CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
FEBRUARY 23, 2006

A regular meeting of the Board of Trustees was held on Thursday, February 23, 2006 in the Shrine Room on the Main Level of City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:11 a.m.

TRUSTEE PRESENT	**TRUSTEES ABSENT**
Craig Storum, Chairman	Mayor, Clarence Phillips *(absent)*
Ed Hannan, Secretary	
Brian Lee	
Thomas Miller, Vice Chairman	

OTHERS PRESENT

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

CONSENT AGENDA

A. Minutes of Regular Meeting: January 26, 2006
B. Communications:
   1. Correspondence from Morgan Stanley RE: Portfolio Commentary
   2. Correspondence from Morgan Stanley RE: Dominic Caldecott Retirement
   3. Correspondence from Morgan Stanley RE: Dennis Shea, CIO
   4. Correspondence from Montag & Caldwell RE: Investment Outlook
   5. Conferences:
      a. Washington Legislative Update – IFEBP – May 22-24, 2006
      b. Investments Institute – IFEBP – April 24-26, 2006
C. Financial Reports:
   1. Financial Reports – January 2006
   2. Securities Lending Report – December 2005
   3. Commission Recapture Report –December 2005
   4. Accounts Payable –February 2006
D. Remove from the Rolls:
   1. Lloyd Benson (deceased 2-04-06)
E. Final Pension Calculations

1. Norman Lee	#2305	$3,140.57
2. Ronald Kohlman	#2311	$6,176.01
3. Gail Wojciechowski	#2312	$4,535.43

Trustee Storum noticed two errors one on page 7 where the word “he” was omitted and on page 5 where the word Harbor should have been Harbert. Lastly, he pointed out an area in the minutes where he felt his comment was incorrectly recorded His comment should have read “if expenses escalated would there be any controls” instead of “expected contributions would escalate and if there are any controls.”

RESOLUTION 06-011 By Miller, Supported by Lee
Resolved, That the items of the consent agenda for January 26, 2006, be approved as amended.

Yeas: 4 - Nays: 0

CONSULTANTS

Re: Sullivan Ward Asher & Patton – CAPROC Update

RESOLUTION 06-012 By, Miller, Supported by Lee
Resolved, That the Board of Trustees go into closed session to discuss pending litigation/arbitration with CAPROC, LLC., et. al.

Lee– yea	Miller - yea
Storum – yea	Hannan – yea

Moved to Closed Session at 9:14 a.m.

Came out of Closed Session at 9:55 a.m.

RESOLUTION 06-013 By Lee, Supported by Miller
Resolved, that the Board of Trustees authorizes Chairman Storum to sign the proxy for Mr. Tompkins to attend the CAPROC shareholders’ meeting.

Yeas: 4 – Nays; 0

RESOLUTION 06-013 By Hannan, Supported by Lee
Resolved, That the Board approve minutes from the closed session on December 1, 2005.

Yeas: 4 - Nays: 0

Re: Gray & Company – Core Manager Real Estate Search
Mr. Gray gave a brief description of the core real estate managers that would be giving their presentations to the Board. American Realty Advisors and Guggenheim Real Estate, LLC were both core open-ended managers and that Harbert Management was a core closed-end manager. He said that all three are very good firms. He also mentioned to the Board that it isn’t always easy to find local core real estate managers.

American Realty Advisors – 10:02 a.m.
Stanley L. Iezman, President and CEO

Mr. Iezman began his presentation by telling the Board that American Realty Advisors has a very structured background. Their philosophy is based on the American Stable Value Fund which follows two strategies: core and value-added. They currently have $3 billion in assets under management. They are 100% employee owned by senior management. They only invest in domestic private market real estate. They are ERISA fiduciary compliant. There have been no conflicts of interest in their eighteen year history. They do not do property management or leasing.

Mr. Iezman stated that real estate is different from other asset classes. It is a very local business which requires due diligence researching each individual market and looking for strong diverse markets. He also commented that income is driven by jobs. They look to buy properties in diverse sub-markets where the economy is growing and there are supply constraints. These properties become funnels for income flow. It is important to understand the issues for each property.

He said that real estate is an active asset. Managers look to buy and sell empty space and where there are high value and low cost structures. This enables you to increase the rents. It is important to remember that you have to sell to capture gains. One must understand the market dynamics in order to sell and redeploy. They are hands-on people who have been real estate operators.

He told the Board that they use the American Stable Value Fund low-risk investment strategy which is an open-end core commingled fund. Investments are in accordance with the ERISA fiduciary standards.

Core investment strategies are to invest in existing institutional quality office, retail, industrial and multi-family properties. They find that 70% of total returns are from existing properties' income versus appreciation. He told the Board that they look for the following investment characteristics: consistent long-term tenant and buyer demand; limited or no deferred maintenance and better substantially leased properties.

Mr. Iezman stated that American's investment goals are to achieve steady income returns, long-term appreciation and to exceed the NCREIF benchmark. Each property is internally valuated quarterly by a third party appraiser and every 12 months by an independent MAI appraiser.

He reviewed the properties by type and geographic area. He reviewed recent performance indicating that the recent returns are not sustainable: the norm is 9% to 11%. They do no development deals and no opportunistic deals; they are low risk.

Fees up to $25 million are 110 basis points and only after the capital draw down: there are no acquisition or disposition fees. They have 65 staff who can be contacted directly.

Mr. Iezman concluded his presentation telling the Board that the American Stable Value Fund is an open-ended fund. He stated that an investor can withdraw from the fund at anytime with cash being distributed quarterly. They currently have 116 clients with $1.2 billion in commitments with over $850 million invested to date in 50 diverse properties nationwide. Lastly, he told the Board that they would be buying into the whole fund.

Mark Peters arrived at 10:12 a.m.

Guggenheim Real Estate LLC - 10:30 a.m.

Mr. Joseph Mahoney and Mr. Mike Miles from Guggenheim introduced themselves to the Board. Mr. Miles told the Board that Guggenheim Real Estate LLC consists of 20 employees and is autonomous except with regard to real estate compliance. The Guggenheim Family put in the first $150 million with current assets under management at $1.6 billion. He continued saying that they do more homework and use better technology then other managers. He also mentioned that there are no marketing people involved in the real estate operation.

Mr. Mahoney told the Board that Guggenheim is an open-ended core real estate fund with no set liquidation date. They deal in both public stock and private direct investments. Their focus is on strategy and manager selection. They define markets and managers to work with and then act as supervisors.

The process they use was developed by Mr. Mahoney at Fidelity ten to eleven years ago. When Mr. Mahoney and Mr. Miles moved to Guggenheim they took process with them. Their product Guggenheim Real Estate *PLUS* is an open-end actively managed strategy which provides a diversified real estate portfolio. They look for the best local investment partners who are carefully selected and monitored.

Guggenheim's target is 200-400 basis points over the benchmark (70% NCREIF/30% NAREIT). Since the inception of the *PLUS* Real Estate Composite, Guggenheim has exceeded the benchmark by 1-1/2% achieving nearly 300 basis points of out-performance.

Mr. Miles continued pointing out the advantages of their product. Stating that they actively mange the portfolio searching for value. Their goal alignment is an incentive-based compensation calculated by fund performance relative to the benchmark with 50% of annual bonuses invested in the fund. They use proprietary research to guide allocations by geographic markets, property types and investment structures. Transparency for investors is based on stringent standards and is analyzed by Guggenheim Real Estate LLL regardless of size or structure. They are looking to buy properties for the long-term and will sell them when they achieve their investment.

Mr. Miles referred to the graph showing the balanced liquidity and efficient diversification between the public and private portfolio components of the *PLUS* Strategy. He commented that they use extensive technology with linked models that allow them to actively manage the portfolio. The public portfolio components consist of REITs and CMBS with the private portfolio concentrated in direct properties, mezzanine financing and open-end funds. They think of the public and private components as bookends to their well-balanced strategy.

