

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
MAY 25, 2006**

A regular meeting of the Board of Trustees was held on Thursday, May 25, 2006 in the Wolf Conference Room, at the Soaring Eagle Hotel, Mt. Pleasant, Michigan. The meeting was called to order at 9:03 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Brian Lee

TRUSTEES ABSENT

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

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Andrea Coffey-Stewart, Gray & Company
Ellen Zimmermann, Retirement Systems Administrator
Deborah Munson, Retirement Accountant

CONSENT AGENDA

- A. Minutes of Regular Meeting: April 27, 2006
- B. Communications:
 - 1. Correspondence from Morgan Stanley Re: Portfolio Commentary April 2006
 - 3. Correspondence from CAIS RE: NYSE Hybrid Market
 - 4. Correspondence from Montag & Caldwell RE: Portfolio Update
- C. Financial Reports:
 - 1. Financial Reports – April 2006
 - 2. Securities Lending Report – March 2006
 - 3. Commission Recapture – March 2006
 - 4. Accounts Payable – May 2006
- D. Refund of Accumulated Contributions:
 - 1. Levi Scribner – PPOA \$1,215.24

RESOLUTION 06-033 By Cochran, Supported by Lee
Resolved, That the items of the consent agenda for April 27, 2006, be approved as presented.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company – First Quarter Performance Review

Ms. Stewart noted the difference between Gray's performance numbers and Oppenheimer's and will discuss it with the manager. Chairman Storum said that he noticed other differences in performance. Ms. Stewart said the data Gray & Co. received from NEPC cannot be changed, but she will follow up and report back to the Board. The difference could be reporting gross or net of fees. For some she uses actual fees paid and for others she uses the basis points divided by four based on the way Mr. Anderson had originally set it up.

She discussed their concern with Montag's underperformance and Mr. Gray's view that if they cannot beat the index, there is no reason to pay 40 basis points for active management when you can buy an index fund and pay 8 basis points. She pointed out that Montag said they provide better downside protection.

Chairman Storum commented that the managers are expecting a turn toward growth. He said that his concern is that they still lose on the downside. He would like to see what other funds out there could provide better upside return. He suggested the Board entertain a search and compare Montag to their peers. Trustee Cochran concurred. He also asked if they should be placed on a watch list. Ms. Stewart responded that they are currently on probation and that a search could be conducted during Montag's probation. Chairman Storum agreed. Trustee Cochran asked if it is appropriate to notify them. Ms. Stewart indicated that they already know they're being watched and that they would not be notified about the search.

RESOLUTION 06-034 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the Consultant to conduct a search to for a large cap growth.

Yeas: 3 - Nays: 0

Ms. Stewart pointed out that Morgan Stanley has started seeing the light regarding telecom, but they still have 10% invested in the sector. They also missed the boat on Japan and were underweight. A number of Gray's clients have terminated them with only one or two of their clients still holding on to Morgan Stanley as a manager. She stated that Morgan Stanley has been a good manager for a long time. However, since they announced Dominic Caldecott's retirement performance has declined. It took them several quarters to pare back the telecom yet the stocks they continued to pick did not do well. She recommended putting them on probation.

Chairman Storum said that he was not convinced of the France telecom story. He concurred that putting them on probation would be appropriate. He thinks that the fund needs to be exposed to emerging markets and would like to do a search. Trustee Cochran agreed with conducting a search. It's critical that we have a manager in this sector but with a little more adroitness in selection. He definitely recommends putting Morgan Stanley on probation.

RESOLUTION 06-035 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve placing Morgan Stanley on probation and that the Consultant conduct a search for an international manager with emerging markets capability.

Yeas: 3 - Nays: 0

Ms. Stewart said that the search process should take about two months. She will present a list of managers for one search at the July meeting and one at the August meeting.

Re: Investment Policy Review

Ms. Stewart stated that she would change the fixed income guidelines for DDJ and their lower quality investments on page 6 of the Investment Policy Statement. She said that the target asset mix will carve out the high yield with a target of 2% and a range of 1%. She suggested the trustees review the Investment Policy Statement and send any changes to Ellen who will in turn send them to her and Ms. Billings. The final version can then be ratified at the next meeting.

Re: American Realty Advisors Funding

Ms. Billings reported that American Realty Advisors agreed to the changes recognizing that they are an investment fiduciary and adding the non-discrimination language required by Michigan law PA314. Ms. Stewart told the Board that 4.7% of the real estate allocation is in CAPROC and that the remaining 3.3% will be allocated to American Realty Advisors. Chairman Storum asked the sources of funding. Ms. Stewart said it will come from Northern Trust and Oppenheimer Capital.

RESOLUTION 06-036 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve to rebalance the portfolio and fund American Realty Advisors.

Yeas: 3 - Nays: 0

Re: Sullivan, Ward, Asher & Patton - CAPROC Update

RESOLUTION 06-037 By Cochran, Supported by Lee

Resolved, That the Board of Trustees approve the minutes of the Special Meeting held on March 27, 2006.

Yeas: 3 - Nays: 0

RESOLUTION 06-038 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the minutes of the Special Meeting held on April 10, 2006.

Yeas: 3 - Nays: 0

RESOLUTION 06-039 By Cochran, Supported by Lee

Resolved, That the Board of Trustees approve the minutes of the Special Meeting held on April 17, 2006.

Yeas: 3 - Nays: 0

Re: Legal

Ferro Corporation Litigation

Ms. Billings stated that on March 31, 2006 Ferro Corporation filed restated financials with the Securities and Exchange Commission. On May 4, 2006 the parties stipulated to allow the Plaintiff to amend the complaint pending review of the restated financials.

United Rentals Inc. Securities Class Action Litigation

There is nothing to report on United Rentals. It is still in its initial stage of discovery.

Jarden Securities Class Action

Ms. Billings reported that motion for lead plaintiff is pending.

American Stable Value Fund

Ms. Billing distributed copies (with changes) of the American Stable Value Fund side letter for the real estate investment.

Bernstein Litowitz Portfolio Monitoring

Ms. Billings said that they reviewed the first report from Bernstein Litowitz received in connection with the portfolio monitoring program and that no losses were reported. She stated that that they also use Lerach, Coughlin and that they had reported losses. She said that is why it is good to use two firms.

CAPROC Litigation

She reviewed an update memo from Stuart Tompkins regarding the CAPROC litigation. He will have a proposed settlement prepared by next week.

Ms. Billings reviewed the changes for the ordinance clean-up.

RESOLUTION 06-040 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the proposed changes to the ordinance and forward it to City Council.

Yeas: 3 - Nays: 0

Trustee Reimbursement Policy

The trustee reimbursement policy has already been adopted; however Ms. Billings added line nine on page three to allow for a \$50 per day advance.

RESOLUTION 06-041 By Lee, Supported by Cochran
Resolved, That the Board of Trustees adopt the change to the Trustee Reimbursement Policy.

Yeas: 3 - Nays: 0

Ms. Billings reported that DDJ Capital has turned over the proposed contract changes to their legal team for review. DDJ will be funded by Atlantic.

REPORTS

Re: Chairman – None

Re: Secretary – None

Re: Trustees - None

1. Real Estate Committee – None

2. Personnel Committee – None

Re: Staff

Disability Retiree Re-Exams and Income Verification

Ms. Zimmermann reported that staff normally starts the disability process in April. However, in the past there have been problems with the original copy of the 4506 forms sent to the IRS being lost. The IRS does not accept copies of these forms and they're only good for 60 days. The staff recently spoke with the IRS who indicated that they are so far behind they won't be looking to fill new requests for information until June. She stated that the income verification process will start later this year.

Custodian Bank

Ms. Zimmermann stated that she has not had an opportunity to discuss the custodian issue with the GERS Board regarding the problems with the GASB 40 reporting and contracts.

Trustee Storum instructed Ms. Zimmermann to send a communication to the GERS Board regarding the concerns with the custodian and search for a new one.

Ms. Stewart said that the RFP is ready but that she would prefer to wait for the GERS Board. She felt that a search conducted at the same time for both Boards could result in better pricing from the custodian.

Payroll Error Policy

Ms. Zimmermann explained that a payroll error policy needs to be adopted to ensure that a retiree's benefit is based on correct wages. She described the process the Retirement Office uses when calculating the final average compensation for a retiree. She explained that during the verification the staff ties out all pays to W-2's, gross wages and pay rates. She said that often errors are found where members have been incorrectly paid. Most times the Payroll Division

does not attempt to correct the error if the member has already retired. However, the City is currently trying to recover a \$900.00 payroll error from a member. During the process, the Retirement Office considers errors less than \$100.00 immaterial when figuring the FAC.

Ms. Zimmermann stressed the importance of a verifiable payroll base with pensions being based on correct wages. She said that there should be a policy in place to accurately calculate the FAC based on the amount of wages the member should have received.

RESOLUTION 06-042 By Lee, Supported by Cochran

Whereas, the Board of Trustees is vested with the general authority and fiduciary responsibility for the proper administration, management and operation of the Retirement System, and

Whereas, the Retirement System provides pension benefits in accordance with applicable provisions of the City Of Pontiac Retirement Ordinance, collective bargaining agreements, and state and federal laws, and

Whereas, Section 2.13 of the Ordinance defines “final average salary” as the average annual salary for the 3 highest consecutive years of credited service within the last 10 years of credited service as a Member,

Whereas, payroll errors occur that will not be corrected that would affect the proper calculation of Final Average Compensation (FAC), therefore be it

Resolved, that in the event of payroll errors that will not be corrected, the calculation of FAC will be based on the amount of pay the member would have received if not for the error.

Yeas: 3 - Nays: 0

Trustee Storum requested that he would also like retirees to receive copies of their final calculation when complete.

Re: Union Representatitves - None

NEW BUSINESS

UNFINISHED BUSINESS

SCHEDULING OF NEXT MEETING – Offsite Meeting on June 29, 2006 at 9:00 a.m, Shrine Room, Main Level City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 06-043 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:15 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 May 25, 2006.

Raymond Cochran, Secretary
As recorded by Deborah Munson