

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JANUARY 23, 2008**

A regular meeting of the Board of Trustees was held on Wednesday, January 23, 2008 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 2:00 p.m.

TRUSTEES PRESENT

Koné Bowman	Devin Scott
Ray Cochran	Kevin Williams (<i>arrived at 2:09 p.m.</i>)
Charlie Harrison, Chairman	Debra Woods
Javier Saucedo, Vice Chair	Andrea Wright (<i>arrived at 2:30 p.m.</i>)

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Robert Giddings (*excused*)
Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Laurence Gray, Gray & Company
Chris Kuhn, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
David Hoffman, Gabriel, Roeder, Smith & Company
Jeff Schvimer, Mesirow Financial
Tim Ewing, Mesirow Financial
Tracey Shinkle, Mesirow Financial
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting: November 28, 2007
- B. Minutes of Special Meeting: December 14, 2007
- C. Communications:
 - 1. Correspondence from Munder Capital Re: Q4 Market Snapshot
 - 2. Correspondence from Deutsche Asset Management Re: Trade Reimbursement
 - 3. Correspondence from GERS to Mesirow Financial Re: Watch List Status
 - 4. Correspondence from Kennedy Capital Re: Performance Summary
 - 5. Correspondence from Capital Guardian Re: Monthly Updates
 - 5. Correspondence from ChrisKen Re: Tax Issue
 - 6. Conference Information:
 - a. Benefits Conference for Public Employees – IFEBP – Feb. 25-26, 2008

- b. Annual Legislative Conference – NCPERS – Feb. 4-6, 2008
- c. Public Funds Roundtable – III – April 23-25, 2008

D. Financial Reports

- 1. Financial Reports – November & December 2007
- 1. Commission Recapture – November & December 2007
- 2. Securities Lending – December 2007
- 3. Accounts Payable:
 - a. ADP \$2,659.68
 - b. Gabriel, Roeder, Smith & Co 21,970.40
 - c. Gray & Co. 16,208.34
 - d. Huttne Locher Group 20,850.00
 - e. Ikon 508.79
 - f. MES (Causey) 625.00
 - g. Northern Trust 39,881.45
 - h. Office Depot 188.25
 - i. Peritus 83,264.20
 - j. Sawgrass 42,106.00
 - k. Slade’s Printing 48.00
 - l. Sullivan, Ward, Asher & Patton 715.00
 - m. Systematic 62,011.78
 - n. UIM Investment 24,744.40
 - o. VanOverbeke, Michaud & Timmony 8,664.50
 - p. Visa 3,153.43

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

- 1. Remove from the Rolls:
 - a. Edward Asher (deceased 12-12-07) : survivor benefit of \$1,255.97/mo to Brenda Asher
 - b. Freda Chapman (deceased 12-16-07)
 - c. William Cheal (deceased 01-07-08)
 - d. Ruth Mullen (deceased 11-30-07)
 - e. Carl St. Clair (deceased 12-21-07) survivor benefit of \$1,173.35/mo to Pear St. Clair
 - f. Raymond St. Clair (deceased 12-11-07) survivor benefit of \$1,386.44/mo to Joyce St. Clair
 - g. Charlie Taylor (deceased 12-20-07) survivor benefit of \$603.43/mo to Marian Taylor
 - h. Shirely Verhey (deceased 12-17-07)
- 2. Application for Retirement:

a. Robert Giddings – NOMC	11 years, 8 months	Age 60
b. Karen Cain – Teamsters 214	22 years, 0 months	Age 60
- 3. Final Pension Calculations:

a. William DePauw	#2390	\$ 597.27
b. Sonia Sargeant	#2392	374.16
c. Cheryl Thorpe	#2395	505.98
d. Leticia Tovar-McClous	#2405	883.06
e. Linda Chambers-Martin	#2414	1,726.69
- 4. Pop-up Option Effective
 - a. William Hampshire: Benefit increased from \$542.18 to 609.38

5. Disability Re-Examinations:
 - a. Sheila Causey
 - b. Rodney Parr

Ms. Zimmermann stated that a correction to the minutes will be made on page three where the trustee name is missing for the motion for Resolution 07-082.

Ms. Zimmermann also distributed a copy of the disability re-exam for Joseph Babin results from the Medical Director for addition to the consent agenda.

Trustee Woods asked if Sheila Causey was referred for a regular retirement or a disability retirement. Ms. Zimmermann said that Ms. Causey is a disability retiree.

RESOLUTION 08-001 By Woods, Supported by Saucedo
Resolved, That the consent agenda for January 23, 2008 be approved as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Gabriel, Roeder, Smith & Company – 2006 Actuarial Valuation

Mr. Hoffman presented the actuarial valuation as the financial report for the fund that determines the employer contribution rate effective July 1, 2008. He told the Board that the computed employer contribution rate is 0.00% of payroll and \$0 based on the valuation payroll. If future plan experience matches actuarial expectations it is not likely that any future employer contributions will be needed.

There are three general reasons why contribution rates change from one valuation to the next. The first is a change in benefits or eligibility conditions. The second is a change in the actuarial assumptions or methods used to fund benefits. The third reason is based on the plan experience that differs from assumptions.

As of December 31, 2006 the funding position was 154% of accrued liabilities versus the prior year funding position of 150%. Overall, plan asset experience for 2006 was favorable with actuarial value of assets for the year at 8.84%.

He described how they determine the dollar contributions as a percent of active payroll. He said that the normal cost of benefits totals 20.11% of active payroll. The unfunded accrued liability is a negative \$143 million.

Trustee Williams arrived at 2:09 p.m.

The present value of the fund is \$410 million as of December 31, 2006. Current total accrued liability is \$266 million. The only piece not included is expected contributions of \$24 million which represent 20% of payroll making the present accrued liability \$290 million. This covers a

portion of the current actives which is rare. The market value of the fund as of December 31, 2006 was approximately \$470 million.

If you take the \$143 million excess liability and amortize it over thirty years no employer contributions should be required for future benefits.

He recommended that the assets be transferred to the reserves for retired member benefits.

He said that asset volatility can affect the plan. If the asset returns continue it is unlikely any future contributions will be required. Trustee Bowman asked if the fund is consistently paying into the reserves per year. Ms. Zimmermann explained that this is not an additional cost and as each person retires the monies are transferred into the retiree reserves.

Chairman Harrison asked if the plan is in good shape if it encounters bad years. Mr. Hoffman said that long-term asset volatility could affect the plan. However, currently it is in good shape and should be able to handle some investment underperformance.

Trustee Bowman asked if it is likely that the City will be required to make any further contributions. Mr. Hoffman said that it is not probable.

Mr. Hoffman left at 2:15 p.m.

RESOLUTION 08-002 By Woods, Supported by Scott

Whereas, The responsibility for the direction and operation of the City of Pontiac General Employees Retirement System and for making effective the provisions thereof are vested in the Board of Trustees; and

Whereas, The pension provisions provide that an actuarial valuation shall be made at the close of each fiscal year for the purpose of establishing the financial condition of the Retirement System and as a check on its current operating experience, and that the Secretary shall prepare each year the annual report of the Board to be submitted to the City Council showing among other things, a statement of assets, liabilities and reserves certified by the actuary; and

Whereas, The pension provisions further provide that an annual determination shall be made of the actuarial reserve requirements or the several annuities and benefits prescribed, to be financed in addition to interest and other income accruing to the Retirement System by contributions by the members and by the City; and

Whereas, The actuary has computed the pension reserves and contributions necessary for the July 1, 2008 through June 30, 2009 fiscal year and has presented the Report of the Sixty-Second Annual Actuarial Valuation of the City of Pontiac General Employees Retirement System as of December 31, 2006 to the Retirement Board;

Now, Therefore, Be it Resolved, That the Report of the Sixty-Second Annual Actuarial Valuation of the City of Pontiac General Employees Retirement System as of December 31, 2006 be accepted by the Retirement Commission and be placed on file; and

Be It Further Resolved, That the City contribution requirements of covered member payroll for the period contained on page B-2 thereof, and the City dollar contribution and payment schedule requirement contained on page B-3 thereof is hereby certified to the City Council as the amount necessary for the July 1, 2008 through June 30, 2009 fiscal year appropriation by the City Council to finance the pension reserves of the City of Pontiac General Employees Retirement System; and

Be It Further Resolved, That the annual transfers recommended on pages B-5 thereof be authorized; and

Be It Further Resolved, That a copy of this resolution be provided to the actuary and copies of this resolution and the report of the Sixty-Second Annual Actuarial Valuation of the City of Pontiac General Employees Retirement System be provided to the City Council.

Yeas: 7 – Nays: 0

Re: Gray & Company –Mesirow Financial

Mesirow Financial Investment Management
Jeff Schvimer, Sr. Vice President – Equity Team
Tim Ewing, Managing Director – Lead Portfolio Manager
Tracey Shinkle, Vice President – Institutional Sales & Marketing

Mr. Schvimer introduced himself, Tim Ewing and Tracey Shinkle to the Board. Handouts were distributed.

Mr. Schvimer discussed how this has been an unusual and extended cycle in the market and the economy. The last recessionary period was in 2001 to 2002 which was a relative long period historically. The marketplace has been driven by momentum and emotions: they stick to their investing discipline.

He has twenty-five years of experience and Tim Ewing has twenty years of experience in this asset class. Regardless of the market cycle they stick to their time-proven discipline. Historically, their style of value investing has realized prolonged out performance after coming out of the current market conditions.

He reviewed the year-to-date performance of the Russell 1000 at 5.77% versus the Russell 1000 Growth at 11.81% versus the Russell 1000 Value at -0.17%. He said that 2007 was the year for growth.

He described the valuation quartiles of the Russell 1000 Value. He said that within the value index there are varying degrees of value. The cheapest quartiles are either price/earnings or price/free cash flow. The data shows that value stocks are down 24% in the cheapest value quartile but are up 16.82% in the richest value quartile recording a 40% difference.

Mr. Ewing said that they have seen this type of market in the past and it is a frustrating performance period. In 2003 low quality had a strong run and they found that for the two years preceding the run they experienced their best performance years. It is exciting to see that the future is bright for true value stocks in the sector with valuations starting to make sense.

Chairman Harrison asked if by sticking with their style of traditional value and not swaying from their discipline in down years they give back less. Mr. Ewing agreed and said they provide good performance in down markets. The market has gone with the flow and the opportunity set has been getting smaller but is beginning to expand. Mr. Schvimer said that for the past two years their research has not shown anything new but now there are 10% to 15% new names in the model. There have not been a lot of opportunities but the emphasis has shifted and should be creating more balance in the market.

Mr. Schvimer, Mr. Ewing and Ms. Shinkle left at 2:27 p.m.

Mr. Gray said that they met with Mesirow in Atlanta and discussed their expectations with the manager. He feels they have a good team with a lot of experience in their market. The manager has not done well for the rolling three-year period. Inception to date performance is 9.79% versus the Russell 1000 Value Index at 12.12%. Traditional value aspects have been out of favor. Comparing their performance relative to the benchmark is skewed since the benchmark includes growth issues. He said that Mesirow has the elements you look for in a manager which are process, philosophy, people and performance. It is a better time to buy this manager than to let them go.

Trustee Wright arrived at 2:30 p.m.

Mr. Gray referred to the cumulative downside capture chart that displayed the manager's excellent downside capture ratio. He suggested that they hold an internal educational seminar for the trustees regarding the structure of the benchmark. He said that Mesirow's performance should come back and now is not the time to sell. He still believes in them and their process.

2008 Investment Performance

Mr. Gray distributed the manager mix. The overall value of the portfolio as of September 30, 2007 was \$489 million. As of Friday, January 18, 2008 the value of the portfolio had decreased 6.8% to \$456 million.

Every equity manager's performance is down both in domestic and international asset classes. Fixed income managers Oppenheimer, Munder and Cap Guardian are up with the exception of Peritus. The real estate portion of the portfolio is winding down. Private equity has just begun to be funded.

He said that he wanted to let the Board know what type of performance to anticipate in 2008. This will not be a stellar year with the disturbances in the marketplace. The down performance in the equity markets is a global issue. The Fed adjusted the rate by 75 basis points to aid in the market recovery. He said the economy is not in a full fledged recession, however, it is difficult for the markets overall; these things go in cycles. The one-year rolling returns as of September,

2007 have done well with overall performance of 17.1%. Performance reports for 2008 will not look good.

Mr. Gray asked if there were any questions. Trustee Cochran asked if the Fed will make another interest rate cut. Mr. Gray said as long as the markets are down it is possible that the Fed will continue to make cuts: but how low can you go? The financial sector is at a low and should go up from here. We are seeing sovereign funds bailing out corporations with small valuations. We are just beginning to see under the sub-prime curtain. Fixed income and alternatives are fine.

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Travel Policy

Ms. Zimmermann distributed copies of the travel policy that was adopted at the last meeting for the trustees' notebooks.

Retirement Coordinator Departure

Ms. Zimmermann advised the Board that Melissa Tetmeyer the Retirement Coordinator has been going to school in order to pursue a job in the medical field in the future. She is planning to leave sometime in April and would potentially work part-time after her departure in order to train her replacement. She wanted to inform the Board in order to get the process moving.

Chairman Harrison asked if she had started the replacement process. Ms. Zimmermann said that she has not started the process. Chairman Harrison also asked if it was possible for Ms. Munson to take over the duties of the Retirement Coordinator. Ms. Zimmermann said Ms. Munson could not. Chairman Harrison confirmed that there would not be any funding issues and that the hiring process would be handled by the City.

Andrea Stewart Departure

Mr. Gray announced that Andrea Stewart will be leaving his firm on February 15, 2008. Her husband has taken a job with the FDIC in Ft. Lauderdale. He assured the Board that their level of service will not change. They had previously hired an associate consultant in anticipation that Andrea would be promoted to senior consultant.

Re: Legal

Ms. Billings thanked the Board for the opportunity to work with them. She distributed a copy of her legal report and told the Board that a copy of the legal report would be provided to the trustees at each meeting.

She said that the fifteen banker's boxes of the system's documents were transferred from VanOverbeke, Michaud and Timmony on January 11, 2008. They were very forthcoming during the transition process.

IRS Determination Letter

Ms. Billings stated that the filing session periodically opens and will open on February 1, 2008 for public fund to file the IRS Determination Letter for Qualified Plans. There are a number of benefits from obtaining the IRS seal of approval. Some investments will only accept money from qualified plans. She asked that the Board make a motion to file the plan with the IRS.

RESOLUTION 08-003 By Woods, Supported by Wright
Resolved, That the Board approve filing plan documents in the IRS Determination Program for Qualified Plans.

Yeas: 8 – Nays: 0

CAPROC, LLC Sale of Crosspointe Plaza

Ms. Billings referred to a memorandum from Stuart Tompkins stating that CAPROC has sold the Crosspointe Plaza property located in Raleigh, North Carolina. Pursuant to the terms of the settlement agreement the profit from the sale of the property will be split 60%/40% between the retirement systems and CAPROC. The net proceeds of the sale were \$2,051,732.84. The Pontiac retirement funds will receive 60% of the net proceeds which totals \$1,231,039.70 with the General Employee's Retirement System's share totaling \$545,350.59 or 44.3%.

Chairman Harrison asked if the proceeds would be tied into the principal payment. Ms. Billings confirmed that the proceeds will be applied to reduce the principal.

The 40% distribution to CAPROC can be used for anticipated operating expenses and tenant improvements. They requested that prior to CAPROC providing the paperwork to substantiate these expenses they would leave 50% of their allocation in escrow. The paperwork for operating expenses has been received and validated with Sullivan Ward finding no reason to hold the monies.

Chairman Harrison asked as the funds are coming in from CAPROC and ChrisKen how and where are they being used. He asked if the funds will be there to fund the real estate allocation. Mr. Gray said that the assets are in cash and will be used for benefit payments which will require less rebalancing. He said that it is a difficult time to recommend adding real estate to the portfolio given the current market.

Chairman Harrison asked how the 5% allocation to real estate will be funded. Mr. Gray said that when it is time to fund real estate the funding will be taken from a manager whose allocation is over, probably fixed income.

RESOLUTION 08-004 By Woods, Supported by Wright
Resolved, That the Board ratify the sale of the Crosspointe Plaza property.

Yeas: 8 – Nays: 0

Standard Pacific Securities Litigation

Ms. Billings reported that in December, 2007 the General Employees Retirement System was appointed lead plaintiff in the Standard Pacific litigation. The plaintiff alleges that the CFO of Standard Pacific inflated assets and earnings and misled investors.

The fund lost \$112,000.00 in this investment. It is customary for the Court to award lead plaintiff to institutional investors with the largest losses. She will continue to work on this litigation with Coughlin Stoia and keep the Board updated.

Chairman Harrison asked about the Home Depot litigation. Ms. Zimmermann explained that the Board approved Tom Michaud to continue to handle the securities litigation before his termination. Ms. Billings will contact Mr. Michaud about bringing the information to the Board.

Trustee Wright asked if both attorneys will be paid for working with securities litigation. Ms. Billings explained that securities litigation does not incur a cost to the system. If the litigation is successful, Coughlin Stoia would apply to the Court to pay the legal fees from the settlement. They would in turn pay the Board's attorneys. There are no fees for securities litigation that is not successful.

Coughlin Stoia Litigation Report

Ms. Billings reported that this report provides the most recent securities litigation.

Rodwan Contract

Ms. Billings said that she has reviewed the proposed contract with Rodwan and has found it to be legally acceptable.

That concluded Ms. Billing's legal report.

Union Representatives – None

UNFINISHED BUSINESS

Re: Actuarial Transition

Ms. Zimmermann reported that she has spoken with Sandra Rodwan and that they should not require GRS involvement in the transition. The Retirement Office will provide the data: it should not be necessary to pay GRS to assist with the transition of the data. The office will continue to use the GRS software but will evaluate their contract fees to maintain the software. The Retirement Office will look for something comparable and less expensive if it is determined that their fees are unreasonable.

She described the correspondence received from GRS regarding the transition process. She felt the letter was somewhat harsh. She used verbiage from the code of conduct for actuaries in her response to their communication.

NEW BUSINESS

Re: Semi-Annual Rebalancing

Ms. Zimmermann explained that the cash flow rebalancing is done twice per year in order to provide cash for benefit disbursements and accounts payable. The rebalancing usually occurs in February and July each year. She requested that the Board approve the transfer for the funding of benefits and operating expenses and to rebalance back to the targets.

RESOLUTION 08-005 By Scott, Supported by Williams

Resolved, That the Board approve the transfer of \$6,695,000 from the Munder Capital Equity account, \$300,000 from the Oppenheimer account for the funding of benefits and operating expenses. In addition, the Board approves the transfer of \$2,571,934 from Oppenheimer to Loomis; the transfer of \$1,328,427 from Oppenheimer to Systematic; and the transfer of \$2,056,800 from Julius Baer to Peritus, in order to rebalance back to targets within the existing constraints.

Yeas: 8 – Nays: 0

Re: Request for Change of Pension Plan

Ms. Zimmermann reported that three employees have approached the office stating that they were not advised at the time of their hire that they had the option between becoming a member of the defined benefit plan or enrolling in a defined contribution plan.

She explained that in 2004 the City established a defined contribution plan for non-union employees and elected officials who were hired on or after January 1, 2002. After being on the job for six months these employees are automatically enrolled in the defined benefit plan. The Retirement Office is now handling the retirement segment of the new hire orientation which should help eliminate any future confusion.

She said that these three employees have asked that they be allowed to switch from GERS to the defined contribution plan. There is the question of whether these employees received the information at the time of their hire. If they were allowed to change plans, they would not receive any back contributions.

Trustee Wright stated that there are only a small number of non-union employees. She did not understand why they would be allowed to make the switch. If the issue goes before Council it could open the door for unions to make a change. Ms. Billings said that if the City opened the window it would still have to negotiate with the members.

After discussion Ms. Zimmermann was directed to submit correspondence to the Human Resources Department detailing the issue. The Human Resources Department will respond to those individuals in question.

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: February 27, 2008 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 08-006 By Saucedo, Supported Barnett
Resolved, That the meeting be adjourned at 3:19 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 23, 2008.

Raymond Cochran, Secretary
As recorded by Jane Arndt