

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
JULY 27, 2006**

A regular meeting of the Board of Trustees was held on Thursday, July 27, 2006 at the Municipal & Health Services Credit Union, 144 E. Pike Street, Pontiac, MI 48342, Lower Level Conference Room. The meeting was called to order at 9:01 a.m.

TRUSTEES PRESENT

Craig Storum, Chairman
Raymond Cochran, Secretary
Brian Lee

TRUSTEES ABSENT

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

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Stuart Tompkins, Sullivan, Ward, Asher & Patton, P.C.
Beth Bialy, Plante & Moran
Andrea Coffey-Stewart, Gray & Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: June 29, 2006
- B. Communications:
 - 1. Correspondence from Munder Capital Re: Portfolio Appraisal June
 - 2. Correspondence from Morgan Stanley Re: Portfolio Commentary June
 - 3. Correspondence from Northern Trust Re: EquiLend
 - 4. Conference Information:
 - a. Advanced Investments Management – IFEBP – Sept 25-28, 2006
 - b. Annual Employee Benefits Conference – IFEBP – Oct. 8-11, 2006
 - c. Guns & Hoses – IIR – Sept 17-20, 2006
- C. Financial Reports:
 - 1. Financial Reports – June 2006
 - 2. Accounts Payable – July 2006
- D. Remove from the Rolls:
 - 1. Robert Coffman (deceased 06-21-06)
- F. Refund of Accumulated Contributions:
 - 1. Megean Crampton – PPOA \$4,805.33
 - 2. Jacob Sedaway – PPOA 4,851.75

RESOLUTION 06-051 By Lee, Supported by Cochran
Resolved, That the items of the consent agenda for July 26, 2006, be approved.

Yeas: 3 - Nays: 0

CONSULTANTS

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

RESOLUTION 06-052 By Lee, Supported by Cochran

Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

Roll Call:

Trustee Lee- yea

Trustee Storum – yea

Trustee Cochran - yea

Moved to Closed Session at 9:03 a.m.

Returned From Closed Session at 9:30 a.m.

Re: Plante & Moran – 2005 Audit Presentation

Beth Bialy said Plante & Moran has completed the 2005 audit and has issued an unqualified (clean) opinion. She explained the Management Discussion and Analysis and reported that the investment returns were 6.05%.

She reviewed the Statement of Plan Net Assets. She said that the majority of accounts payable of \$300,227 was payment due to money managers. There were \$250,112,474 net assets held in trust for pension benefits.

She outlined the Statement of Changes in Plan Assets stating that the retiree pension benefit payments for 2005 were \$12,528,135 which changed very little from \$12.1 million in 2004. Interest and dividend income was \$2.9 million compared to \$5 million in 2004. Total employee and employer contributions were \$16.8 million. Total deductions were \$13.3 million with a net increase in assets of \$3.5 million. Total net assets held in trust for pension benefits ending December 31, 2005 were \$250,112,474.

She reviewed the Notes to the Financial Statements. She said that statistically there was very little change from 2004 to 2005 in number of employees both vested and non-vested. She discussed current required member contributions at 2.5% of their annual salaries.

Trustee Cochran left at 9:41 a.m.

Trustee Cochran returned at 9:42 a.m.

Ms. Bialy discussed GASB 40 risk reporting explaining the custodial credit risk, interest rate risk, credit risk and foreign currency risk.

Reserves for employee contributions were \$3.3 million with reserves for employees already retired were \$139.7 million.

Under the Required Supplemental Information she said that in the history of funding the plan this is the lowest funding ratio in six years at 110.8% as of December 31, 2004. She reviewed the history of the employer contributions to the plan stating that the employer has continued to fund its obligations 100%.

She discussed the comment and recommendations letter with the Board highlighting the GASB 45 and 43 requirements. She said that these requirements do not require funding, however, the difference of the annual required contribution and the actual contribution becomes a City liability and a reduction to the City balance sheet. She stated that GASB Statement 43 will become effective for the year ending December 31, 2007.

She said that they continue to point out the need for a document storage and disaster recovery solution for the Retirement Office. Ms. Zimmermann said that she had looked at a solution that the City of Ann Arbor is currently using. She is waiting to hear how well the indexing function of the application works in practice. Ms. Billings mentioned that she was recently in the Waterford Township Offices where they are in the process of transitioning their records using a digital imaging system. She said she would pass the information on to Ms. Zimmermann for her information.

Ms. Bialy concluded her presentation by adding that there were some miscellaneous minimal accounts payable/receivable matters that she recommended the Office reconcile.

