

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

February 21, 2007

A regular meeting of the Board of Trustees was held on Thursday, February 21, 2007 at the Lower Level Conference Room, Affinity Group Credit Union, 144 E. Pike Street, Pontiac, MI 48342. The meeting was called to order at 9:08 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Brian Lee
Thomas Miller

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence Gray, Gray & Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: January 25, 2007
- B. Communications:
 - 1. Correspondence from Montag & Caldwell RE: Portfolio Update
 - 2. Correspondence from PFRS to S. Fellows, Esq. :RE Herring
 - 3. Conference Information:
 - a. 53rd Annual Employee Benefits Conference³ – IFEBP – Nov. 4-7, 2007
 - b. Advanced Trustee Studies – NCPERS – July 26-27, 2007
 - c. DDJ Capital Management annual Client Conference – DDJ – Oct 1-3, 2007
- C. Financial Reports:
 - 1. Financial Reports – Revised December 2006, Preliminary January 2007
 - 2. Securities Lending Report – December 2006
 - 3. Commission Recapture Report – December 2006 & January 2007
 - 4. Accounts Payable – February 2007
- D. Remove from the Rolls:
 - 1. Marie Colando (deceased 01-22-07)
- E. Refund of Accumulated Contributions:
 - 1. Joseph Brinson – PPOA \$10,157.18
- F. Disability Re-Examination:
 - 1. Magdalena Martinez

Trustee Storum corrected comments on pages three and six regarding the transferring of assets into the Northern Trust Russell 1000 Growth Index.

RESOLUTION 07-010 By Lee, Supported by Cochran
Resolved, that the consent agenda be approved as corrected.

Yeas: 4 – Nays; 0

CONSULTANTS

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

RESOLUTION 07-011 By Cochran, Supported by Lee
Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

Roll Call:

Trustee Storum- yea	Trustee Lee - yea
Trustee Cochran – yea	Trustee Miller - yea

Moved to Closed Session at 9:12 a.m.

Returned From Closed Session at 9:28 a.m.

RESOLUTION 07-012 By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve the closed session minutes from the January 25, 2007 meeting as corrected to provide that the meeting was held at the Credit Union and not at City Hall.

Yeas: 4 – Nays: 0

Re: Gray & Company - Securities Lending and Commission Recapture

Mr. Gray asked to postpone this and include Northern Trust information.

Re: Fourth Quarter Performance Report

Mr. Gray reviewed the fourth quarter performance of the fund noting that it was not where he would like it to be. Performance was 200 basis points below the benchmark.

The large cap portion will be indexed soon but the Board may still want to do some tweaking. Historically, 87% of active managers could not outperform the index. In 2006, 90% of small cap index funds outperformed small cap managers due to the makeup of the index which contained a lot of REITs. In 2006 two thirds of managers could not beat the benchmark.

He said that pre-March, 2000 the index was heavily allocated in tech and telecom. In large cap equity he may not be recommending an active manager soon. Only about 15 managers consistently outperform the index. They have looked great for the past three to five years but

statistics say that their performance will not continue. He added that only one-third of active managers add alpha.

Large Cap did reasonably well. The Mid Cap Manager Munder was caught by the quality issue which hurt their performance this period. Their year-to-date performance is 240 basis points ahead of the benchmark. Their performance has put them at the median with a 49th percentile ranking.

This is the first time that Loomis's annual performance was below the benchmark. Joe Gatz has had a great run but, as he said, you can't expect it to last. With performance this strong for so long it has become expected. Their return was 21.3% versus 23.5% for the benchmark: there is no concern here. Small cap is not expected to continue to be this strong.

Fixed income manager Oppenheimer's performance was 4.0% versus 5.2% for the benchmark. Even with Bill McDaniel leaving everything should be okay. Mr. Gray has visited their office twice during the last few months.

DDJ Capital is a true high yield manager. They have not been on board long enough but he expects to see good results from them net of fees.

Goode continues their steady performance which could be due to a past correlation with interest rates. However, their year-to-date performance of 4.9% ranked in the 7th percentile. He visited with Mr. Goode a couple of weeks ago stating they continue to deliver consistent performance.

American Realty Advisors did not have any capital calls during the fourth quarter. We're waiting for the CAPROC dust to settle. The Board will not continue to see 20% to 22% cash-on-cash returns but should see it at 9% to 11% which should serve the plan well.

The overall top line is not what you want to see. You want to achieve top performance in the good years and add cushion for the bad years.

Staff is putting together an analysis of large cap equity of passive versus active managers. They are looking at real-time results from 2003 to 2006. He will bring the results back to the Board.

They continue to attend conferences on hedge funds, infrastructure funds, portable alpha, timber and other strategies to make money. There are many new products in the marketplace. He asked whether the Board was interested in these new strategies. The trustees indicated an interest in keeping abreast of these ideas, but were not necessarily interested in adding that risk to the portfolio. The Board concurred that they want to keep up with new market ideas.

Mr. Gray said that the fund does not have the need to throw a "Hail Mary." He said some funds are only 35% funded and that they need to take more risk. Ivory Day does not like alternatives because there is no way to measure performance. There will be no way to determine the direction alternatives are moving for at least five to seven years.

Re: Commission Recapture

Police & Fire Regular Meeting
February 21, 2007

Mr. Gray said that commission recapture is receiving a rebate on the commission from the securities trading company. Years ago, companies charged 20¢ per share to trade securities. The industry changed and began rebating part of the commission back to boards. As an example, if it cost eight cents a share, the trader gave back a third to the boards. It does not cost that much today to make a trade due to efficiencies added by technology. Today trades can be processed for one cent per share or less. Most Boards can now recapture about 60% to 70% of that cost. These are not big numbers. He will get an estimate from Northern Trust.

Ms. Zimmermann explained that both systems need to revisit the commission recapture target in the investment policies. Chairman Storum stated that at the last manager review meeting the managers were asked to hit their targets. He asked about average commission per share and which managers are meeting the average recapture. Ms. Zimmermann replied that Loomis is meeting the target.

Mr. Gray said that they will do a better job of reporting commission recapture as the consultant by adding it to the performance reports.

Re: Securities Lending

Mr. Gray explained that securities lending is the process where a manager may sell something they do not own. In this case, they will borrow a security overnight (up to 3 or 4 days) and pay a fee. It is collateralized at 103% to 105% of the value of the security and is marked to market daily. There are generally no problems with such a program. Northern Trust does a great job loaning securities primarily in the large cap and treasury bill areas. He said that borrowing securities for three to four days is a cheaper alternative for a manager. The fund can make as much as \$60,000 to \$80,000 per year. Mr. Gray will provide a brief write-up on this for the next meeting.

REPORTS

Re: Chairman

Chairman Storum called for a meeting of the joint Personnel Committee to review staff salaries. He asked who was on the Personnel Committee for each Board. Ms. Zimmermann said that she believed Trustee Cochran was the other PFRS representative on the Personnel Committee because he has authority on both Boards and due to his position in the chain of command over the office. The GERS members are Chairman Harrison, Trustee Barnett, Trustee Bowman and Trustee Scott. Ms. Zimmermann was directed to schedule a meeting.

Re: Secretary – None

Re: Trustees

1. Real Estate Committee – None

Re: Staff

FOIA Request – David T. Lonier

Ms. Zimmermann told the Board that the Retirement Office received a FOIA request, a copy of which is provided along with her response to the Law Department. It related to both retirement systems. She does not know what information the Legal Department provided to the requester.

Raytheon Securities Litigation

Ms. Zimmermann told the Board that a check from Raytheon Company for \$29,600 and Raytheon Company warrants were received as part of a securities litigation settlement. The warrants will be given to the manager to sell but she does not know their value. Chairman Storum asked what a warrant is. Ms. Zimmermann said that a warrant has a value and gives the ability to the bearer to buy shares. Mr. Gray said that a warrant is a security that is guaranteed by the issuer that gives the holder the right to purchase securities from the issuer at a specific price within a certain time frame. There was discussion that this was similar to the TimCo Aviation warrants that had been previously liquidated.

Retirement Office Internal Controls

Ms. Zimmermann explained that under Mellon many transactions required a letter of direction, for example when moving money between managers. Now that Northern Trust is the custodian there are a number of transactions like the one above that can be done online. Because this is a small office it is important to make sure that we are operating at the proper level of internal controls. She has scheduled a meeting with the auditor Plante Moran to get their perspective to alleviate any issues that could adversely affect the audit opinion.

Ms. Zimmermann also stated that the Northern Trust Growth Index account has been opened.

Re: Legal

Ferro Corporation Litigation

Settlement demand put out for \$7.5 million. Plaintiff's motion to dismiss is pending. Waiting for judge to rule.

United Rentals

Ms. Billings reported that this matter is in the discovery phase of litigation.

Jarden

Ms. Billings reported that this matter is in the discovery phase of litigation.

Maxim

Ms. Billings reported that this matter is in the discovery phase of litigation.

Fossil, Inc.

Ms. Billings reported that an order came down in December appointing another pension system as lead plaintiff.

Tempur-Pedic International, Inc.

Ms. Billings reported that this matter is in the discovery phase of litigation.

Retiree Charles E. Herring

Ms. Billings said that a response to the letter received from the Mayor's Office from Charles Herring's attorney was sent including a copy of Mr. Herring's application for deferred retirement. Ms. Zimmermann provided a copy to the Executive Office and Legal Department.

Tax Free Distributions to Public Safety Officers

Ms. Billings said that she has drafted a memorandum to be sent to City Council regarding the Pension Protection Act of 2006 which allows retired public safety members to purchase or pay premiums for health insurance or long-term care insurance.

There was discussion regarding the accounting, regulating and administration of the deduction and payments made to insurers. Ms. Billings commented that the IRS has not issued regulations interpreting the statute. In the meantime, the IRS would hold the Board accountable for a good will interpretation of the statute.

Trustee Lee suggested sending a survey to determine how many retirees would be interested. Chairman Storum commented that there could be added interest in the event the City redefines the benefit structure. Ms. Zimmermann also said that it could cause a lot of administrative issues.

Trustee Miller asked why it is a retirement office responsibility. Ms. Zimmermann explained that the Retirement Office administers retiree payroll and that this would be another deduction added to payroll. She said that deduction forms are received from NOMC and the City Human Resource Departments to the Retirement Office which requests the checks from the payroll company ADP. Trustee Cochran asked why ADP does not do the work. Ms. Zimmermann replied that there are established processes in place and that ADP only processes the checks which are returned to the Retirement Office for disbursement.

Trustee Lee asked if the actuary allows these types of payment from the fund referring to pre-tax healthcare savings accounts. Ms. Billings stated that premium payments are the only payments allowed up to a \$3,000.00 per year limit.

Ms. Billings suggested developing a policy and procedures for the process.

RESOLUTION 07-013 By Miller, Supported by Lee

Resolved, That the Board of Trustees approve legal counsel to submit the memorandum on the HELPS Act to City Council.

Yeas: 4 – Nays: 0

Bernstein Litowitz Institutional Investor Advocate

Ms. Billings distributed information to the trustees.

Re: Union Representatives – None

NEW BUSINESS

Re: Request to Repay Redeposit Over Time

Ms. Zimmermann stated that John Woods contacted the office regarding the redeposit of contributions he withdrew when he separated employment in 1996. He was re-employed in 2000 and would like to redeposit the contributions by making a payment of \$50.00 per pay versus a lump sum payment. This would require staff to calculate interest bi-weekly on a declining principal balance. Trustee Miller asked about the interest. Ms. Zimmermann said that the payment would include interest from the time of withdrawal at the rate set by the Board. The current rate is 6.5% and has been at that rate for many years.

Chairman Storum asked if it was possible for Mr. Wood to use deferred compensation to repay his contributions. Ms. Zimmermann said he could do a trustee to trustee transfer if he has deferred compensation. Trustee Cochran thought that four years was a long time to repay contributions. Ms. Billings stated that five years is generally allowed for this type of transaction. Trustee Cochran asked what happens if the member is terminated or laid off during this period.

There was discussion about other methods of repayment, determining service credit during repayment and termination or death during repayment. Chairman Storum stated that he would rather see a lump sum payment.

The issue was tabled for further review.

UNFINISHED BUSINESS

Re: Ordinance Clean-up

Chairman Storum asked if there was a deadline and suggested that the Board move forward on the ordinance cleanup. Ms. Billings was directed to email a draft of the ordinance to the trustees for final review.

Re: PPSA MOU – Spouse Remarriage

Chairman Storum asked if the MOU had been adopted. Ms. Zimmermann said that it was adopted. It is the same as the MOU for PPOA. The pension benefit had been stopped for the individual and that a manual check was issued and picked up a few days after payroll had been disbursed.

Re: Minor Children Issue

Ms. Billings addressed the issue of the minor child with no spouse as it relates to duty versus non-duty. She said that the ordinance is clear for a duty death but that the non-duty death still needs clarification. She said that she had drafted language that was to be sent to the bargaining parties, however, she is not sure if it was sent.

She said that since the member was a retiree at the time of his death there is not a minor children issue because he selected his beneficiary at the time of his retirement. This issue refers to a pre-retirement death benefit for non-duty members.

Chairman Storum asked if it is more appropriate to send the change through as a MOU or to make the changes in the ordinance language. Ms. Billings will draft language to clarify the provision.

RESOLUTION 07-014 By Lee, Supported by Miller

Resolved, That the Board direct legal counsel to submit language clarifying the non-duty death provisions to unions and City.

Yeas: 4 – Nays: 0

Re: Actuarial Search

Ms. Zimmermann stated that Gray and Company has started the RFP process. Chairman Storum asked who is on the Service Provider Review Committee. Trustees Miller and Lee were on the Committee. Chairman Storum asked if both Boards were conducting an actuarial search. Ms. Zimmermann stated that the GERS Board was not participating in the search. The issue was tabled until the next meeting.

SCHEDULING OF NEXT MEETING –Meeting on March 29, 2007 at 9:00 a.m., at the Lower Level Conference Room, Affinity Group Credit Union, 144 E. Pike Street, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 07-015 By Miller, Supported by Lee

Resolved, That the meeting be adjourned at 10:43 a.m.

Yeas: 4 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the Police and Fire Retirement System held on February 21, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt