CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
FEBRUARY 24, 2009

A special meeting of the Board of Trustees was held on Tuesday, February 24, 2009 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 8:46 a.m.

TRUSTEES PRESENT
Charlie Harrison, Chairman
David Flaisher, Secretary
Javier Sauceda, Vice Chair
Kevin Williams
Debra Woods
Andrea Wright

TRUSTEES ABSENT
Shirley Barnett *(excused)*
Koné Bowman *(absent)*
Mayor, Clarence Phillips *(absent)*
Devin Scott *(excused)*

OTHERS PRESENT
Chris Kuhn, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Ron Mushock, Systematic Financial Management
James Barker, Systematic Financial Management
Elizabeth Govea, United Investment Managers
Donald Cobin, Kennedy Capital Mgmt.
Randall Kirkland, Kennedy Capital Mgmt.
David Cooke, Loomis Sayles
Tony Dong, Munder Capital
Brian Monroe, Sawgrass Asset Mgmt.
Martin LaPrade, Sawgrass Asset Mgmt.

Gray & Company - Fourth Quarter 2008 Performance Review
Mr. Kuhn said that he will present a quick review of the performance report. They generally address the main financial story from the previous quarter at the beginning of the capital markets review. However, this quarter they have decided to share their thoughts and concerns about the current economic environment.

The capital markets continue to struggle. It was a bad quarter and a bad year for commodities. Gold was the only commodity sustaining value. Oil has dropped from $140 per barrel to $40 per barrel.

The CPI (Consumer Price Index) and the PPI (Producer Price Index) were down this quarter at -3.9% and -6.7%. The dramatic economic slowdown has hurt in global demand for natural resources.

Chairman Harrison asked about the effects of inflation and deflation. Mr. Kuhn said that inflation is considered a bad word but technically it is not. In a controlled inflation economy costs can be increased over a period forcing demand.

When the economy is going through deflation there is no incentive to buy today. Consumers continue to wait for prices to come down postponing large purchases. This declining demand stalls economic growth causing further deflation.

The Fed was active in the fourth quarter dropping the Fed Fund Rate to 0.25%. The market conditions and reduced rates have caused a huge drop down in the yield curve reducing treasury yields. Many investors were putting their money into three-month treasuries to insure they would get their money back.

It was a bad quarter for stocks. These are once in seventy year type performance numbers. This was the worst year for the NASDAQ (down over 40%) in its thirty-eight year history.

Chairman Harrison said he has never seen a ten-year period in equities where the numbers were down.

This was a great market for treasuries, however, corporates did not fare as well and were negative for the year. Barclays Government was up 12.4%, Barclays Credit was -3%. High yield was down with Barclays High Yield one-year performance at -26.2% and -17.9% for the quarter.

The performance of the international equity markets echoed the domestic market. The MSCI EAFE was down -43.4% for the year and -20% for the quarter. The appreciating dollar helped U.S. investors. He said that many investors were borrowing money in yen at 50 basis points and investing at 5% making 4½%. However, now they have to repay the loan in yen.

The fund posted returns of -12.58% for the quarter versus the policy index at -15.46%. Year-to-date performance was down 24.50% aided by an overweight in fixed income. A couple of the managers achieved good performance for the period. There were very few black numbers across the portfolio. There are a lot of red numbers reported in the three-year returns. The fund is ranked in the top half of the public fund universe. Ten-year performance returns of 3.02% are below the actuarial target.

Mr. Kuhn said that most of the managers' performance was inline with the benchmark. Munder and Systematic performed well for the period.

End of year performance numbers net of fees for UIM and Sawgrass are accurate. They are using a new system to calculate the one-year performance returns. Ms. Zimmermann said this will allow the Board to see what is being added after fees.

Mr. Kuhn stated that Oppenheimer had a difficult third quarter but their fourth quarter returns were excellent up 8%. A good manager in this asset class would generally add out performance of 50 basis points. These returns are amazing for the period.

Chairman Harrison asked what Mr. Kuhn thinks attributed to the disparity in returns between Oppenheimer and Munder since they are both core fixed income managers. Mr. Kuhn said that if you look at their ten-year performance both managers are similar. Both managers invest in high quality securities. You have to examine each portfolio security by security.

Core is the bread and butter of fixed income. This quarter there was a huge difference between the top and bottom managers despite most of the portfolios being managed in a similar strategy. The return differences are based on the pricing in the fixed income market. He has never seen a band this wide in fixed income managers.

It was quite a different quarter for high yield and Peritus. He pointed out that there were no BB-rated securities in their portfolio which could have helped them. It is not a good environment for this asset class. However, that is the way their portfolio is structured.

Chairman Harrison asked whether Peritus's performance will turn around as the market comes around. Mr. Kuhn said that high yield is a bright spot in the portfolio when the market is going through a boom cycle.

He described how the credit spreads narrow and widen based on the state of the economy. During a boom cycle the high yield spread to treasuries is 400 basis points. There have been three cycles in recent times. There have been a lot of redemptions with hedge funds selling high yield securities at fire sale prices further depressing the asset class.

Chairman Harrison asked if the sell off included a lot of mortgages. Mr. Kuhn said there were a lot of mortgages as well as junk bonds. He said that performance should be strong for Peritus when the economy improves.

Trustee Flaisher asked if the plan is over 100% funded. Chairman Harrison and Mr. Kuhn said that as of December 31, 2007 the fund was 168% funded. Ms. Zimmermann said that an email from the actuary, Sandy Rodwan, is included in tomorrow's agenda. She said that the email indicates that the fund is still well over 100% funded.

<u>Economic Overview/Markets Roundtable</u>

Chairman Harrison welcomed the managers and began the introductions. He said that for some this is their first manager review session. He said the Board would like to hear the managers' perceptions on what is going on in the global markets. They are not expecting warm and fuzzy responses but are looking for a good roundtable discussion. Each manager will give an individual presentation later in the day.

Mr. Kuhn asked the managers what their feelings are from the top down in the general economy. He also asked them for their views on how much worse it will get including the housing market.

David Cooke from Loomis Sayles said that value guys see the glass as half empty. The market is 50% off the peak. He thinks these market conditions are near the end; around the seventh or eighth inning. The housing market will get worse before it gets better. Based on the economy many pensions systems are under funded and this could cause a crisis and he is not sure what the government would do.

The current state of the economy was caused by consumers spending and borrowing too much money. With corporate spreads in fixed income so wide there are a lot of excellent opportunities. It is hard for value guys to be optimistic but he thinks the second half of 2009 will be better. This coming from someone who has no credibility after last year's prediction.

Chairman Harrison asked what Mr. Cooke perceives to be a bargain sale and what will be bought up first. Or, what will have a strong hand in getting the market moving in the right direction. Mr. Cooke said that he thinks investment grade bonds, small cap value and mid cap growth or quality. Lower quality may lead the rally.

Mr. Cooke said that sub prime has caused a lot of consumer weakness. Consumer discretionary will not rebound globally. He feels the earnings estimates are too high. Expectations need to come down. Core is nine times earnings which is astounding. His sentiment is that more pain is coming but the spreads are taking that into account.

Chairman Harrison said that the spreads are too wide and 2½% yields are not realistic when the government continues to print money.

Tony Dong from Munder Capital said that corporate bond yields look attractive. They are moving up and down similar to equities.

Mr. Kuhn asked how it affects the credit side as spreads widen. Mr. Dong said that a lot of big bonds are coming due on high quality balance sheets with liquidity issues. They are relying on refinancing that may not be available. A lot of companies that packaged up and securitized mortgages are going out of business. You need to closely determine what the bond maturities will be.

Chairman Harrison said that 80% of the country has bruised credit. He asked how that can be addressed because the country cannot operate with only 20% of consumers having good credit.

Ron Mushock from Systematic said that all monetary systems are hoarding. Consumers are unwilling to borrow due to concerns about their jobs. The Fed announced today that they have monies available encouraging consumers to borrow for car loans and student loans. However, consumers have no confidence and are unwilling to borrow.

Martin LaPrade from Sawgrass Asset Management said that debt is the reason the economy is where it is at and we need to deleverage.

Mr. Mushock said that he recently refinanced his mortgage. The banks are being super cautious and going overboard on their due diligence. Ms. Zimmermann said that mortgage companies are using mathematical models and are asking for new appraisals.

Mr. Cooke said that the fiscal stimulus should help, but until the arteries are unclogged the government should focus on cleaning up the banks and taking out the toxic assets.

Chairman Harrison said that people need to buy cars and need loans. People are going to high risk lenders to borrow money. The auto industry needs to stay in Michigan.

Elizabeth Govea from United Investment Managers said that people are not buying because they are afraid of losing their jobs. They are putting their money into their savings and any stimulus money they receive will go in the bank. The problem is consumer confidence.

Mr. Dong said that bankruptcy would be a good process for the U.S. auto industry. They need to get smaller by decreasing the number of models, factories and dealerships. He thinks they will get smaller overtime and move toward a gradual restructuring.

Mr. Kuhn asked if it is best for the auto industry to gradually downsize. He also questioned whether the government will have to bail it out every couple of years if changes are not made.

Mr. Dong said that for the past fifteen years the auto industry has been increasing their debt. They should right size now but politically it would be tough. It is a delicate situation.

Mr. Mushock said that General Motors' argument is if they restructure through bankruptcy consumers will not buy their products. Consumers would be concerned whether their warranties would be honored. It could also result in the collapse of the supply chains which would impact other automakers. Even Toyota sales are down. They normally sell 15 million units a year but only sold 10 million units in 2008.

He is inclined to invest in after market companies because consumers are keeping their cars longer. Finding companies that operate in a niche is good for the portfolio.

Mr. Kuhn said that six months ago there was a nationalization of the mortgage companies. Now Citigroup and Bank of America are being considered for nationalization.

Trustee Williams left at 10:30 a.m.

Donald Cobin of Kennedy Capital said that AIG is trading at $.50 per share and Citigroup and Bank of America are trading at $2.00 per share. Shareholder's value has been wiped out. In theory the government has to help but Congress is not the best body to dictate or run a business process. Even the Chairmen of Bear Stearns and Lehman Brothers did not do a good job. The government needs to get out in the short-term.

Trustee Williams returned at 10:31 a.m.
Trustee Wright left at 10:32 a.m.

He said no one has a lot of say whether the banks will be nationalized. If they do they should use the same process Sweden did. They went in and took the toxic assets out and got out quickly. He said he is glad that small cap does not invest in large banks.

Mr. Dong said he hopes they do not make the same mistakes as they did in Japan. Japan did not deal with debt and their problems continued for a decade. They need to get in quick make the fix, clean up the bad debt and get out as Sweden did.

Chairman Harrison said that China is the biggest consumer of U.S. debt. He asked what will happen if they stop buying U.S. debt.

Mr. Dong said that interest rates will go up and credit will be more expensive which would not be good.

Mr. Cobin said that China is the biggest holder of debt and we buy most of their exports.

Mr. Dong said that the TARP money will be used to issue asset backed securities because no one is trading them. Without these monies no new debt can be issued. This program will match the investment at a 10:1 ratio.

Mr. Kuhn asked when Mr. Dong thinks this could happen. Mr. Dong said he feels the flow through could start in March. He said that $300 billion has been allocated toward asset back securities and auto loans.

Mr. Kuhn said that they have touched on the stimulus package. For eight years there has been pent up demand by the Democrats. He asked if the managers feel the stimulus/spending package is the right direction for the economy.

Mr. LaPrade said that it has to start somewhere with good news being constructive.

Mr. Cooke said that for the last eight years spending has not been restrained. He pointed out that the last time there was a surplus was when a Democrat was in office. There will always be pork. This is a crisis of confidence and the Administration needs to move quickly. With all the media coverage the markets are giving it a thumbs-down and people are more aware and more worried about their 401k's. The other side is not offering a lot of constructive ways out other than cutting taxes. The government needs to instill confidence.

Mr. Cobin noted the pork in the stimulus package. I guess you have to take the good with the bad. Consumer confidence needs to get going and access to financing will help.

Mr. Dong said he feels the housing program will work and should help home prices. The government is making loans to companies that might not be there without the assistance.

Ms. Zimmermann said that the media continues to portray this as people being bailed out for making bad decisions and taxpayers having to pay for it.

Mr. Cooke said that if you live in a neighborhood with ten homes in foreclosure it is bad for you.

Trustee Wright returned at 10:41 a.m.

Chairman Harrison said that the whole conversation has come full circle. The average consumer feels the deadbeats have avoided paying for their bad decisions. Credit cards companies are not helping the economy. He said the conversation needs to focus on the pension fund and making sure the fund can pay the recipients.

What does the pension fund have to look forward to? How do we get out of this and how long will it take.

Mr. Cooke said that in 2001 or 2002 Dave Sowerby said that when you get so frustrated you want to throw a brick through his window, attach a check to the brick. There will always be problems or periods when you are wrong.

Mr. Dong said that it is difficult for investors to look forward; most are looking back. The market is healthier and cheaper than it was before. In five years it should be up quite a bit.

Mr. Kuhn concluded the roundtable session and asked if there were any questions.

Meeting Break at 10:54 a.m.
Meeting Resumed at 11:08 a.m.

Manager Presentations

Loomis Sayles (Small Cap Value)
Mr. Cooke said that Bob Farrell was a strategist in the 1970's and 1980's at Merrill Lynch who wrote "10 Market Rules to Remember." He touched on a few of the rules.

He said that falling markets usually go further than you think but they do not correct by going sideways.

At the bottom you sell with no long-term resolve. When you get fearful you sell. Fear and greed will take you off your mark and are stronger than long-term resolve.

Markets are strongest when they are broad and weakest when they narrow to a handful of blue chip names.

When all experts and forecasts agree and everyone is moving into small cap you know something is going to happen.

Relative to the benchmark they had a good year at -31.02% versus -33.79%. Their ten-year performance at 7.58% is close to the actuarial assumption. Since inception their performance is 10.81% versus the Russell 2000 at 6.17%. This past year has been like trying to put lipstick on a pig. It is hard to say that they had a good year.

Financial services hurt their portfolio. There was a huge run on small cap banks that affected their performance the last few days of the quarter.

Chairman Harrison asked if Bank of America is a good investment since the correction. Mr. Cooke said that he feels Bank of America will be nationalized and he would stay away. Smaller banks have balance sheets that are in better shape. You do not want to over pay.

He said that they rely on their research to find undervalued and fundamentally sound stocks which are a huge additive to their performance. He said it is important for them to keep their valuation discipline looking at price to earnings and price to book ratios.

They look for inefficiently priced stocks which include misunderstood, undiscovered and special situation companies. He referred to Broadridge which is a split off of ADP as an example of a special situation.

Chairman Harrison asked how to know which large cap companies that are now small cap are good investments. Mr. Cooke said that the largest small cap companies have approximately $5 billion in assets under management to the smallest with $58 million in assets under management. He said they preclude companies that have fallen to small cap. They would rather own companies like Standard Parking who run municipal parking lots. You cannot add a lot of value with a Citigroup or Bank of America because there are too many moving parts. He also mentioned Perrigo which is a generic pharmaceutical supplier.

Chairman Harrison asked about investments in pharmaceutical and medical equipment companies. Mr. Cooke said to stay away from companies that make large equipment like MRI's and biotech because it is too expensive.

Ms. Billings returned at 11:24 a.m.

He said they have added John Wiley Textbooks and Rollins which is a spin off from Orkin. They are buying at the bottom as things wash out. Large cap is cheaper based on price to earnings. Most of their stocks are $1 billion to $5 billion companies.

They have experienced a couple of rough months to start the year. The risk to their portfolio is that they stay high quality. It may lag when low quality sparks the rally. Their style works but they may see a lag in that quarter. Mr. Cooke said that in a down market they are fine.

Trustee Flaisher questioned that with healthcare being a large growth industry should they have a larger portion than 6½% allocated in their portfolio. Mr. Cooke said it depends on what President Obama says in his speech tonight. They look for better valuations and healthcare could under perform based on the involvement of the government.

<u>Munder Capital (Mid Cap Core Growth)</u>
Mr. Dong said that mid cap growth companies are growing faster than they typically do but at core prices. They are conscious of the attractive valuations.

He reviewed their performance summary ending December 31, 2008. He said that value outperformed growth in 2008. Their one-year performance returns were -42.82% versus the benchmark at -44.32%.

He said that going forward the economy will depend on credit availability. We are in a global recession that is different than in the past. It took ten to fifteen years to get here and it will take awhile to unwind.

They are looking for attractive valuations in organic growth versus cyclical growth. Their focus is to find companies that are not highly leveraged that can grow in a weak economy and generate their own cash.

He said that a company like Stericycle whose business is medical waste disposal is a good selection because healthcare is a good performer in a weak economy.

He also referred to Rent-A-Center as a good performer in a challenged economy. He said they are in the rent-to-own business which is a good option for someone trying to buy a large screen television. They have had a stellar record of growth for the past ten to fifteen years.

Year-to-date the markets have been challenging. They were able to outperform the benchmark by 3 percentage points. He said these are trying times but as Winston Churchill said; when you walk through hell, keep walking.