Ms. Bialy left at 9:55 a.m.

Meeting Break at 9:55 a.m.

Meeting Resumed at 10:05 a.m.

Re: Gray & Company

DDJ Capital Management – High Yield Fixed Income

Ms. Stewart told the Board that Atlantic Asset Management has been terminated and that they are in the process of transferring funds to DDJ Capital Management. However, DDJ only accepts funds on the first of the month. Atlantic is scheduled to release 90% of assets held in management by August 1, 2006 which will be transferred to DDJ. The last 10% of assets will be released five business days later. These funds will be transferred to DDJ on September 1, 2006. She added that DDJ thanked the Board for their business.

International Equity Search

Ms. Stewart said that the Board had been concerned about Morgan Stanley's lack of performance and that they requested that Gray and Company bring a list of international equity managers for their review.

The summary list of potential managers was reviewed. Trailing year returns were discussed with Ms. Stewart telling the Board that the managers screened well against the EAFE index. She asked that the Board choose three or four managers out of the eleven for the final presentations.

Trustee Cochran commented that there is a contrast with the up and down market capture for consistency with Wentworth taking more risk. He felt that the down market capture makes them better.

General portfolio characteristics showed the number of holdings per manager. Ms. Stewart commented that thirty to sixty holdings is the median.

Market cap ranges were outlined showing which managers are willing to dip down to smaller cap holdings, a criterion the Board had mentioned previously.

Emerging market country exposure was discussed against the EAFE benchmark. This showed which managers had a more diverse portfolio. Trustee Lee questioned Wentworth's 0% exposure in Japan against the EAFE's 24.5% exposure. Ms. Stewart said that this was a snapshot of June 30, 2006 and that she is sure they invest in Japan.

Ms. Stewart examined the three year and five year risk return charts. She told the Board to look for managers in the northwest quadrant pointing out that Boston provides high reward with low risk. She compared the managers on the charts with good performance but took more risk.

She referred to the manager biographies near the back of the report. She said that a description was included for each manager along with their investment philosophy. She asked the Board if they had any questions.

There was a question regarding Oppenheimer's performance. Ms. Stewart said that their three-year performance was not above the EAFE benchmark due to two bad stock picks other than that their performance has been good. She said that Larry Gray was impressed with Eliza Mason who had been managing the portfolio for twelve years.

Ms. Stewart added that the fee schedules could be found on the last pages and that all the managers said that their fees are negotiable.

Trustee Storum asked if the trailing year returns were net of fees. Ms. Stewart said that the manager returns were gross of fees.

Ms. Zimmermann told the Board that the Morgan Stanley portfolio investment is \$39 million.

Ms. Zimmermann asked if Boston Company Asset ever invests in emerging markets. Ms. Stewart said that they did not on June 30, 2006, but that they can up to 10%. There was discussion regarding the country and emerging market exposure. Trustee Cochran commented that everyone is invested in Japan except Wentworth. Trustee Storum commented that Morgan Stanley is under in Japan but it doesn't seem to be hurting their performance.

Trustee Storum said that he would like to interview Pictet, Thomas White and Boston, however, it looks like Thomas White is a small company with \$130 million invested in the product. If we invested in their portfolio we would be 23% of their assets. He also pointed out that they have

20% invested in emerging markets. He expressed concerns about the size of their staff. Ms. Stewart also added that a large portion of their portfolio is in mid to small cap at 11.64% and 14.78% in mid- to micro cap.

Trustee Lee said that he liked Thornberg. Ms. Stewart said that they have been part of the final four in Gray's searches but have not been chosen. Trustee Lee said that their risk is good, they have 20% invested in emerging markets with a high concentration in large to mega with 50 to 65 names in their portfolio and a good Sharpe ratio.

Trustee Storum said that he likes Wentworth, Thomas White and Pictet. Trustee Lee said he would like to interview Boston, Thornberg and Wentworth. Trustee Cochran said that he would like to interview Boston, Wentworth and Lazard. He discussed their investments in France and Japan. Trustee Storum said that he likes Boston as his fourth manager.

Ms. Stewart said that Lazard is conservative and has a less diverse but more concentrated portfolio. She told the Board that all the managers can dip into emerging markets but that most limit the investment to 10%.

The Board directed Gray and Company to include the managers' last eight quarters of country concentrations in the finalist book.

RESOLUTION 06-053 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve Wentworth, Hauser & Violich; The Boston Company; Thornberg Management and Lazard Asset Management as finalists for International Equity Manager interviews to be held at the August regular meeting.

