

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

**December 5, 2006**

A regular meeting of the Board of Trustees was held on Tuesday, December 5, 2006 at the Lions Den, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 10:16 a.m.

**TRUSTEES PRESENT**

Craig Storum, Chairman  
Raymond Cochran, Secretary  
Brian Lee

**TRUSTEES ABSENT**

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

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
David Hoffman, Gabriel, Roeder, Smith & Company  
Laurence Gray, Gray & Company  
Robert Hubbard, Gray & Company  
Dave Duddles, Firefighter  
Ellen Zimmermann, Retirement Systems Administrator  
Jane Arndt, M-Administrative Assistant

---

**CONSENT AGENDA**

- A. Minutes of Regular Meeting: October 26, 2006
- B. Communications:
  - 1. Correspondence from Lon Britton Re: IRS Health Care Exemption
  - 2. Correspondence from Montag & Caldwell Re: Portfolio Commentary
  - 3. Correspondence from Loomis Sayles Re: September Portfolio Appraisal
  - 4. Correspondence from Oppenheimer Capital Re: firm Update
  - 5. Correspondence from Morgan Stanley Re: Q3 2006
  - 6. Conference Information:
    - a. Investment Education Symposium – Opal Financial Group – Feb. 14-16, 2007
    - b. Public Safety Pension & Benefits Seminar – NAPO – Jan. 21-24, 2007
    - c. Upcoming Programs – IFEBP – Various Dates
- C. Financial Reports:
  - 1. Financial Reports – October 2006
  - 2. Securities Lending Report – September 2006
  - 3. Commission Recapture Report – August, September, October 2006
  - 4. Accounts Payable – November 2006
- D. Refund of Accumulated Contributions:
  - 1. Kevin Woodmore – PPOA \$4,633.94
  - 2. Varee L. Ewing, PPOA 4,774.93
  - 3. Joseph Brinson – PPOA 10,157.18 (Rescinded)
  - 4. Joseph Miller – PPOA 5,099.62 (Added at Meeting)

Ms. Zimmermann told the Board that Joseph Brinson has rescinded his application to withdraw his contributions. She asked that Joseph Miller's application to withdraw his contributions be added to the agenda.

Trustee Lee asked about the correspondence received from Lon Britton. Ms. Zimmermann said that it referred to an IRC provision that would allow an exemption to pay for healthcare or long-term care insurance programs. Trustee Lee asked if this could affect the minor healthcare rider.

Dave Duddles commented that he doesn't see how it would apply. Ms. Zimmermann stated that the City does not offer supplemental insurance.

Ms. Billings said that it is possible to pay for retiree healthcare with pre-tax dollars up to \$3,000 per year. It is allowed in the law even though it is not in the ordinance. It would be over and above what the City is offering. They would have to allow for the deduction.

Trustee Lee asked how many people would be interested. Ms. Billings said that it could be used to purchase medical supplemental insurance. Trustee Storum suggested a survey to find out how many people would be interested.

**RESOLUTION 06-083** By Lee, Supported by Cochran  
Resolved, That the items of the consent agenda for October 26, 2006, be approved as amended

Yeas: 3 - Nays: 0

## **CONSULTANTS**

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

**RESOLUTION 06-084** By Cochran, Supported by Lee  
Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

### **Roll Call:**

Trustee Storum- yea                      Trustee Lee - yea  
Trustee Cochran - yea

*Moved to Closed Session at 10:19 a.m.*

*Returned From Closed Session at 10: 26 a.m.*

**RESOLUTION 06-085** By Cochran, Supported by Lee  
Resolved, That the Board of Trustees approve the closed session minutes from the October 26, 2006 meeting.

Yeas: 3 – Nays: 0

**RESOLUTION 06-086** By Cochran, Supported by Lee  
Resolved, That the Board of Trustees authorize legal counsel to establish an LLC for the mortgages formerly held by CAP Mortgage LLC.

Yeas:3 – Nays: 0

**RESOLUTION 06-087** By Cochran, Supported by Lee  
Resolved, that the Board of Trustees approve the resolution to settle the dispute with CAPROC.

Yeas: 3 – Nays: 0

**RESOLUTION 06-088** By Cochran, Supported by Lee  
Resolved, That based on the recommendation of their counsel Lerach Coughlin, the Board of Trustees file a demand of \$7.5 million to settle the Ferro securities litigation.

Yeas: 3 – Nays: 0

**Re: Gabriel, Roeder, Smith & Company – 2005 Actuarial Valuation Presentation**

David Hoffman from GRS stated that this is the Forty-Third Annual Valuation for the Police and Fire Retirement System for year ending December 31, 2005.

He reviewed the executive summary and the computed City contributions. He discussed each division's percent of payroll contributions: Fire at 16.03%, Non-Union Management at 60.81%, Police Command at 17.91 % and Police Rank and File at 16.85%. Total dollar contributions were \$2.608 million. He noted that the normal cost contribution percentages of payroll for each division were comparable to one another for 2005. The long term contribution rate was approximately 29% of payroll. Member contributions totaled 2.5%.

Plan assets exceeded accrued liability by 10%. Mr. Hoffman stated that dollar contributions for fiscal year July 1, 2007 have dropped \$600,000 from the prior year. There were no benefit changes or changes in assumptions or methods. There was an experience loss from all causes of \$693,297 in 2005.

The dollar contribution rate for July 1, 2007 dropped by \$600,000 from the prior year. Contribution rates change for three reasons: changes in benefits or eligibility; changes in valuation assumptions and the difference between a plan's actual experience and predicted assumptions.

Actuarial experience showed accrued liability experienced a loss of approximately \$700,000. There has been a five year smoothing period with investment losses of \$3.8 million versus \$3.1 million in payroll experience gain. He said that the average payroll dropped 2% which was due to the number of people lost who received high salaries. He also said that the accrued liability loss was very close to the assumption.

Benefit disbursements equaled 91.2% of active payroll or \$15 million. This was based on the 357 benefit recipients versus 249 active employees. If contributions continue at the current rates

disbursements would equal 84% of payroll over the long-term. He said that total plan assets were \$250 million. Mr. Hoffman said that if the investment returns continue at the current rate they are definitely sustainable, however, at the current funding rate the credit would run out and contributions could go up by 19%.

Chairman Storum asked about the assumptions based on the non union benefit rates. He asked if the benefit rate changes were the result of the mayor retiring in 2005. Mr. Hoffman replied that when the payroll drops, the funding credit expands. Trustee Storum asked if that was because of the previous funding experience. Mr. Gray stated that the overall funding position for 2005 is 110.4% versus 110.8% for the prior year.

Mr. Hoffman recommended that the valuation assets be transferred.

**RESOLUTION 06-089** By Cochran, Supported by Lee

Resolved, That the Board of Trustees approve the rates and annual transfers recommended by the Actuary and the report of the Forty-Third Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System be accepted, and that the recommended transfers on page B-5 of the valuation report be made.

Yeas: 3 – Nays: 0

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

Mr. Gray reviewed the manager performance for the third quarter. He said that the plan's ex-CAPROC performance is significantly below the benchmark for the one-year and three-year periods.

Montag & Caldwell continues to under perform. The reason for the lack of performance was sector weighting. They were under in IT and over in energy which attributed to their under performance. The ten-year period is the only period above the benchmark.

The Russell 1000 Value Index Fund continues to track well.

Munder's mid-cap numbers were weak for the three month period, but the year-to-date and one-year performance is decent. He said that he has an ongoing dialogue with Munder and that they reported they were over in utilities and had poor stock selection in IT for the quarter.

Loomis's weighting for the quarter was under in finance and over in industrials which caused them to under perform significantly versus the benchmark. The lack of performance brought down their year-to-date and one-year numbers. He stated that even a top quartile manager can occasionally stumble.

Morgan Stanley reported a respectable quarter for international equity which helped their year-to-date numbers but they had weakness going back. They are still trying to get reoriented.

Fixed income managers who had exposure to long-term bonds did well. Oppenheimer did not do well versus the benchmark for the quarter. Their one-year performance was in the upper quartile and their ten-year numbers were flat with the benchmark. DDJ is a new manager.

Goode outperformed the benchmark for the quarter. Their one-year performance was 4.8% versus 3.6% for the benchmark.

NTGI Lehman is tracking the benchmark.

American Realty Advisors performance was 1.6% versus the NCREIF at 3.5% and has had little impact. To date they have drawn down \$750,000. They recently closed on six new positions.

Mr. Gray asked if Montag is on watch. Ms. Zimmermann stated that they are and that they have had one good quarter. Mr. Gray stated that their performance continues to be in a downward trend. The question is how long to keep them as a manager if their performance continues to be poor. He said that they have been open and honest in their dialogue with Montag about keeping them on as a manager. He also said that investing in an index fund would have returned better performance and would have been less costly. He commented that there are very few large cap managers that can outperform the benchmark for more than ten years. He asked how long the fund can continue to invest in a manager that continues to underperform. Montag and the international portfolio have contributed largely to the fund's underperformance.

Trustee Storum commented that Montag's percent returns and percentile rankings show how poorly they have performed. He said that based on Ivory Day's study it would be better to put the money into an index fund. Mr. Gray said that an index fund would return better top line performance.

Trustee Storum said that the Board has looked at this manager's performance and held off the last few years, but he sees no reason to wait. He said that growth is grossly undervalued and that an index fund would provide better performance. Mr. Gray suggested bringing in managers to review because he fears the fund could miss the performance when growth comes back.

**RESOLUTION 06-90** By Cochran, Supported by Lee  
Resolved, That the Board approve Gray & Company to search for a new large cap equity manager and index fund to replace Montag & Caldwell.

Yeas: 3 - Nays: 0

Mr. Gray told the Board that he feels good about the asset allocation and the long-term numbers. With the level of funding he does not feel that the fund needs to look into the alternative space, especially if they're not looking for quick assets.

**RESOLUTION 06-091** By Lee, Supported by Cochran  
Resolved, That the Board receive and file the 2006 third quarter performance review.

Yeas: 3 - Nays: 0

Trustee Lee asked if it would be a problem to move the next few meetings to the Credit Union. He said that the Shrine Room is very cold in the winter. There was discussion about the proximity of data or information that might be requested during a meeting.

**RESOLUTION 06-092** By Lee, Supported by Cochran

Resolved, That the Board move the meeting to the Credit Union during the winter months.

Yeas: 3 - Nays: 0

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** – None

**Re: Trustees**

**1. Real Estate Committee** – None

**Re: Staff**

### 2006 Cost of Living Adjustment Payment

Ms. Zimmermann reported that the 2006 Cost of Living Adjustment payments went out in a timely fashion. The payments totaled \$2.356 million. Trustee Storum asked if the payment was included in the rebalancing. Ms. Zimmermann indicated it was.

**Re: Legal**

Ms. Billings requested that the Board approve actions on settlements. She said that upon receipt they recorded under miscellaneous income.

### Ferro Corporation Litigation

This matter was discussed earlier in the meeting.

### United Rentals

This litigation is still proceeding through the discovery phase.

### Jarden

This litigation is still proceeding through the discovery phase.

### Maxim

This litigation is still proceeding through the discovery phase.

### Fossil, Inc.

This litigation is still proceeding through the discovery phase.

Tempur-Pedic International, Inc.

This litigation is still proceeding through the discovery phase.

Investment Management Agreement with Mellon Trust of New England (Boston Company)

Ms. Billings reported that the investment agreement for Wentworth was signed at the last meeting. The investment agreement with Boston Company has been reviewed. They have incorporated all the recommended changes. She recommended that the Board approve the updated investment management agreement.

**RESOLUTION 06-093** By Lee, Supported by Cochran  
Resolved, That the Board authorize Chairman Storum to sign the Investment Management Agreement with Boston Company.

Yeas: 3 - Nays: 0

Proposed Custody Agreement with Northern Trust

Ms. Zimmermann stated that there are sub documents for custody that need to be approved and asked if the contract was good. Ms. Billings replied that all the documents are good. Ms. Zimmermann explained that there is another set that needs to be approved. Since there is no other meeting scheduled for later in the month, the revised documents such as the securities lending agreement and security commission agreement need to be approved and signed. Ms. Zimmermann asked the Board to give her authorization to sign the reviewed agreements. Chairman Storum stated that he would be available to sign the agreements.

**RESOLUTION 06-094** By Lee, Supported by Cochran  
Resolved, That the Board approve the custody contract and related documents pending legal review.

Yeas: 3 - Nays: 0

Portfolio Monitoring Reports

Ms. Billings stated that she will forward the reports to the new custodian to ensure claims are processed correctly.

Charles Herring

Ms. Billings distributed a memo sent to Charles Herring regarding him being allowed to change from deferred to an early-out regular retirement. She said that subsequent documents showed that the MOU that allowed George Phifer an early out retirement benefit did not provide the same benefit for Mr. Herring based on the criteria. She said that the Board can not grant him a benefit outside of the ordinance.

Trustee Lee asked if Mr. Herring can show the document outside of the meeting. Ms. Billings said that the document does not represent attorney client privilege because Mr. Herring brought his issue before the Board. Ms. Billings was directed to send the letter to Mr. Herring.

**RESOLUTION 06-095** By Lee, Supported by Cochran  
Resolved, That the Board accept the legal opinion and forward to Charles Herring.

Yeas: 3 - Nays: 0

**Re: Union Representatives - None**

---

**NEW BUSINESS**

**Re: Proposed 2007 Board Meeting Calendar**

There was discussion regarding the date for the Manager Review Meeting. It was determined that the meeting would be held on September 19, 2007 immediately following the Fall MAPERS Conference with the regular meeting being held on September 20, 2007.

**RESOLUTION 06-096** By Lee, Supported by Cochran  
Resolved, That the Board approve the 2007 Meeting Calendar as amended.

Yeas: 3 - Nays: 0

---

**UNFINISHED BUSINESS**

**Re: Ordinance Clean-up – Tabled**

---

**SCHEDULING OF NEXT MEETING** –Meeting on January 25, 2007 at 9:00 a.m., at the Lower Level Conference Room, Affinity Group Credit Union, 144 E. Pike Street, Pontiac, Michigan 48342.

---

**ADJOURNMENT**

**RESOLUTION 06-082** By Lee, Supported by Cochran  
Resolved, That the meeting be adjourned at 11:13 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 December 5, 2006.

---

Raymond Cochran, Secretary  
*As recorded by Jane Arndt*