Mr. Miles described the strategy model that Guggenheim uses which was first pioneered at Prudential and is now in its third version. He told the Board that the model uses a series of linked models based on a top-down strategy. He continued telling the Board that Ned Johnson at Fidelity believes that since pricing varies between public and private real estate you should have a portfolio in each market to appropriately weight between the two. This generates two models that allow Guggenheim to turn the data into information and execute across all real estate.

Mr. Miles discussed risk controls stating that diversification is the primary risk control. He also remarked that their product is a stay rich not get rich quick product. He explained that limited exposure not to exceed 150% of the benchmark weight based on public versus private, property type and geography add to the risk controls. He continued stating that leverage is monitored and can not exceed 52.5%. Guggenheim Real Estate *PLUS* leverage is currently at 42%. The average leverage is 35% or 27% without REITs. *PLUS* does not invest in raw land, blind pools, private development companies or international transactions. Mr. Miles discussed the *PLUS* holdings stating that they currently own 50 diverse properties across the country.

Mr. Miles specifically talked about the Irvine Tech Center I in Irvine, California. He told the Board that their original investment thesis was based on an industrial holding for the appropriate life cycle. But that the area is now becoming largely residential and there is a potential upside to the investment with the land value becoming twice that of the original purchase price. He stated that it is important to be willing to hold investments because there can be a potential upside in every property in addition to being a core property.

He discussed the consolidated risk controls projections looking forward to April, 2006. He stressed that it is important to always look ahead for the portfolio, to do your homework and to stay with the model. He discussed the $1.6 billion portfolio and used the shift in the risk ceiling for apartment allocation as an example of how they were able to make 9% in 45 days with taking no incremental risk.

Mr Miles reviewed the historical benchmark performance for the *PLUS* product. Returns of 20.23% were reported for 2005.

Trustee Miller asked if the *PLUS* Fund as an open-ended fund, whether that meant the system can get out at anytime. Mr. Miles replied yes, but said that there is a 6 quarter lockup, but funds can be withdrawn after that. The parent, however, can never get out. He also commented that the money is returned all at once and not in draws.

Trustee Storum asked how often the properties are appraised. He was told that the local manager has an appraisal done every quarter which is reviewed by their National Appraisal Manager every 2 years. Trustee Lee asked if it is the same firm. Mr. Miles replied that they randomly select an independent appraiser.

Trustee Storum asked how many people work on this product. Mr. Miles replied that there are 20 members on the team and that all are owners with 50% of bonuses reinvested.

Mr. Miles stated that the local managers invest 5% plus incentive. He also commented that it is costly building the relationships with local managers, however, sometimes you have to terminate the local manager. He also mentioned that sometimes investments are made without a local partner investing.

Ms. Billings asked about Guggenheim's fee of 60 basis points and the 20% above benchmark performance bonus. Mr. Miles explained that they are rewarded for outperforming the benchmark. He also told Ms. Billings that they are flexible with their contract terms and that no one has preference and that everyone has the same deal.

Trustee Storum asked about the blended benchmark asking how they know which part of the weight of 70/30 is benchmark? Mr. Miles replied that 30% of the benchmark is static and that 70% is properties. He also said that currently their target is 29% public and 71% private and there is normally a 1-2% shift between public and private.

Mr. Miles and Mr. Mahoney left at 11:05 a.m.

Mr. Gray explained to the Board that Guggenheim can invest direct or into funds and they have invested in American Real Estate the first presenter. In fact, he told the Board that Guggenheim is somewhat of a manager of managers.

The Board took a 10 minute recess at 11:08 a.m.

Harbert Management Corporation – 11:19 a.m.
Raymond Harbert, Alan Fuller, Michael White and Danny Furey

Mr. Raymond Harbert introduced himself, Alan Fuller, Michael White and Danny Furey. He told the Board that Harbert is an institutional investment management shop located in Birmingham, Alabama that deals in institutional quality properties.

Mr. Harbert described their firm as having investments across eleven asset classes with approximately $4.6 billion assets under management as of January, 2006. He told the Board that they are different from other managers having an extensive back office handling legal, accounting, investor reporting and tax and regulatory compliance areas. He continued telling the Board that they are first and foremost investors looking for co-investors and that $50 million has been invested in the current fund by the family.

Mr. Harbert discussed asset classes comparing domestic and European real estate, private capital and public securities and how they relate to Harbert's investment strategies. He also stated that since 1981 he has actively participated in the real estate investments.

He told the Board that longevity is important to Harbert and that their senior level investment professionals have a long history together. He mentioned that Michael White has been with Harbert for 22-23 years and Alan Fuller has worked with the firm for 17-18 years.

Michael White described the strategy of Harbert Real Estate Fund III, LLC stating that it a diverse portfolio based on geography and property type. He spoke about their fundamental underwriting stating that their primary analytical focus is risk mitigation. He continued saying that they have a hands-on individual asset management approach.

Mr. White discussed the prior performance of the Fund I portfolio that closed in June, 1995. He told the Board that it was a mixed investment vehicle with a portfolio allocation of 50% office, 33% multi-family and 17% industrial/flex. He told the Board that their internal rate of return was 17% net of fee and expenses with return to investors in the low to mid 20% range.

Mr. White reviewed the current real estate environment. He told the Board that the condo market is currently driving the multi-family real estate market and looks to have a positive long-term position, however, it could be challenging. He stated that the office market is beginning to recover from the vacancy peak 12-24 months ago. Retail space is a steady performer, however, interest rates could raise some concerns. Lastly, he spoke about industrials saying that there are good solid fundamentals in place with vacancy down and rents up.

Allan Fuller began his portion of the presentation describing Harbert's current product Fund III. He told the Board that it is presently open and that their projected target is $200 million. They have to-date raised $75 million making three investments with $93 million in total acquisitions and $18 million in equity capital. He also told the Board that they first accepted investors in July, 2005. He stated that their first close would be on March 15, 2006.

Trustee Hannan returned at 11:29 a.m.

Mr. Fuller explained the most recent fund allocation and discussed the projected allocation. He stated that the office sector is strong especially in markets showing high job growth. They project the office sector to represent 40% to 50% of the allocation with retail at 15%-25%, development at 10%-20% and multi-family at 15% to 25%.

He reviewed the three current investments of the fund saying that they bought well maintained properties in the public sector and have leased a majority of the square footage and have returned value to the portfolio.

Raymond Harbert discussed why the Board should choose their firm as their core real estate manager. He stated that the other managers are good but that they have assets that differentiate them from the others. He told them that they have the purest and most unique alignment of interest with their clients, taking 25% of the risk. There back office support is structured to allow the investment team to focus solely on the investments with better data tracking, reporting and greater transparency. They are a proven performer with a twenty year track record.

Mr. Harbert described the history of the firm with it being started by his father after World War II. He stated that they started as a heavy civil construction firm in Birmingham, Alabama. He took over the firm in 1990 and built it into a large $1 - $2 billion, 7,000-employee worldwide firm. They took a look at their balance sheets and didn't feel they were making enough money. So they made a decision to sell off pieces of the company and keep the commercial real estate and independent power generating companies. In 1993 they formed the Harbert Management Corporation to manage the family assets with 1,000 high net worth co-investors and pension funds.

Mr. Harbert discussed the terms and fee structure of the fund. He stated that the management feel is 1.5% of the committed capital during the acquisition period which is applied only to invested capital thereafter. He also commented that the management fee is reduced for investors who commit at least $50 million.

Trustee Storum question the 10% to 20% property development in Fund III pointing out that there were not developments in Funds I and II. Mr. White replied that in Fund II there was an equity investor in developments used to do large developments.

Trustee Miller asked how often the properties were appraised. Mr. White told him that outside appraisals are done once every three years with inside appraisals done once per year and audited by PricewaterhouseCoopers.

Trustee Miller also asked about leverage. Mr. White said that Fund I was leveraged 2-1 or 50% to 65%; Fund II was leveraged 3-1 or 60% to 75%. He also remarked that some are leveraged at 50% until leased.

Mr. Gray asked if the Board if they were comfortable with the leverage described. Mr. Harbert replied that leverage is based on the correct structure for each capital asset saying that you don't over leverage real estate. He continued saying that you get better yield with leverage. Mr. White added that they do not cross-collateralize and don't take interest rate risk.
Ms. Billings asked about the term of investing in their fund. Mr. White replied that it is a three- to five-year investment. The acquisition period is possibly two to less then four years with the potential to go longer. He continued saying that there is an acquisition business plan that the investment committee uses to evaluate performance and that when they meet the target they sell the asset.

Trustee Storum asked if there is a constrained supply of office space. Mr. Fuller answered yes and Mr. Harbert said that they try to get into a market when it is coming off the bottom. Mr. Fuller commented that every asset can return a loss, however, they have never lost any of their partner's money. Mr. Harbert added that they have never had a losing asset in the funds.

They discussed the active investment markets of Dallas, Charlotte, Washington, D.C. and Denver.

Trustee Storum asked about the number of properties in their previous and current investments. He also asked if they were independently managed. Mr. White replied that they were largely independent.

Ms. Zimmermann asked about the distribution information. Mr. White replied that the investor group receives 9% of the annual preferred return on capital. After that, the return on capital is distributed 50/50 between the investors and the managing member until the managing member has received 20% over that with a split of 80/20.

Ms. Billings asked if there is any mechanism to withdraw. Mr. Fuller replied no. There is a 10-day notice of calls.

Larry Gray recapped the presentations telling the Board that all are good Core Real Estate advisors. He stated that they would probably end up with a core/satellite investment portfolio. He briefly described each manager commenting that American Realty Advisors is an open-end high quality fund that offers an easy and simplistic investment. He stated that Guggenheim is also an open-end fund that is more of a manager of managers with a broad collection of REITS. And, that Harbert Management Corporation is a closed-end direct real estate fund that is looking for co-investors.

He completed his recap telling the Board that American Realty Advisors is easily liquidated, however, they have the lowest rate of return. Guggenheim came in next with a higher rate of return and Harbert Management with a rate of return target in the low 20% range. He ended telling the Board that they had $7.7 million to invest and that the current asset allocation is 4-5% with an 8% target goal.

Trustee Storum stated that he chose Guggenheim because they were low risk, offered direct liquidity and their strategy was highly diversified.

Trustee Lee commented that he liked American because the investment seemed simple and they offered direct liquidity.

Trustee Miller said that he was open to either Guggenheim or American Realty Advisors because of the direct liquidity, diversification and that they were both open-ended managers.

Mr. Gray asked if there were any other questions.

RESOLUTION 06-014 By Miller, Supported by Hannan
Resolved, That the Board of Trustees approve pending legal contract approval that $7 million be invested in Guggenheim Real Estate *PLUS.*

Re: Gray & Company – 4th Quarter Performance Review
Mr. Gray began the performance review by telling the Board that they have reviewed the numbers forCAP Advisors and said they can find no rhyme or reason for them.

Trustee Miller left at 12:20 p.m.

Mr. Gray went over the capital markets for the 4th quarter of 2005. He detailed the economy for the quarter saying that despite the chaotic nature of the economy with sharp jumps in energy prices due to Hurricane Katrina and the slowing of the housing market the economy was still good. Unemployment was low and corporation and private spending was good.

Mr. Gray told the Board that the S&P index has reported 15 consecutive quarters of double-digit earnings due to increased efficiencies and technology spending. Historically, the average growth rate is 7% and investors are expecting to see it fall to 11% in 2006.

Mr. Gray pointed out that interest rates were raised twice during the quarter to 4.25% and 4.50%, respectively. The Federal Reserve is expected to continue to raise interest rates during the first quarter of 2006; Bernanke is expected to raise the rate to 4.75%. He also emphasized that the May meeting of the Federal Reserve will be the first real meeting for Chairman Bernanke following Allan Greenspan's departure. Economists have expressed a level of uncertainty regarding Chairman Bernanke's first recommendations.

Mr Gray continued his overview of the capital markets telling the board that the when the economy is coming out of a recession your stocks are dominated by small-cap and as the economy matures mid-cap then large-cap realize improved performance trends. He explained that 2005 was dominated by mid-cap. He also stated that growth outperformed value with the S&P 500 Index returning 0.54% and the Russell 2000 index returning 8.22%. Mr. Gray described the U.S. Equity Market. He told the Board that 12-month returns for the Russell 1000 were 6.3% versus the S&P Mid-Cap at 12.6%. He stated that after three quarters of growth, energy stocks fell 7.4% in the fourth quarter and utilities also suffered a substantial drop.

Fixed income had positive returns with the Lehman Aggregate at 2.4%, however, many managers experienced negative returns. Long-term government bonds were at 5.3% up 0.9%.

Mr. Gray then discussed the international equity market with the Board. He pointed out that China has intentionally under reported growth numbers to the world trying to avoid a trade war. They have reported growth at 9% when their growth has been closer to 10%-13%. Their current GDP is $2.2 trillion which is fourth largest in the World. The European Union consisting of 25 countries GDP is at $11.5 trillion. Japan was the best performer in the region for the period. Morgan Stanley was underweighted in Japan.

The overall performance of the fund was very good. The fund's one-year performance was 6.1% versus the policy benchmark of 7.3%. He pointed out that Montag & Caldwell experienced a bad quarter at 0.3 versus the index at 3.0% due to poor stock selection and an overweight in energy. Their year-to-date numbers were 6.7% versus 5.3% for the benchmark with a 35th percentile ranking.

Munder Capital Management's mid-cap equity underperformed for the quarter at 1.1% versus the benchmark at 3.3% due to poor performance in 7 out of 10 sectors.

Loomis, Sayles & Company reported solid numbers with a 16th percentile ranking for the quarter and performance in the 10th percentile for the year. They continue to rank in the top 25% out of the 300-310 peer manager pool.

Domestic equity for the fund underperformed the benchmark that reported performance of 8.5% for the year and 16.3% for the three-year period.

International equity showed Morgan Stanley's process is solid. However, it seems since Caldecott's retirement their numbers began to slip. Poor performance in the quarter was attributed to an underweight in Japan and poor stock selection. They are still holding onto telecoms which are a current source of underperformance in the portfolio. With their size they are unable to dip down to purchase in the small-cap range. Mr. Gray said that he plans to meet with them.

Fixed income performance was solid. Goode managed their portfolio well and as expected and beat the core benchmark. Overall the quality is good. Atlantic is a high yield, high quality manager that does not buy C or B to BB bonds.

Mr. Gray stated that the main sources of underperformance in the portfolio were CAPROC and Morgan Stanley. He told the Board that they may want to look at a smaller international manager. Trustee Storum asked about emerging markets. Mr. Gray indicated that China, Brazil and Argentina are current examples of emerging markets and that they all represent different levels of risk.

Mr. Gray then distributed information on CAPROC's consolidated property returns to the Board. The property returns showed current net cash flow contributions at $44.7 million versus $57.6 million members' initial contributions. As for the CAP Advisors account; the cash flow returns calculated are not relevant because this account is apparently a conduit for money flows and does not have any discernable pattern.

Consolidated returns should differentiate member capital, contributions and investments so you can see what is happening. He said that when they were issued their cash on cash quarterly returns were -5.4%. He stated that when they dollar weighted the returns based on the RFP formula they were -4.83%.

He told the Board that based on the earlier presentations, the information that is usually provided by real estate companies has not been attainable from CAPROC. He said that the AIMR has three or four acceptable ways to calculate returns: there are several methods used by some real estate managers that are not generally accepted. He has asked a number of analysts in the real estate business to look at the data and calculate the rate of return. All have said that CAPROC is difficult to calculate because of the complexity of their statements and the ambiguity of their terms.

Ms. Zimmermann pointed out to the Board that the CAPROC numbers show a -5% rate of return versus the real estate managers seen earlier today who reported 11% to 20% rates of return.

REPORTS

Re: Chairman – None

Re: Secretary – None

Re: Trustees - None

1. **Real Estate Committee –** None
2. **Personnel Committee –** None

Re: Staff

Boston Scientific Securities Litigation – Boston, MA
Ms. Zimmermann told the Board that she had recently accompanied Ms. Billings to Boston on behalf of the Board to attend the securities litigation versus Boston Scientific. She commented that it was very interesting seeing a case argued in Federal Court. Ms. Billings told the Board that they were petitioning for lead plaintiff status and that it is still pending. She did comment that the Court usually appoints lead plaintiff status to the petitioner who has experienced the most losses, but the attorney for that client had already made a number of mistakes. Ms. Billings commented that our firm has more experience in handling SEC litigation and ERISA actions.

Disability Re-Exam
Ms. Zimmermann asked the Board if Robert Norberg (Texas) and Magdalena Martinez (Puerto Rico) who are both out of state can have their disability exam rescheduled for a time when they will be back in Michigan. Trustee Storum said that as long as the re-exam are done in a timely fashion rescheduling is not a problem.

Ms. Zimmermann also pointed out that Dr. Roth the Medical Director for the system is only accepting appointments on Wednesdays. Trustee Lee asked if that was going to be his permanent appointment schedule. Ms. Zimmermann replied yes. Trustee Storum commented that the Board may want to review other medical directors for next year.

Re: Legal

Ferro Corporation Litigation
Nothing new to report in discovery phase.

United Rentals Inc. Securities Class Action Litigation
Nothing new to report.

Boston Scientific Corporation Litigation
Covered under Staff.

Re: Union Representatitves

Mark Peters addressed the Board telling them that a number of retirees from the PPSA have recently contacted him raising complaints about CAPROC losses and the investment. The retirees have heard that the losses are $12 million, $18 million and up to $24 million and are concerned about their benefits. He told the Board that the rumor was started by one member. He also stated that the retirees were told that the legal team had advised the board not to talk with Joe Capozolli. Mr. Peters said he was unaware of that request and recently had lunch with Joe Capozzoli and Dennis Kline. He said that the retirees have heard that the Board gave CAPROC $19 million and that now that investment is valued at $12 million. He was also told that the summary disposition was granted for $28 million.

Ms. Billings replied stating that she fully understands the concerns of the retirees. However, under the Michigan Constitution and State laws, their benefits are absolutely protected and can't be diminished regardless of fund losses.

Ms. Billings told Mr. Peters that with regard to CAPROC, they are involved in litigation/ arbitration and don't want to give away their position. The Board decided to terminate the investment with CAPROC based on the investment returns and get their money out. Mr. Peters asked the status of arbitration. Ms. Billings replied that the arbitration is scheduled for the second or third week of June.

Mr. Gray told Mr. Peters that if you look at the performance report for the total plan of $247 million, that CAPROC represents only 5% with a negative 1½ % return. He assured Mr. Peters that the overall plan is healthy.

Trustee Storum commented that the Board to-date has received $8 million in distributions from CAPROC. Mr. Peters asked if the losses were $12 million to $18 million.

Ms. Billings again stated that the PFRS Board can't be concerned with Joe Capozolli's issues and that the Board made their choice based on economic facts.

NEW BUSINESS

UNFINISHED BUSINESS

Re: Ordinance Clean up - Tabled

SCHEDULING OF NEXT MEETING – Regular Meeting March 30, 2006 at 9:00 a.m. in the Shrine Room at City Hall

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ADJOURNMENT

RESOLUTION 06-015 By Lee, Supported by Hannan
Resolved, That the meeting be adjourned at 1:17 p.m.

Yeas: 3 – 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 January 26, 2006.

J. Edward Hannan, Secretary
As recorded by Jane Arndt