Trustee Williams asked if he would recap the Rent-A-Center investment. Mr. Dong said they have been in business for decades and are good at collection and assessing credit. If a customer does not make good they reclaim the item.

Aarons is another company in the same business but they do not treat their customers well.

He concluded stating that they have generally provided good returns for the systems and look forward to continuing the relationship.

<u>Systematic (Mid Cap Value)</u>
Mr. Mushock said this is their third anniversary as an investment manager for the fund. These have been challenging times but on a relative basis their performance has been good. Their performance has been 5% above the benchmark since inception.

Their portfolio is high quality in nature and has done well in the current environment. Off the bottom the most risky lead the way out initially. They will not fully participate in that environment.

Their investment strategy is mid cap stocks with high quality valuation models; companies that do better than expectations. They do not get caught in the value trap. There are a lot of good companies that are down in price for a good reason. He used Eastman Kodak as an example. He said their valuations and earnings estimates have not been good. In order to achieve out performance you have to avoid these types of stocks. He said you look for companies with good cash flows that can benefit from their environment.

Chairman Harrison left at 11:47 a.m.

Last year's performance was 2% ahead of the benchmark. In 2007 they were 15% ahead of the benchmark with growth outperforming value. They are not a deep value manager; they are a relative value manager.

Chairman Harrison returned at 11:49 a.m.

He reviewed their portfolio attributes. He said they avoid insurance companies and feel they are bad investments. They did well in financials, commercial real estate, REITS, healthcare REITS and consumer cyclicals. He said that there were two areas that hurt their performance materials and industrials due to the postponement of infrastructure projects.

They are having a good start in 2009 with performance 9% above the benchmark.

They have a broadly diverse sector defensive portfolio. He said they were 4% to 4½ underweight in utilities. They feel that investors are overpaying in this sector and as the economy suffers companies are cutting back on their utility usage. He said this is similar to where REIT's were three years ago. They are positioned for a market rally.

Chairman Harrison asked them about their position in Valero. Mr. Mushock said they just bought Valero in the fourth quarter. They are a refining company and even as the price of crude goes down the price of gasoline has not decreased at the same percentage. Their earnings estimates are moving up.

Chairman Harrison said he excited to see their performance going forward. They are able to find good benefit from margin extension.

Mr. Mushock said that Dean Foods is a similar story. They buy from the local dairy farmers. Their earnings estimates have moved up. It is determined by where it is in the economic cycle whether a lot of companies will do well.

Mastercard was at $300.00 per share and they bought it for $140.00 per share. They do the back office processes and cannot incur losses and are doing well. State Street is another example. They are getting it for five times earnings. There is a lot of movement in the market with large cap dropping to mid cap they can find good opportunities.

Trustee Wright asked how Kohl's is doing. Mr. Mushock said that their sales are down but they are doing better than their competitors and are gaining market share in the West. They do not have a lot of excess inventory versus their competitors.

Chairman Harrison asked how long they have owned Mastercard and what is the current price per share. Mr. Mushock said it was at $155.00 per share but is now up to $160.00; they will do well based on their business model and should be back up to $210.00 per share.

Meeting Break at 11:55 a.m.
Meeting Resumed at 12:42 p.m.

Kennedy Capital (Small Cap Growth)
Mr. Kirkland introduced himself as President of Kennedy Capital. He said he appreciates the long history they have with the system. Last November marked fifteen years managing money for the system. He said they are 99% employee owned with 1% owned by the Kennedy family. They are not in the bank and have cash in reserves. They recently spent a lot of money to upgrade their systems. They have a robust compliance division with three fulltime employees and a total of fifty-one firm employees. The compliance certificate is included in the report and they are in full compliance with the Investment Policy Statement guidelines of the fund.

Mr. Cobin said that they have not changed much in fifteen years and they are still fundamental stock pickers focused on undervalued and under followed stocks.

Their 2008 year-to-date performance was -35.7% versus the benchmark at -33.8%. Their year-to-date performance is 340 basis points over the benchmark. They are not looking back. There is no way to time the bottom and the turn will be sharp. He said there is a lot of money sitting in money market funds.

They focus on cash flow return on investment, or CFROI. For the last fiscal year their CFROI was 12.81 versus the benchmark at 9.21 with the current fiscal year at 13.19 versus 9.17. They are looking for companies that have a higher return on investment.

The portfolio is well positioned with a current price to earnings ratio of 9.4 versus the Russell 2000 at 24.2. He said the portfolio is a bit above the weighted market cap at $1,003 versus the benchmark at $824. A lot of mid cap companies have fallen into small cap. Most mid cap companies started as small cap. There are a lot of opportunities in this environment. They let winners run and do not sell if they move out of small cap.

He reviewed the risk ratings of the portfolio. He said they are not looking to manage the portfolio to the benchmark. They are looking for good performers. They have a small investment in insurance. He said they are not finding a lot of ideas in consumer discretionary.

He described their top holdings. He said that Syniverse Holdings is a wireless carrier that insures the translation of data.

Chairman Harrison asked how long Syniverse has been in their portfolio. Mr. Cobin said for quite sometime. They sold some a month ago and bought some back.

Chairman Harrison asked if they have any new acquisitions in their top ten. Mr. Cobin said that WABTEC is new. They manufacture braking systems for locomotives and freight systems. They were acquired because of the trend in public transit and high speed rail.

Chairman Harrison asked if going forward if they are planning to make some newer buys to add to the portfolio. Mr. Cobin said that their larger positions are in management teams they most trust in. They have not had a lot of turnover in their top ten.

Their sell discipline is based on finding better return prospects. They are constantly monitoring the positions in their portfolio. They value management and watch for any management departures. It is important for them to keep to their investment style. They also hold quarterly oversight meetings.

Mr. Kirkland said they would be happy to provide a list of the hundred names currently in the portfolio to the Board.

<u>Sawgrass Asset Management (Large Cap Growth</u>

Mr. Monroe said that they have $2 billion in assets under management and are 100% employee-owned. They have not lost any large cap clients. They manage $24 million for the City of Pontiac General Employees Retirement System. They are a large cap growth manager that invests in more established companies with strong consistent earnings and a quality aspect.

Their current performance net of fees is 100 basis points above the Russell 1000 at -21.8% versus -22.8%. They are proud that they have been able to keep their heads above the water.

Mr. LaPrade said that he has never been as humbled as an investment manager. He said that there are a lot of great opportunities and that many investors are reaching for risk. Investors appreciate consistent growth.

He reviewed their top ten holdings. The valuations of these companies will continue to grow earnings except for Intel. Investors will appreciate taking those companies with strong balance sheets. They are carrying a few more stocks in the portfolio than they have in the past and their turnover is higher. Stocks are moving rapidly and you have to take advantage.

Technology has the biggest sector weighting in the portfolio. Most of the companies have very little debt on their balance sheets and a lot of cash. Valuations of tech companies are high. The possible signal will be acquisitions with companies like Microsoft looking to buy smaller companies. He does not think that time is too far off. Healthcare is also a consistent grower. They currently have 53 stocks in the portfolio and last year they had 45 stocks.

He referred to a chart that displayed the total amount of cash in the market versus money market fund assets carrying $4 trillion or 40% of the total market value. This is the highest level since 1981 and the end of 2003. When this money comes back into the market it should see a healing period. You might see stocks go up 30% to 40%. Right now investors are being more defensive. It is important to be in a position to take advantage of the rally.

Chairman Harrison asked about their position in Genentech. Mr. LaPrade said that Roche is trying to take over Genentech but they will not accept the bid. Fundamentally he likes the company. He is not clear where it will go.

Chairman Harrison asked about their position in Apple and its performance. He asked if the departure of Steve Jobs could override the good news. Mr. LaPrade said that Apple has a tremendous amount of cash and is a growing company that will survive. He said that the market has discounted Apple and if he is very ill could cause them to take a look at the valuation.

Chairman Harrison asked what stocks they are looking to carry them through the growth period. Mr. LaPrade said he likes Google and is comfortable paying for quality. In consumer discretionary he likes GameStop which is a company that sells new and used video games that has strong same store sales. He also likes industrials.

<u>United Investment Managers (Large Cap)</u>
Ms. Govea thanked the Board for their business. She said that UIM is an emerging manager of manager firm. Firm-wise there is nothing new to report.

She said that they manage five emerging managers for the City of Pontiac. For the period ending December 31, 2008, overall manager performance net of fees was -20.84% versus the benchmark at -21.94%. Since inception their performance is 400 basis points above the benchmark. They are optimistic that this performance will continue with the exception of one manager. They are in constant communication with each manager. They also continually monitor the manager's individual performance versus the benchmark**.**

Chairman Harrison asked what their procedures are for evaluating the managers. Ms. Govea said that their quantitative process looks at the manager's historical performance versus their peer group and the benchmark; they evaluate their risk characteristics, consistency of returns and performance attribution.

Trustee Sauceda left at 1:20 p.m.

Their qualitative process evaluates the manager's people, their process, their philosophy and their operations. They make sure that the manager will be around for a long time.

Trustee Flaisher asked her what her three-month and six-month market projections are. Ms. Govea said that she thinks they are close to the bottom and hopefully it will not get there. The portfolio with the current managers in place will do well.

Mr. Kuhn said that Lombardia is the only large cap value manager currently in the portfolio. He asked if there are any plans to add another large cap value manager. Ms. Govea said that the current managers are doing well and there are currently no plans to add another large cap value manager.

Chairman Harrison asked if the money from Mesirow has been transitioned to UIM. Ms. Zimmermann said that they are currently going through the contract process and they have not been funded. Mr. Kuhn said that they are pretty close but there are still contract issues.

Trustee Sauceda returned at 1:23 p.m.

Chairman Harrison asked what the current value is as the funds are still at Mesirow.

Ms. Govea said that Ivory Day is currently lining up the model.

Mr. Kuhn and Chairman Harrison thanked the managers for their participation and asked if there were any questions.

Investment Policy Statement Review

Chairman Harrison and Ms. Zimmermann said that there is a requirement to review the Investment Policy Statement on an annual basis. There will not be a lot of discussion time at the next manager review meeting so they determined they would bring this issue before the Board.

Mr. Kuhn said that the IPS was revised and adopted last fall.

Chairman Harrison asked if there was anything that needed to be changed. Mr. Kuhn said that there may be a need to revise it at a later time. They are looking at index managers for core fixed income. This is not a good time with treasuries so low and concerns with the index. Performance of 4% or 5% will not get to the actuarial valuation. You need to create a portfolio to achieve performance of 6½ or 7%. You could take the constraints off fixed income guidelines. They are looking at this option with all the clients. They may advise the Board at a later date.

Trustee Flaisher asked if the actuarial assumption is 7½%. Ms. Zimmermann confirmed that. Trustee Flaisher asked if it is the same for the VEBA. Ms. Zimmermann said that it is.

Chairman Harrison asked what the current funding status is. Ms. Zimmermann said that she received an email from Sandra Rodwan stating that the system is well over 100% funded. They are currently in the process of preparing the valuation data to send to the actuary. The actuarial valuation should be available in April or May.

Chairman Harrison addressed the misinformation at the recent City Council meeting. He said that despite what was said at the meeting, the system is still over funded. He said that there was a discussion at that meeting and it was suggested that the retirement system was looking into reducing their assets to 90% to help the City’s deficit.

Ms. Billings said that last year there was discussion regarding a 420 Transfer that would help the City pay for retiree healthcare. Ms. Zimmermann said that once it was determined the 420 transfer cannot reduce benefits the discussions ended. Ms. Billings added that in order to transfer money out of the retirement fund all members of the system would have to be vested. The unions would also have to be in agreement.

Trustee Wright asked whether healthcare benefits are guaranteed. Ms. Billings said that the Michigan Supreme Court has ruled that retiree health care benefits are not protected under the State of Michigan Constitution but rather are a contractual benefit. Settlers can amend the retirement ordinance. Benefits would have to be amended.

Wrap-Up Session

Mr. Kuhn said that this is the first time they separated the equity managers from the rest of the managers. He said that the new format shortened the day. He asked the trustees for their feedback and asked if they felt the meeting was more productive.

Chairman Harrison said that in the past they held two manager review meetings. He said that the number of managers in the fund has grown too large to do it all in one day. He thinks it was a better idea to break up the managers and they are getting back to a more viable process.

Mr. Kuhn said that he would also like the trustees to critique his managing of the meeting.

Trustee Flaisher asked if the Board would pay for his attendance at CFA meetings. There was discussion on the meeting attendance process. It was suggested that Trustee Flaisher bring this issue before the Board at the regular meeting the next day.

Trustee Wright asked what Trustee's Flaisher position is on employee trustees attending education seminars. Trustee Flaisher said he feels that trustees should attend educational seminars.

RESOLUTION 09-016 By Williams, Supported by Sauceda
Resolved, That the meeting be adjourned at 2:08 p.m.

Yeas: 6 – Nays: 0