

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
FEBRUARY 24, 2011**

A regular meeting of the Board of Trustees was held on Thursday, February 24, 2011 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 9:16 a.m.

Trustees Present

Leon Jukowski, Mayor
Brian Lee, Chairman
Craig Storum

Trustees Absent

Matt Nye - Excused
John Naglick

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Jeffrey Hawkins

AGENDA CHANGES

CONSENT AGENDA

- A. Minutes of Regular Meeting: January 27, 2011
- B. Communications:
 - 1. Correspondence from Hirayama Investments Re: Newsletter
 - 2. Conferences
 - a. Investments Institute – IFEBP – April 11-13, 2011
 - b. Annual Conference – NCPERS – May 21-26, 2011
- C. Financial Reports:
 - 1. Financial Reports – January 2011
 - 2. Securities Lending –
 - 3. Accounts Payable – February 2011
- D. Capital Calls
 - 1. Metropolitan Real Estate \$122,456
 - 2. Mesirow MFIRE 75,000
- E. Remove from the Rolls:
- F. Application for Service Retirement
- G. Application for Deferred Retirement
- H. Final Benefit Calculations
 - 1. Arthur Frantz #2509 \$4,138.42
 - 2. Kevin Chapman #2521 4,312.24
 - 3. Thomas Hilborn #2524 4,448.36
 - 4. Joseph Mongelli #2529 3,267.50
 - 5. Randall Johnson #2432 3,637.84
 - 6. David Potter #2533 4,648.02

7. Rickey Mathias	#2534	3,918.35
8. Roman Prosser	#2538	4,145.58
9. Emmett Elliott	#2477	3,243.74

I. Application for Refund of Accumulated Contributions

Trustee Lee asked if Jim Stefani has applied for disability. Ms. Zimmermann said that she would check.

Trustee Lee said that he has been off work for seven to eight months and questioned when he has to apply for a disability retirement. Ms. Zimmermann indicated that the contract says the member should apply for a disability retirement when they have been disabled for six months.

Chairman Storum confirmed that the three conferences included in the travel policy for trustee attendance are the IFEBP, NCPERS and MAPERS.

RESOLUTION 11-009 By Lee, Supported by Jukowski
Resolved, That the consent agenda be approved.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company – 2010 Fourth Quarter Performance Report

Mr. Kuhn announced that Gray & Company will be holding a client reception at MAPERS Sunday evening at Trattoria Stella. He encouraged the trustees to attend.

The capital market headlines contain educational pieces, commentary or recent headlines. This quarter contains an educational piece describing tail risk as it relates to recent market performance.

He described the normal and skewed distributions. Under a normal distribution, the market would experiences good events as often as bad events. However, the equity market is not normally distributed and has experienced significant disruptions twice in the past this decade (2002 and 2008). Bad events happen more frequently in the stock market than would be anticipated under a normal distribution.

Investors may use risk by budgeting or risk parity as techniques to manage the downside risk in the equity markets. Under these programs, equity is too risky so investors allocate more money to fixed income using a 40%/60% ratio or a 50%/50% ratio. However, reducing the equity allocation reduces portfolio performance.

To get back some of the performance, investors leverage their investments, borrowing the additional capital to invest a greater amount than the portfolio's net assets. It makes sense in theory but does not always work well. This is something the State of Wisconsin considered.

Chairman Storum asked how the borrowing process works and who loans the money. Mr. Kuhn said that an investor would borrow money on their assets from a firm like Smith Barney or Merrill Lynch at 2% and, in theory, make 8% in returns. However, the investor may be forced to repay the loan when asset prices fall. You see this approach in a lot of strategies.

He gave an example of a core real estate investment manager that leases building to government agencies. The manager feels that this is a stable tenant and sells it like a low risk strategy, but the buildings are leveraged at 80% to 90%. If the tenant leaves, they would lose the building. Investments should be based on the merit of the investment without the use of excessive leverage.

He reviewed inflation and Fed Policy. Inflation is low at 1.5% which is a little below the Fed target of 2% to 3%. The three month inflation indicator showed the Consumer Price Index at 0.3%, the one-year at 1.5% and the three-year at 1.4%. The Fed has two mandates, price stability and full employment. Before loosening monetary policy, the Fed wants to see more sustainable economic growth. The loose money policy should spur inflation and get the economy going. In order to combat the recession, there has been an incredible amount of easing. QE2 (quantitative easing) is relatively new with the Federal Reserve buying \$600 billion in treasuries and other fixed income securities. This has caused the rise of risky assets.

The yield curve rose sharply during the period. Investors are looking for high returns from thirty-year treasuries.

The U.S. Equity Market performed well for the quarter driven by the small cap market. However, the rotation to large cap is beginning. Performance for the quarter was in the double digits across market caps. One-year performance for the Russell 2000 was 26.85%, the Russell 2000 Growth was 29.08% and the Russell 2000 Value was 24.51%.

Not all sectors performed well. He referred to a prior discussion regarding risk on risk off. Utility sector performance for the period was 1.09%. Because usage does not change significantly, the sector's performance did not keep pace with other sectors. This also applies to consumer staples at 6.13% and healthcare at 3.68%; these sectors perform better during more difficult economic periods and under perform during strong periods.

As rates rise, it is bad for fixed income with losses ranging in the 1% to 2% range. There was a lot of red ink for the quarter. Barclays 1-3 Year Govt declined 0.13% and the Barclays Long Govt. was down 8%. The short end did not move much. Spreads contracted and corporate bond rates did not rise as sharply.

International markets behaved differently all over. Germany performed well in the Eurozone. Ireland has experienced economic issues and required help for their banking system. There are concerns that this will spill over to other countries including Portugal, Italy, and Spain. Many expect that there will be bond defaults.

The Euro took a sharp decline.

China and India have been the driving centers in the emerging markets but inflation fears affected performance. Russia's economic performance was driven by oil. They are benefitting from the higher oil prices.

Because there are fewer equity investments in this Fund, performance for the period was 6.72% versus the policy index at 5.89% and 13.38% versus 13.10% for the year-to-date performance. The Fund is slightly ahead for the three-year and five-year performance. This is quite a bit below the performance for the VEBA Fund.

Most equity managers struggled in this market.

Munder and Loomis Sayles had a strong quarter and were inline with the index.

Both international equity managers are sounding beating the MSCI EAFE. Wentworth Hauser's portfolio plays into Russia and the oil driven economic performance.

The TCP portfolio gave back some performance this quarter.

They are encouraged by high yield manager, Artio's performance. They recently met with them during an onsite visit. This manager thinks outside the box which is good for the portfolio.

Goode performed in line with the index and reported positive performance numbers which is what they want to see. This investment offers positive diversification.

It was a nice benefit to the Fund to see positive real estate numbers. American was a little behind the policy index. They do not have any numbers for Metropolitan or Mesirov yet.

He said that he will investigate the cash account return numbers which look incorrect. He thinks it is based on the securities lending fiasco. There was a liability recorded in the cash account and, when it was removed it may have created the positive effect.

Chairman Storum asked about the cause of TCP's performance and whether it was due to yield or duration.

Ms. Zimmermann said that TCP's turnover was over 100%.

Mr. Kuhn said that the TCP performance was not because of any individual security. They were somewhat underweight to mortgages. As rates rise, people do not pay off their mortgages because they cannot refinance at lower rates. They do not have any concern with their performance which was within the expected range.

With the increase in Fund assets to near \$250,000,000, the basket clause would increase to 10%.

The cash raised in the cash account is to pay benefits and operational expenses.

Gray & Company recommends that the Board not invest in timber at this time due to legal restrictions on international investment, a key component of return.

Chairman Storum asked where the assets are in the portfolio.

Mr. Kuhn said that they are currently allocated to the Artio investment. The System still has a commitment of over \$2 million for the Mesirow real estate. They are happy with the Artio performance. He asked if the Board would like to begin the intermediate fixed income search in March. They can go through the screening process.

REPORTS

Re: Chairman

Chairman Storum thanked Trustee Lee for his efforts in Lansing regarding House Bill 4214 to protect the pension system.

Trustee Lee said that he plans to go back. He asked if there are any other opportunities for the public to testify. Mr. Henzi said that the only option the public has is at the hearings held by the committees. The Senate Committee will hold further hearings.

Re: Secretary - None

Re: Trustees

Re: Administrator

Medicare Part B Reimbursement

Ms. Zimmermann reported that at the last meeting the Board passed a resolution terminating the Medicare reimbursement to the City. After talking with Sullivan Ward they cannot complete the transition in two weeks. She asked that the Board rescind the resolution. The GERS Board changed the termination date in the resolution to April 30, 2011. The EFM needs to move quickly to make this date viable. She asked that the Board rescind Resolution 11-003.

RESOLUTION 11-010 By Lee, Supported by Jukowski

Resolved, That the Board rescind Resolution 11-003 regarding the Medicare Part B Reimbursement and, based on the recommendation of legal counsel, due to logistical issues and the lack of written agreement, and past practice, to notify the City of the new implementation deadline of April 30, 2011.

Yeas: 3 – Nays: 0

One-Day MAPERS Recap

Ms. Zimmermann provided a recap of the One-Day MAPERS seminar she attended including the session pertaining to House Bill 4214.

Re: Legal

Northern Trust

Mr. Henzi reported that the Motion to Dismiss hearing scheduled for February 16, 2011 was not held.

Fossil, Inc.

Mr. Henzi reported that the parties are working to reach a settlement. They will continue to advise the Board with respect to this matter.

UBS/AG Securities Class Action

Mr. Henzi reported that the Defendants' Motion to Dismiss is currently pending. They will continue to advise the Board with respect to this matter.

Airgas Securities Litigation

Mr. Henzi reported that a hearing was held on January 25, 2011 regarding the Defendants' "poison pill." He has not heard what happened to date.

IRS Application for Determination Letter

Mr. Henzi reported that they just received the Favorable Determination Letter. The determination is contingent on the adoption of the proposed amendment into the Retirement System Ordinance by City Council by May 17, 2011. The amendment to be incorporated is the HEART Act that allows a member who takes a leave of absence to perform military service with reemployment rights upon the death of that member to be treated as if he/she died as an active employee.

He requested that the Board approve to forward the amendment to City Council for adoption.

RESOLUTION 11-011 By Jukowski, Supported by Lee

Resolved, That the Board forward the amendments required by the IRS for a favorable Determination Letter and the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) amendment to the Retirement Ordinance to City Council for adoption.

Yeas: 3 – Nays: 0

Ms. Zimmermann will attend the City Council meeting to explain the proposed amendments.

Atheros Communications, Inc.

For the trustees' information.

In Re Gildan Activewear Securities Inc. Securities Litigation

For the trustees' information.

Correspondence to Plunkett Cooney Regarding Retirement Department Employee Payroll and Medicare Reimbursement

Mr. Henzi referred to a series of letters regarding the Medicare Part B reimbursement. He explained that the correspondence asked the Retirement Systems to address the significant inter-fund receivables due to the City and the fact that the EFM has determined that such interest free loans are not a good business practice. He corrected the City stating that the Retirement System does owe the City \$700,000.00 but that the City owes the Retirement System \$1.2 million for Medicare reimbursements.

Correspondence was sent to the EFM's legal counsel stating that this practice is illegal and is in violation of Public Act 314. It is like fronting money as an interest free loan to the City. The legality issue came up at last month's meeting and it was determined that the Retirement System would continue reimbursing Medicare Part B through April 1, 2011.

House Bill 4214

Mr. Henzi reported that House Bill 4214 passed in the House with the amendments. A letter has been proposed to send to State Senator Jim Marleau regarding the proposed amendments included in the House version of the bill. A letter has also been composed for the retirees to send. The retirees are being urged to contact all State elected officials asking for the Bill to be approved with the amendments.

Mr. Henzi distributed the legislative analysis which is a neutral report. The House Bill prohibited the taking of pension assets for systems that were more than 80% funded. Trustee Lee is a very effective speaker as a proponent of these amendments. He suggested reaching out to State Senator Marleau.

These elected officials need to understand that there are a number of reasons why employees across the state are opposed to this bill. The retired members of the GERS are already active contacting their elected officials.

The Chairman for the GERS signed a letter voicing that the Board objects to allowing an Emergency Manager the authority over a well funded pension system.

Trustee Lee stated that Senator Pavlov from St. Clair Shores is the Committee Chair. However, he is not sure if it is too late to contact him regarding the amendments.

Mr. Henzi said that the Senate has introduced their version of the Bill. Knowing this they are hopeful that the amendments will be included in the Senate Bill. He recommended contacting the Majority and Minority Leaders in the State Senate.

Mr. Henzi said the bill has no exit strategies for an EFM.

Trustee Jukowki said there is no definition of cooperation with local officials.

RESOLUTION 11-012 By Lee, Supported by Jukowski

Resolved, That the Board approved the letters to be sent to the legislature from the Chairman and the letter sent to the members on behalf of the Retirement System encouraging them to contact their legislators.

Yeas: 3 – Nays: 0

Phillip Sailor EDRO

Mr. Henzi reported that the Consent Order from the Oceana Circuit Court states that 100% of the benefit is paid to Mr. Sailor and subsequently 75% of that benefit is forwarded to Marcia Sailor.

The Retirement Office is following the Order issued by the Court. Mr. Sailor can attach a copy of his 1099R and the letter indicating that Ms. Sailor has to declare 75% as income on her tax return. He feels this is much ado about nothing.

Ms. Zimmermann said that they followed the Order and issued 100% of the benefit on Mr. Sailor's 1099R. It is out of their hands after that point.

The member is concerned that he will be responsible for paying 100% of the taxes on the benefit.

Fire Chief Jeffrey Hawkins Retirement

Mr. Henzi reported that this issue was discussed in depth at the last meeting. He referred to a letter he sent to Plunkett Cooney stating that an amendment to the Retirement Ordinance would not allow Chief Hawkins to retire under the early retirement window.

Jeffrey Hawkins said that a communication was sent to the EFM and Gordon Gregory that the union has taken the stance that he is not part of their collective bargaining unit so they will not agree to a MOU or amendment. The EFM gave him the twenty-two years he needed to retire under the early out window.

Chairman Storum said that he did not meet the requirements under the window.

Mr. Hawkins said that the Retirement Office promised his retirement when they gave him his service credit numbers.

Mr. Henzi said that the issue is whether Mr. Hawkins was qualified for the early out window. The MOU was drafted and circulated but was not executed by the union. Providing this additional year of service credit would be in violation of the CBA. The Board does not have the authority to grant the additional year of service credit.

Trustee Jukowski said that the union does not represent Jeffrey Hawkins. The Retirement Office miscalculated his numbers and he is stuck in the middle between the City, the union and the Retirement Board.

Chairman Storum stated that the Board cannot do anything or they would be in violation.

He felt that it is not just the fault of the Retirement Office. Whether or not someone looked at those numbers five different times and he finally received the answer he was looking for there is some responsibility on him.

His interpretation is if the City wanted Mr. Hawkins to get his retirement they would rehire him so he could get the one year of service credit.

Trustee Jukowski said that the Retirement Office signed off on the service credit so they have to accept some of the blame. It looks like he will not receive any support from the union, so he will file a lawsuit that will be directed toward the Retirement Board.

Chairman Storum said that the Board has been through this type of issue before and based on past practice they have won.

Mr. Hawkins asked what it would cost the City to offer the rest of the group an additional year.

Chairman Storum reminded Mr. Hawkins that he agreed to the provisions of PFFU Local 376's CBA.

Chairman Storum asked that this issue be taken off the agenda.

Trustee Lee said that he agrees that Mr. Hawkins is caught in the middle but the Board has to go with legal counsel's recommendation.

Trustee Jukowski said that Mr. Hawkins must be frustrated. He suggested that in order to resolve the issue the City, the union and the Board's attorney should meet.

Mr. Henzi said he would be happy to meet with the EFM's attorney regarding this issue.

RESOLUTION 11-013 By Jukowski, Supported by Lee

Resolved, That the Board authorizes legal counsel to meet with the City and the union regarding Jeffrey Hawkins' retirement issue.

Mr. Hawkins left at 10:29 a.m.

Correspondence Regarding CAP Mortgage

Mr. Henzi referred to information regarding CAP Mortgage. Communications sent from Mr. Tompkins indicate they are still working on perfecting the title and have requested that CBRE provide their recommendations from the past meeting in writing to the Board for their protection.

Ms. Zimmermann asked if CBRE will wait for the title to be perfected before starting their process.

Mr. Henzi said that they will not wait to begin the process because it only affects the front parcel.

Ms. Zimmermann asked about the contract with CBRE and indicated that there are billing issues and asked for more information on how this will be handled. When are they starting to manage?

Motley Rice Portfolio Monitoring Report for the Fourth Quarter 2010

Mr. Henzi reported that this is for the trustees' information. There were no market losses on recently filed actions.

Fiduciary Liability Insurance Policy Renewal

Mr. Henzi reported that this is for the trustees' information. The policy documents have been forwarded onto the insurance agent.

Miscellaneous Articles

- IFEBP January 2011 – Diligence Approach for a New Age of Fraud
- The Detroit News, December 26, 2010 – Risky bets costs city's pension funds \$480 million.
- Detroit News, December 26, 2010 – Earlier findings on Detroit's two public pensions
- Detroit News, December 26, 2010 – Ex-trustee: Pension funds "investments were garbage"
- Detroit News, December 26, 2010 – Where Detroit pension funds went wrong
- Wells Fargo – December 14, 2010 (PLANSPONSOR.com) – US Senate Launches Investigation Into Securities Lending
- Gabriel Roeder, November/December 2010 - NewsScan

Re: Union Representatives - None

NEW BUSINESS

Re: House Bill 4214 - Refer to Legal

UNFINISHED BUSINESS

Re: Medicare B Payroll – Refer to Legal

Re: Retirement Office Payroll

Mr. Henzi reported that they have solicited bids from staffing consultants per the Board's request at the last meeting. Most of these firms are either accounting firms or recruiters. Plante & Moran is one of the firms but they currently conduct the audits for the funds.

They contacted O'Keefe & Associates but they did not send a proposal. He asked that the Board authorize the Chairman to sign contract if needed.

Trust Lee indicated that the staff payroll is a time-sensitive issue.

Chairman Storum asked whether the Police & Fire Retirement System can authorize the Retirement Office to take over their payroll and bill GERS.

Trustee Jukowski said that there are some union issues that need to be resolved beforehand.

Police & Fire Regular Meeting
February 24, 2011

Ms. Zimmermann said that prior to this occurring, an agreement needs to be reached between the Retirement System and SAEA. She explained that when Pam Hopkins' position was upgraded her former position remained in SAEA. When Ms. Munson took over the position it was taken out of the union.

Chairman Storum confirmed that the process of taking Ms. Munson's position out of the union had already occurred.

Ms. Zimmermann said that due to the layoffs it may be that the unions are trying to retain positions. She indicated that Devin Scott dropped by the Retirement Office stating that the MERC Hearing for Ms. Munson's position is being held on March 10, 2011.

Chairman Storum stated that the System is a legally separate entity and felt that the Board can decide whether to pay their own staff. They can do what they want and even hire temporary employees. The union has the contract with the City and the Retirement Office can go independent. The Board has an obligation to the retirees not to the unions. That is between the City and the unions.

Mr. Henzi said that only the employer part would change.

Trustee Jukowski said that even if the Retirement Offices goes independent they still have to recognize the SAEA position.

Ms. Zimmermann also said that the City would have to agree to be an agent providing benefits and service credit.

Mr. Henzi said there is another wrinkle regarding the provision in the Retirement Ordinance. However, the EFM could amend the Retirement Ordinance. Chairman Storum said the change should be added with the IRS changes.

Ms. Zimmermann said that the GERS Board just discussed what could happen if the City cannot meet payroll; there could be disruption of the retiree payroll.

Chairman Storum said that he feels the Board should try to move this forward. Mr. Henzi was directed to approach the EFM about taking the payroll of the City's books.

Trustee Jukowski said that he feels the conversation needs to start.

RESOLUTION 11-014 By Jukowski, Supported by Lee

Resolved, that the Board authorizes legal counsel to contact the EFM's legal counsel with regard to the City agreeing to be the agent for the Retirement Office staff benefits and to submit formal correspondence to GERS indicating that PFRS wants to take the Retirement Office independent and urging them to pass a resolution to that effect.

Yeas: 3 – Nays: 0

Mr. Henzi said that he will contact the parties to get the ball rolling.

Re: Police VEBA Contributions – Refer to Administrator

Ms. Zimmermann indicated that she will provide the reconciled contribution information to the Board.

Re: Hawkins Retirement – Refer to Legal

Re: HELPS Letter to Retirees

Ms. Zimmermann indicated that there have been no requests to date.

Re: Disaster Recovery Plan/Actuarial Software Search – Nothing New to Report

Re: Disaster Recovery / Actuarial Software Search – Tabled

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, March 24, 2011 – City Council Conference Room, Second Level, City Hall @ 9:00 am

ADJOURNMENT

RESOLUTION 11-015 By Jukowski, Supported by Lee

Resolved, That the meeting be adjourned at 11:00 a.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 February 24, 2011.

John Naglick, Secretary
As recorded by Jane Arndt