CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREE PREFUNDED
GROUP HEALTH & INSURANCE PLAN
"VEBA MINUTES"
MAY 31, 2012

Trustees Present	**Others Present**
Lon Britton	Laurance Gray, Gray & Company
Leon Jukowski *(arrived at 8:45 a.m.)*	Chris Kuhn, Gray & Company
John Naglick, Secretary	Denise Jones, Rodwan Consulting
Matt Nye, Chairman	Sandra Rodwan, Rodwan Consulting
Craig Storum	Matthew Henzi, Sullivan, Ward, Asher & Patton
	Ellen Zimmermann, Retirement Administrator
	Jane Arndt, M-Administrative Assistant

The meeting was called to order at 8:40 a.m.

AGENDA CHANGES - None

CONSENT AGENDA

A. Approval of Regular Meeting Minutes: April 26, 2012

B. Financial Reports

1. Consolidated Statement of Changes – April 2012
2. Accounts Payable:

a.	Bradford Marzec	$7,236.47
b.	Comerica	3,810.26
c.	Gray & Company	1,250.00
d.	Rhumbline	4,375.00
e.	Sullivan, Ward	5,145.00

C. Correspondence:

1. Correspondence from Bradford & Marzec Re: Newsletters
2. Correspondence from Pluscios
3. Correspondence from Rhumbline
4. Correspondence from Senate Fiscal Agency Re: Senate Bill 797

RESOLUTION 12-019 By Storum, Supported by Naglick
Resolved, That consent agenda for May 31, 2012 be approved.

Yeas: 4 – Nays: 0

TRUSTEE/COMMITTEE STAFF REPORTS

Ms. Zimmermann reported that the first step in the audit process has been completed. The cost for this year's audit is $7,170.00.

Trustee Naglick indicated that he is waiting for the actuarial valuation and the judgment before Judge Bowman that is still pending before issuing the budget report.

CONSULTANTS

Re: Gray & Company

2012 First Quarter Performance Report
Mr. Kuhn reported that equity performance was strong and fixed income performance was flat during the first quarter. The Total Plan performance was up 9.5% for the period and 1% ahead of the policy index as of March 31, 2012. One-year performance trailed the policy index at 2.8% versus 5.2%. The three-year performance captures the up market with performance of 20.71% versus 19.07%. The five-year performance numbers include the market rally and the credit crisis.

Trustee Jukowski arrived at 8:45 a.m.

Equally-weighted index manager Rhumbline returned performance of 12.61% for the period.

The Dodge & Cox International Equity Index Fund performance for the quarter was 13.76% versus the benchmark at 12.98%. This manager performs well in a good market but under performs in a bad market. Their one-year performance was below the benchmark at -7.61% versus -5.77%.

Fixed income manager Bradford Marzec recorded performance of 2.17% versus the benchmark at 0.30% for the quarter due to their overweight to corporates.

Hedge fund of funds manager Pluscios performed well versus its peers at 5.89%. This manager helps dampen the volatility in the portfolio. Their one-year performance is down at -2.83%. This is a difficult time in the hedge fund space.

He provided an overview of the updated market values. The Total Plan value as of March 31, 2012 was approximately $31 million and as of May 25, 2012 it was $28 million. The equity markets have been in a downward trend the past couple of months.

Mr. Kuhn indicated that $700,000.00 was taken out of the Fund to reimburse the City for healthcare costs.

Bradford Marzec has a couple of issues that are below investment grade. These are unacceptable based on Public Act 314. These three securities are decent securities and they can hold them for the time being. However, they will make them aware of the language in the IPS that indicates two rating agencies have to rate them as investment grade and that they have to comply with the Investment Policy.

Large Cap Index Strategy
Mr. Kuhn said that this review is to determine how the various large cap strategies would affect the Fund's performance.

Trustee Britton stated that he asked about the lack of mega cap and an overweight to mid cap exposure in the portfolio.

They are reviewing the S&P 500 Index, the Equally-Weighted S&P 500 Index, the Russell 1000 Index and the Russell 1000 Growth and Value Indexes.

The S&P 500 Index's top ten holdings in 1999 were overweight to technology when the tech wreck occurred. The holdings were decent over the next few years after the tech bubble. The best technology names have risen to the top. The top ten holdings represent names that move in and out.

