

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

September 25, 2008

A regular meeting of the Board of Trustees was held on Thursday, September 25, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:35 a.m.

TRUSTEES PRESENT

Raymond Cochran, Secretary
Thomas Miller
Craig Storum, Chairman

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Brian Lee (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Chris Kuhn, Gray & Company
Sandra Rodwan, Rodwan Consulting Company
Denise Jones, Rodwan Consulting Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: August 25, 2008
- B. Communications:
 - 1. Correspondence from Gray & Co. Re: Lehman Brothers & Merrill Lynch
 - 2. Correspondence from Northern Trust Re: Lehman Brothers
 - 3. Correspondence from Oppenheimer Re: Lehman Brothers
 - 4. Correspondence from SWAP Re: Newsletter
 - 5. Correspondence from SWAP Re: CAPROC
 - 6. Correspondence from Munder Capital Re: Money Market Mutual Fund
 - 7. Conferences:
 - a. Global Shareholder Activism – Institutional Investor – Dec 4-6, 2008
 - b. Legislative Conference 2009 – NCPERS – Feb 1-3, 2009
 - c. Middle Atlantic States Public Emp Ret Systems Forum – Oct 27-28, 2008
 - d. Public Pension Financial Forum – Oct 19-22, 2008
- E. Financial Reports:
 - 1. Financial Reports – August 2008
 - 2. Commission Recapture Report – July 2008
 - 3. Securities Lending – August 2008
 - 4. Accounts Payable – September 2008
- F. Remove from the Rolls:
 - 1. Marjorie Warrilow (deceased 07-07-08)
- G. Application for Refund of Accumulated Contributions
 - 1. Kevin Kraus - PFFU \$2,580.06
 - 2. Tonya White – PPOA 6,456.47

Trustee Miller said that he would like to amend the CAPROC statement on page three of the August 25, 2008 meeting minutes. It was determined that the statement, "He made a reference to the CAPROC Receivables entry," would be deleted from the minutes.

Trustee Miller asked if there have been any efforts to report financial information in dollar values because it would be more relevant.

Trustee Miller also had a question on the correspondence from Stuart Tompkins of Sullivan, Ward, Asher & Patton, P.C. with regard to CAPROC refinancing a mortgage that has been secured as part of the provisions of the Promissory Note.

Ms. Billings stated that Mr. Tompkins will insure that this will not impair the assets that the funds have in this property. She said that there are significant payments due at the end of October. There should be adequate room to borrow based on the property's valuation.

Trustee Miller said that there are no guarantees that they will be able borrow against the property. It would depend on how much leverage is left in the building.

RESOLUTION 08-060 By Miller, Supported by Cochran
Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Rodwan Consulting – 2007 Actuarial Valuation

Sandy Rodwan introduced herself and thanked the Board for their business.

She said that the purpose of the valuation is to compute the liabilities associated with benefits to be paid on behalf of current retirees, active employees and deferred retirees and to determine the recommended employer contribution rate.

It has been an interesting year with a decreased in the number of police officers, salary increases were less than expected and investment returns were greater than assumed.

She acknowledged that the information was obtained from Ms. Zimmermann and her staff and stated that they did an excellent job.

She reviewed the liabilities and funded condition of the retirement system. The actuarial accrued liability was less than the funding value of accrued assets. The ratio of the funding value of accrued assets to accrued liabilities was 115.3%. This means that for every dollar of accrued liabilities the system has \$1.15 in the bank. A smoothed market value of assets at \$271,992,032 was used to determine benefits for current retirees and active employees. This value increased \$13 million from 2006. This established a funded ratio of 115.3%. The funded ratio would be higher if they used the market value of assets.

Trustee Miller asked for more information on how the smoothing of works. Ms. Rodwan said that it is the difference between the market value and the funding value averaged over a five year period. Each year a subsequent year will be added with another being removed. She said that an investment gain of \$8.1 million will be phased in.

Trustee Miller asked how the reduction of \$3.2 million in valuation assets affects the retirement system. Ms. Rodwan said that it will decrease the rate of returns. It will probably be a negative for this year. Valuation assets will increase but not by much. Trustee Miller asked if this will move the retirement system closer to a 100% funding level. Denise Jones said that the retirement system will only realize 20% of the loss next year. Ms. Rodwan said that the results will not look as favorable next year.

She reported that the total number of participants comprises 199 active members, 363 retirees and beneficiaries and 15 vested inactive members. This is a large difference from 2006 with a decrease of 21 police rank and file which reduced the active member payroll which results in the funding credit being a larger percent of payroll. The number of retirees and beneficiaries increased from 352 in 2006 to 363 in 2007. Currently, there are approximately two retirees for every active member.

Ms. Rodwan reviewed the computed City's contribution rates beginning July 1, 2009. She said that the contribution rate is the percent of payroll required annually to fund future benefits. The City's computed normal cost is 25.44% for police rank and file, 27.23% for police command, 25.51% for non-union management and 27.62% for fire. The City's total contribution rate for police rank and file is 0%, for police command it is 16.76%, for non-union management it is 0% and for fire is it 11.93%. There was a small increase to police command with three members being transferred. Salaries did not go up which kept the contribution rate down. She expects the rate to go up next year.

Trustee Cochran asked about the temporary funding credit. Ms. Rodwan said that the temporary funding credit is determined by taking the excess of valuation assets over accrued liabilities and amortizing them as a level percent of payroll over a rolling twenty year period.

Chairman Storum asked about the credit for non-union management, its affect on the contribution rate and who pays for the liability. Prior to their retirement the liability was 50%.

Ms. Zimmermann explained that during the Walter Moore administration the retirement ordinance was changed to allow the Mayor to select which bargaining group to retire under. It was more advantageous to retire under this retirement system than GERS. Chairman Storum said that the union is opposed to that feature. Ms. Zimmermann said that no one would take the position for non-union benefits.

There was discussion regarding the unfunded liability for non-union management. Comments pertained to how a smaller group created more volatility for the system and the wage gap between firefighters and non-union management. Chairman Storum was still concerned that the retirement system has to pay for the non-union management liability.

The history of the assets and accrued liabilities showed that the valuation assets have almost doubled since 1995 with liabilities not accruing as fast.

The aggregate gain/loss by group was reviewed.

The actuarial accrued liability by division showed that there was no unfunded actuarial accrued liability. She referred to the active member liability versus the total liability of current retirees and beneficiaries.

The overall experience of the Retirement System was more favorable than expected for the year ending December 31, 2007. The favorable experience was due to investment income of 9.77% versus a 7.5% investment income assumed rate as well as lower than expected salary increases.

Actuarial accrued liability exceeded the allocated valuation assets for each division. This excess was amortized over a twenty-year rolling period and was applied as a temporary credit to offset the City's contribution rates.

Ms. Rodwan recommended the transfers from the employer reserves to the retiree reserves be approved.

She reviewed the benefit provisions briefly and actuarial assumptions and methods. The base economic assumption to pay for future retirees does not change every year. The current economic assumption is 4% to 5% which assumes a risk free rate of return. Across the board salary increase assumption is 4%.

Demographic assumptions include mortality and disability. She said that they use the 1994 Group Annuity Mortality Table. Chairman asked if there is a special table for firefighters. Ms. Rodwan said that there has not been a study done. She stated that disability can be very volatile and that the costs can be high. They treat it as an early retirement. Termination of employment is normally low.

She reviewed the retirement rates. The valuation assumed that 80% of members will be retiring based on years of service which is a huge liability. You have to look at the actuarial assumption to determine the experience.

The annual amount of pensions has doubled since 1992.

She reviewed the table of retired members and survivors by age. There are currently seven retirees over the age of ninety.

She said that the contributions in the future are dependent on the actual experience of the plan related to the assumptions. They recommend that contributions must be received at a minimum.

