

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

March 25, 2010

A regular meeting of the Board of Trustees was held on Thursday, February 25, 2010 at the City Council Conference Room, Second Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:57 a.m.

TRUSTEES PRESENT

Mayor, Leon Jukowski
Brian Lee
Matthew Nye
Craig Storum, Chairman

TRUSTEES ABSENT

OTHERS PRESENT

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

CONSENT AGENDA

- A. Minutes of Regular Meeting: February 25, 2010
- B. Communications:
 - 1. Correspondence from American Realty Re: Management Changes
 - 2. Correspondence from Artio Global Re: Fact Sheet January 2010
 - 3. Correspondence from Metropolitan Real Estate Re: Investor Letter March
- C. Conferences:
- D. Financial Reports:
 - 1. Financial Reports – January 2010
 - 2. Securities Lending – February 2010
 - 3. Accounts Payable – February 2010
 - 4. Due to / Due from: \$447.85
 - 5. Capital Calls:
 - a. MFIRE \$150,000.00
- E. Remove from the Rolls:
- F. Application for Service Retirement
- G. Final Benefit Calculation
 - 1. Randall Johnson #2432 \$3,576.24
- H. Application for Refund of Accumulated Contributions:
- I. Request to Withdraw Application for Refund of Accumulated Contributions:

Ms. Zimmermann distributed the Securities Lending Report from Northern Trust and the Due to / Due from Report. She said that they had trouble getting the securities lending report from Northern Trust again this month.

Chairman Storum questioned the wording of Resolution 10-008 from the February 25, 2010 minutes. Ms. Billings suggested that the minutes be pulled from the Consent Agenda for approval.

RESOLUTION 10-019 By Nye, Supported by Lee

Resolved, That the consent agenda be approved without the minutes from the February 25, 2010 meeting.

Yeas: 4 - Nays: 0

Chairman Storum said that Resolution 10-008 should be amended to read as follows:

Resolved, That the Board authorize legal counsel to negotiate a forbearance agreement with JOJU Rimal, LLC with regard to the property located at 1685 Baldwin Avenue, Pontiac, Michigan and authorize the Chairman to approve the agreement.

RESOLUTION 10-020 By Nye, Supported by Lee

Resolved, That Resolution 10-008 included in the minutes of the February 25, 2010 meeting be approved as amended.

Yeas: 4 - Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton

RESOLUTION 10-021 By Lee, Supported by Nye

Resolved, That the Board approve to move to closed session to discuss litigation matters.

Roll Call:

Trustee Jukowski – Yes Trustee Nye - Yes
Trustee Lee – Yes Chairman Storum - Yes

The Board moved to closed session at 10:03 a.m.

The Board returned from closed session at 10:07 a.m.

RESOLUTION 10-020 By Lee, Supported by Nye

Resolved, That the Board approved the closed session minutes from the February 25, 2010 meeting.

Yeas: 4 - Nays: 0

Re: Gray & Company

Mr. Kuhn provided a snapshot of the Fund's performance as of March 19, 2010. The Total Fund value was \$231.2 million. The Fund was recently rebalanced, resulting in the cash account being slightly over-funded to accommodate pending benefit payments and capital calls.

Jim McBride from RMK Timberland will attend the April, 2010 meeting and will provide an update.

Mr. Kuhn informed the Board that Gerald Thunelius from Oppenheimer Capital resigned effective March 19, 2010. He was told that he took that step to provide leverage in negotiating his contract. The associate portfolio managers are currently monitoring the portfolio due to the departure. In order to follow procedure, this manager should be put on watch notice.

Ms. Billings questioned the pending futures contract with Oppenheimer. She indicated that the GERS decided not to proceed with the contract in light of Mr. Thunelius' departure.

Mr. Kuhn said that the Board does not have to approve the contract and that this coincides with the current fixed income search.

Mr. McBride from RMK Timberland will be attending the April, 2010 meeting in conjunction with the hedge fund manager presentations and real estate review.

Chairman Storum said that he thought a special meeting was being held while they are at the Soaring Eagle in May to discuss real estate.

