

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREE PREFUNDED  
GROUP HEALTH & INSURANCE PLAN  
“VEBA MINUTES”  
DECEMBER 1, 2011**

**Trustees Present**

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

**Others Present**

Matthew Henzi, Sullivan, Ward, Asher & Patton  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Administrator  
Jane Arndt, Retirement M-Admin Assistant

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*The meeting was called to order at 9:37 a.m.*

**AGENDA CHANGES**

**CONSENT AGENDA**

- A. Approval of Regular Meeting Minutes: September 29, 2011
- B. Financial Reports
  - 1. Consolidated Statement of Changes – September & October 2011
  - 2. Accounts Payable:
    - a. Broadview \$7,815.81
    - b. Bradford Marzac 7,681.08
    - c. Comerica 4,091.24
    - d. Gray & Company 2,500.00
    - e. Rhumbline 4,375.00
    - f. Sullivan Ward 3,840.00

**RESOLUTION 11-033** By Naglick, Supported by Storum  
Resolved, That consent agenda for December 1, 2011 be approved as presented.

Yeas: 4 – Nays: 0

**TRUSTEE/COMMITTEE STAFF REPORTS**

**CONSULTANTS**

**Re: Gray & Company – Third Quarter Performance Report**

Mr. Kuhn provided a review of the Fund’s third quarter performance. He indicated that this was a difficult quarter. He referred to the Diary of a Wimpy Investor which Gray & Company felt could add a bit of levity during the difficult period in the capital markets. They emphasized that investors have to manage their investments over the appropriate time horizon and not be tempted to deviate from their long-term goals during turmoil in the market.

Regardless of where investors' put their money stocks are in freefall due to the mess in the European Union. Gold is on the run and there is no good place to put money. He compared this to 2000 and similar time periods in the capital markets.

Inflation is spiking up a little at 4% for the period. The Federal Reserve would rather see inflation versus deflation. The Producer Price Index was a little higher this quarter and for the year. Producers cannot pass all their cost increases along to the consumer. Commodities followed the stock market and held up well into mid September. However prices declined during the last two weeks of September with a huge sell off at the end of September with industrial metals and grains taking the hardest hits.

The Federal Funds Rate has held steady the past two years to get the economy moving. The yield curve dropped drastically during the quarter. With concerns based on the issues in Europe, investors were under pressure which favored treasuries.

The Fed announced Operation Twist which uses the proceeds from QE1 and QE2 (QE2 ended June 30, 2011) to buy long-term bonds in contrast to the previous strategies of buying short-term notes. The Fed feels that keeping long-term rates low will make it easier for consumers to buy new homes and keep house prices from falling.

The equity market experienced a double digit drop during the period. The defensive sectors outperformed Financials and materials were the biggest losers. Materials are moving in line with the commodities market.

Fixed income saw yields shift downward for the quarter which was good news for investors. Barclay's Long Government performance for the period was approximately 24% due to a 1% decline in interest rate. Returns for the Barclays Aggregate were 3.82% and the Barclays Government/Credits were up 4.74% for the period. The spreads on credit issues at the end of the quarter suggests that these securities are undervalued. The performance for traditional core fixed income going forward is not expected to be good.

*Trustee Naglick left at 9:49 a.m.*

International equity was all red ink for the quarter with pretty significant declines. U.S. investors saw their international equity returns drop approximately 6% across the country indexes due to the appreciation of the dollar. Their investments in France declined 29.9% versus 24.3% in local currency.

*Trustee Naglick returned at 9:50 a.m.*

Japanese equities were down 10.7%. Japan relies heavily on exports which are hurt due to their strong currency. The continued strength of the yen versus U.S. currency is a concern based on their export driven economy. Deflation is another big factor that could present a challenge to Japan's economy.

Performance in the international bond market saw sound sovereign nations do well, however, the appreciation of the dollar hurt U.S. investors. Italy was down 4.3% in local currency. Ireland took severe losses in prior periods. The European Central Bank announced programs that helped Ireland. In the same announcement the markets feared that they would not be able to protect Italy and sold their debt sold off. It looks impossible for Italy to pay their way out. They need their debt to be restructured to fix the issue which may lead to a collapse of European banks.

Trustee Naglick asked what happened in the market on November 30, 2011.

Mr. Kuhn said that there is no way of knowing why the market surged but it will probably drop next week for no reason.

Trustee Naglick questioned whether it is a risk on risk off market issue.

Mr. Kuhn stated that the new norm for the capital markets is 200 point drops or gains which is just a fundamental view of sell offs.

There was a lot of red ink for the quarter with the Fund down -13.44% well behind the policy index at -10.43%.

Even Rhumblin who has returned good numbers was down for the quarter based on their small cap exposure. Their long-term performance is 200 basis points over the benchmark.

Broadview was down -21.61% for the quarter. They provide downside protection in a down market but do not perform as well in an up market.

Bradford Marzac underperformed during the quarter at 0.94% well short of the benchmark at 3.82%. They were underweight treasuries which hurt their performance.

He explained that the Dodge & Cox International Fund has been a volatile performer.

Pluscios was put into the portfolio to reduce the equity risk. They have outperformed the benchmark since inception.

Trustee Nye questioned how the benchmark is selected for the various asset allocations.

Mr. Kuhn said that they try to put together an apples-to-apples comparison when selecting the benchmark. They use the capitalization approach.

Trustee Nye stated that he would like to be more educated with regard to the benchmarks.

Mr. Kuhn explained that the benchmark is chosen during the asset allocation process. They look at the risk within the benchmark and which benchmark best matches the characteristics of the investment. They also look to find investments for the portfolio that best fit the risk tolerance of the trustees.

It is very rare to see a 6% difference between fixed income managers performance. Bradford Marzac portfolio was not positioned for what happened over the summer. When rates come up Bradford Marzac will perform better.

Trustee Nye asked if Bradford Marzac is a new manager.

Mr. Kuhn stated that about two to three years ago a change was made to the portfolio. Bradford & Marzac was put into the portfolio at that time. The Fund originally was invested in three Dodge & Cox Mutual Funds. As contributions came in and the Fund grew they added more specialized managers.

Mr. Kuhn provided an overview of the market values as of November 28, 2011 at \$27.9 million.

Trustee Storum asked if cash has been pulled from Bradford Marzec since the last performance report.

Mr. Kuhn confirmed that \$800,000.00 was pulled from Bradford Marzec for reimbursement of retiree healthcare costs.

Mr. Kuhn indicated that pulling cash from a manager will influence the Fund's value.

Trustee Storum stated that the Fund is down approximately \$4 million and the money will be put back into the Fund as money comes in from the tax bills.

**Re: Sullivan, Ward, Asher & Patton**

IRS Request for Form 990

Mr. Henzi reported that the IRS request for Form 990 is still pending.

Mr. Henzi proposed that the Board discuss the litigation issues at the Police & Fire Retirement System meeting.

Trustee Naglick confirmed that Ms. Zimmermann has received the invoice for the third quarter health care reimbursement and that it will go on the January, 2012 agenda.

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**UNFINISHED BUSINESS**

**Re: Non Payment of Contributions**

**Re: Reimbursement of Second Quarter Expenses**

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**NEW BUSINESS**

**Re: Board Meeting Calendar 2012**

Ms. Zimmermann requested that the Board approve the 2012 Board Meeting Calendar.

Trustee Storum asked that the November 28, 2012 meeting be moved to December 6, 2012.

**RESOLUTION 11-034** By Storum, Supported by Naglick  
Resolved, That the Board approve the 2012 Board Meeting Calendar as amended.

Yeas: 4 – Nays: 0

Ms. Zimmermann noted that Chairman Lee has submitted his resignation letter and will be stepping down from the Board.

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**SCHEDULING OF NEXT MEETING & ADJOURNMENT**

Regular Meeting – January 26, 2012 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

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**ADJOURNMENT**

**RESOLUTION 11-035** By Naglick, Supported by Jukowski  
Further Resolved, That the meeting be adjourned at 10:17 a.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true minutes of the Police & Fire Retirement Pre-funded Group Health and Insurance Plan “VEBA Trust” on December 1, 2011.

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John Naglick, Secretary  
*As recorded by Jane Arndt*