CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
APRIL 27, 2006

A regular meeting of the Board of Trustees was held on Thursday, April 27, 2006 in the Shrine Room on the Main Level of City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:15 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Thomas Miller, Vice Chairman
Brian Lee *(arrived at 9:58 a.m.)*

TRUSTEES ABSENT

Mayor, Clarence Phillips *(absent)*

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Andrea Coffey-Stewart, Gray & Company
Ivory Day, Jr., Gray & Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrator Assistant

CONSENT AGENDA

A. Minutes of Regular Meeting: March 30, 2006
B. Communications:
   1. Correspondence from Loomis Sayles Re: March 2006 Portfolio Appraisal / SAS 70 Report
   2. Correspondence from Morgan Stanley Re: March Portfolio Commentary
   3. Correspondence from PFRS Re: CAPROC 2005 GAAP Financial Statements
   4. Correspondence from CAPROC Re: 2005 GAAP Financial Statements
   5. Conferences:
      a. Recovering Investor Assets – IIF – Oct. 5-6, 2006
      b. CAPPP – IFEBP – Various dates
      c. Mellon Trust University – Mellon – June 19-22, 2006
C. Financial Reports:
   1. Financial Reports – March 2006
   2. Securities Lending Report – February 2006
   3. Commission Recapture – March 2006
   4. Accounts Payable – April 2006
D. Remove from the Rolls:
   1. Gerald Mielke (deceased 04-13-06) : survivor benefit of $1,433.35/mo to Barbara Mielke
E. Final Pension Calculations:

1. Willie Payne	#2318	$6,284.32

F. Refund of Accumulated Contributions:
   1. Michael Miller – PPOA $2,235.52
G. Disability Re-Examinations:
   1. Mark Hilborn - continued
   2. Roy Johnson - continued
   3. Robert Norberg – continued

Trustee Storum noticed two errors when reviewing the minutes. On page 4 he stated that the word international was missing from the statement "not capitalizing on the small cap **international** investment." He also pointed out that on page 5 there was a section missing which referred to Dominic Caldecott's retirement from Morgan Stanley.

RESOLUTION 06-026 By Cochran, Supported by Lee
Resolved, That the items of the consent agenda for April 27, 2006, be approved as amended.

Yeas: 3 - Nays: 0

REPORTS

Re: Chairman – None

Secretary – None

Re: Trustees - None

1. **Real Estate Committee** – None
2. **Personnel Committee** – None

Re: Staff

Disability Re-Exam - Wedge
Ms. Zimmermann distributed a copy of the Medical Director's report of disability re-examination for Scott Wedge for the Board's review.

RESOLUTION 06-027 By Miller, Supported by Storum
Resolved, That the Board concurs with the Medical Director's determination that Scott Wedge continues to be disabled and that his pension be continued.

Yeas: 3 – Nays: 0

Disability Re-Exam - Martinez
Ms. Zimmermann indicated that she contacted Dr. Roth's office and he provided her with a list of certified occupational therapy physicians in Puerto Rico. She distributed a copy of the list of recommended physicians. She asked the Board for direction. Trustee Storum asked which physician was closest to Ms. Martinez. Ms. Zimmermann replied that she did not have that

information. Trustee Storum recommended that the list be provided to Ms. Martinez and that she be allowed to choose a physician from the list to complete her re-examination.

Travel Policy
Ms. Zimmermann told the Board that the travel policy was amended last month to clarify the $75.00 receipt requirement for hotel, flights, etc. Ms. Billings pointed out that the Trustees are required to get every receipt available. Ms. Zimmermann explained that the policy did not provide for a travel advance.

RESOLUTION 06-028 By Storum, Supported by Miller
Resolved, That legal counsel be directed to amend the Travel Policy to permit an advance of $50.00 per day.

Yeas: 4 - Nays: 0

Re: Legal

Ferro Corporation Litigation
Complaint amended May, 2006.

United Rentals Inc. Securities Class Action Litgation
Ms. Billings reported that this case is still in the discovery phase of litigation.

Jarden Securities Class Action
Ms. Billings informed the Board that a complaint was filed in the Fifth US District Court , Southern District of New York against Jarden Securities. The Complaint alleges that they violated the federal securities laws in connection with a scheme to convert hundreds of millions of dollars of convertible stock to common stock, and earn tens of millions of dollars in restricted stock compensation. During the class period the Police and Fire Retirement System lost $42,000.00. She stated that generally the lead plaintiff status will be awarded to the plaintiff who incurred the most losses. She told the Board that pursuant to trustee policy the retainer agreement had been previously signed by the Secretary of the Board (J. Edward Hannan) and is being presented for ratification.

RESOLUTION 06-029 By Miller, Supported by Cochran
Resolved, That the Board of Trustees ratify the Retainer Agreement with Lerach Coughlin to pursue legal action in reference to the Jarden Securities Class Action.

Yeas: 3 - Nays: 0

Mellon Performance Measurement and Analytical Services Agreement
Ms. Billings reported to the Board that Mellon accepted most of the suggested contract language changes. However, they were unwilling to remove the word “gross” from section 5.4 from the limitation of liability section of the contract referring to negligence. She also conveyed to the Board that one local custodian’s services include no separate contracts or cost unlike Mellon who is charging $6,000.00 for the service.

Ms. Zimmermann commented that Mellon requires a lot of documentation for compliance purposes and sometimes seems inefficient. The auditors are currently on site and the necessary GASB 40 data cannot currently be provided. The data is needed to obtain an un-qualified audit opinion. She said that a manual sort can be performed to obtain the data but that it would be very time consuming. She stated that the Board has a policy to conduct periodic reviews of outside service providers and suggested it may be time to interview other vendors for custodial services.

Trustee Cochran asked about the specific problem. Ms. Zimmermann said that GASB 40 requires detailed reporting on the quality of all securities within the portfolio. Without access to this program at Mellon, each individual manager would have to be contacted at year-end to provide detailed information to maintain an unqualified opinion on the financial statements. Trustee Miller suggested that the Board sign the agreement, download the needed data and review the custody arrangements. Trustee Storum suggested the Board consider a full RFP.

RESOLUTION 06-030 By Cochran, Supported by Miller
Resolved, That the Board of Trustees approve the Mellon Analytical Services Agreement as amended to provide the necessary GASB 40 reporting capability and further

Resolved, that the consultant develop an RFP for custodial services.

Yeas: 3 - Nays: 0

<u>American Realty Advisors</u>
Ms. Billings reported to the Board that American Realty Advisors verbally agreed to be a fiduciary through a side agreement.

Ms. Billings also discussed her memorandum to the Board dated April 26, 2006. She stated that the manager has control over the valuation of the real estate. She also said that there is no priority or time limit for the manager to redeem an investor's shares in the investment. She explained that the agreement can be amended by a 2/3 vote of the members. She told the Board that manager compensation is based on net asset value and that the manager has control over the net asset value. She stated that all litigation and arbitration would be held in California and under California law.

Trustee Storum asked how long American Realty Advisors has been in business. Mr. Day replied at least fifteen years and that he had a good working relationship with American Realty. He stated that they were responsive to Taft-Hartley Funds and are compliant with the industry standards. He also said that the provisions of the agreement are typical in the real estate arena. He commented that investments and redemptions are done once per quarter. He stated that if the net inflows/redemptions don't match, they will payout as much as they can in a quarter and then queue for next quarter and continue payout. He added that the funds are managed for those who want to stay in.

Trustee Lee arrived at 9:58 a.m.

Trustee Cochran asked if it is normal for managers to have so much latitude to disagree with a valuation. Mr. Day explained that they select an appraiser but are under no obligation to accept the appraisal. He said that you can look at the appraised value and at the sale price. If the appraised values are too high it will show up in the data. In the early 1990's the consultants were aware of these issues and they're not common with prominent firms. Ms. Stewart remarked that American Stable Value Fund is a national and reputable fund. She also pointed out that Guggenheim had included them in their portfolio. Trustee Cochran commented that Charles Keating was considered a reputable banker. Mr. Day replied that there is always a risk factor and that the fund allocation in real estate is small.

Trustee Storum asked if there was any history of lawsuits. Mr. Day answered that they were screened by the consultant and they would not have recommended them if there had been. He also said that you have to trust the asset class and invest to stay in; not to get out. He told the Board that when the market is down it is hard to withdraw funds because everyone wants out, but managers have limited cash and don't want to sell assets. But when the market is up it is easy to withdraw funds.

RESOLUTION 06-031 By Miller, Supported by Cochran
Resolved, That the Board of Trustees approve and sign adoption and side agreement with American Realty Advisors as amended, provided the side agreement is acceptable to legal counsel.

Yeas: 4 - Nays: 0

Michigan Court of Appeals Decision
Ms. Billing referred to Exhibit D which was a Michigan Court of Appeals Decision holding that the Board of Trustees for public retirement systems have the authority to determine the annual plan contributions, which include the annual amortization period and other actuarial assumptions.

Lerach Coughlin Portfolio Monitoring
Ms. Billings explained that Lerach Coughlin monitors the Retirement System's portfolio and advises the board of pending settlements that the Retirement System may be entitled to participate in. In addition, they monitor allegations of fraud and make recommendations concerning seeking lead plaintiff status.

Re: Union Representatitves - None

CONSULTANTS

Re: Gray & Company – Munder Article Pension & Investment Magazine (4/17/06)
Ms. Stewart said that they feel the article is based on rumor and has not been verified by anyone at Comerica or Munder. Ms. Zimmermann said she spoke with Ms. Hopkins at Munder who indicated that it was only a rumor. Ms. Stewart pointed out that Munder is Comerica's cash cow. She noted that Munder expressed that they do not comment on rumors and cannot speak on behalf of Comerica. However, she did confirm that everyone at Munder received a one year

bonus to stay after Enrique Chang's departure. She also commented that an employee buyout of Munder from Comerica would be a great thing that would increase motivation. She said that with Munder's employee position at 5% a buyout is unlikely to occur. She concluded by reminding the Board that they will be meeting with Munder at the May Manager's Meeting.

Meeting Break at 10:15 a.m.

Re: Gray & Company – High Yield Manager Search
Ms. Stewart introduced Ivory Day, Jr., Senior Consultant for Gray & Company from their Chicago Office. She stated that Mr. Day has been in the business for thirty years and has been with Gray & Company for the past three years. He started in 1971 at A.G. Becker a pioneer in the pension consulting business and continued with SEI who bought the funds evaluation group of A.G. Becker in 1983. In 1986 he joined Prudential as Director of Marketing for all investment products He later joined Marco Consulting Group where he worked for twelve years as Vice President and Senior Consultant. She commented that Mr. Day currently provides services in the areas of asset allocation, manager research performance universe development, special projects and education. He is also responsible for the Police & Fire asset allocation.

Ms. Stewart gave a brief overview of the high yield manager search. She reminded the Board that their current manager is not a true high yield manager and they are unable to purchase below an investment grade bond.

Re: DDJ Capital Management – 10:45 a.m.
Michael A. Forrester, Chief Operating Officer
John S. Ehlinger, Asst. Portfolio Manager and Senior Research Analyst

Michael Forrester introduced himself and John Ehlinger to the Board. DDJ Capital Management was founded in 1996 by a group of senior investment professionals who left Fidelity to begin their own management company. DDJ currently has $2.8 billion assets under management for eighty-two institutional clients. He told the Board that DDJ has an experienced portfolio management team that specializes in high yield bond and distressed debt investments.

Mr. Forrester reviewed the organizational structure by telling the Board that there are sixteen members on the investment team. Each senior research analyst is responsible for two to four industry sectors. DDJ has a three-person legal team on staff with the two attorneys having significant experience in the high yield market which he feels gives DDJ a considerable advantage.

Mr. Forrester discussed DDJ's investment strategy and focus. He told the Board that the majority of DDJ's assets under management ($1.9 billion) are invested in high yield bond funds with a small portion of capital allocated to distressed debt.

