

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 21, 2013**

A regular meeting of the Board of Trustees was held on Friday, June 21, 2013 at the Pontiac General Employees' Retirement System Office located at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:03 a.m.

TRUSTEES PRESENT

Koné Bowman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Leon Jukowski, Mayor
Walter Moore
John Naglick, Secretary (*arr. at 10:24 a.m.*)
Patrice Waterman
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Christopher Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Victor Farnum, Retiree (*arrived at 10:12 a.m.*)
Larry Marshall, Retiree
Debra Woods, Retiree

TRUSTEES ABSENT

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

PUBLIC DISCUSSION/UNION REPRESENTATION

Chairman Harrison welcomed Trustee Waterman back noting that both she and Trustee Barnett have been ill. He also wished everyone a happy first day of summer and extended birthday greetings to retiree Debra Woods.

Retiree, Larry Marshall questioned whether a calculation was ever done with regard to an early out for the water and sewer members and those members that were laid off in June, 2011. He stated that he could not recall if a cost study was conducted at that time. He also indicated that Michael Stampfler was the Emergency Manager during that time.

Ms. Zimmermann stated that a cost study for an early out was not done for those members.

Ms. Arndt left at 10:07 a.m.

AGENDA CHANGES

Ms. Zimmermann distributed six revised finals including McDonald Baldwin, Gregory Gates, Mark Lewis, Bryant Long, Kimberly McNary and Paul Mosher to be included in the agenda.

APPROVAL OF CONSENT AGENDA

A. Communications

1. Correspondence from IRS Re: Acknowledgement of Request for Determination Letter
2. Correspondence from AMBS Re: June 2013 Newsletter
3. Correspondence from Ambassador Re: May & June 2013 Newsletter
4. Correspondence from First Eagle Re: Staff Changes
5. Correspondence from Northpointe Re: May 2013 Performance Summary
6. Conferences:
 - a. Mesirov Financial Private Equity Client Conference – October 16-17, 2013
 - b. 59th Annual Benefits Conference – IFEBP – October 20-23, 2013
 - c. Program for Advanced Trustee Studies – NCPERS / Harvard – August 19-21, 2013
 - d. ACA University – IFEBP – Online Information on Affordable Healthcare Act

B. Financial Reports

1. Statement of Changes: May, 2013
2. Accounts Payable: June, 2013
3. Ratification of Capital Calls:
 - a. GrayCo Alts \$114,943

C. Applications for Retirement, Final Calculations, Refunds, Re-Examinations

1. Remove from the Rolls
 - a. Daniel Hofmeister (deceased 05-19-13): survivor benefit of \$3,586.90/mo. to Ramona Hofmeister
 - b. Roberta Fink (deceased 05-25-13)
 - c. Othel Mosley (deceased 05-28-13)
2. Application for Service Retirement:

a. Nora Francis – Hospital	3 years, 0 months	Age 60	Off Deferred
b. Preston Thomas -	13 years, 8 months	Age 60	Off Deferred
c. Phyllis R. Long – Non-union	15 years, 0 months	Age 44	Early Out
d. Michael Wilson – Local 2002	16 years, 8 months	Age 44	Early Out
e. Connie Stovall – SAEA	13 years, 8 months	Age 53	Early Out
f. Lee Johnson – SAEA	28 years, 9 months	Age 55	
3. Final Benefit Calculations:

a. Kimberly McNary	#2710
b. Gregory Gates	#2711
c. Paul Mosher	#2712
d. McDonald Baldwin	#2715
e. Robert Rodgers	#2717
f. Mark E. Lewis	#2719
g. Bryant Long	#2720
h. Preston Thomas	#2738
4. Application for Refund of Accumulated Contributions
 - a. Linda Klinkenberger
 - b. Lisa C. Feltes

Ms. Arndt returned at 10:10 a.m.

Ms. Zimmermann told the Board that the minutes for the May 29, 2013 meeting were not included in the consent agenda. She will include them in the July 31, 2013 consent agenda.

RESOLUTION 13-053 By Williams, Supported by Bowman
Resolved, That the Board approve the consent agenda for June 21, 2013 as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Gray & Company

International Equity Manager Presentations

Mr. Kuhn indicated that on Monday, June 17, 2013, members of the Board heard presentations from the finalists which included Calamos Advisors, LLC, WCM Investment Management and WHV Investment Management to replace current international equity manager Artio Global.

