

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

November 29, 2007

A regular meeting of the Board of Trustees was held on Thursday, November 29, 2007 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:09 a.m.

TRUSTEES PRESENT

Raymond Cochran, Secretary
Brian Lee
Craig Storum, Chairman

TRUSTEES ABSENT

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

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence Gray, Gray & Company
Christopher Kuhn, Gray & Company
Eugene White, Trustee Police and Fire VEBA Trust
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

Trustee Lee asked about the death audit that is run and the one member that was reported. Ms. Zimmermann stated that the office had already been notified of the deceased member. She explained that the Berwyn Group runs an analysis against the social security database. This helps insure that the system is not paying a benefit to a deceased member.

Trustee Storum had a question regarding the retirees who made application that are receiving reciprocal time and whether it was documented. Ms. Zimmermann explained that it is noted on the agenda next to the member's service credit.

Trustee Storum also asked how reciprocal time is verified. Ms. Zimmermann stated that if the time is from another system outside of the City, the member will fill out a release. The Retirement Office will submit the request to the outside agency to verify the time. It comes directly back to the Retirement Office.

RESOLUTION 07-056 By Cochran, Supported by Lee
Resolved, that the consent agenda be approved.

Yeas: 3 – Nays; 0

CONSULTANTS

Police & Fire Regular Meeting
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Re: Gray & Company – Third Quarter Performance Report

Mr. Gray reviewed the third quarter 2007 performance of the total plan ex-CAPROC. He said the top line performance improved for the quarter. Overall it is doing very well with performance for the quarter of 2.3% versus 1.8% for the benchmark, year-to-date was 10.1% versus 7.5% for the benchmark and actual of 11.6% versus 11.8% for the benchmark for the three-year period. Returns over the long-term were not that great but the portfolio overall took a lot less risk relative to the benchmark.

Domestic equity managers did very well in the midst of the current crisis in the credit markets.

Mid cap manager Munder's performance for the quarter was 3.2% versus -0.9% for the benchmark. Year-to-date performance was 21.6% versus 11.0% and one-year performance was 29.6% versus 18.8% ranking their performance in the 1st percentile.

Small cap manager Loomis returned very impressive numbers with year-to-date performance of 8.7% ranking in the 1st percentile. Joe Gatz has done a great job for the portfolio. During the last quarter, Joe was trying to reset the exposure in the portfolio relative to the benchmark providing excellent performance.

International equity manager Boston is a bottom-up manager. He and Mr. Kuhn will be making a visit to Boston in December to get a sense of where they are rebuilding their team.

Richard Hirayama continues to be in good health. Year-to-date performance is up 49% but it does not seem possible that this type of performance can continue. There is a lot of exposure to emerging markets and oil in the portfolio. Emerging market returned 54.8% for the one-year period and 13.7% for the third quarter.

Fixed income is steady as she goes. The ability to add value is increasingly more difficult.

Oppenheimer Capital added 200 basis points of performance for the quarter at 3.0% versus the benchmark at 2.8% putting them in the 11th percentile. One-year performance ranked in the 7th percentile. The portfolio consists of high quality AAA-rated securities with an average duration of 4.6 years.

High yield manager DDJ Capital returned negative performance for the quarter. However, their one-year performance of 8.9% versus the benchmark at 7.7% ranks them in the 1st percentile.

Fixed income manager Goode Stable Value's performance was slightly above the benchmark for the quarter.

Performance for the Northern Trust Growth Index was right around the benchmark at 3.0% (versus 2.9%) ranking them in the 9th percentile. This is the type of performance they were hired to return.

American Realty Advisors closed on five new properties during the quarter. They are good people and are doing exactly what they said they would do.

The CAPROC receivables number of 7.4% is wrong. The figures need to be corrected.

Given the huge volatility in domestic markets, the fund managers are doing very well.

They plan to further evaluate high yield manager DDJ Capital's performance for the quarter.

Chairman Storum stated that his only concern is the performance of the Boston Company and that they are aware that they are being monitored.

Re: Real Estate/Metropolitan Replacement Update

Ms. Billings expressed her concerns regarding the Metropolitan contract. She received an email where they stated that they are not going to acknowledge themselves as a fiduciary. She referred to an article written by Michael Asher on due diligence for alternative investments. It does not matter what they say, they are pursuant to PA 314 if they exercise discretion. Their legal counsel stated that are specifically structured to avoid being a fiduciary under ERISA and they believe they are not a fiduciary under PA 314. There are no hard and fast laws, but their reasoning is that they are putting in a significant amount of their own money which excludes them from being fiduciaries.

