

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SEPTEMBER 28, 2005**

A regular meeting of the Board of Trustees was held on Wednesday, September 28, 2005 at the Shrine Room Main level, City Hall 47450 Woodward Ave., Pontiac, Michigan. The meeting was called to order at 1:30 p.m.

TRUSTEES PRESENT

Eugene White, Chairman
Kevin Williams
Ed Hannan, Secretary
Charlie Harrison, III

Larry Marshall
Javier Saucedo
Paulette Poehlman

Debra Woods (*arrived 1:42 p.m.*)
Shirley Barnett (*excused*)
Robert Giddings (*excused*)
Mayor, Willie Payne (*absent*)

OTHERS PRESENT

Laurance Gray, Gray & Company
Andrew Kelsen, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda – September 28, 2005

- A. Minutes of Special Meeting: August 23, 2005
- B. Minutes of Regular Meeting: August 24, 2005
- C. Communications:
 - 1. Correspondence from Gary Webster RE: Customer service
 - 2. Correspondence from Julius Baer RE: August 2005 Commentary
 - 3. Correspondence from Julius Baer Acquisitions
 - 4. Correspondence from ChrisKen RE: Distribution
- D. Financial Reports:
 - 1. Financial Reports – August 2005
 - 2. Securities Lending Report – July 2005
 - 3. Commission Recapture Report – June 2005

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| 4. Accounts Payable: | | |
| a. ADP | | \$ 2,036.19 |
| b. American Arbitration Assn. | | \$ 1,191.71 |
| c. City of Pontiac | | \$ 1,674.08 |
| d. Gabriel, Roeder, Smith & Co. | | \$13,800.00 |
| e. Gray & Co. | | \$ 8,014.17 |
| f. Ikon | | \$ 311.61 |
| g. Mesirow Financial | | \$36,126.15 |
| h. Office Depot | | \$ 24.47 |
| i. Sullivan, Ward, Asher & Patton (CAPROC) | | \$ 4,065.09 |
| j. Visa | | \$ 1,815.23 |
- E. Retirements, Refunds, Final Calculations, Re-Examinations
1. Remove from the Rolls:
 - a. Pauline Bond (deceased 08-18-05)
 - b. Joanne Williams (deceased 08-12-05)
 - c. Annie Blair (deceased 08-17-05)
 2. Application for Service Retirement:

a. Larry Beers Local 2002	31 years, 1 months	Age 50
b. Enrique Colon-Morales – Local 2002	11 years, 0 months	Age 62
c. Leonard Dorey – Hospital	3 years, 10 months	Age 60
d. Portia Fields-Anderson – Non union	21 years, 5 months	Age 58
e. Linda Hickey – Hospital	2 years, 4 months	Age 60
f. Theresa Vasquez – Non union	25 years, 0 months	Age 50 (off deferred)
 3. Final Pension Calculations:

a. Thomas Saunders	#2196	7,281.92
b. Wayne W. Belback	#2250	6,561.29
c. Kerry Reid	#2253	5,013.23
d. Janice Gaffney	#2259	4,528.97
e. Patrick Rederstorf	#2274	3,759.67
f. Bernard Slumkoski	#2280	2,179.68
g. Leonard Dorey	#2302	397.98
h. Linda Hickey	#2304	120.83
 4. Request to Rescind Application for Retirement:
 - a. Portia Fields-Anderson
 5. Request to Change Effective Date of Retirement:
 - a. Richard Hahn
 - b. Ester Jiminez
 - c. Paulette Poehlman
 - d. Paulette Poehlman
 6. Disability Re-Examination
 - a. Ralph Smith

RESOLUTION 05–121 By Harrison, Supported by Hannan
 Resolved, That the consent agenda for September 28, 2005 be approved as presented.

Yeas:7 – Nays: 0

CONSULTANTS

Re: Sullivan Ward Asher & Patton – CAPROC Update

RESOLUTION 05–122 By Hannon, Supported by Poehlman
Resolved, That the Board of Trustees approve the minutes from the closed session held on August 24, 2005.

