

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

February 28, 2008

A regular meeting of the Board of Trustees was held on Thursday, February 28, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:12 a.m.

TRUSTEES PRESENT

Raymond Cochran, Secretary
Brian Lee
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Thomas Miller (*excused*)

OTHERS PRESENT

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

CONSENT AGENDA

- A. Minutes of Regular Meeting: January 24, 2008
- B. Minutes of Special Meeting: January 24, 2008
- C. Communications:
 - 1. Correspondence from DDJ Capital Re: Monthly Market Overview January
 - 2. Correspondence from The Boston Co Re: Firm Highlights of 2007
 - 3. Correspondence from PFRS Re: Actuarial Transition
 - 4. Conferences:
 - a. Stars & Stripes 2008 – FRA – April 13-15, 2008
 - b. Investments Institutes – IFEBP – April 13-16, 2008
 - c. Washington Legislative Update – IFEBP – May 19-21, 2008
 - d. Annual Conference – NCPERS – May 16-22, 2008
 - e. Investment Courses – IFEBP – various dates
 - f. Protecting Shareholder Value – BLB&G – Oct. 23-24, 2008
 - g. National Training Seminars – GFOA – various dates
 - h. 13th Annual Police & Fire Pension Summit – IMN – April 30-May 1, 2008
- D. Financial Reports:
 - 1. Financial Reports – January 2008
 - 2. Commission Recapture Report – December 2007
 - 3. Securities Lending – January 2008
 - 4. Accounts Payable – February 2008
 - 5. Due to GERS \$267.59
- E. Final Pension Calculations

1. Gary Manns	#2178	\$2,367.79
2. Thomas Nelles	#2394	4,458.64
3. Peter Selenich	#2393	4,301.94
4. David Hoover	#2397	4,311.73
5. Kerry Appolson	#2401	3,457.69
6. Timothy Banycky	#2406	4,185.94
7. David Fields	#2407	4,235.38
8. Wilbert McAdams	#2419	6,552.51
F. Application for Refund of Accumulated Contributions		
1. Andre Siner - PPOA		\$8,442.46

RESOLUTION 08-014 By Lee, Supported by Cochran
Resolved, That the consent agenda be approved.

Yeas: 3 – Nays: 0

Ms. Zimmermann requested to attend the BLB&G Protecting Shareholder Value Conference being held October 23, 2008 through October 24, 2008.

RESOLUTION 08-015 By Lee, Supported by Cochran
Resolved, That the Board approve Ms. Zimmermann’s attendance at the BLB&G Protecting Shareholder Value Conference in New York, New York on October 23, 2008 through October 24, 2008.

Yeas: 3 - Nays: 0

Trustee Lee asked if a response had been sent to Kerry Appolson. Chairman Storum said that he has received the response and was satisfied with the explanation. Ms. Billings stated that the response is included in her legal report.

CONSULTANTS

Re: Gray & Company – 2007 Fourth Quarter Performance Report

Mr. Gray began with a review of the capital markets. He said that there has been a lot of media coverage on the sub-prime issue. This has a much broader affect than the technology bubble because it has an effect on your neighbors and is touching everyone.

Citigroup’s share price had topped \$60.00 and is now down to \$24.00 per share with analysts feeling that it is still overpriced with the real value approximately \$13.00 to \$14.00 per share.

Consumer confidence and spending is declining as is the value of their major asset, their home. The markets are seeing the fear and psychological impact on consumers who are clamping down on their spending. Two-thirds of the GDP relies on consumer spending. There is big pressure with real wages down and the price of food going up.

There was discussion on how consumers are tightening their belts by skipping their trips to Starbucks and bottling their own water. Trustee Cochran said that no one is taking ownership and admitting that the country is in a recession. Mr. Gray said that no one likes to use the "R" word. They are using the term stagflation which occurs when the economy slows and inflation rates rise.

He said there are more rate reductions built into the market. Expect to see 2% to 2.25% by the end of the year. What stimulus will it take to turn the economy around? Many do not feel that Bernanke will be around long because he is not like Greenspan who was more of a politician.

Trustee Cochran asked why there has not been more pressure to lower mortgage rates. Mr. Gray said there has been more downward pressure with some rates south of 5%. Mr. Kuhn stated that mortgage companies are being much stricter asking for 20% equity in the home and higher credit scores.

Chairman Storum discussed how unemployment rates are increasing outside of Michigan with people losing their jobs in Florida and North Carolina. Ms. Billings stated that Michigan has dropped to tenth on the list for home foreclosures.

Mr. Gray compared growth at -0.8% versus value at -5.8% for the period and 11.8% versus -0.2% for the year. We are seeing the turnaround to growth. One-year performance for intermediate bonds was 10.3% and 40.3% for emerging markets which did well because there was no sub-prime. Real estate performance has seen a reversal in performance.

Total plan performance is slightly above the benchmark. Performance versus the benchmark for the quarter was -0.3% versus -0.6%; year-to-date 9.7% versus 6.8%; three-year performance 9.2% versus 8.9%; five-year performance was down slightly at 11.2% versus 12.5% and ten-year performance was 9.6% versus 7.8%. He is sure the actuary is pleased with the long-term numbers.

Large cap equity performance was inline with the benchmark.

Mid cap equity manager Munder outperformed the benchmark for the quarter 0.2% versus -2.7%. Their one-year performance of 21.9% versus the benchmark at 8.0% was in the 1st percentile. They are a good professional group.

Small cap equity manager Loomis' performance for the period was -4.5% versus the benchmark at -7.3%. This performance put them in the 1st percentile as well as their one-year performance of 3.8% versus -9.8%. Joe Gatz is good at setting performance expectations. Their portfolio is performing well with concentrations in healthcare and consumer staples.

International equity manager Wentworth's performance for the quarter was 2.3% versus -3.0%. Their one-year performance numbers are around 40%.

International equity manager The Boston Company is a bottom up manager. They experienced weakness for the three-month period of -3.0% versus the benchmark at -1.8%. Long-term the styles of the two international equity managers should compliment each other.

Overall fixed income performance for the period was 2.5%, year-to-date was 6.8%; three-year was 5.0% and five-year was 4.9%.

Fixed income manager Oppenheimer Capital portfolio primarily contains AAA securities with short durations.

Fixed income manager DDJ Capital is invested primarily in CCC rated securities. For the period they were in the 20th percentile relative to their peer group. Their one-year performance was in the 1st percentile.

American Realty Advisors displayed weakness in their three-month performance but their one-year performance was good at 17.3% versus the NCREIF at 15.8%.

The fund has two good real estate managers coming online.

Mr. Kuhn explained that Oppenheimer Capital has had a lot of turnover in their portfolio. The bulk is due to duration management. Treasuries are the default security in the portfolio. They use treasuries to bring the duration down. Using treasuries to manage the duration is low cost to the portfolio and has added value and netted higher returns.

Mr. Kuhn asked if the trustees had any questions from the special education session meeting or questions regarding the direction going forward.

Chairman Storum asked if real estate is meeting the target and how much is left to invest. Mr. Gray said that the target is 8%. He asked about the Mesirow investment and investing in private equity and buying during the vintage years. He said he is interested in looking at new ideas. Mr. Gray said that he would bring back a plan of action looking at different private equity investments.

Chairman Storum said that he is most interested in timber. Trustee Lee agreed. Mr. Gray said that top institutional investors like CALPERS, CALSTERS, Harvard and Yale invest in timber for its lack of volatility and positive returns. He will calculate to see what is left to allocate.

Chairman Storum said he would like to look at getting into private equity funds during the vintage years and timber. Mr. Kuhn said they will firm up the real estate allocation and determine the best structure to invest in private equity and timber.

This concluded the 2007 fourth quarter performance review.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

Re: Staff

Ms. Zimmermann distributed an update from The Boston Company and a news release from Northern Trust regarding capital supports agreements.

Northern Trust Corporation – Capital Support Agreements

Ms. Zimmermann referred to Mr. Gray. He explained that Northern Trust is like any other bank that invests in money market funds. He said in the past money market funds were absent of CLO's, CDO's and SIV's or "financial sausage" as he calls them and invested in low-risk government securities. However, some of the notes and covered investments issued by Whistlejacket Capital LLC had some of this financial sausage in their investment portfolio which incurred losses.

He said that they notified Northern Trust and told them to put their clients at the top of the list to insure their clients received coverage. Mr. Kuhn said that he spoke with David Smith who said that Northern Trust took money from their own pocket so their clients do not have to take the hit.

He said that consumers expect to put their money into the money market and take their money out with interest. Money markets were always assumed to be a safe investment vehicle. This is the first time he has seen money market values drop.

Ms. Zimmermann asked if they were keeping the money in the same investments. Mr. Gray said that he told them to move the money into treasuries. Chairman Storum confirmed that Northern Trust was making the investment whole.

Retirement Coordinator Departure

Chairman Storum inquired on the filling of Ms. Tetmeyer's position. Ms. Zimmermann stated that the personnel requisition is being processed. She said that a trustee from the GERS Board has recommended a person. Chairman Storum said that he does not want to have to retrain a person. Trustee Cochran asked if Ms. Tetmeyer will be able to train her replacement while she is here.

Ms. Zimmermann said that because of Ms. Munson's workload she would require additional pay to take on the added workload. Chairman Storum asked when Ms. Zimmermann's anticipates filling the position. She said she is planning to fill it by mid-April.

Ms. Zimmermann notified the Board that she would be on vacation from March 17, 2008 through March 25, 2008.

Re: Legal

United Rentals

Ms. Billings reported that the settlement continues to be negotiated.

Jarden Securities

Ms. Billings reported that the Court has not issued a ruling.

Maxim Integrated Products

Ms. Billings reported that the hearing on the Defendant's Motion to Dismiss was held on February 1, 2008. The Court has yet to issue a ruling.

Fossil, Inc.

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

Tempur-Pedic International, Inc.

Ms. Billings reported that the Defendants' Motion to Dismiss is still pending.

CAPROC, LLC Sale of Crosspointe Plaza

Ms. Billings reported that she has attached the correspondence from Stuart Tompkins stating that the Board has agreed to the settlement, mutual release and buy-out agreements for the sale of Michigan Crosspointe Plaza. The Police and Fire Retirement System received \$685,689.00 from the sale which was wired the latter part of January.

Ms. Billings also reported that the CAPROC Annual Meeting has been tentatively set for April 22, 2008. Ms. Lora Lauer the independent monitor has been notified of this tentative meeting date.

Correspondence Regarding Surviving Spouse/Minor Child Benefit

Ms. Billings explained that the correspondence was prepared regarding the recent benefit inquiry whether a surviving spouse who is receiving a 50% benefit is eligible to receive an additional 10% increase in her monthly benefit as the custodian for a minor child. She received a copy of the Court order which she reviewed. Under the terms of the ordinance a surviving spouse with an unmarried minor child or children under the age of eighteen, the surviving spouse's annuity will increase 10% on account of each such minor child but will not exceed 60% of the final average salary.

The Court order does not rise to adoption, however, the minor child was severely abused and custody was granted to the grandparents. The ordinance does not define children of blood as limited to first or second generation.

She said that the Board had concerns at the last meeting that this could be a provision that could be taken advantage of. She assured the trustees that each set of circumstances would be reviewed on an individual basis. She feels it is appropriate in this case since the grandparents were granted full legal custody.

She recommended that the surviving spouse be extended the 10% benefit for having an unmarried minor grandchild in her care, in accordance with the terms of the Ordinance.

RESOLUTION 08-016 By Lee, Supported by Cochran

Resolved, That the Board approve the 10% increase in the surviving spouse annuity to Sonia Kirkham retroactive to the date of death.

Yeas: 3 – Nays: 0

Correspondence to Retiree Kerry Appolson

For trustee information only.

Smith Domestic Relations Order

Ms. Billings reported that she has reviewed the Smith Domestic Relations Order and it is in compliance and has been forwarded to the Board's actuary for certification.

UBS/AG Securities Class Action

Ms. Billings reported that UBS issued information which inflated the price of its stock. The Retirement System lost over \$114,000.00 during this class period. The Board's Secretary signed the attached retainer and certification in connection with the securities litigation. She requested that the Board ratify the Secretary's signature on the Retainer and Certification Agreements.

RESOLUTION 08-017 By Lee, Supported by Cochran

Resolved, That the Board ratify the Secretary's signature on the securities litigation UBS/AG Securities Class Action Retainer and Certification Agreements.

Yeas: 3 – Nays: 0

Mesirow Financial Institutional Real Estate International Partnership Fund I, L.P.

Ms. Billings reported that she received an amendment to the Mesirow Financial Institution Real Estate Limited Partnership Agreement. The first amendment reduces the number of limited partners from 75% to 51% needed to remove the General Partner. It also reduces the investment advisor fee from 1% on the aggregate capital commitment from the initial closing until the expiration date (seven years) to the initial closing to the end of the commitment period (three years) for invested capital. The amendment also stated that the General Partner will not pay an investment advisor fee on their committed capital.

RESOLUTION 08-018 By Cochran, Supported by Lee

Resolved, That the Board approve to execute the first amendment to the Mesirow Financial Institution Real Estate Limited Partnership Agreement.

Yeas: 3 – Nays: 0

Bernstein Litowitz fourth Quarter 2007 Portfolio Monitoring Report

For trustee information.

Software Services Agreement between the City of Pontiac Retirement Systems and Gabriel, Roeder, Smith & Company

Ms. Billings reported that she has reviewed the GRS Software Services Agreement and made changes. She recommended that there should be separate signature lines for each retirement system. She removed the line that read “In the event of any conflicts between the specifications, terms and conditions indicated by CPRS and those indicated by GRS, the parties agree to submit to binding arbitration. She does not feel that the retirement systems should relinquish their right to file a lawsuit and agree to binding arbitration in the event of a dispute. She also changed the Release of Liability section removing the line that recognized GRS’ liability related to software services being limited to the original price paid for the software.

Chairman Storum questioned whether the software was necessary. Ms. Zimmermann explained that the software is used to calculate estimates, prepare finals and maintains the information for deferred and retired members.

There was discussion about the liability section of the contract. Ms. Zimmermann explained that GRS would be updating the software to comply with the law or when contracts are negotiated. She does not feel there is a significant concern.

Chairman Storum asked if a spreadsheet could be developed to replace the GRS software. Ms. Zimmermann said that a spreadsheet could be used as an estimate calculator but it would not be sufficient for accurately calculating benefits for members or to retain member data. Without the software, valuation data would have to be prepared manually by the Retirement Office.

There was discussion related to looking for other providers that offer similar software and whether it would be cost effective. Ms. Zimmermann stated that she had looked for other vendors in the past but it required a large initial cost outlay of \$100,000.00 and the software which is usually a canned system that required reprogramming to address the specific needs of the system. The price may have come down since her last inquiry.

Chairman Storum said that the system can continue to use the software while exploring other options. Trustee Lee asked if the Board should revisit this issue. Ms. Zimmermann suggested that the issue be moved to unfinished business.

Ms. Billings stated that the City of Monroe is looking for similar software. Ms. Zimmermann stated that 80% of the retirement systems who are members of MAPERS use the software from GRS. She said that there are approximately three vendors who offer this type of software.

RESOLUTION 08-019 By Lee, Supported by Cochran

Resolved, that the Board approve and ratify the Chairman’s signature for the Gabriel, Roeder, Smith and Company Software Services Agreement subject to final legal review.

Yeas: 3 – Nays: 0

Re: Union Representatives - None

NEW BUSINESS

UNFINISHED BUSINESS

Re: Custody of Minor Child – Refer to Legal Report

SCHEDULING OF NEXT MEETING

Regular Meeting on March 27, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

Ms. Zimmermann stated that the agenda will be short for the March 27, 2008 meeting.

ADJOURNMENT

RESOLUTION 08-020 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:17 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 28, 2008.

Raymond Cochran, Secretary
As recorded by Jane Arndt