CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

March 26, 2009

A regular meeting of the Board of Trustees was held on Thursday, March 26, 2009 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:39 a.m.

TRUSTEES PRESENT
David Flaisher, Secretary
Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

TRUSTEES ABSENT
Mayor, Clarence Phillips *(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
Dan Durham, Firefighter
Jerry Thunelius, Oppenheimer Capital
Tom Scerbo, Oppenheimer Capital
David Gallagher, Baring Asset Management, Inc.
Robert Brunelle, Hexavest, Inc.
Denis Rivest, Hexavest, Inc.
Gabriel McNerney, Thornburg Investment Management
Christopher Neill, Thornburg Investment Management

CONSENT AGENDA

A. Minutes of Special Joint Meeting: January 15, 2009
B. Minutes of Special Joint Meeting: February 25, 2009
C. Minutes of Regular Meeting: February 26, 2009
D. Communications:
   1. Correspondence from Oppenheimer Capital Re: Downgrade
E. Conferences:
   1. Protecting Shareholder Value – BLBG – October 22-23, 2009
   3. Washington Legislative Update – May 18-20, 2009
F. Financial Reports:
   1. Financial Reports – February 2009
   2. Commission Recapture Report – January 2009
   3. Securities Lending – February 2009
   4. Accounts Payable – March 2009
   5. Securities Lending Deficiency
G. Remove from the Rolls:

1. George Ferguson (deceased 03-14-09): survivor benefit of $1,151.15/mo. to Bertha Ferguson
2. Frederick J. Wirth (deceased 03-11-09): survivor benefit of $1,183.35/mo. to Lily G. Wirth

H. Application for Service Retirement

I. Application for Refund of Accumulated Contributions
Charles Herring, Jr. $25,524.99

J. Final Benefit Calculation

K. Disability Re-Examinations:
Jerri Gray

RESOLUTION 09-020 By Lee, Supported by Miller
Resolved, That the consent agenda be approved.

Yeas: 4 - Nays: 0

Chairman Storum had a question about LJR Recapture. Ms. Zimmermann said that LJR handled a transaction for the system and they seem to be confused about their direction.

Trustee Lee and Ms. Zimmermann asked to attend the Protecting Shareholder Value Conference being held in New York, New York on October 22-23, 2009.

RESOLUTION 09-021 By Miller, Supported by Lee
Resolved, That the Board approve Trustee Lee and Ms. Zimmermann to attend the Protecting Shareholder Value conference with the expense to be paid from the investment income of the Fund.

Yeas: 4 – Nays: 0

CONSULTANTS

Re: Gray & Company
Mr. Kuhn distributed a document containing the current market value of the fund along with documents to aid the trustees during the international equity manager presentations.

Mr. Kuhn reported that the current market value of the fund as of March 23, 2009 is $200.9 million. He said they are looking to reduce the fixed income allocation which is currently overweight. With the flight to quality, treasury yields are 0% to 2% and spreads are continuing to widen on the corporate bond side. It is a good time to add an active manager while the yields are low and inflation is nonexistent. This could help to protect the value of the portfolio in a rising interest rate environment.

He discussed the relative performance of the fixed income allocation versus the actuarial target. He anticipates the benchmark to return 0 to 3% in the next three years, actively managed fixed income portfolios should be able to outperform. They need to attain performance of 7½% for the total fund to meet the actuarial assumed rate of return. . Holding a larger weight in treasuries will not add performance in the anticipated environment. They are looking for viable ways to improve performance from the fixed income allocation.

He indicated that fixed income needs to have more flexibility so they have asked Oppenheimer Capital to present some investment opportunities at today's meeting. He said that they told Oppenheimer they may receive a significant portion of the core fixed income index fund. Ms. Zimmermann asked how much of the index fund would be allocated to Oppenheimer. Mr. Kuhn stated that he and Larry Gray discussed allocating a good portion of the index fund. Ms. Zimmermann questioned why this was not market timing. Mr. Kuhn said this would not be considered market timing because they were not timing an allocation to fixed income, simply shifting between active and passive manager roles.

Trustee Flaisher asked if the reduction of $11 million in fixed income holdings is a measure of market volatility. It was explained that the fund is rebalanced on a regular basis.

<u>CAPROC</u>
Trustee Flaisher asked about the CAPROC investment. Ms. Billings explained that the retirement systems have been working to get out of the investment for the past two years. They have reached a final settlement of $12 million that will be split between the two funds. They are hoping to get the payout as soon as possible.

Ms. Zimmermann indicated that she received an email from Stuart Tompkins stating that CAPROC is asking for a thirty day extension. The current agreement ends on March 31, 2009.

Trustee Flaisher asked if this is part of the real estate asset class and whether the money will be distributed among other asset classes or back into real estate. Mr. Kuhn explained that the system has added other real estate investments and the money will be allocated.

Ms. Billings presented a recap of the CAPROC investment. She said that Mr. Tompkins received an email from Martin Weisman CAPROC's legal counsel asking for a thirty day extension of the standstill to April 30, 2009 in order to finalize the negotiations and drafting of documents including the discharge of the notices of interest. She asked the Board if they felt this request was reasonable.

Ms. Zimmermann left at 9:55 a.m.
Ms. Zimmermann returned at 9:59 a.m.

Chairman Storum further explained the CAPROC investment for Trustee Flaisher.

Ms. Billings indicated that CAPROC would be making distributions from new capital. Joe Capozzoli sent a letter acknowledging that the capital is being provided by Wayne County Retirement System and the Southfield Police and Fire Retirement System per a letter of agreement slated to close on March 31, 2009. Mr. Weisman responded with an email stating that they need additional time to get it done.

Trustee Lee suggested that they extend the standstill to April 23, 2009 the date of the Police & Fire Retirement System regular April meeting. Chairman Storum said he just wants to get the system's money.

RESOLUTION 09-022 By Lee, Supported by Miller
Resolved, That the Board extend the Standstill of the CAPROC Settlement Agreement to April 23, 2009.

Yeas: 4 – Nays: 0

Meeting Break at 10:04 a.m.
Meeting Resumed at 10:08 a.m.

Oppenheimer Capital Fixed Income Discussion
Tom Scerbo greeted the Board and said he has been a Managing Director at Oppenheimer for thirteen years. He stated that Mr. Kuhn contacted them about how tough the current financial markets are and how the system is looking to squeeze out some extra returns. He said that Jerry Thunelius has been with Oppenheimer since 2007 and has produced upper quartile performance.

Mr. Thunelius reviewed their performance versus the index. He said that returns in the bond market will be difficult to attain through 2010 with the economic environment in either a stagflation or inflationary period. He said that the markets have seen a fundamental slowdown with investments in money market funds at an all time high. He said many people are holding cash which is scary especially when interest rates rise and we enter a hyper-inflated market. He said the economy slowdown and layoffs have not been priced into the dollar. He said so much money is being pumped into the market to add liquidity that it will lead to an inflationary market.

He described the core plus sector opportunity sets inside and outside of the benchmark. He explained that the typical fixed income manager invests in treasuries, CMBS, ABS and investment grade credits. He said they would be looking for opportunities outside of the benchmark but would not invest in foreign currency or below investment grade.

He discussed treasury inflation protected securities (TIPS) which is an asset with a real component. He said they are looking at gold and farmland. It is difficult to get certain items on the shelf like Muselix cereal because no one is producing anything. The only cash in the system is being spent on food and necessities. Some think the inflation pop will be a growth period but he disagrees.

He said they do not see the need to invest in high yield securities. They are currently yielding 15% but they feel they can attain roughly 11% returns without a high yield component by utilizing split-rated securities in the portfolio.

The Barclays Capital Aggregate Index has 7% in the BBB-rated credits with split-rated securities representing 37% of the investment grade world with yields of 12%. He said Rubbermaid is a split-rated company but they are not necessarily recommending companies.

Fallen angel securities have fallen into high yield representing 25% of the high yield market. He said a large number of the companies will fail. Only those with cash flow will survive.

Ms. Billings asked if there are limits on the percentage of split-rated securities held in the fund with regard to Public Act 314.

There was discussion on how split-rated securities are rated. Mr. Kuhn explained that a security rated by two rating agencies with one rating the security investment grade and one below, the lower rating is used. If it is rated by three agencies, the rating is determined between the lower two ratings. Mr. Thunelius said they would have more exposure than the benchmark which is currently 20%. He feels comfortable that this will not have any impact.

Ms. Billings said she would verify that the fund would be in compliance. She stated that PA 314 defines investment grade as an investment that is graded in the top 4 major grades (AAA; AA etc.) by 2 national rating agencies. Mr. Kuhn said that the language from Public Act 314 could be incorporated into the Investment Policy Statement. Ms. Billings said she would explore the issue further. She is not aware of any case law pertaining to this matter.

Mr. Thunelius said there are opportunities to invest in government-sponsored initiatives like TALF (Term Asset-Backed Securities Loan Facility). He said that companies have the ability to file with the government to gain access. Ford Motor Company is the first TALF offering.

The program would support the issue of asset-backed securities (ABS) which, in this market, has been all but shut down. ABS would be collateralized by student loans, auto loans, credit card loans and loans guaranteed by the Small Business Administration. ABS could be expanded later to include commercial mortgage-backed securities, non-Agency residential mortgage-backed securities, or other asset classes. TALF exposure would be no more than 5% of the portfolio. He expects to see low double digit returns in this tight market.

Mr. Kuhn asked who can participate in this program. Mr. Thunelius said that currently only first cut hedge funds can participate. No municipality is in the program yet. He explained the investment in detail. The government would take the first loss up to 10%. The investor would be buying secondary issues but there would not be any hedging or leveraging. Ms. Billings asked if this works on the concept of the first investors in have the best returns. Mr. Thunelius said that in this investment the government takes the first loss.

Trustee Flaisher left at 10:23 a.m.

Ms. Zimmermann asked if people would invest and then buy a credit default swap (CDS) as they did before. Mr. Thunelius stated these are non-recourse loans and not like a credit default swap. He said that hedge funds are currently fully invested in treasury bills and are being forced into this market by the tax man. He feels this will be a powerful investment vehicle.

Mr. Thunelius discussed the importance of allowing more flexibility in their guidelines. This can be achieved by allowing them to ease duration limits to two years and ease cash constraints.

He said it is preferable to use futures if the system is not opening up the cash component. He said it also allows for more liquidity with no cash drag. When he was at Dreyfus he was a top user of futures. Futures are an easy and transparent way to go as well as a liquid way to take a position.

He discussed speculating on interest rates. Currently the duration of the benchmark is four years and you could shorten the duration using futures to get to the benchmark. There is no chance of embedded leverage. Cash pays nothing and there is no leverage in the contract. The manager would only use futures as a hedging vehicle. You could have a portfolio with a four year duration and interest rates at a seven year duration. Futures are an easier and cleaner way to shorten the duration in the portfolio while only hedging for downside risk.

Mr. Kuhn stated that you could have a portfolio of bonds you like that are in line with the benchmark. Using futures to shorten the duration in the portfolio would be an inexpensive way to offset the duration.

Trustee Flaisher returned at 10:31 a.m.

Ms. Billings asked what a future is. Mr. Thunelius explained that a future is a contract that is priced on the value of the underlying asset. He discussed futures duration and how they rollover every three months.

Ms. Zimmermann asked how this would affect the risk profile of the fund. Mr. Thunelius said there would be no speculation or leverage. Interest rate risk would also decrease. The portfolio could be maintained with a higher return profile.

Mr. Kuhn asked if the system should expect returns of 2% to 3% or 4% to 5% from the benchmark during the next two to three years. Mr. Thunelius said it would add 120 basis points of performance to the portfolio. Three months treasury bills are currently returning 14 basis points. If you add in the new strategy it could add 1½% to 2% performance. They are not adjusting their strategy to take on new risk.

Mr. Kuhn said that the trustees are concerned about risk and taking on benchmark risk. If they separate the two pieces they should see less risk than the market.

Trustee Flaisher asked if the Board needs to take action today.

Chairman Storum stated that the Investment Policy Statement guidelines would require updating.

RESOLUTION 09-02 By Miller, Supported by Flaisher
Resolved, That the Board approve the redrafting of the Investment Policy Statement guidelines with attorney review in regard to Public Act 314.

Yeas: 4 – Nays: 0

Trustee Flaisher left at 10:45 a.m.

Mr. Kuhn asked what if Mr. Thunelius is wrong about the market and inflation spurs economic growth. Mr. Thunelius said that split-rated securities will be attractive in this market. He thinks things will happen quickly in 2010 and the country will go through a hyper inflation period. They will be at the May meeting. There is no way to tell how quickly the Fed will raise rates.

Mr. Thunelius and Mr. Scerbo left at 10:50 a.m.

International Equity Search
Mr. Kuhn explained that Marathon, a London-based international equity manager, declined the invitation to present their product at the meeting. Ms Billings asked why they declined. Mr. Kuhn said that they raised their minimum investment amount to $20 million.

Baring Asset Management
David Gallagher, Sr. Vice President

Mr. Gallagher said Baring is the manager the Board is looking for if their objective is to invest in a balanced all-weathered portfolio that performs well in all environments. It would be a good fiduciary decision to hire Baring. He will provide a flavor of the context and how they will perform overtime.

He said that they are a global investment management firm that has been in business for forty years. Their main office is based in London. Their current assets under management are $33 billion. They are an independent subsidiary of Mass Mutual. He stated that 40% of their compensation is in Baring stock.

He reviewed their representative client list. He said their current strategy is seven years old and they have been marketing it for the past three years. They recently added the Tennessee and Texas Teachers' Retirement Systems along with the Bay County Retirement System; the Board could contact Michael Rigowski as a reference.

They utilize three tools and a mindset. They have forty investment professionals that interpret and evaluate the portfolio looking for unrecognized growth opportunities. They start with a universe of 2,700 companies and write up 600. The list is reduced to125 companies that become their best idea list.

They manage an all cap strategy consisting of large, mid and small cap. This strategy gives them flexibility to move around. In 2006, small cap was in favor. The past twelve months 700 basis points of performance was added with investments in gold, materials and large cap securities. They utilize both a top down and bottom up strategy. They achieve consistency from having an equal weighting of names in the portfolio creating a flattened stream. They maintain a good balance with no name having 5% to 6%. They have a $12 billion to $15 billion maximum for committed capital for this strategy.

The Focus International Plus Equity strategy includes emerging markets. They feel they have more flexibility with emerging markets. The current allocation is 7% in emerging markets and they anticipate going as high as 12%. This strategy allows for high added valuation and tracking than a core manager.

They are a GARP (Growth At a Reasonable Price) manager and are aware how important it is to buy in at the right time. They look for limit investments to those with 10% discount or 20% premiums to the benchmark. They are just slightly to the right on the EAFE Universe based on valuation and growth.

Mid cap will surprise on the upside over time. He provided the example of De La Rue: a manufacturer of printing presses that print government currency and also supply currency dispensers. He said that countries are printing money like never before. They have been in business since 1911 and have a monopoly in this space with their technology. They see earnings and sector growth going forward. They use multiple valuation metrics and do not solely rely on price to book or price to earnings to find companies that will succeed over time. Their current investment themes are agriculture, gold, materials and energy. They are committed to primary research in local markets.

He reviewed Baring's five-year quarterly return stream. He said that bounce is important to their strategy to out perform the benchmark. During these periods their average quarterly out performance versus the benchmark was 3% and their average quarterly under performance was 1%. They do a good job of protecting on the downside.

He described Baring's portfolio management resources. Their global equity group manages the portfolio using both a bottom up and top down strategy. The global sector teams use a bottom up strategy to find stock ideas. The strategic policy group uses a top down strategy looking for themes to drive the portfolio. The investment board provides the checks and balances and decides which securities are added to the portfolio.

He explained the investment process and implementation. He said that they look at securities and countries. They are good at creating alpha. This strategy has added 300 basis points of performance based on stock selection, 200 basis points in currency and 400 basis points based on market allocation. He said that an overweighting in Japan has moved currency performance back to the benchmark. He said they are not trying to make money on currency bets and are fairly defensive.

He described their stock scoring system. It is based on a rating scale of one to five with a five specifying under performance and a one specifying out performance. If a stock reaches a four or a five it is sold within seven days. Their system engenders accountability, transparency and communication. Nine different languages are spoken throughout the company. They have a good team of analysts. Fifty percent of their compensation is driven by stock scores. This creates a culture that is focused on the end goal.

Research focuses on valuation creation. They have forty people out there meeting with management, researching the organization and analyzing the stocks.

They visit 2,700 companies per year and select the top 600 companies for their best ideas list. Those companies are rated using their stock scoring system. Out of those companies, they look for the "one's and two's". Once the list has been reduced, there is a debate within the organization on how to build the portfolio.

He discussed Baring's macro economic portfolio influences. They manage Europe and Eastern Europe with a top down and bottom up strategy. He said that their Japan and Pacific ex-Japan country sectors behave like emerging markets. Toyota's return stream looks like an individual company and runs in unison with Japan.

Their current drivers are agriculture and gold. They are looking at agriculture on a global basis due to the hotter dryer weather moving further north. Argentina is having the worst draught they have had in fifty years. Since no one can get credit and there will be less water, people are not spending money. They have also invested in a fertilizer operation in this space.

It is important to uncover themes early in their cycle. They feel the real drivers will be telecom, energy and materials. The pullback in gold will protect on the downside. They also feel energy will be back at $100.00 per barrel for oil.

They run new names on Monday mornings. Each company receives a unified score based on Baring's top down, bottom up matrix. Fundamental analysis applies scores based on stock returns using their one to five rating scale. Historical stock return drivers use a regression scenario that determines sensitivity to the market using a top down bias. This determines a weighted score for the company. They only buy companies with output scores of one or two.

Their portfolio construction includes 50 to 65 equally weighted positions. They maintain portfolio growth orientation by keeping price to earnings at 1.20x for the year. They feel growth will perform well coming out of the recessionary environment. They feel confident they have risk controls in place.

He reviewed the current portfolio holdings. He explained if the portfolio weight of a holding moves from 2% to 3% (which is an increase of 50%), it is either reduced or removed from the portfolio.

The up market and down market relative return ratio versus the median for the past five years was presented. He stated that this portfolio has offered good upside and downside capture.

Mr. Kuhn asked what their management fees are for an investment of $10 million. Mr. Gallagher said that their fees would be 80 basis points which include custody.

Chairman Storum asked what benchmark they use to rate their performance. Mr. Gallagher said that they use the EAFE benchmark but they can run a blended benchmark.

Chairman Storum asked what their current exposure to emerging markets is. Mr. Gallagher said their current exposure is approximately 7% and they would go up to a maximum exposure of 12%.

Mr. Kuhn asked about their current country and sector weights in the portfolio. Mr. Gallagher said that they are optimistic in the United Kingdom because they feel companies there are more globally diverse. They tend to be defensive versus opportunistic. They are not a big fan of the United States currently and are bullish on emerging markets. They look more at themes than sectors. They are currently overweight in telecom and insurance-based financials except in Japan. Eight years ago banks in Japan could not loan abroad.

Chairman Storum asked how much is currently in the product. Mr. Gallagher said that currently there is $2.3 billion in committed capital with a top at $10 billion to $15 billion. They have forty analysts dedicated to this product with four global and international portfolio managers that oversee the strategies and sector heads.

Chairman Storum asked if they are more of a traditional manager. Mr. Gallagher said that they can go from value to growth based on the market. They are not typical and have about 70% turnover in the portfolio.

Mr. Gallagher left at 11:34 a.m.

Hexavest, Inc.
Robert Brunnelle, CFA, Sr. Vice President
Denis Rivest, CFA, Chief Operating Officer & Portfolio Manager

Robert Brunnelle made the introductions. He said he knows it is a difficult job sitting on the other side of the table. It is difficult differentiating one manager from the other. They are a unique firm with a distinctive process.

Their firm was founded in 2004 in Montreal. There are six founding principals. They had forty-one clients and $800 million in assets under management at the end of December, 2008. They were able to ring the bell at $1 billion.

They utilize a top down investment philosophy with a country, sector and currency focus. They are also GIPS compliant. Eighty percent of their process is top down relying on their research with twenty percent being bottom up with a stock focus.

They are a small independent firm which is an advantage to their clients because it makes them flexible and accountable. There are fifteen employees in the organization with an average age of forty. There has been no attrition in the team since the international equity product began in 1991. Their long track record in this product demonstrates their talent. They are adding a new member to the team next week. They have managed this product with the current employees for eighteen years.

They have only underperformed the benchmark five years since inception. He explained that they were too early in 2006 and 2007. He referred to a report stating their rational for their defensive bias in early 2006. He said that their clients were concerned that they were so bearish at that time, but were happy when they were rewarded in 2008 when their capital was protected.

They have superior risk metrics with very low volatility versus the benchmark and average returns. In down markets they out perform the benchmark 90% of the time, adding 500 basis points of value. When the market is strong they are the first manager out there outperforming the benchmark 54% and adding 70 basis points of value.

Their investment philosophy is an actively managed core portfolio. He said that there is one certainty; that they will make mistakes. That is why they diversify the portfolio across many types of disciplines. They will get it right in the country, sector or currency.

Our capital preservation philosophy is a value bias-contrarian. We will not tell you that we are running around the world evaluating companies. Their competitive advantage is their top-down approach. A large portion of their macro strategy requires rigorous analysis. They accomplish this with their quantitative models that support their fundamental research which generates ideas.

Their top-down process is 80% of their process with their decisions being based on a 30% region and country allocation, 20% on sector and industry allocation and 30% on currency allocation. The relative importance of their bottom-up decisions at 20% is based on stock selection.

Every top-down decision is based on three pillars; macro-economic environment, valuation (or how much it costs), and sentiment. Their decisions are driven by fundamental research and are validated by proprietary quantitative models. Research has a top down focus.

Examples were given of how their top-down decision process determined their position in Japan and how it affects their country and currency allocations versus the benchmark. Before implementing these positions in the portfolio they use a model with fifty variables to determine market value.

Denis Rivest explained how their top-down process determined their overweight position in materials in Europe versus the benchmark. They look at valuations, sentiment and their own assessments in order to find the best sectors. They then use Barra Software to select stocks based on their ranking and to differentiate and reduce the list of names. They also identify names from the top and bottom deciles not selected by Barra to include in the list. They adjust the portfolio based on their analysis.

Mr. Brunelle described their risk monitoring. Their weightings compared to the MSCI EAFE Index are plus or minus 15% for regions, countries and currencies. Their sector weight is plus or minus 10% versus the benchmark. Their maximum cash constraint is 10% and they were close to that limit in 2006 and 2007.

They are bearish on emerging markets. Their current allocation to emerging markets is 1% to 2% but will be moving toward 10% in 2009. In the past, they were managing emerging markets as a separate asset class.

Their total risk related to active management remains stable. Their tracking error is between 3% and 5% with the benchmark at 10%. The more developed markets have more tracking.

He said that they have a very strict policy for personal trading. They use iBalance pre-trade compliance software that can be customized to the fund's Investment Policy Statement.

He said their management fees for their commingled fund for U.S. investors are 60 basis points on the first $10 million. They would entertain a fee discount for the first client in to the commingled fund.

They have a very stable team and there have been no departures. They continue to grow and are committed to their clients. They feel if they build it they will come.

Their philosophy and process is different than other managers. They diversify to protect against their mistakes. Their focus is much more top-down and macro-related to market issues. They do not control the outcome: they control the process.

Trustee Miller asked about their client turnover rating. Mr. Brunnelle said they have lost two clients. One client left due to the plant closing. The other client changed from a defined benefit to a defined contribution plan. They are quite convincing with their clients which is why they are bearish. Their original three clients are still with the firm.

Mr. Brunnelle and Mr. Rivest left at 12:09 p.m.

Ms. Zimmermann asked that New Business be moved forward because Trustee Miller will have to leave before the conclusion of the meeting.

NEW BUSINESS

Re: Ratification of Capital Calls
Ms. Zimmermann requested that the Board ratify the capital call for the Metropolitan Real Estate investment.

RESOLUTION 09-023 By Miller, Supported by Lee
Resolved, That the Board ratify the capital call for Metropolitan Real Estate for $78,000.00.

Yeas: 3 – Nays: 0

Re: Fiduciary Insurance Renewal
Ms. Zimmermann requested that the Board approve the annual renewal terms for the fiduciary insurance policy. The total annual premium will be $24,490.00.

RESOLUTION 09-024 By Miller, Supported by Lee
Resolved, That the Board approve the annual renewal of the Chubb Municipal Fiduciary Insurance Policy for the amount of $24,490.00.

Yeas: 3 – Nays: 0

Re: Merrill Lynch Bond Litigation
Ms. Billings requested that the Board ratify the Secretary's signature on the Retainer Agreement and Certification.

RESOLUTION 09-025 By Miller, Supported by Lee
Resolved, That the Board ratify Secretary Flaisher's signature on the Merrill Lynch Bond Litigation Retainer Agreement and Certification.
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Yeas: 3 – Nays: 0

Thornburg Investment Management
Christopher Neill, CFA, Co-Director, Portfolio Specialist
Gabriel McNerney, Senior Portfolio Specialist

Mr. Neill said that Thornburg is located in Santa Fe, New Mexico. He said that they were part of a manager search presentation in 2006 for the Police and Fire Retirement System. They have a two-year client relationship with the City of Ann Arbor Employees Retirement System.

Mr. McNerney said he is a senior portfolio specialist with Thornburg. The message is that an active manager provides out performance on a consistent basis.

Thornburg was started in the early 1980's as a bond shop. In 1995 Brill Fries joined Thornburg and started their domestic product. The international product was then started.

Thornburg has thirty-three current employees. The company is employee-owned with the majority being owned by the equity team. As of December 31, 2008 their assets under management were $32 billion with $16 billion in the international equity products. To date, their new inflows for 2009 were $1 billion. They have never lost a client in this strategy.

They have not had any layoffs and none are being considered. They went through a routine SEC examination two months ago; everything was fine. They also have a CEFEX designation, a European designation.

Their competitive strengths are several. As an independent company with no parent company they are able to realize organic growth. They are bottom-up stock pickers; active management. There are fifty to sixty-five stocks in their portfolio. Since inception they have achieved great performance returning on average 500 basis points per year of out performance versus the benchmark.

He reviewed their representative client list. He said that they manage $1 billion in police and fire retirement systems in New York and Ohio.

Their key investment professionals include Bill Fries who arrived in 1995 after working for USAA for the past twenty years. After his arrival he fixed all their portfolio issues. Wendy Trevisani, Co-Portfolio Manager and Managing Director, has been with Thornburg since inception. Lei Wang is also a Co-Portfolio Manager and Managing Director. He joined Thornburg in 2002. In 2006 their investment process was re-structured to require decisions to be unanimous among the co-portfolio managers.

In their global core equity team, everyone does research; they are analysts first. They have an open and collaborative environment. He said that the analysts utilize an extensive application process to make sure the stock fits.

Their investment philosophy is to buy promising companies with sound business fundamentals trading at a discount to their intrinsic value. They manage lots of different styles. They believe in going to where the opportunity presents itself in the market.

Their investment proprietary categories are; basic value, consistent earners, and emerging franchises. This is part of their internal form of diversification. The portfolio weighting is approximately 30% to 50% in basic value, 30% to 50% in consistent earners and 2% to 25% in emerging franchises.

Basic value stocks are those of financially sound companies trading at a discount. These stocks cyclically trade out of favor and have low price to book and price to earnings. Consistent earners are companies with steady earnings and growth selling at attractive valuations and are priced below historical norms. Comcast is one of these companies that are less impacted by cyclical markets. Emerging franchises are value-priced companies in the process of establishing a leading position in a product, service or market. These are more growth-oriented but are not necessarily emerging market investments. They can be in developed markets.

The current weightings in the portfolio are 30% in basic value, 50% in consistent earners, 15% in emerging franchises and 5% in cash.

He reviewed their investment process in the international equity universe. The market cap is greater than $1 billion. Idea generation involves screens, promised growth, cheap book value and keeping track of the world markets they are not invested in. Fundamental research identifies a company's business model, drivers, revenues and cash flow. They also analyze management's role and incentive to deliver. The investment decision includes a one-page analysis paper including a structured business model, the drivers, risk factors and sell discipline. Once these criteria are met, the three co-portfolio managers will meet and reach a decision.

Their process effectively gets the research done. They meet every Monday morning to go over the current positions and pending positions for the portfolio. All of their thirteen professionals travel three months per year doing research. They have a generalist platform that recognizes cultural differences with firms in major money markets. They are bottom-up with flexibility.

Trustee Flaisher returned at 12:28 p.m.

Their risk management is accomplished by keeping the portfolio spread across industries and sectors and by controlling position size. The co-managed structure avoids bad decisions. Their fundamental research helps find the next opportunity, which they are good at. Good stock picking drives their performance. They have a defensive strategy that helps to protect their performance.

Trustee Miller asked why they use a customized index. Mr. Neill said that it makes it harder on them. Mr. Neill said that the EAFE only addresses major overseas developed markets and the ACWI excludes securities of U.S. issuers.

He reviewed their calendar year performance and their rolling three-year strategy. He said they only under-performed in the bull market by 26 basis points versus the benchmark at 27 basis points. They have been consistently ahead of the benchmark. He said that in 2003 they were the only manager to keep up with the market. In 1999 their performance was in the second quartile when they sold out of tech.

They utilize multiple styles but are primarily a core manager with a value tilt. The tilt is currently a little right.

Trustee Flaisher asked if there are any countries they cannot invest in. Mr. Neill said they are not participating in stocks in terrorist countries.

He said their international commingled fund fee schedule is 80 basis points on the first $10 million, 75 basis points on the next $15 million and 70 basis points on the next $75 million. They have restrictions on monthly liquidity.

He and Mr. McNerney would be servicing the account.

Chairman Storum asked if they feel the outlook for the market is positive. Mr. Neill said that it will be meaningful when the credit markets being to heal. Spreads need to come in during 2009; they are too broad based. There are pockets of strength in emerging markets that are resource rich. China is beginning to order more base metals which is a good sign for non-U.S. investors.

Trustee Miller left at 12:37 p.m.

Mr. Kuhn reviewed the manager presentations. He said that Hexavest uses a top-down strategy that looks at country, currency and sector.

Ms. Billings asked if it was a concern that they do not visit companies. Mr. Kuhn said that there are companies that do it both ways. He said that bottom up managers typically do sites visits while top down and quantitative firms generally do not.

Trustee Flaisher asked if Baring's all cap strategy is better. Mr. Kuhn said that it is desirable because of their small cap investments. Thornburg also dips down. Baring and Thornburg are very similar.

Trustee Lee questioned how Baring manages both top-down and bottom-up. Ms. Zimmermann said that they make off-benchmark bets. Mr. Kuhn said that they run a controlled portfolio with an energy theme.

Mr. Kuhn said that when Trustee Miller left he said that he liked Thornburg. It is hard to find the manager that will perform best. Hexavest and Wentworth, Hauser & Violich compliment each other. Hexavest is the most defensive manager. Baring has the deepest resources.

Ms. Billings asked if it would be an advantage to be the first in Hexavest's commingled fund. Mr. Kuhn said it is important to go into a fund with a track record. In commingled fund you want the right liquidity and structure with regard to custody fees and fee schedules. Ms. Zimmermann said it is expensive to have a separate international account and involves a lot of administrative work including the filing of foreign tax reclaims.

Chairman Storum confirmed that Baring is a commingled fund.

Mr. Kuhn said that emerging markets are a big source of alpha especially in Brazil. Thornburg has greater exposure.

Chairman Storum said that Hexavest reminds him of Montag and Caldwell. They always lagged the market with their peer group but protected on the down side. Their performance was always below their peer group and they seem to have a similar track as Hexavest. He said he thought the intention was to pick up alpha in emerging markets. He said his choice is Thornburg.

Mr. Kuhn indicated that the Board would be allocating $8.3 million to $14 million to this investment.

Trustee Lee said that Chairman Storum makes good sense regarding emerging markets. He likes Hexavest's commingled fund and feels the system would receive more attention from them. His choice would be either Thornburg or Hexavest.

Mr. Kuhn asked if the Board's intent is to acquire a strategy with emerging markets. The Thornburg strategy is well-documented. However, recently their emerging market strategy hurt them. Out of the group, Hexavest has the least emerging market exposure.

Baring and Hexavest looked similar with consistency ratings above 55% and their down market captures were over 100%. If the Board is looking for emerging market exposure this is the time to get in.

Thornburg is a smaller group with good resources. Baring has a large number of employees and deep research.

Chairman Storum said that Thornburg is employee-owned versus Baring the large conglomerate. Ms. Billings said that Baring's investment strategy of energy, gold and agriculture seemed to be similar to Wentworth, Hauser & Violich's.

RESOLUTION 09-026 By Lee, Supported by Storum
Resolved, That the Board approve Thornburg Investment Management as an international equity manager pending contract review and approval.

Yeas: 3 – Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees - None

Re: Staff - None

Re: Legal - None

Re: Union Representatives - None

UNFINISHED BUSINESS

Re: Actuarial Software Search – Deferred to the next meeting

Re: Disaster Recovery Plan – Deferred to the next meeting

Re: HELPS Program – Deferred to the next meeting

Re: Disability Service Credit Legal Opinion – Deferred to the next meeting

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PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting on April 23, 2009 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 09-026 By Flaisher, Supported by Lee
Resolved, That the meeting be adjourned at 1:10 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 March 26, 2009.

David Flaisher, Secretary
As recorded by Jane Arndt