At that meeting the Board discussed the merits of each candidate including which would provide the strongest performance versus the benchmark and be the best fit with the System's global equity manager First Eagle.

He distributed to a letter written by Gray & Company recommending that the Board retain WCM Investment Management and asking for the Board's approval. Their recommendation is based on the manager's financial stability, investment team experience, sound investment process and their risk-adjusted performance. They feel that WCM would complement the performance of global equity manager First Eagle and generate strong performance for the System.

Chairman Harrison explained that the Board has been trying to bring in managers to make presentations for the past eight months to replace the System's international equity manager. In lieu of bringing the managers back to make another presentation due to the lack of quorum at the meeting, he would like the Board to vote based on the recommendation of the trustees in attendance and that of Gray & Company.

Trustee Moore told the Board that those trustees in attendance spent a lot of time interviewing the managers. He feels that WCM had a solid investment approach. He said it is time for Artio to go.

Trustee Gaffney stated that she takes a conservative investment approach and was comfortable with the selection of WCM. She especially liked their risk management approach.

Trustee Bowman told the Board that he liked WCM's investment management approach.

RESOLUTION 13-054 By Moore, Supported by Gaffney
Resolved, That the Board accept the recommendation from the Consultant to retain WCM as the System's international equity manager pending legal review of the contract.

Yeas: 9 – Nays: 0

Trustee Bowman stated that he would like the minutes to reflect that both the Board and the Consultant were in agreement with the selection of WCM.

Mr. Kuhn told the Board that he spoke with WCM and they have agreed to lower their management fee from 80 basis points to 75 basis points.

Updated Market Values

Mr. Kuhn provided an overview of the Fund's updated market values as of June 13, 2013. He indicated that these performance numbers do not reflect the losses from June 20, 2013.

He also indicated that the asset allocation is slightly out of compliance with the recent revisions to Public Act 314.

Trustee Bowman left at 10:15 a.m.

Chairman Harrison noted that Ms. Zimmermann will be performing the rebalancing next month and taking assets from managers to pay for benefits and expenses. This should help with the rebalancing of the asset allocation.

Trustee Moore asked if there is a mechanism in place to monitor the asset allocation to make sure it is in balance.

Mr. Kuhn indicated that the monthly market value sheet shows the current allocations in each asset class. He explained that prior to the revisions to Public Act 314 there was no cap on the allocation to equities. Now they are capped at 70%. The Fund's current allocation is 74%.

Ms. Billings indicated that the 70% cap on equities is part of the statute that went into effect April 1, 2013.

Mr. Kuhn noted that the imbalance in equities was due to the recent run up in the market.

Trustee Bowman returned at 10:17 a.m.

There was a question regarding whether there is a timeframe for getting back in compliance with the statute.

Ms. Billings replied that the statute provides ample time for a system to get back in line. It is assumed that the system will be prudent.

Trustee Moore asked if Mr. Kuhn could explain the meaning of the basket clause.

Mr. Kuhn explained that there are various investment grades starting with fixed income, equities and real estate. The basket clause is for investments that fall outside of those such as timber and private equity. He stated that the System could have 100% of the portfolio invested in fixed

income but only 70% allocated to equities, 15% to real estate and 15% to high yield. High yield was previously classified under the basket clause. The basket clause is the “all other” category.

He told the Board that during the meeting they also revisited the fixed income portfolio, especially core fixed income. They would like to roll those issues into the asset allocation discussion at the August, 2013 meeting.

REPORTS

Re: Chairman

Chairman Harrison explained that the Board currently has a Personnel Committee. The Board will hear a report from that committee.

He indicated that since the Board is now the employer there is a need to establish a Finance Committee to monitor office finances and the budget. He indicated that he will be drafting trustees for this committee considering their flexibility.

Re: Secretary – None

Re: Trustees/Committees

Personnel Committee

Trustee Gaffney explained that the Personnel Committee met several times since the last meeting in order to make plans for the Retirement Office going forward.

Trustee Waterman asked when the composition of the Personnel Committee changed.

Chairman Harrison explained that Trustee Waterman is still a member of the committee.

Trustee Waterman stated that it would have been nice to know that a substitution had been made.

Trustee Gaffney told the Board that the committee looked at personnel policies, procedures and a succession plan.

They also addressed compensation looking at similar plans like Grand Rapids and Ann Arbor. There was also a request to cash out vacation time which they were inclined to approve.

She stated that the staff has not had a pay increase since 2004 and noted that the number of Retirement Office employees went from four to three approximately one year ago.

The Committee agreed to a 12% across the board pay increase with a one year retroactive increase. The staff is still not in line with Ann Arbor and Grand Rapids.

Chairman Harrison stated that the 12% increase equals a 1.25% annual increase.

Trustee Giddings asked for the total amount payable.

Trustee Gaffney indicated it totaled approximately \$23,000.00 and the vacation payout would be around \$30,000.00.

Trustee Giddings asked if the vacation payout would be at the new or old rates.

Trustee Gaffney indicated that the payout would be at the old rate.

Trustee Moore told the Board that the payout is something that would have to be paid out regardless and at the higher rate. It is better for the payout to be at the reduced rate.

Trustee Bowman left at 10:27 a.m.

Chairman Harrison asked if the Board had any questions or concerns.

Trustee Moore said that the Committee discussed where the Board goes from here. The Board has a responsibility to the people in the Pension System. This may not be the desired results but the Retirement Office was evicted and had to move forward and look at other options. The Board still needs to look at other options including a Third Party Administrator. Trustee Naglick should be happy to hear that a TPA is still on the table.

The Board needs to realize where the System is now and look for the best way to operate and be fiduciaries. The Committee will let the Board know their findings.

Trustee Williams confirmed that even with the pay increases the staff is at the entry level for their positions and still below other systems.

Trustee Bowman returned at 10:29 a.m.

Trustee Giddings stated that the increase is reasonable considering what the staff as gone through this past year.

RESOLUTION 13-055 By Bowman, Supported by Moore

Resolved, That the Board approve a 12% pay increase for the Retirement Office Staff including a one-year retroactive increase effective June 1, 2013.

Yeas: 9 – Nays: 0

Trustee Moore added that the Committee looked at the policies, procedures and organizational chart. They also looked at how the information flows. Additional emphasis will be applied in this area as the Committee moves forward.

Trustee Gaffney indicated that the Committee will address a policy for staff reviews and annual evaluations.

Re: Administrator

Oakland Press Article

Ms. Zimmermann referred to an article from the Oakland Press regarding the State's request to City Council asking them to resubmit their healthcare proposal.

Pensions & Investment Magazine

She also referred to an article from Pensions & Investments Magazine regarding the potential sale of art from the Detroit Institute of Arts by the City of Detroit Emergency Manager to bailout their Pension Plan.

Actuarial Valuation Participant Data

Pension information by for City and Hospital retirees was provided by the actuary.

GrayCo Alts Unaudited Financial Statements

Ms. Zimmermann referred to the confidential GrayCo Alt's Unaudited Financial Statements included under the Reports Section.

Retirement Office Staff Pay Increases

Ms. Zimmermann thanked the Board and the Committee for their consideration and expressed appreciation on behalf of the staff.

Re: Legal

IRS Letter of Determination Submission for an IRC Section 420 Transfer

Ms. Billings reported that an acknowledgement of the Board's request for an IRS Letter of Determination for an IRC Section 420 Transfer was received on June 11, 2013.

Ms. Zimmermann indicated that a copy of the acknowledgement is included in the Consent Agenda under Communications.

Request for Attorney General Opinion

Ms. Billings reported that this matter is still pending.

IRS Letter of Determination Submission for Qualification Under IRC Section 401(a)

Ms. Billings reported that she is working on the IRS Letter of Determination submission. This is the letter submitted to the IRS every five years to insure that the Retirement Plan continues to be a qualified plan under the IRS guidelines.

Proposed Amendment to the Public Employment Relations Act (PERA)

Ms. Billings reported that currently in Michigan retirement benefits are a mandatory subject of collective bargaining which supersedes an amendment to PERA. However, if the proposed amendment is adopted it will allow a City or County the right to adopt a resolution ordinance or charter provision prohibiting the collective bargaining of defined benefit retirement plans to some or all of its employees.

Trustee Moore indicated that it would do what has already been done in Pontiac.

Ms. Billings indicated that a City or County would have the right to undo this provision. She emphasized that this takes the Union out of the equation.

Confidentiality of Benefit Amounts

Ms. Billings reported that effective April 1, 2013 Public Act 314 was amended in part to provide that information regarding the calculation of actual or estimated retirement benefits for members of the System is exempt from disclosure by the System or the political subdivisions sponsoring the System under the Freedom of Information Act.

She indicated that retirement benefit amounts can no longer be disclosed by the System or by the City as the Plan sponsor under FOIA.

She asked if the Board would have an issue with her sending a letter to the Mayor and City Council regarding these changes.

Trustee Moore asked whether in the past this information could be released under FOIA.

Ms. Billings stated that prior to this amendment retiree pension benefits could be released. The amendment to Public Act 314 ties the FOIA restriction with FOIA.

UNFINISHED BUSINESS

Re: Balint Letter of Employment – Carry Forward (Recommended by Legal)

Re: Tommy Goodman Inquiry – Carry Forward (Recommended by Legal)

Re: Executive Orders - Carry Forward (Recommended by Legal)

1. Order S-250: Non-Payment of Accrued Sick Time to Deferred Retirees
2. Order S-260: Non-Union Early Out & Close DB Plan to New Hires

Re: Remaining Members of GERS Determination - Carry Forward (Recommended by Legal)

RESOLUTION 13-056 By Moore, Supported by Gaffney

Resolved, That the Board approves the postponement of the following Unfinished Business Items including the Balint Letter of Employment, Tommy Goodman Inquiry, Executive Order and Remaining Members of GERS Determination based on legal counsel's recommendation.

Yeas: 9 – Nays: 0

Re: Section 420 Transfer – Retiree Healthcare (Refer to Legal)

Re: Ethics Policy

Chairman Harrison indicated that Trustee Gaffney did a great job drafting the Ethics Policy a number of years ago.

Trustee Naglick indicated that he would like to add two bullet points on page four of the Ethics Policy.

He would like to add language that would prohibit trustees from accepting any gifts. He would also like to add language that would prohibit trustees from accepting meals or entertainment from investment managers, potential investment managers and consultants.

Chairman Harrison asked if the Police & Fire Retirement System Board has an ethics policy and if Trustee Naglick recommended these changes be made to their policy.

Trustee Naglick indicated that he has not looked at the Police & Fire Ethics Policy.

Trustee Giddings questioned whether the amendments to Public Act 314 include language that addresses these issues.

Ms. Billings stated that Public Act 314 does not address these issues. It just states that the Board has to have an ethics policy in place. The previous rule was that a trustee cannot accept anything valued over \$250.00.

Trustee Giddings also asked about the personal investment language and whether the trustee would have to recuse him or herself or disclose the investment.

Trustee Gaffney stated that it would require a disclosure form the trustee.

Ms. Zimmermann indicated that managers had been doing annual disclosures but have not provided them the past couple of years.

Trustee Moore asked Trustee Naglick if he had any other changes.

Trustee Bowman suggested looking to see if there are SEC regulations or any other regulations that should be incorporated into the policy.

Ms. Zimmermann explained that the SEC guidelines were looked at when drafting the policy.

Trustee Gaffney indicated that there could have been changes in the guidelines since the policy was first drafted and felt that this should be explored.

Trustee Bowman agreed and felt that the Board needs to make sure all provisions are up to date.

Trustee Giddings stated that he would never take dinners, golf or other gratuities from managers that are looking to be hired but he does not have a problem with these gratuities coming from current managers.

Trustee Moore explained that if he went to lunch with a vendor it would not influence him either way. He does not have a problem with the current language. He is more concerned that someone would use their position to solicit gratuities.

Trustee Naglick indicated that if a trustee does not take the dinner there is no notion of an impropriety.

Trustee Jukowski agreed and stated that it makes it easier for the trustees.

Trustee Moore asked if Trustee Naglick's language would also pertain to conference dinners where all the attendees are invited.

Trustee Waterman indicated that she has no problem meeting with a manager for dinner, etc. as a group.

Ms. Zimmermann indicated that it has been a long time since these issues were discussed. In the past if the System was in a search there was a blackout period when the trustees would not talk with the managers.

Chairman Harrison indicated that it also applies during a Request for Proposal period.

Trustee Gaffney indicated that the blackout period was in place during her previous time as a trustee.

Chairman Harrison suggested that the SEC regulations be looked at. He described when he was approached by a company that was beneficial to the City and the Finance Director and how he handled the situation.

Trustee Naglick recommended that the issue be tabled until the policy is redrafted with the current SEC regulations.

Chairman Harrison also described the three wheel car investment that was referred to him by the Mayor. It is his practice to forward potential investments to the Consultant.

Trustee Gaffney stated that she feels it is important to have written rules in place especially with all the public scrutiny which is why the policy was written in 2001. The trustees need to have a set of guidelines to know what actions with vendors or potential vendors are acceptable. When she worked in Purchasing Division they did not go to lunch with vendors because of how it looks.

Trustee Moore asked if the System would pick up the tab if he meets with a vendor or the Consultant for lunch.

Trustee Giddings stated that the Board cannot justify using System money to pay for individual trustee meals when they meet with vendors.

There was discussion that it would be acceptable for current vendors to invite the entire Board to dinner but not individual trustees.

Trustee Naglick agreed that the only time a trustee

Trustee Naglick recommended that the issued be turned over to Ms. Zimmermann to research the guidelines and regulations that need to be incorporated.

Trustee Gaffney noted that Ms. Zimmermann needs to make sure that the language regarding the SEC guidelines and the blackout period are incorporated into the policy.

Ms. Zimmermann confirmed that the language regarding group dinners, etc. versus individuals meeting with vendors should be incorporated.

Ms. Zimmermann told the Board that she will amend the policy and bring it to the next meeting.

Chairman Harrison indicated that the current ethics policy is in place unless there are any changes that need to be added.

Trustee Giddings suggested that there could be changes with regard to the SEC and the policy would need to be amended to meet those standards. The policy also needs the group dinner language added. The Board should deal with any changes with regard to the SEC guidelines when looking to change the existing policy.

Trustee Gaffney acknowledged that the general agreement among the Board is to add the language with regard to group dinners.

Trustee Moore added that an additional statement or language can always be added if the existing rules need to be changed.

RESOLUTION 13-057 By Bowman, Supported by Gaffney
Resolved, That the Board approve the following language to the Ethics Policy indicating that there is a blackout period during searches and trustees cannot attend dinners unless the entire Board is invited and only with existing vendors.

Yeas: 8 – Nays: 1 (Trustee Jukowski)

Re: Pension Loan Warning to Retirees (Information Only)

Ms. Zimmermann reported that the notice went out to the members.

NEW BUSINESS

Re: Personnel Policies – Tabled

Re: Legal (Continued)

RESOLUTION 13-058 By Moore, Supported by Gaffney

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

Roll Call:

Trustee Bowman – yea

Trustee Jukowski - yea

Trustee Gaffney – yea

Trustee Moore - yea

Trustee Giddings - yea

Trustee Naglick – yea

Chairman Harrison – yea

Trustee Waterman - yea

The Board moved to closed session at 11:24 a.m.

Trustee Williams, Ms. Arndt, Mr. Farnum, Mr. Kuhn, Mr. Marshall, and Ms. Woods left at 11:24 a.m.

The Board returned from closed session at 11:48 a.m.

RESOLUTION 013-059 By Gaffney, Supported by Moore

Resolved, That the Board approves one additional year as their final offer with no additional concessions as long as the process is handled quickly and the supplemental actuarial valuation is paid by the member prior to any benefits being paid in the Craft matter.

Yeas: 8 – Nays: 0

RESOLUTION 013-060 By Moore, Supported by Gaffney

Resolved, That the Board approve the closed session minutes for May 29, 2013.

Yeas: 8 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: July 24, 2013 @ 10:00 a.m. – Retirement Office, 2201 Auburn Road, Suite B, Auburn Hills, Michigan

ADJOURNMENT

RESOLUTION 13-061 By Gaffney, Supported by Moore

Resolved, That the meeting be adjourned at 11:49 a.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 June 21, 2013

Secretary, John Naglick

As recorded by Jane Arndt