Mr. Forrester reviewed the representative client list with the Board pointing out the University of Michigan and General Motors as local clients and the City of Houston as a similar public fund client. He also told the Board that DDJ has never lost a high yield client.

Mr. Ehlinger discussed DDJ's investment philosophy; they stick to their process with no style drift. He said that they use bottom-up research analysis and focus their strategy on identifying small and mid-cap companies that are diamonds in the rough. He commented that it takes extensive due diligence and analytical research to find overall value that is under-priced. He told the Board that they meet daily to monitor the portfolios to ensure that they reach their objective. They also apply ongoing compliance and risk controls to assure that the assets are secure. The framework of their process has resulted in DDJ continually outperforming the high yield market.

Mr. Ehlinger explained DDJ's fundamental research and analysis portion of the process. He said that the investment team looks at asset coverage which enables them to better speculate in the high yield space and allows for critical downside capital preservation. They use bank line availability to determine what it is worth and to determine if liquidity is there to pay their debt. They look at cash flow to verify if the company can pay its coupon. The relative value portion of the process helps them to find the best bond for long-term performance.

Mr. Ehlinger said that due diligence is important and you need to establish a repeatable process. He said that you have to continually conduct detailed interviews with management, customers, suppliers and competitors both in the office and on-site. He stressed that it is imperative to never short cut the work. Their legal team is experienced in bond indentures and legal structure issues which protects the client. Open office communications provide a constant flow of information and discussions regarding current and potential investments.

Mr. Ehlinger stated that DDJ looks at 1,000 to 1,500 companies in the high yield universe during their portfolio construction process. By utilizing their process they reduce the number to 150-200 recommended companies. They are then put through manager review and the number of eligible companies is narrowed to sixty or eighty.

Mr. Ehlinger explained the portfolio management process discussing the buy/sell/swap list, DDJ's sell discipline and the reporting and monitoring function. He said that by applying these disciplines to your portfolio on a daily basis, you will only buy or take profits when prudent.

Mr. Ehlinger went over the robust set of compliance procedures used by DDJ. He said that compliance is the framework and checks and balances of their process. He told the Board that DDJ has been a SEC Registered Investment Advisor since 1997. He said that no investment should make it to the portfolio without being compliant with DDJ's guidelines and restrictions.

Mr. Ehlinger talked about the diversification, turnover and portfolio characteristics. The average position is 1.5% with a maximum of 5%. He discussed their buy-and-hold (versus trading) turnover rate of 60% to 80% per year. He said that you don't make money in high yield if you flip.

Mr. Ehlinger told the Board that their performance looks good on an absolute and relative basis. He said that DDJ is proud of their performance. He also referred to DDJ as a highly focused high yield bond boutique with expertise in distressed debt. He said that they have consistently performed in the top percentile for the one-year, three-year, five-year and seven-year returns.

Mr. Ehlinger commented on their concentrated portfolio. Trustee Miller asked about the number of investment managers and analysts assigned to the portfolio. He also asked about the number of bonds. Mr. Forrester replied that they have sixteen investment managers and have recently added two analysts. He also commented that there are 60 to 80 high yield bonds in the portfolio. He said that 60 to 80 bonds can be managed effectively.

Trustee Storum asked if all clients have the same bonds. Mr. Ehlinger replied yes. Trustee Storum also asked about DDJ's sell discipline. Mr. Ehlinger responded that they use two criteria. They look at industry specific credit events that create changes or impacts. The second sell discipline is yield when it is too low (6%) it makes its way to the swap list. He said that it is important to take profits.

Trustee Miller asked about the maximum sector investment at 25%. Mr. Ehlinger said that the sector weight is rarely more then 15% in one industry, however, it does depend on how you categorize a sector.

Trustee Storum asked about the numbers that were below the benchmark. Mr. Forrester explained that they had a small exposure in GM and Ford along with some unforeseen market conditions in January and February. He said that by March they were coming back and that in April they are above the benchmark.

Ms. Billings asked how flexible they are with their contract terms with specific regards to Michigan PA314. Mr. Forrester responded that they have never had any contractual problems.

Trustee Miller asked if the founders are still with the firm and what type of turnover they experience. Mr. Forrester replied that the founders **D**avid Breazzano, **D**avid Goolgasian and **J**udy Mencher are still with the firm and that Wendy S. Clayton is the original General Counsel. He also said that the senior investment team has been together for a long time.

Ms. Stewart asked how often they conduct onsite visits with the names in the portfolio. Mr. Ehlinger said that they generally conduct an onsite once per year. He did say that they normally speak with management teams once per quarter and with some more frequently. He also said that they always try to do an onsite before making an investment.

Trustee Miller asked about their research. Mr. Ehlinger told him that it is all internal, working primarily in small and mid-cap issues along with smaller issues that Wall Street doesn't follow.

Trustee Storum asked about the fee schedule. Ms. Stewart asked if there were break points. Mr. Forrester told the Board that the fee on a commingled fund is 65 basis points and on a separate account it is 75 basis points. Trustee Miller asked about performance based fees. Mr. Forrester acknowledged that they do have performance based fees on separate accounts that are not in the pool.

Mr. Day asked about DDJ's credit quality range of B-. Mr. Ehlinger said that they don't track ratings and don't feel that they're accurate. He did say that the majority of their holdings are in the B+ to CCC+ range and that they occasionally buy upper quality or non-rated as a residual factor, not a target. Mr. Day also asked what the most appropriate index is. Mr. Forrester said that they use the ML HY or the CSFB.

Mr. Forrester and Mr. Ehlinger left at 11:20 a.m.

Re: Delaware Investments – 11:25 a.m.
Timothy L. Rabe, CFA – Sr. Vice President, High Yield Investments, Sr. Portfolio Mgr.
Daniel J. Perullo, CFA – Sr. Vice President, Director Institutional Sales

Mr. Perullo began Delaware's presentation introducing himself and Timothy Rabe. He gave a brief overview of the firm; Delaware was established in 1929. He said that as of 12/31/05 they have $8 million in public fund accounts.

Mr. Perullo went over Delaware's representative client list and pointed out the fixed income client names in bold. He said that $1.9 billion is currently invested in high yield across twenty-three accounts. He told the Board that all fixed income works off the same research platform. He added that fixed income has outperformed the benchmark by twenty basis points.

Mr. Rabe discussed the fixed income team and depth of resources at Delaware. He said that as part of the team your career path is that of a researcher, trader or portfolio manager. This allows for three sets of eyes on all investments. They do not use the star approach; everyone has equal compensation. An open opinion format allows for more interaction which results in good investments.

He told the Board that their portfolio looks and acts like a high yield marketplace with a majority of security selections across the index. He added that a small position of the portfolio is invested in CCC and distressed issues.

Mr. Rabe described Delaware's investment philosophy. He said they use a bottom-up process which is driven by the security selection not the sector. Their current yield is 75 basis points over the market with 80 basis points of risk. They don't randomly take risk, they look at the individual coupons that they know best.

Mr. Rabe talked about Delaware's fixed income process which allows for an open-idea environment that continues to evolve. The focus of their process is financial statement analysis, management review, industry trends, capital structure and contract analysis. He also said that Delaware schedules a credit detail meeting at 2:00 p.m. each day with the four team leaders, and senior analysts. Two experts are assigned to each sector which promotes diverse sector coverage, independent research, varied opinions and ideas based on individual expertise. He stated that at the end of each meeting they look at look at yield and less on investment ranking.

Next, Mr. Rabe described Delaware's portfolio construction and sector selections. He said that core holdings at 50% to 70% which are held for a long period; represent the majority of their portfolio. Expected ratings upgrades represent 10% to 30% of their normal portfolio. He stated that their 10% to 30% average weighting in undervalued bonds tend to generate a lot of alpha in specific business niches. He pointed out that they stay away from problems in the marketplace by avoiding bonds in the opportunistic category that have a tendency to be new issues that need to be sold quickly. He told the Board that their normal portfolio holds approximately 150 specific credits.

Mr. Rabe stated that the current credit quality of their portfolio is 16.4% invested in CCC rated bonds. He said that they don't try to manage to credit ratings they manage to the yield in the portfolio. He stated that they have been as high as18% and as low as 7%.

Ms. Stewart asked about their sell discipline. Mr. Rabe answered that if fundamental changes are recognized the analyst has the ability to move quickly. That's where traders add value. He noted that when the relative value hits the value target they will sell. When there are changes in yield the credit will be swapped.

Trustee Lee asked whether the fixed income team is dedicated or is it something they do. Mr. Rabe responded that the team is dedicated by sector. He said that they look at investment grade, and non-investment grade and they feel there's value in that because investment grade companies report before high yield, low grade companies or crossovers in earnings season. Trustee Lee also asked about the maximum position. Mr. Rabe said that diversification is different for high yield that you look at the maximum position to industry or sector. Their current sector position is 3% with a maximum of 5%.

Ms. Billings asked about changes in their 2005 fourth quarter performance. Mr. Rabe replied that they had invested a cash flow distribution in a mutual fund that they withdrew a week later. He also commented on 2001 returns when they over weighted in telecom. He said that they changed the process to limit sector bets.

Ms. Billings also asked about flexibility in contract terms. Mr. Perullo commented that Delaware is a pool trust regulated by the SEC. He said that it is a forty account vehicle pool institutional mutual fund. She asked about indemnification in contract. He said that they have never experienced any indemnification problems.

Mr. Day asked about which benchmark is used. Mr. Rabe said that they use the Merrill Lynch High Yield or Citi. He said that the Bear Stearns is more of a constrained index.

Mr. Perullo and Mr. Rabe left at 11:54 a.m.

Re: Penn Capital Management – 12:00 p.m.
Martin A. Smith, Senior Portfolio Manager & Principal
Anthony F. DeVicaris, Vice President & Principal

Mr. DeVicaris began the presentation by introducing himself and Mr. Smith to the Board. He said that Martin Smith joined Penn Capital in July, 1999. Prior to joining Penn he was a research analyst with Cantone Research, Inc. He also commented that Mr. Smith received his MBA from Rutgers University.

Mr. DeVicaris described Penn Capital Management as being an opportunistic high yield portfolio. He said that they have a strong alignment with their clients and are 100% employee owned. He also referred to the employee performance incentive compensation being a rolling three year with a 50% payout in year one, a 25% payout in year two and a 25% payout in year three. He added that 75% of their compensation is invested along with their clients.

Mr. DeVicaris stated that they use one team to manage all investment styles. He told the Board that they bring in lunch and hold daily investment committee meetings. They use a proprietary real-time database to perform independent and intensive research. They hold quarterly company management meetings led by the Director of Research.

Mr. DeVicaris went over the client list pointing out the number of public fund clients that included the City of Detroit Police & Fire Retirement System. He said that they will be adding investment capital within the next two months. He told the Board that they currently have $550 million in high yield assets under management with $250 million invested in the high yield opportunistic portfolio.

Mr. DeVicaris reviewed the organizational chart stating that it is a flat organizational structure. He stated that there is a primary and secondary analyst for each sector. Mr. DeVicaris gave an overview of the opportunistic high yield fixed income portfolio. He said that there are 90 to 130 various companies across the full high yield market.

Mr. Smith described Penn Capital's seven-step process to identifying capital. He stated that they use a bottom-up approach versus a macro overlook. He also said that they are willing to take risks with credits looking to improve opportunities. He noted the steps as:

#1 – Economic Outlook
#2 – Spread to Treasury Screen
#3 – Improving Metrics
#4 – Liquidity Outlook
#5 – Qualitative Research
#6 – Recommendation
#7 – Portfolio Construction

Mr. Smith discussed the maintenance research process which included daily investment committee meetings, mandatory minimum requirements and Penn's sell discipline.

He described the size structure of the opportunistic high yield fixed income product and how it affects liquidity, ensures ability to move in and out of positions and allows clients to participate in the entire high yield universe. He said that they set conservative capital constraints over 75% of high yield issuances. Those issuances represent less then $300 million which is the most inefficient part of the high yield market.

Mr. Smith said that Penn's consistent level of performance is due to their process, the strength of their team and that they share one common goal.

Mr. Smith stated that they are not a closet index fund. He said that there are 129 companies in the fund and that the average credit quality is B and below. He explained the portfolio characteristics, their representative holdings and the sector weightings. He said that they don't invest in an industry just to provide exposure. He said that they don't try to make a signature bet in the universe. He also said that out performance allows them to move down the capital structure.

Trustee Storum asked about the number of Penn's investment professionals. Mr. Smith replied that there are twelve people managing one portfolio with two subsets.

Trustee Miller asked about the underperformance in 2000 and 2001. Mr. DeVicaris said that internal discussions determined that there was too much low quality exposure. He said that they addressed the allocation of the portfolio to make it tactical versus static. He also commented that their tech and telecom positions hurt and that they have since changed from a maximum of 5% in credit specific exposure to 3%. He told the Board that Penn has built in better risk controls to their process and that it is superior to what they had in 2000 and 2001. He noted that it included the incentive compensation plan.

Trustee Miller asked if they had a performance based fee structure. Mr. DeVicaris said that it would be possible and that their largest client uses that fee structure.

Trustee Lee asked about the analysts and their sector responsibilities. Mr DeVicaris replied that the investment team is categorized by sectors. He also said that the investment teams don't handle the entire credit structure of the company.

Ms. Stewart asked about the number of accounts in the company and how the number had dropped from thirteen to five or less. Mr. DeVicaris answered that there was a time when their client service effort was inferior. He said that some clients moved from the opportunistic portfolio to the defensive portfolio. He also said that there are currently ten clients in the opportunistic portfolio with investments of $250 million.

Trustee Storum questioned the fact that they can't buy large issues. Mr. Smith told him that some companies can't buy into these asset classes adding that there is no flexibility. He also said that if something goes wrong or if you try to move too much paper you could move the market. He noted that it is labor intensive to find small companies.

Trustee Storum asked if they had a sufficient number of analysts to handle the additional monies. Mr. Smith replied that they are adding a junior analyst in June and that they continue to look at staffing needs.

Ms. Billings asked if they had flexible contract terms. Mr. DeVicaris told the Board that they would work with them to come to terms.

Mr. DeVicaris concluded telling the Board that Penn has a strong philosophy and detailed repeatable process and that they share a common grade with the other vendors.

Mr. DeVicaris and Mr. Smith left at 12:35 p.m.

There was discussion following the high yield manager presentations. Trustee Cochran told the other members that DDJ was his number two choice for the General Board. He said that he felt all the managers were good and that after DDJ, he liked Delaware and then Penn. Trustee Lee said that he liked DDJ and their focus in high yield especially their up/down market capture. Trustee Storum said that he felt DDJ displayed great performance versus risk return. Trustee Cochran said that the General Board went with Peritus and if the Police and Fire Board went with DDJ the funds would have the two best managers. Trustee Miller added that DDJ was willing to look at PA314.

RESOLUTION 06-031 By Lee, Supported by Cochran
Resolved, That the Board of Trustees retain DDJ Capital Management, LLC for high yield pending contract review by legal counsel.
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Yeas: 4 – Nays: 0

NEW BUSINESS

Trustee Storum asked about the rebalancing in August. Ms. Stewart asked if they wanted to amend the investment policy statement. She said that the current allocation in domestic fixed income is 37%. She said that they can change the allocation in the investment policy statement to show domestic fixed income at 35% and high yield at 2% or approximately $5 million.

Trustee Storum asked about the sale of mortgages and if the monies were deposited into fixed income or cash manager. Ms. Stewart said she would check and advise on mortgage proceeds.

UNFINISHED BUSINESS

Re: Ordinance Clean up - Tabled

SCHEDULING OF NEXT MEETING – Offsite Meeting on May 25, 2006 at 9:00 a.m.at the Soaring Eagle Resort in Mt. Pleasant, Michigan.

ADJOURNMENT

RESOLUTION 06-032 By Miller, Supported by Cochran
Resolved, That the meeting be adjourned at 12:52 p.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 April 27, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt