CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
NOVEMBER 29, 2006

A regular meeting of the Board of Trustees was held on Wednesday, November 29, 2006 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342, The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

Koné Bowman
Raymond Cochran, Secretary
Robert Giddings
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Devin Scott *(arrived at 1:40 p.m.)*
Kevin Williams *(arrived at 2:40 p.m.)*
Debra Woods
Andrea Wright

TRUSTEES ABSENT

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

OTHERS PRESENT

Larry Gray, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Stuart Tompkins, Sullivan, Ward, Asher & Patton, PC
David Hoffman, Gabriel, Roeder, Smith & Company
Randall Dziubek, Gabriel, Roeder, Smith & Company
Steve Fladger, The Huttenlocher Group
Heather Bishop, CHUBB Group
Ray Dixon, Jr., Onyx Capital Advisors, LLC
Patrick Gregory, UHY, LLP
Tuesday Redmond, Community Development
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: October 25, 2006
B. Communications:
   1. Correspondence from Loomis Sayles Re: September Portfolio Appraisal
   2. Correspondence from Oppenheimer Capital Re: Firm Update
   3. Correspondence from Julius Baer Re: 3rd Quarter Commentary
   4. Conference Information:
      a. Investment Education Symposium – Opal Financial Group – Feb. 14-16, 2007
      b. Public Fund Boards Forum – Dec. 9-12, 2006

c. Upcoming Programs – IFEBP – various dates

C. Financial Reports:
1. Financial Reports – October 2006
2. Commission Recapture – August & September 2006
3. Securities Lending – September 2006
4. Accounts Payable:

a.	ADP	$2,257.44
b.	City of Pontiac	1,674.08
c.	Comerica (WAM)	6,404.83
d.	Gray & Co.	8,104.17
e.	Ikon	198.59
f.	Kennedy Capital Management	54,997.00
g.	Mellon Global Securities Services	45,942.34
h.	Mesirow Financial	39.077.26
i.	Munder Capital Management	79,442.00
j.	Office Depot	214.74
k.	Oppenheimer Capital	29,189.72
l.	Plante Moran	266.00
m.	Sullivan, Ward, Asher & Patton	18,501.60

D. Retirements, Refunds, Final Calculations, Re-Examinations
1. Remove from the Rolls:
   a. Walter Drenkhahn (deceased 10-13-06): survivor benefit of $696.11/mo. to Glenia Drenkhahn
2. Re-Deposit of Accumulated Contributions – Yolanda Pope $2,577.93 4 years, 8 months
3. Application for Service Retirement:

a.	Patrice Waterman– Non union	21 years, 6 months	Age 49 (70 point reso)
b.	Linda Reger – Hospital	7 years, 9 months	Age 60
c.	Yolanda Pope – Teamsters 214	30 years, 1 month	Age 50
d.	Mervin T. Hoover – Local 2002	16 years, 2 months	Age 60
e.	Lynda Strauabel – Hospital	12 years, 8 months	Age 57
f.	Walter Schaffner – Local 2002	25 years, 5 months	Age 55

4. Final Pension Calculations:

a.	McKinlely Jones	#2295	1,253.08
b.	Maurice Finnegan	#2338	2,904.05
c.	Walter Hardin	#2342	3,855.27
d.	Robert Seay	#2346	1,838.75

Trustee Wright expressed her concern with certain items recorded within the October 25, 2006 regular meeting minutes. The minutes were separated from the consent agenda for further discussion.

RESOLUTION 06–097 By Woods, Supported by Sauceda
Resolved, That the consent agenda for November 29, 2006, with the exception Item A, be approved.

Yeas: 7 – Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – CAPROC Update

RESOLUTION 06–098 Cochran, Supported by Bowman
Resolved, That the Board will move to closed session to discuss pending litigation.

Roll Call:

Kone Bowman	Javier Sauceda
Ray Cochran	Kevin Williams
Robert Giddings	Debra Woods
Charlie Harrison	Andrea Wright

The Board moved to closed session at 1: 38 p.m.

Trustee Scott arrived at 1:40 p.m.

Trustee Woods left at 1:42 p.m.

Trustee Woods returned at 1:43 p.m.

The Board returned from closed session at 1:45 p.m.

Ms. Billings and Mr. Tompkins left at 1:45 p.m.

RESOLUTION 06–099 By Wright, Supported by Scott
Resolved, That the Board approve the closed session minutes from the October 25, 2006 meeting.

Yeas: 8 – Nays: 0

RESOLUTION 06-100 By Wright, Supported by Scott
Resolved, That the Retirement Administrator and Retirement Accountant be authorized to attend a meeting in Chicago relating to the CAPROC settlement.

Yeas: 8 – Nays: 0

RESOLUTION 06-101 By Wright, Supported by Scott
Resolved, That the Board of Trustees approve the closing of the settlement with CAPROC.

Yeas: 8 - Nays: 0

Re: Gabriel, Roeder, Smith & Company – 2005 Actuarial Valuation Presentation
David Hoffman described the actuarial valuation as the financial report for the fund that determines the employer contribution rate effective July 1, 2007. He told the Board that the employer contribution rate continues to be zero based on the current methods and assumptions. He also said that the investment returns are smoothed.

Mr. Hoffman distributed a revised copy of page B-6 which contained the actuarial experience for the year ending December 31, 2005. He said that the investment returns on the assets were $12 million less then expected however, even with gains being down, the accrued liability credit was $131 million. He told the Board that payroll was $17 million. Normal cost from last year was $3.5 million. At present, no contributions are needed or will be in the near future.

If the valuation rate of return remains at 7.5% for the fund no further contributions will be necessary. If the investment returns average 5% for the next ten years then contributions may be required.

Randy Dzuibek said that during the year many funds have had supplemental valuations prepared for their bargaining units. He said that a lot of systems are stopping their defined benefit plans and calling for voluntary pension plan contributions for their active employees. In some cases new hires and some active employees will be required to make contributions. Mr. Hoffman said that this most often occurs as the result of a high contribution rate or volatile contribution rates and those are not an issue here.

Ms. Zimmermann raised the issue of OPEB and the new GASB standards for reporting post retirement healthcare benefits. If the employer does not fund the full amount that is calculated by the actuary (the ARC), then the difference between that amount and what was funded for the year is recorded as a liability on the City's financial statements. She asked when the requirements become effective, noting that the Systems and the City are on different fiscal years. A separate valuation is required for the City's healthcare obligations outside of the VEBA. Mr. Dziubek said that GRS has performed valuations for healthcare for the VEBA's with the required changes. They will calculate the amount and if it is not fully funded, it will become a liability on the balance sheet of the City.

Trustee Giddings also asked why they combined the reporting for NOMC and the City. Mr. Hoffman replied that a policy decision was made to combine the assets and liabilities of the fund because they are seen as one by the law, so it made sense to streamline in order to cover any liabilities. Trustee Giddings asked if it had any impact for either fund. Mr. Hoffman stated it reduced the amount of funding required for the City. Trustee Giddings opined that it helped the City, not the hospital. He asked whether there was a legal review of the documents signed in December, 1993 regarding the privatization of North Oakland Medical Center, specifically addressing whether it was legally permissible to consolidate the assets. Mr. Hoffman replied that they were told the documents were reviewed and there was nothing to prohibit it.

There was discussion regarding the number of active employees versus retired employees and the ratio of 1:2. Trustee Wright asked if the table describing 277 inactive members was primarily the number of NOMC active employees at the time of privatization. Mr. Hoffman replied that that was correct.

RESOLUTION 06–100 By Woods, Supported by Cochran
Resolved, That the Annual Actuarial Valuation Report for year ending December 31, 2005 be accepted, and the recommended transfers on page B-5 of the report be approved.

Yeas: 8 – Nays: 0

Re: Fiduciary Liability Insurance
Steve Fladger from Huttenlocher Group introduced himself and distributed informational material to the Board. He explained that the Huttenlocher Group is the underwriter for Chubb. He described CHUBB's financial rating as A++ with over $10 billion in assets making them a stable and reliable insurance company. The Huttenlocher Group has been in business since 1935. They are an independent agent that works with their clients to find the best insurance company. They are currently an agent for the City of Pontiac providing property, liability and workers' compensation insurance.

He explained the quote for the liability coverage of the policy. He stated the coverage as $2 million total limited liability per year with a $25,000 deductible per claim. He thanked Ms. Zimmermann for her assistance in gathering the required information.

Chairman Harrison asked what is not covered under the policy. Heather Bishop from Chubb stated that the deductible is based on plan assets. She said that the larger the deductible the more assets in the plan. She used the City of Detroit as an example.

She stated that the policy covers basic employee benefits coverage, administration, mismanagement of funds and how funds are invested. She also said that it covers more then a standard errors and omissions policy. Mr. Gray asked if it would cover an investment that was done outside the plan standards. Ms. Bishop replied that it would not. Ms. Zimmermann pointed out that it covers the trustees as fiduciaries, but not as individuals.

Trustee Williams arrived at 2:21 p.m.

Trustee Bowman asked why the coverage was set at $2 million. Ms. Bishop said that was the amount of coverage she received from Steve Fladger. She also said that $2 million and $5 million are common liability coverage amounts. She added that some large counties have $10 million in coverage.

Trustee Giddings asked about the past, present and future coverage in the policy. Ms. Bishop said that it insures a Board is covered in the event a bad decision was made in the past. The coverage period goes back five years. Trustee Cochran added that it protects the Board in 2012 from a decision made today.

