

**PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
SPECIAL MEETING
JUNE 5, 2013**

A Special Meeting of the Board of Trustees was held on Wednesday, June 5, 2013, at the Shanty Creek Resort, Bellaire Room, Bellaire, Michigan. The meeting was called to order at 10:03 a.m.

TRUSTEES PRESENT

Lon Britton
John Naglick, Secretary
Craig Storum, Chairman

TRUSTEES ABSENT

Leon Jukowski, Mayor (*absent*)
Matthew Nye (*excused*)

OTHERS PRESENT

Chris Kuhn, Gray & Company
Chuck Wytrychowski, Plan Manager
Liz Edwards, Assistant Plan Manager
Jennifer Lundmark, American Realty Advisors
Ashley Cassel, Artio Global Advisors
Pat Maldari, Artio Global Advisors
Cristina Elias, Franklin Templeton
Harry Phinney, Franklin Templeton (*phone*)

Ruby Dang, Garcia Hamilton
Jeffrey Detwiller, Garcia Hamilton
Joseph Beuparlant, Loomis Sayles
Todd Fowler, Mesirow Fin. Inst. Real Estate
Andrea Leistra, Munder Capital Management
Tom Mudie, Munder Capital Management
Eric Edmond, Thornburg Investment Mgmt.
Brian Forth, Wentworth Hauser
David Schwarzenberger, Wentworth Hauser

The meeting was called to order at 10:03 a.m.

ECONOMIC OVERVIEW / MARKETS ROUNDTABLE

Mr. Kuhn welcomed the managers, began the introductions and explained the meeting format.

He asked the managers to give their opinions on the current markets, trends, possible new paths, etc. He also asked if they felt the equity market growth is for real or is it being pushed by the Fed.

Joseph Beuparlant from Loomis Sayles stated they believe the movements the Feds have made have been a driver, but it also is due to multiple expansions with corrections back to historical averages. Going forward, corporate America is in good shape but still constructive on equities, housing. Revenue growth is okay, and there is more run in equity markets.

Tom Mudie from Munder Capital stated they have seen higher earnings and growth. He stated that in the short run, markets may be overbought: earnings were up 30% last month, and 20% the prior month. They believe it will not be good if the Feds tighten or tries to tighten.

Jeff Detwiler from Garcia Hamilton stated they feel the Feds will tighten fiscal policy, and that interest rates will stay low.

Pat Maldari from Artio Global Advisors stated they feel the current recovery is different from prior years before 2007. We are still paying for it now. Low interest rates will last longer than we think, and the Feds will not do much.

Jennifer Lundmark from American Realty Advisors stated that real estate investors are looking at places where jobs are located such as Silicon Valley, Manhattan, etc.

Todd Fowler from Mesirow stated they believe there is growth in emerging markets.

David Schwarzenberger from WHV stated they believe GDP levels are leveling on a global range.

Trustee Britton asked the group if they feel the Euro is going up or down. All agreed they believe the Euro is going up. Pat Maldari believes it is still struggling, and the majority feels it is slowly picking up.

Mr. Kuhn commented that unemployment seems stuck, and needs to move closer to the 6½% level. More employment needs to occur with roofers, tilers, and others associated with the housing market. Ashley Cassel stated there is not a lot of new investment, but there is a lot of competition for existing structures. Todd Fowler stated that building permits are up, even in Miami, but at a slower pace. He commented that with real estate, you do not typically see immediate progress.

Mr. Kuhn commented that there is not much press coverage with respect to the International market any more. Pat Maldari stated that Europe seems to be where the U.S. was five years ago; they must fix the over-leveraged banking systems. Until then, it will remain suppressed and we are cautious. Eric Edmund stated there are lots of in / outs and sub-trends in Germany. Harry Phinney stated they are looking at opportunities in the periphery: Hungary, Poland, and Ireland.

Mr. Kuhn asked if the Eurozone is playing nice together now, or is Germany dictating, or do we not care. Harry Phinney believes Germany is dictating, and that perhaps Greece and Portugal will exit. Brian Forth and David Schwarzenberger believe we should look at growth outside of Europe, and that things are undervalued in the Eurozone.

Mr. Kuhn asked about Japan. There has been no growth for twenty years, and asked if now, with new leadership, will that change. Harry Phinney believes they will print \$1.5 trillion in 18 months, which is the easy way out, and not healthy in the long term.

Mr. Kuhn asked if there will be reversions to five years ago. Harry Phinney stated we have to be careful, and Pat Maldari agreed.

Mr. Kuhn stated that the Central Bank will have to taper; when will it happen, and what are the consequences. Tom Mudie stated any time the Feds do something, it is a big deal. He does not

know when a tapering will occur. Jeff Detwiler believes it is premature to talk about tapering or when it will occur. Eric Edmund looks at 2015 as the year that the stimulus will be removed, and if we continue on this path, rates will increase. Harry Phinney agrees this will eventually happen after employment increases; there is still a slow increase in interest rates. Eric Edmund wonders if rate hikes and liquidity growth can coexist. Joe Beuparlant states that looking forward to 2015, things will be well-telegraphed from the Feds. They will sprinkle it in, and it will be a slow process.

Trustee Britton asked if small entrepreneurship is up nationally or is it peculiar to this region. Todd Fowler believes it is locale specific. Jennifer Lundmark believes the industrial sector is attractive right now, and smaller national companies are getting healthier.

Mr. Kuhn asked given the Pension Fund's responsibilities, given the low interest rates, what do they recommend to the Fund. Andrea Leister commented that an investment policy is for the long term. Clients are adding core-plus funds, conservative and low yield funds, emerging markets, and international small caps. Jeff Detwiler believes fixed income funds will not be as generous in the next few years as they have been in the past, but advises not to trim them back too much. Todd Fowler would look at emerging markets, is concerned with near term growth, and would advise getting back into Europe / Japan. Pat Muldari and Ashley Cassel would look at global investments. Eric Edmund believes FI is a diverse asset class. Harry Phinney believes interest rates will increase, and groups should look to emerging markets. Brian Forth and David Schwarzenberger would look at growth, emerging markets, international small cap, and frontiers. Jenn Lundmark would look at core real estate. Joe Beuparlant would look at fixed income, and bank loans.

Mr. Kuhn asked about commodities. Harry Phinney has a commodity theory. Jeff Detwiler believes commodities to be an interesting diversifier.

Break for lunch at 11:45 a.m.

Return from lunch and call to order at 12:18 p.m.

MANAGER PRESENTATIONS

Loomis Sayles, Small Cap Value
Joseph Beuparlant

Mr. Beuparlant stated there have been no changes to the team in the last year. Sales continue to grow in both bonds and equities. He stated he has been with Loomis since 1998. They have performed well over the last 10 years. It lagged a bit in 2012. There are not many compelling small cap financials – they are underweight. They always invest in high quality offerings. There are no changes in their strategy approach: bottom-up, stock by stock. In the past twelve months, they have outperformed in seven out of ten months. They will probably have high single digit returns this year. There is no REIT exposure.

***American Realty Advisors - Real Estate
Jennifer Lundmark***

Ms. Lundmark began by describing what is driving growth and where they are looking to acquire new properties. They are continuing to grow and will probably attain \$6B by the end of 2013. They are continuing to hire new employees. She discussed investment history, and stated they expect a 10% - 12% return for 2013. They are positioning the fund to be more urban. They want to be closer to the NFI ODCE index. The two-year plan is to invest \$1B in assets.

***Wentworth, Hauser & Violich – International Equity
David Schwarzenberger, Brian Forth***

Mr. Forth stated there had been recent personnel changes within the organization, however there was no change in ownership or to the legal or international teams. The president / CEO did retire in 2012. Andrew Turner is the new president / CEO. Mr. Turner plans to grow the firm and the product base. Since inception, they have outperformed their benchmarks, however in 2012 and the first quarter of 2013 they underperformed their benchmarks. They are now investing in suppliers in emerging markets. They are underweighted in the financial sector.

***Franklin Templeton – Global Fixed Income
Cristina Elias, Harry Phinney (phone)***

Mr. Phinney stated that they are up 15% for the one-year period. They believe we are in a rising rate environment. They are moving assets to emerging markets, about 50% at this time. They are beginning to see a slow growth rate. They expect currency to be driving the market going forward.

***Artio / Aberdeen Global Investors – High Yield
Ashley Cassel, Pat Maldari***

Ms. Cassel discussed the recent purchase of Artio by Aberdeen. Aberdeen bought Artio for its global fixed income portfolio. They retained both of Artio's global bond and fixed income teams. Artio International had lost a lot since the downturn, but things are beginning to turn around.

***Garcia Hamilton – Fixed Income
Jeffrey Detwiller, Ruby Dang***

Mr. Detwiller commented that the portfolio increased by 7.04% over the past twelve months, outperforming the 3.53% return of the benchmark. He stated they are overweight in non-Treasury securities since the recession. Going forward, they look to increase the bond ratings.

***Thornburg Investment Management - International Equity
Eric Edmund***

Mr. Edmund stated that the Company's philosophy is for promise and discount. Historically they have been underweight in Japan. Japan is not as transparent or as focused on its shareholders. Amounts invested in emerging markets are limited to a 30% maximum.

***Mesirow Financial International - Real Estate
Todd Fowler***

Mr. Fowler stated the Company has 17 global managers, each of whom manage approximately \$10M - \$15M. Their five-year numbers are time-weighted, and today are 60% - 70% funded. Gross increases are at 4.04% since inception, and he expects an 8.7% internal rate of return, which would be in the top quartile. The fund may be done in 2017 or 2018.

***Munder Capital - Mid Cap Equity
Andrea Leistra, Tom Mudie***

Ms. Leistra commented there have been no changes to the team in the last year. PSN lists them among the top managers for the fourth consecutive year. Growth stocks lagged value stocks over the last year, so they underperformed.

MEETING WRAP-UP

Trustee Britton stated that we have no control over International Emerging Markets, and asked if we should increase our exposure.

Mr. Kuhn commented that International Emerging Markets were more volatile ten years ago, and this is the most volatile holding in the portfolio. We could look for an emerging market manager. He commented that we should study what we want the fund to look like as far as financial investments, equities, and alternative investments, then structure it accordingly.

The meeting adjourned at 3:30 p.m.