

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
AUGUST 25, 2011**

A regular meeting of the Board of Trustees was held on Thursday, August 25, 2011 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 9:43

Trustees Present

Leon Jukowski, Mayor
Brian Lee, Vice Chair
John Naglick, Secretary
Matthew Nye
Craig Storum, Chairman

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Larry Gray, Gray & Company
Chris Kuhn, Gray & Company
Gilbert Garcia, Garcia Hamilton & Associates
Stephanie Roberts, Garcia Hamilton & Associates
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
John Wargel, PFRS Retiree
Jeff Hawkins, Deferred Retiree
Larry Marshall, GERS Retiree

AGENDA CHANGES

Chairman Storum recommended that Garcia Hamilton & Associates be moved to the front of the agenda.

Re: Gray & Company

Garcia Hamilton Presentation

Mr. Kuhn reported that Garcia Hamilton took over the core fixed income mandate from TCP Global.

Stephanie Roberts introduced herself and Mr. Garcia to the Board. She graduated Magna Cum Laude from Texas Southern University in 1990 with a B.B.A. in Finance. She started with Garcia Hamilton in February, 2000 working as both an equity trader and analyst.

Mr. Garcia attended Yale University receiving a B.A. in Economics. After graduation he was hired by Salomon Brothers in New York City working as a mortgage-backed securities specialist for six years. He returned to Texas and joined former Mayor Henry Cisneros and Criterion Investment Management Company which became Criterion Asset Management where he was appointed President. In 1996 he joined Smith Graham & Company where he became the CIO. In 2002 he joined Davis Hamilton & Associates which became Garcia Hamilton & Associates

and is the firm's managing partner. He said that he manages the fixed income portfolio and is a long-term bond manager.

Ms. Roberts told the Board that Garcia Hamilton & Associates was founded in 1988 and is 100% employee owned. There are six partners and 23 employees with 166 years of experience. Ten of the employees have 90 years of fixed income experience at the firm. They currently manage \$2.6 billion in assets for institutional and high net worth clients.

She provided a breakdown of their portfolio which includes high quality fixed income and equity strategies. They have 26% allocated to their quality growth equity strategy with the bulk in fixed income.

She reviewed their representative client list stating that two-thirds of their clients are public funds.

Mr. Garcia said that their goal is to keep it simple and outperform the benchmark net of fees over a full market cycle. They are old fashioned long-term investors that only deal in liquid, high quality securities. They focus on high current income securities because they present the best chance for reinvestment.

He explained who Garcia Hamilton is. Their portfolio is dominated by agencies, treasuries and mortgage-backed securities. They are heavily invested in high quality corporate bonds (A-rated or better) and large global issues over \$1 billion. There are three basics to their philosophy: high quality, no big surprises and flexibility.

They do not feel the need to invest in foreign bonds, high yield, B-rated or derivatives and there is no leverage in their portfolio. They do not do lending.

They only invest in spread products with durations from two to nine years actively moving among sectors.

He reviewed their investment process. Their qualitative process applies fundamental research and analysis reviewing five factors and historical data including market sentiment, technical, analysis, inflation, monetary policy and economics. The most important aspect of this research over the past seven years has been market sentiment.

He described the model they use for their quantitative process. They review each factor independently and then apply the liquidity and spread models. This is a nice tool to objectively look at the market.

With all the recent concerns in Europe, the U.S. downgrade and deficit concerns treasury prices are up beyond where they were during the Lehman crisis. There is no comparison to where we were then. This is a different scenario. All but Treasuries have performed poorly. There was an extreme overreaction. He is confident that the spread product will continue to perform.

He reviewed the corporate bond spreads and how financials are approaching Bear Stearns levels. They are getting 100 basis points of extra yields based on these spreads.

He described their breakeven analysis and how when spreads widen they underperform treasuries. He discussed how the widening of spreads could affect Citibank and its financial stability. Banks are currently borrowing money at 0% and buying treasuries.

There is so much fear in the marketplace.

Their goal is to outperform net of fees and with a high quality portfolio.

The firm is growing at a steady pace. They currently have twenty-three employees and recently added a Compliance Associate, Yvonne Lewis. They also added a Marketing Analyst, Ben Monkiewicz who is a jack of all trades. Their resumes are located in the Appendix.

Ms. Roberts thanked the Board for the opportunity to come in and get acquainted and present their investment strategy.

Chairman Storum questioned their underperformance for the current quarter.

Mr. Garcia said that they insulate their portfolio from the noise. They do not want to change their risk profile. There has been a lot of extreme volatility in the marketplace lately. However, there has been some calming the last few days.

Mr. Gray asked if he feels Bank of America's and Citibank's exposure to European Banks is overblown.

Mr. Garcia said that it has been severely overblown. Analysts are recommending buying financials. Bank of America has more exposure than Citibank and is trading at half of its book value. They are over capitalized and have enough in their reserves to cover all their mortgage portfolios if they all went bad.

Mr. Kuhn asked about the steepness of the yield curve.

Mr. Garcia said that the yield curve is the hardest thing to manage but it has been easier since 9/11. The slowdown in the economy has caused an inverted yield curve. He thinks it will stay steep and get steeper. The long end will bear the brunt. The Federal Reserve wants a steep yield curve and it will stay steep for sometime.

Mr. Kuhn asked how the transition went.

Mr. Garcia said that they reduced the number of securities and there were a few to work out of. They moved out of thirty year mortgages into fifteen year mortgages. There has been an extreme over reaction in the market. They believe the economy will grow in the 1% to 2% range.

Mr. Kuhn questioned which index relates to their investment style the Barclays Intermediate Government Credit or the Barclays Intermediate Aggregate.

Mr. Garcia said it does not matter which index they manage against. They are looking to eliminate risk in the portfolio by buying mortgages which represent value and by positioning on the yield curve. They will steadily reduce their exposure to mortgages in the portfolio to 10% to 15% over the next eighteen to twenty-four months and corporate bonds to the 15% to 25% range.

Mortgage-backed securities create a longer duration. Mortgage trading is like one-year treasuries. Based on the low rates, they believe everyone will refinance given the opportunity. The mortgage component represents about one-third of the Intermediate Aggregate. Interest rate exposure will drive the Aggregate Index longer. They do not want exposure longer than the index duration.

Chairman Storum asked what they will do when they reduce their exposure to corporates and mortgages in their portfolio.

Mr. Garcia said that they will move into agency debentures and actively rotate the sectors or potentially move into treasuries.

Mr. Garcia and Ms. Roberts left at 10:20 a.m.

Mr. Kuhn asked if the Board had any questions regarding Garcia Hamilton.

Trustee Naglick asked if they are buying or trading.

Mr. Kuhn said they can buy treasuries with 2% performance or they can buy corporate bonds that are returning 4.5%.

Trustee Naglick asked if it is more appropriate to be in an index fund that can match the benchmark while taking similar risk.

Mr. Kuhn indicated that Garcia Hamilton can pick up more income than the benchmark while investing in A-rated or better securities.

CONSENT AGENDA

- A. Minutes of Regular Meeting – July 28, 2011
- B. Minutes of Special Meeting – July 28, 2011
- C. Communications:
 - 1. Correspondence from Gray & Company Re: U.S. Government Debt Downgrade
 - 2. Correspondence from Artio Global Re: CIO Newsletter Q3 2011
 - 3. Correspondence from Munder Capital Re: Debt Downgrade
- D. Financial Reports:
 - 1. Financial Reports – July 2011
 - 2. Securities Lending- June 2011

3. Accounts Payable – August 2011
- E. Capital Calls:
- | | | |
|--------------------------------------|--------------|--|
| 1. Mesirow International Real Estate | \$ 72,192.00 | |
| 2. Mesirow International Real Estate | \$162,000.00 | |
- F. Remove from the Rolls:
- G. Application for Service Retirement:
- | | | |
|------------------------------|--------------------|---------------------|
| 1. Michael Daves – PPSA | 19 years, 3 months | Age 50 |
| 2. Josephine Fagan – PPSA | 20 years, 0 months | Age 53 |
| 3. Robert Ford – PPSA | 21 years, 8 months | Age 51 |
| 4. Wendy Keelty Reyes – PPSA | 25 years, 0 months | Age 48 |
| 5. Brian McLaughlin – PPSA | 25 years, 0 months | Age 47 |
| 6. Robert Miller – PPSA | 25 years, 0 months | Age 47 |
| 7. Timothy O’Neill – PPOA | 7 years, 2 months | Age 50 (reciprocal) |
| 8. Donald Russell – PPOA | 21 years, 8 months | Age 59 |
- H. Application for Deferred Retirement
- I. Final Benefit Calculations:
- | | | |
|---------------------------|-------|------------|
| 1. Paul Stachowiak – PFFU | #2570 | \$3,276.17 |
|---------------------------|-------|------------|
- J. Application for Refund of Accumulated Contributions
- | | |
|--------------------------|------------|
| 1. Aaron Silorey – PFFU | \$2,753.58 |
| 2. ScottGehringer - PFFU | \$1,366.08 |
- J. Disability Re-Examination

Ms. Zimmermann indicated that she has a capital call from Mesirow International Real Estate she would like to add to the consent agenda and a refund of contributions for Scott Gehringer which requires the final PAS form.

RESOLUTION 11-053 By Lee, Supported by Nye

Resolved, That the consent agenda be approved as amended

Yeas: 5 - Nays: 0

Re: Gray & Company (Resumed)

2011 Second Quarter Performance Review

Mr. Gray asked the trustees if they have any macroeconomic questions. He said that as bad as things look, there are always opportunities. With the concern about financials, trading was way down.

There were numerous opportunities in high yield to make money. There are still places to find good stocks and bonds. The lack of value in financials is over blown with Bank of America trading at half of its book value.

The Plan’s total performance was not surprising given the conservative nature of the managers.

Performance for the quarter was 0.62% versus the policy index at 1.31%; year-to-date performance was 4.88% versus 5.09% for the policy index and one-year performance at 20.78%

versus 20.80% for the policy index. The Fund's three-year performance showed some weakness and the five-year performance on a rolling basis has 1% less risk than the benchmark. The portfolio's long-term risk is quite good.

Munder outperformed the benchmark at 1.68% versus -0.73%.

Loomis Sayles's performance was solid at -0.94% versus the index at -2.65%.

Wentworth, Hauser & Violich's performance showed some weakness in the short term due to the price of energy and materials at -2.92% versus 1.56%.

Thornburg International Equity's performance was down for the period at 1.16% versus the benchmark at 1.56%.

He indicated that the international managers have risk controlled portfolios.

Fixed income is somewhat scary these days. The Fed use to have a more dramatic impact on the market under Greenspan. Indicating that they will keep rates where they are for the next two years is unprecedented.

Artio Global returned 16.95% for the year compared to the benchmark return of 15.4%.

Stable Value will perform well having an inverse relationship to interest rates.

Real estate performance for the quarter was good.

American Realty's one-year performance is 17.68% versus the benchmark at 16.73%. Their three-year performance showed some weakness.

Metropolitan Real Estate and Mesirow International Real Estate will do well over the long-term.

He described the Fund's return versus risk performance for the five-year period ending June 30, 2011. The policy index has slightly less risk than the Fund.

He reviewed the Plan's market values as of August 19, 2011 at \$216.5 million. As of August 23, 2011 the market value was up slightly at \$222 million with the market experiencing a bit of a bounce back.

Mr. Kuhn indicated that these market values reflect only the available cash in the CAPROC mortgage account, not the approximately \$2.5 million on the Northern Trust's system for this investment.

The fixed income portfolio looks different than the broad Barclays Aggregate Index due to the various strategies the Board has implemented (global, high yield, stable value...). Long-term, the diversified portfolio should serve the System well. They are comfortable with the portfolio based on where rates are.

The NCREIF is a tough index for real estate because it is unlevered. The NCREIF-ODCE is an open-ended, diverse core equity index and is a more fair comparison.

Mr. Gray said that at the end of the day the portfolio looks good.

Trustee Nye questioned the difference in the amount of the international equity allocation.

Mr. Kuhn explained that the Fund rebalanced in early August. The cash account went from \$1.6 million to \$15 million. He said that the equity market lost 15% versus the portfolio at 10%. Most of their accounts lost 15% or more. This portfolio has a higher allocation to fixed income.

Mr. Gray said that the transfer/rebalancing occurred at an opportune time based on the downturn in the market.

Mr. Henzi reported that the Board has two options regarding the Franklin Templeton global fixed income mandate. They can go into a Cayman Island Partnership or a Delaware Limited Partnership. He would recommend the Delaware Limited Partnership because the Cayman Island Partnership does not allow side letters and often there is sensitivity by public funds to offshore accounts. He reviewed both and questioned where there are any issues with Public Act 314.

Mr. Kuhn stated that they still need to compare these because they are commingled funds. Public Act 314 is not forthcoming or a good document to use to make the determination. As a last option, Franklin Templeton has a mutual fund but the fees are 10 basis points higher.

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees - None

Re: Administrator

Medicare Part B Reimbursement

Ms. Zimmermann reported that the Medicare Part B Reimbursement was paid in July totaling \$159,000.00. The process went well.

Employee Contributions Pay Periods 13 - 15

The System received the employee contributions for pay periods thirteen through fifteen.

FOIA Request

Ms. Zimmermann indicated that she received a FOIA from a financial publication requesting the System's minutes and financial strategies. She forwarded the FOIA onto legal.

Re: Legal

RESOLUTION 11-054 By Nye, Supported by Lee

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

Roll Call:

Trustee Jukowski – Yea

Trustee Nye - Yea

Trustee Lee– Yea

Chairman Storum - Yea

Trustee Naglick – Yea

The Board moved to closed session at 11:00 a.m.

The Board returned from closed session at 11:14 a.m.

Atheros Communications, Inc.

Mr. Henzi reported that there has been no change regarding this issue.

Fossil, Inc. Shareholder Derivative Litigation

Mr. Henzi stated that there is nothing new to report. They will continue to advise the Board with respect to this matter.

UBS/AG Securities Class Action

Mr. Henzi stated that the Defendant's Motion to Dismiss is still pending. They will continue to advise the Board with respect to this matter.

In Re Gildan Activewear Securities Inc. Securities Litigation

Mr. Henzi stated that there is nothing new to report. They will continue to advise the Board with respect to this matter.

Proposed Ordinance Amendment Re: Board Composition

Mr. Henzi reported that the Executive Order approving the board composition amendment to the Retirement Ordinance allowing Sheriff's Deputies and deferred vested members to serve as trustees went into effect on July 31, 2011.

Cap Mortgage LLC

Mr. Henzi reported that based on the decrease in revenue sharing every community is suffering. He reported that, given the decrease in revenue in cities around the state, the trustees may receive questions about why they authorized a property tax appeal on the Baldwin Rd. property. Despite the financial problems the city may face, the trustees have a fiduciary duty to file an appeal, based on CBRE's recommendation that the city overstated the property's taxable value. According to the Board's expert, the real value of the property and building is significantly less than the taxable value. If the board loses the tax appeal, it has discharged its fiduciary duty. Most often there is a settlement; however, the City has to fight to keep revenue.

Trustee Naglick said that he was impressed with the CBRE presentation at the last meeting. However, he does not want to own this building in a year.

Mr. Henzi mentioned that the System could lease the building as an option.

Longtop Financial Technologies Limited Litigation

Mr. Henzi stated that there is nothing new to report. They will continue to advise the Board with respect to this matter.

Hiring Retirement System Office Staff

Mr. Henzi stated that the answers to the questions asked at the joint meeting are located in the legal report. There were some additional questions submitted after the meeting.

Mr. Kuhn indicated that currently the GERS System has \$380 million in total plan assets and the Police & Fire System has \$220 million in total plan assets.

Mr. Henzi said that the 70%/30% split issue was brought up at the meeting. In the past, the percentage split was determined by the total pool of assets. Based on the current assets the number is not far off.

He stated that if this Board wants to move forward the Police & Fire Retirement Ordinance will have to be amended based on the language regarding the City Council setting staff salaries. He said that the Emergency Manager could decide he wants to set salaries. The first hurdle is to hire the staff at the same salary and with the same benefits. Dennis Cowan thought that they would wait and see if both Boards would move forward on this issue.

Ms. Zimmermann said that the issue is pending with the GERS Board. They did not have a quorum at the last meeting to move forward.

Mr. Henzi questioned whether the GERS Board discussed the recommendations included in the audit report.

Ms. Zimmermann said that the auditor spoke to the issue at yesterday's GERS meeting.

Trustee Nye said he would like to make the motion to move forward with the process of acquiring their own staff.

RESOLUTION 11-055 By Nye, Supported by Lee

Resolved, That the Board approves to begin the process of acquiring their own staff.

Yeas: 5 – Nays: 0

Mr. Henzi said that he will begin the process. He is not sure what the GERS Board wants to do.

Trustee Jukowski said that the GERS Chairman believes he will have the necessary votes next month to move forward.

James Tate – Application for Duty Disability

Mr. Henzi stated that there is still missing information. It would be great if they were able to get Mr. Tate to help with accessing the information.

Trustee Nye asked if the scatter gun format was used to obtain records.

Mr. Henzi said that he has contacted Genesys to obtain missing medical records from his admission. He contacted Blue Cross to get a list of his Mr. Tate's medical providers. He also needs to get records from the Police Department. He will ask Ed Wertz to ask the family to get the information.

Request to Purchase Service Credit Within 30 Days After Separation Date

Mr. Henzi reported that after the last meeting Ms. Zimmermann was given the Contract Termination Agreement which went into affect on August 1, 2011.

The contract gave eligible members the option to purchase no more than five years of service credit using pre-tax sick or separation pay, with the total service credit not to exceed twenty-five years of service. He worked with Ms. Billings and Plante & Moran on this issue.

However, neither the Retirement Ordinance nor the Contract Termination Agreement allows for a trustee-to-trustee transfer from a 457 Deferred Compensation Plan for the purchase of additional credited service.

He provided a proposed Retirement Ordinance amendment to the Emergency Manager's legal counsel which will allow the transfer of money into the Retirement System.

Ms. Zimmermann explained that the Retirement Office has received the funds and have set up the members on payroll but cannot deposit the funds totaling hundreds of thousands of dollars.

Chairman Storum confirmed that a cost study was processed for the purchase of service credit and recorded.

Mr. Henzi said that there was no pushback from the Emergency Manager's attorney.

Trustee Lee said that these members actually prepaid their pensions.

Mr. Henzi said they were given a thirty day window within which to apply for retirement and purchase additional service credit as permitted in the contract termination agreement.

RESOLUTION 11-056 By Lee, Supported by Nye

Resolved, That the Board approve the amendment to the Retirement Ordinance allowing a trustee-to-trustee transfer of funds to purchase credited service per the PPSA Contract Termination Agreement.

Yeas: 5 – Nays: 0

City's Decision Not to Fund VEBA Contributions – Refer to PF VEBA Meeting

MAP Cost Study

Chairman Storum said that the Emergency Manager should pay for the cost study since they are providing the benefit.

Mr. Henzi said that this is usually a City expense.

Ms. Zimmermann said that the Retirement Office cannot give these members the improvement without a cost study.

Trustee Lee suggested that the Board direct Sullivan Ward to send the Emergency Manager a letter and hand deliver it.

Mr. Henzi referred to a copy of the letter sent to Ed Wertz in the legal report regarding the payment for the cost study of \$1,500.00.

Partial Termination

Mr. Henzi told the Board that the rule is that everyone is vested in a partial plan termination. He has requested the layoff list going back three years. This includes those members who were laid off two years that are now working for the County.

Additional Monitoring Counsel

Mr. Henzi reported that he failed to obtain the marketing materials from Erin. He will bring them to the next meeting for review. Conventional wisdom tells you that having a number of firms monitoring your portfolio better your chances for filing the best cases.

Trustee Nye asked if it is good to have a diverse group of securities litigation firms.

Mr. Henzi described the various securities litigation firms including Motley Rice, Coughlin Stoia and Bernstein Litowitz which is a large national player. He stated that Kaplan Fox likes to deal with cases that have huge losses at the State level.

Franklin Templeton Gold Bond Plus Investment – Refer to Consultants

Miscellaneous Articles

Mr. Henzi indicated that these articles are for the trustees' information.

- The Detroit News, August 24, 2011 – *Public Workers Benefits on Table*
- Robbins Geller – Corporate Governance Bulletin – *Stock Option Backdating Litigation Winding Down – 3rd Quarter 2011*
- Segal Bulletin – August 2011 – *GASB's Exposure Draft on Proposed Changes to Pension Accounting Standards for Public Sector Employees*
- Crain's Detroit Business – August 2, 2011 – *City & Police Officers Reach Agreement to Cap Wages, Reduce Benefits*

Mr. Henzi reported that the Detroit News article refers to a group that is challenging the Emergency Manager Law.

Ms. Zimmermann asked when the oral arguments will be heard challenging the Emergency Manager Law.

Mr. Henzi stated that oral arguments will be heard on September 7, 2011. He indicated that Governor Snyder has a Republican majority on the Supreme Court.

Ms. Zimmermann indicated that LaJuan Craft is currently on sick leave and is due back on August 29, 2011. The doctor determined that she needed to be off due to stress.

Re: Union Representatives - None

NEW BUSINESS

Re: Ordinance Amendment – Transfers Into PFRS – Refer to Legal

UNFINISHED BUSINESS

Re: Non Payment of City Contributions – Refer to Police & Fire VEBA

Re: Police Representative on PFRS Board – Refer to Legal

Re: Ordinance Amendment – Professional & Clerical – Refer to Legal

Re: Actuarial Cost Study MAP – Refer to Legal

Re: Rules & Regulations Revision - Tabled

Re: James Tate – Application for Duty Disability – Pending

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, September 29, 2011 – City Council Conference Room, Second Level, City Hall @ 9:00 am

ADJOURNMENT

RESOLUTION 11-057 By Nye, Supported by Naglick
Resolved, That the meeting be adjourned at 11:52 a.m.

Yeas: 5 – 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, 2011.

John Naglick, Secretary
As recorded by Jane Arndt