

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

November 9, 2009

A regular meeting of the Board of Trustees was held on Monday, November 9, 2009 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:06 a.m.

TRUSTEES PRESENT

Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

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

CONSENT AGENDA

- A. Minutes of Regular Meeting: August 27, 2009
- B. Communications:
 - 1. Correspondence from PFRS Re: T. White conversion
 - 2. Correspondence from T. White Re: Request for Board Action
 - 3. Correspondence from T. White Re: Clarification of Request
 - 4. Correspondence from Oppenheimer Capital Re: Downgrade
 - 5. Correspondence from L. Marshall Re: Furlough Days
 - 6. Correspondence from PFRS to F. Leeb Re: Furlough Days
 - 7. Correspondence from DDJ Re: September Performance / Termination
 - 8. Correspondence from Artio Global Re: IPO
 - 9. Correspondence from Hirayama Investments Re: Recovery
- C. Conferences:
 - 1. Super Bowl of Indexing – IMN – Dec 6-9, 2009
- D. Financial Reports:
 - 1. Financial Reports – August & September 2009
 - 2. Securities Lending – August & September 2009
 - 3. Accounts Payable – September & October 2009
 - 4. Due to / Due from Q3
 - 5. Securities Lending Deficiency

- E. Remove from the Rolls:
 - 1. Jerry Pointer (deceased 10-05-09) survivor benefit of \$1,655.60 / mo to Kathleen Pointer
 - 2. William Sirkin (deceased 09-23-09)
- F. Application for Service Retirement
 - 1. Gary Hardiman – PFFU 24 years, 7 months Age 53
 - 2. John Rayner – PFFU 24 years, 1 month Age 50
 - 3. Bryan Flye – PPSA 24 years, 9 months Age 50
 - 4. Arthur Frantz – PFFU 23 years, 2 months Age 55
- G. Final Benefit Calculation
 - 1. Terry White #1523 \$2,530.19 (dis convert to svc ret)
 - 2. Edward Pittman #1699 \$2,619.36 (dis convert to svc ret)
 - 3. Wilvern Yarbrow #2444 \$2,945.92
 - 4. Phillip Leonard #2454 \$3,340.91
- H. Application for Refund of Accumulated Contributions:
 - 1. Matthew Blom – Fire \$3,491.32
- I. Disability Re-Examinations
- J. Change of Retirement Effective Date
 - 1. Art Frantz from November 5, 2009 to November 4, 2009
- J. Ratification of Capital Calls:
 - 1. Metropolitan Real Estate \$208,000

Ms. Zimmermann distributed the Change of Retirement Effective Date for Art Frantz to be added to the consent agenda.

Trustee Lee questioned the age of Terry White and Edward Pittman on their Final Retirement Benefit Calculation. He thought the age reflected on the form should have been 54 for Terry White and 55 for Edward Pittman. Ms. Zimmermann said she would verify the information.

RESOLUTION 09-054 By Miller, Supported by Lee
 Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

Chairman Storum announced his retirement as November 13, 2009. Matt Nye is interested in running for his position on the Board. He is planning to stay on until his replacement is found.

Ms. Zimmermann said that she will be sending out petitions for Chairman Storum's position which would be due on December 9, 2009. The election, if necessary, would be held on December 19, 2009.

Trustee Miller asked if the position could be changed to allow a retiree to run.

Ms. Billings asked when his term ended and was concerned that without three trustees the Board would not have a quorum.

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – Securities Lending

Ms. Billings reported that her firm has teamed up with Coughlin Stoia to file a class action lawsuit against Northern Trust related to the losses in their Securities Lending Program. She stated that the General Employees Retirement System lost \$1 million versus the Police & Fire Retirement System's \$400,000 in losses. Because the Police & Fire losses were small Tony Asher did not feel that it made a lot of sense to spend the money because legal expenses would outweigh the losses. They met with Coughlin Stoia and they agreed to litigate on a contingency/class basis which means the System would not be responsible for expenses. All fees and expenses would come out of the settlement.

