CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
MAY 27, 2010

A regular meeting of the Board of Trustees was held on Thursday, May 27, 2010 at the Soaring Eagle Resort, Mount Pleasant, Michigan. The meeting was called to order at 9:01 a.m.

TRUSTEES PRESENT	**TRUSTEES ABSENT**
Brian Lee	Mayor, Leon Jukowski
Matthew Nye	
Craig Storum, Chairman	

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.	Graham Allen, Bradford & Marzec
Chris Kuhn, Gray & Company	Ronald Zia, Bradford & Marzec
Ellen Zimmermann, Retirement Systems Administrator	Brad Goldman, TCP Global
Jane Arndt, M-Administrative Assistant	Gerald Thunelius, TCP Global
Fred Leeb, Emergency Financial Manager - Pontiac	Charles Webb, Weaver Barksdale
Tal Gunn, Ambassador Capital	Greg Prost, Ambassador Capital
Ann Loden Roberts, Weavers Barksdale	

CONSENT AGENDA

A. Minutes of Regular Meeting: April 28, 2010

B. Communications:
1. Correspondence from American Realty Re: Fund Report Q1 2010
2. Correspondence from Hirayama Investments Re: Newsletter
3. Correspondence from Artio Global Re: CIO Letter Q1 2010

C. Financial Reports:
1. Financial Reports – April 2010
2. Securities Lending – April 2010
3. Accounts Payable – May 2010
4. Capital Calls - None

D. Remove from the Rolls:
1. Richard Best (deceased 05-05-10); survivor benefit of $1,451.11/mo. to beneficiary Penelope Best
2. Raymond Sain Jr. (deceased 04-17-10); survivor benefit of $1,910.25/mo. to Beneficiary Gwendolyn Sain

E. Application for Service Retirement
1. Paul Stachoviak – PFFU   22 years, 0 months   Age 47

Mr. Leeb stated that he would like to take the Mayor's place as a voting member of the Board.

Chairman Storum stated that a legal opinion was requested by the Board in reference to Mr. Leeb's request. It is the position of the Retirement System's legal counsel that Mr. Leeb cannot be a voting member of the Board nor take the Mayor's place as a Board Trustee.

RESOLUTION 10-034 By Lee, Supported by Nye
Resolved, That the consent agenda be approved.

Yeas: 3 - Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees - None

Re: Administrator
Ms. Zimmermann distributed a number of items that were not included in the consent agenda.

<u>Oppenheimer Capital</u>
A letter was sent from Oppenheimer Capital as notification that they are transferring the performance track record to Jerry Thunelius and his new firm TCP Global Investment Management, LLC. The letter also indicated the Oppenheimer Capital will resign as the fixed income investment manager for the System effective June 30, 2010.

<u>Mesirow (MFIRE)</u>
A letter was received from Mesirow Financial Institutional Real Estate International Partnership Fund I extending the commitment period per the terms of the Limited Partnership Agreement for an additional twelve months ending June 6, 2011.

<u>Metropolitan Real Estate Capital Call</u>
A capital call was received from Metropolitan Real Estate for $104,000.00 that needs to be ratified by the Board.

RESOLUTION 10-035 By Lee, Supported by Nye
Resolved, That the Board ratify the capital call from Metropolitan Real Estate for $104,000.00.

Yeas: 3 – Nays: 0

<u>Securities Lending Report – April 2010</u>
Ms. Zimmermann explained that the securities lending report from Northern Trust has not been arriving in a timely manner for inclusion in the agenda packet. She asked that the Board make a motion to receive and file the report.

RESOLUTION 10-036 By Lee, Supported by Nye
Resolved, That the Board receive and file the April 2010 Securities Lending Report from Northern Trust.

Yeas: 3 – Nays: 0

<u>Budget Comparison & Notes</u>
Ms. Zimmermann explained the budget comparison information to the Board. There are questions regarding the amount being charged for retiree and active medical costs.

Chairman Storum asked if the staff employees are reimbursing a portion of their healthcare costs. Ms. Zimmermann said that the staff is paying a portion of their medical premiums. The budget for fiscal year 2010 reflects a credit of $2,885.00; however, the staff has contributed approximately $6,200 toward their medical insurance premiums in the past couple of years.

Chairman Storum asked if the contributions equal the per person cost. Ms. Zimmermann said that information is not contained within these documents and she will have to look into that.

There was discussion regarding the lack of documentation for employee healthcare costs. Medical premiums have increased from $13,000.00 per year to $18,000.00 with no detailed documentation provided.

Mr. Leeb explained that the $13,000.00 was an average cost for active and all employees including persons over 65. The average cost was split between insured persons over and under 65 with the under 65 component being much higher.

Chairman Storum said that if that is true, the cost to the VEBA should be going down. Mr. Leeb said that healthcare costs are continuing to increase.

Chairman Storum asked if there was any written documentation to back up the healthcare costs.

Ms. Zimmermann said that nothing has been received to substantiate the basis of the budget. The FOIA information was received (two days late) and was a Xerox copy of two pages of a spreadsheet with no backup or explanation. The second FOIA submitted by the VEBA asking for detailed backup contained a stack of summary invoices from Humana with no backup.

Mr. Leeb said that the FOIA submitted did not require an analysis. Ms. Billings explained that the VEBA cannot reimburse for healthcare costs for any other retirees and that the costs need to be substantiated. Mr. Leeb asked if the Board is assuming they are not using the money to pay for healthcare costs. Ms. Billings stated that the Board has a fiduciary responsibility to insure that they have backup to justify the payments.

Chairman Storum indicated that these are the first FOIA requests the Board has had to make. They asked verbally for the information and did not receive a response. He would rather there was more goodwill between the two entities and that the documentation could be provided to justify the payments.

It was also decided that Mr. Leeb would meet with Ms. Zimmermann to insure that the correct documentation is provided by Human Resources that will detail how the healthcare costs were determined.

Mr. Leeb assured the Board that the money is going for the proper purposes.

Ms. Billings said that the general rule is to use internal resources to obtain information. This is the first time the Board has resorted to issuing a FOIA.

Mr. Leeb said it should not be a problem because Humana provides detailed invoicing.

Ms. Zimmermann also indicated that the amounts budgeted from the VEBA and GERS also need to be addressed.

Re: Legal

<u>Northern Trust</u>
Ms. Billings reported that there is nothing new to report.

<u>Fossil, Inc.</u>
Ms. Billings reported that under advisement of the Court, limited discovery is proceeding.

<u>Gildan Activewear, Inc.</u>
Ms. Billings reported that after extensive negotiations the mediator proposed a global settlement in the amount of $22.5 million. The settlement agreement came up between meetings and the Chairman and Vice Chairman approved this settlement pending ratification by the full Board. She asked that the Board ratify the settlement.

RESOLUTION 10-037 By Lee, Supported by Nye
Resolved, That the Board ratify the settlement agreement in the amount of $22.5 million in the Gildan Activewear, Inc. securities litigation.

Yeas: 3 – Nays: 0

<u>UBS/AG Securities Class Action</u>
Ms. Billings reported that the hearing on the Defendants' Motion to Dismiss has not been set. They will continue to advise the Board with respect to this matter.

<u>Airgas Securities Litigation</u>
Ms. Billings reported that on April 16, 2010 they prepared a response to the request from Airgas for certain non-privileged documents including meeting minutes, agendas, the organization structure including trustees and staff.

IRS Application for Determination Letter
Ms. Billings reported that the IRS contacted her requesting additional information. The information was provided and they are working to finalize the favorable determination. She will continue to advise the Board with respect to this matter.

Correspondence Regarding EFM's Ability to Attend Retirement System Board Meetings and Receive Copies of Minutes
Ms. Billings referred to her response to Mr. Leeb's request to attend Board Meetings and receive copies of the minutes. Mr. Leeb is entitled to attend meetings and receive copies of the minutes. However, the Chief Assistant to the Finance Director does not have the authority to serve as a trustee. By virtue of the Retirement System Ordinance, only the Finance Director can sit on the Board. The Michigan Court of Appeals found that the composition of the Board of Trustees can have a substantial impact upon the conditions of employment. Therefore, any changes made to the composition of the Board of Trustees has to be amended through collective bargaining. Mr. Leeb requested a copy of this letter.

Miscellaneous Articles
- Robbins Geller Rudman & Dowd LLP Corporate Governance Bulletin, Second Quarter 2010
- ASPPA Journal Spring 2010 – Get Ready, Get Set, Go…PAPERLESS!
  Ms. Billings referred to an article indicating that more and more Plan Administration firms are contemplating going paperless.

Re: Union Representatives - None

NEW BUSINESS

Re: Death Audit
Ms. Zimmermann reported that the death audit is conducted twice per year to make sure the System is paying the correct benefits. One member was reported as deceased. The Retirement Office was aware of this member's death. There was also an issue with a member's social security number that needs to be corrected.

UNFINISHED BUSINESS

Re: FOIA on Budget Costs – Refer to Administrator

Re: HELPS Letter to Retirees – In Process

Re: Disaster Recovery Plan/Actuarial Software Search – In Process

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CONSULTANTS

Re: Gray & Company – Intermediate Fixed Income Presentations

Ambassador Capital Management
Talmadge Gunn, Sr. Vice President, Sr. Portfolio Manager
Greg Prost, CFA, Chief Investment Officer

Talmadge Gunn introduced himself and Greg Prost to the Board. They appreciate the opportunity to meet with the Board. They have been in this area and in the business for more than twenty years managing and trading bonds. They are Michigan-based and invested in Michigan. Their home office is in downtown Detroit and they have a satellite office in Chicago with one trader.

The firm was formed twelve years ago and they have approximately $800 million in assets under management. There are eight employees with five investment professionals that support the bond operation. They all manage different products. Public funds represent 90% of their business. This mandate is intermediate fixed income with them recently picking up two accounts.

He reviewed their representative client list stating that they have numerous relationships with municipal funds both local and out of state.

They have been managing bonds for over twenty years and they realize that your fixed income mandate is what pay the bills and you do not want to take risk and you want to focus on downside risk. Bond managers should be there to provide liquidity and near term liabilities and style.

They control the interest rate or duration risk in the portfolio. Every fixed income manager does that. Their focus is downside risk protection. They want to perform well in a down market. Bonds will go up a little but they can go to zero.

Mr. Prost examined the economic cycle and its affect on bond market performance.

Ms. Billings stated that a lot of their clients' money is in money market funds. Mr. Prost said that they worked on cash and the enhanced cash side which has made it difficult to build a track record managing fixed income.

It is important to get in front of the GDP expectations and the impact on monetary policy as set by the Federal Reserve to find performance opportunities. He explained how they watch interest rate movements in order to get ahead of movement of the Fed Fund Rates changes. They were positioned for the healthy downturn that started in 2007. However, they did not anticipate what happened; they were looking for a healthy recession. They took risk down by underweighting corporate bonds and overweighting treasuries.

He explained how yield curve positioning can affect performance. Using the bullet method (positioning the portfolio in the middle of the yield curve) for the period of August 31, 2007 through March 31, 2010, annualized performance would have been 6.19%. If you used the barbell method (positioned at the ends of the yield curve) returns would have been 3.37%

In 2004 they anticipated a rise in interest rates. In 2007 they anticipated yield curve steepening so they increased risk to add alpha.

In the 2007 time period they lowered their positions to corporate bonds because they were overpriced. They would have never anticipated that in 2008 corporate bonds would be so cheap so they over weighted their position with high grade names like Johnson & Johnson and Disney.

Each sector and sub-sector can be made to work in the bond industry. There is more volatility in financials than in utilities. They look for less volatility and utilities have assets. Senior secured bonds lost 1.6% of value by default versus an 80% loss in financials. They do not deal in brokerage paper.

He reviewed the economic, yield curve and sector yield spread cycles. You want to have barbells on a steep yield curve. During an economic downturn, bullets work better.

They use a top down approach to determine the sector and a bottom up approach to analyze each position. They do not want one or two names to hurt their performance so they buy more names. They use their own proprietary internal system to assess a company's fundamental credit risk.

Mr. Gunn reviewed their performance gross of fees versus the Barclays Capital Government/Credit. Since inception they have out performed the benchmark by 1% on an annualized basis. Their three-year performance was 8.39% versus the benchmark at 5.84%.

Their core composite product also performed well.

He reviewed the list of the key principals at Ambassador. They have Michigan-based roots with careers at Munder Capital and local banks where they learned their craft.

They have a number of ways they manage their risk profile for portfolio versus the benchmark. Using their internal systems gives them the ability to run compliance before executing trades that could have an affect on the portfolio. Their average portfolio in this mandate is $35 million. They would love to have the relationship and value the opportunity.

How do they determine rate hikes and when the Fed cuts interest rates.

