

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
FEBRUARY 22, 2012**

A regular meeting of the Board of Trustees was held on Wednesday, February 22, 2012 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:37 p.m.

TRUSTEES PRESENT

Shirley Barnett
Koné Bowman
Charlie Harrison, Chairman
Leon Jukowski, Mayor
Phyllis Long
John Naglick, Secretary
Tuesday Redmond
Sheryl Stubblefield
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Wallace Handler, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M- Administrative Assistant
Larry Marshall, Retiree (*arrived at 2:00 p.m.*)
Linda Watson, Retiree

TRUSTEES ABSENT

Patrice Waterman (*excused*)

PUBLIC DISCUSSION/UNION REPRESENTATIVES

Ms. Watson asked what the Hartford invoice under accounts payable was for. Ms. Zimmermann indicated that it is the invoice for workman's compensation insurance.

Ms. Watson stated that she felt that the manager review meeting held yesterday went very well.

She told the Board that she had contacted Ms. Arndt regarding an issue with the page numbers in the actuarial report. There was an omission of page four and there were two page tens. Ms. Arndt stated that the page numbers in the report were numbered incorrectly.

AGENDA CHANGES

APPROVAL OF CONSENT AGENDA

- A. Minutes of Special Meeting: November 14, 2011
- B. Minutes of Regular Meeting: January 25, 2012
- C. Communications
 - 1. Correspondence from AMBS Re: Newsletter
 - 2. Correspondence from Loomis Sayles Re: Client Service Reorganization
 - 3. Correspondence from Munder Capital Re: Change of Mid Cap Analyst

4. Correspondence from Sawgrass Asset Management Re: Newsletter
5. Conference Information
 - a. NCPERS Annual Conference – NCPERS – May 5-10, 2012
 - b. Public Employee Benefits Update – IFEBP – June 18, 2012
 - c. Investments Institute – IFEBP – April 23-25, 2012

D. Financial Reports

1. Financial Reports – January 2012
2. Securities Lending – December 2011
3. Capital Calls:
4. Accounts Payable
 - a. ADP \$2,977.97
 - b. Artio Global 70,889.93
 - c. Berwyn Group 161.00
 - d. GE Capital (copier) 116.42
 - e. Gray & Company 8,104.17
 - f. Hartford 487.90
 - g. Kennedy Capital 55,978.00
 - h. Loomis Sayles 39,053.59
 - i. Munder Capital 80,011.00
 - j. Office Depot 126.40
 - k. Rodwan Consulting 1,400.00
 - l. Stevens Records Management 98.94
 - m. Sullivan, Ward, Asher & Patton 2,675.00
 - n. Systematic Financial Management 48,490.30
 - o. United Healthcare 367.12
 - p. U.S. Post Office 1,969.48
 - q. VISA 1,415.56

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

1. Remove from the Rolls:
 - a. Adrianna Hurst (deceased 01-30-12)
 - b. Laura Arenas (deceased 02-03-12)
2. Pop-up Effective
3. Application for Service Retirement:
 - a. Terrence McCormick – Teamsters 214 14 years, 8 months Age 64 (settlement)
 - b. Yvette Talley – Non Union 20 years, 2 months Age 49 (early out)
4. Applications for Deferred Retirement:
5. Final Benefit Calculations:

a. Ruth Ramsey – Non Union	#2408	\$1,643.81
b. Connie Smolek – SAEA	#2469	638.55
c. Pablo Cruz – PPMA	#2476	4,670.57
d. Richard W. Brace – SAEA	#2496	473.42
e. JoAnne Purty – SAEA	#2553	2,251.67
f. Irene Wright – NOMC	#2573	67.40
g. William Lolli – SAEA	#2623	892.36
h. Regina Lane – NU Court	#2631	386.15

6. Change of Retirement Effective Date:
 - a. Charles E. Anthony
7. Disability Re-Examinations:

Ms. Zimmermann indicated that there was a misspelling of a name under final benefit calculations. She asked that the spelling of Smokek be changed to Smolek.

RESOLUTION 12-013 By Long, Supported by Waterman
Resolved, That the Board approve the consent agenda for February 22, 2012 as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company

International Equity Manager, Artio Global Investors

Mr. Kuhn stated that the Board made an observation at the manager review meeting that Artio's performance continues to struggle. It would be prudent for the Board to send a watch letter indicating that their performance is failing to meet the System's expectations.

Chairman Harrison noted that other managers have displayed occasional down performance through a cycle but Artio has been through a number of cycles and their performance has not improved.

Trustee Naglick stated that the manager seemed humble at yesterday's meeting regarding their performance so the letter will come as no surprise.

Chairman Harrison confirmed that Mr. Kuhn would draft the letter putting Artio on watch.

RESOLUTION 12-014 By Barnett, Supported by Williams
Resolved, That the Board direct the investment consultant to send a letter to international equity manager Artio Global Investors indicating that their performance is on watch.

Yeas: 9 – Nays: 0

Requested IPS Change for Fixed Income

Mr. Kuhn reported that fixed income manager Munder Capital asked the Board at the manager review meeting yesterday to expand the fixed income guidelines in the Investment Policy Statement. They would like to increase the percentage of Commercial Mortgage Backed Securities (CMBS) they can add to their portfolio from 2% to 10%. Gray & Company does not have an objection to this request and expressed that Munder is just looking for additional fixed income opportunities.

Chairman Harrison questioned whether Ambassador Capital also asked for this expansion of the IPS.

Mr. Kuhn said that he spoke with Ambassador and they would appreciate the expansion of the portfolio but will not use it as much as Munder Capital.

Chairman Harrison asked that Mr. Kuhn provide a recap of what Munder Capital is requesting.

Mr. Kuhn explained mortgage backed securities and what went wrong in the financial crisis.

Munder Capital is looking at older issues from 2000 through 2005 with good payment histories and those recently issued under the more stringent guidelines. They will not invest in the poor quality loans.

Trustee Bowman stated that the Fund already has an allocation to real estate.

Mr. Kuhn explained that there is a small slice through the Fund's private equity investment allocated to real estate. The Fund would not be buying real estate. This is a fixed income security with real estate as the collateral. The Fund would get the principal and interest back each month. They would essentially become the lender in that space.

Trustee Bowman questioned how the System would become the lender.

Mr. Kuhn stated that the System would be buying the loans.

Trustee Naglick indicated that Munder is only looking at good quality issues. There would be no sub prime issues.

Mr. Kuhn stated that the whole financial crisis was due to the banks packaging bad loans that were sold over and over again.

Trustee Naglick questioned whether this would cause the System to take on more risk.

Ms. Zimmermann explained that there is information in the agenda packet regarding this request.

Trustee Naglick asked if it would be helpful to have Munder come to explain their request.

Chairman Harrison asked the Board whether they need Munder to come in.

Mr. Kuhn stated that the System would not be missing out on any big returns if they wait.

Trustee Stubblefield stated that she is not comfortable making a decision and would like more information.

Chairman Harrison directed Ms. Zimmermann to put Munder Capital on the agenda for next month.

Private Equity Portfolio

Mr. Kuhn said that it has been four years since the Board hired private equity fund of funds managers Invesco and Mesirow. It made sense to add private equity and this level of diversification to the portfolio. These managers have stopped allocating assets to managers in the current funds.

Chairman Harrison explained that private equity investments are on a J curve. The System's private equity investment is currently on the upward slope of the J curve. On the low end the system is looking at performance of 8% or better. Mesirow was not in yesterday but he believes that investment is probably around the same position on the J curve. The Board invested in two large well known companies. There are \$6 million in assets set aside that need to be allocated to this investment space. The previous suggestion was to split the assets between the two managers. He would like to get this issue resolved.

Trustee Barnett questioned whether these assets would be invested at the bottom of the J curve.

Chairman Harrison stated that the old fund is closed and that the managers have opened new funds. He asked if the Board requires additional discussion before making a decision.

It was noted that the current allocation to Mesirow is \$3 million with approximately \$2 million left to allocate and the current allocation to Invesco is \$1.8 million with approximately \$750,000.00 to allocate.

Trustee Barnett noted that she would like the \$6 million allocation to be split evenly between the two managers.

Chairman Harrison questioned whether the Board had any additional concerns.

Mr. Kuhn stated that essentially adding two more managers would create more work for Ms. Zimmermann and her staff.

Retiree, Larry Marshall arrived at 2:00 p.m.

RESOLUTION 12-015 By Barnett, Supported by Bowman

Resolved, That the Board approve the allocation of \$6 million in System assets to be split evenly, \$3 million each, between private equity fund of funds managers Invesco and Mesirow Private Equity.

Yeas: 9 – Nays: 0

First Eagle Global Equity Fund Contract

Mr. Kuhn indicated that the First Eagle contract is ready to go. Gray & Company will be monitoring the basket clause with regard to this investment. Currently, they have less than 10% allocated to the basket clause in gold and high yield investments. The Fund currently has 7% allocated to the basket clause. Gray & Company will monitor on behalf of the System. He noted that the allocation to high yield manager Peritus needs to be reduced which would decrease the

basket clause as well as the allocation to private equity manager Nexos. This will provide room in the basket clause for global equity manager First Eagle.

Ms. Zimmermann questioned whether 10% is the maximum they would invest in basket clause investments.

Mr. Kuhn stated that they can go higher but Gray & Company will monitor.

Ms. Zimmermann confirmed that their maximum investment to the basket clause would be 10%.

Ms. Billings stated that legal counsel for First Eagle advised that First Eagle would not monitor their investment with regard to the basket clause or other compliance with PA 314.

Ms. Zimmermann stated that she experienced an issue with tracking the basket clause investments when NEPC was the consultant.

Chairman Harrison asked if the devaluation of the dollar could shift this investment.

Ms. Billings noted that she had concerns with regard to the basket clause investments based on Public Act 314. She reached out to First Eagle on what type of investments they would be making that would fall under the basket clause.

Trustee Bowman questioned where the \$6 million in assets are coming from to fund this investment. He thought that the assets were allocated to the GrayCo Alternative Partners investment.

Trustee Naglick noted that Onyx and Nexos are still on the books and are valued at 2.6 million and \$3.8 million. The only money currently in private equity is allocated to Invesco and Mesirow.

Ms. Zimmermann stated that Onyx what written off at the end of the year. The funds from Nexos were just received last week. These allocations were not off Gray & Company's books as of December 31, 2011.

Chairman Harrison stated that it sounds like there is some housecleaning that needs to be done. He also noted that the assets need to be allocated.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees

Board Composition Committee

General Employees Retirement System
Regular Meeting,
February 22, 2012

Chairman Harrison stated that a committee was held to look into the Board composition.

Trustee Naglick distributed copies of the report of recommendations from the meeting.

Trustee Barnett indicated that she wanted to go on the record that the hospital has more money and more retirees in the System than any other group.

Chairman Harrison felt that a retiree is a retiree regardless of whether they are from the hospital or the City.

Trustee Naglick stated that the committee members were Chairman Harrison, Trustee Stubblefield and himself.

The current Board composition is comprised of eleven trustees. The Mayor sits by virtue of his/her position. The Council Trustee sits by virtue of his/her position. The Finance Director sits by virtue of his/her position. The Retiree Trustee is elected by all retired members. The Hospital Deferred Trustee is elected by the hospital deferred members. There are three Citizen Trustees which are recommended by the Board and appointed by the Council or Emergency Manager. And, there are three Employee Trustees who are elected by the active City employees.

The committee discussed how it is getting more difficult to find active employees to fill the positions.

Trustee Naglick stated that the Hospital Deferred Trustee will become the Hospital Trustee and will be elected by all hospital members.

The Employee Trustees will have one Employee Trustee which will be elected from and by active City employees.

The other two Employee Trustees will be elected by the active, deferred and retired City members.

Chairman Harrison also indicated that the committee felt that the current demographic was not representative of the System. There are more retired members than there are active members. The committee was trying to be proactive when making their recommendation.

Retiree, Larry Marshall confirmed that there will be one Employee Trustee elected by the General active members and the other two Employee Trustees will be elected by active, deferred and retired City members.

Ms. Zimmermann explained that in the past the Board did not want to change the Hospital Deferred Trustee position on the Board. However the position could not be filled because most of the deferred members had gone into pay status. The new trustee position will allow for either a deferred or retired member to hold the position.

The Employee Trustee positions will change going forward. One Employee Trustee position will be elected by active remaining City employees so they have a representative on the Board. The other two Employee Trustee positions could be either active, deferred or retired City members who are nominated and elected by active, deferred or retired City members.

Trustee Stubblefield noted that the Retiree Trustee will be elected by all retired members of the System. This means that there is the potential for two hospital retirees on the Board.

Ms. Watson had a question regarding the Retiree Trustee position. It was explained that the Retiree Trustee is elected by all retired members of the System.

Mr. Marshall confirmed that the Hospital Trustee would be open to and elected by both deferred and retired hospital members of the System.

Trustee Naglick asked that Ms. Zimmermann explain the election procedures.

Ms. Zimmermann stated that the Retiree Trustee election would be a mail ballot and mail election to all retired GERS members.

The Hospital Trustee would be a mail ballot and mail election to all deferred and retired hospital GERS members.

One Employee Trustee position (active) election would be held at City Hall and the position would be elected by active City employees.

Two Employee Trustee positions would be a mail ballot and mail election to all active, deferred and retired City members.

Trustee Williams asked what will happen to Trustee Redmond's position on the Board. He asked if she will finish her term or if she needs to be re-elected.

Chairman Harrison noted that Trustee Redmond recently retired and explained that her term is expiring. All the elections will be held simultaneously. She is still sitting as trustee until there is a replacement. He also indicated that she can now run for one of the Employee Trustee positions that is open to all City members.

Trustee Naglick also indicated that Trustee Long's term is expiring at the end of March.

Mr. Marshall confirmed that Trustee Long has to run for her position because her term is expiring. When she was elected she was finishing the former trustee's term. Trustee Stubblefield is still serving her term.

Trustee Naglick asked that the Board accept the Committee Recommendations including the reappointment of Trustee Kevin Williams as the Citizen Trustee and that the Retirement Ordinance and Election Rules be amended to reflect these changes.

RESOLUTION 12-016 By Bowman, Supported by Stubblefield

Resolved, That the Board accept the recommended amendments to the Retirement Ordinance and Election Rules to reflect the following Board composition changes:

Two (2) members of the Retirement System to be nominated and elected by active, deferred vested and retired members of the Retirement System;

One (1) active member of the Retirement System to be nominated and elected by active members of the Retirement System;

One (1) Hospital Trustee of the Retirement System to be nominated and elected by deferred vested or retired members of the Retirement System who were formally employed by Pontiac General Hospital;

And, the Board recommends the reappointment of Trustee Kevin Williams as the Citizen Trustee.

Yeas: 9 – Nays: 0

Mr. Marshall suggested that the Board notify what is left of the bargaining units regarding the changes. There may be other people that need to know what is happening.

Ms. Watson asked when the elections will be held.

Ms. Zimmermann stated that the elections cannot be scheduled until the Emergency Manager approves the proposed recommendations.

Re: Administrator

Actuarial Cost Study - Additional Service Credit

Ms. Zimmermann referred to the actuarial cost studies to compute additional service credit for Tuesday Redmond and Terrence McCormick included under the Reports section of the agenda.

Nexos Private Equity Growth Fund – Return of Investment

Ms. Zimmermann reported that the funds from the Nexos return of investment were received on February 2, 2012 totaling \$1,750,406.32.

Michigan Pension Withholding Certificates

Ms. Zimmermann acknowledged the efforts of Deborah Munson and Jane Arndt in getting the new Michigan pension tax information out to the members.

Retirement Staff Sick & Vacation Liability

Ms. Zimmermann reported that the liability for the Retirement Staff's sick and vacation time will be transferred to the System's books.

Re: Legal

Ms. Billings introduced her senior partner, Wallace Handler.

RESOLUTION 12-017 By **Bowman**, Supported by Williams
Resolved, That the Board approve to move to closed session to discuss pending litigation concerning Onyx, Northern Trust, Balowski, Delphi, Lockheed, Sybase, Health Management and Cooper Companies.

Roll Call:

Trustee Barnett – yea	Trustee Long - yea
Trustee Bowman – yea	Trustee Naglick - yea
Chairman Harrison – yea	Trustee Stubblefield - yea
Trustee Jukowski – yea	Trustee Williams - yea

The Board moved to closed session at 2:38 p.m.
Trustee Redmond returned at 2:39 p.m.
Trustee Jukowski left at 3:15 p.m.
The Board returned from closed session at 3:35 p.m.

RESOLUTION 12-018 By Bowman, Supported by Naglick
Resolved, That the Board approve the closed session minutes from January 25, 2012.

Yeas: 8 – Nays: 0

RESOLUTION 12-019 By Barnett, Supported by Long
Resolved, That the Board approve to retain Attorney Daryl Ladden to pursue the System’s interests in the Dixon/Onyx bankruptcy litigation

Yeas: 7 – Nays: 1 (Trustee Williams)

RESOLUTION 12-020 By Bowman, Supported by Naglick
Resolved, That the Board ratify the Secretary’s signature on the Delphi Corporation Securities Litigation Verification for the Complaint.

Yeas: 8 – Nays: 0

RESOLUTION 12-021 By Bowman, Supported by Naglick
Resolved, That the Board ratify the Secretary’s signature on the Health Management litigation retainer letter and certification.

Yeas: 8 – Nays: 0

Nexos Private Equity Growth Fund – Return of Investment
Ms. Billings reported that the issue has been finalized.

Retirement Systems Staff Transition Process/SAEA Recognition and Assumption Agreement
Ms. Billings reported that this issue is still pending.

Partial Termination

Ms. Billings reported that Trustee Long provided a great report of the layoffs beginning in 2008. Trustee Long noted that the layoffs began in 2005. She has indicated that she will be providing that information for review.

Ms. Billings indicated the number of layoffs per year as follows:

2008 – 12
2009 – 15
2010 – 42
2011 – 103

First Eagle Global Value Fund, LP

Ms. Billings reported that First Eagle has acknowledged her requested changes in the Side Agreement including a most favored nations provision; being subject to the Michigan FOIA; their compliance with anti-discrimination laws; their fiduciary status; the indemnification clause and that the Side Letter is a valid, binding and enforceable agreement between the Partnership and Investor.

GrayCo Alternatives

Ms. Billings reported that she has completed her review of the GrayCo Alternatives Agreement and has found it acceptable for execution. They agreed to the most favored nations clause; their fiduciary status; being subject to Michigan FOIA; their compliance with anti-discrimination laws and agreed to the default due to changes in the law. She also tried to get them to change the capital call procedure allowing ten business days for the drawdown to be delivered versus five. She indicated that they said they would do their best to work with the Retirement Office on this detail. She also noted that they have agreed to divulge the names of the other investors along with being governed by Michigan law.

She asked that the Board execute and authorize the Chairman to sign the Agreement.

RESOLUTION 12-022 By Stubblefield, Supported by Bowman

Resolved, That the Board authorize the Chairman to sign and the execution of the GrayCo Alternatives Agreement.

Yeas: 8 – Nays: 0

Board Composition – Refer to Committees

Chubb Fiduciary Liability Insurance

Ms. Billings reported that she has been trying to get the recourse provision removed from the fiduciary liability insurance contract. She explained that the recourse provision only applies to private entities and that leaving this provision in the contract could result in the trustees being personally liable.

She contacted the Vice President of Chubb who has agreed to remove the recourse provision from the contract. She has forwarded that information onto Steve Fladger.

Motley Rice Portfolio Monitoring Report 4th Quarter 2011

Ms. Billings reported that this is for the trustees' information.

Re: Union Representatives

UNFINISHED BUSINESS

Re: Citizen Trustee Appointment – Refer to Reports (Committees)

Re: Board Composition – Refer to Reports (Committees)

Re: Partial Plan Termination - Refer to Legal

Re: Additional Payrolls Request - Refer to Administrato

Re: Rent/Overhead

Ms. Zimmermann reported that she has included the rent and overhead costs charged by the City of Pontiac for fiscal years 2009-2010 and 2010-2011. These costs are reimbursed each year to the City.

She noted that the information is for the trustees' review.

NEW BUSINESS

Ms. Zimmermann requested that the retirement benefit recalculation has been pending for Willie Ramsey. She asked that it be added to the agenda.

RESOLUTION 12-023 By Stubblefield, Supported by Williams

Resolved, That the Board approve the retirement benefit recalculation for Willie Ramsey be added to the agenda.

Yeas: 8 – Nays: 0

RESOLUTION 12-024 By Long, Supported by Redmond

Resolved, That the Board approve the retirement benefit recalculation for Willie Ramsey.

Yeas: 8 – Nays: 0

Re: Larry Balowski Hearing Request – Refer to Legal (Closed Session)

SCHEDULING OF NEXT MEETING

Regular Meeting: March 21, 2012 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

RESOLUTION 12-025 By Barnett, Supported by Redmond
Resolved, That the meeting be adjourned at 3:45 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 January 25, 2012

Secretary, John Naglick
As recorded by Jane Arndt