RESOLUTION 10-021 By Lee, Supported by Nye

Resolved, That the Board authorize the Consultant to put fixed income manager Oppenheimer Capital on watch and postpone implementation of the futures contract.

Yeas: 4 – Nays: 0

Ms. Zimmermann asked if the list of fixed income intermediate managers will be reviewed at the April meeting.

Trustee Nye asked what it means when a manager is put on watch. Mr. Kuhn said that this process demonstrates the fiduciary responsibility of the Board. When the lead portfolio manager leaves and the junior portfolio managers take on that role, the Board may not be comfortable in that position. It means that the Board has lost confidence. There is also a good chance that the junior associates will leave.

Ms. Billings asked if they will provide more frequent reporting. Mr. Kuhn said that they are currently providing monthly reporting.

Chairman Storum asked if a notice was received from Mesirow that Tom Landis left. Mr. Kuhn said that Mesirow let Mr. Landis go. Joshua Daitch the portfolio manager was promoted.

Ms. Zimmermann said that she received a memorandum from Mr. Daitch that Tom Landis was no longer with them.

Chairman Storum questioned whether there were any other changes. Mr. Kuhn said that Mesirow relies on Cortland Partners to pitch managers and if Mesirow agrees with Cortland the manager is put into the portfolio. There have not been any changes at Cortland.

Chairman Storum asked if there have been any changes at American Realty Advisors. Mr. Kuhn said they have added staff in order to build up their Chicago Office. Even though American's numbers have been poor they are still in the top half with their peers. Gray & Company likes them a lot. They are a conservative manager with minimal leverage and have been more aggressive in their write downs.

REPORTS

Re: Chairman - None

Re: Secretary

Chairman Storum questioned whether there is a need to designate a Secretary. Ms. Billings said she will look through the Ordinance to determine if the Board is in compliance with or without a secretary.

Chairman Storum said that since Trustee Miller resigned from the Board a Vice Chairman has not been appointed. If there was a Vice Chairman, that person could be available to sign things. He asked if that should be put on the agenda for next month.

Ms. Billings said that she will research the Secretary issue, but according to Robert's Rules the Board can appoint a Vice Chairman at this meeting.

Chairman Storum asked whether Trustee Lee would be available to sign and approve documents. He recommended that Trustee Lee be appointed as Vice Chairman.

Ms. Zimmermann pointed out that the contract person from Plante & Moran will not agree to be a fiduciary which is why the Secretary position is vacant.

Chairman Storum stated that he feels the Board requires a Vice Chairman to run meetings and sign documents in case he is not available.

RESOLUTION 10-022 By Nye, Supported by Jukowski
Resolved, That the Board appoints Trustee Lee as the Vice Chairman of the Board.

Yeas: 4 – Nays: 0

Re: Trustees

Re: Staff

Goode Stable Value

Ms. Zimmermann reported that Goode Investment Management Inc. was listed in Pensions & Investments Magazine as the third best stable value manager in 2009.

Mailing/Postage

A few weeks back the Emergency Financial Manager terminated the part-time mail person and designated that function to the Law Department. Frankly, the Retirement Office has never been charged for the postage that it uses. As part of the disaster recovery plan she has leased a postage machine to address the concern that mail would not be processed as needed. The cost is \$589.00 per quarter plus the cost of postage. There will be an increase in expenses.

Trustee Lee asked if leasing was the best way to go. Ms. Zimmermann told the Board that it was the only option.

Non-Union Ordinance Amendment

Ms. Zimmermann informed the Board that there was an amendment to the Retirement Ordinance for non-union members that states that the value of furlough days will be added to the FAC. This was done to insure that non-union members would not be penalized and be treated similarly to the collective bargaining units.

2010 Retirement Division Budget

Ms. Zimmermann informed the Board that she was given different instruction this year when preparing the budget. She explained that the System reimburses all personnel expenses and pays charges for overhead costs in accordance with the cost allocation from the City.

Medical insurance costs have gone from \$40,000.00 to \$75,000.00 for active employees and from \$30,150.00 to \$44,196.00 for retiree medical insurance. There are some charges on the cost allocation study that are slightly reduced.

Trustee Lee said he felt that the charge for property insurance is quite large.

Ms. Zimmermann said that she wanted to make the Board aware of the increase in budgeted expenses. Active medical went from \$10,050.00 per person to \$18,923.00 per person.

Mayor Jukowski asked if there is back-up for these charges.

Ms. Zimmermann explained that no backup was received. A meeting was held to go over the instructions for the budget where they were told that the medical costs have doubled but they are expected to cut the budget by 10% for those funded by General Fund.

They were also told to budget telephone, property insurance and administration charges for GERS and PFRS at zero and those amounts would be put in by the administration later. No further information was made available.

Chairman Storum said that the System needs to know what it is paying for.

The Board agreed that a FOIA should be submitted to obtain detailed backup for the medical costs.

RESOLUTION 10-023 By Nye, Supported by Lee

Resolved, That the Board authorize the Administrator to submit a FOIA to the City to obtain the back-up for budgeted costs for the Fiscal Year 2010 to 2011 Budget.

Yeas: 4 – Nays: 0

There was discussion regarding the charges for retiree medical costs. Ms. Zimmermann explained that departments have to budget for employees that have retired using the example of Pam Hopkins and Theresa Vasquez. The budgeted costs are for three retirees for the office.

The monies are taken by the City using accounting entries from the specific funds that have money.

Mayor Jukowski said that all the budget allocations are being redone to filter out any mistakes by Geni Giannoti. Ms. Zimmermann stated that the budget packet spelled out the numbers to input. The City wants to insure that all staff is accounted for and that the City is reimbursed for all expenses. There have never been such dramatic increases as these.

There was discussion regarding the obligations of the trust and where the charges were derived.

Chairman Storum commented that moving to Humana from Blue Cross was presented to the City as a cost savings of \$3 million.

Mayor Jukowski confirmed that the City provides the benefits and salaries for the Retirement Staff. Ms. Zimmermann stated that the City also sets the wages of the Staff. In the past it was not an issue.

Mayor Jukowski did not understand why the Retirement Staff are City employees. Ms. Billings said that it is currently required by the Retirement Ordinance.

Chairman Storum said that they have looked at this issue for a number of years. There has always been opposition with the Executive Office and GERS. He does not believe that the Retirement Staff should be under the direct supervision of the Finance Director.

Mayor Jukowski said that he is in favor of City government getting skinnier. Chairman Storum said that it was a control issue with the former Administration.

SAEA Furlough Day Determination

Ms. Zimmermann reported that the Retirement Staff consists of three non-union and one SAEA member, LaJuan Craft. Based on the recently approved SAEA Collective Bargaining Agreement going forward SAEA will not be subjected to furlough days. A couple of weeks ago Ms. Craft agreed to use a vacation day in lieu of coming into the office. However, she cannot continue to use her personal leave days to forego coming into the office. Monica Fontaine the current CFO said that she would be in the office and would let Ms. Craft into the Income Tax Division in order to get into her office. She was told to leave the Income Tax Offices open when she needed to leave our area during the day.

Defined Contribution Plans

Ms. Zimmermann reported for the Board's information that going forward SAEA, Local 2002 and Teamsters 314 members will be put into a defined contribution plan. She does not understand why the City would opt for a DC plan when they are currently not making contributions to the defined benefit plan and may never have to make contributions.

Larry Marshall FOIA

Ms. Zimmermann told the Board that she received a FOIA Request from Larry Marshall for the recent firefighter calculations and backup. Before complying with this request, all personal information was deleted including name, social security number and address. The information was provided to Mr. Marshall this week.

Re: Legal

Northern Trust (Refer to Consultants)

Fossil, Inc.

Ms. Billings reported that limited discovery is being conducted by the parties.

Gildan Activewear, Inc.

Ms. Billings reported that the Court granted the Defendants' Motion to Dismiss. The plaintiff filed a Motion for Reconsideration. We are currently awaiting the Court's ruling.

UBS/AG Securities Class Action

Ms. Billings reported that the hearing on the Defendants' Motion to Dismiss has not been set. They will continue to advise the Board with respect to this matter.

Airgas Securities Litigation

Ms. Billings reported that this securities litigation came up between meetings. It was presented to Chairman Storum; however, he was unable to get into the office to sign the Retainer Agreement. He authorized the Administrator to sign the paperwork on his behalf. She asked that the Board ratify the Administrator's signature on the Retainer Agreement in the matter of the Airgas Securities Litigation.

RESOLUTION 10-023 By Lee, Supported by Nye

Resolved, That the Board ratify the Administrator's signature on the Airgas Securities Litigation Retainer Agreement.

Yeas: 4 – Nays: 0

IRS Application for Determination Letter

Ms. Billings reported that the matter is currently pending with the Internal Revenue Service. She has just started to receive letters for other clients and feels the System's Letter is in process. She expects to receive the request for additional information any day.

JOJU-Rimal LLC

Ms. Billings reported that Stuart Tompkins received a letter from Fred Gordon from JOJU-Rimal stating that they do not have the money for the balloon payment. Mr. Tompkins negotiated a six month extension increasing the interest rate to 9.125%. Before another extension is agreed to the borrower must pay \$100,000.00 toward the principal. Mr. Tompkins said that the agreement should be completed within two weeks.

CAPROC, L.L.C.

Ms. Billings reported that the last payment from CAPROC has been received completing the settlement agreement.

Motley Rice Portfolio Monitoring Agreement

Ms. Billings reported that Motley Rice a securities litigation law firm approached some of the GERS trustees at the Opal Public Funds Conference in January.

They are one of the nation's largest plaintiff litigation law firms. They are located in South Carolina and employ 65 attorneys and 360 support staff. They have a long history of strong litigation.

There is no cost to the System and it is done through the Custodian. It is good to have more than one or two firms and it will help insure that all complaints and litigation are brought to the Board's attention. It is rare that these firms bring the same litigation to the Board. She also indicated that the Courts like to see more than one firm monitoring the portfolio.

She recommended that the Fund enter into a portfolio monitoring agreement with Motley Rice. There is no cost to the System and it is done through the Custodian.

Trustee Nye asked for an explanation of securities litigation monitoring. She reviewed the fiduciary responsibilities of the Board with regard to securities litigation. They are mandated to look for fraud where the System incurs losses. The Board utilizes two of the largest firms Coughlin Stoia and Bernstein Litowitz to monitor the portfolio looking for fraud. When the System incurs significant losses these firms apply for lead plaintiff status. The Court appoints the investor with the most losses as the lead plaintiff. If the System is not appointed lead plaintiff the Retirement System will notify the Custodian to insure that a proof of claim is filed once the litigation is settled.

There is no cost to the System because these firms are paid on a contingency basis with their fees being based on the amount of the settlement agreement. Her firm gets paid by these firms, from their legal fees. All legal fees are approved by the court.

She added that Bernstein Litowitz one of the best firms in securities litigation puts on a very informative conference in the fall.

RESOLUTION 10-024 By Nye, Supported by Jukowski

Resolved, That the Board approve to retain Motley Rice to monitor the portfolio and approve the Chairman to sign the contract.

Yeas: 4 – Nays: 0

Oppenheimer/Merrill Lynch Futures Application

Ms. Billings reported that she reviewed the Agreement and there were no problems. To date there is nothing new to report.

RMK Global Timberland Resources Fund

Ms. Billings indicated that she has not received the new agreement.

Correspondence to Emergency Financial Manager Regarding the Calculation of Retirement Benefits

Ms. Billings referred to correspondence sent to the EFM, Fred Leeb in reference to fire fighter Rick Mathias' pension calculation.

The letter explained that the Board is responsible for correctly calculating retirement benefits and is requesting the information used in the determination of vacation days for the purpose of determining the member's final average compensation.

She has not received a response to date. The Board determined that they would submit a FOIA request for the indicated information.

RESOLUTION 10-025 By Lee, Supported by Nye

Resolved, That the Board authorize the Administrator to submit a FOIA request for the information used to determine the vacation days calculation for fire fighter Rick Mathias.

Yeas: 4 – Nays: 0

Bernstein Litowitz Portfolio Monitoring Report, Fourth Quarter 2009

This report is for the trustees' information.

Coughlin Stoia

- Coughlin Stoia to Get a New Firm Name as Partners Change Roles

Ms. Billings explained that Coughlin Stoia Geller Rudman & Robbins is changing their name to Robbins Geller Rudman & Dowd by the end of March. Nothing has changed and this is customary with partners transitioning, retiring or passing away. There is no change with

regard to the firm's attorneys.

- Coughlin Stoia Portfolio Monitoring Report, Third Quarter 2009

This report explains class action litigation and is for the trustees' information.

The NAPPA Report, February 2010

Ms. Billings explained that she is a member of the National Association of Public Pension Attorneys (NAPPA). The association's February monthly report which is included in the agenda contained the results of a survey of the membership with regard to how much liability insurance each fund carries. She felt this would be of interest to the trustees.

The Detroit News, March 10, 2010 Editorial – Crime and Pensions

Ms. Billings informed the Board that an editorial published in the March 10, 2010 issue of the Detroit News indicated that rising costs of public workers' pension and healthcare benefits are making it more difficult to fight crime in Michigan. The high costs make it difficult to keep police officers on the streets.

The Senate Republicans are proposing to ask voters in August to approve a new law that would require public employees to fund 20% of their healthcare coverage out of pocket.

Re: Union Representatives - None

NEW BUSINESS

Re: Northern Trust Issues

Ms. Zimmermann reported that the Retirement Office has had some operational issues with Northern Trust. She would like to ask for a new client services representative.

Deborah Munson is currently preparing for the audit and found that Northern Trust booked two entries from 2008 into 2009's cash activity. She questioned how they can post entries to the system after the fact; how their reporting can be accurate when the detail does not add up to the balance. She was told that is how their accounting system is setup and that the adjustments were made after the year end.

Chairman Storum asked if the Northern Trust's system lacks controls. Ms. Zimmermann said that Ms. Munson is detail-oriented that she is not happy with them however, changing custodians is difficult. She plans to talk to the client service representative's supervisor.

Re: Loomis Sayles Fee Amendment

Ms. Zimmermann explained that when the current IPS was reviewed by the compliance people at Loomis Sayles they discovered that there was an issue in the old contract that did not contain the current fee schedule language. The language states that if there is a difference in the manager's value and that of the custodian, the invoice will be paid based on the custodian's value. Because

this issue came up between meetings, she signed the amended fee schedule. She requested that the Board ratify her signature.

RESOLUTION 10-026 By Lee, Supported by Nye

Resolved, That the Board ratify the Administrator's signature to amend the contract so billing will be based on custodian values in the event of a difference.

Yeas: 4 – Nays: 0

UNFINISHED BUSINESS

Re: HELPS Letter to Retirees

Ms. Zimmermann referred to the letter she drafted notifying the members that they have the ability as public safety officers based on the Health Care Enhancement for Local Public Safety Officers (HELPS) Act to take a pre-tax deduction up to \$3,000.00 to be used for retiree healthcare or long-term care. The process has not been tested and it would be helpful to find a retiree that is making payments to use for a test of the system.

Chairman Storum said that he believes Matt Wells is currently paying out-of-pocket healthcare costs.

Ms. Billings stated that co-pays may not qualify, as the law requires direct trustee-to-trustee payments. Chairman Storum said that based on the new CBA he believes that Mr. Wells is paying for a portion of his healthcare costs.

Ms. Zimmermann said that before the mass mailing and forms are sent out she would like to test the process.

Re: Disaster Recovery Plan

Ms. Zimmermann said that she met with a systems person regarding off site backup, imaging and to work on an IT solution for the transmission of retiree payroll and both are in process.

Re: Actuarial Software Search

Ms. Zimmermann said that she is looking for an internet-based system where changes to the software can be initiated by the Retirement Office. There are limited vendors with systems accessed through the internet.

Chairman Storum asked if Gabriel, Roeder, Smith & Company has completed the software changes. Ms. Zimmermann said that this responsibility has been delegated to Ms. Craft.

Chairman Storum said that members should not have to wait a year or more for their final benefit calculations. GRS is being paid to update the software and for their services.

Re: Experience Study

Ms. Zimmermann said that before the experience study can begin a resolution needs to be passed stating whether the period of time should include 2009 or end with 2008.

Chairman Storum said to insure that the study gets completed he suggested that the 2009 information not be included in the study. Ms. Zimmermann assured him that the actuary will take the thirty-plus new retirees in 2009 into consideration.

RESOLUTION 10-027 By Lee, Supported by Nye

Resolved, That the Board direct the actuary to use the period ending 2008 to complete the experience study for the System.

Yeas: 4 – Nays: 0

Re: City Cost Allocation Detail

Chairman Storum asked if these costs tie out to the Administrative Costs in the budget. Ms. Zimmermann said that they do not tie out. The costs for Purchasing, Treasurers and Accounts Payable were removed.

Ms. Zimmermann said that she went over the costs with Ms. Munson. The costs are based on our budget and a percentage of the total Administrative costs.

Chairman Storum said that should not pay for the City Attorney.

There was discussion regarding paying for retiree health insurance costs. Trustee Nye was shocked that the Police & Fire Retirement System is paying for the Administration's retiree health insurance. He also thinks that the System is paying a lot of money without knowing what it is for.

Mayor Jukowski explained that it is not unusual for money-making departments to be allocated a portion of the overall expenses. Ms. Zimmermann said that in a municipality the areas that have money typically pay for the areas that do not have money. Essentially, they do a cost allocation study to determine the cost allocations.

Ms. Billings said that under trust law, trust assets must be used exclusively for benefits and for acceptable expenses.

Chairman Storum said that he still feels many of the costs are not justified. He asked if Ms. Munson could be to explain the cost allocations.

Trustee Nye said that the Board needs to have something definitive before making the payment.

Chairman Storum asked if the expenses in the budget are justifiable. Ms. Zimmermann said that some of the expenses in the 2010 Budget cannot be justified.

Mayor Jukowski said that in the past a blanket formula was used to allocate costs across departments. Now, Geni Giannoti is making the changes.

Ms. Munson arrived at 11:35 a.m.

Chairman Storum said that he would like Ms. Munson to explain the Allocated City Costs.

Ms. Munson said that the total budget for the Attorney's Office allocates a percentage to Retirement. Chairman Storum asked about the Administration Retiree Insurance. Ms. Munson explained that non-income administrative functions' retiree healthcare costs are allocated to the money making divisions.

Chairman Storum asked why there are credits for retiree life, dental and optical/hearing in the budget. Ms. Munson said these are credit for Retirement Administration and Building and Use.

Chairman Storum said that the Board is asking that the Attorney charge is removed.

Mayor Jukowski explained that these are the costs associated with running City government. He believes that they are trying to minimize costs.

Ms. Billings said that because the City is funding the Retirement System the System is responsible for funding retiree costs and benefit costs. But the Board needs to make sure that the expenditures are authorized and justified.

Mayor Jukowski said that they are sending separate bills for the necessary services and the breakouts are not what everyone is accustomed to seeing. He did question why the System would pay for attorney costs when they have their own attorney.

Ms. Munson left at 11:48 a.m.

The Board directed Ms. Munson to ask to have the attorney costs removed from the budget.

SCHEDULING OF NEXT MEETING

Chairman Storum said he is not able to make the meeting scheduled for April 22, 2010. He asked if the meeting could be moved.

After discussion, the Board agreed on changing both the Police & Fire VEBA and this System's meeting date to April 28, 2010. The VEBA meeting will be held at 8:30 a.m. and the regular meeting will begin at 9:00 a.m. The hedge fund manager presentations will be held after lunch at 1:00 p.m.

RESOLUTION 10-028 By Lee, Supported by Nye

Resolved, That the Board authorizes the April 22, 2010 meeting to be moved to April 28, 2010 including the Police & Fire VEBA.

Yeas: 4 – Nays: 0

Regular Meeting – Wednesday, April 28, 2010 at 9:00 a.m., Shrine Room, City Hall

ADJOURNMENT

RESOLUTION 10-029 By Jukowski, Supported by Nye
Resolved, That the meeting be adjourned at 11:56 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 March 25, 2010.

As recorded by Jane Arndt