Yeas: 7 – Nays: 0

RESOLUTION 05–123 By Williams, Supported by Saucedo
Resolved, That the Board of Trustees go into closed session to discuss pending litigation with CAPROC, LLC., et al.

Moved to Closed Session at 1:35 p.m.

Roll Call

Eugene White, Chairman – yea
Paulette Poehlman - yea
Charlie Harrison, III - yea
Larry Marshall - yea

Ed Hannan, Secretary - yea
Javier Saucedo - yea
Kevin Williams - yea

Debra Woods arrived at 1:42 p.m.

Returned from Closed Session at 1:56 p.m.

RESOLUTION 05–115 By Harrison, Supported by Saucedo
Resolved, That the Board of Trustees refer the offer to special council for further review and to get additional information including ability to have independent valuation.

Yeas: 8 Nays: 0

Ms. Billings left at 1:58 p.m.

Re: Gray & Company – Asset Allocation/Manager Review

Mr. Gray reviewed the status of the transition from NEPC and their analysis of the fund.

Chrisken Liquidation

A check for \$419,000 was received from ChrisKen, proceeds from property sales. The correspondence from ChrisKen indicates the liquidation of properties is going well.

Securities Lending

Mr. Gray stated that securities lending income is currently approximately \$9,100/month and is forecast to be \$110,000 for the year. This is a reasonable level.

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Commissions

Current commissions are averaging 3¢ per share which is good. On large transitions they feel they can do better, possibly as low as .75¢ per share.

Manager Fees

After reviewing manager fees Mr. Gray believes that overall, fees for the System's investment managers are in line with those of their peers. Kennedy Capital is high at 100 basis points, however, considering performance net of fees, this level is acceptable. Up to this time, Kennedy has had a flat fee. Mr. Gray contacted Kennedy and requested a breakpoint in fees where they will be reduced over a set level of assets under management. Kennedy provided a schedule to accomplish this that he presented to the Board.

Julius Baer, with fees at 66 basis points has a great fee schedule, given their performance. Overall, the fees for investment management are appropriate.

Asset Allocation

Mr. Gray explained that studies have shown that over 90% of portfolio performance is attributed to asset allocation. The actuary uses long-term thinking (30 years) where they look at shorter periods (5-10 years) for asset allocation purposes. Overall, the portfolio looks good although there are areas where it can be fine-tuned. He discussed the proposed changes as outlined in the Asset Allocation Analysis book provided in the agenda materials.

Proposed Asset Allocation:

5%	High Yield
20%	Domestic Fixed Income
5%	Non-US Fixed Income
5%	Real Estate
25%	U.S. Large Cap
20%	U.S. Mid Cap
10%	International Equity
10%	U.S. Small Cap

Trustee Poehlman left at 2:15p.m.

Trustee Saucedo left at 2:16 p.m.

Trustee Marshall left at 2:17 p.m.

Mr. Gray explained that stocks historically out perform bonds over time. There is an inverse relationship between interest rates and bond prices. As interest rates increase bond prices will decline. Interest rates are rising and are expected to be 4 or 4-1/4 percent by year-end. Mr. Gray advocated reducing fixed income from 31% to 20% to avoid low or negative rates of return.

He explained that the global fixed income manager, Capital Guardian, includes U.S. investments and suggested that since the Board has an allocation to domestic fixed income it would be more

efficient to invest in international fixed income that does not include U.S investments. He said they will obtain fees for international versus global from Capital Guardian, noting that Capital Guardian has had better returns on international than on global on a net of fee adjusted basis.

Trustee Poehlman returned at 2:18p.m.

Trustee Saucedo returned at 2:19 p.m.

Mr. Gray also pointed out that the fund currently does not have a mid-cap manager. He explained that large and small-cap can accidentally cover mid-cap by capitalization and style drift. He opined that the fund needs a true mid-cap manager. Small cap has done well, but those returns will begin to pare down.