Yeas: 3 - Nays: 0

The presentation for large cap growth was moved to the September regular meeting.

REPORTS

Re: Chairman

Trustee Storum asked for a breakdown of charges from the City and Administrative charges in the audit. Ms. Zimmermann said that the charges included salaries and fringes. She said she will check with Ms. Bialy to determine the monthly fee to the City and any other expenses to the City. She referred to the monthly snapshot of the consolidated report in the consent agenda. Trustee Storum asked Ms. Zimmermann to provide the staff expenses.

Re: Secretary – None

Re: Trustees – None

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

Re: Staff

Letter of Reassurance

Ms. Zimmermann said Trustee Lee had shared member concerns regarding the safety of their pensions. She updated the letter of reassurance with the assistance of legal counsel and asked for Board approval to send it to retirees.

RESOLUTION 06-054 By Lee, Supported by Cochran

Resolved, that the letter of reassurance to retirees be approved for distribution.

Yeas: 3 – Nays: 0

Website Update

The PFRS information on the City Of Pontiac website is being updated and Ms. Zimmermann is working with IT to define the structure and content.

Custodian RFP

The GERS Board has selected five trustees for the joint RFP for custody. A meeting will be scheduled soon. Ms. Zimmermann and Ms. Munson will also participate.

Munder Sale

Ms. Zimmermann distributed an article from P&I Daily regarding the sale of Munder by Comerica.

GASB 40 Fees

The audit required additional work not included in the quote due to the poor quality of information available from the custodian bank: the additional unbilled work was approximately \$4,000.

Re: Legal

Ferro Corporation Litigation

Ms. Billings said that the mediation has been moved to New York, New York on August 2, 2006.

United Rentals

United Rentals has filed a motion to dismiss. Opposition to motion has to be filed by October 9, 2006 with a reply by November 27, 2006.

Jarden

Awarded lead plaintiff status on June 23, 2006 with two other funds.

Maxim

Motion for lead plaintiff pending.

Ordinance Cleanup

Police & Fire Regular Meeting
July 27, 2006

A red line copy of the ordinance was included in the last meeting's packet for trustee review. Ms. Billings is putting together a red line copy for City Council.

Lerach Coughlin

Review of securities litigation portfolio monitoring reports.

RESOLUTION 06-055 By Cochran, Supported by Storum
Resolved, that Trustee Lee be authorized to settle the Ferro securities litigation class action within parameters recommended by legal counsel.

Yeas: 3 – Nays: 0

RESOLUTION 06-056 By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve the closed session minutes from the June 29, 2006 meeting.

Yeas: 3 - Nays: 0

Re: Union Representatives - None

NEW BUSINESS

Re: Semi-Annual Cash Flow Rebalancing

Ms. Stewart asked the Board to approve the semi-annual cash flow rebalancing per the Investment Policy Statement.

RESOLUTION 06-057 By Cochran, Supported by Lee
Resolved, That the Board of Trustees approve the listed transfers for the funding of benefits and operating expenses and for the rebalancing of the portfolio.

Yeas: 3 – Nays: 0

Re: Minute Master Services

Ms. Zimmermann said that the Minute Master Services used to be the Midland Advisory Services and that they were folded into GRS. The cost of the 2006 services is \$3,950.00. She said that they now provide an imaging service and for a fee will transfer legal opinions, vendor contracts, minutes, etc. into a digital format. She said that she was fine with the paper copies.

RESOLUTION 06-058 By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve the 2006 Minute Master Services fee.

Yeas: 3 – Nays: 0

Re: Letter to Retirees

Police & Fire Regular Meeting
July 27, 2006

Trustee Lee said that there is a rumor that the Police Department is being taken over by the County. There are many who are concerned about their pension benefits and how this could affect them and whether they have to wait until age fifty to draw a pension. Members also wanted to know how it would affect their vesting. Ms. Billings said that they would still be eligible to receive a benefit if they are vested; if they are not vested they will receive reciprocal service. Their pension benefits are protected under Michigan law. However, she was unclear on eligibility for healthcare benefits.

She said that healthcare benefits are not a protected benefit and are negotiated under contract. However, because there is a VEBA they could have an argument. She added that since healthcare costs are uncontrollable, co-pays and deductibles could increase.

UNFINISHED BUSINESS

SCHEDULING OF NEXT MEETING –Meeting on August 31, 2006 at 9:00 a.m., Shrine Room, Main Level City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 06-059 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 11:38 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 July 27, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt