

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 25, 2008**

A regular meeting of the Board of Trustees was held on Wednesday, June 25, 2008 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:37 p.m.

TRUSTEES PRESENT

Shirley Barnett

Koné Bowman

Ray Cochran (*arrived at 1:47 p.m.*)

Javier Saucedo, Vice Chair

Devin Scott

Kevin Williams

Debra Woods

Andrea Wright

TRUSTEES ABSENT

Charlie Harrison, Chairman (*excused*)

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Laurence Gray, Gray & Company

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.

Ellen Zimmermann, Retirement Systems Administrator

Jane Arndt, M-Administrative Assistant

Randal Yaakey, Oakland Press

Vaughn Gurganian, Oakland Press

Peyton Johnson, Retiree

Peggy Hardiman, Retiree

Francine Finnegan, Deferred Retiree

Minnie Mahone, Retiree

Mary Reynolds, Retiree

Ruth Lee, Retiree (*arrived at 2:08 p.m.*)

Mable Davis, Retiree

Oggerlee, Phillips, Retiree

Claudia M. Christy, Retiree

Annie P. Milton, Retiree

Wandalene Hall, Retiree

Rosemary Williams, Retiree

Merlene Grant, Retiree

Clintonia Bell, Retiree

Jessie Mae Bell, Retiree

Mary Sullivan, Retiree

Zenovia Keels, Retiree

PUBLIC DISCUSSION

Francine Finnegan stated that she is a deferred retiree and will receive a pension from the General Employees Retirement System. She has concerns after reading the article in the Oakland Press with regard to the system's investment in a used car dealership. She cannot believe that the retirement system would invest \$5 million in a used car dealership especially one with ties to Mel Farr. She came to the meeting so she could get a better understanding and determine if this was a good or bad decision. In the newspaper, the Chairman was quoted stating that the retirement system is over funded but she does not feel that is a reason to take chances with the pension funds. At least in a CD you can keep the principle.

Peggy Hardiman, a retiree from the hospital, said that this has made her sick to her stomach. She was a trustee on the Board for four years starting in 1998. She said that with the state of the economy and the employee layoffs she cannot understand why the Board would invest in a high risk investment like a car dealership. Many people do not make a lot in pension. People are not buying cars when they have to decide whether to buy gas or food. She asked if this was a sweetheart deal. She does not feel comfortable with this and wants to discuss it.

Ms. Finnegan said that in the Oakland Press this was called a private real estate investment. She was concerned about the recent foreclosures in the news recently.

Mr. Gray said that, first and foremost, this is not a real estate investment; it is a private equity investment. Private equity firms invest in smaller companies. The Board did not make the decision to go into this investment anymore then they dictate which stocks or bonds a manager invests in.

Ms. Hardiman questioned why the Board cannot tell the manager what investments to go into. Mr. Gray said that when you choose private equity you are investing in a blind pool and you do not have that authority. The retirement system has two other private equity investments with Mesirow Financial located in Chicago and Invesco Located in Atlanta and New York. The asset allocation to private equity is 2.2% of the total fund with expected returns of 11.2%. He reviewed the current returns for treasuries of 2.5%, 4.5% - 5% for bonds and 8.6% in the stock market. He said with the expected returns in private equity it is prudent to allocate a small percentage of the portfolio to private equity.

The economy does not look good; these are tough times. In private equity, returns are best at times like these since they can buy companies for less. He said no one wants to see any losses in the portfolio. While there are no guarantees, he has been in the business for twenty-eight years and has a good track record of determining good managers from bad managers. At the end of the period, he felt the retirees will be pleased with the results.

Ms. Hardiman confirmed Mr. Gray's name and that he is the consultant to the Board.

Mr. Gray said that his firm interviewed a number of private equity managers. From those managers the Board selected Onyx, Invesco and Mesirow. He said there is no way to guarantee that the investments will not lose money. Ms. Hardiman asked if this is a high risk investment. Mr. Gray said that private equity is higher risk than publicly traded investments; however, the projected returns are 11.2%. The economy does not look good and these are very tough times. In private equity, returns are best in these economic times when they can buy companies for a lot less money. Onyx is focusing on Midwest manufacturing companies but 100% of the investment will not be in Midwest manufacturing. Overall, it is a good investment and he thinks the retirees will be pleased with the results.

Ms. Finnegan still questioned investing \$5 million in a used car dealership. Mr. Gray explained that the retirement system has not invested \$5 million in a used car dealership. The total allocation to Onyx is \$3 million to \$5 million. They will search the country looking for under valued companies to buy. As the economy improves the value of these companies will go up.

Trustee Cochran arrived at 1:47 p.m.

Ms. Finnegan asked the name of the firm. Mr. Gray told her that Onyx is the name of the private equity firm. She again stated that Onyx has invested the retirement system's money in used cars and asked if they can explain why they invested in this type of company. Mr. Gray stated that the investment in Second Chance Motors is \$800,000.00 out of the \$454.3 million in the portfolio. Ms. Finnegan asked if the mentality is that because the retirement system is so over funded they can take a chance.

Mr. Gray explained that the retirement system invests in a broad range of asset classes because some things go up in value while others go down. Currently, with falling interest rates bond returns are low, so you look for an investment to offset the low returns. It is important to understand the concepts. In order to achieve continuous good returns you have to maintain a diverse portfolio that invests in mortgage-backed securities, large cap stocks like IBM, medium and small cap stocks and international investments. This strategy lowers overall risk.

Ms. Finnegan said she understands that the retirement system has been doing well; however, she will not stand by and watch the fund go down.

Mr. Gray said that the retirement board meetings are open meetings and he would be happy to give his phone number to members if they have any questions.

Ms. Finnegan said that the Board should try to avoid headline risk regarding the investments. Mr. Gray explained that the Board does not dictate the investments made by the private equity manager.

Ms. Hardiman said the paper quoted him Mr. Gray as warning against the investment and asked whether that was accurate. Mr. Gray replied that statement was made in reference to another investment. Ms. Hardiman stated that the Oakland Press had been trying to contact him. Mr. Gray stated that his policy is not to communicate with the press over the telephone. They can submit their questions in writing and he will respond in writing. He has encountered problems giving interviews over the phone. He will only respond in writing because it reduces variations or miscommunications.

Mary Reynolds wondered why there has not been a cost of living adjustment if the retirement system is doing so well. Mr. Gray stated that is not his area of responsibility.

Mary Sullivan commented that if the used car dealership goes bankrupt the pension system will lose money. Mr. Gray said that it is no different than any other investment; there are thousands of investments in the portfolio that can go bankrupt. He said that you have to have faith and confidence in the managers you selected.

Trustee Saucedo said that the pension system did not have any private equity investments in the past. Ms. Hardiman said that the fund got here with stocks and bonds and has done well. She relayed her past bad experiences with used cars and felt it is a bad time for used cars. Mr. Gray

said that we have all had a bad experience with a used car. He assured those present that the Board went through the proper due diligence and more before making the investment and they are expecting returns of 11.2%. He restated that the allocation to private equity is 2.2% and explained that the Board has invested in smaller companies.

Ms. Hardiman asked Trustee Bowman why Onyx made an investment in a used car dealership. Trustee Bowman said that when they fund a manager they do not tell us everything they will invest in. He said that the consultant performed the due diligence and brought the information to the Board. He said that private equity invests in companies and will flip them to attain profits but it depends on the market. This is the best time to invest (during a down market) when the prices are down and there are a lot of opportunities to buy companies low with the potential to sell high. They tell us what type of companies they are looking at: when prices are down, they take the opportunity to purchase.

Ms. Hardiman said that with so many people out of work and living on very little, the pension system cannot afford to lose \$800,000.00 in a high risk investment. She will be upset if this investment goes under.

Zanovia Keels asked why this is the only investment that has hit the media. Mr. Gray said that he felt the headline was misleading adding that a number of publicly traded companies have not fared well in the marketplace recently.

Mr. Gray offered his assurance that the \$454 million in the retirement fund is very important and if anything goes wrong he is legally liable as a co-fiduciary of the retirement system. He said that he cannot dictate the market. It is great when the system is making money but currently the market is down everywhere and returns have been poor. He feels confident that the allocations to the investments in the portfolio will perform well. He asked that if the press has any questions for him to please submit them in writing.

Ms. Hardiman said when she read the newspaper it made her sick. Mr. Gray said he felt the same way when he first read the article because all the facts were not presented and it would have helped to get the information right.

Vice Chairman Saucedo asked Mr. Yakey about the source of his information. Mr. Yakey said he would tell the retirees outside the meeting.

Mr. Yakey left the meeting at 2:00 p.m.

Trustee Wright said she appreciates the members coming to the meeting to obtain the facts regarding the investment. She hopes everyone has a clearer understanding on investing in private equity now. She also emphasized that the Board is not responsible for the investment in a used car dealership.

Trustee Woods told the members that more due diligence was performed on Onyx than any other investment manager and they feel they are a good company. She said that the article took the Board by surprise as well. She explained that three of the trustees are employees and they have a

stake in the pension system. She reinforced that the Board is not responsible for the investments made by Onyx and they did not make the decision to invest in a used car dealership.

Ms. Hardiman asked if all the trustees are City employees. Trustee Woods said that there are three employee trustees on the Board.

Trustee Scott said he is a City employee and stated that the entire Board did not vote yes for this investment.

Ruth Lee said she feels this is the same situation that happened in Flint. She said that used cars are not a good investment in this economy.

Trustee Cochran said that the Board selects investment types and invests across a spectrum of fund managers. The investment managers can invest in companies like Ford to make money but that does not mean that the Board tells them to invest in Ford. For the past six months many investments have suffered including huge companies like Citigroup. The Board does not pick the individual investment vehicle or make that decision; we rely on managers like Onyx who are looking to buy local distressed companies. It is up to them to improve the management and turn it around to make a profit. The concept behind a private equity investment is to restructure the company and make it profitable.

Ms. Hardiman said hopefully the investment will weather the storm and pay off. She still thinks it is very risky. She said that she appreciates the information, but she is still uncomfortable. Ms. Lee agreed.

The members left at 2:13 p.m.

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: May 28, 2008

B. Communications:

1. Correspondence from Oppenheimer Capital Re: Staff Changes
2. Correspondence from ADP Re: Enhancements
3. Conference Information:
 - a. Energy Efficiency Summit East – Infocast – Sept 8-10, 2008
 - b. Green Building Forum – Infocast – Sept 8-10, 2008

C. Financial Reports:

1. Financial Reports – May 2008
2. Commission Recapture – n/a
3. Securities Lending – May 2008
4. Accounts Payable:
 - a. ADP \$2,481.19
 - b. Advantage Building Consultants 437.50
 - c. Gray & Co. 8,104.17
 - d. Ikon 276.65
 - e. Office Depot 438.37

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f. Plante Moran LLC	10,200.00
g. Rodwan Consulting	1,400.00
h. Slade's Printing	48.00
i. Sullivan, Ward, Asher & Patton	1,704.23
j. Visa	7,588.42

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

1. Remove from the Rolls:

- a. Doris Fraley (deceased 05-11-08)
- b. Mervin Hoover (deceased 06-12-08): survivor benefit of \$666.98/ mo to Debra Hoover
- c. Betty J. Terry (deceased 06-08-08)

1. Application for Retirement:

- a. Jan A. Gatz – NOMC 8 years, 11 months Age 60
- b. Sherrie E. Berg – NOMC 4 years, 11 months Age 60

2. Final Pension Calculations:

- a. Barbara Wynder #2391 398.98
- b. Jan A. Gatz #2435 533.77
- c. Sherrie E. Berg #2437 337.93

E. Application for Refund of Accumulated Contributions

- a. Lucinda Hoisington \$15,456.52

RESOLUTION 08-040 By Woods, Supported by Williams

Resolved, That the consent agenda for June 25, 2008 be approved as presented.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Gray & Company

Fixed Income Discussion

Mr. Gray wanted to raise awareness that there is \$143.4 million invested in fixed income with \$116 million to \$117 million in domestic core. He referred to the executive summary table from the March, 2008 performance report that he distributed. He is not suggesting changes but the spread between the best and worse managers is 25 basis points. When you subtract the fees they may be returning performance below the benchmark.

Underperforming Manager Reviews

Mr. Gray said that the Watch Letter was sent out to Mesirow Financial. They have asked for the Board's permission to come in and talk about their portfolio.

RESOLUTION 08-041 By Barnett, Supported by

Resolved, That the Board approve Large Cap Value Manager Mesirow Financial to come in and discuss their portfolio and performance returns.

Yeas: 7 – Nays: 0

Mr. Gray stated that it has been a difficult market since the third quarter of 2007. However, Mesirow's performance returns had been declining prior to this market.

Trustee Bowman and Mr. Yakey returned at 2:18 p.m.

Asset Allocation

Mr. Gray summarized the asset allocation of the fund. He said currently 2.2% is allocated to private equity; 10% in international equity, 10% in U.S. small cap, 20% in U.S. mid cap; 25% in U.S. large cap; 5.8% in global fixed income; 20% in domestic fix income with 2.4% invested in treasuries and 5% in high yield.

He cannot believe that the 2.2% allocation to private equity bothers people with the total portfolio at a 9.21% average standard deviation and median expected returns of 9.05%. Over the ten-year period based on 37 rolling periods the portfolio has achieved average returns of 7.73%.

He referred to an article about Wilbur Ross one of the biggest distress players in the market and how he plans to save Detroit. He would be interested to hear what people have to say about him.

The asset allocation should be reviewed down the road with the potential for minor tweaking. He told the trustees that the actuary looks at long-term assumptions twenty to twenty-five years out. The asset allocation does not require any knee-jerk reactions to the economy and should continue satisfactory performance long-term. Overall, over the long-term he and the actuary are comfortable with the portfolio.

This concluded Mr. Gray's performance report.

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Hospital Deferred Trustee

Ms. Zimmermann said she wanted to advise the trustees that the Hospital Deferred Trustee petitions were mailed out and are due back on June 27, 2008. If there is more than one petition filed then an election with the ballots being mailed will be conducted on July 11, 2008.

FOIA Request

Ms. Zimmermann reported that she received a FOIA Request from the Oakland Press which she forwarded to the attorney. She responded to them with a letter including the cost due to the complexity of the request. There has not been any further communication from them.

She recently received another FOIA which she has forwarded to legal counsel.

Peritus Watch Letter

Ms. Zimmermann reported that the watch letter was sent to Peritus per the Board's direction.

IRS Mileage Reimbursement Rate

Ms. Zimmermann reported that the IRS has increased the mileage reimbursement rate to .585 cents per mile starting July 1, 2008.

Trustee Wright asked if the FOIA Request is in the agenda packet. Ms. Zimmermann said that it was forwarded to legal. Trustee Woods asked if it was from the Oakland Press. Ms. Zimmermann said it was not.

Re: Legal

Retiree/Rehire Issue

Ms. Billings reported that there is a copy of her correspondence to City Council included in the Legal Report under Exhibit A. She said that the Council has postponed the implementation of the ordinance indefinitely.

Standard Pacific Securities Litigation

Ms. Billings reported that both parties are proceeding through the initial discovery process.

Sunterra Securities Litigation

Ms. Billings reported that the property settlement was rejected and the litigation is proceeding through to trial.

Tetra Technologies Inc. Securities Litigation

Ms. Billings reported that the motion for lead plaintiff status is pending.

Miscellaneous Articles

Ms. Billings provided articles for the trustees' information.

The Detroit Free Press article is regarding the Bear Stearns collapse and \$62 million in losses by the State of Michigan pension fund.

She also referred to the article regarding the IRS and their enforcement initiative to focus on compliance by governmental plans. This is another indication that the IRS is serious about the enforcement of municipal retirement systems.

That concluded Ms. Billing's legal report.

Union Representatives – None

UNFINISHED BUSINESS

Re: Hospital Deferred Trustee – See Administrator

Re: Retiree Notice of Retire/Rehire Ordinance

Ms. Zimmermann said that at the last meeting the Board passed a resolution directing her to send a letter to the retirees with regard to the retiree/rehire ordinance. She said that when the ordinance was indefinitely postponed she did not incur the expense to send out the notification. She has brought this issue back to the Board for their instruction.

The Board felt that a communication was needed and determined that a letter should be sent out to properly notify the retirement system members that the ordinance has been indefinitely postponed. Ms. Zimmermann confirmed that the notification would only go to retirees in pay status.

RESOLUTION 08-042 By Cochran, Supported by Bowman

Resolved, That the Board direct the Retirement Administrator to send a communication clarifying the retiree rehire issue.

Yeas: 8 – Nays: 0

NEW BUSINESS

Trustee Barnett said that the deferred retirees at the hospital are concerned about the hospital being sold to a private group. They want to know if their service credit will continue if they are employed by a private company.

Ms. Zimmermann said that the issue should be reviewed by legal counsel. She explained that when the hospital went private everyone became vested in the retirement system. If they terminated employment with the hospital with less than twenty-five years they were not eligible to draw a benefit until age 60. If they continued in service with the hospital they were eligible to draw at age 55 with twenty-five years of service. She believes that the hospital deferred retirees may still obtain service credit going forward with a subsequent employer.

Ms. Billings said that this issue requires legal review.

RESOLUTION 08-043 By Barnett, Supported by Wright

Resolved, That the Board direct legal counsel to review the hospital deferred retiree service credit issue.

Yeas: 8 – Nays: 0

Trustee Bowman left at 2:33 p.m.

Re: Ratification of Capital Calls Funding

Ms. Zimmermann explained that the Retirement Office often receives requests to fund private equity capital calls between meetings. In order to meet deadlines, the Retirement Office works

with the consultant to transfer the necessary funds. She asked that the Board ratify the transfers for the private equity capital calls.

RESOLUTION 08-044 By Barnett, Supported by Wright

Resolved, That the Board of Trustees ratify the transfer of \$312,000 from Capital Guardian, \$341,300 from the Cash Manager and \$1,000,000 from Julius Baer to cover the capital call from Onyx Capital; \$220,777 from the Cash Manager to cover the capital call from Invesco and \$1,536,000 from Capital Guardian to the Cash Manager.

Yeas: 7 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: July 23, 2008 at 1:30 p.m. in the Lions Den of City Hall.

ADJOURNMENT

RESOLUTION 08-045 By Barnett, Supported Williams

Resolved, That the meeting be adjourned at 2:37 p.m.

Yeas: 7 – 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 25, 2008.

Raymond Cochran, Secretary

As recorded by Jane Arndt