

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
SEPTEMBER 28, 2006**

A regular meeting of the Board of Trustees was held on Thursday, September 28, 2006 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:00 a.m.

TRUSTEES PRESENT

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

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Sheri Cataldo, Sullivan, Ward, Asher & Patton, P.C.
Andrea Coffey-Stewart, Gray & Company
Dave Duddles, Firefighter
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: August 31, 2006
- B. Communications:
 - 1. Correspondence from Morgan Stanley Re: Portfolio Commentary
 - 2. Correspondence from SEC Re: AA Capital Partners
 - 3. Conference Information:
 - a. Public Funds Summit – Opal Financial Group – Jan. 10-12, 2007
 - b. Plan Sponsor & Consultant Circle – IMN – Oct 16-17, 2006
 - c. Pensions & Retirement Conference – Conference Board – Nov 6-7, 2006
 - d. Public Funds Symposium – Institutional Investor – Oct 24-25, 2006
 - e. Alternative Investing Summit – Opal Financial – Dec 3-5, 2006
 - f. Advanced PERS Administration – GFOA – Nov 13-14, 2006
 - g. Alternative Investment Summit – IMN – Oct 16-17, 2006
- C. Financial Reports:
 - 1. Financial Reports – August 2006
 - 2. Securities Lending Report – July 2006
 - 3. Commission Recapture Report – July & August 2006
 - 4. Accounts Payable – September 2006
- D. Application for Retirement
 - 1. Michael Joyce 20 years, 3 months Age 50

- E. Refund of Contributions
1. Edward J. Lasseigne III \$11,004.02

Chairman Storum had a question regarding the invoice for the CAPROC Appraiser. Ms. Zimmermann stated that the invoice was for the appraisal of the property at 1 Michigan Avenue. She also said that the Board had agreed to a 50/50 expense split with the General Employees Retirement System Board for expenses relating to the litigation.

RESOLUTION 06-067 By Miller, Supported by Cochran
Resolved, That the items of the consent agenda for September 28, 2006, be approved.

Yeas: 4 - Nays: 0

CONSULTANTS

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

RESOLUTION 06-068 By Cochran, Supported by Miller
Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

Roll Call:

Trustee Miller- yea	Trustee Lee - yea
Trustee Storum – yea	Trustee Cochran - yea

Moved to Closed Session at 9:05 a.m.

Returned From Closed Session at 9:18 a.m.

RESOLUTION 06-069 By Cochran, Supported by Miller
Resolved, That the Board of Trustees approve the closed session minutes from the August 31, 2006 meeting.

Yeas: 4 – Nays: 0

RESOLUTION 06-070 By Miller, Supported by Lee
Resolved, That Trustee Lee be authorized to sign the CAPROC settlement agreement and any closing documents necessary to effectuate the agreement and that the Administrator attend the closing.

Yeas: 4 – Nays: 0

Re: Gray & Company – International Equity Search

Ms. Stewart confirmed with the Board that they had eliminated Thornburg from the international equity manager search at their last meeting. She distributed a copy of an international equity investment manager quantitative analysis prepared by Ivory Day, Jr. from Gray & Company.

The purpose of the study was to provide the Board with a quantitative performance analysis of the four managers, which includes Morgan Stanley the current manager. She told the Board that Mr. Day used excess returns, tracking error of excess returns, information ratio of excess returns, correlation of excess returns and a performance summary to measure the manager's performance based on twenty-one periods of five year rolling quarterly returns. Performance was measured as positive, neutral and negative for each manager.

She reviewed the performance of Wentworth, Hauser & Violich based on the parameters of the analysis. Wentworth has been in the first percentile for international equity managers for the past ten years. She said that the very high average tracking error relative to the benchmark is neutral because Wentworth is not just buying the EAFE: they invest differently than other managers. They capitalize on mid cap, small cap and countries outside of the EAFE, for example, the Cayman Islands, the Netherlands, Brazil and the British Antilles. She added that their three-year and five-year performance has been great.

Trustees Miller and Lee asked whether Wentworth's neutral rating on high average tracking error was due to being too aggressive. Ms. Stewart replied that Wentworth invests where themes take them. Ms. Stewart said Mr. Gray's approach was to split the investment between two managers and two styles that will compliment one another. One style would be more in tune with the EAFE and the other based on a theme style of investment.

Ms. Stewart said if it pleased the Board they could make the international equity manager selection. There was discussion and the Board determined that they would split the investment 50%/50% between Boston Company and Wentworth, Hauser & Violich. Ms. Stewart added that if something happens to Mr. Hirayama the portfolio would be frozen immediately; the Board could then select a new manager or roll the money into the Boston portfolio.

RESOLUTION 06-070 By Miller, Supported by Cochran

Resolved, That the Board of Trustees retain Wentworth, Hauser and Violich and The Boston Company as international high yield manager splitting the investment 50%/50% between the two managers pending contract review by legal counsel.

Yeas: 4 - Nays: 0

Re: Montag & Caldwell Update

Ms. Stewart distributed a copy of an energy and technology perspective received from Montag and Caldwell. They are responding to their probation and wanted to show the Board the sectors that had affected their performance. She said that their current year-to-date performance is up. They were over in energy and under in technology. Their lack of C-rated credits negatively affected their performance. They are a high quality manager and low quality has been performing well in the past three years. They have lagged in performance for the past three years but their performance is improving.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

Chairman Storum said he would not be able to attend the Custody Committee meeting. It was determined that Trustee Lee would attend in his place.

1. Real Estate Committee – None

2. Personnel Committee

There was discussion regarding the joint Personnel Subcommittee meeting held earlier in the week to propose the idea of the current employees who work in the Retirement Office becoming employees of the Retirement System rather than City employees.

Trustee Cochran said that he brought the idea up at the Executive Staff Meeting and was met with opposition. He said that the Mayor's Chief of Staff, Eric Walker, did not like the idea and that the Mayor usually takes Mr. Walker's lead. He added that the Human Resources Director also took issue with the idea. Trustee Cochran said that he told them that it's currently done that way in the City of Detroit and Ann Arbor. He also made reference to the Housing Department and the Silverdome and told them it would be similar. He said that he told them it was a concept but that they were adamant in their stance.

Trustee Storum said that there have been issues between the Human Resources Department and the Retirement Office in the past that he felt were personality issues. Trustee Miller said that there is no agenda and that this is strictly a matter of efficiency. He said that he would like to attend a meeting with Chairman Storum, Eric Walker and Wayne Belback to address the issue. There was also discussion regarding the change would need to be approved by the City Council. Trustee Cochran said that the GERS Board may not be going in the same direction now. Trustee Miller said that he does not understand the opposition since the City has financial issues and if they can reallocate personnel it should be received as a positive.

Ms. Billings commented that from a fiduciary standpoint, the Board should work with the GERS Board. Chairman Storum said that PFRS cannot justify the cost of having their own staff.

Mr. Duddles commented that the issue should be brought to the attention of the membership and let them make the decision. Trustee Miller agreed that it would help if the membership was involved in the decision.

Ms. Zimmermann reported that the GERS Board decided to add two members to their Personnel Committee which means they have four members versus two members for the PFRS Board. She also said that the GERS Board feels that since they are larger and pay a larger percentage of the costs they are entitled to more representation on the Committees. Chairman Storum said that the

joint meetings are out of cooperation and that the GERS Board can not control who the PFRS Board hires. The intent of the joint committee is to reduce costs by not duplicating the RFP effort for each fund. Chairman Storum suggested that they add a member to the Personnel Committee. Trustee Lee was appointed to the Personnel Committee.

Re: Staff

Ms. Zimmermann notified the Board that new VISA Cards had been issued and that they could stop by the office to pick their new cards up. Trustee Miller said that the reason for the new cards was to bring the process in house and to provide members of the Credit Union a consolidated view of the banking and credit card statements.

Re: Legal

Ferro Corporation Litigation

On September 1, 2006, Lerach Coughlin filed Opposition to Defendant's Motion to Dismiss. Defendant's Reply Brief is due in October. The Court has not scheduled a hearing date.

United Rentals

This case is in the discovery phase.

Jarden

Filed Amended Complaint on August 25, 2006.

Maxim

Motion for lead plaintiff is still pending.

Fossil, Inc.

Ms. Billings reported that this is a shareholder derivative class action. The litigation involves the back-dating of hundreds of thousands of stock options that were given to Fossil insiders, resulting in the diversion of hundreds of millions of dollars of corporate assets to the Board of Directors and senior executives. She told the Board that the fund owns 8,000 shares of Fossil. She also said that these were purchased through Loomis Sayles and that the fund needs to maintain a minimum of ten shares for litigation purposes.

She said that due to time constraints the Secretary had signed the retainer agreement in accordance with trustee policy. She said that the action needs to be ratified by the Board.

RESOLUTION 06-071 By Miller, Supported by Lee

Resolved, That the Board of Trustees ratify the retainer agreement for the Fossil, Inc. Shareholder Derivative Litigation.

Yeas: 4 – Nays: 0

Tempur-Pedic International, Inc.

Ms. Billings stated that this is a new case which involves a fraudulent scheme whereby the company made false and misleading statements regarding their earnings, top-line growth and retail business strength for the purpose of driving up the price of their stock to the highest point ever. The CEO and insiders sold millions of dollars worth of stock while stock prices were at an all-time high.

Since the Retirement System purchased their shares at the same time as the insider trading was occurring they are eligible for a special injury recovery under the law. She said that due to time constraints the Secretary had signed the retainer agreement in accordance with trustee policy. She said that the action needs to be ratified by the Board.

RESOLUTION 06-072 By Miller, Supported by Lee

Resolved, That the Board of Trustees ratify the retainer agreement for the Tempur-Pedic International, Inc. Securities Class Action Litigation.

Yeas: 4 – Nays: 0

Ordinance Cleanup

Trustee Miller is going to review changes to the ordinance. Ms. Billings said that there are no legal time limits.

Bernstein, Litowitz Institutional Investor Advocate

Ms. Billings referred to the BLB&G quarterly newsletter contained in the packet. She also told the Board that she and Ms. Zimmermann will be attending the “Recovering Investor Assets” Conference. She said that it is a phenomenal program.

Re: Union Representatives

Mr. Duddles requested that members be provided a copy of the worksheet used by the staff of the Retirement Office to perform pension benefit calculations. The worksheet would include the pay codes that are used in the calculations. Ms. Zimmermann expressed concern that the Retirement Coordinator would spend a lot of time reviewing details of the calculations that are accurate. After discussion, it was determined that Ms. Tetmeyer would show Mr. Duddles how the benefit is calculated. He would then be responsible for showing members at the Fire Department how to calculate their benefit using the worksheet.

Ms. Zimmermann commented that Gabriel, Roeder, Smith & Co. had been asked to prepare a cost estimate for an on-line estimate program that members could use, but did not follow through. Ms. Zimmermann was directed to get a quote so it might be operating as soon as possible..

NEW BUSINESS

Re: Replacement Laptop Computer

Ms. Zimmermann requested that the Board approve the purchase of a replacement laptop computer for the one that was stolen. A claim was filed with Risk Management that should cover the cost of the replacement. Trustee Miller asked if there was any member data on the laptop. Ms. Zimmermann told him that there was not and would not be any sensitive data stored on the laptop.

RESOLUTION 06-073 By Lee, Supported by Miller

Resolved, That the Board of Trustees approve the purchase of a replacement laptop for the Retirement Office.

Yeas: 4 – Nays: 0

Re: Munder Capital Consent to Continue

Ms. Zimmermann told the Board that due to the management changes and restructuring at Munder Capital, Munder has requested that the Board confirm their continuance as manager.

RESOLUTION 06-074 By Miller, Supported by Cochran

Resolved, That the Board of Trustees approve Munder to continue as manager for the Police and Fire Retirement System.

Yeas: 4 – Nays: 0

UNFINISHED BUSINESS

Re: Ordinance Clean-up – See Legal Report

SCHEDULING OF NEXT MEETING –Meeting on October 26, 2006 at 9:00 a.m., Shrine Room, Main Level City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 06-075 By Lee, Supported by Cochran

Resolved, That the meeting be adjourned at 10:31 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 September 28, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt