

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
May 16, 2009**

A regular meeting of the Board of Trustees was held on Thursday, May 16, 2009 at the Amway Grand Hotel, Grand Rapids, Michigan The meeting was called to order at

**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.  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Systems Administrator  
Deborah Munson, Retirement Accountant  
Eugene White, PF VEBA Trustee

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**CONSENT AGENDA**

- A. Minutes of Regular Meeting: March 26, 2009
- B. Communications:
  - 1. Correspondence from PFRS Re: Discontinue Minute Master service
  - 2. Correspondence from DDJ Re: Monthly Summary
  - 3. Correspondence from Hirayama Investments Re: Market Update Letter
  - 4. Correspondence from Dr. Roth Re: Disability Exams
  - 5. Correspondence from Boston Co. – Re: Pooled Collective Investment Funds
- C. Financial Reports:
  - 1. Financial Reports – March & April 2009
  - 2. Securities Lending – March 2009
  - 3. Accounts Payable – April & May 2009
  - 4. Due to/ Due from Q1 2009
  - 5. Securities Lending Deficiency
- D. Remove from the Rolls:
  - 1. Roy K Davidson (deceased 03-28-09) : survivor benefit of \$1,852.03/ mo to beneficiary, Nancy Davidson
  - 2. Mary Racine (deceased 04-01-09)
- E. Final Benefit Calculations:
  - 1. James A. Martinez           #2448           \$3,420.14
  - 2. Scott Wedge                #2263           2,928.92 (recalc; minor child turned 18)

**RESOLUTION 09-027** By Miller, Supported by Lee  
Resolved, That the consent agenda be approved as presented.

Yeas: 4 - Nays: 0

## CONSULTANTS

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

#### Futures Educational Session

Mr. Kuhn distributed information entitled Introduction to Fixed Income Futures. He said that if the Board accepts the changes, the manager will use futures to hedge interest rate risk.

When you purchase a future, you lock in a price today for delivery in the future. When you sell a future, you sell at a price set today for delivery in the future. He who delivers is the short seller. The seller will deliver the bonds at a future date.

There is implied leverage; you are paying a little today for a commitment to buy a larger amount in the future. Ninety percent of the time, they just roll over to another contract. The transactions are done through the Chicago Mercantile Exchange. The contracts are marked to market every day.

Mr. Kuhn discussed an example saying that for the seller, if the price goes down, he makes money. For the seller, if the price goes up, he loses money. Trustee Miller asked whether they are like puts and calls. Mr. Kuhn replied that they are similar.

Mr. Thunelius would like to shorten the duration of the portfolio. Duration is the risk associated with interest rates. Over one year, using cash instead of futures to shorten the duration of the portfolio, the portfolio would lose about \$100,000 in income or 28 basis points. Futures are very efficient and low cost.

Ms. Munson asked to discuss the high turnover in the portfolio. Mr. Kuhn replied that Oppenheimer's performance was better than the benchmark and better than their peers.

#### Investment Policy Statement

Discussion followed regarding the changes to the Investment Policy Statement (IPS). It was noted that the Finance Director was incorrect on the cover. The trustees discussed whether the trustees need to be listed on the cover. Mr. Kuhn reviewed the proposed change in language on page 11, Section F Domestic Fixed Income Managers, items 5 and 6. Item 5 was re-drafted to allow the use of interest rate futures for the purpose of managing (hedging) the duration of the fixed income portfolio. Item 6 refined the language regarding the active duration of the portfolio to specify that the average duration shall not be 30% greater than or 50% less than the benchmark. This section was also refined to indicate that bonds held in each high-grade portfolio should have an investment grade rating from at least two nationally recognized rating agencies including Moody's, Standard & Poor's or Fitch. In the event that two agencies rate the bond's investment grade but a third rates the bond below investment grade, the higher rating will govern (instead of the lower).

The Investment Manager Guidelines, Section VII, A. Derivatives Policy, Item 4. a. Hedging, was discussed. The section states that where appropriate, managers may use derivative contracts for the purpose of hedging. Also discussed was Section VII, B. Prohibited Investments, 1. b. "Short selling, options trading, the use of financial futures, or other specialized investment activity

without the prior approval of the Board is prohibited.” Trustee Lee asked whether the futures would apply to each manager or whether it would be “with the Board’s approval”. Discussion followed by the trustees.

**RESOLUTION 09-028** By Lee, Supported by Miller  
Resolved, that the draft Investment Policy Statement be tabled pending further discussion.

Yeas: 4 – Nays: 0

## **REPORTS**

### **Re: Trustees**

#### Roy Johnson

Trustee Lee reported that he had spoken with an EEOC representative regarding Roy Johnson. The City has said they did not know he wanted to return to work. It was suggested that Mr. Johnson write a letter to Human Resources indicating his desire to return to work.

### **Re: Legal**

#### UBS/AG Securities Class Action

Coughlin Stoia has recommended that the Retirement System file another action for lead plaintiff with a longer class period to extend class coverage to additional investors who have been harmed by the actions of the defendant. The Secretary’s signature should be ratified.

**RESOLUTION 09-029** By Lee, Supported by Miller  
Resolved, That the Board of Trustees hereby ratifies the Secretary’s signature on the UBS/AG Securities certification and retainer agreement.

Yeas: 4 – Nays: 0

#### Merrill Lynch Bond Litigation

Merrill Lynch proposed a \$150 million settlement and Bernstein Litowitz recommends acceptance.

**RESOLUTION 09-030** By Lee, Supported by Miller  
Resolved, that the Board of Trustees accept the proposed Merrill Lynch settlement in the amount of \$150 million for the class.

Yeas: 4 – Nays: 0

#### CAPROC

The System received \$5,480,727 in settlement of the agreement with CAPROC.

#### RMK Timberland

Ms. Billings stated that she had negotiated a side agreement with RMK wherein they have acknowledged their fiduciary status to the System, and they have agreed to a negligence standard rather than a gross negligence standard. However, RMK advised her that they are still making

some minor, non-substantive changes to the offering documents and anticipate having them complete within the next week or so.

Mr. Kuhn noted that this is a basket clause investment and now that the fund's value is below \$250 million, only 5% of the portfolio can be invested in basket clause type investments. The System already has DDJ and MFIRE in this category. The Board has only about \$1 million now to commit. Chairman Storum said he would like to continue the investment at \$1 million and asked Mr. Kuhn to see whether that amount would be accepted by the manager.

**RESOLUTION 09-031** By Lee, Supported by Flaisher

Resolved, That the Board of Trustees approve a reduced commitment to RMK Timberland in the amount of \$1 million.

Yeas: 4 – Nays: 0

Thornburg International Equity Fund

Ms. Billings stated that the contract documents revealed that the commingled fund is not registered under the Investment Company Act of 1940 and would therefore the investment will have to be classified as a basket clause investment.

Mr. Kuhn indicated that Thornburg would do a separately managed account and the additional cost for custody at Northern Trust would be approximately 17 basis points; total cost including custody would be approximately 100 basis points.

**RESOLUTION 09-032** By Lee

Resolved, That the Board of Trustees approve a separately managed account with Thornburg.

Motion failed for lack of support.

Discussion followed regarding the options available, including looking at the remaining two firms who made presentations, the fees, emerging market exposure, or starting over with the search.

**RESOLUTION 09-032** By Miller, Supported by Flaisher

Resolved, That the Board of Trustees table the international equity search discussion to the next meeting when more information will be at hand.

Yeas: 4 – Nays: 0

John H. Wood Settlement Agreement

Ms. Billings distributed copies of her legal opinion. A settlement agreement was received from Mr. Wood, a former member of the System, between Mr. Wood and the City of Pontiac, the Michigan Association of Police and Police officers Association of Michigan (MAP) that permits Mr. Wood to redeposit \$3,463.29 plus interest to the Retirement System. There is no provision in the Ordinance to permit the redeposit of withdrawn contributions by a former member. The settlement agreement does not rise to the level of collective bargaining; the terms of the Ordinance will prevail.

**RESOLUTION 09-034** By Miller, Supported by Lee  
Resolved, that the Board of Trustees adopt the legal opinion regarding the John H. Wood settlement agreement.

Yeas: 4 – Nays: 0

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## **UNFINISHED BUSINESS**

**Re: Actuarial Software Search** – Deferred to the next meeting

**Re: Disaster Recovery Plan** – Deferred to the next meeting

**Re: HELPS Program** – Deferred to the next meeting

**Re: Disability Service Credit Legal Opinion**

Ms. Billings presented a written opinion regarding whether a member on duty disability retirement accrues service credit if the member was found to be able to return to duty but was not returned to work by the City. It was determined, based on the ordinance that service would continue to accrue.

**RESOLUTION 09-033** By Lee, Supported by Miller  
Resolved, That the written legal opinion stating that the accrual of service credit for a duty disability member who was found not disabled and not returned to work by the employer will continue to accrue service credit be approved.

Yeas: 4 – Nays: 0

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## **PUBLIC DISCUSSION**

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### **SCHEDULING OF NEXT MEETING**

Special Meeting - May 20, 2009 at 9:00 a.m., Berkey Conference Room, Amway Grand Hotel, Grand Rapids, MI

Regular Meeting – Thursday, June 25, 2009, 9:00 a.m., Shrine Room, City Hall, Pontiac, MI

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## **ADJOURNMENT**

Police & Fire Regular Meeting  
March 26, 2009

**RESOLUTION 09-035** By Flaisher, Supported by Lee  
Resolved, That the meeting be adjourned at 5:25 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 May 16, 2009.

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David Flaisher, Secretary  
*As recorded by E. Zimmermann*