Chairman Harrison asked if it covered decisions as they relate to being fiduciaries. Ms. Bishop said yes as long as the Board did not realize it was a bad decision before making the investment.

Trustee Giddings asked if the premium was based on the assets of the plan. Ms Bishop said that it was based on both the total assets of the plan and the funding of the plan. He asked what valuation was used to determine the premium. Ms. Bishop said that they used the valuation for the period ending December 31, 2004. She also said that they prefer to issue policies to systems that are 80% funded or better.

Chairman Harrison asked about the policy's effective date. Ms. Bishop said that the policy will become effective December 1, 2006.

Trustee Wright asked about the recourse provision in the policy. Ms. Bishop told the Board that plan assets can not be used and that it does not apply unless you use your own assets. Trustee Wright asked if Ms. Bishop could provide a waiver.

Ms. Redmond left at 2:31 p.m.

Ms. Zimmermann explained that the trustees attended a session at MAPERS that specifically discussed the recourse policy and that if the trustees paid for their non recourse insurance it would cover them if they were personally sued. Ms. Bishop said that they do not have a waiver of recourse provision because there is no recourse provision in the policy. She said that the benefit of the doubt goes to the insured.

Chairman Harrison asked that Ms. Bishop provide a waiver of recourse in writing to the Board or a statement in writing stating that a waiver of recourse is not needed. Ms. Bishop said she would send the information along with the price to Ms. Zimmermann.

RESOLUTION 06–101 By Cochran, Supported by Sauceda
Resolved, That the Board accept the quote from CHUBB for fiduciary liability insurance in the amount of $2 million per year with a $25,000 deductible per occurrence pending written waiver of recourse and legal review.

Yeas: 8 – Nays: 1

Mr. Fladger and Ms. Bishop left at 2:37 p.m.

Ms. Redmond returned at 2:38 p.m.

Re: Gray & Company – Onyx Presentation
Mr. Gray told the Board that Onyx would be presenting at the meeting. For those trustees that were not at the last meeting he outlined the educational session from the prior meeting. He explained that the Investment Policy Statement had been revised to allow monies to be allocated to private equity investments including fund of funds and direct investments. He told the Board that Elliot Fullen is still in Shanghai closing an IPO and was not available for today's presentation. Roy Dixon from Onyx Capital Advisors along with a representative from UHY, an accounting firm, will be conducting the presentation.

Ms. Redmond left at 2:41 p.m.

Break at 2:42 p.m.

Returned at 2:53 p.m.

Onyx Capital Advisors, LLC
Roy Dixon, Jr. – Partner
Patrick J. Gregory, Partner

Mr. Dixon introduced himself and Mr. Gregory to the Board. He told them that they are a private equity firm and are raising $150 million in structured equity investments.

He said that they feel this is an important market and that they decided to go into the Midwest because of the size and amount of companies. They are looking at firms with between $10 and $250 million in annual sales in the Midwest. Theirs is a value-based strategy focusing on manufacturing, consumer products and distribution. There are 124,000 companies disenfranchised by the private equity community. They will add value by growth and operational improvements. GNP 20% Midwest to 11% P/E firms. Onyx will find these companies: they have a broad deal-sourcing network.

Their focus is the Midwest because there is not as much money chasing the companies. He feels they will have a higher likelihood of deal consummation. He said that most private equity companies are invested 50% to 60% in the tech market. They are looking at more the "meat and potato" companies. There is less competition in the Midwest so it is easier to find companies fitting these parameters. They have a combined 80 years of relationship networks and he directly calls on CFOs. They are targeting companies that are looking to grow and transition. They use traditional and non-traditional sources and will do mailings to get deals. Mr. Dixon said he will work with Mr. Gregory and his company to get deals.

Mr. Gregory described UHY as a CPA firm that resulted from the merger of five other CPA firms. He said that they have two hundred fifty employees in their Detroit area. There are offices in Southfield and Sterling Heights. This gives them access to $10 million to $75 million companies that the fund could potentially invest in, not necessarily their clients.

Mr. Dixon described the firm as a team. Onyx Financial Advisors was started in 1986. He said that he started with three clients. As a partner in Onyx Capital Advisors, his responsibility is to raise capital and to develop the strategy of the firm. He has relationships with attorneys, bankers and others. They assist in originating investments, coordinate due diligence and will perform portfolio management and disposition.

Prior to this, Mr. Dixon was president of Onyx Financial Services since 1986 working with high net worth individuals and institutional accounts. He said that they are specifically targeting companies that are primarily in the Midwest with sales starting at $20 million with the largest at $1 billion. Most of these firms are in manufacturing. They will help reduce expenses and increase market share. Their experience will assist them in recognizing companies with market share and growth that is not a result of hiring. They are looking for companies with an annual growth rate of 20% for the past fifteen years. He was one of the "40 under 40" recognized by Crain's Detroit Business. He is a graduate of Northwestern University.