Private equity return run from 11.6% upwards to 40%, however, he felt that if you can reach your target rate of return without the significant risk associated with this asset class, you should refrain from long-term contracts in private equity.

Mr. Gray emphasized that trustee diligence is important and that Gray & Company are here to help and answer all questions. He stressed that the trustees should make informed decisions.

Overall, Mr. Gray felt that the portfolio is generally well structured, but questioned the use of a conservative high-yield manager. He stated that the current high-yield manager was lagging the benchmark. Trustee Harrison agreed with the assessment. Mr. Gray felt that the fund did not have a true high-yield manager and asked the Board to consider replacing the conservative high yield mandate with true high yield.

Trustee Harrison asked Mr. Gray for his suggestions for real estate. Mr. Gray said that the rate of return on core real estate was at 9-10%. He suggested using a high quality core real estate manager, not a REIT because REITS are highly correlated with small cap stocks

Mr. Gray said that they will pay attention to efficiencies before making any adjustments. Trustee White asked if the Board should change manager allocations. Mr. Gray replied that Munder and Oppenheimer are equally almost weighted and but can be reallocated.

He questioned why Oppenheimer has been retained given their poor performance and suggested considering them for termination.

Trustee Marshall returned at 2:25 p.m.

Trustee Harrison inquired about expected returns. Mr. Gray replied that the current target asset allocation is predicted to produce an annual return of 6.89% with average annual risk of 7.87%. The recommended asset allocation would be expected to produce an average annual return of 7.54% with average annual risk of 7.54%.

Discussion followed by the Board regarding the timeframe and plan for implementing the adjustments to the asset allocation. Mr. Gray indicated that if the Board adopted the

recommended asset allocation, he would bring a proposed work plan for the changes to the next meeting. He summarized the recommendations:

- Consider replacing global fixed income with international fixed income to eliminate the overlap with active domestic fixed income
- Decrease active fixed income from 31% to 20%
- Decrease large cap from 30% to 25%
- Decreased global fixed income from 8% to 5%
- Add mid cap up to 20%

RESOLUTION 05–124 By Harrison, Supported by Hannan

Resolved, That the Board of Trustees adopt consultant’s recommendations for the asset allocation:

5%	High Yield
20%	Domestic Fixed Income
5%	Non-US Fixed Income
5%	Real Estate
25%	U.S. Large Cap
20%	U.S. Mid Cap
10%	International Equity
10%	U.S. Small Cap

Yeas: 8 – Nays: 0

Manager Reviews – September 2005

Andrew Kelsen discussed the Manager Review book explaining that the trustees should use it like an owner’s manual.

Trustee Woods left at 2:42 p.m.

He reviewed the standardized format of the book illustrating highlighting the percent of portfolio managed, performance, core philosophy, company history and compliance standards.

Trustee Woods returned at 2:44 p.m.

Mr. Gray pointed out that composite numbers/performance by manager in this book may be different than actual returns. He also encouraged the Board to call if they have any questions.

Trustee Harrison was well pleased with the consultant’s layout of information. He also commented on how the Board should not be “married” to individual managers.

RESOLUTION 05–125 By Saucedo, Supported by Harrison

Resolved, That the Board of Trustees receive and file the Asset Allocation and Manager Reveys reports.

Yeas: 8 – Nays: 0

REPORTS

Re: Chairman – None

Re: Secretary – None

Re: Trustees / Committees

Real Estate Committee – None

Personnel Committee

Trustee Poehlman recommended that Jane Arndt be made a permanent employee of the Retirement Office. The Board discussed the process for personnel changes. Ms. Zimmermann stated that this was simply a recommendation by the Personnel Committee. Trustee Poehlman said that she was told to make the recommendation by committee. Trustee Marshall stated that the department head has the right to hire whoever he wants for the position. Tom Michaud commented that this was a statement letting the Board know that the Personnel Committee has reviewed Ms. Arndt's performance and recommended that she be made permanent.

RESOLUTION 05–126 By Harrison, Supported by Saucedo
Resolved, That the Board of Trustees receive and concur with the Committee's recommendation.

Yeas: 8 – Nays: 0

Re: Administrator

Request for Computer Replacements

Ms. Zimmermann presented a request to replace the current computer systems along with a recommendation from the IT Department. She informed the Board that in the past several weeks two members of the staff have experienced complete hard drive failure with their computers. Ms. Zimmermann further explained that the IT Department has stated that since all the computers in the Retirement Office are of identical design, there is a strong likelihood that the other computers in the office will soon fail. It was further communicated that given their age and the fact that the computers are out-of-warranty, the IT Department has suggested that the computers be replaced.

IT provided a verbal quote of \$1,400 per computer, which includes the current standard/ configuration recommended by the City of Pontiac/IT Department. The quote also included DVD burners which will assist the Retirement Office in their attempt to move toward a disaster recovery system.

RESOLUTION 05–127 By Hannan, Supported by Lee

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Resolved, That the Board of Trustees approve the purchase of replacement computers for the Retirement Office staff that meet City of Pontiac specifications.

Yeas: 8 – Nays: 0

Kennedy Capital Fee Schedule

Ms. Zimmerman informed the Board that the new fee schedule from Kennedy Capital was received to reflect the sliding scale negotiated by the consultant.

RESOLUTION 05-128 By Hannan, Supported by Saucedo

Resolved, That the Board of Trustees authorize the chairman to accept amended Kennedy Capital fee schedule.

Yeas: 8 – Nays: 0

Re: Legal

Union Representatives - None

UNFINISHED BUSINESS:

Re: Ordinance Clean-up

The administrator and attorney will meet to extract language to comply with the IRS requirements for tax qualification if any.

Re: Employee Trustee Special Election - None

NEW BUSINESS

Re: Credit Union CD Renewal

The request was made to the Board of Trustees to renew the \$100,000 Certificate of Deposit and deposit the earnings into the cash manager account. The new rate was 3.75%.

Resolution 05-129 By Poehlman, Supported by Hannan

Resolved, That the Certificate of Deposit in the amount of \$100,000 be renewed for one year at Municipal & Health Services Credit Union.

Yeas: 8 – Nays: 0

Re: Customer Satisfaction Survey

Ms. Zimmermann commented that the Personnel Committee met and edited the Member Survey she drafted. She asked the Board to review and approve the survey draft. She also noted it will be necessary to order additional supplies to send out the member surveys.

Resolution 05=130 By Saucedo, Supported by Poehlman

Resolved, That Board of Trustees approve the distribution of the customer satisfaction survey to members including active, retired and deferred members of the System.

Yeas: 8 – Nays: 0

PUBLIC DISCUSSION

Debra Woods requested to use her trustee credit card to make her airline and hotel reservations to attend the Super Bowl of Indexing conference in Scottsdale, Arizona. She informed the Board that her expenses would be reimbursed by the conference sponsor, IMN, per Ed Taylor of Alpha Capital Partners.

RESOLUTION 05–131 By Hannan, Supported Poehlman

Resolved, That the Board approve Debra Woods to use her VISA to make arrangements for the Super Bowl of Indexing conference and be reimbursed by IMN.

Yeas: 8 – Nays: 0

Trustee Poehlman made an inquiry regarding Joseph Babin’s disability re-evaluation. Ms. Zimmermann said she would follow up and provide an answer as to when he was to be re-examined.

SCHEDULING OF NEXT MEETING

Regular Meeting: October 26, 2005 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 05–132 By Saucedo, Supported Woods

Resolved, That the meeting be adjourned at 3:05 p.m.

Yeas: 8 – Nays: 0

I certify that the foregoing is true Minutes of
the General Employees Retirement System
held on September 28, 2005.

Ed Hannan, Secretary
As recorded by Jane Arndt