She stated that the Police & Fire Retirement System incurred losses in the collective trust of \$370,000. She met with GERS and they approved to file the class action. There is no need for PFRS to file for lead plaintiff in the class action litigation. However, they can file for lead plaintiff in the collective trust litigation.

The firms plan to file a class action complaint regarding the collective trust losses sometime in the 1st or 2nd week of December.

RESOLUTION 09-055 By Miller, Supported by Lee

Resolved, That the Board approve the Northern Trust Collective Trust Class Action Litigation, and approve Trustee Lee to sign the retainer agreement per the recommendation of legal counsel.

Yeas: 3 – Nays: 0

Ms. Almonrode addressed the issue of a direct payment of \$65,000 due in December, 2009 for the unrealized losses in the Northern Trust Securities Lending Program. She said that the realized losses total \$366,000.00 and Northern Trust could request payment for the rest of the the losses at any time. The Board needs to either authorize Ms. Zimmermann to release the funds or file an injunctive relief if it is determined that they should not pay the realized losses. She said that Northern Trust is holding the System hostage. Their research with Coughlin Stoia should be completed by December 15, 2009. However, it is important for the Board to authorize whichever course of action is determined beforehand.

RESOLUTION 09-056 By Lee, Supported by Miller

Resolved, That the Board approve to file injunctive relief or authorize the Retirement Administrator to release funds of \$65,000 to pay for unrealized losses in the Northern Trust Securities Lending Program based on legal counsel's recommendation.

Yeas: 3 – Nays: 0

Chairman Storum asked how the litigation will affect the System's working relationship with Northern Trust on a day in and day out basis. Ms. Almonrode assured Chairman Storum that the daily management person should not be affected and it would not be viewed favorably if Northern Trust was providing bad service. Ms. Billings said that it would not look good to the judge if the System was to add a breach of contract claim in the litigation.

Chairman Storum asked about changing custodians. Ms. Almonrode said that there could be a graduated redemption issue if the system changed custodian now.

Chairman Storum said that State Street provided full disclosure and did not put their clients in this position. He asked if an RFP would be in order going forward to search for a new custodian.

Ms. Almonrode left at 9:31 p.m.

Re: Gray & Company

Flash Report Ending September 30, 2009

Mr. Kuhn distributed the flash report for the past quarter. The total fund realized current month performance 3% above the benchmark, quarter-to-date performance 3% above the benchmark and year-to-date performance 10% above the benchmark.

Equities provided strong performance. Fixed income returns were good for the quarter. It appears that the market has rotated out of fear mode and is willing to take on acceptable risk.

Munder and Loomis were short of the benchmark. The run up in the market was in low quality stocks and these managers typically do not invest in these types of stocks. A lot of active managers under performed their benchmarks this quarter.

The fund was not as strong in October, but held its own through October 26, 2009.

Chairman Storum commented on how The Boston Company beat the benchmark for the first time since inception. Mr. Gray said that the real question is why Boston is there. Wentworth, Hauser & Violich invests in oil and natural gas. Their year-to-date and since inception numbers are good.

High yield manager DDJ Capital and other high yield managers have done well with the spreads narrowing but this will not continue.

Mr. Gray asked Chairman Storum if he had anyone in mind to take his place on the Board. Chairman Storum said that there was someone interested and he planned to act as a mentor for the new trustee and would like that person to meet with Mr. Kuhn for investment training and with Ms. Billings to learn about the fiduciary responsibilities of a trustee. Mr. Gray said that it is a huge concern for them with new trustees not having an adequate knowledge base.

Trustee Miller asked what rules and regulations are in place for the active employee trustees and how that works with the independent trustee. Chairman Storum said that the independent trustee is appointed by the other trustees.

Ms. Billings said that there is no verbiage for the independent trustee and that position is appointed by the other trustees. Chairman Storum asked what would happen if he wanted to fill that position.

There was discussion on how business could not be conducted without having three trustees. Trustee Miller said he would like to submit his resignation today.

Trustee Lee said he is all for Chairman Storum filling the independent trustee position, but thought the independent trustee could not have a vested interest in the fund. Ms. Billings said she would review the ordinance and rules and regulations.

DDJ / Artio Transition

Mr. Kuhn reported that Artio is a publicly listed company on the stock exchange. They were formerly under the Julius Baer umbrella but decided to spin off the asset management portion of the company. They planned to go public in June, 2008 but it was not a strong time to issue an IPO. Julius Baer still holds a number of shares in Artio. The portfolio management team entered into new employment contracts for the next five years. The management team owns more shares in the new firm which is a win win for them. The Board approved them to be their new high yield managers.

Because the System was the only participant left in the DDJ trust, the Board decided to terminate the manager. DDJ Capital has asked if it is okay to transfer securities in order to fund their other trust. He explained that they would use an outside independent pricing agent to value the securities, transferring the issues to another DDJ managed account at the bid price. The lower of the bid/ask price will be used with both parties splitting the commission. This would be the best route to take since many of the securities are odd lots. In our opinion, odd lots priced at the midpoint of the bid/ask price would be valued lower than the bid price of round lots due to the increase in demand for the round lot size.

Chairman Storum asked if Artio holds any of these securities. Mr. Kuhn said that the trust could sell everything. It would be easier to have the current manager sell the lower quality securities than Artio.

Ms. Billings said she has completed her review of Artio Global High Income Fund Operating Agreement. They have agreed to everything in the Side Letter Agreement including the most favored nations clause and the elimination of indemnification for loss caused by negligence as opposed to gross negligence.

RESOLUTION 09-057 By Miller, Supported by Lee

Resolved, That the Board authorize DDJ to transfer the securities in the portfolio using the valuation procedures submitted by the investment manager.

Yeas: 3 – Nays: 0

Thornburg International Equity

Mr. Kuhn stated that Thornburg is the replacement for The Boston Company.

Ms. Billings said that traditionally, mutual funds do not negotiate the terms of their contract. Thornburg was not willing to entertain a side agreement. The agreement does not acknowledge fiduciary standards and they will not deviate from this agreement. She confirmed that there is nothing illegal per se in the agreement.

Trustee Lee asked how this works with other investors. Mr. Gray said that investors receive a basic vanilla prospectus. He added that the custody costs would be lower.

Trustee Miller acknowledged that the Board liked the investment.

Ms. Zimmermann said that the investment has been approved and asked if the Board is ready to go forward.

RMK Timberland

Mr. Kuhn said that the RMK contract were signed and sent back. RMK is waiting to sign the contract when they find the right timber investment for the System.

REPORTS

Re: Chairman

Furlough Days

Chairman Storum said he and Ms. Zimmermann have discussed the furlough days issue. Ms. Zimmermann reported that currently all employees are required to take a furlough day every other week. The Retirement Office is trying to get the work done with reduced hours.

Chairman Storum proposed the option of extending working hours for the other nine days in the pay period. Ms. Zimmermann said it would require the setup of a new payroll with ADP with checks, reports and year-end statements being issued. Ms. Billings said that under Public Act 314 the System is authorized to retain whatever services are needed.

Ms. Zimmermann said that there is a new rumor everyday. At the financial staff meeting they were told that the furlough days were due to the firefighters. The Emergency Financial Manager (EFM) also said there is the possibility that additional furlough days could be added each pay period going forward.

Ms. Billings said that PFRS and PFVEBA sent letters to Fred Leeb (EFM) advising him that the Retirement Office is a separate legal entity from the City and requested its staff be exempted. He never responded.

She recommended that if the Board wanted to compensate the staff for additional hours worked to make up for the furlough days, the Board would need to make a motion that the staff would receive compensation from the retirement system for extra work hours going forward.

Ms. Zimmermann estimated that one year of payroll service to cover the furlough days would be approximately \$4,400.00 to \$5,000.00.

RESOLUTION 09-058 By Lee, Supported by Miller

Resolved, That the Board approve to compensate the Retirement Office Staff the difference to make certain that the workload is equalized and to ensure that service does not deteriorate at the employees' current rate of compensation not to exceed the amount of furlough hours in a pay period.

Yeas: 3 – Nays: 0

Vendor Contributions to Election Candidates

Chairman Storum said that some of the recent candidates for City offices were sending letters out to the investment managers and vendors to garner support and contributions. He proposed that a policy be put in place and sent out to the vendors stating they are not allowed to support or make contributions for candidates. Ms. Billings agreed and acknowledged that this is right in line with a proposed amendment to the Investment Advisors Act of 1940. There is currently an SEC proposal that it is considering rules to restrict campaign contributions by investment firms.

The Board directed Ms. Billings to draft a letter prohibiting vendor support or contribution to candidates.

RESOLUTION 09-059 By Miller, Supported by Lee

Resolved, That the Board approve legal counsel to draft a letter to vendors prohibiting campaign contributions to political candidates.

Yeas: 3 – Nays: 0

City/Employee Contributions

Chairman Storum reported that the City has failed to send the employer and the employee contributions since July. He asked what legal course of action can be taken.

Ms. Billings recommended that the System send a demand letter to the City regarding the employee and City contributions giving the City ten days to make the contributions or the System will pursue all legal remedies available.

Trustee Lee asked if the contributions have to be made on a calendar or rolling year basis. Ms. Billings said it is based on the System's fiscal year.

RESOLUTION 09-060 By Lee, Supported by Miller

Resolved, That the Board direct legal counsel to send a demand letter to the City regarding delinquent employer and employee contributions to the Police & Fire Retirement System

pending review. If contributions are not made within ten days legal counsel is directed to pursue all legal remedies available including filing a lawsuit against the City for the contributions.

Yeas: 3 – Nays: 0

Re: Secretary – None

Re: Trustees

Trustee Miller discussed his pending retirement from the Board. Ms. Billings confirmed that there were no rules in the ordinance or the Rules and Regulations of the Board that would prohibit Chairman Storum as a retiree from taking his position as the independent trustee.

Ms. Billings said that Trustee Miller could resign effective January, 2010 at which time Chairman Storum would replace him as the independent trustee.

RESOLUTION 09-061 By Lee, Supported by Miller

Resolved, That the Board accept Trustee Miller's resignation effective January, 2010 and to confirm Trustee Storum as the independent trustee.

Yeas: 3 – Nays: 0

Re: Staff

Deferred Member Statements

Ms. Zimmermann reported that the statements for deferred members were sent out in September.

Cost Study – PFFU Contract

Ms. Zimmermann distributed copies of a cost study requested with regard to the PFFU contract. She received a copy of the tentative agreement and referred to an email sent to Larry Marshall regarding loosely worded language and the clarification of the window period.

The Retirement Coordinator is signing people up but we do not have a copy of the final contract. There was something signed last week with the Union but she has not received a copy.

Gabriel, Roeder & Smith Software/IT Issues

Ms. Zimmermann stated that the annual renewal for the GRS software has increased from \$3,000.00 to \$3,500.00. It will also cost an additional \$500.00 for them to add the furlough code.

She explained that she would like someone to come in and work through the IT puzzle with her. She has a plan but needs someone well-versed in IT to assist. She has a friend who is the head of IT at Oakland University. She was planning to meet with her to discuss an IT solution for the Retirement Office.

Chairman Storum asked if there are other software programs to eliminate reliance on GRS. Ms. Zimmermann said that GRS wants approximately \$80,000.00 to \$100,000.00 for their new software program.

Trustee Miller recommended that in order to determine the overall needs and develop an IT solution the Retirement Office should hire an IT specialist. Ms. Zimmermann said that she has been researching plans and looking for an overall solution, i.e. remote offsite backups. She knows what is needed but wants to insure she finds the best cost effective solution.

Mr. Gray offered their assistance with the issue. He said that Bob Hubbard designed their system.

Ms. Zimmermann stated that GERS approved her to hire an outside IT person to assist with transmitting payroll from the laptop. She has been unable to resolve the issue working with the City's IT Department.

RESOLUTION 09-062 By Miller, Supported by Lee
Resolved, That the Board authorize the Retirement Administrator to hire an outside IT specialist to put together an IT plan for the Retirement Office.

Yeas: 3 – Nays: 0

2009 COLA Payment

Ms. Zimmermann reported that the 2009 Cost of Living Adjustment payment totaled \$2,228,240.00.

2010 Board Meeting Calendar

Ms. Zimmermann requested that the Board approve the 2010 Meeting Calendar. It was determined that one manager review meeting would be sufficient.

RESOLUTION 09-063 By Lee, Supported by Miller
Resolved, That the Board approve the 2010 Meeting Calendar.

Yeas: 3 – Nays: 0

Re: Legal

Fossil, Inc.

Ms. Billings reported that the complaint was amended and Ms. Zimmermann signed on behalf of the Board. She asked that the Board ratify Ms. Zimmermann's signature on the revised complaint.

RESOLUTION 09-064 By Miller, Supported by Lee
Resolved, That the Board ratify Ms. Zimmermann's signature on the amended complaint in the matter of the Fossil, Inc. Shareholder Derivative Litigation.

Yeas: 3 – Nays: 0

Gildan Activewear, Inc.

Ms. Billings reported that a hearing for the Defendants' motion to dismiss took place and they are currently awaiting the court's ruling.

Maxim Integrated Products

Ms. Billings reported that the Court granted the Defendants' motion to dismiss. Coughlin Stoia recommended not to file an appeal.

UBS/AG Securities Class Action

Ms. Billings reported that a briefing has been scheduled and the securities litigation is in the initial states of litigation.

Merrill Lynch Bond Litigation

Ms. Billings reported that the matter is still pending.

IRS Application for Determination Letter

Ms. Billings reported that the matter is currently pending with the IRS.

Artio Global High Income Fund LLC

Ms. Billings told the Board that the documents for execution and the side-agreement can be found under Exhibit D.

Coughlin Stoia Portfolio Monitoring Report, Quarter Ended March 31, 2009

For the trustees' information.

Draft Correspondence to Emergency Financial Manager

Ms. Billings referred to the correspondence sent to the EFM, Fred Leeb regarding the furlough day issue.

Thornburg International Value Fund

Ms. Billings confirmed with Mr. Kuhn that he has everything needed to fund the investment.

Ferguson Domestic Relations Order

Ms. Billings reported that she has reviewed the EDRO and everything is acceptable.

Terry L. White Correspondence

Ms. Billings referred to a draft of the correspondence she sent to Terry White in response to his letter.

Re: Union Representatives - None

NEW BUSINESS

Police & Fire Regular Meeting
November 9, 2009

Re: Securities Lending Realized Loss – See Consultant

Re: CD Renewal

Ms. Zimmermann informed the Board that the certificate of deposit at the Affinity Group Credit Union was due for renewal. She asked the Board's ratification to reinvest the principal of \$100,000 into a certificate of deposit with the dividends deposited into the cash account.

RESOLUTION 09-065 By Lee, Supported by Cochran

Resolved, That the Board ratify the renewal of the Certificate of Deposition in the amount of \$100,000 at Municipal & Health Services Credit Union with the interest to be issued to the System as a check.

Yeas: 3 – Nays: 0

Re: Experience Study Quote

Ms. Zimmermann requested that the Board approve the experience study quote. Chairman Storum asked how much the quote is for and the timetable. Ms. Zimmermann said that the study will cost approximately \$15,000.00 and once the quote is approved she will obtain a timeframe. Chairman Storum confirmed that the study would be ready to present at the manager review meeting in May, 2010.

RESOLUTION 09-066 By Lee, Supported by Miller

Resolved, That the Board approve the Experience Study Quote for \$15,000.00 to be prepared by Rodwan Consulting.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

Re: HELPS Letter to Retirees – On Hold

Re: Actuarial Software Search – See Staff Report

Re: Disaster Recovery Plan – See Staff Report

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting on December 3, 2009 at 9:00 a.m., Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan.

Police & Fire Regular Meeting
November 9, 2009

ADJOURNMENT

RESOLUTION 09-067 By Miller, Supported by Lee
Resolved, That the meeting be adjourned at 10:44 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 November 9, 2009.

As recorded by Jane Arndt