Mr. Prost said that they look back over history to identify trends on when the Fed will move rates. When they hit one of these indicators they perform an overview of the portfolio. Approximately 70% of the time the Fed will move rates based on their indicators.

Mr. Gunn said that they look at this same historical information and when the economic cycles gets to a specific point it will trigger the Fed to make a decision. Mr. Prost said that it is pretty certain that the Fed will move when they get close to that range.

Mr. Gunn said that when the Fed moves they will stay there approximately eighteen months or longer. Mr. Prost said that the Fed does not want to move up and down.

Chairman Storum asked who makes the decisions. Mr. Prost said that decisions are made as a team and most of the time they are all on the same page. When they anticipate the yield curve flattening it does not necessarily mean that the Fed is raising rates. The Fed will move quickly and get in early.

Mr. Gunn said that they use a team approach and they meet regularly to vet out opportunities. Decisions are made on a consensus basis and they all have to agree. Mr. Prost said that 95% of the time the decisions are easy.

Ms. Billings asked about their fees. Mr. Gunn referred to their management fee schedule. He said that some plans have a favored nation clause. They are willing to negotiate the management fees. Ms. Billings asked if they are willing to provide the same fee schedule of 22 basis points that was provided to the City of Pontiac General Employees Retirement System. Mr. Gunn agreed to the 22 basis point fee schedule.

Chairman Storum asked about being duration neutral when using the barbell approach. Mr. Prost said that they keep duration the same and use the movement of the yield curve. Mr. Gunn said that the average maturity is close to the benchmark. Mr. Prost said that they manage around the intermediate duration now and will manage to that.

Mr. Leeb asked about the flattening of the yield curve and whether that indicates rates will go up in the short-term.

Mr. Gunn said there is a pace of change going from short-term rates to long-term rates. There is still a flattening scenario so a change in rates is not absolute.

Mr. Leeb asked what position they would take if the yield curve flattens. Mr. Prost said that they would sell maturities of four to six years and buy seven years or longer. Mr. Gunn added that the average maturity would stay at five years.

Chairman Storum confirmed that they would be using the barbell method. Mr. Prost said that method works well when the yield curve is flattening.

Mr. Gunn thanked the Board for the opportunity.

Mr. Gunn and Mr. Prost left at 10:17 a.m.

Bradford Marzec

N. Graham Allen, Principal, International Portfolio Manager & Strategist
Ronald Zia, Director of Sales

Ronald Zia introduced himself and Graham Allen to the Board. He told the Board that they currently manage intermediate fixed income for the Police & Fire VEBA. They would love to extend the relationship to the Police & Fire Retirement System if the Board feels it is the right fit.

He has been with Bradford Marzec for three months. He came from Callan Associates.

Bradford & Marzec was founded in 1984. They currently have $3.6 billion in assets under management in core, core plus and high yield. He explained that the intermediate mandate is a variation of core.

Their performance net of fees is good. They are very conservative firm and believe in the preservation of capital. They pride themselves on making alpha. They buy directly into the market and do not use derivatives. He has a strong connection to Police and Fire. He explained that his family has a number of members who are firefighters and police officers.

Mr. Allen said that he is one of the Senior Portfolio Managers at Bradford Marzec. He started his career at Wells Capital performing equity analysis which gives him experience looking at different areas of the market. A lot of managers are too myopic. There is a broader perspective to understanding valuations that is extremely important.

He explained that their performance is based on the four P's; people, philosophy, process and performance. They have thirty-seven employees with sixteen investment professionals with half of the team solely responsible for credit. They use a top down process. The senior portfolio management team is highly experienced in fixed income with their average experience in the business of twenty-eight years which helps them understand the relative value. The average team age is over fifty years old. They have four specialist traders each having more than ten years experience. This extensive knowledge base has helped them over the past two years during the worst of it. They do not use a star system. They use a team based approach and team contributions.

Their philosophy has remained consistence since inception. They have a different portfolio composition of treasuries, mortgages and asset backed securities compared to the index. Duration management is a small part of their process. They have consistently reported excess returns of 15% to 20%.

They have defined their process over the past twenty-five years. He mentioned that their high yield mandate began in the 1980's. Every team goes through cycles refining their process. Risk controls are an important part of their strategy in order to avoid volatility. They have a 90% disbursement versus the index. Because they believe in preserving capital their process has continued to evolve. This was evident in 2008 and 2009 which were defining years.

They are GIPS compliant. They stack up well versus other managers. Their Sharpe Ratio performance ranks at the top or over the top of the quartile.

Their core product rolling two-year returns at 9.35% versus the eVestment Universe which ranked them in the 1st percentile. They did not do anything extreme in order to achieve these returns or rankings. Their strict internal guidelines controlled the risk.

They have six senior portfolio managers and five full time credit analysts. They do all their own credit ratings and do not use rating agencies.

They only own high quality credits and do not invest in obscure derivatives. They do not want to be too "twitchy". Preservation of capital is more important than alpha. They buy bonds with liquidity and at the end of 2008 they were looking for liquid securities. Having liquidity helps in time of market stress. They keep their sector rotation controls at 45%.

The last few weeks everyone has been piling into treasuries. They do their own in-house credit analysis. Their core and intermediate portfolio buy only the best quality investment grade bonds. He told the Board that high yield bonds have become investment grade securities. It is important to buy these bonds before the street buys them up.

He explained that they assess global economic forces and determine strategic opportunities using a six to twelve month outlook. Trying to predict trends can affect the composition of the portfolio. They evaluate industries and set portfolio weightings and objectives.

Their excess returns are 100 basis points above the benchmark. These excess returns are achieved with a sector rotation target of 45%; bottom up credit selection at 40% and duration/yield curve at 15%. They also move long and short using treasuries.

In 2008 and 2009 they had to make some big decisions using this process. There were a series of decisions both bottom up and top down. They employ a team approach. Near the end of 2008, they moved out of treasuries and into under valued Corporates and CMBS.

He reviewed their core composite performance gross of fees. Their one-year returns as of March 31, 2010 are 13.25% versus the index at 7.69%. Their long-term performance is well over the benchmark. The position of their portfolio has consistently paid off in their core composite performance gross of fees and rolling returns.

Ms. Billings asked if their management fees are negotiable. Mr. Allen said that their management fee for the intermediate core product is 23.5 basis points.

Trustee Lee asked how frequently the investment team meets and if they are all in-house. Mr. Allen said that the entire investment team resides in one location. It is great that they can meet and pull the trigger quickly. If they have to drill down on a special credit they can bring in the analysts. In 2008 there were big decisions whether to sell all the financials and whether to buy Bank of America. They were mindful of where they sold versus the index daily.

Mr. Kuhn asked Mr. Allen if he could explain their credit selection process. Mr. Allen said that knowing the structure of the index is crucial. Their buy sell process is based on economic trends and industry positions. They move up the capital structure and into sectors that are less cyclical. They look to move through the earning cycle by sector and use individual securities to create exposure. It is important to know what to hold. It would be unlikely that they would have fifty corporate credits in the portfolio.

Mr. Zia said that he is sure all the managers presenting at today's meeting have solid performance. He asked that the Board look at the stability of them firm and the fact that their team has worked together for more than fifteen years. They are a small private nimble shop with no esoteric processes; they just understand how to manage this portfolio.

Mr. Allen and Mr. Zia left at 10:45 a.m.

TCP Global Investment Management
Gerald Thunelius, Managing Partner – Head of Fixed Income
Brad Goldman, Managing Director – Marketing-Fixed Income

Mr. Goldman introduced himself to the Board. He was at Oppenheimer Capital for twenty-two years. He worked with Deirdre Guice and Bill McDaniel. He remarked that Tom Scerbo would always express the great relationship they had with the City of Pontiac Retirement Boards. They would be delighted to continue the relationship. However, they understand that this is not just about communication and trust it is about delivering performance.

He is excited to be at TCP working with the same team that has delivered the consistent outperformance for the System the past three years. Jerry Thunelius has more than twenty years managing fixed income investments. He started his career at Dreyfus as the Director of Taxable Fixed Income.

Jerry was recruited by Oppenheimer when Bill McDaniel retired. Bill was a yield player and when Jerry took over the portfolio he started selling off financials in 2007. He uses a top down approach which resulted in outperformance in 2007, investing in government and intermediate credits. If you owned a lot of financial credits in 2008 your performance would have been bad. He is impressed with how Jerry positioned the portfolio in 2008 and 2009.

He referred to the biographies in the back of the presentation materials stating that they are not a startup firm with the average investment experience of the team over twenty years. They are laser-focused on performance. They were able to bring along their performance track record from Oppenheimer Capital.

As a result of what Jerry has done, he has been invited by Forbes to become part of their Investor Team contributing columns to Forbes.com. He recently published his first quarterly review letter with his view of the market.

Mr. Thunelius reviewed their rolling three-year performance returns. They are at the top of the categories and did not use derivatives.

They delivered above benchmark performance 300 basis points over the index style in 2007

As a bond manager you want to own credits or mortgages. They own 100% of liquidity. In volatile markets you want your bond manager to have a lot of liquidity. Markets are inefficient in the short-term and long-term valuations move toward fundamental valuations. The most important factor is yield curve shape which allows you to take advantage of inefficiencies over the long-term. Buying treasuries in 2007 was unpopular but it was better to have more not less. The process starts when the yield curve inverts.

The yield curve has four shapes and each takes time to work into the bond cycle; each shape has market expectations. When the Fed is easing it is negative for high yield and financial bonds. They use the S&P when making sector changes. They are a top down macro manager that uses the shape of the yield curve to make decisions.

They mitigated risk through asset and sector exposure (by owning mortgages and corporate bonds) and overweighting or underweighting liquidity risk. They use an entirely bottom up credit selection. They feel the credit markets will do well this year. As bond managers they are not looking for 30% to 40% returns or being down 30% to 40%. Their goal is consistent strong performance in up and down markets.

There are five general ways for bond managers to make money. They can use bond sector allocation, yield curve positioning, issuer/security selection, duration management and trading and execution. Having the sector allocation right is the most important.

He explained how they make their industry selection. They use the shape of the yield curve going forward to determine which sectors to underweight and which will outperform. Other managers do credit work on every issue.

It is important to call out the ones that cannot win. Running through equity prices to bond prices does not matter. The option is using the volatility screen to find the issues that are fairly valued.

In the past it took them three to four hours to download every piece of the Aggregate Index to look for ideas and run through the volatility. At TCP because of their technology they can download the data in a few seconds and have everything they need which allows them to provide a better bottom up analysis including mortgage, yield curve, sector and issues.

Their technology was purchased from Citigroup, including both the software and hardware which works well for the team. Even the IT support person Santosh Ninan came with the deal.

TCP has a team of seasoned investment people. The biggest change has been the change of technology. They have assembled a solid group of individuals to run the company.

They do not want fees to come between continuing the relationship. Hopefully, the Board has recognized the performance they have delivered and believe in TCP and how they do it.

Chairman Storum asked if TCP already existed. Mr. Thunelius said that TCP has been in business since 2008.

Michael Kennedy purchased the software from Citibank. He and Brad thought about starting their own firm but they found the chance to work with a real firm with real technology. This is well beyond anything he had at Dreyfuss.

Everyone that has touched or worked on the System's portfolio from 2007 through 2009 are partners in the business and have three-year contracts locked in. It is the same exact team: himself, Michael Allen and Martin Fetherston.

On April 1, 2010 they had $600 million in commitments in house and within the next couple of weeks they will be up to $700 million in assets under management.

He told the Board that at Oppenheimer he was not allowed to compete with the sister company PIMCO.

Trustee Lee asked about the team and any difference in size from Oppenheimer. Mr. Thunelius explained that they had sixteen total people working on the portfolio at Oppenheimer with most being technical based. If there was a coding error on a security rating they would have to send a request to Nicholas Applegate to verify the issue. Then they would send a request to PIMCO to correct the error. They would send the request to Germany to make the correction. It could take a few weeks to fix a coding error. With the technology at TCP they can immediately make the fix. Even though this is invisible to the client it is crucial to the team managing the portfolio.

Mr. Goldman said that Michael Kennedy has launched a number of firms and has done this before. He put a lot of his own personal capital into the firm. TCP has put together a good team to address each area of the business.

He stated that after PIMCO bought a portion of Oppenheimer Capital in 1997 there have been a lot of legacy issues.

Mr. Thunelius said that the size of the fixed income investment team at PIMCO is four thousand people, but only three people are making the investment decisions. He assured the Board if their assets under management increase they would add resources and people especially in the back office.

Trustee Lee asked if they are located in New York. Mr. Thunelius said that they are located in Radnor, Pennsylvania. He loves the area.

Trustee Nye asked if the investment would have what it has right now. Mr. Goldman said that there will be some transition costs with Mr. Thunelius adding that because it is his portfolio it will be easy.

Trustee Nye also confirmed that the same team will be managing the portfolio.

Mr. Goldman said that their $600 million in assets under management is from pre-existing clients. This is the first client they have had to put numbers in the book for. They are looking to grow beyond existing relationships.

Trustee Nye asked about the transition. Mr. Kuhn assured him that there will be no transition issue.

Mr. Goodman and Mr. Thunelius left at 11:27 a.m.

Weaver Barksdale
Charles Webb, CFA, Chief Investment Officer
Ann Loden Roberts, Principal, Business Development

Ms. Loden-Roberts introduced herself and Mr. Webb to the Board.

Weaver Barksdale is an institutional fixed income investment firm founded in 1984. They are 100% employee owned. They are a boutique firm that specializes in highly customized separate accounts for their clients.

They currently have thirty-eight institutional clients with $3.5 billion of assets under management of which over $1.8 billion are institutional client assets. They have recently added one client.

She explained that they believe in transparency and are GIPS compliant. There have not been any changes in their business plan. They have no potential conflicts of interest such as broker/dealer operations. Their one source of revenue is their investment management fees.

Their goal is to serve their clients and keep them happy. They have had very low client turnover. They are not a big bureaucracy and have consistently achieved the same investment philosophy and performance.

She provided an overview of their representative client list.

She presented a brief summary of the investment professionals at their firm. Weaver C. Barksdale is one person. He is the Chief Operations Officer and the founder of Weaver Barksdale. He was an appointee on President John F. Kennedy’s Economic Advisory Board.

Mr. Webb has been the Chief Investment Officer of the firm since 1996.

The team that would manage the intermediate strategy for the Police & Fire Retirement System would be Frank Puryear, Marshall E. Cox, Deena Raja, Timothy Carpenter and herself.

Mr. Webb stated that as of March 31, 2010 their total annualized gross returns since inception on December 31, 2000 for their intermediate duration product was 6.71% versus the benchmark at 5.5%.

Their investment team which includes himself, Frank Puryear and Marshall Cox has been managing bonds since the 1970's. Mr. Puryear is the head of the fixed income team and is the mortgage expert.

He reviewed their three step investment strategy process. Their goal for the past twenty-three years is to provide a customized investment approach with consistent returns, beat the benchmark overtime and to keep their name out of the newspaper.

Step one is yield enhancement. They look to add value by maximizing yield within credit and maturity by staying within their guidelines. Step two is their valuation process which makes sure they pick the right type of bonds. Their credit decision is based on a well diversified portfolio that includes lots and lots of names with 1% to 2% allocated to each credit and maturity. They do not make any big bets. Step three is their maturity and risk level management. It is their opinion that duration should be plus or minus 10% of the benchmark.

Their intermediate duration style average quality is AA2. The standard deviation equals the index at 1.00 xs. This mandate has outperformed the benchmark 60% to 80% of the quarters since inception.

Their intermediate controlled risk fixed income strategy total returns are 6.32% versus the benchmark at 6.14% versus the benchmark.

He explained that their relative performance during credit crises ranking has been in the top percentile since June 30, 1997. They participate well during market turmoil.

Their intermediate duration risk/reward comparison from December 31, 2000 through March 31, 2010 is 3.17% versus the benchmark at 3.61%. They have provided better performance than the benchmark with less risk.

Their gross performance has outperformed both the Barclays Aggregate and Barclays Government Credit Indexes eight or nine of the past ten years.

They have performed well during both bear and bull markets versus the benchmark.

Per the PSN database their gross returns quartile rankings have them ranked in the 5th percentile since inception. Their percentile rankings for the one-year period ranked 48th; the three-year period ranked 40th; the five-year period ranked 31st and the seven-year period ranked 24th.

They received a top rating from PSN as one of their Top Guns for the period ending June 30, 2008.

Mr. Webb described a chart showing the average annual outperformance of corporate and mortgage-backed bonds over treasury bonds over the past twenty-eight years. He told the Board that they like to overweight corporates relative to the index. Over time corporates will outperform mortgages.

He provided an overview of the macro economic models they use to determine what the economy is doing. He said the ISM Manufacturing Index generally leads corporate earnings and is an indicator that the economy is improving.

By tracking the spread model you can see that corporates still look attractive.

Their current sector guidelines depict an underweight to mortgages; corporates are neutral with a slight overweight. Their current weighting is 1½ times the index but they were 2 times the index.

He showed a chart illustrating their top forty credits based on their valuation analysis. Their credit research uses both a qualitative and quantitative process looking at debt ratios, market cap and other indicators. Their equity analysts are good at credit research and are ahead of the rating agencies. They do not like companies that grow too fast. They score the rating agencies based on their research.

He explained the internal and external rating scores chart included as part of their valuation analysis. Each diamond on the chart is a credit they own. They buy bonds that trade above the line. Using this process gets them ahead of the rating agencies. They examined a chart showing the Fed Funds Target Inflection Points. When the ISM is above 60 the Fed tightens their policy and raises the Fed Funds Target Rate.

Cyclical pressure on the slope at the long end of the yield curve normally indicates that the curve should flatten. A barbell strategy would be preferred in this scenario.

Managing duration is difficult to do. By using technical, pure quantitative and fundamental analysis of the yield curve they apply a score to each of these (either positive, neutral or negative) and total the results. By utilizing this duration scoring system, you take emotion out of the process.

They use various GDP models to determine which areas will lead economic growth and when the recovery will flatten out.

They do not believe that inflation will be a problem unless unemployment declines to less than 6% based on their models. The economy is a long way from inflation.

Ms. Billings asked whether, despite money coming into the economy, they are not concerned with inflation. Mr. Webb said they are concerned long-term but inflation is a long way out.

Ms. Zimmermann asked about their management fees. Ms. Loden-Roberts said that they are competitive with their fees and will meet or beat fee quotes.

Trustee Nye asked why they stay away from treasuries questioning if there is more risk or volatility. Mr. Webb said that they do not avoid treasuries because of risk or volatility they do not add much alpha. They take a little more risk in credits and mortgages.

Trustee Nye said that he indicated in the strategy that they moved into treasuries. Mr. Webb said that if corporates are overpriced they move into agencies and treasuries or if TIPS are overpriced.

Ms. Zimmermann asked what the average number of positions held is for an account this size. Mr. Webb said that they would hold approximately fifty to sixty positions in a portfolio this size.

Mr. Kuhn asked if the positions are all very liquid. Mr. Webb said that they are liquid today and have enough liquidity to meet demand with a few CMO's.

Ms. Loden-Roberts added that this is why they were able to survive 2008 with positive returns.

Ms. Loden-Roberts and Mr. Webb left at 12:03 p.m.

Chairman Storum said that he thought that Weaver Barksdale took less risk which is why they had them in to present. But it appears that they take more risk than previously indicated. He did not see any reference to the Sharpe Ratio in their presentation materials.

He is happy with how Jerry Thunelius has managed the portfolio. He had no problems until his departure from Oppenheimer. Now that he knows the details he feels comfortable going with TCP. He also likes Bradford Marzec.

Trustee Lee said that he feels the same way and is more comfortable going with TCP.

Trustee Nye asked if they should split the investment.

Mr. Kuhn said that they have recommended moving assets out of the Northern Trust Index Fund into active management but they have time to make that decision. This is a different situation and these assets need to be moved quickly. He suggested that they might break out the next piece.

Ms. Zimmermann asked whether the index fund assets would be moved to active management and into what space.

Mr. Kuhn said that these assets will be addressed in the next round.

Chairman Storum said that they might be looking at Orleans Capital or a broader approach for the other piece. He liked their numbers in the book.

Ms. Zimmermann felt Weaver Barksdale's presentation did not provide much information about their process.

There was a question regarding Ambassador's short track record.

Mr. Kuhn explained that the Intermediate Aggregate is a fairly new benchmark and that most investment managers do not have a long track records like their Intermediate Government Credit records. He would anticipate the managers would have similar relative performance to the Intermediate Aggregate index.

They are all good firms but it is important for the Board to feel comfortable with their manager. The only difference between the managers is that some are more qualitative versus quantitative.

Discussion followed by the Board

RESOLUTION 10-038 By Lee, Supported by Nye
Resolved, That the Board retain TCP Global Investment Management for the intermediate fixed income mandate subject to contract and fee negotiations.

Yeas: 3 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting –Thursday, June 24, 2010 – Shrine Room, City Hall

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ADJOURNMENT

RESOLUTION 10-039 By Lee, Supported by Nye
Resolved, That the meeting be adjourned at 12:22 p.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the Police and Fire Retirement System held on May 27, 2010.

As recorded by Jane Arndt