

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

June 28, 2007

A regular meeting of the Board of Trustees was held on Thursday, June 28, 2007 in the Shrine Room, Main Level, City Hall, Pontiac, Michigan 48342. The meeting was called to order at 9:06 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Brian Lee

TRUSTEES ABSENT

Thomas Miller (*absent*)
Mayor Clarence Phillips (*absent*)

OTHERS PRESENT

Andrew Kelsen, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Beth Bialek, Plante Moran
Russell Bates, Madison Harbor Capital
Marc Petersen, Madison Harbor Capital
Jet Taylor, Metropolitan Real Estate
David Sherman, Metropolitan Real Estate
Ellen Zimmermann, Retirement Systems Administrator
Melissa Tetmeyer, Retirement Coordinator

CONSENT AGENDA

- A. Minutes of Regular Meeting: May 31, 2007
- B. Communications:
 - 1. Correspondence from ADP Re: Rate Increase Notification
 - 2. Correspondence from Boston Company Re: Merger with Mellon
 - 3. Correspondence from Mesirow Re: Client Roster
 - 4. Correspondence from Plante Moran Re: Bialy Sabbatical
 - 5. Conferences:
 - a. Guns & Hoses – Sept. 16-18, 2007
 - b. Private Equity Summit – Opal Financial - Oct. 1-3, 2007
 - c. Real Estate Investing Forum – Sept. 6-7, 2007
 - d. 12th Annual Fire & Police Pension Fund Summit – July 18-20, 20\07
 - e. Newport Cup of Indexing – IMN – July 19-20, 2007
 - f. NEPERS – July 19-20, 2007
 - g. ISCEBS – Employee Benefits Symposium – IFEBP – Sept. 16-19, 2007
- C. Financial Reports:
 - 1. Financial Reports – May 2007
 - 2. Commission Recapture Report – May 2007
 - 3. Securities Lending – March 2007

4. Accounts Payable – June 2007

D. Disability Re-Examination:

1. Christopher Young

Miss Zimmermann noted that a correction needed to be made on page two of May 31, 2007 minutes. She stated that a wire transfer of \$4,694,705 million was completed with a total settlement value of \$15,589,000.

RESOLUTION 07-035 By Lee, Supported by Cochran
Resolved, that the consent agenda be approved as amended.

Yeas: 3 – Nays; 0

CONSULTANTS

Re: Plante Moran – 2006 Audit Presentation

Ms. Bialy presented the 2006 Police and Fire Financial Report for year ending December 31, 2006. She stated that the benefits currently being paid are significantly greater than contributions being received. The total fund return for the year was 10.8%. She mentioned that the net assets held in trust for pension benefits was \$268 million, the amount due to brokers as of December 31, 2006, was \$400,000 and referred to the balance sheet. With contribution rates being the same as the previous year, the net increase for 2006 was \$17.9 million.

She noted that the number of retirees rose from 354 members to 367 members. She discussed credit risk and noted that as of December 31, 2006, the investment in CAPROC which totaled approximately \$14,321,000 represented more than 5% of the net assets and required disclosure. She said that in April of 2007, the System entered into an agreement with CAPROC. In exchange for the System's interest in the investment, the System received \$4.7 million cash as well as an interest in a related mortgage company valued at \$1.7 million and the rest as a receivable over 30 months. As of December 31, 2006, the investment was valued at \$15.6 million.

She stated that as of December 31, 2006, the System's reserves have been fully funded. The reserve for employee contributions was \$3.5 million and reserve for retired employees was \$148 million. She stated that with \$253 million in assets and \$230 million in liabilities, the System was almost \$24 million over-funded which is about 110% funded. Ms. Bialy discussed contribution history stating that the requirement has been increasing over the last four years. She stated that there are 250 members not covered by the VEBA. Chairman Storum questioned if that was the City and not the Police and Fire fund. Ms. Bialy confirmed that is the case.

She suggested document storage should be done electronically. She suggested that when the bank reconciliation is prepared by Ms. Munson, Retirement Accountant, that Ms. Zimmermann make documentation of her review. Ms. Bialy said Ms. Zimmermann and Ms. Munson continue to do an outstanding job and the audit went very smooth.

RESOLUTION 07-036 By Cochran, Supported by Lee
Resolved, That the Board of Trustees accept and file the 2006 Police and Fire Retirement System
Financial Report.

Yeas: 3 – Nays: 0

Ms. Bialy left at 9:21 a.m.

Re: Gray & Co.

Real Estate Search

Mr. Kelsen indicated that two potential managers would present today. The presentation is for a domestic real estate fund of funds. Chairman Storum asked whether the CAPROC investment had been classified yet. Ms. Billings replied that she is still looking at it. Mr. Kelsen said the real estate target allocation is \$20 million.

Madison Harbor Presentation

Mr. Bates said this is a fund of funds. Real estate is a good diversifier. The best opportunity is to hire managers who add value. They invest in value-added and opportunistic strategies in 100% occupied properties. There are 200 properties in the fund and they are geographically diversified. They have the most experience in the fund of funds arena. They understand the cycles. Managers take properties and improve them to increase cash flow for a 13-15% return. They are the partner of choice in substantial real estate advisory roles. They have a complete team and the infrastructure to implement this strategy. They deal exclusively in real estate funds. It takes 200 man-hours to approve a fund.

He discussed the primary (new product) and secondary (improvements) markets stating that 20% is in secondary in this fund of funds. There are 380 funds in the database. They are risk focused and review investments down to the property level. They focus on active management and perform quarterly and annual reviews.

The Madison Harbor Fund will be \$150 million with a return of 13-15%. All of the managers have Masters' degrees in real estate. Mr. Bates reviewed the approval process and the selection criteria indicating that they look for alignment with the managers and repeatability of the strategy. He provided examples and emphasized that experience is at the property level.

Chairman Storum asked about the use of leverage. Mr. Bates replied that they are seeking 60-70%. They can take on additional for cash flow needs but it is cleared quarterly. It is not used to enhance returns at the fund level.

Mr. Kelsen asked how many funds there are. Mr. Bates replied that there will be ten to fifteen. Due diligence is focused on opportunistic and value added since core is not adding much return. As returns increase, so does the manager's contributions. This is a ten year fund but there is a secondary market. By the 6th year most of the investment will be returned. By the 8th year the profits will be back substantially. They have 20 hard commitments and 50 soft commitments.

Trustee Cochran left at 9:55

Fees are a 1% asset management fee; 5% after the 10% preferred return on capital. Trustee Lee asked when the closing is expected. Mr. Bates said the first closing is expected in the fall. They have a property level understanding and support investors throughout the process.

Trustee Cochran returned 9:57

Mr. Kelsen said that managers say no one puts them through the level of due diligence that Madison Harbor does. Chairman Storum asked whether there is increased risk with value added and opportunistic. Mr. Kelsen said diversification dampens the risk. Both managers in today are the best of the best. Madison Harbor's expected 13-15% return is likely a bit low. They have access to the best of the best.

Metropolitan Presentation

Mr. Taylor and Mr. Sherman presented Fund V. Mr. Sherman said Metropolitan is an independent privately owned company with an investment team of seven people. Seven are general partners and they each invest \$1 million a year in the product. They are a registered investment advisor and comply with PA 314. Their clients include more than 100 institutional investors. They have \$900 million in assets under management. They invest in value added and opportunistic strategies and returns are in the low teens.

Trustee Cochran left at 10:09

This fund will close at \$300-500 million and they currently have \$160 million in commitments. Mr. Sherman related that the firm has an edge in their ability to access and source managers, intense original research and the judgment and experience of a seasoned team. He reviewed the property types, geographical distribution and size of the properties. They look at all the properties in the nation and interview everyone. He reviewed the personnel.

Their strategy dictates that they are cautious about getting into the market at the proper valuation. He discussed workforce housing in New York as an example of a 7-10 year term investment. He discussed the market saying that core properties are fully priced. There are opportunities in value added, opportunistic and distressed markets. Return expectations are 13-15%. Office fundamentals are still strong. They keep funds relatively small with mid-sized funds in the U.S.

Trustee Cochran returned at 10:27

To be specialized experts they use smaller firms. For purposes of diversification, they have 20% in each office, apartment, industrial sectors in a minimum of fifteen markets. No single market is more than 15% of the portfolio. They look at each fund that comes to market; over 100 each year.

Mr. Taylor said they look at markets from the top down. They look more carefully at recent deals than anyone else. They are very active document negotiators and narrow the documents to their experience. Joint ventures take 300-400 basis points off returns.

MREP V is expected to provide 13-15% return. Minimum investment is \$1 million. The term is 10 years with return of capital expected in 3-4 years. The fee is 1% up to \$5 million: organization fees are capped at \$250,000. The distribution of cash flow is 9% preferred return, 100% return of capital to investors, 100% to the general partner until it gets 3% of all profits and thereafter, 97% to investors and 3% to the general partner.

By Christmas 75-80% of managers will be selected. There will be one third capital call each year for three years. The holding period is 3-5 years, possibly 2-3 in some cases. All capital will be returned by the end of the 6th year. Distributions will begin at the end of the first year.

Mr. Sherman discussed their international product stating they have been investing overseas for three years. They have two international funds. All partners have significant overseas experience and he worked on the first global real estate product at Smith Barney – he has experience on the ground. This will be a fund of 9-11 fund investments. Geographically, they will be a little more concentrated with a higher weighting in the U.K. (capped at 40%). Non-Europe will not exceed 20% due to higher risks in Asia.

He said that the U.S. comprises 60% of the market and Europe is a much less efficient market. There are strong cultural barriers between countries in the European Union. The real estate industry is fragmented there and characterized by historically passive ownership. He gave an example of a distress property in Germany.

Fees will be the same as with the U.S. fund except a 95% / 5% split after the preferred return.

He summed up their competitive strengths as a seasoned team of seven professionals, experience, rigorous due diligence/research, access/relationships, and principals who invest directly alongside clients.

Discussion by the trustees followed the presentations.

Mr. Kelsen reviewed the MFire product by Courtland Partners (spun out of Townsend) saying that Mesirov has much experience in funds of funds and institutional real estate experience. This is their first fund and it is international.

RESOLUTION 07-037 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve Metropolitan for the domestic real estate mandate and Mesirov for the international mandate, subject to contract review.

Yeas: 3 – Nays: 0

Mr. Kelsen noted that the Board needed to increase American allocation to core real estate.

RESOLUTION 07-038 By Lee, Supported by Cochran

Resolved, That the Board of Trustees increase the core real estate allocation to American to \$10 million pursuant to the consultant's recommendation.

Yeas: 3 – Nays: 0

Northern Trust Collateral Changes

Ms. Zimmermann noted that the changes in the collateral pool at Northern Trust were not out of line. It was just information for the Board regarding securities lending.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees – None

Re: Staff

Manager Review

Ms. Zimmermann confirmed with the Board that the manager review was to be held at the Amway Grand Hotel in Grand Rapids. She was directed to schedule it September 19th and 20th.

Roy Johnson – Disability Retiree

Trustee Lee reported to the Board that he was informed by an outside source that Roy Johnson was working as a police officer in a neighboring community. Discussion followed as to what procedure the Board should take. Ms. Billings opined that it was the Board's responsibility to continue the income verification and re-exam as scheduled. Ms. Tetmeyer was directed to make note in the member's file.

Fotopolus Refund

Ms. Zimmermann stated that the City's payroll department over paid the separated firefighter in error. She informed the Board that we can hold his contribution refund, which was approved at the last meeting, for up to one year. Chairman Storum said he would speak with the member and suggest a payment plan be established to pay back the overpayment to the City.

American Reality Capital Call

Ms. Zimmermann informed the Board that this was done on July 2, 2007.

Semi-Annual Re-Balancing

Ms. Zimmermann will be working with Gray and will have it completed before the next meeting.

Ms. Zimmermann left at 11:29 a.m.

Re: Legal

Ferro Corporation Litigation

Ms. Billings advised that the Board follow the recommendation from Lerach Coughlin as to whether or not an appeal should be filed on this matter.

RESOLUTION 07-039 By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve Lerach Coughlin's decision of whether or not to file an appeal.

Yeas: 3 – Nays: 0

United Rentals Inc.

Ms. Billings noted that the minutes from October 28, 2004, resolution number 04-142 should be changed to reflect that the Trustees ratified the secretary's signature on the retainer agreement in the Maxim securities litigation and not United Securities as recorded.

RESOLUTION 07-040 By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve the change in the October 28, 2004, minutes to reflect that the Maxim retainer was ratified.

Yeas: 3 – Nays: 0

Maxim Integrated Products

Ms. Billings advised that the plaintiff in a separate state action against Maxim submitted a FOIA request to the Retirement System for documents that were privileged under attorney client privilege and subject to the Maxim litigation. She asked that the Board authorize her to respond to the FOIA in Ms. Zimmermann's stead.

RESOLUTION 07-041 By Lee, Supported by Cochran
Resolved, That the Board of Trustees authorize Ms. Billings to respond to the Maxim FOIA request.

Yeas: 3 – Nays: 0

In addition Ms. Billings stated that the same plaintiff in the separate action against Maxim served a subpoena upon the Retirement System to take the deposition of a representative from the Police and Fire Retirement System. Ms. Billings stated that Lerach Coughlin filed a motion to quash the subpoena. Ms. Billings will continue to update the Board regarding this matter. She noted that the settlement discussions have been ongoing with the defendant. As there is a possibility that a settlement will be reached prior to the next meeting she requested that a Trustee be

authorized to act on the recommendation of Lerach Coughlin with respect to any proposed settlement.

RESOLUTION 07-042 By Cochran, Supported by Lee

Resolved, That the Board of Trustees authorize Trustee Lee to act on behalf of the System with respect to a proposed settlement in the Maxim Integrated Products security litigation.

Yeas: 3 – Nays: 0

Fossil, Inc.

Ms. Billings stated that the defendant has approached Lerach Coughlin regarding settlement discussion. Ms. Billings will continue to update the Board regarding this matter.

Tempur-Pedic International, Inc.

Ms. Billings reported that they are continuing the discovery phase in this matter.

Ordinance Clean-up

Ms. Billings stated that this matter is still pending with Pontiac City Council. She will continue to keep the Board updated. Chairman Storum suggested that the issue be postponed until the City budget issues are resolved.

Post-CAPROC Settlement

Ms. Billings reported that legal counsel is preparing an LLC operating agreement for CAP Mortgage. In addition they are looking into discrepancies in the payoff amount of the R&R mortgage of \$1,311.40.

Police Vesting

Ms. Billings discussed the memo dated June 27, 2007, with the Trustees. She discussed the issue of vesting in the event of outsourcing police to Oakland County. Under the Internal Revenue Code, Governmental systems are only required to immediately vest all members upon plan termination or complete discontinuance of contributions under the plan. The union and City could however, negotiate immediate vesting for all employees including those laid off. Barring that, members with 30 months may be eligible under the Reciprocal Act. Discussion followed regarding health benefits and the Reciprocal Act. Ms. Tetmeyer was directed to draft a summary of the Reciprocal Act for member distribution.

Independent Employer

Ms. Billings said PA 314 permits using system assets to employ necessary staff. In the matter of the Board of Trustees of the Detroit General and Policemen and Firemen Retirement System vs. City of Detroit, the Michigan Court of Appeals held that the system has the right to be an independent employer under PA 314, but that PA 314 does not mandate it. Conflict between the system and the municipality does not have to be present. As an unpublished opinion it does not set precedent, but it is very persuasive. Discussion followed. Chariman Storum stated that the Board wanted to move forward at the appropriate time.

Carolyn Gracey

Ms. Billings stated that she has reviewed the situation and drafted a letter regarding the pension and would like to address the health care issue as well but can not locate anything in writing to give Ms. Gracey. Chairman Storum directed Ms. Billings to contact Risk Management.

FOIA-WXYZ

Ms. Billings informed the Board that the FOIA was sent to all of the local Retirement Systems. They were asked to provide all information related to trustee travel from January 2005 through present.

Re: Union Representatives - None

NEW BUSINESS

Re: Fotopolus Refund – See Staff Report

Re: American Reality Capital Call– See Staff Report

Re: WXYZ FOIA – See Legal Report

Re: Maxim Subpoena – See Legal Report

Re: Semi-Annual Re-Balancing – See Staff Report

UNFINISHED BUSINESS

Re: Actuarial Search

Ms. Zimmermann reported that the document is currently in process.

Re: Ordinance Clean up – See Legal Report

SCHEDULING OF NEXT MEETING –Meeting on July 26, 2007 at 9:00 a.m., in the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 07-043 By Cochran, Supported by Lee

Police & Fire Regular Meeting
June 28, 2007

Resolved, That the meeting be adjourned at 12:20 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 June 28, 2007.

Raymond Cochran, Secretary
As recorded by Melissa Teimeyer