

RESOLUTION 07-028 By Lee, Supported by Cochran
Resolved, that the consent agenda be approved as presented.

Yeas: 3 – Nays; 0

CONSULTANTS

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

Ms. Billings reported that the CAPROC settlement was finalized on April 30, 2007. A wire transfer of \$4,694,705 million was completed with a total settlement value of \$15,589,000 million. Originals and exhibits are on file in the Retirement Office. There is an issue with reconciling the interest payments for the one remaining mortgage and the setting up of the LLC. Ms. Munson has taken over the mortgage administration.

They are currently working on how to account for the asset under Public Act 314. There are different sections that may fit into the basket clause. She will speak with Larry Gray to determine the best way to resolve the issue. She will continue to work with the Retirement Office.

Mr. Gray stated that they will set a meeting date to go over the settlement. He suggested that a meeting should also be scheduled with the auditors to review the agreement. It is important to legally determine how to classify the assets under Public Act 314. Whether it is an investment or another asset will have impact on the basket clause.

Trustee Miller said that when an asset is liquidated it is setup as a receivable. Trustee Cochran agreed with him. Mr. Gray said that they went down that road originally but determined that could have a far reaching effect. Ms. Billings said that it is important to sit down with Mr. Gray and Mr. Michaud to classify the asset correctly.

Re: Gray & Company

Real Estate Search

Mr. Gray outlined the real estate review prepared by Andrew Kelsen. He told the Board that they should not be afraid of real estate if you use the correct approach. The current real estate asset allocation is 8% or \$20.8 million of the portfolio as of March 31, 2007 with only \$5 million of the allocation filled with American Realty Advisors, a core real estate manager. They have drawn \$1.5 million of the allocation to date. They expect to drawdown the remaining allocation by year-end.

He said that in order to design a programmatic real estate portfolio it is important to look at asset classes both domestic and global. The recommended diverse allocation is 50% domestic core, 25% domestic value and opportunistic and 25% international.

American Realty Advisors is a true core manager. They have a solid team with many years of real estate related experience. They are a conservative group focused on capital preservation and

growth. They are committed to the highest level of integrity, communication and service. The recommendation is to increase the domestic core allocation to 50% totaling \$10.4 million on a risk adjusted basis.

Mesirow has partnered with Courtland Partners a very talented international real estate consulting firm. They offer an international real estate product called MFIRE. MFIRE invests in fifteen to twenty managers who are broadly diversified outside of the U.S. Tom Landis and Tracey Shinkle from Mesirow will be presenting this product at today's meeting.

International is the latest buzz word in real estate. There are many opportunities to move real estate monies offshore. Currently, Eastern Europe is showing tremendous growth in both commercial and residential real estate. The MFIRE product affords the opportunity to invest with many of the largest real estate investors in the world.

Mesirow has extensive experience as a fund of fund manager as well as solid administrative and operational capabilities. Gray & Company recommends interviewing MFIRE for the international real estate allocation.

Madison Harbor and Metropolitan are two qualified domestic value and opportunistic fund of fund managers supported by deeply experienced real estate teams. Madison Harbor is in their second fund with Metropolitan sponsoring their fifth fund.

Those with real estate portfolios setup this way have seen performance in the top deciles in the U.S. This is a chance to access offerings from best of breed managers in the alternative space. Remember that when you invest in these managers you can not just freeze the account, cancel the contracts or change your mind. This is a long-term investment.

There was discussion on whether to bring American Realty Advisors back in for review. The trustees were also asked if they would like to hear another manager in the international space. Trustee Lee said they should hear from at least one other international real estate manager. Ms. Billings also recommended that the Board hear from at least one other manager. Trustee Miller concurred and suggested bringing in the next ranking international manager. It was decided to interview Madison Harbor, Metropolitan and one other international manager at the next meeting.

Mesirow Financial

Thomas T. Landis, Sr. Vice President – Institutional Real Estate
Tracey Shinkle, Vice President – Institutional Sales and Marketing

Mr. Landis began with an overview of the firm. They are a diversified financial services firm headquartered in Chicago. They have twenty-eight offices in fifteen states and Puerto Rico. He and Ms. Shinkle are out of the Birmingham, Michigan office. They currently have more than \$20 billion in assets under management. They have a great track record and expertise as a fund of funds manager with \$12.3 billion in hedge fund assets under management and \$1.5 billion in private equity.

They offer diverse experience on the real estate side. They are nationally recognized for their real estate development expertise of over one hundred projects in the past thirty years including 17,000 residential properties and millions of square feet of office and retail space. They felt they needed access to a top tier fund manager with world exposure, so they partnered with Courtland Partners whose founder came from the Townsend Group.

Courtland Partners is a real estate consulting services firm that was started in 1995. They have deep experience advising large institutional clients on real estate strategy and manager selection. They have managed over \$20 billion in recommended investments since 2000 and over \$9.0 billion in recommended investments in over twenty international markets.

MFIRE offers the ability to leverage experience in fund of funds through Courtland. They track and review more than two hundred fifty real estate funds annually. Any manager can raise dollars but through Courtland MFIRE has access to the top tier managers. These top tier managers outperformed the median in real estate at 10% versus 6% to 8%.

Access is very important. As real estate grew as an asset class many funds were shutdown before the PPM came to market. J.P. Morgan's global fund requires a minimum investment of \$20 million. This is the typical minimum investment to access the top tier managers.

MFIRE is bringing two funds to market. The international fund has a target of \$200 million. The domestic fund has a target of \$100 million. The market exposure allocation for the international fund is 40% to 60% in Asia, 30% to 50% in Europe and 10% to 20% in Latin America. The domestic fund allocation is 35% to 65% opportunistic, 25% to 55% value-added and 0% to 10% REITs.

The MFIRE target allocation for the international fund provides an actively managed global, diversified exposure to fifteen to twenty managers, across regions, countries and markets, both traditional and alternative property types, the property life-cycles which includes both existing and developments. The strategy is a mix of opportunistic, value-added and REITs. The investment period is three to five years. The average investment is weighted 5% to 10% per fund per manager which is a nice diversification.

They use a risk-adjusted market allocation strategy. They limit their exposure to non-OECD countries such as China to no more than 33%. By limiting exposure to non-OECD countries they minimize risk and support countries that promote labor.

The international real estate market is very large with less capital chasing deals and opens many opportunities. The global real estate market represents 58% of the investible property market. Less efficient real estate markets create opportunity. International opportunistic funds have outperformed U.S. funds for the past five years.

Global access to institutional real estate across mature and emerging markets outside of the U.S. was reviewed. The U.S. markets are highly mature with few development opportunities available. Investing globally offers the ability to get into markets that have not matured.

The market transparency index versus the forecasted GDP percent of growth by country was reviewed. It revealed that diversified exposure in emerging markets could provide higher opportunities for growth.

Investing in an international fund of funds partnership smoothes out the risk and the manager understands the due diligence process. Because of Mesirov's relationship with Courtland, they have access to these top tier fund managers.

MFIRE's international strategy is looking at Morgan Stanley, Redwood Grove International, JER Companies and Angelo Gordon & Company as potential managers. These managers do not invest in blind pools or alternative investments.

The first close is scheduled for June 1, 2007 with targeted funds of \$50 million. They have \$55 million in the pipeline and plan their second close at the end of June at approximately \$100 million.

Management fees are 1% on committed capital. After seven years the fee reduces to 90%. Their preferred return is 9%. For incentive purposes, there is a 5% return for the general partner for any profits over the 95%/5% split. The 1% management fee is ongoing.

The international PPM is completed, but is not in the presentation book. The domestic PPM has not been completed so neither can be disclosed. Mr. Gray said that he would like to see the PPMs for both funds.

Tracey Shinkle added that the minimum investment is \$2 million.

Mr. Landis and Ms. Shinkle left at 10:10 a.m.

Mr. Gray stated that Andrew Kelsen has been to the Courtland Partners Offices in Ohio. He feels they have a good thorough due diligence process.

Trustee Lee asked if the 5% return is typical. Mr. Gray said that it is common in international real estate but unclear if that also applied to domestic real estate funds.

First Quarter 2007 Performance Review

Mr. Gray commented that the information flow out of CAPROC has dried up. He reported that ex-CAPROC the total plan is 20 basis points above the policy benchmark. The total plan performance for the three month at 2.4%, the one-year at 9.6%, the three-year at 9.1% and the three-year international equity at 16.9% under performance. The plan is still above the actuarial assumption rate.

The five and ten-year performance is above the benchmark and on a risk-adjusted basis is doing well.

Domestic equity performance was reviewed. Montag & Caldwell has been terminated and their assets have been transferred to the Northern Trust Russell 1000 Growth Index Fund. The fund is doing well with performance for the period of 1.3% with rankings in the upper quartile.

Large cap index funds have been most effective. However, 85% of active large cap managers are unable to beat the index. A combined 64% of large, mid and small cap active managers under performed the index.

There seems to be a trickling down to mid cap with Munder Capital's three month performance at 5.4% versus the benchmark at 5.8%. Their three month performance out performed the median manager and was ranked in the 24th percentile with their one-year performance in the 79th percentile. Their under performance can be attributed to a slight underweighting in healthcare and consumer discretionary sectors.

Loomis Sayles is doing very well. Their performance ranked in the 3rd percentile for the quarter, the 14th percentile for the year and the 1st percentile for the three-year period. For the period, their total returns were 4.4% versus the benchmark at 1.5% and the median small cap value universe at 2.1%. Their performance can be attributed to good stock selection and an under weighting in financials.

It is too early to measure the international equity performance since this is the first full month of management for both managers. Wentworth's performance for the period was 5.5% and Boston's was 1.1% versus the benchmark at 2.6%. The MSCI EAFE index returned performance of 5.25% for the month.

Gerald Thunelius is now rebuilding the fixed income team at Oppenheimer Capital due to some personnel changes. They typically invest in high quality bonds and currently have 64% to 65% in AAA rated bonds. Fixed income managers are currently seeing bond maturities in the four to six year intermediate range.

Now that the fund has a true high yield junk bond manager in DDJ Capital, performance measurements versus the benchmark will be more accurate. They currently have 48% invested in CCC bonds and 17% invested below CCC. Their performance of the period was 3.2% versus the benchmark at 2.7%. Ten basis points of performance can make a big difference. Their performance ranked in the 4th percentile for the quarter.

American Realty Advisors has closed on three new investments since the fourth quarter of 2006. Their current allocation is \$5 million with their current market value at \$2.5 million.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

Police & Fire Regular Meeting
May 31, 2007

Trustee Lee stated that there is a question regarding the redeposit memorandum sent from Deborah Munson. The members wonder why there is a waiting period before they can pay back their withdrawn contributions. There is also the question whether a member who was fired and then brought back is subjected to the waiting period. Ms. Zimmermann said that the ordinance states there is a waiting period. Trustee Lee asked if there are any legal or financial reasons for the waiting period. Ms. Billings said that the only way to change the waiting period is through collective bargaining.

He also stated that given the possible impending financial crisis of the City, there are twenty to thirty members who are close to but do not have their ten years. They are concerned about the impact to their retirement benefits. He asked if there would be an impact to the system if these members were allowed to vest.

He said that forty to sixty of the officers could be transferred to the Sheriff's Office. However, the County has a defined contribution plan. He asked what might happen.

Ms. Billings said that it depends if the plan is terminated or considered partially terminated by the IRS. If either is the case, all member would automatically become vested. In the alternative, there could be a bargaining provision for those who are close to vesting to receive a benefit based on their current service credit. Or they could negotiate to have the present value of their benefit transferred to the defined contribution plan. Ms. Zimmermann said they also have the Reciprocal Act which allows the members to use their service credit for County vesting purposes. She stated any added benefit or provision would require a cost study.

Trustee Lee said that the members are concerned about both their pension and healthcare benefits. Ms. Zimmermann stated that those who are vested can draw their benefit at age fifty. She also said that the easiest way to insure the members receive their benefits is to put the provision into the settlement document.

There was discussion on the best method to insure correct information is provided to the members. Ms. Zimmermann will work with Trustee Lee and the executive committee to obtain a list of questions from the members and provide written documentation back to the members.

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

Re: Staff

Ms. Zimmermann stated that she received the proposed actuarial fees from GRS for calendar year 2007.

Ms. Zimmermann requested that Roy Johnson be reimbursed the \$100.00 missed appointment fee. He said that he was not given much notice to appear in court and is unable to locate the documentation.

RESOLUTION 07-029 By Lee, Supported by Cochran

Resolved, That the Board approve the reimbursement of the \$100.00 missed appointment fee to Roy Johnson.

Yeas: 3 – Nays: 0

Ms. Zimmermann reported that she received a letter from Judith Gracey who represents Carolyn Gracey the minor child of deceased retiree Darryl Gracey. She is requesting a legal opinion on why the minor child is not eligible to receive healthcare benefits.

Re: Legal

Ferro Corporation Litigation

Ms. Billings reported that this matter is still in the summary disposition phase. They are waiting for the judge's decision.

United Rentals

Ms. Billings reported that this matter is in the discovery phase of litigation.

Jarden

Ms. Billings reported that this matter is in the discovery phase of litigation.

Fossil, Inc.

Ms. Billings reported that this matter is in the initial discovery phase of litigation.

Tempur-Pedic International, Inc.

Ms. Billings reported that this matter is in the initial discovery phase of litigation.

Ordinance Cleanup

Ms. Billings reported that she has sent two letters to the President of City Council requesting that the ordinance be put on the agenda for approval. She will continue to follow-up.

Prosser Domestic Relations Order

Ms. Billings reported that she has certified the Prosser EDRO.

Norbert Domestic Relations Order

Ms. Billings reported that she has certified the Norbert EDRO.

Bernstein Litowitz portfolio Monitoring Report First Quarter 2007

Provided for trustee information.

Lerach Coughlin Portfolio Monitoring Report Quarter Ended December 31, 2006

Provided for trustee information.

Carolyn Gracey

Police & Fire Regular Meeting
May 31, 2007

Ms. Billings reported on the Carolyn Gracey situation. She is the eleven-year-old minor child of deceased retiree Darryl Gracey who now has no pension or healthcare benefits. The Board has no control over healthcare benefits. She also is not eligible for a pension benefit.

Ms. Gracey is represented by Judith Gracey who has been very persistent pursuing this issue. Ms. Billings stated that the ordinance clearly states that the minor child is not eligible to collect a pension benefit. She recommended that the Board follow the ordinance and said she will respond to Judith Gracey.

Retirement System as Independent Employer

Ms. Billings stated that she has reviewed the case between the City of Detroit and the City of Detroit Retirement System. Public Act 314 states that the system can use system income to retain services to conduct the necessary business functions of the fund. This gives the retirement system the authority and ability to become an independent employer.

In 1985, there were a lot of conflicts between the City of Detroit Retirement Systems and the City. The retirement system was in the process of suing the City for owed contributions and the City was mandating that they must use the City's legal counsel. The Court ruled that the retirement system had the right to retain their own independent counsel in the event of a conflict.

In 2006 an unpublished Court of Appeals ruling took it a step further stating that there are no requirements for a conflict. With an unpublished opinion they are not 100% bound to decision. However, an unpublished opinion is persuasive authority.

There is the issue that one position in the Retirement Office is a union position which is vulnerable to employee bumping. Given the sensitive nature of the information in the Retirement Office, perhaps the union would be willing to put a concession in the contract which would eliminate bumping.

Trustee Miller said that the Board would take this under advisement.

RESOLUTION 07-030 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the closed session minutes from the February and March, 2007 meetings.

Yeas: 3 – Nays: 0

Re: Union Representatives

NEW BUSINESS

Re: Declaration of Police Employee Trustee

Ms. Zimmermann reported that Trustee Lee has been re-elected to the office of Police Employee Trustee.

RESOLUTION 07-031 By Cochran , Supported by Miller

Whereas, a vacancy will occur on the Police and Fire Retirement System Board of Trustees when the Police Employee-Trustee term expires on June 30, 2007; and

Whereas, all members of the system have been given the opportunity to file nominating petitions for the vacant trustee term; and

Whereas, only one nominating petition has been filed for this vacancy;

Now, Therefore, Be it resolved, that the Board of Trustees hereby declares that Brian Lee, an employee of the Police Department, having met all requirements to serve as Employee-Trustee, is officially elected to the office of Police Employee-Trustee for a term beginning on July 1, 2007 and expiring on June 30, 2010.

Yeas: 3 – Nays: 0

Re: Inter-fund Transactions

Ms. Zimmermann asked the Board to approve the periodic reimbursement of funds.

RESOLUTION 07-032 By Lee , Supported by Cochran

Resolved, That the Board of Trustees approve the inter-fund transactions.

Yeas: 3 – Nays: 0

Re: Proposed Actuarial Fees for Calendar 2007

Ms. Zimmermann requested that the Board approve the proposed actuarial valuation and regular retainer fees for calendar year 2007. These fees cover the 2006 valuation that is currently in progress.

RESOLUTION 07-033 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the proposed actuarial valuation and retainer fees for the 2007 calendar year for the City of Pontiac Police and Fire Retirement System.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

Re: Minor Children Issue

Ms. Billings stated that all the unions except Fire have negotiated to eliminate the re-marriage penalty.

She also pointed out the change under section 12 that read “after withdrawal from service with at least 20 years of credited service” has been changed to” receiving a retirement benefit”.

Re: Actuarial Search

Ms. Zimmermann reported that the General Employees Retirement System has joined the Police and Fire Retirement System in the actuarial search. She will schedule a joint meeting when there is a list of eligible candidates.

SCHEDULING OF NEXT MEETING – Meeting on June 28, 2007 at 9:00 a.m., in the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 07-034 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:54 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 31, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt