

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
FEBRUARY 27, 2013**

A regular meeting of the Board of Trustees was held on Wednesday, February 27, 2013 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:39 p.m.

TRUSTEES PRESENT

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

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Sheryl Stubblefield (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Tony Asher, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Laurance Gray, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Dustin Blitchok, Oakland Press
Tim Thompson, Oakland Press
Claudia Filler, Retiree
Larry Marshall, Retiree (*arrived at 1:40 p.m.*)
Gloria Miller, Deferred Retiree (*arrived at 1:50 p.m.*)
Linda Watson, Retiree

PUBLIC DISCUSSION/UNION REPRESENTATION

Retiree, Linda Watson told the Board that she was happy to see all the trustees back.

She was not happy with the Emergency Manager's recent move to change the composition of the Board. She does not like people messing with the Board.

She would like to see the Board revisit the travel policy to limit the number of conferences the trustees can attend per year to two and to keep the Board out of the headlines.

Retiree Billie Swayzer stated her objections to the board change implemented by the Emergency Manager and felt those board members appointed by him were trying to close the System and take the excess funds. She wanted to keep the System and Board as they are.

AGENDA CHANGES

Trustee Bowman recommended that the minutes from the special meeting held on December 14, 2012 be separated from the consent agenda and tabled.

Trustee Williams also questioned how the five resolutions contained in those minutes should be addressed by the Board.

Ms. Billings indicated that it is proper for the Board to pull and table those minutes until the end of the court proceedings since the Court has yet to rule.

Mr. Asher confirmed that it would not be appropriate for this Board to approve those minutes.

Trustee Naglick asked that the Board re-entertain the travel and ethic policy changes

Chairman Harrison indicated that there is a current motion on the floor. The travel and ethic policy changes will be addressed. He also noted that Ms. Watson made a comment regarding the travel policy. This will be addressed during the legal report when the changes to Public Act 314 are reviewed.

Trustee Naglick stated that he will make the motion then.

Trustee Moore stated that he would like to include the legal counsel's statement in the resolution. He also asked if the staff was advised to provide the retiree data.

Ms. Billings said that the information was not forwarded.

Trustee Naglick stated that he would like the travel policy also to reflect no fancy dinners.

Ms. Zimmermann noted that Trustee Naglick attended dinners in the past.

He also stated that a document was sent to Met Life but that the census data was never provided. That project is a dead issue.

Trustee Moore requested a copy of the document that was provided to Met Life. He would also like the resolution to indicate the actions taken at the December 14th meeting are null and void instead of assuming it.

Mr. Asher noted that this Board cannot approve the minutes or actions taken during the special meeting by the other Board.

Trustee Naglick questioned whether the resolutions approved by the other Board are still in play.

Mr. Asher stated that the resolutions approved by the other Board have no status with this Board. Therefore, this Board cannot act on those motions.

Trustee Naglick stated that he will address those changes made by the other Board later in the meeting.

Trustee Jukowski questioned Mr. Asher and stated that the Court Order reinstated this Board but the actions of the five-member board were not directly addressed.

Ms. Billings stated that everything done then is in abeyance pursuant to the Court Order.

Mr. Asher indicated that the issue before the Board is the approval of the minutes from the December 14, 2012 special meeting.

The Court Order was reviewed and based on the opinion of legal counsel it was determined that the Board could only take action on items approved prior to the five-member Board.

Trustee Jukowski said that he agrees that the Board can vote to pull the minutes but disagrees that the Court Order indicates that the current Board is not bound by the actions taken by the Board at the December 14, 2012 meeting.

Trustee Williams stated that the minutes from the December 14, 2012 special meeting should be pulled and that this Board is not bound by the resolutions approved at that meeting.

Trustee Giddings stated that if there is an issue regarding the resolutions from the December 14, 2012 meeting the current Board could reverse those resolutions.

RESOLUTION 013-00 - By Bowman, Supported by Waterman

Resolved, That the Board approves the pulling and tabling of the minutes from the December 14, 2012 meeting and that no action be taken on the resolutions approved at that meeting until the litigation is complete per the recommendation of legal counsel.

Yeas: 7 – Nays 2 (Trustee Jukowski & Trustee Naglick)

APPROVAL OF CONSENT AGENDA

- A. Approval of Minutes of Regular Meeting: November 28, 2012
- B. Approval of Minutes of Special Meeting: December 14, 2012
- C. Approval of Minutes of Special Meeting: February 15, 2013
- D. Communications
 - 1. Correspondence from AMBS Re: December 2012 & January, February 2013 Newsletters
 - 2. Correspondence from First Eagle Re: Organizational Changes and Nov & Dec 2012, Jan 2013 Client Statements
 - 3. Correspondence from Gray & Company Re: October & November Performance Summaries
 - 4. Correspondence from Grayco Alts Re: September 2012 Partners Capital Statement
 - 5. Correspondence from Munder Capital Re: Fiscal Cliff Averted & Q4 Market Review
 - 6. Correspondence from Northpointe Capital Re: January 2013 Performance Summary
 - 7. Correspondence from Oakbrook Re: November, January Performance Summary
 - 8. Correspondence from Piedmont Re: Fourth Quarter 2012 Newsletter
 - 9. Correspondence from Peritus Re: Newsletter
 - 10. Conference Information:
 - a. Benefits Conference for Public Employees – IFEBP – April 16-17, 2013
 - b. Annual Conference & Exhibition – NCPERS – May 18-23, 2013
 - c. 59th Annual Benefits Conference – IFEBP – October 20-23, 2013
 - d. Investments Institute – IFEBP – April 22-24, 2013
- E. Financial Reports

1. Statement of Changes: November, December 2012 and January 2013
2. Accounts Payable: December 2012, January & February 2013
3. Accounts Payable Re: Onyx
 - a. Sargent Consulting \$15,173.80
 - b. Epiq Systems 11,722.51
4. Ratification of Capital Calls: Grayco Alts \$286,506
5. Death Audit Results
- F. Applications for Retirement, Final Calculations, Refunds, Re-Examinations
 1. Remove from the Rolls:
 - a. Peter Kerttu – deceased 11-18-12
 - b. Georgia Brown – deceased 11-19-12
 - c. Cornelia Rhodes – deceased 12-9-12: Survivor bnft of \$698.62/mo to Elvin Rhodes
 - d. Juanita Jimenez – deceased 12-31-12
 - e. Laverne Richards – deceased 12-21-12
 - f. Sandra Spindler – deceased 01-16-13: Survivor bnft of \$287.77/mo to Steven Spindler
 - g. Martha Kreder – deceased 01-09-13
 - h. Robbie Krawford – deceased 01-09-13
 - i. Yvonne Wooten – deceased 02-12-13
 2. Application for Service Retirement:

a. Jan Eagan – Hospital	2 years, 6 months	Age 60	Off deferred
b. Kimberly J. McNary - 2002	24 years, 8 months	Age 49	60 points EO
c. Gregory T. Gates - 2002	28 years, 0 months	Age 51	60 points EO
d. Paul F. Mosher – 2002	15 years, 10 months	Age 50	60 points EO
e. Robert B. Simmons – Hospital	15 years, 9 months	Age 55	Off deferred
f. Robert W. Shelton – 2002	20 years, 8 months	Age 52	60 points EO
g. McDonald Baldwin – 2002	11 years, 8 months	Age 51	60 points EO
h. Carol A. Wilkins – Teamsters	16 years, 1 month	Age 59	58 points EO
i. Robert M. Rodgers - 2002	22 years, 4 months	Age 43	60 points EO
j. Marilyn Lingenfelter -	10 years, 2 months	Age 60	Off deferred
k. Mark E. Lewis – 2002	15 years, 10 months	Age 47	60 points EO
l. Bryant D. Long – 2002	15 years, 2 months	Age 54	60 points EO
m. Robert D. Lavoie	15 years, 6 months	Age 60	Off deferred
 3. Final Benefit Calculations:
 - a. Claudia Negrete #2513
 - b. Michael Roth #2555
 - c. Jose Ybarra #2556
 - d. Charles Anthony #2580
 - e. Sally Lange #2587
 - f. Marquetta Dudley #2595
 - g. Frances Finnegan #2602
 - h. Madhu Oberoi #2605
 - i. Kevin Cook #2608
 - j. James Wellons #2610
 - k. Robert Englund #2613
 - l. Denise Shanks #2614
 - m. Myra Allen #2616

n. Thomas Lewis Jr.	#2632 (overpayment)
o. Dane Snowden	#2638
p. Sheila Maksuta	#2645 (overpayment)
q. Virginia Lauer	#2647
r. Thomas Williams	#2662
s. Tuesday Redmond	#2666
t. Mark Hotz	#2671
u. Yvette Talley	#2679
v. Betty Hitchuk	#2684
w. Robert B. Simmons	#2713
x. Marilyn Lingenfelter	#2718
y. Robert D. Lavoie	#2721

G. EDRO Approval:

1. McKinley Jones (EDRO)
2. Robert Englund (EDRO)

Trustee Moore asked what the process is to recover the money from those members who were overpaid.

Ms. Zimmermann indicated that members go out on an estimate and some of those have resulted in overpayments. The member is sent a letter regarding the overpayment with options on how the overpayment can be repaid to the System. Normally, members are given the same amount of time to repay the overpayment based on the length of time they were overpaid.

There was discussion regarding ways to reformat the agenda.

RESOLUTION 12-086 By Gaffney, Supported by Long
Resolved, That the Board approve the consent agenda for February 27, 2013 as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company – Fourth Quarter 2012 Performance Report

Mr. Gray reviewed the System's portfolio results for the fourth quarter of 2012. Despite all the global issues, the Fund realized a very good return of 13.38% for the year. He also stated that there are concerns that consumer tax hikes will put a drag on the economy but the markets are continuing to do well. QEIII will continue as the Fed tries to keep the economy growing.

This is not just an U.S. issue: economic stimulus is being used around the world. Japan recently lowered the value of the yen in an attempt to spur economic growth.

The U.S. equity market saw robust returns in 2012. One-year returns for the S&P 500 were 16.06%; the Russell 1000 at 16.42% and the Russell 2000 Value at 18.05%.

Sector performance indicated that there has been a reversal of investment trends from 2011 to 2012. Investors were willing to take on more risk. In 2011, financial sector performance was down 17% and in 2012 it was up 29%. In 2011, utilities were up 20% and in 2012 investors moved away from safer investments like utilities causing their low returns of 1.34%.

Fixed income has seen good returns for a long time. Most of his professional life has seen a bull market for bonds. They have been warning their clients for some time that interest rates will go up which will cause bond performance to decline. They feel this will happen soon and that good bond performance is coming to an end.

Barclays 1-3 year government's one-year performance was 0.51%. High yield realized performance returns of 15.81% for that period due to their high correlation with the stock market.

Chairman Harrison asked if they have a projected timeframe for the decline in the bond market.

Mr. Gray pointed out that, along with Pimco's Bill Gross, they thought the party had ended for fixed income last year, but they were wrong.

Chairman Harrison stated that QE III has pumped \$40 billion into the bond market.

Mr. Gray stated that it is hard to predict when interest rates will rise when they are in sync with the global markets. Unemployment is lower and the housing market and stock market are doing well. They really do not know when rates will move. The Fed is tying its efforts to a 6.5% unemployment rate.

Mr. Kuhn noted that there is no way of knowing when interest rates will rise. Core fixed income performance will remain around 2% to 2.5% if interest rates do not change.

Trustee Moore asked how the portfolio should be tweaked to reflect the lower performance in fixed income.

Mr. Gray indicated that they can assess the total risk in the portfolio. There will be a number of options.

Mr. Kuhn stated that they are currently working on a research project for fixed income which they will bring to the next meeting. They will offer ideas on how to reallocate the assets which could be invested in global bonds.

Chairman Harrison asked about convertible notes.

Mr. Gray stated that they like convertible bonds and that they have a high correlation to the equity markets as well as mitigating risk to rising interest rates.

Chairman Harrison also added that some managers can make up the drag on rising interest rates.

Mr. Gray indicated that the Board can look at a number of options.

Trustee Naglick stated that he met with Mr. Gray once since the Board last met. He suggested that the Board have Gray & Company perform an asset liability study now that de-risking is off the table. This is largely a closed Plan and it would be best to match up the investments to provide the benefits and look at the \$435 million and how to match up the System's assets to the liabilities.

Chairman Harrison indicated that the Board has instructed the consultant to provide asset liability studies along the way.

Trustee Moore said that the Board needs to examine how they operate and make suggestions on how to proceed going forward to determine if there is a better way to do business.

Trustee Gaffney asked how often the asset liability studies are conducted.

Mr. Kuhn said that they conduct an asset allocation review annually but thought the last formal study was in 2007. They are also looking at providing an asset liability review looking at the viability of the System over the next fifty years.

Mr. Gray stated that they brought a new person into the company to do risk modeling. They are conducting similar studies for some of their clients. However, those plans are different and cannot afford to take on one iota of risk.

If the Board makes a formal request it would take approximately three months to put together the report. The Fund's returns are good but it could be taking on too much risk.

Chairman Harrison asked that at the conclusion of the consultant's presentation that a motion is made to request the consultant to provide an asset liability study for the System.

Trustee Moore stated that he would like the consultant to provide more information before making a decision rather than doing it piecemeal. Trustee Naglick has been on a board (PFRS) that has heard more of the details.

Mr. Gray stated that the Total Plan has seen some tough times during the current period. However, the one-year performance was 13.38% and, net of fees, 12.75%.

Domestic equity performance for the three-year period was 11.98%, international equity at 0.67%, domestic fixed income at 7.19%, private equity at 4.29% and the cash composite at .97%.

He reviewed the flash report as of January 31, 2013. The Total Plan return for the month was 4.09% versus the policy index at 4.27%. One-year performance versus the policy index was 13.24% versus 14.08% and five-year performance of 5.97% versus 5.29%. Since 1995 this plan has been north of the actuarial assumption.

Chairman Harrison confirmed that the actuarial assumption is 7.5%.

Mr. Gray said the driver of performance in the portfolio has been domestic equity. He noted that mixed returns are typical and the reason for diversifying. Since inception the domestic equity composite performance is 8.77% versus 8.09% for the policy index.

Artio has not been performing well for some time. Their performance for the period is 5.23% versus the benchmark at 5.27%. Their one-year performance is 15.17% versus 17.25% for the benchmark. At the November, 2012 meeting they were instructed to bring in managers to replace Artio.

Fixed income has done well. Munder, Peritus and Ambassador Capital have continued to outperform their benchmarks.

He indicated that there is a lot of room to go in the private equity portfolio.

Mr. Gray stated that many times we think that all managers have to be performing well to achieve good returns, which is not the case. However, there can be areas where risk may need to be revisited.

Not many public plans are doing as well as this Plan which is why they use a different lens to look through when making adjustments to this System's portfolio.

Chairman Harrison indicated that the Board has a number of new members and he asked that Mr. Gray explain the J curve in private equity investments. He told the Board that these investments are never traded publicly. In the early years of the investment money is being spent to develop the company so returns are negative. As the enterprise begins to earn money performance will pick up and the manager will look to sell the position or take it public.

Trustee Gaffney asked about the risk spectrum for private equity investments. She questioned if that is an area the Board wants to be.

Mr. Kuhn stated that it is a more aggressive investment and is a step up from small cap stocks.

Trustee Naglick inquired whether the Onyx investment was included in the performance returns. He indicated that he is trying to get an idea of the risk spectrum of the portfolio.

Mr. Gray told the Board that investments in alternatives provide better returns but more risk. A small allocation to one of these highly skilled managers can return more than some of the traditional managers mathematically.

Trustee Giddings left at 2:35 p.m.

Chairman Harrison told the Board that the Plan's private equity investments are moving along the J-curve. He noted that the Board could change the allocation strategy for the Fund going forward.

Mr. Gray stated that there are still head winds in the global markets. Global bonds react to the equity market which is the driver of residual bond returns. He added that the Board's current returns were more than 13% which is north of the actuarial assumption rate with less risk than strictly fixed income.

He asked when the Board would like to hold the special meeting to hear the manager presentations for the international equity portfolio.

Chairman Harrison felt that it was important to replace the manager and not allow the bleeding to continue.

Mr. Gray stated that Artio's returns are not great but he did not think the Board should fully fund a manager before they review the System's risk profile.

Chairman Harrison confirmed that from the consultant's point of view they should not bring the managers in until the risk profile has been reviewed.

Mr. Gray stated that he would like to bring in Braham for a special meeting to introduce the risk liability concept to the Board. He told the Board that they are constantly reviewing the allocation to the portfolio.

Trustee Giddings returned at 2:41 p.m.

It will take two to four weeks to work up and they will bring the updated numbers. They would like the Board to give the actuary permission to release the data to them.

Chairman Harrison questioned whether the Board wants to allow the staff to coordinate a special meeting. He also asked when the consultant would like the information from the actuary.

Mr. Gray stated that they would like the data from the actuary immediately.

Ms. Zimmermann indicated that the staff is currently tying out the 2012 data and is not sure if the 2011 would reflect all the Fund changes.

Mr. Gray stated that they would prefer the 2012 data for risk modeling.

Chairman Harrison asked Ms. Billings if this would require a motion.

Ms. Billings stated that the Board would need to approve the release of the actuarial data and to schedule a special meeting.

Mr. Kuhn noted that the Board should not schedule a date for the special meeting. They should wait until the data is available from the actuary.

Trustee Naglick told the Board that the changes to Public Act 314 have opened up more investment avenues.

RESOLUTION 013-003 By Jukowski, Supported by Waterman
Resolved, That the Board approve the Retirement Office to schedule and coordinate a special educational meeting with the Investment Consultant.

Yeas: 9 – Nays: 0

RESOLUTION 013-004 By Gaffney, Supported by Bowman
Resolved, That the Board authorize the actuary to release the 2012 data to Gray & Company for an asset liability study.

Yeas: 9 – Nays: 0

Mr. Gray & Mr. Kuhn left at 2:56 p.m.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Cost Studies, Early Out Agreements

Ms. Zimmermann told the Board that she included an article for the trustees' information. There are also two cost studies for early outs including the agreements.

Trustee Moore asked if the costs studies were sent to City Council.

Ms. Billings indicated that the cost studies should be presented to City Council for information purposes.

Ms. Zimmermann stated that she believes they were sent to City Council and would verify that.

1099R's

Ms. Zimmermann reported that the 1099R's were mailed out to retirees on January 11, 2013.

Final Calculation Backlog Memorandum

Ms. Zimmermann distributed a copy of a memorandum regarding the final benefit calculation backlog. She wanted to make this information part of the public record.

As of March, 2012 there were fifty-two PFRS and eighty-two GERS final benefit calculations that needed to be processed following the termination of the Police and Fire unions along with mass layoffs, multiple early retirement incentives and partial plan terminations for both Systems.

At the same time the PFRS Board voted to go to a third party administrator which also required the transitioning those operations. The Retirement Office is also providing training for the TPA.

Currently, there are six finals remaining to be processed for PFRS and five remaining for GERS. Of the five finals remaining for GERS, three of those are waiting for documentation from the City. These finals along with eleven others will be completed for the March, 2013 payroll which will bring the Retirement Office up-to-date through December, 2012.

Ms. Zimmermann thanked the Retirement Staff for their hard work.

RESOLUTION 013-005 By Moore, Supported by Bowman
Resolved, That the Board approved to receive and file the Final Calculation Backlog Memorandum.

Yeas: 9 – Nays: 0

Reciprocal Time

Ms. Zimmermann reported that the Retirement Office came across an issue while cleaning up the 2012 data for the actuary. There are twelve to fifteen people that worked at the Library and Housing, entities that were spun off from the City. A number of those people had significant service with the City. Some government entities are not included in the Reciprocal Act. She asked that the Board consider adding these departments to their list so they are part of the Reciprocal Act and would receive reciprocal time under the Act. She also noted that the Board has done this before adding educational institutions within the State.

Chairman Harrison recommended that this be forwarded to legal counsel for review.

Trustee Moore questioned how this could be done and asked how many individuals this would effect.

Ms. Billings indicated that the Reciprocal Retirement Act provides that credited service with other government entities, under certain circumstances can be added to service with Pontiac to meet the service requirements for a benefit from the City of Pontiac General Employees' Retirement System.

Trustee Gaffney told the Board that she thought the library is a District Library which would make it a government entity.

Ms. Zimmermann stated that the members are primarily from the Housing Commission. She would like to include the data to be submitted to the actuary rather than understating the System's liability.

RESOLUTION 013-006 By Gaffney, Supported by Waterman
Resolved, That the Board approves to add the Pontiac Housing Commission and the Pontiac District Library to their list of government entities that are eligible for reciprocal time under the Reciprocal Retirement Act.

Yeas: 9 – Nays: 0

Re: Legal

Amendment to the Public Employee Retirement System Investment Act (PA 314)

Ms. Billings reported that the amendments to Public Act 314 were adopted at the end of December, 2012 and will go into effect on April 1, 2013. She reviewed the amendments to the Act as detailed in her memorandum.

Retirement Systems are required to adopt an ethics policy. This Board already meets that requirement.

Limitations were put on trustee travel so the maximum is the lesser of \$150,000.00 per year or \$12,000.00 times the number of trustees on the Board. An individual trustee can spend no more than \$30,000.00 per year on travel.

Chairman Harrison said that the figures in the newspaper did not come close to the limits included in Public Act 314. He also stated that the figures in the newspaper were not correct and were too high.

Trustee Naglick told the Board that he took those figures from the ones recorded in the minutes.

Ms. Billings stated that each System will have to provide a summary annual report each year with the following requirements:

- A listing of the names of all service providers.
- The investment performance net of fees on a rolling calendar year basis for the previous one, three, five, seven and ten years for all investments.
- A list of all expenditures made with soft dollars.
- A list of all expenditures for professional training and education including travel expenditures.
- An itemized budget containing all projected expenditures including expenses for training, education and travel.
- The number of active members, retirees and beneficiaries, the average annual retirement benefit, total benefits paid, valuation payroll, normal cost as a percent of payroll, total contributions as a percent of payroll, weighted average of member contribution; actuarial assumed rate of return; actuarial assumed rate of long-term wage inflation; smoothing method used; amortization method and period; system's actuarial cost method; and a statement indicating whether the system is open or closed to specific employee groups.

She indicated that once the first report is prepared it can be updated going forward.

Trustee Giddings questioned which year these requirements would be included in the summary annual report.

Ms. Zimmermann confirmed that the Retirement Office sent out summary annual reports in the past.

Ms. Billings reported that they are currently working with other clients to create the report and would also work with this System. All the information required in the new summary annual report is included in the system's actuarial report.

Investment service providers are required to disclose all fees or other compensation on an annual basis.

Trustees are prohibited from paying service providers if the service provider made a contribution to an official of the government entity including a legal defense fund during the previous twenty-four month period with exceptions including that the contribution did not exceed \$350.00 per election and if the service provider cannot vote for the official no more than \$150.00 may be contributed per election. The service provider can also receive a refund within sixty days if they determine that the contribution was improper.

The Retirement System will be reimbursed for all costs paid to a trustee or service provider if they are convicted or enter a no contest plea for a felony or misdemeanor attributed to their services to the system.

Trustee Moore confirmed that would include the reimbursement of legal fees paid by the System.

Trustee Gaffney indicated that also includes service providers which may prove difficult.

Ms. Billings explained that the loophole was closed limiting equities/stocks to 70% of the System's assets including global equity investments.

The real estate allocation has been increased to 20% of the system's assets.

The basket clause allocation was increased by 10% based on the amount of assets in the system.

Ms. Billings explained that investments included in the basket clause are those investments that are not otherwise qualified under Public Act 314.

Retirement systems will be required to retain financial records for six years.

Member benefit amounts including estimates will be exempt from FOIA disclosure.

Retirement systems will not be permitted to pay for supplemental actuarial valuations.

Trustee Naglick confirmed that the Board needs to adopt a travel budget for educational conferences. He told the Board that \$10 million in judgments for the Police & Fire VEBA are being added to the City's summer tax bills and feels that the Board should adopt a more restrictive plan in the travel policy.

Ms. Billings stated that the Board is required to be prudent in its educational costs which will be included in the System's budget.

Trustee Naglick stated that he would like to adopt a resolution to discontinue all travel.

There was a lengthy discussion regarding the travel policy.

Trustee Bowman stated that Trustee Naglick comes from a financial background so he has a different point of reference than the other trustees. He respects Trustee Naglick's opinion but the trustees are fiduciaries of the System and need to attend educational conferences in order to make informed investment decisions.

Trustee Gaffney said that she would entertain limiting what the System pays for and would require trustees to come back from conferences and provide a report to the Board.

Trustee Waterman stated that the trustees do not determine where the conferences are held and that new trustees need training. She displayed her certificate from the IFEBP Annual Conference which indicates that she attended the required number of sessions at the conference. She takes offense at what has been written in the newspaper regarding trustee travel. She attends conferences to learn and to be the best fiduciary she can be. She is tired of hearing that they are going to Hawaii. She does not plan to go to Hawaii but she does intend to attend educational conferences this year.

Trustee Gaffney indicated that she agrees with Trustee Waterman's assessment.

Trustee Moore said that he hopes that this discussion will not deteriorate to travel. The trustees are fiduciaries and need to be concerned about earning money for the System and being responsible to the retirees. This is all about politics and the Board does not need to keep going over it.

Chairman Harrison explained that the Board has agreed to look at the travel policy.

Trustee Moore recommended that legal counsel be allowed to finish her report.

Trustee Jukowski stated that he is in favor of paying the trustees' expenses and that it seems Trustee Naglick's policy may have been overly limiting. There is a need for education and other boards have to share information from the conference. He noted that he does not attend dinners or go to conferences.

RESOLUTION 013-007 By Gaffney, Supported by Jukowski

Resolved, That the Board authorize the legal counsel to prepare reports and documents for the summary annual report based on the new requirements of Public Act 314.

Yeas: 9 – Nays: 0

Proposed Amendment to the Eligible Domestic Relations Order Act

Ms. Billings reported that there is a proposed amendment to the EDRO Act which would modify a participant’s pension rights in public retirement systems during divorce proceedings in order to allow a period of time for a Domestic Relations Order determined not to be an EDRO to be corrected.

Miscellaneous

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

- Robbins Geller Portfolio Monitoring Report Third Quarter 2012
- Motley Rice Portfolio Monitoring Report Fourth Quarter 2012

Trustee Naglick stated that he would like the Board to revisit the travel and ethics policy.

RESOLUTION 13-008 By Waterman, Supported by Bowman

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

Roll Call:

Trustee Bowman – yea

Trustee Moore - yea

Trustee Gaffney – yea

Trustee Naglick - yea

Trustee Giddings - yea

Trustee Waterman – yea

Chairman Harrison – yea

Trustee Williams - yea

Trustee Jukowski – yea

The Board moved to closed session at 3:32 p.m.

Ms. Arndt, Mr. Blitchok, Ms. Filler, Mr. Marshall, Ms. Miller, Ms. Swazer & Ms. Watson left at 3:32 p.m.

The Board returned from closed session at 4:11 p.m.

Ms. Arndt, Mr. Blitchok, Mr. Marshall, Ms. Swazer & Ms. Watson returned at 4:11 p.m.

RESOLUTION 013-00 By Williams, Supported by Gaffney

Resolved, That the Board authorize legal counsel to negotiate a settlement and bring it back to the respective Boards for final approval regarding LaJuan Craft

Yeas: 9 – Nays: 0

RESOLUTION 013-00 By Bowman, Supported by Gaffney

Resolved, That the Board ratify Ms. Zimmermann’s signature on the Walmart securities litigation agreement.

Yeas: 9 – Nays: 0

RESOLUTION 013-00 By Bowman, Supported by Gaffney
Resolved, That the Board approve the closed session minutes for October 24, 2012 and November 28, 2012.

Yeas: 7 – Nays: 0
Abs: 2 (Trustee Moore & Trustee Jukowski)

UNFINISHED BUSINESS

Re: Negrete Overpayment Recovery

Ms. Zimmermann reported that Claudia Negrete was overpaid on her retirement estimate and passed away before her final benefit calculation was processed. She would like the Board to authorize the recovery of the overpayment from the beneficiary.

She explained that there will be a lifetime reduction of \$43.74 per month deducted from the beneficiary's monthly pension benefit.

RESOLUTION 13-00 By Gaffney, Supported by Giddings

Resolved, That the Board authorize the Retirement Office to recover the pension benefit overpayment from the beneficiary of Claudia Negrete.

Yeas: 9 – Nays: 0

Re: Retirement Office Relocation

Trustee Bowman told the Board that a committee was put together last September with regard to the eviction notice. It consisted of himself, Trustee Giddings and Ms. Zimmermann. They looked at numerous locations in and out of the City. They tried to find something in Pontiac but it was difficult. There were issues with retiree access including parking being a considerable distance from the building and there was not ample parking for the retirees or for the trustees for scheduled meetings.

They looked at approximately seven places and one stood out from the others. However, they were asking for a five year lease but we were able to negotiate a shorter term lease. The location is 2201 Auburn and is on the border of Pontiac and Auburn Hills. Retirees would have easy access to the building and ample parking. There are enough parking spaces for meeting dates and the owner has said that they would vacate the parking lot on those dates. There is also additional parking on the street.

Chairman Harrison added that there is also additional parking in a lot just east of the building.

Trustee Bowman also noted that there is additional room in the lobby area for overflow. The Retirement Office would also have free use of the phone system. He has attached the listings of the other places they looked at during the process.

Chairman Harrison told the Board that he went by and saw the space.

Trustee Bowman stated that it is a nice structure and the landlord has agreed to make several of the offices into a large conference room at no charge. It is also setup with a reception area. If any of the trustees are interested in viewing the space it is located at 2201 Auburn Road.

Ms. Billings told the Board that they have negotiated and finalized the lease and that that it is in a legally acceptable format. They negotiated a five-year lease with a three-year early termination clause. The lease may be terminated after the initial three-year term with six months' notice and an early cancelation penalty of \$4,129.60 which will go down each month on a pro-rata basis.

Trustee Bowman told the Board that the rent is \$2,274.00 per month and the common area maintenance fee which includes snow removal; landscaping and water cannot exceed \$248.00 per month.

Ms. Billings indicated that the System would be required to carry fire, public liability, property damage and renter's insurance.

The landlord would be responsible for building repairs to the exterior and interior including plumbing, the roof and the HVAC system.

The landlord is willing to indemnify at the negligence standard.

The Retirement System would not be allowed to make any alterations or improvements to the space without the consent of the landlord.

Trustee Waterman asked if the Retirement System currently has a lease with the City.

Ms. Zimmermann indicated that there is no lease with the City.

Trustee Jukowski commented that there is no physical lease. He asked if the Retirement System currently carries insurance on their space and whether utilities are currently included.

Trustee Bowman felt that it would cost approximately \$2,500.00 to \$4,500.00 per year to carry the required insurance.

Trustee Moore stated that he was concerned about the process and that he was not impressed with the space. He asked whether there was space in the building at Saginaw and Huron in Pontiac as well as locations on South Boulevard.

Trustee Bowman indicated that they looked at the building located at Huron Street and Saginaw which was nice, but it was already leased. It also did not offer ample parking for either the staff or retirees. You had to walk around the building to the rear of the building to park.

The locations on South Boulevard were too large and approximately 4,000 square feet as was the space in Ottawa Towers and they were unwilling to adjust the size of the spaces to accommodate the needs of the Retirement Office.

After looking at all those locations the building at 2201 Auburn Road was close enough for retirees and provided everything the Retirement Office would need.

Trustee Jukowski stated that he would like to get all the costs including insurance and utilities before making a decision.

Ms. Arndt left at 4:42 p.m.

Trustee Giddings stated that the Board should get all the costs before making a decision. He indicated that Trustee Bowman has done a lot of work and spent a lot of his own time getting this information.

Ms. Arndt returned at 4:45 p.m.

Trustee Bowman stated that he would like the Board to approve the lease with a contingency with regard to the insurance and utilities costs.

Trustee Naglick indicated that he would like the Board to bring BeneSys in to make a presentation to the Board.

Trustee Gaffney stated that BeneSys is not the only player and the Board should follow the bid process. She is not comfortable with the process PFRS used.

Trustee Naglick told the Board that BeneSys is the only local provider. He also stated that the Board has not competitively quoted their other vendors.

Trustee Gaffney stated that she would not like being in a five year lease. She told the Board that Trustee Bowman has done an excellent job putting together all the information. She is comfortable with his recommendation.

Trustee Naglick stated that this all started with the \$3,000.00 per month rent cost. Perhaps the Board could reach out to the Emergency Manager to see if there is space in City Hall.

Chairman Harrison indicated that the Board was told there is no space in City Hall.

Trustee Naglick again stated that he would like to go to a third party administrator which is the way of the future.

Chairman Harrison stated that Trustee Bowman and company have done a lot of leg work and the Board has an opportunity to acquire the space and can get out in three years if needed.

Trustee Bowman stated that this process was started a while back and there was no leeway from the Emergency Manager then. He is prepared to go forward.

Trustee Jukowski again noted that he would like to see the hard costs.

Ms. Billings asked the Board if she should pose the question to the Emergency Manager whether there is open space in City Hall.

Trustee Moore stated that he does not want to stay in this situation and that the System cannot continue to operate in the future as it did in the past.

Chairman Harrison stated that in the past there was not a lease.

Trustee Jukowski stated that he believes the City could provide a formal lease.

Trustee Giddings said that he would like to move forward with relocating the Retirement Office.

Trustee Waterman stated that she would like to see the total cost for relocating and that she would not be averse to staying at City Hall.

Trustee Moore stated that he would prefer not to enter into a long term lease. If the City was willing to give us a one-year lease than the Board could make a decision in that type of environment.

Trustee Bowman stated that he would like to move forward and not to prolong the inevitable. We were told there was no room in City Hall.

Trustee Naglick stated that he can get a complete cost analysis from the third party administrator on what it would cost.

Trustee Williams stated that he would like the City to offer an eighteen or twenty-four month lease.

Trustee Gaffney said that she would hate to lose the opportunity to relocate to the office space at 2201 Auburn Road. This makes it difficult to make a decision.

Chairman Harrison asked the Board if they want to find out if there is space available in City Hall or if they would rather move out.

Trustee Williams stated that City Hall belongs to the citizens. It is more convenient for them to come to a place that belongs to them.

Chairman Harrison stated that the Board can ask if there are accommodations in City Hall or relocate to 2201 Auburn Road. He is not sure if there is a third option to look at more properties. He asked if the Board wants to look at both and make the decision at next month's meeting. The Board needs to do something.

Trustee Moore recommended postponing the decision until next month. The Board should be able to finalize everything then.

RESOLUTION 13-00 By Moore, Supported by Jukowski

Resolved, That the Board direct legal counsel to inquire whether there is space available to the Retirement Office at City Hall and for the Retirement Administrator to obtain the insurance costs, building utility costs or any other costs that are included in the lease for the property located at 2201 Auburn Road.

Yeas: 9 – Nays: 0

Trustee Waterman asked if the Board should look into buying their own building.

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

Re: De-risking Portfolio - Remove

Re: Disability Re-examinations

Ms. Zimmermann reported that there is a list of five people who did not go for their disability retirement re-exams in 2012. She asked if the Board would like those members scheduled for a re-exam or to wait until their next scheduled date.

RESOLUTION 13-01 By Gaffney, Supported by Naglick

Resolved, That the Board authorize the Retirement Office to schedule the re-exams for those disability retirees who did not go for their re-exam with the Medical Director in 2012.

Yeas: 9 – Nays: 0

NEW BUSINESS

Re: Staff Deferred Compensation Resolution

Ms. Zimmermann reported that the Retirement Staff is no longer able to be part of the City's deferred compensation program. She requested that the Board give their authorization so the staff can participate in deferred compensation program through ICMA. She will forward the information onto City Council.

Chairman Harrison confirmed that these are voluntary contributions.

RESOLUTION 13-01 By Gaffney, Supported by Naglick

WHEREAS, the Employee has employees rendering valuable services; and

WHEREAS, the establishment of a deferred compensation plan for such employees serves the interests of the Employer by enabling it to provide reasonable retirement security for its

employees, by providing increased flexibility in its personnel management system, and by assisting in the attraction and retention of competent personnel; and

WHEREAS, the Employer has determined that the establishment of a deferred compensation plan to be administered by ICMA Retirement Corporation, and that some or all of the funds held under such plan be invested in the Vantage Trust Company, a trust established by public employers for the collective investment of funds held under their retirement and deferred compensation plans;

NOW THEREFORE BE IT RESOLVED that the Employer Hereby adopts the deferred compensation plan (the "Plan") in the form of the ICMA Retirement Corporation Deferred Compensation Plan and Trust, referred to as Appendix A

BE IT FURTHER RESOLVED that the assets of the Plan shall be held in trust, with the Employer serving as trustee, for the exclusive benefit of the Plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose.

BE IT FURTHER RESOLVED that the Employer hereby agrees to serve as trustee under the Plan.

BE IT FURTHER RESOLVED that the Retirement Administrator shall be the coordinator for this program; shall receive necessary reports, notices, etc. from ICMA Retirement Corporation or the Vantage Trust Company; shall cast, on behalf of the Employer, any required votes under the Vantage Trust Company; Administrative duties to carry out the plan may be assigned to the appropriate departments, and is authorized to execute all necessary agreements with ICMA Retirement Corporation incidental to the administration of the Plan.

Yeas: 9 – Nays: 0

Re: Semi-Annual Cash Flow Re-balancing

Ms. Zimmermann reported that the Fund is rebalanced twice per year, traditionally in February and August. Since the Board did not hold a January, 2013 meeting she went ahead and rebalanced \$11.4 million based on the recommendation of the investment consultant. She asked that the Board ratify the cash flow rebalancing.

RESOLUTION 13-0 By Gaffney, Supported by Bowman

Resolved, That the Board ratify the transfer of \$1,400,000 from Gray & Company Large Cap Core (emerging), \$2,000,00 from Large Cap Value (Michigan), \$3,000,000 from Munder Mid Cap, \$2,000,000 from Systematic Mid Cap Value, \$1,000,000 from Loomis Sayles Small Cap and \$2,000,000 from Artio International to fund benefits and operations for the next six months.

Yeas: 9 – Nays: 0

Re: Balint Letter of Employment – Tabled

Re: Tommy Goodman Inquiry – Tabled

Re: Audit Proposal

Trustee Naglick indicated that Larry Gray is the General Partner of Grayco Alts. The System has only received unaudited financial statements. Mr. Gray originally invested \$100,000.00 of his own money into this investment with our System investing \$6 million and he raised \$20 million from other clients. His money is off the table now.

He does not feel that the System did their due diligence when making this investment and as stated in the Limited Partnership Agreement the Board has the authority to conduct an audit of the financial statements. He would propose that the Board do their due diligence and have Rehmann Robson conduct an investigative audit.

Trustee Moore stated that as a new member of the Board he would like more time to make this type of decision. He feels he is being rushed.

Chairman Harrison stated that having an audit is a good idea but that the Board needs to go through the RFP process.

Trustee Naglick said that Grayco is continuing to drawdown the committed capital and the Board needs to determine where those assets are going.

Trustee Moore stated that as a county commissioner they used a committee structure and met between meetings to discuss these types of issues before they come before the Board.

Trustee Naglick told the Board that not having the audited financial statements could be a red flag.

Trustee Giddings stated that it is to Mr. Gray's advantage to make good investment decisions.

Ms. Zimmermann asked if the Board would like to schedule another meeting to finish the agenda.

Trustee Giddings asked if Trustee Naglick is proposing a forensic audit.

Chairman Harrison stated that if the Board conducted a forensic audit it would appear that Mr. Gray has done something criminal. The Board should table this issue until next month's meeting.

Trustee Naglick indicated that the manager review scheduled for February 2013 was canceled. Perhaps the Board can ask Bob Hubbard from Gray & Company to come in and provide the details of the investments.

Chairman Harrison stated that this issue may be a concern but it is not a conflict.

Trustee Naglick stated that the Board has not had the opportunity to review this investment.

Trustee Moore felt that there needs to be more of a procedure in place. When items for the agenda come up they should be forwarded to a committee.

Chairman Harrison told the Board that he has asked Ms. Zimmermann to provide a new committee listing including the procedures on how items are added to the agenda and the procedures for how information comes to the Board.

Trustee Bowman stated that the Relocation Committee followed a process and now the Board is delaying their decision and changing their minds.

Chairman Harrison stated that things have been chaotic. However, trustees do have the right to add items to the agenda.

Re: Executive Orders S-249 and S-250

Ms. Zimmermann reported that Executive Order S-249 eliminates the payment in lieu of insurance to those members who opted out of the City's insurance effective in calendar year 2013.

Executive Order S-250 eliminates payment of accrued sick time that was formerly paid when a deferred member applied for their retirement. This order would take effect immediately.

She explained that past practice has been that the accrued sick leave was always paid out when a deferred member started collecting their pension benefit and was calculated into the member's final average calculation.

SCHEDULING OF NEXT MEETING

Regular Meeting: March 27, 2013 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

RESOLUTION 13-0 By Gaffney, Supported by Jukowski
Resolved, That the meeting be adjourned at 5:39 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on February 27, 2013

Secretary, John Naglick
As recorded by Jane Arndt