

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

December 1, 2008

A regular meeting of the Board of Trustees was held on Thursday, December 1, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:07 a.m.

TRUSTEES PRESENT

Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor Clarence Phillips

OTHERS PRESENT

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

CONSENT AGENDA

- A. Minutes of Special Meeting: November 6, 2008
- B. Communications:
 - 1. Correspondence from WHV Re: International Equity Portfolio
 - 2. Correspondence from SWAP Re: Merrill Lynch Northern Trust Property
 - 3. Correspondence from The Boston Company Re: Chairman
 - 4. Correspondence from DDJ Capital Re: October Portfolio Summary
- C. Conferences:
 - 1. Police & Fire Academy – TECS – Jan 18-21, 2009
 - 2. Fiduciary College – Stanford Law School – Jan 6-7, 2009
 - 3. 2009 Legislative Conference – Feb 1-3, 2009
- D. Financial Reports:
 - 1. Financial Reports – October 2008
 - 2. Commission Recapture Report – N/A
 - 3. Securities Lending – October 2008
 - 4. Accounts Payable – October 2008
- E. Remove from the Rolls:
 - 1. Leon Cross (deceased 11-09-08)
 - 2. Albert H. Rayner (deceased 10-21-08) survivor annuity of \$1,953.34/mo. to beneficiary Emma Rayner
- F. Application for Deferred Retirement
 - 1. Aisha Odneal – PPOA 10 years, 5 months Age 33 Pension Starts 2025
- G. Application for Refund of Accumulated Contributions
 - 1. Matt Zsido – PFFU \$5,017.33
- H. Final Benefit Calculation

- | | | | |
|----|-----------------------------|-------|------------|
| | 1. Frances Finnegan | #2398 | \$1,705.88 |
| I. | Disability Re-Examinations: | | |
| | 1. Jacky Freeman | | |
| J. | EDRO Determinations: | | |
| | 1. Jeffrey Smith | | |

RESOLUTION 08-076 By Lee, Supported by Miller
Resolved, That the consent agenda be approved.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company

The Boston Company Update

Mr. Kuhn said that The Boston Company update was not available for this meeting.

Updated Market Values as of November 28, 2008

Mr. Kuhn distributed the current status of the plan's investments. As of November 28, 2008 plan assets totaled \$209 million versus the previous month's assets of \$223 million. November was not a good month. They anticipate more difficult months ahead with some stabilization. The markets are waiting to see the outcome from Black Friday.

The financial markets are usually six months ahead of the general economy. The government has recognized the difficult situation the economy is in and is working toward a solution unlike what happened during the depression. They realize the need to counteract the problem.

Trustee Miller asked how this has affected the funding level. Mr. Kuhn said that the system is now less than 100% funded, but he does not know the actual percentage. He added that the actuary uses a smoothing technique when they determine the funding percentage.

Chairman Storum said that the system's liability is \$228 million which means with assets of \$209 million the system is under funded. Ms. Billings said that it is unbelievable that the system is still close to 100% funded. Mr. Kuhn said that most funds are around 70% funded.

Mr. Kuhn said that he was contacted by the President of Clarkston State Bank which is a local bank. They are looking to raise \$4 million by the end of the year. He asked that a formal letter be submitted to the Board.

Ms. Zimmermann said that she referred him to Mr. Kuhn. He told her that he knows people at the City including Eric Walker. They are looking to raise \$4 million by the end of the year to get in on the federal money.

Mr. Kuhn said the President of the bank indicated that if the bank can get enough in their reserves they can meet the guidelines that will allow them to tap into the TARP funds. He said

he thinks they made some bad investments in strip malls. He requested a formal letter from the bank.

He asked if there were any questions on the market values. He said that the asset allocation is currently underweight in equities at 34% and overweight in fixed income. Ms. Zimmermann said that it is customary for the fund to rebalance twice per year. A request will be submitted to the Board in January and the rebalancing will be performed in February.

Mr. Kuhn asked when the payment from CAPOC will be received. Chairman Storum explained that CAPROC has secured funds from the City of Detroit General Employees Retirement System to refinance the Merrill Lynch/Northern Trust property. These funds will also be used to make the principal payment including interest that was due at the end of October, 2008. At the last meeting, the Board approved a ninety day extension of the payment.

Ms. Billings said that the closing was tentatively scheduled and expects the payment of \$2.217 million to be wired into the system's account any day.

REPORTS

Re: Chairman

Chairman Storum said that he recently attended the Annual IFEBP Conference. There were a few good sessions at the conference but they did not seem as in tune as they have been in the past. Most conveyed a message of gloom and doom on the horizon. Some speakers were recommending that investors put 50% of their portfolios in alternatives.

He said it was suggested that institutional investors put a large portion of their funds into corporate bonds based on the Pension Protection Act. He said they are using corporate bonds as a measuring stick. They anticipate \$9 trillion moving into corporate bonds with investment gains of 9%.

Mr. Kuhn said that public pension systems are different from Taft Hartley and private plans because liabilities are not measured the same. With a public pension system the actuary uses the assumed interest rate to calculate liabilities; Taft-Hartely and corporate plans use a market rate that is based on corporate bond yields. He explained how corporate bond returns are computed based on rising or falling interest rates. He said that for Taft-Hartely and corporate pension plans, a portfolio of corporate bonds will perform similarly to their liabilities.

Trustee Miller said that his advice would be to hoard more cash. Mr. Kuhn said that if they would have recommended moving to cash over the last ten years they would have been heroes with cash being the best performing asset class. However, if you move to cash you receive very little in returns. You would possibly see returns equivalent to the T-Bill rate. Trustee Miller said that a 1½% gain is better than a 3% loss.

Mr. Kuhn said that the typical bear market run is sixteen months. The markets have ran a full bear cycle. When the economy comes out of a bear market you usually see equity returns of

45% which has been typical dating back to the depression. He said that the markets run ahead of the general economy.

Chairman Storum said that investing in corporate bonds is an interesting theory if you can achieve coupon rates of 9%. Mr. Kuhn said that if it is a good investment Oppenheimer will be looking into it. He said there is still the issue of the rating services and whether their ratings are accurate. In the past, everyone trusted the rating services but now there is reluctance. The market is working through these issues.

Re: Secretary – None

Re: Trustees

Trustee Lee said that he spoke with Roy Johnson who has concerns about transitioning from a disability retirement to a regular retirement. He was happy to hear that his disability retirement would continue. Trustee Lee asked if he will convert to a regular retirement at age fifty. Ms. Zimmermann said that he will convert at age fifty-five.

Ms. Zimmermann said that she spoke with Mr. Johnson who is concerned that he will not receive full service credit when converting to a regular retirement at age fifty-five because he is no longer considered disabled. Mr. Johnson went out on a duty disability retirement which states the member will continue to accrue service credit until the conversion. She requested that this issue be referred to legal counsel since this is the second time it has happened.

Chairman Storum said he believes this has occurred two previous times. Generalda Lavalis went out under a non-duty disability and Terry White under a duty-disability retirement. Both members were cleared to return to work by the Medical Director.

He feels the member is entitled to a disability pension under the provisions of the ordinance. Because the Human Resources Director will not return Mr. Johnson to work the City has to bear the cost. Ms. Zimmermann questioned whether it was a universal settlement.

Ms. Billings recommended that a policy be developed, so the trustees would not have to rely on interpretation of the ordinance each time this issue comes before the Board. It should not affect the member to wait a couple of months.

Trustee Lee said that Mr. Johnson never wanted to leave and wanted to return to light duty. The City would not bring him back.

Chairman Storum said that the PFFU Contract has specific language that states an employee shall be returned to work. The police contract does not include that language. The City is paying more to keep Mr. Johnson on a pension.

Ms. Billings said she located a policy that was drafted when David Parrot was the System's legal counsel. The policy appeared to have been developed by representatives of the City and Retirement Board and essentially provides that if the City will not bring back a member when they have been declared medically able to return to work the disability retirement will continue.

Trustee Miller said he is concerned that the City uses the retirement fund as a place to dump people. Chairman Storum said that Human Resources has more control over the General Employees Retirement System. Ms. Zimmermann said that in the past Human Resources did not require disability retirees to have an annual re-examination or to submit to income verification.

Ms. Billings stated that the ordinance appears to give the Trustees the discretion to allow a member to continue receiving a disability retirement.

It was determined that the Roy Johnson matter would be referred to legal in order to create a policy specifically addressing this issue.

Re: Staff

Annual Statements/Member Benefit Statements

Ms. Zimmermann reported that the summary annual report and member benefit statements were sent out.

COLA Disbursement

Ms. Zimmermann reported that the COLA payments were paid on time. The payments totaled \$2,676,667.

Trustee Miller asked that in the future Ms. Zimmermann alert the credit union when the Cost of Living Adjustment payments will be disbursed. This will insure that the credit union has enough cash on hand.

IRS 2009 Mileage Reimbursement

Ms. Zimmermann reported that the IRS has reduced the mileage reimbursement to \$.55 per mile from \$.585 per mile effective January 1, 2009.

Ratification of Capital Call

Ms. Zimmermann requested that the Board ratify the recent Metropolitan Real Estate capital call in the amount of \$572,000 due December 15, 2008.

RESOLUTION 08-077 By Lee, Supported by Miller

Resolved, that the Board ratify the transfer of \$572,000 to fund the Metropolitan Real Estate investment.

Yeas: 3 – Nays: 0

Ms. Zimmermann distributed correspondence received from Northern Trust. She said she forwarded this correspondence to Ms. Billings, Mr. Gray and Mr. Kuhn. It refers to Northern Trust's review of their exposure to Citigroup in regard to their balance sheet and securities lending program. It also stated that they are looking to identify alternative providers in the event of Citigroup's insolvency.

Re: Legal

Fossil, Inc.

Ms. Billings reported that the litigation is proceeding through discovery.

Gildan Activewear, Inc.

Ms. Billings reported that the litigation is proceeding through discovery.

Jarden Securities Class Action

Ms. Billings reported that at the last meeting the Board went into closed session to ratify a potential settlement agreement. The parties agreed to settle the litigation for \$8 million dollars. A hearing date has not been scheduled for the proposed settlement agreement. It was determined that Trustee Lee would attend the hearing on behalf of the Board.

Maxim Integrated Products

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending and the Court has not issued a ruling.

UBS/AG Securities Class Action

Ms. Billings reported that the securities litigation matter has been closed.

United Rentals, Inc.

Ms. Billings reported that the parties have agreed to a \$27.5 million settlement. A hearing date has not been scheduled for the proposed settlement.

Northern Trust Securities Lending

Ms. Billings reported that she has not received a response from Northern Trust regarding the requested securities lending due diligence reports.

Chairman Storum said that he agreed with Ms. Zimmermann's comment regarding Northern Trust's willingness to participate on the upside but not on the downside.

Ms. Billings said that there has not been any verification of the numbers. The Lehman securities represented 11% of the portfolio but they are also questioning the due diligence performed on the rest of the portfolio.

She recommended that the Board hold off signing the VEBA custodian contract until the securities lending issues are worked through.

Mr. Kuhn said he does not feel there is a huge hurry because it will be a month or two before they move forward on the VEBA investments.

Gross versus Gross – City of Pontiac Police and Fire System's Answer to Motion to Order the City of Pontiac to Enforce the Judgment of Divorce and the Domestic Relations Order Regarding the City of Pontiac Policemen's and Firemen's Retirement System

Ms. Billings reviewed the sequence of events regarding the Ronda Fowlkes Gross versus Valard Sunday Gross Domestic Relations Order.

She explained that on May 5, 2008 an EDRO was submitted on behalf of the plaintiff. On May 8, 2008 a reply was sent to the plaintiff specifically stating that an EDRO cannot be submitted once a member is in pay status under the EDRO Act..

On July 8, 2008 a Domestic Relations Order was filed on behalf of the plaintiff. The DRO was forwarded to her for legal review. On July 10, 2008, she sent a letter to the Plan Administrator recommending the acceptance of the Order as qualified.

She also explained that the DRO can specify that the pension benefit is divided after retirement for the member's lifetime but that the beneficiary cannot be changed.

The information was forwarded to the actuary. The actuary calculated the benefit and returned the information to the Retirement Office in October. Once the benefit has been approved by the actuary the alternate payee goes into pay status the following month.

A motion was filed by the plaintiff's legal counsel arguing that the letter she received in July stating that the DRO had been approved by the Board's legal counsel and was sufficient authorization to commence payment to the alternate payee starting in August. Ms. Billings stated that the DRO requires both legal and actuarial review and approval.

The motion was filed with the Court but the retirement system was not served. They were able to file a response with the Court at 4:30 p.m the night before the hearing. Although Plaintiff's counsel left a message for Ms. Billings the day before the hearing, advising her of the hearing, Plaintiff's counsel withdrew her motion the morning of the hearing, with no explanation. Ms. Billings cautioned that they could file the motion again.

Chairman Storum confirmed that the member would be charged for the EDRO. Ms. Zimmermann said that the charge would be split between the member and the alternate payee.

RESOLUTION 08-078

Resolved, That the Board will enforce the Ronda Fowlkes Gross versus Valard Sunday Gross Judgment of Divorce and Domestic Relations Order.

Yeas: 3 – Nays: 0

Application for IRS Determination Letter

Ms. Billings reported that due to Raymond Cochran's retirement and departure from the Board, she had him sign the Application for Determination for Employee Benefit Plan on Wednesday, November 26, 2008. The application will be submitted this week. She said that two checks for \$1,000.00 each will be required when filing the applications. Ms. Zimmermann explained that the system receives a tax benefit by filing the applications with the IRS. One application will be filed for the annuity withdrawal plan and one for the defined benefit plan.

RESOLUTION 08-079 By Miller, Supported by Lee

Resolved, That the Board approve legal counsel to submit the Application for IRS Determination Letter and approve the \$1,000.00 fee per application.

Yeas: 3 – Nays: 0

Trustee Miller asked who will replace Trustee Cochran as the Finance Director. Ms. Zimmermann said that she was told the City has a plan for the replacement. In the interim, Sheryl Stubblefield will be the Acting Finance Director. Chairman Storum asked if she can vote as the Acting Finance Director. Ms. Billings confirmed that she would be eligible to vote.

CAPROC LLC

Ms. Billings referred to correspondence within the legal report regarding the refinancing of the Merrill Lynch/Northern Trust Property, the closing and deposit of funds to the retirement system.

CAPROC Mortgage

Ms. Billings referred to correspondence within the legal report that was sent regarding the mortgage on property located at 1685 Baldwin Road.

Coughlin Stoia Portfolio Monitoring Report Quarter Ended June 30, 2008

Ms. Billings reported that the report contains actions that were filed for the quarter ending June 30, 2008 and further identifies those actions where the System incurred a loss during the class period.

Bernstein Litowitz Advocate for Institutional Investors

Ms. Billings reported that this is for the trustees' information.

Re: Union Representatives

None.

NEW BUSINESS

Re: 2009 Board Calendar

Chairman Storum asked that the Regular May, 2009 meeting be changed from May 28, 2009 to May 16, 2009 to coincide with the Spring MAPERS Conference. The January meeting was changed to January 22, 2009.

RESOLUTION 08-080 By Lee, Supported by Miller

Resolved, That the Board approve the 2009 Meeting Calendar as amended.

Yeas: 3 – Nays: 0

Re: Death Audit

Police & Fire Regular Meeting
December 1, 2008

Ms. Zimmermann stated that the process is run twice per year to insure that deceased members do not continue in pay status. The audit found one member where the Retirement Office had already been notified.

Capital Call Ratification (Return of Capital)

Ms. Zimmermann said that due to MFIRE adding a new investor they have issued a return of unused capital contributions and a catch-up interest payment. This will true up all investors to have an equal share in the capital accounts. The total return of capital including interest is \$348,674.

RESOLUTION 08-081 By Lee, Supported by Miller

Resolved, That the Board ratify the Return of Unused Capital including an interest payment of \$348,674 from Mesirow Financial Institutional Real Estate International Partnership Fund I, L.P.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

Re: Actuarial Software Search

Ms. Zimmermann said that it is on her list to follow up with Debbie Sorenson. Ms. Sorenson created the GRS database software. She left Gabriel, Roeder, Smith & Company and started her own company. A meeting had been scheduled with Ms. Sorenson, however, her husband took ill and was diagnosed with leukemia. She will follow up and check Ms. Sorenson's availability.

Re: Document Storage/Disaster Recovery Plan

Ms. Zimmermann explained that she was interrupted by the processing of the COLA payments. She has amended the timeline.

Re: Securities Lending Deficiency – Refer to Legal

PUBLIC DISCUSSION

Chairman Storum said he would like Eugene White invited to the Oppenheimer Dinner being held December 12, 2008. He would also like to offer Mr. White the opportunity to attend the Spring MAPERS Conference.

SCHEDULING OF NEXT MEETING

Regular Meeting on January 29, 2009 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 08-082 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:09 p.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 December 1, 2008.

As recorded by Jane Arndt