Mr. Gregory said the UHY is the fourteenth largest CPA firm in the nation working with many closely held businesses. A lot of their clients are second tier automotive suppliers which provide

UHY access to the manufacturing niche. They are a full service firm and would assist in the due diligence. They would identify potential target companies. Their analysts would identify business efficiencies bringing in manufacturing cost people to find cost savings.

Mr. Dixon described Alex Parrish as an attorney and senior partner. He is highly experienced in capital formation, acquisitions and the restructuring of debt. Mr. Gregory is the Managing Director of the Southfield office. LaRoy A. Williams is the analyst for Onyx Capital Advisors who knows the manufacturing sector. He is a former CFO of a tier one automotive plastic supply company that had $60 million to $70 million in annual sales. Elliot Fullen is the strategic partner for Onyx Capital Advisors. Due diligence will also be his responsibility. Mr. Dixon told the Board that Mr. Fullen has worked closely with both Apollo Management and Kohlberg, Kravis & Roberts (KKR).

He also mentioned Attorney, Melvin Jefferson would soon be joining the company with expertise in the area of tax law. He added that their complimentary skill base is exemplary and their due diligence is second to none.

He described their investment strategy and philosophy. He said that the fund will be primarily focused on meeting the demand for equity and mezzanine financing from middle-market or Midwest-based companies that require less than $10 million in capital.

The fund's investment criteria will be companies with an internal rate of return at 20% on equity investments. The Fund will target investments with a holding period of five to seven years. Fund investments will typically take the form of preferred stock, subordinated debt with warrants, or common stock. The Fund will look for opportunities in the Midwest and middle-market sector, but they are not married to the Midwest. They will look for target investments in established, middle-market companies with a stable operating history and demonstrable cash flow or potential to recover.

The investment focus structure looks for valuations to achieve 20% or greater internal rate of return with expected returns of structured equity at a rate of 8%. They will have multiple exit strategies. They are looking for over-leveraged and distressed companies. The portfolio company management will include hands-on involvement from principals and significant influence on the Board. They are looking for companies with annual revenues of $10 million to $250 million. He said that the matrix changes when you get into annual revenues of $350 million and greater.

The fund will utilize a very detailed due diligence process when evaluating potential assets for purchase. All relative information will be verified by an independent third party. Mr. Gregory pointed out that their due diligence will focus beyond the numbers utilizing background checks and extensive review of the managers. It is important to understand the key managers involved. He also said that UHY has been involved in the buy and sell side of transactions since 1968 and can add expertise to the firm. Mr. Dixon added that Alex Parrish will also be involved in the due diligence.

He described the portfolio characteristics of Onyx Capital Advisors Fund I, LP. He said the number of portfolio investments will be fifteen to twenty companies. The average investment size will be $6 million to $10 million with investments up to 20% in any one company but it will be well diversified.

Trustee Giddings asked how much capital have they currently raised. Mr. Dixon replied that they have are an emerging fund and could have commitments of $40 million by February. When this fund is closed they will begin a new fund. Trustee Giddings also asked if they had any closed funds. Mr. Dixon answered no and that the Fund will close at $150 million.

Mr. Dixon summarized the Fund terms. He told the Board that the LP/GP split is 80% to 20%. Trustee Wright asked him to define LP and GP. Mr. Dixon explained that the limited partner would be the retirement system and the general partner would be Onyx Capital Advisors.

Mr. Dixon told the Board that the Fund is looking for an internal rate of return of 20%. Their investment strategy is focused on targeting middle market companies in the Midwestern United States. They feel they can achieve a lot of value from their investment approach. They can reach these goals by utilizing their extensive management team experience.

Trustee Bowman left at 3:27 p.m.

Trustee Bowman returned at 3:28 p.m.

Mr. Dixon asked if there were any questions. Chairman Harrison asked about the investment opportunities in the Midwest referring to distressed companies with manufacturing and auto parts supply companies being the sweet spot. Mr. Dixon said that it is clearly dependent on the automotive industry: it is not going away and that there is still a lot of value for suppliers. Mr. Gregory commented that the manufacturing area is located along the I-75 corridor and has expanded south.

Trustee Scott asked how they find the right automotive companies. Mr. Dixon replied that their relationships in the banking industry assist them in finding companies. They may look at one hundred companies but after review they might only buy three or four companies. They could be automotive or consumer discretionary.

Mr. Gregory said that after conducting the due diligence they determine if they should buyout a company or invest by supplying debt which requires financing at a higher interest rate. They also look for growth and at existing management. In some cases the principal is retiring or the management has slowed down. Trustee Scott confirmed that the intent is to buy the company, improve it and then sell it off. Mr. Dixon said that in some instances management is replaced or they can participate in the restructuring of the company and may eventually become the new owners of the company.

Trustee Scott asked how the System would receive its investment back. Mr. Dixon said that as the capital comes in payments would be made to the system from the preferred equity. He commented that mezzanine financing would provide a higher rate of return. He also said that the investment would last about five to seven years and based on a trigger event they could pay back the investment when they take the company public or when the company is sold.

Trustee Giddings asked who would hold the stock certificates of the company and who would assist Onyx in the due diligence of the investment. Would the stock certificates be held in the firm's name? Will UHY be responsible for the investment analysis, deal structure, liability and taxes? Mr. Gregory replied that UHY would be responsible for the continuing management of the company. Trustee Giddings asked if, as the consultant, that would be a conflict of interest since they would be taking money to pay themselves. Mr. Dixon replied that Mr. Williams would be assisting Mr. Gregory with the analytical work.

Ms. Zimmermann confirmed that UHY has 250 employees in their Detroit Office with 1,400 employees nationwide with Mr. Gregory. She asked how many employees would be dedicated to this investment. Mr. Gregory said that staff would be used on an as needed basis. She expressed concern about the lack of a dedicated staff. Mr. Dixon said they will have a team of three people working for the fund. Ms. Zimmermann asked who would be responsible for the accounting and record keeping. She inquired how one analyst could manage fifteen to twenty companies. He replied that each entity would provide accounting and IT staffs. Onyx will monitor the books on a monthly and quarterly basis. Mr. Dixon replied that as the capital comes in they will hire more staff. Mr. Dixon said that he expected to have a staff of six people by March, 2007. She asked if Mr. Dixon would be the portfolio manager. Mr. Dixon said the firm will be comprised of the team of three people with one analyst.

Mr. Gray asked what the target amount of the first close is. Mr. Dixon said that $20 million will be the amount of the first close. Mr. Gray asked if the principles of Onyx would contribute 1% as typically seen in the private equity space by the general partner. Mr. Dixon replied yes; that would be the case before closing.

Mr. Gray inquired about the three members of the staff. Mr. Dixon said that the staff would consist of himself, LaRoy Williams and a person that was recently hired. Ms. Zimmermann asked if Elliot Fullen was one of the people. Mr. Dixon said that there would be four people on staff.

Mr. Gray asked if UHY would provide the calculations to Onyx. Mr. Dixon said yes and that he would provide the information to the investors. Ms. Zimmermann asked if the Board would receive quarterly reports. Mr. Gray said that you can't value a company real time and that the reports would be at least one quarter behind. Mr. Gregory said that from a practical standpoint a direct investment annual report might also lag.

Mr. Dixon and Mr. Gregory left at 3:42 p.m.

Mr. Gray reminded the Board that they are fiduciaries and should not hesitate to ask questions.

Trustee Wright asked about the difference between a fund of funds versus a direct investment. Mr. Gray explained that a fund of funds invests in eighty to one hundred twenty companies bought by twenty or so firms such as Onyx which spreads the risk.

Trustee Giddings asked if limited partnerships are legal in the state of Michigan. Mr. Gray replied that they are.

Trustee Scott asked Mr. Gray to explain the process and his thoughts. Mr. Gray said that the fund would set a target amount of money approximately $20 million for the first close. At that point they would drawdown a small portion of the investment as they find companies to acquire. They would either buy, establish sub-ownership, or loan to various companies, to help it operate more efficiently. After five to seven years their goal would be to sell the company or call the debt position for profit.

Trustee Scott asked about the expected returns. Mr. Gray said that the investment returns will start at 8% before they start sharing. Then it will be an 80%/20% split between the limited partners and the general partners based on the investment.

Ms. Zimmermann asked about the management fees. Mr. Gray said that they are 200 basis points plus the split on the revenue (80%-20%).

Trustee Giddings said that the Board has never done business with a manager without a benchmark or past investment history and there is no history here. Mr. Gray said that Onyx has not been in this type of business before and the staff has not been at a firm in this asset class so it is a blind leap of faith.

Trustee Giddings asked why Attorney Tom Michaud was not present. Chairman Harrison said that some of the trustees feel that the Board is not seeing a benefit from his attendance.

Trustee Giddings stated that Mr. Michaud should be at the meeting. It is a violation of Board policy when the attorney is not present to insure that they are adhering to fiduciary guidelines. Trustee Cochran stated that he was not of the opinion that the Board would be voting on the manager. Trustee Giddings said that he believes the Investment Policy Statement specifically states that the Board has to select an experienced manager with experience in the asset class.

Ms. Zimmermann left at 3:54 p.m.

Trustee Giddings voiced his concern about going outside the scope of the guidelines. Chairman Harrison asked Mr. Gray the definition of an emerging manager. Mr. Gray explained that it is a manager with under $2 billion in assets under management. Emerging does not imply that a manager has no experience in the investment space. It usually refers to someone who has a number of years of experience working at a firm relative to the specific asset class that starts their own company with other managers that have done this before, with similar experience, resources and staffing levels to do the job today.

Trustee Scott asked about the investment in relation to the Investment Policy Statement.

Ms. Zimmermann returned at 3:56 p.m.

Mr. Gray read points from the Investment Policy Statement that indicated the manager must have past performance relative to other managers and must have a level of experience, resources and staffing to do the job. He said this is standard language for an investment policy statement.

There was discussion regarding the due diligence of the investment. Mr. Gray said that he could not perform the due diligence on Mr. Fullen because he is in the process of an IPO in China and it could affect the outcome. He told the Board that Mr. Fullen is still employed with Hexion and not currently an employee of Onyx. He also said that current Onyx staffing consists of (aside from the secretarial staff) Roy Dixon and LaRoy Williams. He said Elliot Fullen, Alex Parrish and UHY personnel are not employees.

Trustee Giddings commented on Midwest manufacturing as a depressed area and questioned it as an Onyx target. Chairman Harrison mentioned that there could be good bargains found. Mr. Gray responded that it is an overlooked area for a reason. He said that a private equity manager who does this well, can find those manufacturing firms. However, it takes someone who has been doing it for years: someone or a firm with this specific skill set.

Trustee Bowman asked Mr. Gray's opinion and if he felt this investment would be in the best interest of the Board. Mr. Gray replied that he likes the private equity alternative space and that there are a few that do well but that there are many firms whose returns are less then the S&P. He said that Roy will build a good firm, but that the people aren't there yet. He added that experience is the key.

Trustee Cochran commented on the presentation book stating that Elliot Fullen and Alex Parrish are noted as senior partners who are not employees of the company yet. Trustee Bowman asked if Elliot Fullen is coming. Mr. Gray said that he is in Shanghai doing an IPO and that he has been told that he will be joining the company.

Chairman Harrison asked about Mr. Fullen's experience. Mr. Gray said that when he checked with their people at KKR and Apollo and that no one has heard of him. He has not been able to run the background check because it could potentially threaten the success of the IPO. He added that he has met with Mr. Fullen.

Trustee Scott asked why there is an urgency to vote today. Chairman Harrison said that the Board could vote today or next year but that they normally vote after the manager's presentation.

Trustee Sauceda asked what happens if Elliot Fullen does not join the company. Mr. Gray replied that if they entered into the contract with Onyx they would still have to abide by the contract and forward the funds when requested.

Trustee Williams asked about UHY. Mr. Gray said that Onyx is outsourcing their services.

Trustee Giddings questioned why the Board would make this investment without any history, track record or reasonable expectations. Chairman Harrison expressed to the Board that they should not be confused. Onyx is a "strictly" emerging manager and that everyone has to get there start and first dollar somewhere and we know where they are. He said that last month the

Board looked at the alternative space, specifically, private equity fund of funds. The Board is looking at potentially better returns with half in fund of funds and half in direct investments.

Trustee Wright left at 4:13 p.m.

Trustee Giddings said that the other private equity managers had history. He said that maybe this would be the type of investment the Rockefellers would make but that the Board has a different level of fiduciary responsibility when making investments with public funds.

Trustee Sauceda asked the amount of the investment. Mr. Gray stated the investment would be $9 million to $10 million.

Trustee Williams asked about Onyx's track record and experience. Mr. Gray said they are not an experienced manager and that the principals don't have the experience or track record in the private equity space. Mr. Dixon is a financial planner. He also said that he first spoke with Mr. Gregory today. Trustee Cochran added that Mr. Gregory was formerly with Follmer, Rudzewicz and Company.

Trustee Cochran presented his perception to the Board. He said that it's a good space to be in but he's concerned about a firm that has no experience, especially in private equity. He said that it is a difficult space to operate in and there are a number of emerging managers that have done better with equities and securities that can be tracked. He said that some use dummy portfolios to prove themselves. He questioned how they can guarantee a 20% return with no way to quantify it. He said that he feels the Board needs to have assurances and that the experience aspect needs to be met with Mr. Fullen being on board.

Trustee Wright returned at 4:18 p.m.

Trustee Scott left at 4:18 p.m.

Trustee Giddings stated that it takes years to get a reliable picture of a firm. He also asked if there was a way to evaluate the firm mid-term. Mr. Gray responded saying that there are some analytics that can be run when they are actually operating in the space. They can also look at the percentage of mezzanine and whether they are paying 8% in returns. There isn't a way to figure the internal rate of return until it's completed. Trustee Giddings said that he does not feel this investment can be justified down the road.

Meeting break at 4:23 p.m.

Trustee Scott returned at 4:24 p.m.

Meeting resumed at 4:31 p.m.

Chairman Harrison said that given the concerns that were presented the investment will be tabled until they are addressed by Onyx. Mr. Gray will be the point person and will keep the Board informed. Trustee Wright asked if there is a way to know when other commitments come in.

