

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

August 25, 2008

A regular meeting of the Board of Trustees was held on Monday, August 25, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:39 a.m.

TRUSTEES PRESENT

Raymond Cochran, Secretary
Brian Lee
Thomas Miller
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence Gray, Gray & Company
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: July 24, 2008
- B. Communications:
 - 1. Correspondence from PFRS to A. Collier Re: Disability Application
 - 2. Correspondence from PFRS to L. Marshall Re: R. Johnson Return to Work
 - 3. Correspondence from SWAP Re: CAPROC
- C. Financial Reports:
 - 1. Financial Reports –July 2008
 - 2. Commission Recapture Report – June 2008
 - 3. Securities Lending – July 2008
 - 4. Accounts Payable – August 2008
- D. Remove from the Rolls:
 - 1. Muriel White (deceased 08-05-08)
- E. Application for Service Retirement:
 - 1. James Martinez – PPSA
- F. Final Pension Calculations
 - 1. Diana Peters #2400 \$4,350.88
 - 2. Mark Peters #2428 4,919.37
 - 3. Daniel Durham #2266 5,181.69
 - 4. William Ware #2389 3,832.91

- G. Application for Refund of Accumulated Contributions
- | | |
|-------------------------------|-------------|
| 1. Darrell Mandrell - Police | \$10,041.51 |
| 2. Charles Janczarek – Police | 10,133.73 |
| 3. Charles Jefferson – Police | 9,173.44 |

RESOLUTION 08-053 By Miller, Supported by Lee
Resolved, That the consent agenda be approved as presented.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company

Performance Review 2nd Quarter 2008

Mr. Gray reviewed the total plan performance for the second quarter of 2008. The plan out performed the policy benchmark 0.66% versus -0.93% for the quarter. Performance was relatively good posting negative numbers for the intermediate periods: year-to-date returns of -3.30% versus -5.16% and one-year returns of -1.37% versus -3.64%.

The domestic equity index funds were right on top of the benchmark.

Mid cap equity manager Munder Capital under performed for the quarter: 1.84 % versus the benchmark at 5.43%.

Loomis Sayles’ performance was better, out performing for the quarter with returns of -0.50% versus -3.55%. Year-to-date performance is -9.50% versus -9.84% due to one wicked month in the first quarter. Their one year performance numbers are relatively strong at -14.38% versus the benchmark at -21.63%.

International equity manager Wentworth, Hauser & Violich reported returns of 16.25% versus the benchmark at -2.25% for the quarter. They did not do as well in July.

Mr. Gray stated that he was shocked to learn that Richard Hirayama did not have a formal employment agreement with the company. The company is currently resolving that issue.

Mr. Gray described The Boston Company as a bottom up stock picker. He said that they still are not getting the job done. Their performance returns for the quarter were -2.75% versus -2.25%.

Fixed income manager Oppenheimer Capital out performed; -0.17 versus the benchmark at -1.02 for the period. They have done well versus the benchmark.

DDJ Capital’s performance was above the benchmark at 2.69% versus 1.81%. Their performance returns are slightly under the benchmark since inception. They are a true high yield manager.

Goode Stable Value Fund slowly tracked the benchmark and posted positive numbers for the quarter; 1.14% versus 1.20%.

The Northern Trust Government/Corporate Index Fund is tracking fairly well with returns of -1.44% versus -1.52%.

Core real estate manager American Realty Advisors is doing a good job with returns of 1.52% versus the benchmark at 0.56% for the quarter, 2.74% versus 2.17% year-to-date with one-year performance of 11.38% versus 10.54%. High quality real estate managers do well.

Currently, Mesirow is in the drawdown period and it is not surprising their numbers are negative due to the J curve effect.

Trustee Miller said that the percentages do not mean anything to him and he would like to see the gains and losses and what it cost in terms of real dollars.

Chairman Storum confirmed with Ms. Zimmermann that the dollar amounts are posted in our financials monthly.

Mr. Kuhn said that they could provide exhibits that show the market value of the investment with any withdrawals and contributions beginning each quarter. Trustee Miller said he would like to see the relative value in dollars.

Mr. Gray reviewed a chart that displayed the total returns of the fund compared with 200 public funds with similarly allocated funds.

The performance consistency of the total fund versus the policy index based on a rolling one-year period and rolling five-year period was reviewed.

Mr. Gray asked if the Board had any questions or discussions regarding the manager information. Trustee Lee questioned the historical information for Oppenheimer going back only to 2002. Mr. Gray will check into it.

Mr. Gray showed the Board an exhibit with the ten largest holdings, the ten best and the ten worst performers for the quarter. He noted that the ten largest holdings included natural resources. The ten worst performers were primarily banks. He said it is nice to know the exposures in the portfolio. The largest asset allocation of the fund is in index funds which were not included.

Chairman Storum said that The Boston Company's performance is still in the bottom quartile. Mr. Gray said that they are currently on watch and asked if the Board would like them to come in. Chairman Storum was not interested in having them come in.

This concluded the performance report.

Investment Policy Statement

Mr. Kuhn apologized that the IPS was not included in the agenda packet. He informed the Board that a couple of additional edits were made since the July meeting.

The actuary was changed from Gabriel, Roeder, Smith & Company to Rodwan Consulting Company. The list of investment managers was updated removing Montag & Caldwell, Morgan Stanley, CAPROC and Atlantic Capital. Andrea Coffey Stewart was removed from the list of consultants.

Ms. Billings stated that the name of the retirement system was changed from the City of Pontiac Policemen's and Firemen's Retirement System to the City of Pontiac Police and Fire Retirement System. Mr. Kuhn noted the change.

An allocation was added for real estate under the Target Asset Mix. The strategic target section for real estate was previously blank.

A paragraph was added under General Guidelines regarding the calculation of investment fees stating that the fees will be based on the custodian's market value of assets for billing purposes. Ms. Zimmermann said that the investment manager should reconcile monthly with the custodian.

A paragraph was added under Domestic Fixed Income Managers allowing CMBS securities to be held in the portfolio not to exceed the weighting of the benchmark.

Timber was added under Real Estate and Timber as part of the Investment Guidelines as well as under the Performance Benchmark Comparisons.

Changes were made to the quarterly and annual reporting section of the IPS. The previous version required managers to submit quarterly and annual reports. The new version states that managers may be required to provide quarterly or annual reports. A section was added for monthly reporting requiring managers to provide a monthly accounting statement.

RESOLUTION 08-054 By Miller, Supported by Lee
Resolved, That the Board approve the updated Investment Policy Statement

Yeas: 4 – Nays: 0

Mr. Kuhn said that he would provide a clean version of the IPS to the next meeting. The trustees asked him to provide an electronic version.

Real Estate Allocation

Mr. Kuhn distributed a handout showing the current real estate allocation of 8% as of August 20, 2008. He said that American Realty Advisors is a traditional core real estate manager. They are 100% funded and have approximately 50% of the real estate allocation.

Metropolitan is a value added manager; Mesirow is an opportunistic international real estate manager. Both are in the funding stage. It will take approximately two years to fully fund Metropolitan and Mesirow.

Oppenheimer Turn Over Analysis

Mr. Kuhn distributed a statement from Northern Trust which showed the associated custody fees for Oppenheimer Capital. Custody fees for the last four quarters totaled \$12,666.16 on the \$36 million investment totaling 3.52 basis points. Chairman Storum said that even with Oppenheimer making a lot of trades in the portfolio they are not generating huge additional costs and their performance is above the benchmark.

Mr. Kuhn compared the custody fees to Loomis Sales at 13 basis points on \$18.9 million and Munder Capital at 9.4 basis points on \$18.4 million.

Chairman Storum said that Oppenheimer's performance is 2½ % above the benchmark for the year. Mr. Kuhn said that net of fees their overall returns are close to the benchmark.

Core Plus/Indexing

Mr. Kuhn described the core fixed income portfolio as holding the same securities as the benchmark. They only invest in investment grade bonds ranging from AAA to BAA or BBB. Anything below BBB falls below investment grade. Managers who can dip down below investment grade are compensated with higher yields which are not included in a traditional core portfolio.

A core plus manager continues to run a fixed income core portfolio but has the ability to add securities not in the benchmark, such as opportunistically investing in below investment grade bonds, sovereign bonds issued by foreign governments or emerging bonds.

Trustee Miller asked what this means in terms of relative performance in dollars. Mr. Gray said he can look at it net of fees. He said that the system would have picked up some performance over the ten-year period.

Mr. Kuhn said that the long-term expectation for the core portfolio is benchmark-like performance. In order for a manager to add alpha they need to take some bets or pick some securities outside of the benchmark.

Ms. Zimmermann asked what the fee differential is. Mr. Kuhn stated that it is 5 basis points.

There was discussion regarding Oppenheimer's current performance versus the core plus product. They also discussed the fee differentials for an index manager versus a typical fixed income manager.

Trustee Cochran said that it appears the advantage for core plus has diminished during the past few years. Mr. Gray said that the performance numbers in the handout are the ones Oppenheimer reports to the world and include the performance numbers for all their accounts.

Mr. Gray said that with a lot of the bonds bidding down a skilled manager should be able to take advantage of the opportunity.

Chairman Storum said he is interested in what Gerry Thunelius has to say. Mr. Kuhn said that he spoke with Mr. Thunelius and they are excited to move into a core plus portfolio with bonds trading at lower costs.

Chairman Storum asked what Mr. Gray's recommendation would be. Mr. Gray said that Oppenheimer has the skill set and the ability to go into distressed. He has met the woman who does the detailed analysis for core plus. You are giving a skilled manager more tools and the worst you would see is a core portfolio.

RESOLUTION 08-055 By Miller, Supported by Lee
Resolved, That the Board approve to transition the Oppenheimer Capital Core Fixed Income Portfolio to a Core-Plus Fixed Income Portfolio pending legal review of contract.

Yeas: 4 – Nays: 0

Mr. Kuhn said he would work with Mrs. Billings to get the contract in place.

Chairman Storum asked if they would have to closely monitor the portfolio for PA 314 limits if high yield issues were added. Mr. Gray said they would have to keep a tight watch.

Mr. Gray said that no one expected the economy to be this bad. He tried to re-set expectations last fall. He expects there are still dark days ahead.

Trustee Cochran questioned Oppenheimer's inception date recorded in the performance report. Mr. Gray said he would check into the issue.

Mr. Gray said that according to the actuary's report the system can weather these bad times.

Chairman Storum asked if Loomis Sayles is cutting back their exposure to financials. Mr. Kuhn stated that the market is cutting back financials. Mr. Gray said that Loomis Sayles' weighting to financials is well below the benchmark.

Chairman Storum asked about a pension law change in California and asked whether it was under ERISA. Ms. Billings said it was part of the Pension Protection Act of 2006 and applies to the private sector. It was to correct a funding deficiency.

Meeting Break at 10:46 a.m.

Meeting Resumed at 10:52 a.m.

REPORTS

Re: Chairman

Disaster Recovery/Document Storage System

Chairman Storum said that the audits reports for the last few years have recommended putting a disaster recovery and document storage system in place. Ms. Zimmermann said she has contacted other systems and is moving forward. She will make this a priority.

Trustee Miller asked if Chairman Storum's concern was regarding the security or business continuity. Chairman Storum said his concern is for both.

Ms. Zimmermann said she recently received a binder from the IFEBP that explains how to identify the critical functions and how to get them up and running in the event of a disaster. She stated that the payroll process could be done at a remote location.

Trustee Miller asked if the custodian has supporting documentation. Ms. Zimmermann said that the custodian does have back up. The original member documents are not stored in a fireproof location and there is no back up for those.

Ms. Zimmermann said that the current storage area at DPW is made of plywood and has a padlock on the door. Trustee Miller said that the documents should be transferred to a protected storage area.

Ms. Zimmermann said there is a cost benefit to scanning the current documents into an electronic format. Chairman Storum and Trustee Miller said that the first priority is moving the current documents to a better storage area and parallel the secured storage area and electronic document imaging process going forward

RESOLUTION 08-056 By Lee, Supported by Miller
Resolved, That the Board direct the Retirement Administrator to develop a disaster recovery plan and document imaging system.

Yeas: 4 – Nays: 0

Asset Disposition Plan

Chairman Storum said that he mentioned at the last meeting that the old computers from the Retirement Office be given to the Fire Department. He said that currently the system does not have a policy that defines how system assets are reallocated or disposed.

Ms. Billings confirmed that technically the computers are plan assets. She will look into the issue.

Ms. Zimmermann said that the City has tagged the computers as City assets. Trustee Cochran said he feels that there should be a separation between plan assets and the City's assets and the City should be notified.

Chairman Storum recommended that a policy be developed.

RESOLUTION 08-057 By Miller, Supported by Lee
Resolved, That the Board direct legal counsel to develop an Asset Disposition Policy.

Yeas: 4 – Nays: 0

Re: Secretary – None

Re: Trustees - None

Re: Staff - None

Re: Legal

Fossil, Inc.

Ms. Billings reported that the mediation has been scheduled and both parties are proceeding through arbitration.

Gildan Activewear, Inc.

Ms. Billings reported that the Motion for Lead Plaintiff is still pending.

Jarden Securities

Ms. Billings reported that the litigation is proceeding through discovery.

Maxim Integrated Products

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

UBS/AG Securities Class Action

Ms. Billings reported that the securities litigation matter has been closed.

United Rentals, Inc.

Ms. Billings reported that the settlement documents are being finalized.

Coughlin Stoia Portfolio Monitoring Report for the Quarter Ended December 31, 2007

Ms. Billings reported that these are the securities litigation filings for the first quarter of 2008. The report provides a list of class actions filed and the information necessary to file a proof of claim.

CAPROC - Sale of One Michigan Avenue

Ms. Billings reported that at the last meeting she presented the proposed settlement agreement between CAPROC and the purchaser of the One Michigan Avenue property. She said that the agreement was accepted and the seller has made the \$350,000 payment and the appropriate percentage of funds have been wired to the retirement system. This information was provided for the trustees' information.

International Foundation Article – August 2008 – Trustee Expenses – What Plan Personnel Need to Know

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Ms. Billings stated that the attached article from the IFEBP is for the trustees' information. It is in reference to acceptable and not acceptable trustee expenses. It addresses both private and public pension systems.

That concluded Ms. Billings' legal report.

Re: Union Representatives - None

NEW BUSINESS

UNFINISHED BUSINESS

Re: Actuarial Software Search – See Chairman's Report

Re: Disability – Amend Rules & Regulations

The proposed amendment to the Disability Rules and Regulations for the Police and Fire Retirement System were reviewed and discussed.

RESOLUTION 08-058 By Miller, Supported by Cochran
Resolved, That the Board approved the amendments to the Rules and Regulations for the Police and Fire Retirement System.

Yeas: 4 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting on September 25, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 08-059 By Miller, Supported by Lee
Resolved, That the meeting be adjourned at 11:13 a.m.

Yeas: 4 – 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 August 25, 2008.

Raymond Cochran, Secretary
As recorded by Jane Arndt