

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

April 21, 2008

A regular meeting of the Board of Trustees was held on Thursday, April 21, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:04 a.m.

TRUSTEES PRESENT

Raymond Cochran, Secretary
Brian Lee
Thomas Miller

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Craig Storum, Chairman (*excused*)

OTHERS PRESENT

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

CONSENT AGENDA

- A. Minutes of Regular Meeting: March 27, 2008
- B. Communications:
 - 1. Correspondence from Coughlin, Stoia Re: Jarden
 - 2. Correspondence from Union Services Agency Re: Fiduciary Insurance Policy
 - 3. Correspondence from Wentworth Re: Q1 2008 Market Commentary
 - 4. Correspondence from The Boston Co. Re: Performance Review Letter
 - 5. Correspondence from Oppenheimer Re: Error correction
 - 6. Correspondence from DDJ Capital Re: March 2008 Market Overview
 - 7. Correspondence from PFRS Re: Request to Receive All PAS Forms
 - 8. Correspondence from HR Re: PAS Form Request
 - 9. Conferences:
 - a. DDJ Annual Partners Meeting - DDJ - Sept 8 & 9, 2008
 - b. Program for Advanced Trustee Studies - Harvard - July 22-24, 2005
 - c. Washington Legislative Update - IFEBP - May 19-21, 2008
 - d. PAPERS - IMN - June 4-6, 2008
 - e. Accounting Academy - GFOA - May 5-9 August 18-22, 2008
- C. Financial Reports:
 - 1. Financial Reports - March 2008
 - 2. Commission Recapture Report - February 2008
 - 3. Securities Lending -
 - 4. Accounts Payable - April 2008

D. Application for Service Retirement :

1. Randall Johnson - PFFU #2432

E. Final Pension Calculations

| | | | |
|------------------------|------|------------|--------------------------|
| 1. Gary Hutchinson | PPSA | \$3,517.50 | conversion re-calc |
| 2. James Taylor | PFFU | 2,780.68 | longevity re-calc (edro) |
| 3. Alan R Zsido | PFFU | 4,999.54 | longevity re-calc |
| 4. George Pfifer | PPSA | 3,782.67 | longevity re-calc |
| 5. Jane McLaurin | PPOA | 3,758.25 | longevity re-calc |
| 6. Keith Batchelor | PPSA | 4,428.84 | longevity re-calc |
| 7. John McQueen | PFFU | 3,051.82 | longevity re-calc |
| 8. Norman Lee | PFFU | 3,130.86 | longevity re-calc |
| 9. Brian York | PPSA | 4,942.92 | longevity re-calc |
| 10. Jeffrey Mudge | PFFU | 3,880.66 | longevity re-calc |
| 11. Ronald Kohlman | PPSA | 6,165.70 | longevity re-calc |
| 12. Michael Story | PPSA | 4,781.60 | longevity re-calc |
| 13. Loren Kelley | PFFU | 3,230.45 | longevity re-calc |
| 14. Pashko Ivezaj | PPSA | 4,875.09 | longevity re-calc |
| 15. Ronald Zawlocki | PFFU | 5,610.94 | |
| 16. Lee Snell | PFFU | 4,193.26 | longevity re-calc |
| 17. Gail Wojciechowski | PPSA | 4,510.22 | longevity re-calc |

G. Application for Refund of Accumulated Contributions

1. Sean Oelke - PPOA \$3,983.37
2. Cynthia Tucker - PPOA 6,621.61

Trustee Lee stated that there was a correction needed on page four of the March 27, 2008 meeting minutes under the deferred members healthcare coverage changing the calculation rate from 2% to 2½%.

RESOLUTION 08-028 By Cochran, Supported by Lee
Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

Ms. Zimmermann asked to attend the GFOA Accounting Academy being held in Chicago on August 18-22, 2008. She is wait-listed for the session being held on May 5-9, 2008. This would be beneficial given the number of governmental changes over the past few years.

RESOLUTION 08-029 By Cochran, Supported by Lee
Resolved, That the Board approve Ms. Zimmermann's attendance at the GFOA Accounting Academy with the costs to be paid from the investment earnings of the Fund.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company –Timber Candidates

Mr. Kelsen said that timber has been the topic discussed by the Board including a previous educational session. He said that the current asset allocation to timber would be 2½%. He said they have brought two managers, Forest Investment Associates, L.P. and RMK Timberland Group, for the Board to consider. They can review the information and funds and come back next month or they can bring the managers to the next meeting.

Their screening criteria addressed the type of firm, investment style, leverage, assets under management, staffing expertise, vehicle structure, fee structure and the infrastructure in place to provide accurate reporting.

Forest Investment Associates, LP

Forest Investment Associates, LP is located in Atlanta Georgia and was founded in 1986. They are one of the three first founded (Timber Investment Management Organization) TIMO's. At last count they had 40 employees with a good dispersion of employees and structure to provide adequate services. They are a Registered Investment Advisor and fully SEC compliant. They are 100% employee owned and have just finished a management buyout.

They have good diverse exposure to the timber asset class. They do not focus on a single manager. They are positioned to take on assets from large, distressed timberland sellers like International Paper Company.

They were one of the earliest in the institutional space. This is their third institutional fund. Their Real Estate Transaction Team (RETT) looks at 150 to 250 timberland acquisition deals each year and perform due diligence on 15 to 25 annually. They have a good strong team.

Their employees participate in a company profit sharing program which is based on individual achievement and client returns.

Their research in the timber market, timberland management and the end-user market is good. They are an excellent forester to employ.

Since inception they have \$2.8 billion in assets under management. They are in their third fund with assets slightly under \$1 billion. They manage over 1.9 million acres of timberland in fifteen states.

He reviewed FIA's key employees. President and Chairman of the Investment Committee, L. Michael Kelly came from International Paper where he was responsible for timberland management. Marc Walley a Registered Forester leads the portfolio management team. Michael Hart is an exceptionally talented portfolio manager who is highly thought of by his peers. They are highly regarded as a timber firm but are not big on marketing.

He described the Advisory Council which is a group of uniquely qualified individuals. They are a resource and sounding board for the General Partner including highly touted members Dr.

Michael Clutter, Dean of the Warnell School of Forestry and Scott Wallinger a former senior executive from MeadWestvaco a forest paper company

He discussed the Forest Investment Associates managed properties by state and region. They have a good dispersion across the U.S. with a high concentration in the southeast pine belt and Appalachia.

Annualized returns, pre-fee were 17.4% for the trailing twelve months. These returns are representative of a good core diversified manager.

RMK Timberland Group

RMK Timberland Group is a separate business unit of Regions Morgan Keegan Trust a division of Regions Financial Corporation. They are more of a portfolio investment management firm which was formed at First National Bank of Atlanta that later became Wachovia. They are a fully insured bank/trust firm and not a Registered Investment Advisor. Their parent bank recently merged with AM South and fully absorbed the timber operations.

They have an excellent employee structure with exceptional talent. Their IT and marketing services are performed in-house not outsourced. They are bank employees not owners owning shares in the parent bank. They have seven foresters with an average of eighteen years of experience.

RMK has managed a number of funds since 1981 both separate accounts and commingled. They entered the public investment space early. They buy through direct negotiation rather than through bid sales. Their overall strategy is based on investment return-risk characteristics of individual timberland investment regions and forests within those regions.

Their domestic timberland is located in the southeast, Appalachia and the lower Midwest. Their international timberland investments are in South America in Brazil, Uruguay, Chile and Argentina. These are big timber countries with good legal systems and they are good title countries.

He reviewed their representative client list including public, corporate and foreign funds and foundations.

Summary

He described both as good candidates with proven track records. FIA is employee-owned versus RMK being bank-owned stocks.

FIA and RMK's business models are similar with RMK having deep in-house research capabilities with FIA out-sourcing their research.

FIA's timber sales utilize a sealed-bid and competitive auction process. RMK employs negotiated off-market transactions.

Composite returns for both managers were reviewed. Average returns from 1994 through 2007 were 10.89% for FIA versus 10.53% for RMK. Since inception average returns were 11.02% versus 10.12%. Negative 2001 returns for FIA were a result of a client pulling their account which had significant impact. Overall, RMK has better risk adjusted returns. He said it is difficult to make a return-based decision.

Trustee Miller said he likes that FIA is employee-owned. Mr. Kelsen said this gives the team a lot of incentive for high performance. Trustee Miller also said he likes FIA having an advisory council especially with the dean of a timber school on board. Mr. Kelsen said that he is a second generation dean of the timber school. Trustee Miller added that each key employee has fourteen plus years of timber experience.

Mr. Kelsen said that the FIA Timber Opportunity Partners is a domestic-based fund. They are getting away from massive transactions and moving toward mid-range deals from \$15 million to \$500 million. The majority of their transactions are in the United States in the southeast, Appalachia, the Pacific Northwest and the upper Midwest. They utilize conservation acquisition practices by working with nature conservancies, mitigation banks and established hardwood growth that protect habitats.

RMK has many of the same business interests in the heart of the United States. Their domestic timberland investments are 30% of their portfolio primarily in the southeast. Their global timberland investments represent 70% of their portfolio with 55% to 65% in Latin America, 15% to 20% in central and Eastern Europe and 15% to 20% in southern Africa.

Trustee Lee asked about global timber investments. Mr. Kelsen said he would recommend domestic timberland investments which would lean toward FIA because the financial markets in the United States dominate the consumption market. The Board could decide to take a 50/50 position of both domestic and global timber investments. With global timber investments you could encounter currency fluctuation. Trustee Lee asked if the green movement is global. Mr. Kelsen said that going green is very global.

Mr. Kelsen said that FIA is running a tour outside of Green Bay, Wisconsin in mid-May if the trustees are interested.

Trustee Cochran asked about timberland investments in Canada and in the Amazon in South America. Mr. Kelsen said that in the universe of the 28 timberland managers none are involved in old-growth forest harvesting or compromising native habitats. The SFI (Sustainable Forestry Initiative) oversees and certifies timberland managers to insure land stewardship and the promotion of sustainable forestry.

He said that in Canada timberland and all land borders are owned by the Crown and the timberland is leased. This is not a type of timber investment.

Vice Chairman Miller asked how the Board would like to move forward. Trustee Lee said that it was Chairman Storum's idea and he would like to make sure that he is available to evaluate the managers.

Trustee Cochran asked about the terms. Mr. Kelsen said that a timberland investment is similar to private equity. He said that it is a ten to twelve year investment with an option of an additional two years in order to dispose of the investment in an orderly manner. Based on previous fund cycles and current conditions, it would not be unusual to have 70-80% of capital returned within 8-9 years. This would apply to either manager.

The Board directed Mr. Kelsen to bring the managers to the regular meeting on May 29, 2008.

REPORTS

Re: Chairman – None

Re: Secretary – None

Re: Trustees

Re: Staff

Retirement Coordinator Replacement

She informed the Board that the Retirement Coordinator, Melissa Tetmeyer's last day is April 30, 2008. She is willing to come into work two days per week in order to train her replacement LaJuan Craft. She asked for the Board's input regarding compensation. Trustee Lee asked how long Ms. Tetmeyer would be training her replacement. Ms. Zimmermann said that she would be working two days per week for a month.

RESOLUTION 08-030 By Lee, Supported by Cochran

Resolved, That the Board approve Melissa Tetmeyer working two days per week for one month in order to train the Retirement Coordinator replacement LaJuan Craft.

Yeas: 3 – Nays: 0

Ms. Zimmermann stated that Chairman Storum is concerned about the hiring process used to replace the Retirement Coordinator. She explained that she submitted a personnel requisition because the position is a union position. It was posted and open to the Union for an eligible candidate. Human Resources determined that Ms. Craft was the best candidate and she was assigned to the Retirement Office.

Chairman Storum is concerned because the Retirement Office was not offered the opportunity to interview the candidate which he feels is not a normal hiring process. He suggested that the Board stop funding for the position. He spoke Michelle in Human Resources on Friday asking for documentation of the process and has not received a reply. Ms. Zimmermann said that she is happy to have a replacement and would prefer to give Ms. Craft the opportunity to succeed in the position.

Trustee Cochran asked if the Union looked for an employee in a similar position. Ms. Zimmermann said that she asked for the job specification to be updated requiring a Bachelors

Degree in Accounting or Math. She felt this would insure that the replacement would have the necessary background and skill set needed for the position. Ms. Craft has some college courses but no degree. Human Resources may have substituted experience for education. Trustee Miller said that it may have been a blatant disregard for the qualifications. Ms. Zimmermann explained that Chairman Storum still wants Human Resources to supply documentation of the process.

She said that this is a promotion for Ms. Craft and not part of the bumping process. The probationary period is one year. Trustee Cochran asked if Ms. Craft has any accounting experience. Ms. Zimmermann said that she worked in the Accounts Payable Division of the City for seven years.

New Desk Request

Ms. Zimmermann reported that the desk in the Retirement Accountant's office is in need of replacement. The Board directed Ms. Zimmermann to move forward with the desk purchase.

Oppenheimer Portfolio Turnover

Ms. Zimmermann distributed correspondence from Geoff Mullen of Oppenheimer Capital. This correspondence pertained to the 120% turnover in the Oppenheimer portfolio addressed at the last meeting. Vice Chairman Miller said that he would feel more comfortable if Larry Gray would meet with them and discuss the issue.

Mr. Kelsen stated that currently the fixed income market is disconnected and it is hard to position duration. The high turnover has not harmed the portfolio and they are happy with the returns. Larry Gray met with Oppenheimer last week and will present his report at the next meeting.

Re: Legal

United Rentals

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

Jarden Securities

Ms. Billings reported that the Court has issued its ruling and certified the fund as one of the class representatives.

Maxim Integrated Products

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

Fossil, Inc.

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

Tempur-Pedic International, Inc.

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

UBS/AG Securities Class Action

Ms. Billings reported that the litigation is in the initial stages of discovery.

CAPROC, LLC Sale of One Michigan Avenue

Ms. Billings reported that the signed security agreements for the sale of One Michigan Avenue have been filed on behalf of the Retirement Systems. Copies of the correspondence regarding the security agreements and the promissory note are included in her legal report.

CAPROC Annual Meeting

The CAPROC Annual Meeting was scheduled to be held on April 22, 2008. Lora Lauer would be attending the meeting as a representative of the City of Pontiac General Employees and Police and Fire Retirement Systems. A copy of the agenda has been included in the legal report.

CAPROC Valuations

Ms. Billings referred to the attached copy of the appraisal included in the legal report. If the appraisals are accurate, the net value of the remaining properties two in Florida and one in Farmington Hills, Michigan is \$40 million after payment of the existing mortgages.

She said that Stuart Tompkins feels the Board should authorize inspections of the properties to verify tenant improvements. Vice Chairman Miller asked who would pay for the inspections. Ms. Billings said it would be the responsibility of the system. She said that Stuart Tompkins proposed going along with an expert to inspect tenant improvements.

Trustee Lee asked whether the Board has to give notice to CAPROC regarding the inspections. Ms. Billings said that CAPROC must be notified pursuant to the settlement agreements. Ms. Zimmermann felt that it may be costly to pay for the assessments and questioned whether it would make a difference. Ms. Billings said that if they sell these properties and the improvements cannot be substantiated they could go back to the arbitrator and recoup some of the 40% being withheld for tenant improvements.

Vice Chairman Miller requested to go along with Stuart Tompkins and an expert to the sites to inspect the properties. He said he is very familiar with the Florida properties being involved in the original purchases.

RESOLUTION 08-031 By Cochran, Supported by Lee

Resolved, That the Board approve Vice Chairman Miller if his schedule permits, Stuart Tompkins from Sullivan, Ward, Asher & Patton, P.C. and an expert to complete an inspection of tenant improvements of the CAPROC owned properties in Florida.

Yeas: 3 – Nays: 0

There was discussion whether there is credible backup or receipts from CAPROC documenting the tenant improvements. Ms. Zimmermann said that the backup appears to be a group of forms or purchase orders from the same firm.

Mesirow Financial Institutional Real Estate International Partnership Fund I, Supplement No. 2

Ms. Billings stated that this is a supplement to the Private Placement Memorandum that the trustees recently approved to amend the PPM changing the management fee and number of Limited Partners needed to remove the General Partner.

The supplement updated the assets under management and manager changes to the organization. Ms. Zimmermann forwarded the supplement to Larry Gray on Friday, April 18, 2008. Mr. Kelsen said they did not find any problems with the supplement. It included some organizational tweaks.

Ms. Billings said that the Board has asked her to find out where the Mesirow investment falls under the asset allocation. She reported that it falls under the basket clause because Mesirow specifically states that they are not a registered investment advisor per the Investment Advisors Act of 1940. If they were a bank or insurance company then it would appear that the investment would fall under real estate. Mr. Kelsen confirmed that if Mesirow was an RIA, the investment would fall under the real estate allocation.

Tetra Technologies Inc. Securities Litigation

Ms. Billings reported that the Police and Fire Retirement System lost \$50,000.00 and the General Employees Retirement System lost \$90,000.00 in Tetra Technologies, Inc. These losses occurred because the officers and directors of Tetra Technologies, Inc. issued materially false statements and did not disclose facts that led to a major drop in the price of their common stock. Due to the significant loss Coughlin Stoia is recommending that the Retirement Systems combine their losses and pursue lead plaintiff status.

RESOLUTION 08-032 By Lee, Supported by Cochran

Resolved, That the Board authorize the Secretary to sign the retainer agreement and certification form.

Yeas: 3 – Nays: 0

IFEBP Feature Article – Investing Pension Assets in Alternative Investments

For trustee information

Gackstetter Grievance

Ms. Zimmermann stated that Chairman Storum has asked that the Gackstetter MOU/Cost Study be forwarded to City Council by legal counsel.

Ms. Billings reported that per the Chairman, she reviewed and discussed the Ellsworth issue with David Parrot to determine whether it pertained to the Gackstetter grievance. After her research she found that the Ellsworth issue was not related

Because the Gackstetter MOU was the result of negotiations to resolve a grievance by the collective bargaining unit, the retirement benefit can be granted. Ms. Zimmermann explained that the grievance awarded Ms. Gackstetter phantom wages for pension purposes only.

Ms. Billings said that pursuant to Public Act 728 an actuarial study has to be done in advance of implementation and presented to the Board and Council at least seven days in advance of implementation.

Vice Chairman Miller questioned why the agreement raised her retirement benefit. Ms. Zimmermann stated that instead of paying her for back wages they gave her phantom wages for pension purposes.

Ms. Billings was directed to forward the MOU and cost study to City Council.

Metropolitan Real Estate Partners

Ms. Billings reported that she received a request from Metropolitan to confirm the commitment amount. She confirmed with the consultant that the commitment amount is approximately \$5.2 million and forwarded the information to Metropolitan. A list of the authorized signatures is also needed on the Limited Partner Subscription Agreement.

RESOLUTION 08-033 By Lee, Supported by Cochran
Resolved, That the Board approve the required list of authorized signatures for the Metropolitan Real Estate Partners Subscription Agreement.

Yeas: 3 – Nays: 0

Chubb Public Entity Fiduciary Liability Insurance Binder

Ms. Billings reported that she has attached a copy of the Fiduciary Liability Insurance Binder for the trustee's information.

IFEBC Article Titled Securities Litigation: *Are Fiduciaries Leaving Money on the Table?*

Ms. Billings attached the article as a primer on securities litigation. She stated that the Board is in complying with their fiduciary responsibilities by pursuing securities litigation to protect employee benefit plan assets.

Retiree/Rehire Ordinance

Ms. Billings reported that the City Council has retained Sullivan, Ward, Asher & Patton for an opinion on the recently passed retiree/rehire ordinance. She obtained approval from the Chairmen of both systems to move forward. She cannot discuss this with the Board at this time due to attorney-client privilege.

VEBA Asset Transfers

Ms. Billings reported that she has researched the transfer of assets from the retirement funds to pay for healthcare. She noted that the system assets are protected and cannot be transferred to fund the VEBA. A 401H account per section 420 of the IRS Code can be established to transfer funds from the retirement system in excess of a 120% funded position system.

Both VEBA's have specific language stating that the City has promised healthcare benefits under these plans that are guaranteed under the State of Michigan Constitution. The benefits are also guaranteed as a contract obligation. Trustee Cochran commented that contracts are in place for a

specific period of time. The City can revise contract obligations going forward with new contracts. However, the courts generally recognize two types of language in the contract: general and specific. Because of the specific contract language to protect benefits in the General Employees and Police and Fire Retirement Systems it will be difficult to change the level of benefits. The City has the option to substitute healthcare benefits as long as the benefits are equal or better and the City provides notice.

Trustee Cochran said that because of the deficit the City is looking for mechanisms or cost concessions for healthcare. The annual cost for healthcare benefits is \$15 million to \$16 million. He discussed the expense of healthcare and how it was projected as a percentage of the pension benefit and for most retirees has exceeded the projection.

Ms. Zimmermann said that it is important to look at the union contracts and whether changes could be made because specific coverage language in the contracts may limit the City.

Trustee Lee asked Ms. Billings to provide an opinion on the VEBA transfers.

That concluded Ms. Billing's legal report.

Re: Union Representatives - None

NEW BUSINESS

Re: Retiree/Rehire Ordinance Change

Ms. Zimmermann explained that a resolution regarding retiree rehires was drafted and adopted by City Council. The ordinance states that retiree rehires have ninety days to elect whether they will continue receiving their pension or be paid as an employee for the duration of employment.

The Council wanted to obtain an opinion from a pension attorney to determine whether the ordinance is legal. This ordinance change currently only applies to the General Employees Retirement System, but she suggested that the trustees review the change since similar language may be drafted for PFRS's ordinance.

UNFINISHED BUSINESS

Re: C. Gackstetter MOU / Cost Study – Under Legal

Re: Actuarial Software Search

Ms. Zimmermann said that she would like to table the issue to the next meeting since it was Chairman Storum who requested the research of actuarial software options. She has been exploring alternatives and has ordered a book on pension administrative software. She also stated that BeneSys in Troy, Michigan offers TPA software and she could request a quote. Ms.

Billings asked that Ms. Zimmermann share the information with the City of Monroe who is also looking to acquire actuarial software.

SCHEDULING OF NEXT MEETING

Regular Meeting on May 28, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 08-034 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:34 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 April 21, 2008.

Raymond Cochran, Secretary
As recorded by Jane Arndt