Ms. Rodwan asked if the Board has any questions, comments or changes. Ms. Zimmermann asked that the prior year rate comparison numbers be included in the report. Trustee Cochran asked that they put in a statement regarding employer potential future obligations.

RESOLUTUION 08-061 By Storum, Supported by Miller

Whereas, The responsibility for the direction and operation of the City of Pontiac Police and Fire Retirement System and for making effective the provisions thereof are vested in the Board of Trustees; and

Whereas, The pension provisions provide that an actuarial valuation shall be made at the close of each fiscal year for the purpose of establishing the financial condition of the Retirement System and as a check on its current operating experience, and that the Secretary shall prepare each year the annual report of the Board to be submitted to the City Council showing among other things, a statement of assets, liabilities and reserves certified by the actuary; and

Whereas, The pension provisions further provide that an annual determination shall be made of the actuarial reserve requirements or the several annuities and benefits prescribed, to be financed in addition to interest and other income accruing to the Retirement System by contributions by the members and by the City; and

Whereas, The actuary has computed the pension reserves and contributions necessary for the July 1, 2009 through June 30, 2010 fiscal year and has presented the Report of the Forty-Fifth Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System as of December 31, 2007 to the Retirement Board;

Now, Therefore, Be it Resolved, That the Report of the Forty-Fifth Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System as of December 31, 2007 be accepted by the Retirement Commission and be placed on file; and

Be It Further Resolved, That the City contribution requirements of covered member payroll for the period contained on page 4 thereof, and the City dollar contribution and payment schedule requirement contained on page 5 thereof is hereby certified to the City Council as the amount necessary for the July 1, 2009 through June 30, 2010 fiscal year appropriation by the City Council to finance the pension reserves of the City of Pontiac Police and Fire Retirement System; and

Be It Further Resolved, That the annual transfers recommended on pages 9 thereof be authorized; and

Be It Further Resolved, That a copy of this resolution be provided to the actuary and copies of this resolution and the report of the Forty-Fifth Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System be provided to the City Council.

Yeas: 3 – Nays: 0

Chairman Storum asked if they should have an experience study prepared by the actuary to review assumptions. Ms. Billings said that one should be done every five years.

Ms. Rodwan suggested that they wait until the contracts are settled. In order to perform the experience study they will require additional data from the Retirement Office. Trustee Miller asked if the data could be skewed. Ms. Rodwan said it could be skewed on the number of retirees and cash withdrawals. Chairman Storum said that early retirements are a big factor. Ms. Rodwan said that she would come back with suggestions and costs.

Meeting Break at 10:40 a.m.

Meeting Resumed at 10:47 a.m.

Ms. Rodwan and Ms. Jones left at 10:48 a.m.

Re: Gray & Company

CSSC Analysis

Mr. Kuhn referred to analysis in the agenda packet of the CSSC Presentation on September 4, 2008.

Investment Policy Review

Mr. Kuhn reported that they are still in the process of amending the Investment Policy Statement to include core plus. The contract is all set and they are amending the guidelines. The portfolio became core plus due to Lehman securities bought during the summer which have dropped from \$87.00 to \$95.00 per share to \$15.00 to \$20.00 per share. They had no idea that the government would let Lehman fail. They may receive 50¢ on the dollar while the assets are sold off.

The Boston Company Update

Mr. Kuhn reported that Larry Gray met with The Boston Company last week and is putting together his formal recommendation.

Market Update

Mr. Kuhn described the current economic issues. He said that we are living through incredible times and you have to go back to the Great Depression to put this into context. The only difference is that the government is being more proactive.

Over the weekend of September 13th and September 14th, Henry Paulson and Ben Bernanke convened a meeting of thirty financial leaders at their offices to get someone to step in and fix Lehman. Bank of America was the leading contender but would not help without government assistance. They would not take it on without \$29 billion. No partner could be found to assist Lehman with a financial transition by Monday morning. The next weekend AIG was taken over by the government.

He said that Morgan Stanley and Goldman Sachs have since transitioned to a traditional banking model. The investment banking model is gone. Leverage ratios have to come way down. Leverage helps when the market is in favor but hurts much more when it is not.

Ms. Billings stated that the President addressed the state of the economy on September 24, 2008.

Mr. Kuhn said that the quarter-to-date market performance surprisingly showed that financials were the best performers up 13% in the S&P even with all the bankruptcies. Bank of America was up 60%, with Wells Fargo up 69% and J.P. Morgan up 30%. The well run banking institutions are doing fine because they did not have any sub prime and were not over-leveraged.

Trustee Miller asked why the question of leverage was never addressed. Mr. Kuhn said that because they were buying AAA rated securities there was no concerns. He stated that the rating agencies should take responsibility because they rubber stamped these deals and did not understand what was packaged in them.

Mr. Kuhn said that energy was down 17% with the cost of oil dropping from \$140.00 per barrel to \$100.00 per barrel down 4½% to 5%. It is currently down 2% with a few days remaining until the end of the quarter.

Despite the bad news, they do not anticipate returns will be as bad as they were in the first quarter.

Northern Trust Securities Lending

Mr. Kuhn told the Board that he, Ms. Billings and Ms. Zimmermann participated in a conference call with Northern Trust regarding the securities lending program. Northern Trust provided a list of securities relationships by investment manager who short the securities.

He explained securities lending allows a company to short today and buy the security later at a cheaper price. The company will borrow the securities from Northern Trust who loans your shares today in exchange for collateral of 102% for domestic securities and 105% for international securities. When the company returns the security Northern Trust returns the collateral.

Northern Trust declared a collateral deficiency last Friday, September 19, 2008, on their short term investment account. This is generally safe with most issues going out ninety days, but they had one issue that was a Lehman Bond that went from the mid \$90's to 13¢. This resulted in them declaring a capital deficiency event.

Ms. Zimmermann stated that 99.02% of the securities were returned or repurchased. Mr. Kuhn said that when Lehman went bankrupt, Northern Trust recalled the securities but were unable to get the same securities back. Most of the securities were bought back with the collateral. However, it causes a problem for investment managers like Loomis Sayles and Munder who lent their securities and did not get them back. There is no way to know the impact.

Because they did not have enough money to pay back everyone and the last one out would have to bear the entire cost, they decided to allocate the shortfall to everyone in the pool. The loss was \$433,823.08 that was offset with a \$10,248.88 credit associated with the Lehman securities. It is an unrealized loss unless you exit the program. It is possible that the position could improve and may disappear over the next year.

Ms. Billings said that representatives from Northern stated that this is the first time in twenty-seven years that Northern Trust has declared a deficiency. She questioned whether they were negligent in their duties as a fiduciary. They were very guarded in their phone conversation and their answers.

Mr. Kuhn stated that Mellon/Bank of New York is going to pony up the money to make up the difference and make their investors whole. Perhaps they are setting a precedent. Ms. Billings said that Northern Trust would not commit and said it was a risky investment.

Ms. Zimmermann said that she was upset that they would refer to it as a risky investment now when it was originally portrayed as very safe. She pointed out that they take the system's securities and will share on the upside but not on the downside. At the minimum, they should not share on the upside until the investment is made whole.

Mr. Kuhn said that the \$12,000.00 might be a per month amount. He said that he has seen a lot of interest in shorting.

Trustee Cochran said that at another fund he was associated with, they used to insist on government agencies used as collateral.

Mr. Kuhn said they sent a message suggesting that there will be no revenue split until it has recovered. Ms. Billings said there is still a chance that they will be willing to cover the loss. Chairman Storum said that the system does not have a choice and cannot pull out. He recommended that Northern Trust is told that the system wants their money.

Ms. Billings said that the system can let them know that we are looking at the contract.

Core Plus / Indexing

Mr. Kuhn stated that Oppenheimer's portfolio went to core plus based on the fact that some of their securities fell below investment grade. They are asking for leniency because if they sold today it would be at fire sale prices. Chairman Storum recommended that they move forward.

REPORTS

Re: Chairman

Re: Secretary – None

Re: Trustees - None

Re: Staff

Document Storage Vendor

Ms. Zimmermann reported that she has received several quotes from vendors in reference to the document storage issue. She said that the initial cost to move the data would be approximately

\$400.00 with a \$60.00 to \$65.00 per month storage charge. The General Employees Retirement System has agreed to split the cost.

Change of October Meeting Date

Ms. Zimmermann stated that the Board approved a special meeting for the Police and Fire VEBA Board to be held on November 6, 2008. She also said that she will be attending the Institutional Investor Forum in New York held October 23, 2008 through October 24, 2008 per the Board's approval. She asked that the Board change the regular October meeting date to November 6, 2008 in conjunction with the Police and Fire VEBA special meeting.

RESOLUTION 08-062 By Miller, Supported by Cochran

Resolved, That the Board reschedule the regular October meeting on October 23, 2008 to November 6, 2008.

Yeas: 3 – Nays: 0

Disaster Recovery Plan/Document Imaging

Ms. Zimmermann said that she has been reviewing the information from the IFEBP to implement a disaster recovery plan and document imaging system. She is in the process of putting together an outline and timeline.

As part of the disaster recovery plan she is looking for a long-term backup solution. She said that the backup could be done over a network to a host server. She informed the Board that the City currently does not have an offsite facility where backup tapes are stored. She is also evaluating document imaging solutions that would allow for the data to be scanned electronically for online retrieval.

Ms. Zimmermann said that she sent an email to the MAPERS Administrator's Group and found that most of the administrators do not have a disaster recovery plan in place.

GRS Actuarial Database / Annuity Withdrawal

The Retirement Office requires the annuity withdrawal rates in the Gabriel, Roeder & Smith software be updated each year. GRS will no longer support or update the annuity withdrawal rates without a contract in place. Ms. Zimmermann said that she is meeting with Debbie Sorenson, formerly of GRS, on October 2, 2008 to see if she can provide a quick fix to update the annuity withdrawal rates. She said that she is looking to replace the GRS program.

Chairman Storum asked if there is a big difference in the annuity withdrawal recalculations. Ms. Zimmermann felt there may not be a lot of difference.

Ms. Billings said she has tried to revise the GRS contract. They will not change their stance on indemnification and the retirement system does not have a lot of leverage. Judy Kermans said that the account is too small to change the contract.

Trustee Miller suggested that Ms. Zimmermann contact the credit union to get details on the vendor they use for document imaging who does a great job.

Miscellaneous Articles

Ms. Zimmermann referred to an article contained in the agenda packet from the Government Accounting Office recommending that the Department of Labor be proactive and provide guidance for defined benefit plans on investing in hedge funds and private equity.

Another article was a review and comparison of a defined benefit plan versus a defined contribution plan.

The last article addressed legislation that was introduced to fix a public safety tax issue.

Capital Calls

Ms. Zimmermann said that there were a number of capital calls during the year. To insure that all the capital calls were ratified she asked that the Board ratify the attached list of capital calls.

RESOLUTION 08-063 By Cochran, Supported by Miller

Resolved, That the Board approve the capital calls as detailed on the attached list.

Yeas: 3 – Nays: 0

Disability Retiree Roy Johnson – Return to Work

Ms. Zimmermann said that Roy Johnson was cleared by the medical director to return to work. She contacted Human Resources and was told that Mr. Johnson will not be returned to active duty in the Police Department.

Chairman Storum asked if the Board has any responsibility to resolve the matter. There was discussion regarding the issue. Chairman Storum said that this has happened in the past. There was the question whether the member should continue to receive a disability pension benefit. Trustee Miller asked how the system can pay out a disability retirement for a member who is not disabled.

Chairman Storum asked if Larry Marshall had any rationale for his decision. Ms. Billings will research the matter.

Re: Legal

Fossil, Inc.

Ms. Billings reported that the mediation has been scheduled and both parties are proceeding through arbitration.

Gildan Activewear, Inc.

Ms. Billings reported that the Retirement System's Motion for Lead Plaintiff was approved on September 16, 2008.

Jarden Securities

Police & Fire Regular Meeting
September 25, 2008

Ms. Billings reported that the litigation is proceeding through discovery.

Maxim Integrated Products

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

UBS/AG Securities Class Action

Ms. Billings reported that the securities litigation matter has been closed.

United Rentals, Inc.

Ms. Billings reported that the parties have agreed to a \$27.5 million settlement. Coughlin Stoia is planning to ask the Court for an award of attorney fees in the amount of 25%. She asked whether any of the trustees would be interested in attending the hearing on corporate governance policies being held in Connecticut. She stated that Trustee Lee has attended the hearings in the past.

Chairman Storum asked if there is an advantage to being lead plaintiff or if the lead plaintiff gets a larger percentage of the settlement. Ms. Billings said that the only advantage is the ability to be involved in the litigation.

RESOLUTION 08-064 By Miller, Supported by Cochran

Resolved, That the Board authorize Trustee Brian Lee to attend the United Rentals Securities Litigation Corporate Governance Policy Hearing in Connecticut.

Yeas: 3 – Nays: 0

Bernstein Litowitz Portfolio Monitoring Report for the Second Quarter Ended June 30, 2008

Ms. Billings reported that these are the securities litigation filings for the second quarter of 2008. The report provides a list of class actions filed and the information necessary to file a proof of claim. She notified the Board that the annual conference is being held in October

CAPROC – See Consent Agenda

Proposed Asset Disposition Policy

Ms. Billings reviewed a draft of the asset disposition policy. She said that the first step the retirement system needs to address is removing the system's assets from the City's balance sheet. She recommended that a letter be drafted and sent to the Finance Director to address the issue.

Per Public Act 314 the trustees are required to administer all assets of the retirement system in a prudent manner. The policy states that when disposing of old assets an appraisal will be obtained from an independent company to determine the value of the assets. An advertisement will be placed in the local newspaper. If the assets are not sold they will be donated or otherwise disposed.

RESOLUTION 08-065 By Miller, Supported by Cochran

Resolved, That the Board approve the Asset Disposition Policy as presented and a letter be sent to the City's Finance Director addressing the issue.

Yeas: 3 – Nays: 0

Miscellaneous Articles

Ms. Billings stated that the attached articles are for the trustees' information. The topics of the articles included a press release from the IRS regarding a survey sent to forty pension funds. The IRS will broaden the scope and include more than 200 pension funds in the survey. There is also an interesting article regarding the monitoring of securities litigation with the Seventh Circuit Court mandating that institutional investors have policies and procedures in place to monitor securities class actions where they have a financial interest or viable claim.

Re: Union Representatives - None

NEW BUSINESS

Deferred Compensation Presentation

Chairman Storum informed the Board that Advanced Capital is a financial planning and deferred compensation firm. He said that John Dean from Advanced Capital conducted a session at the MAPERS Conference. They will be holding a meeting for the firefighters that are interested in becoming active in deferred compensation. He extended the invitation to others who might be interested. He said he would contact the Retirement Office with the date.

Re: Change of October Meeting Date – See Staff Report

UNFINISHED BUSINESS

Re: Actuarial Software Search/Document Storage – See Staff Report

Re: Disability – Amend Rules & Regulations – Remove

SCHEDULING OF NEXT MEETING

Regular Meeting on November 6, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

ADJOURNMENT

RESOLUTION 08-066 By Miller, Supported by Storum
Resolved, That the meeting be adjourned at 11:51 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 September 25, 2008.

Raymond Cochran, Secretary

As recorded by Jane Arndt