

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

**January 28, 2010**

A regular meeting of the Board of Trustees was held on Monday, January 28, 2010 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:00 a.m.

**TRUSTEES PRESENT**

Mayor, Leon Jukowski  
Brian Lee  
Matthew Nye  
Craig Storum, Chairman

**TRUSTEES ABSENT**

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Systems Administrator  
Jane Arndt, M-Administrative Assistant  
Nanette Cortese, The Cortese Law Firm, PLC  
Loretta Herring

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**PUBLIC DISCUSSION**

Ms. Billings referred to correspondence contained in Exhibit C in her legal report regarding the request from Loretta Herring for surviving spouse benefits. Charles Herring terminated his employment with the City on September 5, 2005 at age 46 with 22 years, 8 months of retirement service credit. He passed away on January 22, 2009. The Retirement Ordinance language does not contain a provision to provide a pension benefit for the surviving spouse of a deferred vested member. However, the Collective Bargaining Agreement (CBA) in effect in 2005 states that the surviving spouse of a vested member with at least 10 years of service. Under PERA, the CBA supersedes the Ordinance language. The benefit would be payable upon the spouse attaining age 55. The reference to age 55 was subsequently replaced with age 50 in the CBA. There was the question of whether a minor child benefit was due upon Mr. Herring's death.

Ms. Cortese said that she agreed with Ms. Billings that Mrs. Herring should receive her husband's pension benefit after his honorable 22 years of service for the Pontiac Police Department under the CBA. This will give Mrs. Herring the ability to take care of her family. However, she does not feel that the CBA requires that Ms. Herring attain age 50. She felt that in compliance with the CBA Mrs. Herring is entitled to collect her husband's pension benefit immediately.

Ms. Billings stated that the CBA only rules when there is a disagreement. Mrs. Herring stated that because she has had to worry about providing for her children and herself they have not been able to grieve or find closure.

There was discussion on the age of their children at the time of Mr. Herring's death on January 22, 2009. Mrs. Herring stated that their son turned 18 on February 1, 2009.

Ms. Billings said that she would look into whether the minor child benefit should have commenced immediately.

Ms. Cortese said that this is about the widow of a long-serving police officer trying to take care of her family. This family has gone through a lot of hardship and suffering.

Chairman Storum said that the Retirement Board is there to insure that members are provided their benefits but they have to follow the guidelines. He asked Ms. Billings for her recommendation.

Ms. Billings said she would recommend that the Board defer to legal counsel to further look into the minor child issue.

Ms. Cortese requested that due to the hardship for Mrs. Herring and her family that this issue be resolved relatively soon allowing the family to pick up with their lives.

*Ms. Cortese and Mrs. Herring left at 9:13*

Discussion followed by the trustees.

Trustee Lee confirmed that this situation is unique to the Supervisors' Collective Bargaining Unit. Ms. Billings said she will look into whether this affects other bargaining units.

Chairman Storum said that the Board is here to make sure benefits are provided to members.

Ms. Billings said that it was her understanding that this was the first time that a deferred vested member died with ten plus years of service before reaching age 50 in this System.

**RESOLUTION 10-001** By Lee, Supported by Nye

Resolved, That the Board defer the Charles Herring surviving spouse benefit issue back to legal for further review.

Yeas: 4 – Nays: 0

## **CONSENT AGENDA**

- A. Minutes of Regular Meeting: December 3, 2009
- B. Communications:
  - 1. Correspondence from Munder Capital Re: Organizational Changes
  - 2. Correspondence from SWAP to Joju-Rimal Re: Mortgage Payoff

Police & Fire Regular Meeting  
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3. Correspondence from Loomis Sayles Re: Reporting
  4. Correspondence from Hirayama Investments Re: Outperformance
  5. IRS Standard Mileage Rates for 2010
  6. Correspondence from Oppenheimer Capital Re; Yankee Bonds
  7. Correspondence from Metropolitan Real Estate Re: Investor Letter
- C. Conferences:
1. MAPERS – One Day Seminar – February 5, 2010
  2. Global Real Assets Forum – March 2-3, 2010
- D. Financial Reports:
1. Financial Reports – November & December 2009
  2. Securities Lending – To be provided at meeting
  3. Accounts Payable – December 2009 & January 2010
  4. Ratification of Capital Calls: Metropolitan Real Estate \$260,000
- E. Remove from the Rolls:
1. Robert Chastain (deceased 11-07-09) survivor benefit of \$2,136.37 / mo to Sally Chastain (corrected benefit amount)
- F. Application for Duty Death Retirement
1. Douglas Strablow (Susan)                      19 years, 2 months                      Age 44
- G. Final Benefit Calculation
- H. Application for Refund of Accumulated Contributions:
1. Daniel Hefner - PFFU                      \$1,396.80
  2. Aaron Sailor – PPOA                      \$3,251.71
- I. Request to Withdraw Application for Refund of Accumulated Contributions:
1. Daniel Hefner

**RESOLUTION 10-002** By Lee, Supported by Nye  
Resolved, That the consent agenda be approved.

Yeas: 4 - Nays: 0

Trustee Lee confirmed that Larry Marshall and Devin Scott were at both the Police & Fire VEBA and Police & Fire meetings.

## **CONSULTANTS**

### **Re: Gray & Company**

#### DDJ / Artio Update

Mr. Kuhn explained that the DDJ investment was in a commingled fund with our assets of \$5 million being pooled with another investor with \$35 million in assets. The other investor moved their assets to a separate account and DDJ assumed the fees would be paid entirely by the Police & Fire Retirement System. This prompted the move of the System's high yield assets to Artio.

He explained that some portfolios are more difficult to liquidate than others. DDJ completed two transfers in the fourth quarter, for \$3 million and \$700,000. These assets have been invested in the Artio High Yield strategy. There is still \$1 million in bank loans to process.

The money has been wired to Artio; however, Northern Trust does not recognize Artio as one of the System's accounts to date. Artio has confirmed that the money is there. Ms. Zimmermann confirmed that the Retirement Office can see the funds on line.

Mr. Kuhn said that they are experiencing the same issue with Thornburg.

Chairman Storum asked about the Turnover Report included in the Consent Agenda. He asked if it is prepared by Northern Trust or Deborah Munson. Ms. Zimmermann said that the report is based on purchaser sales and transactions through the end of December. She confirmed that Ms. Munson prepares the report.

Mr. Kuhn asked if there were any questions regarding the DDJ to Artio transition.

He reviewed a snapshot of the market values as of January 19, 2010. He and Ms. Zimmermann estimated a requirement of \$11 million to fund benefits and expenses for the next six months.

Approximately, \$3 million will come from the Russell 1000 Growth Fund because growth has outperformed value. Other sources of funds for the rebalancing include \$3 million from Loomis Sayles, \$3 million from Oppenheimer and \$3 million from the Northern Trust Government Intermediate Index fund. The fixed income was reduced due to an over allocation.

He discussed how the valuation is still showing up under the DDJ Capital Account. They were working with stale numbers and the information is not as good as they would have liked.

They also anticipate capital calls to fund the real estate and timber investments. The numbers are estimated using a metric.

They plan to do a brief overview of the asset allocation to determine if active versus passive management makes the best sense going forward in fixed income. Their recommendation would be based on opportunistic management and risk in the marketplace.

He hopes to have the performance numbers by the next meeting. They require the statements from the managers and Northern Trust does not recognize certain managers in the portfolio. They estimated 20% performance for the fund last year.

#### Real Estate Research Paper

He said they are optimistic that the real estate managers in the portfolio will do well.

He described the timing and the causes related to the decline in real estate values. The real issue was the development of the Commercial Mortgage-Backed Securities market was developed. Commercial mortgages were combined with individual mortgages into a diversified pool and sold to other investors. Most of the individual mortgages in the pool are being paid monthly and on time. However, most commercial mortgages in the pools are interest-only loans with balloon payments after five years. Most of the mortgages in these products will reset within the next five years. When investors in these commercial mortgages go back to the banks for refinancing they

found that the bank would only finance a portion of the original loan leaving them upside down in the investment. There are a lot of the same issues in the commercial real estate market and that have occurred in the home real estate market.

Ms. Zimmermann reported that there is one commercial mortgage in the portfolio; Joju Rimal. They are currently renting the building and paying 8% interest. She has asked Sullivan Ward to contact the lessor about the balloon payment coming due at the end of the extension granted.

Mr. Kuhn explained that Mesirow and Metropolitan make investments in the opportunistic space. They have only called for a quarter of the committed capital. They are sitting with a lot of money to put into distressed real estate.

Chairman Storum asked if the managers buy secondaries and pooled. Mr. Kuhn said that they are fund of funds investors. They identify opportunistic niches and managers to put in our portfolio.

He described secondaries to the Board. He said that some investors commit capital directly to a real estate manager using the example of a \$20 million committed investment with \$2 million drawn. Because of liquidity issue, many of these investors want to get out of their commitments and do not want to put more money into real estate. Mesirow or Metropolitan will take on this commitment paying the remaining \$18 million of the commitment and acquiring the original committed capital of \$2 million. They are also looking to buy discounted properties for sixty cents on the dollar.

Mr. Kuhn reminded the Board that the VEBA Fund is in the process of a hedge fund search. He asked if the Board would like him to schedule manager presentations for the February meeting or if the Board wanted to review the search books. Chairman Storum recommended that the Board review the search books and then schedule the presentations. He questioned whether they would be revisiting the Fund's asset allocation.

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** – None

**Re: Trustees** - None

**Re: Staff**

Ms. Zimmermann pointed out that she included some interesting articles in the Reports Section of the Agenda Packet.

### 1099R's

Ms. Zimmermann reported that the 1099R's were sent out to members on January 14, 2010.

IRS Form 945

Ms. Zimmermann also indicated that the 945 Forms had been filed.

**Re: Legal**

**RESOLUTION 10-003** By Lee, Supported by Nye

Resolved, That the Board approve to move to closed session to discuss litigation matters.

**Roll Call:**

Trustee Jukowski – Yes

Trustee Nye - Yes

Trustee Lee – Yes

Chairman Storum - Yes

*The Board moved to closed session at 9:36 a.m.*

*The Board returned from closed session at 9:42 a.m.*

Ms. Billings described the purpose of the securities litigation firms for the new Board members, Trustee Jukowski and Trustee Nye. She explained that the two firms Coughlin Stoia and Bernstein Litowitz monitor the System's portfolio looking for fraud in the market. They make the Board aware of situations where the System incurs large losses. They also identify when the system should apply for lead plaintiff status due to these losses.

Fossil, Inc.

Ms. Billings provided an overview of the litigation with Fossil regarding the backdating of stock options. She explained that the plaintiff must hold a de minimis number of shares during the litigation. Currently the case is proceeding through the initial states of litigation.

Gildan Activewear, Inc.

Ms. Billings reported that the Court granted the Defendants' Motion to Dismiss. The plaintiff filed a Motion for Reconsideration. We are currently waiting for the Court's ruling.

UBS/AG Securities Class Action

Ms. Billings reported that the hearing on the Defendants' Motion to Dismiss has not been set.

Merrill Lynch Bond Litigation

Ms. Billings reported that this matter has been settled and they are waiting to file the proof of claim.

IRS Application for Determination Letter

Ms. Billings explained that every five years the System files an Application for Determination Letter with the IRS. The Retirement Ordinance and the Collective Bargaining Agreements state that the Application for Determination Letter should be filed with the IRS in order to be in compliance and maintain its status as a qualified plan. She explained the timing issue and stated that the matter is still pending with the IRS.

American Realty Advisors SEC Form ADV Parts I and II

Ms. Billings reported that she reviewed the forms and found no regulatory or criminal activity.

#### Oppenheimer/Merrill Lynch Futures Application

Ms. Billings reported that she received the forwarded futures application from Oppenheimer Capital. She reviewed the application and sent back her recommendations. She just received the response and they have agreed to change their indemnification standard. She has not had a chance to fully review the response.

#### IRS Special Tax Notice

Ms. Billings reported that the IRS had updated their tax notice to incorporate recent legislative changes. She has tailored the IRS' model notice for the Retirement System. This notice should be provided to participants and/or beneficiaries who are entitled to receive a lump sum benefit including annuity withdrawals. The notice must be sent 180 days and no less than 30 days prior to the distribution. The member may however, waive the 30 day notice period in writing.

#### Death Benefits Payable on Behalf of Deferred Vested Member Charles Herring Refer to Public Discussion

#### House Bill Number 5323

Ms. Billings reviewed House Bill Number 5323 a proposed amendment to Public Act 314. The amendment governs all Michigan public sector retirement plans. The percentage allocated to the basket clause which includes certain limited investments such as alternative investments, high yield and hedge funds has increased 10%. The overall allocation is dependent on the size of the fund. It also allows an increase of 30% in international investments for all plans regardless of size.

Trustee Nye confirmed that Public Act 314 encompasses what the Board does.

Chairman Storum questioned whether the language in the bill that states the Board has the authority to hire their own staff is in conflict with the Retirement Ordinance.

Ms. Billings said that the clear and concise language in the bill will give the Board a stronger position to have its own staff. She indicated that there had been an issue between the City of Detroit and their Retirement System regarding whether the staff were City or Retirement Board employees. It was determined that due to the conflicts between the Board and the City, the Board had the right to take employees on as their own.

#### Bernstein Litowitz Portfolio Monitoring Report – Third Quarter 2009

Ms. Billings reported that this monitors fraud in the marketplace and is for the trustees' information.

#### IRS 2010 Standard Mileage Rates

Ms. Billings reported that the 2010 standard mileage rate is \$.50 per mile.

#### RMK Global Timberland Resources Fund

Ms. Billings indicated that she received a brand new set of contracts and subscription agreements. She said that she would contact RMK to determine why this documentation was sent. She would prefer to use the original agreements.

#### Sullivan Ward

Ms. Billings stated that she wanted to address a recent published article about her law firm. Sullivan Ward represented the Iron Workers Local 25 Pension Fund in litigation commenced approximately six years. After protracted, complex litigation, the case resolved for \$110 million dollars.

Following the settlement, a former trustee, who is no longer on the Iron Workers' Board, filed a complaint. Sullivan Ward filed a Motion to Dismiss. In ruling on that Motion to Dismiss, the court dismissed a number of plaintiff's allegations. However, in ruling on a Motion to Dismiss, the Court is required to accept the allegations in the complaint as plead. Applying that standard, the Court did not dismiss the remaining allegations. Trial on those allegations will take place in the next few months. The law firm vehemently denies the allegations and believes that it will be fully vindicated.

**Re: Union Representatives - None**

#### CFA Exam Fees

Ms. Zimmermann asked the Board to consider Deborah Munson's request that the Board pay for her CFA exam which would cost \$1,110.00.

Mr. Kuhn said that a CFA involves stocks and bonds valuation, portfolio construction and adhering to the highest ethical standards and a lot of other investment knowledge.

Trustee Nye asked what Ms. Munson's role is in the Retirement Office. Ms. Zimmermann stated that Ms. Munson is the Retirement Accountant.

Mr. Kuhn said that there may be additional costs for study guides. He also said he would recommend tying her to her employment with the Retirement Office for a year after her certification. He also said that there are three levels to the exam.

Trustee Nye said he would defer to Ms. Zimmermann. Ms. Zimmermann said that Ms. Munson is very good at what she does and she supports this.

#### **RESOLUTION 10-004** By Lee, Supported by Nye

Resolved, That the Board approve payment for Deborah Munson's CFA Exam including study materials. This payment is contingent with Ms. Munson maintaining her employment for one year after obtaining her CFA designation.

Yeas: 4 – Nays: 0

Chairman Storum questioned correspondence received in the agenda packet. He referred to the Munder Capital reorganization.

Mr. Kuhn said that John Adams as stepped away and Tony Dong has been made CIO. Mr. Dong is also the lead portfolio manager for their mid cap product. They have spoken with both Tony Dong and Pam Hopkins. This was more of a reward to Tony Dong. The mid cap portfolio is Munder's most important portfolio and Mr. Dong will continue managing it. They do not foresee any issues going forward.

Chairman Storum also asked about the Loomis reporting on the transaction costs. Mr. Kuhn said that they get the data from Northern Trust and explained that Loomis sees the transaction costs at the product level.

Chairman Storum also asked about the correspondence that stated Oppenheimer Capital is holding Yankee Bonds. Mr. Kuhn said that they have no issue with them holding those bonds. Chairman Storum asked if the Investment Policy Statement needs to be updated. Mr. Kuhn did not feel the IPS specifically needed to be updated based on the BBB-rated Yankee Bonds.

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## **NEW BUSINESS**

### **Re: Semi-Annual Re-Balancing**

Ms. Zimmermann said that twice per year the portfolio is rebalanced back to target and the cash flow is used to pay benefits. This does include the anticipated capital calls and the increase in the cost of retiree benefits for the group of firefighters that recently went out. She requested that the Board approve the cash flow rebalancing.

Trustee Nye asked why the requirement increased from \$7 million to \$11 million in one week and whether these are the actual costs. It was explained that a large part of the increase was the addition of the thirty-five retirees in November. Mr. Kuhn stated that the rebalancing was estimated and cash flow should be sufficient to pay benefits, expenses and anticipated capital calls through August.

### **RESOLUTION 10-005** By Lee, Supported by Nye

Resolved, That the Board approves the transfer of \$3 million from Northern Trust R1000 Growth Index, \$2 million from Loomis Sayles, \$3 million from NTGI Intermediate Government/Corp. Index and \$3 million from Oppenheimer fixed income to fund benefits and operations for the next six months.

Yeas: 4 – Nays: 0

### **Re: WHV/Hirayama Addendum**

Ms. Zimmermann explained that originally there was not a contract between Wentworth, Hauser & Violich and portfolio manager Richard Hirayama. A contract was formed between WHV and Hirayama Investments, LLC. This addendum states that Hirayama Investments, LLC has entered into is a ten year sub-advisory agreement to provide international and global equity

portfolio management services exclusively to WHV's clients. There was discussion that confirmed that the Board wants Richard Hirayama managing the portfolio.

Ms. Billings said that legally there are no issues with this addendum.

**RESOLUTION 10-006** By Lee, Supported by Nye

Resolved, That the Board approve the Chairman to sign the WHV/Hirayama Investments LLC Addendum.

Yeas: 4 – Nays: 0

**Re: City Cost Allocation**

Ms. Zimmermann reported that the City's allocation of costs went down for fiscal year 2010 thanks to Deborah Munson who worked with the auditors to identify items that were no longer applicable.

Chairman Storum asked why there are charges for legal services. The Retirement System does not utilize the services of the City Attorney's Office, Administrative Retiree Insurance or the Executive Office. He does not feel that that these are appropriate charges. He also questioned the charge for Information Technology stating that the Retirement Office is rarely able to get support from IT.

It was determined that Ms. Zimmermann would go back to Ms. Munson to obtain a more detailed description of the charges to insure that the Retirement System is not paying for services they do not make use of.

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**UNFINISHED BUSINESS**

**Re: HELPS Letter to Retirees**

Chairman Storum asked about the status of the HELPS Letter to retirees. Ms. Zimmermann said that it had been determined that a letter would not be sent to members because it could be confusing with the City considering charging retirees a fee for their healthcare benefits.

The member who was going to act as a test subject of the electronic transfer of funds for this benefit never selected a vendor and has not displayed any further interest.

Chairman Storum suggested that with the most recent PFFU Contract it may be applicable to move forward making members aware of this benefit.

**Re: Actuarial Software Search**

There was discussion regarding the search for new actuarial software which included previous issues such as cost for the annual renewal along with additional costs for any new codes or necessary updates. Ms. Zimmermann stated that the Retirement Office has not received the most recent PFFU Contract to request the updated database changes.

Trustee Nye said that he would obtain and forward a copy of the signed contract to the Retirement Office.

**Re: Disaster Recovery Plan**

Ms. Zimmermann reported that IT has loaded the necessary software and Ms. Arndt is in the process of test scanning data.

**Re: Experience Study**

Ms. Zimmermann suggested that they wait to perform the Experience Study until after the 2009 Valuation is processed. If it is conducted before the valuation the large group of PFFU retirees will not be included.

Chairman Storum felt that the data would be skewed if the Experience Study includes the large group of retired firefighters.

Trustee Nye asked what the purpose of the Experience Study is. Chairman Storum said that it shows the actual experience of the plan which allows the actuary adjust the assumptions.

Trustee Nye said that he felt it would not be appropriate to use the large group and that it was an anomaly.

Mr. Kuhn suggested that Ms. Rodwan be contacted for her recommendation.

Trustee Lee asked how it would affect the bottom line if these retirees were not included.

Mr. Kuhn suggested that the actuary submit a proposal on the pros and cons and her recommendation.

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**SCHEDULING OF NEXT MEETING**

Regular Meeting – Thursday, February 25, 2010 at 9:00 a.m., City Council Conference Room, City Hall

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**ADJOURNMENT**

**RESOLUTION 10-007** By Lee, Supported by  
Resolved, That the meeting be adjourned at 10:35 a.m.

Yeas: 4 – 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 January 28, 2010.

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*As recorded by Jane Arndt*