

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
DECEMBER 2, 2009**

A regular meeting of the Board of Trustees was held on Wednesday, December 2, 2009 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:39 p.m.

**TRUSTEES PRESENT**

Shirley Barnett	Devin Scott
Koné Bowman	Kevin Williams ( <i>arrived at 1:45 p.m.</i> )
Charlie Harrison, Chairman	Debra Woods ( <i>arrived at 1:45 p.m.</i> )
Javier Saucedo, Vice Chair	Andrea Wright

**TRUSTEES ABSENT**

Mayor, Clarence Phillips (*absent*)

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
Laurance Gray, Gray & Company  
Ellen Zimmermann, Retirement Accountant  
Jane Arndt, M-Administrative Assistant  
Linda Watson, Retiree  
Randal Yakey, The Oakland Press

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**PUBLIC DISCUSSION**

Linda Watson asked what the entry ADP is under accounts payables. Ms. Zimmermann said that it is the company who processes the retirement payroll. Ms. Watson also wanted to know why there is a cross charge expense to the City. Ms. Zimmermann said that it is for expenses allocated to the Retirement Division by the City.

*Trustee Williams and Trustee Woods arrived at 1:45 p.m.*

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**APPROVAL OF CONSENT AGENDA**

- A. Minutes of Special Meeting: October 28, 2009
- B. Communications
  - 1. Correspondence from Artio Global Advisors Re: CIO Letter Q4 09 / Oct. Fact Sheet

C. Conference Information:

1. 2010 NCPERS Legislative Conference – NCPERS – Feb. 7-9, 2010

D. Financial Reports

1. Financial Reports – October 2009
2. Commission Recapture – October 2009
3. Securities Lending – October 2009
4. Capital Call Ratification
5. Accounts Payable
  - a. ADP \$5,565.07
  - b. Artio Global 72,454.16
  - c. Gabriel, Roeder, Smith & Co. 2,800.00
  - d. GE Capital Information (copier) 332.64
  - e. Gray & Co. 8,104.17
  - f. Kennedy Capital 48,170.00
  - g. Loomis Sayles 37,821.61
  - h. Munder Capital 75,350.00
  - i. Office Depot 207.99
  - j. Oppenheimer Capital 28,689.87
  - k. Rodwan Consulting 1,400.00
  - l. Stevens Records Management 78.45
  - m. VISA 3,321.89

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

1. Remove from the Rolls:
  - a. Sharon Guinnip (deceased 11-13-09)
  - b. Willa Huff (deceased 11-12-09)
  - c. Gustav Mathes (deceased 10-13-09)
  - d. Rosetta Meadows (deceased 11-06-09)
  - e. Mary Teasley (deceased 10-07-09)
2. Applications for Service Retirement:
  - a. Claudia Negrete – Non Union 24 years, 5 months Age 55
  - b. Frank Hupka – Non Union 11 years, 2 months Age 60
  - c. Richie Harris – Non Union 12 years, 5 months Age 55
3. Final Benefit Calculations
4. Refund of Accumulated Contributions:
  - a. Sandra K. Rogers \$21,536.74

**RESOLUTION 09-087** By Bowman, Supported by Scott  
Resolved, That the Board approve the consent agenda for December 2, 2009.

Yeas: 8 – Nays: 0

**CONSULTANTS**

**Re: Gray & Company**

General Employees Retirement  
Regular Meeting,  
December 2, 2009

Mr. Kuhn said that Nexos is one of the private equity managers in the Fund. They were unable to attend the manager review meeting this past August, so they were asked to attend a meeting to revisit the investment and present an overview of their portfolio.

***Nexos Capital Partners, LLC***

Eduardo Bohórquez-Barona, Principal

Joseph Vadapalas, Principal

They have made one investment in a supermarket chain, Super S, in central Texas. This is a chain of small town rural mom and pop supermarkets with populations under 1,500. These are community stores in heavily Hispanic areas. They provide bread and butter products. The nature of Texas has changed overtime.

Eduardo Bohórquez-Barona said that these are small supermarkets that allot very little space to Hispanic products. In a market with 16,000 to 20,000 square feet only 1,000 square feet is allocated to Hispanic products. These supermarkets are the only game in town. They are looking to acquire or open similar size stores in small towns.

Chairman Harrison asked if they are looking to invest in the super markets or become majority owners. Mr. Bohórquez-Barona said that they are currently investors but are looking to acquire bank financing to obtain operating control. The procurement side is a key in Hispanic stores.

Chairman Harrison asked how long they expect it will take to improve the EBITDA from 3.9% to 5%. Mr. Bohórquez said they are looking to double sales in the next three to four years and then get out. They believe that once their changes are completed this would be an attractive acquisition for a larger chain. Walmart is trying to do similar things in urban areas, however their logistics are different. There is a huge radius between these stores.

Chairman Harrison asked what demographics they are considering that would help growth with large chains since a lot of small rural towns have grown and now have a Walmart.

Mr. Vadapalas said that the idea for investing in Super S came from JDB. In the growing rural areas when larger stores open up, a Super S will close. They have not seen a lot of larger retailers coming into smaller towns with populations less than 3,000. Many of these supermarkets stock their shelves based on the season and current needs such as hunting season.

Mr. Bohórquez-Barona said that if these supermarkets need to change some of their product to Hispanic products and they would realize better margins. Many of these supermarkets have not been run efficiently, stocking more choices of a particular product than necessary and it does not make sense. Mr. Vadapalas said that as long as they are making enough profit they see no reason to make changes.

Mr. Bohórquez-Barona said that they were also looking at the maintenance and cleaning business sector. In Texas there are a lot of corporate clients. It would be important to hire locals and it would be more efficient and would create loyalty.

He discussed investments in Fareway supermarkets and how one Fareway does as much business as fifty Super S stores. There are opportunities in Texas, New Mexico and California to expand. Some customers have to drive twenty miles to a supermarket. They are looking to follow the blueprint from Fareway as an investor.

They are looking for high profile Hispanic actors and singers with high notoriety for advertisements. With the banks starting to lend a little, they are looking for financing. They spoke with PNC but they are not as aggressive as Amegy Bank which is part of the Zions Bancorporation, a collection of western banks. This group of banks has been doing well during this recession. They do recognize the opportunities in opening supermarkets in areas with lakes and outdoor sports like fishing, hiking and swimming. They know the areas and customers and understand how much could be made in this relationship.

Mr. Kuhn questioned whether that meant they were thinking about bringing in a co-investor to help finance the investment and to remodel the supermarkets. Mr. Bohórquez-Barona said that they were looking for both. They believe they can double the investment by 2013 by increasing their value. Most of these are family businesses and they do not have business experience.

Mr. Vadapalas told the Board that these stores do not have misters for their produce like a lot of stores. When misters are used produce is heavier when weighing.

Trustee Saucedo asked if they have plans to move or open any stores further south. Mr. Bohórquez-Barona said it would not be advantageous. Trustee Saucedo said that a lot of people come over the border to shop.

Mr. Kuhn asked if Nexos is looking for any other acquisitions for this fund.

Mr. Bohórquez-Barona said that when they looked into acquiring maintenance and cleaning businesses there were a lot of contract and potential immigration issues. All legal issues will have to be addressed first. Because it would be a minority company they would have a competitive advantage.

They also looked into a sewer maintenance business in Florida that provides cleaning and maintenance service but they wanted too much money. Most of the sewer systems in this country are around one hundred and forty years old. This company is the second largest in the United States providing this service with twenty-three trucks in their fleet. This company made a lot of money after Hurricane Katrina. They were unable to get an independent assessment of what the company is worth. They told the owner that they will always be interested if he is looking to sell.

Mr. Vadapalas said there are a couple of interesting opportunities in the financial industry. One is leasing to small businesses that need equipment such as a dentist requiring equipment. Another potential business would be a mortgage banking company that only provides advice. Currently, a customer does not have access to independent advice to determine if they are receiving fair guidance.

Mr. Bohórquez-Barona said that there is a group of financial funds that started NetSpend which provides prepaid debit cards to college students started about eight years ago. They have tried to get a message out to these financial funds that there are opportunities in the market to provide prepaid debit cards with reasonable fees to family members in Columbia and Mexico.. The cards would be geared to minorities.

They also discussed Tio Networks which is a cash preferred bill payment network via self serve kiosks. Trustee Bowman confirmed that Tio Networks is publicly traded.

Mr. Bohórquez-Barona said that the purchasing power of the Hispanic population is growing.

*Trustee Scott returned at 2:17 p.m.*

*Mr. Bohórquez-Barona and Mr. Vadapalas left at 2:18 p.m.*

Mr. Kuhn asked if there were any questions. Ms. Zimmermann said it is an interesting strategy with potential.

#### Onyx Update

Mr. Kuhn stated that Larry Gray met with the SEC on December 1, 2009.

Ms. Billings told the Board that the Retirement Office provided documents to the SEC since the last meeting. They have asked that Ms. Zimmermann be available to answer questions.

**RESOLUTION 09-088** By Barnett, Supported by Saucedo  
Resolved, That the Board approve Ms. Zimmermann to comply with the SEC's request to answer questions regarding the Onyx investment.

Yeas: 8 – Nays: 0

#### Manager of Managers

Mr. Kuhn said that Mr. Gray is still working on the manager of managers search and will bring the information to the January, 2010 meeting.

#### Performance Review – 3<sup>rd</sup> Quarter 2010

Mr. Kuhn said that the capital markets are changing every quarter. There are expectations that the economy is recovering and coming out the recession. The third quarter showed positive GDP growth.

Developing markets showed moderate growth and expectations are for higher growth rates in the near future. This is due to the emergence of a middle class in these countries. Developed market global GDP growth has been replaced with China, India and the rest of the developing world.

Chairman Harrison asked that Mr. Kuhn speak to the devaluing of the dollar. Mr. Kuhn said that there are two forces at work. During an economic crisis, the dollar increases in value versus other world currencies. There are currently policies in place to stimulate growth; these policies generally would cause the dollar to become less valuable. Most commodities are priced in U.S.

dollars which also factors into the dollar's value. Currently the yen is the strongest of all currencies.

When we are buy goods from other countries we are sending dollars overseas. To balance the currencies, the dollars need to be used on U.S. goods and services. Currently, U.S. Treasuries are one of the primary investments of foreigners; approximately 70% of U.S. Treasury issues are purchased by the outside world.

China has pegged their currency to the dollar so an increase in the dollar does not affect the price of their exports in the U.S. but makes these goods more expensive for European countries.

Chairman Harrison questioned whether the market has grown too fast going forward. Does Mr. Kuhn anticipate a sell off in equities?

Mr. Kuhn said that there have been extremes in the market. It was too oversold in March. He thinks it is beginning to rebuild back to fair value. The economy has been better with the stimulus money. However, it may fall back into a recession when the stimulus money ends.

Chairman Harrison asked about the effects of the housing market, unemployment and the tight financial markets. Is there an infrastructure in place going forward? Mr. Kuhn said that no one knows what is going to happen. It is much worse in Michigan. In Michigan, people have a biased view that things are still bad.

Chairman Harrison asked if the projected forecast is that the market will remain flat. Mr. Kuhn said that they have no idea. They saw a small increase in the GDP but there is still a lot of uncertainty. Chairman Harrison said that it appears the market is going against actual growth.

*Trustee Bowman left at 2:36 p.m.*

The yield curve remains low at the front end. The Fed has done nothing with rates. There is a perception that inflation is not that as bad. Going forward we are looking at higher interest rates.

Equities had a tremendous run for the quarter with double digit returns. There is still red ink for one-year returns with five-year returns just moving into the black. Financial stocks were the bigger performers for the quarter but are still the largest loser for five-year returns.

While interest rates remain low fixed income benefited. The contraction in spreads saw all indices producing positive returns. There has been some reduction in yields during the quarter.

Chairman Harrison asked if there is still wiggle room in high yield. Mr. Kuhn said that on average spreads at 400 basis points to 500 basis points still have approximately 200 basis points of contraction. However, the easy money is gone

International equity saw Japan as the strongest performer in the second quarter and the weakest in the third quarter.

Total plan performance was tremendous with returns up 12.5% for the quarter although still trailing the policy index. Active managers will not take full advantage of this with junk floating up the fastest, especially a manager like Loomis Sayles. There were positive numbers across the board despite the low quality of the rally.

Ms. Zimmermann said there was a survey in Plan Sponsor that stated average public fund performance was 11.7% for the quarter. This plan was a top performer.

Mr. Kuhn said that on the equity side most of the managers came up a little short. Julius Baer underperformed because they did not have as many financials in their portfolio.

Oppenheimer continues to do a good job. Jerry Thunelius continues to be fearful of higher interest rates.

Munder's performance was closer to the benchmark.

Peritus is having a great year. They had some cash value in the portfolio because they had some bonds bought and they were holding the cash until they could find decent investments at prudent prices. They are the best performing manager year-to-date. They have made up a huge chunk of their performance although their returns since inception underperformed the benchmark.

The Fund's asset allocation is close.

Ms. Watson asked for the current value of the fund. Mr. Kuhn said it is \$380 million through September 30, 2009. Mr. Kuhn said that there were two good months and one flat month during the quarter.

They are working on a total portfolio review taking a top down look at the investments. They will be looking at the potential impact that high interest rates and inflation will have on the portfolio.

Chairman Harrison asked if they should move to a more conservative approach by changing the structure of the allocations. Mr. Kuhn said that there are still head winds with contraction and that higher interest rates will hurt fixed income. They are looking to indicate the two or three best investments and greatest risks to the portfolio.

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** - None

**Re: Trustees/Committees** - None

**Re: Administrator** - None

**Re: Legal**

Ms. Billings asked that the Board moved to closed session to discuss pending litigation

**RESOLUTION 09-089** By Woods, Supported by Scott  
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Barnett – Yea	Kevin Williams – Yea
Harrison – Yea	Woods – Yea
Sauceda – Yea	Wright – Yea
Scott - Yea	

*The Board moved to closed session at 2:53 p.m.*  
*The Board returned from closed session at 3:01 p.m.*

**RESOLUTION 09-090** By Woods, Supported by Barnett  
Resolved, That the Board approve the Administrator to pay the realized losses at Northern Trust to be submitted with letter from legal counsel.

Yeas: 7 – Nays: 0

**RESOLUTION 09-091** By Woods, Supported by Saucedo  
Resolved, That the Board ratify the Chairman’s signature on retainer agreement in the Psychiatric Solutions securities litigation.

Yeas: 7 – Nays: 0

CompuCredit Corp

Ms. Billings reported that a hearing on the Defendants’ Motion to Dismiss has not yet been scheduled.

Merrill Lynch Bond Litigation

Ms. Billings reported that the settlement is still pending in the United States District Court for the southern District of New York. They will continue to monitor this situation on behalf of the Board.

The DIRECTTV Group, Inc. Derivative Litigation

Ms. Billings reported that the Complaint for Breach of Fiduciary Duties was filed and the litigation is in the initial phase of discovery.

Immucor, Inc. Securities Litigation

Ms. Billings reported that the Complaint for Violation of the Federal Securities Laws and Demand for Jury Trial was filed and the litigation is in the initial stage of litigation.

IRS Determination Letter

General Employees Retirement  
Regular Meeting,  
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Ms. Billings reported that this matter is still pending with the IRS.

#### Memorandum Regarding Manager of Managers

Ms. Billings referred to a Memorandum she prepared in reference to whether there is a conflict retaining Gray & Company as the manager of managers over a portion of the System's assets. She found no conflict as long as the duties of each role are defined and the Board is comfortable with Gray & Company managing these assets and investments.

She reviewed what has transpired to date. On July 27, 2007, UIM was approved as the manager of managers. On January 28, 2009 Mesirow was terminated and those assets were allocated to UIM. At the August, 2009 meeting the Board was notified that Larry Gray had sold UIM. The Board terminated UIM at that meeting and replaced them with Gray & Company pending legal review to insure the assets were being managed.

The Board hired UIM to make decisions on the hiring and firing of managers. She found that as the manager of managers, Gray & Company would have discretion over these assets which would be no different than with UIM.

#### Correspondence Regarding Member Carol Wilkins

Ms. Billings referred to correspondence prepared in response to a letter received by member Carol Wilkins. Ms. Wilkins questioned whether she is entitled to the years of service she is accruing since her reemployment or if she has to complete three years of service in order to retain her time worked. She is concerned that this time could be lost if she is laid off or the City files for bankruptcy before she reaches three years.

Ms. Zimmermann said that Ms. Wilkins raised the question because of the benefit statement prepared by the actuary that she received because it only included her current service since her reemployment. The member requested a legal opinion.

Ms. Billings said that because the member was vested and did not voluntarily separate from the City she does not need to complete three years of service to retain her current time.

#### Correspondence Regarding Inclusion of Furlough Days in Final Average Compensation

Ms. Billings reported that she was asked to research whether or not furlough days may be included in a member's final average compensation for the purpose of calculating the member's retirement benefit. She reviewed the collective bargaining agreements and did not find anything that would allow the inclusion of furlough days. An amendment would have to be adopted through collective bargaining to allow for the inclusion. For non-union members the Retirement Ordinance would have to be amended.

Ms. Zimmermann said that she has only seen one imposed agreement and it did not include specific language. Trustee Woods said that the language is included in the Teamster's agreement. Ms. Zimmermann said that the union contracts will have to have language that specifically states that furlough days will not affect the calculation of retirement benefits.

Trustee Woods said that they did not know about furlough days when they were negotiating the contract. Ms. Zimmermann said that the current language is generalized and she would like specific language so that there is no question later as to the intent.

Trustee Scott said that the language refers to work adjustment. Ms. Zimmermann said that there is nothing in the retirement section that refers to the inclusion of this time in the final average compensation. Ms. Billings said that legally it needs to be spelled out in the contract language.

Ms. Zimmermann said that the language is not specific to retirement. Ms. Billings said she can draft an MOU with sample language. Trustee Woods said that she and the Teamster's business manager believe that the language is in the contract they would not be open to making changes. Chairman Harrison questioned why they would oppose stronger language.

Ms. Zimmermann said that it is important to have the documentation in writing showing the intent. Ms. Billings said she can confirm the content.

Trustee Scott asked that Ms. Billings send the correspondence to Labor Relations.

Trustee Wright did not understand why there is a problem if the goal is to protect employees' retirement final average compensation with clearer language and to make sure everything is in order.

Chairman Harrison suggested that the attorney work in conjunction with bargaining parties.

Ms. Zimmermann asked if the attorney should draft a proposed amendment for the Retirement Ordinance to send to the Administration. Ms. Billings stated that the amendment would only affect one of set of employees that do not have a bargaining unit. The Retirement Ordinance would cover these employees by inserting three words.

Trustee Scott asked that the correspondence be sent to Labor Relations confirming language. Ms. Zimmermann said that she received an email from Phyllis Long that seems to say furlough days are to be included in final average compensation for all employees and groups. Ms. Billings again stated that non-union employees need to be addressed.

#### In the Matter of Onyx Capital Advisors, LLC

Ms. Billings referred to her response to Jennifer Dixon of the Detroit Free Press regarding the Onyx SEC investigation/fact finding. She also included a copy of correspondence sent to Ms. Zimmermann stating what documents were sent to the SEC. Additional correspondence sent to the SEC indicated that the provided documents cannot be disclosed under the Freedom of Information Act pursuant to the Michigan Public Act 314 that financial or propriety information pertaining to an alternative investment is not subject to the disclosure requirements of FOIA.

#### House Bill 5323 – Proposed Amendment to Public Act 314

Ms. Billings referred to a letter to State Representative Tim Melton asking for his support for a proposed amendment to Public Act 314 being championed by MERS and MAPERS. One of the new provisions would increase the basket clause by 10%. There is proposed language stating

that as an investment fiduciary the income of the system can be used to provide professional training and education and that reasonable compensation can be used to conduct the business of the system including investment advisors, consultants, custodians, auditors, attorneys, actuaries and administrators, etc.

MERS attempted to limit the Final Average Compensation by removing overtime and sick time from the FAC. They also wanted this provision to be the supreme law of the land superseding collective bargaining.

*Trustee Scott left at 3:09 p.m.*

**RESOLUTION 09-092** By Woods, Supported by Barnett

Resolved, That the Board approve legal counsel to send correspondence to Representative Tim Melton in support of House Bill 5323.

Yeas: 6 – Nays: 0

Psychiatric Solutions, Inc. Litigation – Closed Session

IRS Further Extends Effective Date of Normal Retirement Age Regulations for Governmental Plans

Ms. Billings reported that the IRS has extended the effective date of normal retirement age regulations with respect to governmental plans through 2013. She said that this is due to the number of plans with provisions for twenty-five and/or thirty and out that would not comply with the normal retirement age under the new regulations.

**Union Representatives** – None

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## **UNFINISHED BUSINESS**

**Re: Disaster Recovery** – No further progress

**Re: Furlough Value for FAC Legal Opinion** – Refer to Legal

**Re: Service Credit Inquiry** – Refer to Legal

**Re: Authorization of Payment for Realized Loss** – Refer to Legal

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## **NEW BUSINESS**

**Re: Fiduciary Insurance Renewal**

Ms. Zimmermann confirmed that the Board wants to continue with the fiduciary insurance. The premium has not changed.

**RESOLUTION 09-093** By Saucedo, Supported by Woods

Resolved, That the Board ratify the renewal of the fiduciary insurance policy with a premium of \$19,808, \$2,000,000 limit of liability and a deductible of \$25,000 for each claim.

Yeas: 6 – Nays: 0

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**SCHEDULING OF NEXT MEETING AND ADJOURNMENT:**

Regular Meeting: January 27, 2010, 1:30 p.m. – Shrine Room, Main Floor, City Hall

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**ADJOURNMENT**

**RESOLUTION 09-094** By Saucedo, Supported by Williams

Resolved, That the meeting be adjourned at 3:27 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on December 2, 2009

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*As recorded by Jane Arndt*