviewed the Notes to the Financial Statements. She referred to the Plan Sponsor Financial Condition Note which indicates that the City of Pontiac (plan sponsor) is currently experiencing significant financial difficulty. However, they are having to disclose this for many funds that are having the same challenges.

She described Note 2 which is the plan description and contribution information. As of December 31, 2010 there were 1,299 retirees and/or beneficiaries and terminated employees entitled to receive a pension benefit.

There have been some key changes in the plan description based on the partial plan termination.

Trustee Moore asked why the audit report was behind schedule.

Ms. Davis explained that due to the partial plan termination the data changed during the audit process. The number of retirees and those eligible for a benefit increased from 1,299 to 1,500. They are comfortable with the funding status and do not feel that this was a significant issue.

She reviewed their letter to the Board. Section I of the letter is a required communication under SAS 114. Section II includes other general observations during the conducting of the audit and any legislative updates.

Everything was in accordance with the audit. There were no corrected or uncorrected misstatements.

They tested the lag in final benefit calculations to determine how big of a swing there was in benefits and the error rate. They found a very insignificant amount with total errors of \$40,000.00 which is not relevant and falls well below their reporting requirement.

Trustee Naglick noted that the Retirement Office has been working hard to get caught up.

Ms. Zimmermann stated that the Staff has been working to reduce the backlog. However, COLA benefit calculations, early payrolls, year-end closings, the move, transitioning Police & Fire and getting ready for the audit have taken priority.

Trustee Naglick indicated that based on the sampling there has not been a huge difference based on the auditors' findings.

Trustee Moore asked why there is a backlog issue.

Ms. Zimmermann stated that during the past year the Retirement Staff has retired just about everyone on the General side and all the Police & Fire members. We are continuing to work on the backlog.

Trustee Moore said that retiree, Rob Englund came to him and asked why final benefit calculation has not be processed.

Ms. Zimmermann stated that she would have to pull Mr. Englund's file in order to provide a status update.

Chairman Harrison stated that whether or not the Board likes it, the Retirement Office is behind with the final benefit calculations. It has been a difficult year and a half and they are working their way through the backlog and they are catching up. This is not the norm.

Ms. Davis indicated that the audit process began in May, 2012. At that time, they started with the most recent calculations and verified the data. However, due to the partial termination some of the data changed and they had to perform some recalculations.

Chairman Harrison asked about the Schedule of Employer Contributions page in the Audit Report. He noted that COLA benefits would have to be included in any annuity and questioned how that would work.

Ms. Davis asked if the Board had questions regarding the legislative updates or comments.

There was Board discussion regarding the transition of the Police & Fire Retirement System to the third party administrator including staff utilization and the 70%/30% split between the Systems.

Ms. Davis left at 3:51 p.m.

Resolution 12-095 By Waterman, Supported by Jukowski
Resolved, That the Board approve the 2011 Audit Report as presented.

Yeas: 11 – Nays: 0

Ms. Watson & Mr. Marshall left at 3:53 p.m.

Re: Gray & Company

2012 Third Quarter Performance Review

Mr. Kuhn provided a very brief overview of the third quarter 2012 performance. He stated that performance for equities was very good during the quarter and okay for fixed income.

Total Plan value as of September 30, 2012 was \$424.1 million. Performance for the quarter was strong at 4.5% but was still a little behind the policy index.

One-year performance was 20.04%. He indicated that during the third quarter of 2011 there was a drop off in performance but the fourth quarter of 2011 and the first quarter of 2012 came back. Performance dropped off again during the second quarter of 2012.

He reviewed the five-year performance numbers indicating that performance during that period included the credit crisis and market decline. Ten year performance was 7.77% versus the policy index at 8.85%.

The domestic equity portfolio performance for the quarter was 5.66% versus the policy index of 6.24%. One-year performance was 29.28% versus 30.21%; three-year performance was 13.75% versus 13.26%; five-year performance was 2.10% versus 1.30% and ten-year performance was 9.53% versus 8.49% which is just over the Fund's actuarial rate.

The issue with domestic equity is that when the market runs up the managers are not as quick to take advantage of the run up.

Domestic fixed income performance was strong for the period at 2.61% versus the benchmark at 1.59%. One-year performance was 8.53% versus 5.16% and three-year performance was 7.63% versus 6.19%.

There were no third quarter performance numbers for the private equity composite.

He reviewed individual manager performance.

Artio continues to struggle and a search to replace the manager is in progress.

Intermediate fixed income manager Ambassador Capital's shorter duration held back their overall performance for the quarter at 1.67% versus the benchmark at 1.40%.

High yield manager Peritus performed well for the period at 5.29% versus the benchmark at 4.61%.

He provided updated market values for the Fund. At the end of the third quarter the Fund's market value was \$425 million and as of November 28, 2012 total Fund value was \$416.7 million. October was not a kind month and the Fund gave back performance. Since the election the Fund has made back some of the performance but they are looking at negative territory for performance during the fourth quarter.

He indicated that there are enough assets in the cash account to make it through to the next portfolio rebalancing.

International Equity Search

Mr. Kuhn presented information with regard to the international equity manager search.

He indicated that they screened the managers to find the best overall fit with First Eagle which is a deep value international equity investment manager. They are looking at managers with a core or growth strategy.

WHV Investment Management has presented their investment strategy to the Board in the past.

He provided an overview of the managers based on their location, style and primary investment approach.

Calamos International uses a top down/bottom up approach. Johnston International; Thomas White International Equity; Thornburg International Equity and WCM Focused Growth International use a bottom up fundamental approach. WHV International uses a top down thematic approach.

He pointed out that there is a write-up for each investment manager for the Board's review.

He reviewed the managers' performance comparisons for the trailing returns and risk. He told the Board that they should focus on the consistency of returns and how many quarters the manager beat the benchmark. Some of the managers do not have ten full years of performance history in this strategy.

He also reviewed the excess return analysis over the rolling one-year, three-year and five years to determine which managers provided index like performance during market downturns and the most consistent performance.

There was Board discussion regarding the number of managers should come in to present their investment strategy. The Board determined that they would like to hear presentations from three managers at the February, 2013 regular meeting. They asked that the Investment Consultant pick three managers from the list provided.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

2012 COLA Payment

Ms. Zimmermann reported that the COLA payment to the members was sent out on November 14, 2012. The COLA payments totaled \$1,893,580.

New Local 2002 Collective Bargaining Agreement

Ms. Zimmermann reported that there is a copy of the new Local 2002 Collective Bargaining Agreement under the Reports Section of the Agenda Report.

Re: Legal

Fiduciary Liability Insurance

Ms. Billings reported that there is a copy of her response to the insurance company regarding the questions on the insurance application including a summary of the Onyx and Nexos litigation.

Mesirow Fund VI Proposed Changes

Ms. Billings reported that Mesirow made a minor amendment to the Partnership Agreement . She has no legal issues with the change.

Revised Portfolio Monitoring Agreement with Robbins, Geller, Rudman & Dowd, LLP.

Ms. Billings reported that this agreement is being revised to reflect the name change for the Robbins Geller firm.

She asked the Board to authorize the Chairman to approve the document on behalf of the Board.

RESOLUTION 12-096 By Jukowski, Supported by Gaffney

Resolved, That the Board authorize the Chairman to approve the Revised Portfolio Monitoring Agreement with Robbins, Geller, Rudman & Dowd, LLP.

Yeas: 11 – Nays: 0

RESOLUTION 12-097 By Waterman, Supported by Williams

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

Roll Call:

Trustee Barnett – yea	Trustee Moore - yea
Trustee Bowman – yea	Trustee Naglick - yea
Trustee Gaffney – yea	Trustee Stubblefield - yea
Trustee Giddings - yea	Trustee Waterman - yea
Chairman Harrison – yea	Trustee Williams - yea
Trustee Jukowski - yea	

The Board moved to closed session at 4:11 p.m.

Ms. Arndt, Mr. Kuhn, Mr. Marshall and Ms. Watson left at 4:11 p.m.

Trustee Jukowski left at 4:28 p.m.

The Board returned from closed session at 4:40 p.m.

Ms. Arndt, Mr. Marshall and Ms. Watson returned at 4:40 p.m.

UNFINISHED BUSINESS

Re: Rent/Overhead – Refer to Legal (Closed Session)

Re: Larry Balowski – Closed (Remove from Agenda)

Re: Owusu-Agyei (Twum)/Brown Service Credit Issue – Pending

Re: Disability Income Verification

Ms. Zimmermann reported that the disability income verification has been completed.

Re: WRERA Amendment

Ms. Zimmermann reported that the amendment change is included in the agenda packet. It has been approved by City Council.

NEW BUSINESS

Re: De-risking Portfolio – Moved up on Agenda (After Consent Agenda)

Re: Proposed 2013 Board Meeting Calendar

Ms. Zimmermann asked that the Board review and approve the 2013 Board Meeting Calendar.

RESOLUTION 12-098 By Gaffney, Supported by Waterman

Resolved, That the Board approves the 2013 Board Meeting Calendar.

Yeas: 10 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: January 30, 2013 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

RESOLUTION 12-099 By Gaffney, Supported by Stubblefield
Resolved, That the meeting be adjourned at 4:42 p.m.

Yeas: 10 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on November 28, 2012

Secretary, John Naglick
As recorded by Jane Arndt