He reviewed the historical returns for the period ending March 31, 2012 with regard to standard deviation, performance symmetry and risk wise. He indicated that the drawdown periods are the very worst performance periods (a statistic from the hedge fund world). The statistic measures from peak to trough of a performance cycle.

The maximum worst drawn period occurred during the credit crisis. The equally weighted strategy performed the worst at -49.22%.

During the second worst drawdown period from the second quarter of 2000 through the third quarter of 2002 the equally weighted outperformed the other indexes at -29.11% versus the S&P at -43.75% and the Russell 1000 Indexes at -43.9%.

He described the calendar year returns by decade for the strategies. During the 1990's the S&P was the top performer. During the 2000's the equally weighted strategy was the better performer. The equally weighted strategy had a smaller capitalization and was less growth oriented.

He explained the quarterly returns by percentile. This view shows that the equally weighted strategy was slightly more volatile.

The rolling one-year returns by percentile indicate that the worst quarter is brought back in line for the equally weighted strategy and all strategies are basically even.

The rolling three-year returns indicated outperformance on the low end and under performance at the high end for the equally weighted strategy.

He explained that they have created customized passive approaches. The Customized Equal Weight with a Capitalization Bias 1 is constructed with 33% in the fifty largest stocks of the S&P (equally- weighted) and 67% in the other 450 stocks (equally-weighted).

The Customized Equal Weight with a Capitalization Bias 2 is constructed with 40% in the one hundred largest stocks of the S&P (equally- weighted) and 60% in the other 400 stocks (equally-weighted).

The Customized Equal Weight with a Dividend Bias is constructed with 40% in the one hundred largest stocks of the S&P (equally- weighted excluding non-dividend payers) and 60% in the other 450 stocks (equally-weighted excluding non-dividend payers).

He reviewed the total returns of the equal weight constructed portfolios. All performed similarly. Their data was not as robust and only went back to 2002. The Equally Weighted S&P 500 performed the best over the ten-year period at 7.09%.

Trustee Nye asked if there is a reason why you would want to exclude the non-dividend payers.

Mr. Kuhn indicated that it would not include Apple.

Their conclusion is that the capitalization weighted indexes exhibit similar performance characteristics. The equally weighted S&P 500 Index and the customized equally weighted approaches also display similar performance characteristics. However, the two methods tend to provide different performance patterns.

There is a compelling argument for using an equally weighted strategy. Historically, the equally weighted strategies have a slightly higher standard deviation. However, the volatility is due to the higher returns generated by the strategies. Over longer periods the strategy has exhibited less volatility as measured by the rolling three-year returns.

The equally weighted strategy is underweight to mega cap names. The top eighty to eight-nine names supply 88% of the performance which means performance rises and then goes down.

Trustee Britton said that he is concerned that $10 million is invested in the S&P equally weighted strategy and $4 million is invested in a SMID strategy.

Mr. Kuhn stated that he checked with Munder Capital and 30% of their portfolio is invested in SMID.

Trustee Britton said that he is concerned and questions how much risk they should be taking with this Fund and whether it is properly allocated or over allocated to the small cap space.

Mr. Kuhn indicated that it comes back to the risk tolerance of the Fund. The equally weighted strategy has performed well over the past thirty years.

Trustee Britton said that it is not in terms of the names it is in terms of the capitalization.

Mr. Kuhn stated that Broadview has a $2.8 billion capitalization which is on the small side for mid cap. Small cap averages between $500 million and $2 billion. The mid cap range is $2 billion to $8 billion and large cap starts at $10 billion to $15 billion.

Trustee Britton asked what the total capitalization of the portfolio is. He would like to see the data.

Mr. Gray asked if Trustee Britton is concerned that there is too much risk based on the capitalization of the portfolio.

There was a discussion about dividend paying stocks.

Trustee Britton stated that the smaller names usually take the hit first in a recession. This portfolio cannot take a lot of volatility. He thanked Mr. Kuhn for putting this information together. It is probably in the right space but he still feels there is too much SMID exposure in the portfolio.

He just wants to make sure the portfolio is protected and properly allocated for the long-term or a recession.

Chairman Storum stated that they could look at replacing Broadview with large cap.

Trustee Britton stated that he likes small and mid cap but he is concerned with the volatility.

Mr. Gray said that large cap does a good job of weathering the storm. They can bring back information including the dividend-paying securities.

Trustee Britton stated that he is an absolute return guy versus a relative return guy.

Chairman Storum indicated that the complexion of the Fund has changed and the uncertainty of the contributions.

Mr. Kuhn said that they can take a look at the overlap in the portfolio.

Re: Sullivan, Ward, Asher & Patton

<u>IRS Request for Form 990</u>
Mr. Henzi reported that they are still waiting for the reply from the IRS. They are also in the process of filing a Form 1024 which is an Application for Recognition of Exemption under Section 501A to restore the exemption.

<u>Non Payment of Contributions FY2011</u>
Mr. Henzi indicated that the trial was held on May 11, 2012 but the Judge did not make a decision. They have more briefs to file.

RESOLUTION 12-020 By Britton, Supported by Storum
Resolved, That the Board move to closed session to discuss pending litigation.

Yeas: 5 – Nays: 0

The Board moved to closed session at 9:17 a.m.
Ms. Arndt, Mr. Gray, Ms. Jones, Mr. Kuhn & Ms. Rodwan left at 9:17 a.m.
Trustee Jukowski left at 9:56 a.m.
The Board returned from closed session at 10:16 a.m.

The meeting resumed at 10:21 a.m.

RESOLUTION 12-021 By Storum, Supported by Britton
Resolved, That the Board declines to accept the settlement offer from Elbert Hatchett and will continue to pursue the frivolous lawsuit and appeal.

Yeas: 4 – Nays: 0

RESOLUTION 12-022 By Storum, Supported by Britton
Resolved, That the Board pursue a course of action in the matter as discussed in closed session regarding the Emergency Manger Executive Order and its pertinence to the VEBA Trust.

Yeas: 3 – Nays: 0
Abs: 1 (Naglick)

UNFINISHED BUSINESS

Re: Non Payment of Contributions – Refer to Legal (Closed Session)

Re: Contribution Invoices July – December 2011
Ms. Zimmermann reported that these contributions have not been paid.

Trustee Naglick said that he would like to review the invoice to the City and how Ms. Munson bills the percent of payroll.

Re: Tax Exempt Status – Refer to Legal

NEW BUSINESS

Re: Rodwan Consulting – 2011 Valuation
Ms. Rodwan stated that they have been focused on completing the valuation report and supplemental valuation report for the Pension System so she does not have the VEBA Report completed.

Trustee Naglick asked when it will be completed.

Ms. Rodwan noted that it should take several weeks to finish.

Trustee Naglick indicated that the Actuarial Recommended Contribution in the 2010 Actuarial Valuation indicated a 58.72% percent of payroll or $3.9 million as of December 31, 2010. He would like to recommend that the City is billed based on a dollar amount versus a percent of payroll.

Ms. Rodwan indicated that they would have used the dollar amount.

Trustee Naglick stated that he want to make sure that the City is billed for the $3.9 million.

Ms. Rodwan stated that with the police leaving in July, 2011 the unfunded accrued liability will be higher.

Trustee Chairman stated that the Fund is losing interest since the City is no longer paying bi-weekly.

Ms. Rodwan indicated that they use past practice so the change in payment timing has no affect.

Ms. Zimmermann noted that the Fund uses the contribution rate for two years instead of changing in the middle of the City's fiscal year.

Trustee Britton asked that Trustee Naglick get a copy of the report when completed and that the Board will adopt it at a later date.

Trustee Naglick indicated that he needs to plug the number into the City's budget so they can determine if they have enough money to pay their billions.

Ms. Rodwan said that he could use the supplemental valuation. She understands the urgency.

SCHEDULING OF NEXT MEETING & ADJOURNMENT
Regular Meeting – May 31, 2012 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

ADJOURNMENT

RESOLUTION 12-023 By Britton, Supported by Jukowski
Further Resolved, That the meeting be adjourned at 10:31 a.m.

Yeas: 4 – Nays: 0

I certify that the foregoing are the true minutes of the Police & Fire Retirement Pre-funded Group Health and Insurance Plan "VEBA Trust" on May 31, 2012.

John Naglick, Secretary
As recorded by Jane Arndt