

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

March 29, 2007

A regular meeting of the Board of Trustees was held on Thursday, March 29, 2007 at the Lower Level Conference Room, Affinity Group Credit Union, 144 E. Pike Street, Pontiac, MI 48342. The meeting was called to order at 9:08 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Brian Lee

TRUSTEES ABSENT

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

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Andrea Coffey-Stewart, Gray & Company
Stephen Gangnier, PFFU
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: February 21, 2007
- B. Communications:
 - 1. Correspondence from Oppenheimer Re: Gutstein Departure
 - 2. Correspondence from PFRS to City Council Re: HELPS Act
 - 3. Conference Information:
 - a. Various Conferences – IFEBP – various dates
 - b. Institutional Client Conference – Northern Trust – April 18-20, 2007
 - c.. Infrastructure Investment Forum–Institutional Investor – June 27-28, 2007
 - d. Mid-Sized Pension Mgt. Conference – NYU Stern – May 8-11, 2007
 - e. Annual Conference – NCPERS – May 18-24, 2007
 - f. Stars & Stripes – FRA – April 15-17, 2007
 - g. Spring Conference – MAPERS – June 3-5, 2007
 - h. Public Funds Roundtable – III – April 24-27, 2007
 - i. New Dimensions of Retirement Plans – III – Nov 14, 2007
 - j. Employee Benefits Conference – IFEBP – Nov 4-7, 2007
 - k. Washington Legislative Conference – IFEBP – May 21-23, 2007
 - l. Recovering Investor Assets – ii Forum – Oct 11-12, 2007
 - m. Investment Courses – Wharton/IFEBP – various dates
- C. Financial Reports:
 - 1. Financial Reports – Preliminary February 2007
 - 2. Commission Recapture Report – January & February 2007
 - 3. Accounts Payable – March 2007

- D. Remove from the Rolls:
 - 1. Dallas Flesher (deceased 02-25-07)
 - 2. Harvey Dennis (deceased 03-02-07): widow benefit of \$1,399.03/mo to Marvel Dennis
- E. Disability Re-Examination:
 - 1. Mark Hilborn
 - 2. Gary Hutchinson
 - 3. Robert Norberg

Ms. Zimmermann requested to attend the Spring MAPERS Conference, June 3-5, 2007 and the Recovering Investor Assets Conference in New York, October 11-12, 2007.

RESOLUTION 07-016 By Lee, Supported by Cochran
Resolved, That the Board approve Ms. Zimmermann's attendance at the Spring MAPERS Conference June 3-5, 2007 and the Recovering Investor Assets Conference October 11-12, 2007.

Yeas: 3 - Nays: 0

Chairman Storum asked Ms. Stewart the status of the plan to date. Ms. Stewart said that market value is increasing from the decline experienced on February 27, 2007. American Realty has recently closed on three new investments for the Fund.

The large cap growth manager Montag and Caldwell was terminated on February 27, 2007. However, the transfer of funds to Northern Trust was delayed due to the contract for the transition manager which is rarely necessary. Ms. Stewart explained that having to bid out the transition manager added to the delay. Citicorp was awarded the contract which was forwarded to Ms. Billings for review. Once the contract is approved and signed by the Chairman, the funds will be ready to move. She said normally this could have been accomplished by a handshake agreement several weeks ago.

Many of the issues held by Montag & Caldwell are included in the Russell 1000 Growth Index portfolio held with Northern Trust, so they can cherry pick or go in kind when transferring into the index. There are three to six issues that are not held in the fund.

Ms. Stewart conveyed that Julie Moll sends her thanks to the Board for the business.

Ms. Stewart asked that she be added to the mailing list for the commission recapture statements from Lynch, Jones & Ryan.

RESOLUTION 07-016 By Lee, Supported by Cochran
Resolved, that the consent agenda be approved as presented.

Yeas: 3 – Nays; 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton, PC – CAPROC Update

Police & Fire Regular Meeting
March 29, 2007

RESOLUTION 07-017 By Cochran, Supported by Lee
Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

Roll Call:

Trustee Storum- yea Trustee Lee - yea
Trustee Cochran – yea

Moved to Closed Session at 9:17a.m.

Returned From Closed Session at 9:20 a.m.

RESOLUTION 07-018 By , Supported by
Resolved, That the Board of Trustees approve the closed session minutes from the February 21, 2007.

Yeas: 3 – Nays: 0

Re: Gray & Company - Securities Lending Overview

At the Board's request, Ms. Stewart brought a brief overview document on securities lending. Securities lending is a program that lends eligible securities such as U.S. and non-U.S. equities, treasuries and corporate bonds to an approved borrower for an appropriate fee. This increases revenues for the portfolio, does not affect the structure of the portfolio and offsets custody fees.

The custodian negotiates from a list of available securities based on delivery methods, types of collateral and loan rates that are made available to potential borrowers. The cost to borrow is initially collateralized at 102% to 105% more than the value of the security. The custodian bank invests cash and negotiates and rebates part of earnings to fund. Market returns are usually around the T Bill rate. The average quote is 65/35 which is good. The investment payment less the bid average is 20 to 50 basis points for U.S. securities. Global exposure is 50 to 200 basis points. A minimum investment base of \$100 million or more is normally required for lending.

Ms. Stewart discussed the risks of security lending. Borrower credit risk is the potential inability of a borrower to return the loaned securities or the collateral on hand is insufficient to purchase replacement securities. Collateral risk is the decline in the value of the investment or negative spreads in the collateral pool. Operational risk is the direct or indirect loss resulting from the disruption of investment activities. These risks can be mitigated by entering into lending agreements with only highly rated borrowers.

To safeguard against risks the collateralization is set at 102% to 105%. The custodian bank only focuses on the highest quality credit borrowers. There is a separate securities lending collateral portfolio. Trade settlement protection ensures that the securities can be called back when needed. Ms. Billings added that Public Act 314 allows for securities lending as long as the security is collateralized at a minimum of 102%.

Ms. Stewart discussed the truths and misconceptions of securities lending. She said that there is a misconception that anyone can lend. There are rules and regulations based on asset size, investment guidelines and regulations that determine who can lend securities. The liquidity and derivatives market dictate what securities are lendable. A well-structured program will not affect manager decisions. There is some risk in securities lending but it can be minimized by adhering to strict guidelines.

She reviewed the steps in securities lending. Loan initiation is the process where the approved borrower contacts the lender to set the terms of the loan and collateral and fees are set. Collateral is delivered to the lender at fair market value plus an additional margin of 2%. Collateral requirements are verified and the lender delivers the securities to the borrower.

Collateral and entitlement management is the transfer of ownership where the lender retains the economic benefits of ownership. Securities and collateral are revalued and verified daily. A good securities lending program has the ability to manage both assets and liabilities as if it were seamless.

Securities are returned upon termination or expiration of the contract or the recall by the money manager for delivery to complete a sale transaction. They can also be recalled if there is a need to exercise a proxy. Chairman Storum asked if you pull back the securities do you lose the rebate. Ms. Stewart said that the lender does not lose the rebate and that it is based on timing. Securities could be out for sale which could add an extra day to the recall.

Collateral is returned when the lender receives and verifies ownership of the security. It should be noted that the security returned may not be the same exact security number that was originally lent but is an equivalent security. The industry term is substitution.

The lender and agent share revenue that is generated from the fees negotiated for non-cash collateral and the income earned on the investment less the rebate to the borrower. The split is normally 65%/35%.

Ms. Stewart noted that the most common reason to borrow securities is to control the proxy votes. These votes can make a difference for organizations like the Catholic Church and Greenpeace.

Ms. Stewart stated that collateral is evaluated every day. If the system terminates a manager the securities can be called back immediately. Chairman Storum asked that Ms. Stewart walk through the reports when they start. The system was participating in securities lending at Mellon Bank and received a report in their packet.

Chairman Storum commented that it is cheaper for a borrower to borrow securities versus buying them. He asked if the proxy votes were used for takeovers or sales. Ms. Stewart said that they are often used to vote in directors on a board.

Chairman Storum asked what affect the departure of Ben Gutstein will have on the Oppenheimer fixed income team. Ms. Stewart said that they are concerned that he left so soon after the

retirement of Bill McDaniel. Mr. Gray will be meeting with Ms. Guice next time he is in New York.

REPORTS

Re: Chairman

Chairman Storum said that he could not attend the meeting schedule for Thursday, April 26, 2007. He requested that the meeting be rescheduled to Friday, April 27, 2007

RESOLUTION 07-019 By Cochran, Supported by Lee

Resolved, That the Board of Trustees change the date of the April 2007 meeting from April 26 2007 to April 27, 2007.

Yeas: 3 – Nays: 0

Re: Secretary – None

Re: Trustees

1. Real Estate Committee – None

2. Personnel Committee

Chairman Storum recapped the meeting of the joint Personnel Committee. He said that the purpose of the meeting was to review staffing and salary structure and whether it is adequate in comparison to the market.

There was discussion in reference to the City of Detroit lawsuit with a recommendation for the attorney to review. The attorney was directed to supply a legal opinion in order to determine if the issue is applicable before moving forward.

He said they discussed the issue of whether positions within the office should be both union and non-union. There is one position in the office that is currently in the union and due to the possibility that someone could bump into the position given the sensitive nature of the information he does not feel that it should be a union position.

Re: Staff

Citigroup Transition Services Agreement

Citigroup Smith Barney transition contracts for moving monies into the Northern Trust Growth Index were reviewed by Ms. Billings and are ready for the Chairman's signature.

Roy Johnson – Disability Re-examination Appointment

There was a recent issue with Roy Johnson's disability re-examination appointment. The letter sent from the Retirement Office which included the date and time of the appointment was incorrect. Mr. Johnson was unhappy because he had to take time away from his job in order to make the appointment.

Last year when he missed his appointment due to a last minute court appearance he was charged the customary \$100.00 cancellation fee. He feels that he should not have been charged the cancellation fee for last year's appointment and is asking for restitution in lieu of the misstated date and time specified in this year's letter. Ms. Zimmermann suggested he send a letter explaining the missed appointment to the Board. Trustee Lee said court appearances are often scheduled last minute. The staff contacted him to reschedule his appointment for a more convenient time.

Currently, the medical director is only available on Wednesdays at 3:00 p.m. or 4:00 p.m. for appointments at M Works. The rest of the time he works fulltime at General Motors in Toledo. Due to the medical director's limited schedule, it is difficult to find a convenient time to reschedule Mr. Johnson's appointment. Chairman Storum suggested that the Board extend the courtesy of referring Mr. Johnson to a doctor with a more flexible schedule. This has been done in the past for retirees who do not reside in this area.

Discussion followed where Ms. Billings proposed finding a backup medical director. Trustees Cochran and Lee felt that the medical director should extend his availability and that his current hours are too limited. Chairman Storum asked if they should prepare an RFP and conduct a search for a new medical director. Ms. Zimmermann reminded the Board that Dr. Roth has experience with public safety examinations and requirements. Chairman Storum acknowledged that Dr. Roth understands the concerns and requirements of the Police and Fire Board. Ms. Zimmermann was directed to contact Dr. Roth and arrange for him to appear at the next meeting.

Re: Legal

Ferro Corporation Litigation

Ms. Billings spoke with the attorney and they are still waiting for the judge to rule.

United Rentals

Motion pending.

Jarden

Motion pending.

Maxim

The disposition motion is still pending. Ms. Stewart reminded the Board that these shares were held by Montag and Caldwell and that a minimum of ten shares need to be retained throughout the duration of the litigation. The shares are to be transferred from Montag and Caldwell and kept in the cash account.

Fossil, Inc.

Disposition motion pending.

Tempur-Pedic International, Inc.

Ms. Billings reported that a response is being prepared.

Tax Free Distributions to Public Safety Officers

Ms. Billings reviewed the memorandum forwarded to City Council on the HELPS Act. She said that she also forwarded a copy to the Mayor.

Chairman Storum asked if this would require an amendment to the ordinance. Ms. Billings said that it would and that she would add the HELPS Act language to the ordinance cleanup. He asked that a meeting be scheduled with City Council and the attorney to review the ordinance and incorporated language changes. There was a question whether the Mayor needed to be in attendance. It was determined that the Board is a quasi judicial body with the Mayor as a member and that they would be following procedure if they moved forward.

Ms. Zimmermann was asked to coordinate and follow-up on the details of the meeting.

RESOLUTION 07-020 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve to forward the Ordinance to City Council.

Yeas: 3 – Nays: 0

Northern Trust Securities Lending Agreement

Ms. Billings reported that the revised Securities Lending Agreement has been found to be in a legally acceptable format.

Citigroup Transition Services Agreement

Ms. Billings reported that the Transition Services Agreement with changes has been found to be in a legally acceptable format.

Remarriage Penalty

Ms. Billings reviewed the proposed Remarriage Penalty Memorandum of Understanding. She said that this would eliminate the one year notice requirement when nominating a beneficiary and change it to a ninety day notice. She explained that the provision needs to be changed in the Ordinance under Section 7 from “At least one year” and replaced with “No more than 90 days” throughout.

Bernstein Litowitz Institutional Investor Advocate

Informational correspondence for the trustees.

Fiduciary Responsibility for Government Plan Sponsors

Informational correspondence for the trustees.

Ordinance Cleanup

Discussed under Tax Free Distributions to Public Safety Officers – HELPS Act

Fiduciary Liability Insurance

Ms. Billings reviewed the fiduciary liability insurance renewal terms. The coverage is \$2 million with a \$1,000.00 deductible. The total annual premium is \$23,324.00. She said she would forward a copy of the renewal policy to the Board.

Re: Union Representatives

Chairman Storum introduced Stephen Gangnier to the Board. Mr. Gangnier is a union representative for the firefighters and is entertaining the idea of getting involved with the pension system.

NEW BUSINESS

Re: American Realty – Capital Call

Ms. Zimmermann explained that she received a notice of a capital call for \$1 million from American Realty Advisors. The total amount of the plan commitment to the American Stable Value Fund LLC is \$5 million with \$1.5 million previously called. She told the Board that the \$1 million will be transferred from Wentworth.

RESOLUTION 07-021 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the \$1,000,000 draw down on April 2, 2007 to the American Stable Value Real Estate fund.

Yeas: 3 - Nays: 0

Ms. Stewart stated that they met with American Realty and were informed that the remainder of the commitment will be called by the end of the year.

Chairman Storum asked what the target is for real estate. Ms. Stewart asked if she should remove CAPROC from the asset allocation. Ms. Zimmermann said that CAPROC should be removed : she has not yet contacted Beth Bialy from Plante Moran in regarding to the handling of the CAPROC settlement.

Chairman Storum asked if they have looked at other real estate investments since there will be cash coming in next month. There was discussion involving the liability of the mortgages with two to three properties left in regard to the settlement agreement. As cash is received the amount of the liability is reduced and should not be a problem funding the real estate investment. Chairman Storum proposed that they do what needs to be done in order to fund the 8% allocation to real estate.

Ms. Zimmermann stated that there is a lot of transition in the portfolio and the capital call has not been recorded. With CAPROC gone from the portfolio these monies will be rolled into fixed income. The asset allocation will be out of balance with significant target adjustments required. She noted that CAPROC direct investment is separate from CAPROC Mortgage LLC. Ms. Stewart indicated that the rebalancing is done twice a year and was just completed in February, 2007. The next rebalancing is scheduled to occur in August, 2007.

Ms. Stewart also noted that the system can not take out or add monies to the Goode Stable Value Fund. Per government regulations, they have closed the book on defined benefit plans investing in stable value funds.

UNFINISHED BUSINESS

Re: Ordinance Clean-up

Discussed during the Legal report.

Re: Request to Repay Redeposit Over Time – John Wood

Trustee Lee said that he did not have an opportunity to discuss the issue of rolling over repayment from deferred compensation with Officer Wood after the last meeting. The other alternative discussed suggested that the member acquire a loan for a lump sum repayment.

Chairman Storum recommended that the Retirement Office send a letter to the member advising him to use one of the suggested methods of repayment. It should also include the timeframe, contribution amount and applicable interest.

Re: Minor Children Issue - Postpone

Ms. Billings and Ms. Zimmermann will meet to clarify and bring back to the Board at the next meeting.

Re: Actuarial Search

Ms. Stewart asked if the Board would consider firms outside the metropolitan Detroit area. She said that many systems prefer a local firm that would not incur travel expenses when attending meetings and provide easy access. The issue was discussed and determined that most operations are handled electronically and the actuary only attends one meeting annually to present the actuarial report.

Ms. Zimmermann recommended that both the Police and Fire Retirement System and the Police and Fire VEBA bid out the actuarial services. This could provide a potential price break. She also suggested that given the GASB 43 and 45 standards that the RFP should require a healthcare actuary on staff. Chairman Storum also felt that it is important to find a firm that will work well with the Retirement Office and go the extra mile.

Ms. Stewart asked if there were any other requirements that needed to be included in the RFP in addition to the online estimate calculator for members. She confirmed the number of firms at five to seven for review to bring back to the Board. The number of firms would be narrowed to three for Board presentations. She asked that Ms. Zimmermann update the RFP numbers.

SCHEDULING OF NEXT MEETING –Meeting on April 27, 2007 at 9:00 a.m., at the Lions Den, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

Police & Fire Regular Meeting
March 29, 2007

RESOLUTION 07-021 By Cochran, Supported by Lee
Resolved, That the meeting be adjourned at 10:33 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 March 29, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt