

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREE PREFUNDED
GROUP HEALTH & INSURANCE PLAN
“VEBA MINUTES”
AUGUST 25, 2011**

Trustees Present

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

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Laurance Gray, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, Retirement M-Admin Assistant
John Wargell, Retiree
Mike Ramsey, Retiree

The meeting was called to order at 8:40 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Approval of Regular Meeting Minutes: July 28, 2011
- B. Correspondence:
 - 1. Rhumblin: Organizational Update
 - 2. Bradford Marzec Newsletter
- C. Financial Reports
 - 1. Consolidated Statement of Changes – July 2011
 - 2. Accounts Payable:
 - a. Bradford Marzec \$7,737.91
 - b. Broadview Advisors 9,963.26
 - c. Comerica 4,421.94
 - d. Gray & Company 1,250.00
 - e. Plante Moran 1,810.00
 - f. Rhumblin 4,375.00

RESOLUTION 11-025 By Storum, Supported by Nye
Resolved, That consent agenda for August 25, 2011 be approved.

Yeas: 5 – Nays: 0

TRUSTEE/COMMITTEE STAFF REPORTS

Rhumblin Organizational Update

Ms. Zimmermann said that she received correspondence from Rhumblin regarding the proposed internal purchase of the interest of their retiring founder and majority owner, J.D. Nelson by the existing partners.

She said that they have requested that the Board acknowledge their affirmative consent by signing off on the attached document.

Mr. Gray said that he tried to schedule a meeting with their number two and number three partners. He indicated that this change in ownership has been planned for sometime. They have no concerns regarding Rhumblin's day to day operations.

RESOLUTION 11-026 By Storum, Supported by Nye
Resolved, That the Board sign-off on the Rhumblin Consent Agreement allowing for the internal purchase of company shares by existing partners.

Yeas: 5 – Nays: 0

CONSULTANTS

Re: Gray & Company – 2011 Second Quarter Performance Review

Mr. Kuhn provided an overview of the capital markets for the second quarter of 2011. There have been a number of major macroeconomic challenges including the financial situation in Greece, the sovereign debt issue in Europe and the economic and debt issues in Portugal, Italy, Spain and Ireland which have had a negative impact on the market. This has caused a spillover effect in the United States.

He told the Board that Greece has \$400 million in debt compared to Lehman Brothers which had \$650 million in debt. The country of Greece has the same Gross Domestic Product (GDP) as the city of Los Angeles or Dallas/Fort Worth. Compared to Lehman it does not seem like a huge problem. However, Italy and Spain are much larger and more like Texas. The question is how much longer Germany can continue to bail out these countries. There are no easy answers and it continues to be a work in progress.

The Fed has put the Fed Funds Rate on hold until 2013. QE2 did not work out as intended and QE3 is not in their plans, so this is the last tool the Fed has in their toolbox. The yield curve came down which was good for fixed income performance.

The equities markets were flat for the quarter. It was a tale of two quarters; equities were on the rise in April but gave back performance in May and June. Energy and financials were the biggest losers. Energy stocks declined 5% due to the lower oil prices and financial stocks were the worst performers down 6%. The one-year performance for financials was a positive at 12.74%, the only positive result for that sector in the periods shown. Investors have moved to more defensively-oriented sectors. They feel that consumers still have to buy necessities.

Fixed income had a good quarter with performance averaging around 2% and TIPS at 3.66%. Yields were down and spreads widened in the fixed income market. Spreads widened some more corporate bonds traded lower in the last two months like equities.

The international equity markets saw more red ink than black for the period. Germany and France were okay but everything else was in the red. These top performers saw their economies growing while the rest of Europe struggles. The Swiss franc was the favorite currency during the period.

Chairman Lee confirmed that the weaker dollar helped the other currencies.

Mr. Kuhn asked whether the Board had any other questions regarding the capital markets.

The total Plan performance for the quarter was 0.77% versus the policy index at 0.75%, year-to-date at 5.69% versus 4.97% and one-year at 24.83% versus 22.94%.

They made a number of changes to the portfolio a couple of years ago so many of the managers do not have recorded performance data for more than one-year.

Rhumblin performed well for the period at 0.72% versus 0.09% for the benchmark.

Broadview Advisors' saw a decline in performance as small cap struggled during the period.

Dodge & Cox was a little short this quarter. They are well ahead in performance for the two-year, three year and five-year periods.

Bradford Marzec was slightly behind the benchmark at 1.95% versus 2.29% for the quarter. They are a conservative manager and protect on the downside. Their one-year performance is well ahead of the benchmark.

Trustee Storum asked if the Fund should change its investment philosophy with the Fed holding the Fed Funds rate for the next couple of years.

Mr. Kuhn explained that we will see a steep yield curve for sometime. Investors will not accept this performance long-term.

Pluscios experienced a small loss for the quarter.

Trustee Naglick left at 8:57 p.m.

Mr. Kuhn distributed the Fund's market values as of August 19, 2011. The market values went from \$32 million to \$28 million. Most of the losses were on the equity side. The losses are in line with the equity market that was down 15% since June.

Part of this downturn in the market was politically motivated and based on the recent indecision by Congress. It was also caused by S&P's downgrade of the U.S. credit rating. Moody's may be following suit and downgrading the U.S. after Thanksgiving. When something is downgraded it is usually sold off, however, not this time with the Treasuries. He said the question of a recession may not matter, that there will be weak economic growth for some time.

Trustee Storum asked if the U.S. ever came out of the recession.

Mr. Kuhn said that most managers do not believe we are in a recession and that the economy will continue to muddle along at 1% to 2% growth. Corporations are okay with this. The market has priced in a recession period. There is a lot of uncertainty with corporations which causes concern and adds to the slow economy.

Mr. Gray said that slow economic growth is not just in the U.S.: it is global. Corporations are sitting on a lot of cash which continues the downward cycle. Most people on the street feel that we are in a recession. This is causing a larger split between the haves and have-nots. The Louis Vuitton's and Tiffany's are having stellar sales years.

The S&P downgrade was more political. China continues to buy U.S. bonds based on their transparency and liquidity.

Ms. Zimmermann said that the Wall Street Journal saw companies are buying their debt at lower rates and deleveraging.

Mr. Gray said that the long-term perspective is to buy quality companies. It will be a better bet for the turn around.

Re: Sullivan, Ward, Asher & Patton

IRS Request for Form 990

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

UNFINISHED BUSINESS

Re: Non Payment of Contributions

Mr. Henzi said that he sent the demand letter to the attorney for the Emergency Manager, but has not received a response. He will file the lawsuit tomorrow - then it is up to the Emergency Manager's attorney. He asked what the correct amount of contributions owed by the City. He did not know if the City would contest this or settle and request that any judgment be added to the tax rolls.

Trustee Naglick said that the Emergency Manager wants his attorney to move quickly and get a judgment so it can go on the winter tax bill. This mechanism is used to pay judgments and is added onto the taxpayer's bill. They collect the taxes from the taxpayers and the Treasurer tracks the money as it comes in and applies it to the defendant's judgment.

He referred to the Emergency Manager's Deficit Elimination Plan on the City's website. He said that Michigan municipalities are not allowed to have a deficit (unlike the Feds). Property tax revenue and revenue sharing have decreased. If you follow the paper trail it indicates where the deficit would be. He said even though the Police Department was transitioned to Oakland County the City is asking for a reduction in the contract. They are also looking to cut the Fire Department

and reduce healthcare costs. He indicated that the General Motors judgment is also going on the tax rolls.

Mr. Henzi said that the Board had previously discussed the topic of whether the VEBA is benefits are constitutionally or contractually protected. He stated that the Trust document was written stating that it is a constitutionally protected benefit. The benefits are also a contractual obligation which the City must pay.

Trustee Nye said that State Bill 0007 was passed requiring an 80%/20% split on healthcare costs.

Retiree, John Wargell said that the VEBA is not a State Fund it is a Federal Fund and federally approved and it governed under IRS rules. He said that the Board could sue the City.

Mr. Henzi said that the object of any suit against the City is to get paid and entering a consent judgment with the approval of the Emergency Manager's attorney would be the easiest way to resolve the lawsuit.

Mr. Wargell asked if a lien can be put on City property.

Mr. Henzi said he is not sure but he does not think so, given the nature of the VEBA's claims against the City.

Trustee Storum and Chairman Lee said that there is not a problem with filing suit; all parties are in agreement.

Trustee Naglick said that this is the best mechanism to use to attain the reimbursement.

NEW BUSINESS

Chairman Lee said that he does not think the County is going to bend on attending meetings and conferences. His status as a trustee to remain on the Board is questionable. He is currently going through the chain of command to determine if he can attend meetings and local conferences. He wants to remain on the Board. But if he cannot attend meetings or education conferences, he may have to resign.

There was a question regarding the schedule of the September, 2011 regular meeting. The Board directed Ms. Zimmermann to coordinate the scheduling of the meeting.

SCHEDULING OF NEXT MEETING & ADJOURNMENT

Regular Meeting – September 29, 2011 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

ADJOURNMENT

RESOLUTION 11-027 By Jukowski, Supported by Naglick
Further Resolved, That the meeting be adjourned at 9:34 a.m.

Yeas: 5 – 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 August 25, 2011.

John Naglick, Secretary
As recorded by Jane Arndt