

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

February 26, 2009

A regular meeting of the Board of Trustees was held on Thursday, February 26, 2009 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:13 a.m.

TRUSTEES PRESENT

David Flaisher, Secretary
Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence O. Gray, Gray & Company
Chris Kuhn, Gray & Company
Eugene White, Trustee Police & Fire VEBA Trust
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Special Meeting: January 22, 2009
- B. Communications:
 - 1. Correspondence from Northern Trust Re: CIO Appointment
 - 2. Correspondence from Hirayama Investments Re: Market Commentary
- 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 – January 2009
 - 2. Commission Recapture Report – December 2008
 - 3. Securities Lending – January 2009
 - 4. Accounts Payable – February 2009
 - 5. Securities Lending Deficiency
- E. Remove from the Rolls:
 - 1. Charles Herring, Jr. (deceased 1-22-09)
- F. Application for Service Retirement
 - 1. Emmett Elliott - PFFU 25 years, 0 months Age 44
 - 2. Herschel Morris Jr. – PFFU 16 years, 2 months Age 50
- G. Application for Refund of Accumulated Contributions
- H. Final Benefit Calculation

I. Disability Re-Examinations:

RESOLUTION 09-014 By Lee, Supported by Miller
Resolved, That the consent agenda be approved.

Yeas: 4 - Nays: 0

CONSULTANTS

Re: Gray & Company

2008 Fourth Quarter Performance Report

Mr. Gray asked if there were any questions regarding the capital markets that were initially discussed at the Police & Fire VEBA meeting just held. Chairman Storum asked when the markets would rebound. Mr. Gray said that the rebound is going to be longer than originally predicted.

At the beginning of the fourth quarter total plan value was \$242.8 million with an ending market value of \$211 million as of December 31, 2008. Investment performance was down \$26.8 million for the quarter.

Year-to-date performance was -21.06% with performance net of fees of -21.20% versus the policy index at -21.65%. The fund continued to outperform the policy index for the period and the year.

Large cap growth and value investments are indexed and were right on top of the benchmark.

Munder had a difficult year; returns net of fees were -43.37% versus the benchmark at -36.23%. Their current quarter is up 20 basis points due to good energy and materials stock selections. They are a high quality manager with a good portfolio that is under performing. On the equity side everything is over sold.

Loomis underperformed for the quarter with performance net of fees at -31.71% versus the benchmark at -28.93%. The manager was at the recent roundtable session. This manager looks for out of favor companies. They have great names in a high quality portfolio. A lot of their performance has been related to companies that were bought out of their portfolio, however due to the current credit freeze there are no company buyouts.

Wentworth, Hauser and Violich experienced substantial underperformance during the quarter with current returns net of fees at -34.46 versus the benchmark at -19.95%. The manager has consistently ranked in the first percentile for a long period with their performance based on huge bets in energy. He remarked that what energy has given energy has taken away.

Mr. Gray discussed the correspondence regarding the joint venture between Wentworth, Hauser and Violich, Inc. and Hirayama Investments, LLC. Hirayama Investments is co-owned by WHV and portfolio manager Richard Hirayama. There had been concerns regarding the lack of an

employment contract between WHV and portfolio manager Richard Hirayama. The joint venture is considered beneficial because the manager now has more of a stake in the game. There are no plans to change the investment strategy or philosophy going forward.

The Boston Company continues to languish. Mr. Kuhn will discuss the replacement names for during the international equity manager search portion of the agenda.

Fixed income manager Oppenheimer Capital returned performance 200 basis points above the index net of fees at 7.27% versus the benchmark at 5.24% due to a high concentration of treasuries.

DDJ Capital's year-to-date performance was -31.12% net of fees versus the benchmark at -26.19%. They still have confidence in this asset class and expect strong returns from the manager when the economy strengthens. High yield fixed income did not start well as spreads have widened to extreme levels; there is normally a 400 basis point spread to treasuries.

Goode Stable Value is a simple but boring investment that tracks the benchmark very well returning 4.48% performance net of fees versus 4.94%. It does well in this type of environment.

The NTGI Index performed well with returns of 5.30% versus the benchmark at 5.08%.

Real estate investments are steady as it goes and have just started to be impacted by the economic crisis. Real estate manager American Realty Advisors year-to-date performance was -6.27% versus the index at -6.46%. We will see a bit more pain in commercial real estate.

Mesirow International Real Estate is experiencing the J-curve effect during the drawdown period of the investment with current returns of -23.03%.

It is an interesting time to be alive. Institutional investors are investing in global real estate. Buyers are looking at international real estate in Mexico, Panama and other southern countries similar to looking for property in Florida ten to fifteen years ago.

Overall it was not a good year, but performance returns of -21.06% are not that bad given the current market conditions.

He reviewed the percentile rankings of the total fund performance. He said that the total fund ranked in the 36th percentile at -11.07% versus the policy index in the 44th percentile at -11.57%.

The performance consistency of the plan was reviewed versus the policy index. Trustee Miller said that he was not sure he understands what the policy index is. Mr. Kuhn explained that each component of the portfolio gets a weighting as if the entire portfolio is indexed. These performance numbers are measured against the actual performance returns. Mr. Gray said that the active managers in the portfolio have added performance.

Trustee Miller asked if the targets should be changed. Mr. Kuhn confirmed he was questioning the actuarial assumption rates. He said that the returns are 8% and normally when fixed income

is down equities are up. Chairman Storum said that total returns since 1980 have averaged around 9%.

Mr. Gray said that a change would not be beneficial when the markets are down so low. He said that equity and fixed income have a different alignment. He discussed the performance for both asset classes when the market recovers. He said that going forward fixed income will be flat or have negative returns and described how low interest rates have the opposite effect.

Mr. Kuhn said that it is not necessary to lower targets. The expectation is that there will be more risk in the fixed income portfolio and will only break even versus the index. There are lots of opportunities in fixed income to make better returns. There is an advantage in allowing Oppenheimer to maintain a blended portfolio that is not measured against the Lehman Aggregate.

Chairman Storum asked if they are still looking at a core plus strategy. Mr. Kuhn said that due to the losses in market value there is no room left in the basket clause and it is not an option. Mr. Gray said that the fixed income manager could drop down out of high quality and take advantage of lower quality opportunities.

Mr. Gray said that as interest rates rise, bonds do not fair well. The government cannot print money without inflation concerns. Prepare for rising inflation rates.

Trustee Flaisher asked what percentage of the investment would be moved. Mr. Gray said that it would be less than 3% and more likely somewhere in the 1% to 1½% range. Mr. Kuhn said it would untie the manager's hand to the Lehman Aggregate and allow them to investment in TIPS (Treasury Inflation-Protection Securities).

Trustee Miller feels the Board has done a good job of capital preservation based on the long-term and given the current economic conditions. He questioned if it necessary to move in that direction. Mr. Gray said that it would be beneficial for the manager to not be so benchmark-tied. It would also be advantageous to the portfolio to invest in TIPS.

Both Chairman Storum and Mr. Kuhn agreed that it would be a good time to have fixed income manager Oppenheimer come in and make a presentation.

It was determined that Oppenheimer would be contacted to let them know the Board is looking into this investment opportunity and would like them to make a presentation at the March meeting.

Meeting Break at 9:43 a.m.

Meeting Resumed at 9:53 a.m.

International Equity Manager Search

Ms. Zimmermann distributed the international equity manager materials.

Mr. Kuhn reviewed the screening process. He said that they utilize the Plan Sponsor database which allows free submission of data and is available to all managers. There is a separate version available to consultants for a fee. The international equity universe contains 263 firms representing 822 products with commingled and mutual fund strategies.

They are confident that the firms selected have the most attractive strategies that best meet the system's asset allocation, performance and risk requirements.

He reviewed the six managers. Artio Global Investors is owned by Julius Baer and has \$56 billion in assets under management. Julius Baer's intent was to spin Artio off and for it to be offered on the public market. That idea was tabled until the market recovers. It is a positive attribute when the investment manager owns a portion of the firm.

Baring Asset Management owned by insurance firm Mass Mutual with \$37 billion in assets under management

Hexavest International Equity is a smaller employee-owned firm located in Montreal with \$800 million in assets under management. Mr. Kuhn said that they have no reservations based on the size of the manager.

Marathon – London is an overseas employee-owned firm with \$42 billion in assets under management

Principal Global Investors is owned by Principal Financial Group is a less familiar manager with \$228 billion in assets under management

Thornburg Management is an employee-owned firm with \$33 billion in assets under management.

Trustee Miller asked what the size of the investment would be. Mr. Kuhn said that the investment would be \$10 million and the manager selected would replace The Boston Company.

Mr. Kuhn stated that the Artio International Equity II strategy is a core, all cap strategy that is comparable to their international equity strategy which contains a lot of small cap. International Equity II mirrors the strategy except it dips into the smallest of small cap.

Baring Asset Management is a GARP (Growth At Reasonable Price) all cap strategy which is a smaller strategy.

Marathon - London is a core, all cap strategy.

Principal Global Investors is a core all cap strategy comprised of institutional and insurance investments with \$4.7 billion in assets under management.

Thornburg Management is a core predominantly large cap strategy that has some small and mid cap investments.

Trustee Lee asked if the size of the team or the number of portfolio managers matters. Mr. Kuhn said that the size of the team is not as important as the stability of the team.

The major country allocations and emerging market allocations per investment were reviewed. Artio emerging market exposure is currently 8%, with Baring Asset Management at 1%, Marathon – London at 11%, Principal Global Investors at 9%, Thornburg Management at 15% and Hexavest with no emerging exposure.

They are looking for a manager that is investing in emerging market opportunities. They are also looking to pair the Wentworth, Hauser and Violich strategy with a more diversified strategy that utilizes sector controls and has full global exposure. All the managers except Hexavest meet the emerging manager criteria.

Mr. Kuhn compared the managers' performance. He explained that Artio's trailing year returns have a shorter duration because their International Equity II strategy is fairly new. He said that this product mirrors the sister product which has produced historically good returns.

Mr. Gray explained that trailing year excess returns display the manager's performance. Mr. Kuhn pointed out that the standard deviation is displayed under the risk column. Those managers returning positive numbers, or those closest to the mean, have a lower level of risk.

Calendar year returns were reviewed.

Mr. Kuhn described the manager's risk adjusted returns. He said that the higher numbers in the chart are better.

Trustee Miller commented that the managers' performance versus The Boston Company performance is similar. Mr. Kuhn explained that there are issues with the team because of turnover and a loss of confidence.

Trustee Miller pointed out that Hexavest did not have any emerging market exposure which helped their performance returns. He asked why they would want a manager who invested in emerging markets. Mr. Gray agreed that not having emerging market exposure helped Hexavest's performance. However, you want a manager that knows when to invest in emerging markets and get out when necessary.

Three, five and seven year total risk, reward and standard deviation were reviewed.

Trustee Miller asked about up market capture. Mr. Gray said that you look for managers that can capture better than market returns in an up market and protect in a down market.

Ms. Billings asked about the team that was lifted out of The Boston Company and went to Munder Capital. She asked why Munder was not one of the considered managers. Mr. Kuhn explained that the Munder performance returns were similar to The Boston Company.

Rolling quartile rankings were evaluated among the international equity peer groups. The managers were plotted against their peers. Mr. Kuhn said they are looking for managers that are consistently in the blue-green area. Ms. Zimmermann pointed out that none of the managers is ranked in the top quartile. Mr. Kuhn said that it is important to look for consistent performance from managers. Mr. Gray added that it is a challenge keeping clients from chasing hot managers. They are looking for managers with long-term consistent performance.

Ms. Zimmermann asked that Mr. Kuhn provide a brief recap of the international equity managers' investment philosophies.

Mr. Kuhn said that The Boston Company employs a quantitative oriented strategy which compliments the WVH strategy. He said it is hard to find quantitative managers in this space.

Artio Global Management is a bottom up manager that relies on sound fundamentals and a strong quantitative strategy.

Baring Asset Management is a top down manager that focuses on sectors with the best valuations.

Hexavest is similar to Baring as a top down manager. Trustee Miller said that Hexavest has had eight years of consistent returns. Mr. Gray pointed out Hexavest's 2007 calendar year performance of 9.06% versus Baring at 21%, Thornburg at 29% and Artio at 18%. He said that Hexavest was left behind and that it is important to understand a manager's philosophy.

Trustee Miller said that he feels the foreign markets are worse than the domestic markets. Mr. Gray said that quality has recently been sold off at will. It is important to look at strategies that compliment and are consistent with WHV.

Trustee Miller said he would like to look at Hexavest.

Mr. Kuhn said that Marathon focuses on country and sector that utilizes a capital cycle and is a contrarian manager.

Principal Global Investors is a bottom up manager with two portfolio managers and a group of thirty-one analysts with a similar quantitative strategy to Artio.

Thornburg is a bottom up manager whose managers perform a lot of research. They travel around the world looking for the best investments.

Chairman Storum said he would like to look at Thornburg, Baring and Marathon. He said they look similar and all three have the highest Sortino ratings. In this market you have to look for more opportunities in emerging markets. It may be more volatile but it presents the chance to make more money.

Trustee Miller was concerned that the members would not understand why the Board would take on more risk with this investment. Chairman Storum said that the Board is driven to make investment decisions that add capital and meet return expectations for the system.

Trustee Lee said he would like to bring in Thornburg and Hexavest. He asked if they could look at four managers.

Trustee Flaisher said he would not vote for a manager that did not have emerging market exposure.

Mr. Gray said that they would schedule Thornburg, Baring, Marathon and Hexavest to make presentations at the March meeting. They will also provide the managers' updated emerging market exposure.

Ms. Zimmermann requested that the Board approve the Hirayama Investments, LLC Investment Management Agreement Addendum.

RESOLUTION 09-015 By Lee, Supported by Miller
Resolved, That the Board approve the Hirayama Investments, LLC Investment Management Agreement Addendum.

Yeas: 4 – Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

Charles Herring, Jr.

Trustee Lee said that he was surprised that Chief Gross was not in attendance. He has been in discussions with the Chief regarding the issue of Charles Herring's widow receiving a pension benefit. He said that the widow understands that her husband did not meet the qualifications to receive a benefit but the Chief disagrees. He stated that Mr. Herring would have been eligible to receive a benefit later this year when turning age fifty.

Ms. Billings said pursuant to the retirement ordinance Mr. Herring was a non-active member at the time of his death and unfortunately does not qualify to receive a benefit.

There was discussion regarding Mr. Herring's status in the system at the time of his death.

Ms. Zimmermann said that this is a common plan provision for non-active death in a defined benefit plan. Members in deferred status have to survive in order to draw a benefit.

Re: Staff

945 Annual Return of Withheld Federal Income Tax

Ms. Zimmermann reported that the 2008 (Form 945) Annual Return has been filed.

2008 1099-R's

Ms. Zimmermann reported that the 2008 1099-R's were sent out on schedule to the members.

Medical Director

Ms. Zimmermann reported that she spoke with Dr. Roth and was told that they can continue to schedule appointments. He said that things are looking good and there are no problems continuing to use the University of Michigan facilities for disability examinations.

Performance Reports

Ms. Zimmermann thanked Mr. Kuhn and Gray & Company for providing the performance returns net of fees.

Re: Legal

Roy Johnson

Ms. Billings reported that at a previous meeting they discussed the Roy Johnson medical evaluation issue. A medical evaluation was submitted by the Medical Director that Mr. Johnson was no longer disabled and was able to return to work. The Board determined that Mr. Johnson would continue to receive his disability pension because the City stated they would not return him to work.

Mr. Johnson is concerned that he will not receive full service credit when converting to a regular retirement 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. He is not switching from a duty to non-duty so under the provisions of the ordinance he is entitled to continue to accrue service credit.

Chairman Storum requested that Ms. Billings put this into a written form so a policy can be adopted by the Retirement Board.

Fossil, Inc.

The litigation is still proceeding through discovery.

Gildan Activewear, Inc.

The Police and Fire Retirement System was appointed lead plaintiff in September 2008. The litigation is still proceeding through discovery

Jarden Securities Class Action

The parties agreed to settle the litigation for \$8 million dollars on November 20, 2008. A hearing date has not been scheduled for the proposed settlement agreement.

Maxim Integrated Products

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.

The parties have agreed to a \$27.5 million settlement. They still do not have a hearing date for the proposed settlement.

Northern Trust Securities Lending

Ms. Billings reported that a meeting was held on January 30, 2009 with the investment consultant to discuss the securities lending issue. She will provide a written opinion at the next meeting.

CAPROC Mortgage

Ms. Billings reported that the Resident Agent for CAP Commercial Mortgage LLC has been changed from Joseph Capozzoli to Ellen Zimmermann.

RMK Timberland Contracts

Ms. Billings reported that she still does not have all the necessary documents.

IRS Application for Determination Letter

Ms. Billings reported that the Application for Determination for Employee Benefit Plan for the Police and Fire Retirement System has been submitted to the IRS.

Re: Union Representatives - none

NEW BUSINESS

Re: Ratification of Capital Calls

Ms. Zimmermann requested that the Board ratify the capital call for Mesirow MFIRE investment.

RESOLUTION 09-016 By Lee, Supported by Miller

Resolved, That the Board approve the Mesirow MFIRE capital call.

Yeas: 4 – Nays: 0

Re: Ratification of GRS Software Contract

Ms. Zimmermann explained that since changing actuarial providers Gabriel, Roeder, Smith and Company has refused to supply anything or update their software without a maintenance agreement. Without the update there is no efficient way to compile the valuation data.

Police & Fire Regular Meeting
February 26, 2009

Ms. Billings confirmed that once the actuarial agreement was terminated GRS would not give either retirement system anything. She reported that she was able to get GRS to eliminate the arbitration clause out of the current contract but that GRS refused to eliminate the provision that limits their liability to \$25,000.

Ms. Zimmermann said that this is a temporary situation. They are still looking for other options.

RESOLUTION 09-017 By Lee, Supported by Miller
Resolved, That the Board ratify the GRS Software Contract.

Yeas: 4 – Nays: 0

Re: Signature Authority

Ms. Zimmermann requested that the Board approve the new Finance Director, Trustee David Flaisher to have signature authority as a back up signer.

RESOLUTION 09-018 By Lee, Supported by Miller
Resolved, That the Board approve signature authority to Trustee Flaisher.

Yeas: 4 – Nays: 0

UNFINISHED BUSINESS

Re: Actuarial Software Search – See New Business

Re: Disaster Recovery Plan

Ms. Zimmermann requested that the board form a committee to work on the disaster recovery plan. One of the issues is whether a backup site is needed if the Retirement office is inaccessible. Protocol actions are needed to address the backup of data, payroll issues and valuations in the event of a disaster but these all have costs.

Trustee Miller said that Denise from the Credit Union has a business resumption plan and could assist in the computer related part of the plan.

Re: Medical Director – See Staff

Re: HELPS Program

Ms. Zimmermann stated that she will identify a test person for the electronic transfer test between the payroll company and the insurance company.

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting on March 26, 2009 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 09-019 By Lee, Supported by Miller
Resolved, That the meeting be adjourned at 10:54 p.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 February 26, 2009.

David Flaisher, Secretary
As recorded by Jane Arndt