Chairman Storum questioned why they would go to such lengths to structure a contract where they are not a fiduciary. Mr. Gray stated that they would never and are not looking to avoid the fiduciary structure. They feel that because they are putting their own money into the investment they are being held to a similarly high standard. Some people feel that having their own money in the fund is more compelling. He said that it becomes the decision of the Board whether they want to continue with this investment. He said that the interpretation of Public Act 314 varies around the state on this subject: there are a lot of alternative investments in the state.

Ms. Billings said that she is not saying that the Board cannot make the investment. Alternatives managers as a general rule do not agree on the fiduciary language. If they do not agree a fiduciary or acknowledge that it is a fiduciary, the Board has to determine if they are comfortable with the investment.

Mr. Kuhn said that the general interpretation is that you can not trade your account ahead of your client's account. He has run into this issue and technically they would not be putting their client's interest first since they are invested together.

Mr. Gray said that they are not in a rush to close, but at the same time he does not know of many firms in this area that would sign off as a fiduciary. The pool is small of those who would sign off on being a fiduciary. It could become difficult to find a quality manager to satisfy this part of the asset allocation if the fiduciary language is mandatory. He said that the Board either has to relax the standard or stay conservative with limited choices.

Ms. Billings said that the Board has to have a level of comfort in this investment.

Mr. Gray said that at the end of the day both he and the Board are fiduciaries.

Chairman Storum asked if the pool of managers has shrunk and if they should bring in managers. Mr. Gray stated that if these managers are asked the fiduciary question up front the better players will not be interested. He suggested that they wait to get their arms around the true legal findings.

Ms. Billings said that adding the contractual fiduciary responsibility adds a higher legal standard of duty, as opposed to just having a breach of contract claim against a manager. It still comes down to the comfort level of the Board.

Chairman Storum asked if this is a pooled product. Mr. Gray replied that is and they are putting in a substantial amount of their own after-tax money. The product is a real estate fund of funds that invests in premier real estate managers, including niche players – diversified by property type, region and strategy, which provides recession resistance.

Meeting Break at 9:40 a.m.

Meeting Resumed at 9:45 a.m.

Chairman Storum asked for input from Trustees Lee and Cochran. Trustee Cochran said that he has an issue with an organization that does not want to comply with a higher standard.

Ms. Zimmermann stated that they have clients in thirty states and it would be difficult to require their contracts to make changes that comply with thirty different sets of rules.

Trustee Cochran said that he is more inclined to take the risk with his own money versus someone else's money. Mr. Gray confirmed that the manager is putting their own money in and that his firm is simply trying to bring the absolute best of breed managers in the marketplace. You will not find a better firm in the business.

He explained that they have 120 institutional clients with \$925 million in institutional money. They have never lost a client. He listed some of their clients as Carnegie Hall Endowment, Columbia, San Antonio Fire, Siemens, Ingersol-Rand and Georgetown University. The three principals of the firm each have twenty-five or more years of experience. They are members of the PRIA Organization which implements standards, systems and procedures for the industry. They are very globally diversified. They met the "Four P Standard" of people, process, philosophy and performance. He is challenged to find a better firm in the industry. It all goes back to how comfortable you are with the contracts. They have a stellar roster of clients and he does not foresee any problems with the company or the team.

Trustee Lee said that he partially agrees with Trustee Cochran. Legally he can not understand why they cannot consider themselves a fiduciary. However, if the contract looks good in all other aspects he would be willing to consider continuing with the investment. Ms. Billings has stated that the contract also required the System to indemnify the manager for the manager's negligence

Chairman Storum stated that because alternative investments have more risk they limit the size of the investment. They also hire a consultant with whom they place their trust that assures them they are comfortable with the investment. He asked if they should wait to get an answer or move forward.

Mr. Kuhn confirmed that other private equity firms explained that the language relating to not trading ahead of clients is from ERISA. Ms. Billings will verify that.

Mr. Gray said that going down this road with these types of investments firms and individuals can be sued as fiduciaries.

Trustee Lee said that he is only concerned if members were to ask why they chose the investment in the event of a problem. He would like a fallback answer for the members.

Chairman Storum said that waiting sixty days should not be an issue. They could schedule a special meeting if that changes. It is important to feel comfortable with the different risk-taking levels. He suggested that the Board wait for the information. Trustee Cochran agreed to trust the opinion of the consultant.

Mr. Gray said he would bring the findings to the next meeting.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

Trustee Lee said he has fielded some questions coming from the Union. They asked what would happen to the composition of the Board if the police department was to go to Oakland County. Ms. Billings stated that the composition of the Board is a mandatory subject of collective bargaining and changes must be negotiated. She said that in the event the department went to Oakland County, the officers would still have an interest in the System.

Re: Staff

2007 COLA Disbursements

Ms. Zimmermann reported that the 2007 COLA was dispersed to members totaling \$2,499,987.81.

Charles Bowie Contribution Redeposit

Ms. Zimmermann reported that Charles Bowie has requested to redeposit contributions to obtain the service credit for his time in the military. He is currently in layoff status.

Ms. Zimmermann confirmed that he was in the service of the military from May, 2004 through June, 2006 and the contributions he is requesting to redeposit were calculated at \$2,368.42. He was recently laid off on November 2, 2007.

Ms. Zimmermann asked if she should refer this issue for an opinion.

Trustee Lee stated that the member will be vested with ten years of service credit if allowed to redeposit his contributions.

Longevity Calculations

Ms. Zimmermann presented the information regarding the benefit overpayment to a select group of members. She explained that the longevity payments from 2003 through 2006 for these members included special holiday pay which should not have been included due to a Payroll Division error which increased their final average compensation calculation. For those on the list, the miscalculation did not make a significant change to their monthly pension benefit. Trustee Cochran asked if the amount is negligible.

Chairman Storum said that the City is trying to recoup monies from the longevity miscalculations. According to the information he received, the City has to recoup those monies within six months of when the error occurred. Trustee Lee confirmed that they can make the correction going forward but the City cannot go back to collect the overpayment because the time period has elapsed.

Ms. Billings stated that even if the issue is a result of an error outside the control of the retirement system, it is the Board's fiduciary responsibility to insure that the benefit provided to these members going forward is corrected and to recoup any overpayment from the members. The repayment is generally done so as to make it as small and palatable as possible to the individual.

There was discussion on whether to recoup the overpayment. Chairman Storum asked if the language that pertains to the City recouping the longevity overpayment applies to the pension overpayment. He also asked what the difference is between the correct and incorrect monthly pension benefit. Ms. Zimmermann said the policy and ordinance state the System will recover amounts paid in error.

Ms. Billings explained that if a member goes before a judge it is customary for the judge to let the Board recoup the monies. However it depends on the circumstances and who the judge feels was in the best position to recognize the error.

Chairman Storum directed Ms. Zimmermann to calculate the actual difference in the pension benefit. He confirmed that the rates have been changed going forward. Ms. Billings said that it is important to get all the facts to determine if the Board has to recoup overpayments. Ms. Billings was directed to look at the options.

Julie Gonsch – Northern Trust

Ms. Zimmermann reported that she received correspondence from Julie Gonsch regarding staffing changes. Ms. Gonsch was recently promoted to a different position and Mike Peska, a Vice President with fifteen years of service at Northern Trust, will be the interim Relationship Manager.

CAPROC Interest Payment

An interest payment for \$133,386 was received from CAPROC.

Actuarial Presentations

Ms. Zimmermann received two responses from actuarial firms from the RFP's that were sent out. The firms that replied were Gabriel, Roeder and Smith and Rodwan Consulting Company. A meeting of both Boards has been scheduled for the presentations on December 12, 2007 at 10:00 a.m.

Chairman Storum asked if the firms met the minimum criteria. He also stated that he is not available on that date. Ms. Zimmermann asked for available dates. Chairman Storum said that he would be available, December 14, 17, 18 or 21, 2007. Trustee Lee stated that he is available for all the dates.

Disability Income Verifications

Ms. Zimmermann stated that all but two income verifications have been received since the last notice was sent out. Anthony Krepps was the only disability retiree whose income was over the allowed amount.

2008 Mileage Rate

Ms. Zimmermann reported that the 2008 mileage rate set by the IRS has been increased to 50.5¢ per mile.

Investment Policy and Ordinance Updates

Ms. Zimmermann distributed updated copies of the Investment Policy and Ordinance to the trustees.

Re: Legal

United Rentals

Ms. Billings reported that Coughlin Stoia received a settlement proposal from United Rentals for \$27.5 million. In order to proceed with the settlement it has to be ratified by the Board. Coughlin Stoia recommends taking the settlement.

RESOLUTION 07-057 By Lee, Supported by Cochran

Resolved, That the Board approve the proposed \$27.5 million settlement in the United Rentals litigation.

Yeas: 3 – Nays: 0

Jarden Securities

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Ms. Billings reported that the Defendant deposed account representatives from Munder Capital and the Plan Administrator, Ms. Zimmermann in October, 2007. The Defendant has filed a motion opposing class certification.

Maxim Integrated Products

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending. It is scheduled to go before the California Northern District Court on December 17, 2007. Board member presence is not necessary.

Fossil, Inc.

Ms. Billings reported that the motion to dismiss is still pending.

Tempur-Pedic International, Inc.

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

Mesirow Financial Institutional Real Estate – UBTI Issue Update

Ms. Billings referred to correspondence received from Mesirow that an investment in MFIRE may generate UBTI. The proposed Cayman Island Feeder Fund is a way to avoid UBTI. Beth Bialy from Plante Moran submitted a letter stating that under IRC 115 the retirement system could make the case that they are exempt from UBTI. In her opinion it stated that Plante Moran has never seen a municipal system subjected to UBTI only private funds.

IRS Section 511 reads that tax on income earned can be imposed by a tax-exempt entity that is unrelated to the entity's purpose. Nothing crosses or reconciles those two codes. The IRS is its own judge and jury. She is looking for an absolute answer on UBTI.

Chairman Storum asked if there is a way they can rule on a hypothetical. Ms. Billings said that the IRS will not rule on a hypothetical. She said that Phil O'Brien at her firm said that there may be a way the Board can get a ruling without identifying the fund. She could try to get an opinion on a confidential level if the board was interested. It is a great argument that government entities are exempt.

Mr. Gray said that there is always the possibility of UBTI, but no one has dared to go to the IRS regarding feeder funds because they look like tax avoidance.

Ms. Billings said that a decision on a private plan said that UBTI is not necessarily a bad thing. If the investment is good, it is a fiduciary decision. The tax will have little impact outside of paperwork filing.

Trustee Lee asked if after a few years you could assume that the system is not paying UBTI. Mr. Gray said that it is assessed at the end of the investment.

Chairman Storum said that the investment has already been made and \$600,000 has been drawn down. The Board should try and get the answer without tipping off the IRS. Ms. Billings said that she has no idea how long it will take to get an answer from the IRS. She asked if Mesirow should be notified.

Chairman Storum said that he feels comfortable moving forward. Beth Bialy has seen a lot of these and if there are tax consequences down the road then the Retirement Office will prepare the necessary paperwork.

Mr. Gray said that their performance is stellar and the worse that could happen is you pay the tax bill and fill out paperwork. The fund closed on November 2, 2007.

Ms. Billings was directed to further investigate the tax implications.

CAPROC Update

Ms. Billings described correspondence received from Stuart Tompkins regarding the selling of two properties before the end of the year by CAPROC. The properties are One Michigan Avenue and Crosspoint in North Carolina. The CAPROC Manager has requested to sell the properties through Unanimous Consents rather than holding an actual meeting.

Under the terms CAPROC will receive 40% of the net proceeds for operational expenses.

The net proceeds for Crosspoint are \$2.1 million and \$426,000 on One Michigan.

Coughlin Stoia Portfolio Monitoring Report for the Quarter Ended June 30, 2007

For trustee information.

Bernstein Litowitz Institutional Investor Advocate

For trustee information.

Re: Union Representatives - None

NEW BUSINESS

Re: Rebalancing

Ms. Zimmermann stated that at the October 25, 2007 meeting she requested that the Board approve rebalancing of the portfolio if necessary. The portfolio did require rebalancing to fund real estate and other investments. The cash was provided by the international equity managers Wentworth, Hauser and Violich and The Boston Company. She requested that the Board receive and file the detail of the rebalancing recommended by the consultant.

RESOLUTION 07-058 By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the transfer of \$1,550,000 from International Equity Managers Wentworth, Hauser and Violich and The Boston Company to provide cash as recommended by the consultant.

Yeas: 3 – Nays: 0

Re: Board Committee Review

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No changes were made.

Re: Draft 2008 Board Meeting Calendar

Chairman Storum asked if the manager review meeting could be moved back to coincide with Spring MAPERS being held June 1, 2007 through June 3, 2007. The trustees agreed that the Manager Review Meeting would be changed from September 17, 2007 to June 4, 2007 on the calendar. The regular meeting will be held as scheduled on June 26, 2007. The September Regular Meeting will be changed from September 18, 2007 to September 25, 2007.

RESOLUTION 07-059 By Cochran, Supported by Lee

Resolved, That the Board approve the 2008 Board Meeting Calendar as amended.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

Re: Actuarial Search (Need to set date for presentations) – Referred to Staff

Re: Longevity Calculations – Referred to Staff

SCHEDULING OF NEXT MEETING

Regular Meeting on Thursday, January 24, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 07-060 By Cochran, Supported by Lee

Resolved, That the meeting be adjourned at 10:50 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 October 25, 2007.

Raymond Cochran, Secretary

As recorded by Jane Arndt