Mr. Gray said that he can advise the Board when Onyx has signed commitments. He will also let them know when Elliot Fullen joins the firm and other experienced people come on board.

Re: Third Quarter Performance

Mr. Gray reviewed the third quarter performance of the fund. He started with the capital markets stating that the housing market is down. There are concerns since consumers drove two-thirds of the GDP and were using their homes as piggy banks. There is a lagging effect with rising interest rates and energy bills. Movie sales and bar sales are down but liquor store sales have doubled. Wal-Mart and Target are reporting lower same-store sales while sales at high-end department stores like Saks and Tiffany's are up. Yacht and private jet sales are up and there is a greater divide between the "haves" and "have-nots".

The yield curve is flat revealing a slowing economy. Yields for two-year and ten-year treasury bills are virtually the same. This suggests that the market expects the economy to continue to slow.

With the housing market down, homeowners have less wealth and will spend less. However, REIT performance was 8.2% for the quarter. This indicated that even though new home construction contracts were cancelled these people needed somewhere to live so luxury apartment rentals were up for the quarter.

The equity market rally was led by tech, telecom and health care. Managers did well except those who were over-exposed in the energy sector.

Fixed income was a see-saw with long-term yield down and long-term bond prices up at 7.0%.

International equity reported India's growth at 8.9% for the quarter. Much of India's growth is attributed to technology outsourcing by companies. China continues to go on a world-wide shopping spree buying anything they want.

It was a tough quarter for the portfolio with a large portion in transition. Peritus is half invested. Munder and Systematic are new in the mid cap space. When the managers have had a few months to gel together the Board should get a better indication of the performance figures.

Mr. Gray explained that the portfolio is in flux. However, long-term performance is in good shape versus the actuarial target. He said it was an ugly quarter for small cap especially those in the wrong sectors. He added that Julius Baer is in transition from a separate to a commingled fund.

Chairman Harrison asked if most of the mangers were down for the quarter. Mr. Gray responded that universally most managers were down for the quarter. Chairman Harrison asked about large cap equity and if it is time to revisit the space. He asked if the Fund could acquire higher returns investing in emerging woman- and minority-owned managers than in large cap. Mr. Gray replied that it is a challenge to find a better manager then World Asset Management in large cap.

REPORTS

Chairman - None

Secretary
Trustee Cochran noted that the minutes did not reflect when he left the meeting on October 25, 2006. Ms. Zimmermann said that the minutes would be reviewed and corrected accordingly.

Trustees/Committees
Re: Real Estate Committee – None
Re: Personnel Committee - None

Administrator

2006 Cost Of Living Adjustment
Ms. Zimmermann reported that the Cost of Living Adjustment was distributed within the November pension benefit checks. She stated that the total amount was $1,241,805 for 2006.

Mesirow Contract
Ms. Zimmermann distributed the legal opinion of the Mesirow contract. She said that the contract has been reviewed and that a side letter was included with regard to Public Act 314.

Julius Baer Transition
Ms. Zimmermann told the Board that the transition from a separate to a commingled Julius Baer fund needs to be approved. She stated that an analysis was conducted by Gray & Company to review the changes in the securities lending agreement.

RESOLUTION 06–102 By Woods, Supported by Cochran
Resolved, That the Board authorize the signing of the Julius Baer agreement for the commingled fund.

Yeas: 9 – Nays: 0

Cost Studies
Ms. Zimmermann said that Larry Marshall, Human Resources Director asked that she distribute copies of cost studies to the Chairman and Board for their review. These studies have to be reviewed before being forwarded to City Council. Ms. Zimmermann stated the language in Public Act 728 states that benefit changes and cost studies must be reviewed seven days prior to forwarding to City Council. Trustee Wright commented that the studies were done almost a year ago and wondered why the Board was just receiving them. She asked when City Council would be voting on them. Ms. Zimmermann replied that cost studies are requested during negotiations and do not always become part of the final agreement. Mr. Marshall said these studies were given to City Council already.

Ordinance Clean-up
Ms. Zimmermann reported that the General Employees Retirement System Ordinance is no longer in the City of Pontiac's Code Book. She commented that IRS regulations state that non-

union pay plans can't be changed by a resolution. She said that there needs to be more then a cleanup of the ordinance to get the basic ordinance back into the City's Code Book.

CETA Letter
Ms. Zimmermann reported that the informational letter was sent to those active employees with questions regarding whether their CETA time could be used toward their service credit.

Legal
Trustee Wright asked why the Board's legal counsel was not present at the meeting. Chairman Harrison said that he asked Mr. Michaud not to attend the meeting because the attorney is next on the list of service providers up for review. He also told and that he added the item to the agenda.

Chairman Harrison directed Ms. Zimmermann to update the evaluation form and distribute the form to the trustees. He also asked her to schedule a meeting for the committee to meet to go over the evaluations. There was a discussion that determined the form would be distributed in December.

Union Representatives – None

UNFINISHED BUSINESS

Re: Ordinance Clean-up - Pending

Re: Service Credit Information to Members
Ms. Zimmermann stated that she has not had time to work with Mr. Michaud.

NEW BUSINESS

Re: October 25, 2006 Minutes
Trustee Wright had questions regarding the minutes from the meeting held on October 25, 2006. She asked who prepares the minutes and asked why the Secretary, Ray Cochran approves the minutes when he is not part of the process. Ms. Zimmermann explained that Mr. Cochran's name is on the minutes because he is the secretary and it is a formality. She told Trustee Wright that she and Ms. Arndt both take notes during the meeting and then Ms. Arndt prepares a rough draft from both sets of notes. Next she reviews and edits the draft. The updated draft is then sent to the attorney and consultant for any additions or changes.

Trustee Wright said that she was not comfortable with the minutes and questioned comments included in the minutes by Trustee Giddings and Trustee Barnett. She pointed out a comment in the minutes that she had made where it read she was concerned when she said that it should have read that she was confused. She also asked why the minutes were not in the same order as the meeting. Ms. Zimmermann stated that the minutes followed the original agenda because it has always been done that way. She said that it would be easier for the minutes to follow the actual order of the meeting and would be happy to do so.

Ms. Zimmermann told Trustee Wright that her changes would be noted and her comment on page sixteen of the October 25, 2006 Regular Meeting Minutes would be changed from concerned to confused. She also said that in the future the minutes will follow the order of the meeting.

Re: CETA Letter
Trustee Woods stated that the letter that was sent out to the active employees with CETA time is not the letter that was approved on page nineteen of the minutes from the October 25, 2006 meeting. She said that a paragraph was added to the letter and that the members and the Human Resources Department is upset. She also told the Board that the members have filed a grievance and have threatened to sue the Board. Ms. Zimmermann asked if this issue occurred prior to today's meeting.

Trustee Woods said that Larry Marshall is upset and that she directed him to Ms. Zimmermann and Chairman Harrison. Ms. Zimmermann explained that there was no intent to upset anyone and she had not heard from Mr. Marshall.

Trustee Wright asked about the paragraph in question. She was told it referred to the Human Resources Department and Retirement Office having a clear understanding of how the employees hired under CETA Title IV were considered temporary employees. Ms. Zimmermann acknowledged that the letter may have contained a poor choice of words to convey that the documents in both areas were consistent.

There was discussion whether there should be a policy or process when sending out correspondence from the Board.

Trustee Woods said that the members have a right to be upset when you're messing with their service credit and their money. Ms. Zimmermann replied that there were no discrepancies found when their service credit was calculated that would cause them to sue the City of Pontiac or the Board.

There was also discussion whether Human Resources should deal with the issue. Ms. Zimmermann said that Human Resources could request a cost study to determine the cost of applying the CETA time to the members' service credit. However, determining service credit is still a function of the Retirement Office.

Trustee Woods commented that it should not matter what phase of CETA an individual was hired under. She said that one member has never had a break in service, however, she still can't retire. She also said that the member in question was told by Elick Shorter that that was not the intent.

Ms. Zimmermann told the Board that the Retirement Office researched the issue and presented the data regarding CETA service credit to the Board. She commented that a person who is no longer employed at the City of Pontiac who was once involved in the CETA Program should not be providing information to these members. She said that Human Resources has the option of getting a cost study and preparing a MOU to grant the additional service credit.

Trustee Wright said that she thought the Board was clear on the CETA issue. Trustee Woods said that it should not have been investigated by the Retirement Office but should have been the responsibility of the Human Resources Department because they administered the program. Ms. Zimmermann stated that service credit is calculated by the Retirement Office and seniority is calculated by Human Resources: they are not the same thing.

Chairman Harrison addressed the issue stating that Ms. Redmond challenged the Board regarding her service credit. He said the issue was researched and the Board gave their response. Trustee Cochran said the data in this case has specifically caused her not to be eligible for retirement.

Chairman Harrison directed Ms. Zimmermann to email any correspondence going out from the Board to the trustees before it is sent.

Re: Proposed 2007 Board Meeting Calendar

RESOLUTION 06-103 By Sauceda, Supported Giddings
Resolved, That the 2007 Board Meeting Calendar be approved.

Yeas: 9 – Nays: 0

RESOLUTION 06-104 By Sauceda, Supported Bowman
Resolved, That the minutes with corrections of the October 25, 2006 meeting be approved.

Yeas: 9 – Nays: 0

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: January 24, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06-105 By Sauceda, Supported Wright
Resolved, That the meeting be adjourned at 5:52 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing is true Minutes of the General Employees Retirement System held on November 29, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt