

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
FEBRUARY 22, 2006**

A regular meeting of the Board of Trustees was held on Wednesday, February 22, 2006 at the Shrine Room Main level, City Hall 47450 Woodward Ave., Pontiac, Michigan. The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

Eugene White, Chairman
Ed Hannan, Secretary
Shirley Barnett
Devin Scott
Larry Marshall (*arrived 2:23 p.m*)

Robert Giddings
Debra Woods
Kevin Williams
Javier Saucedo

Mayor, Clarence Phillips (*absent*)
Kone Bowman (*excused*)

OTHERS PRESENT

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

Re: Sullivan Ward Asher & Patton – CAPROC Update

RESOLUTION 06-018 By Woods, 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 1:36 p.m.

Returned from closed session at 1:57 p.m.

RESOLUTION 06-019 By Hannan, Supported by Saucedo
Resolved, That the Board of Trustees approve the minutes from the closed session held on January 25, 2006.

Yeas: 8 – Nays: 0

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda – February 22, 2006

- A. Minutes of Regular Meeting: January 25, 2006
- B. Communications:
 - 1. Correspondence from Julius Baer RE: CIO Quarterly Letter
 - 2. Correspondence from Julius Baer RE: 4th Quarter Commentary
 - 3. Correspondence from Capital Guardian RE: Review & Outlook
 - 4. Correspondence from Munder Capital RE: Tal Gunn Resignation
 - 5. Correspondence from GERS Board RE: Proposed Asset Transfer
 - 6. Conferences:
 - a. Washington Legislative Update – IFEBP – May 22-24, 2006
 - b. Investments Institute – IFEBP – April 24-26, 2006
- C. Financial Reports:
 - 1. Financial Reports – January 2006
 - 2. Securities Lending Report – December 2005
 - 3. Commission Recapture Report – December 2005
 - 4. Accounts Payable:
 - a. ADP \$1,879.83
 - b. C2 Legal 148.96
 - c. Comerica (WAM) 5,307.29
 - d. Gabriel, Roeder, Smith & Co. 475.00
 - e. Gray & Co. 8,104.17
 - f. Ikon 113.39
 - g. Kennedy Capital 55,346.00
 - h. Loomis Sayles 40,560.77
 - i. Mellon Global Securities 54,357.66
 - j. Mesirov Financial 37,219.54
 - k. Munder Capital 32,649.00
 - l. Office Depot 183.77
 - m. Oppenheimer Capital 65,420.78
 - n. Pastries by Ellen 158.30
 - o. Sullivan, Ward, Asher & Patton (CAPROC) 6,638.82
 - p. VanOverbeke, Michaud & Timmony 5,642.00
- D. Retirements, Refunds, Final Calculations, Re-Examinations
 - 1. Remove from the Rolls:
 - a. Elizabeth Bazile (deceased 01-11-06)
 - b. Glen Carter (deceased 01-27-06)
 - c. Betty Ford (deceased 01-24-06)
 - d. Doris Jehle (deceased 02-04-06)
 - e. Martina McQuillan (deceased 01-22-06)
 - f. Isabel Rhimes (deceased 02-14-06)
 - 2. Application for Service Retirement:
 - a. Patricia Carra – NOMC 4 years, 8 months Age 60
 - b. Terry Schiele – Teamsters 214 30 years, 10 months Age 50

- | | | |
|-------------------------|---------------------|--------|
| c. Fonda Sigmann - NOMC | 22 years, 10 months | Age 55 |
|-------------------------|---------------------|--------|
3. Final Pension Calculations:
 - a. Gerald Jennings #2201 5,715.83
 - b. Billie Swazer #2210 3,730.70
 - c. Michael Chapman #2249 2,876.64
 - d. Judy Storum #2267 2,954.14
 - e. Patricia Carra #2276 279.13
 - f. Portia Fields-Anderson #2284 3,454.30
 - g. Ester Jiminez #2287 3,153.38
 - h. William Martinez #2292 2,768.25
 - i. Larry Beers #2303 3,658.39
 - j. MaryKutty Thomas #2309 2,531.04
 - k. Early Jones #2323 5,616.49
 - l. Fonda Sigmann #2329 1,826.94
 4. Request to Change Effective Date of Retirement:
 - a. Richard Hahn (2)
 5. Re-Deposit of Accumulated Contributions (revised)
 - a. Alma Moore \$11,071.43 4 years, 11 months restored

RESOLUTION 06-020 By Hannan, Supported by Saucedo
 Resolved, That the consent agenda for January 25, 2006 be approved as presented.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: VanOverbeke, Michaud & Timmony – Securities Litigation

Re: Gray & Company – 4th Quarter Performance Review

Mr. Gray reviewed the macro-economics for the 4th quarter of 2005 saying that despite the chaos due to Hurricane Katrina and sharp jumps in energy prices, growth was much higher than expected. Increased capital spending was attributed to the growth in the economy. Unemployment was 4.9% at year-end with job creation strong in 2005 including higher-paying positions.

He also pointed out that consumers represented 2/3 of the GDP for the U.S. spending \$39 billion more than they earned. This resulted in negative credit earnings for the quarter.

Mr. Gray said that when the economy is coming out of a recession you see small-cap performing better first and then as the economy matures mid-cap then lastly large-cap realizes improved performance. Currently more mature companies are doing well. In the 3rd and 4th quarters large-cap began to come back. He stated that growth stocks are now coming into favor.

Trustee Barnett asked why GM and Chrysler are not performing well. Mr. Gray said that there are a number of reasons why including legacy costs, management, materials and maintenance costs.

Mr. Gray stated the S&P 500 firms did exceptionally well in the 4th quarter with double digit profit gains of 13%. He also stated that the index has reported 15 consecutive quarters of double-digit earnings. He commented that managers with experience did well.

Mr. Gray pointed out that interest rates were raised twice during the quarter, however, nominal interest rates remained low. The Federal Reserve is expected to continue to raise interest rates during the first quarter of 2006. He emphasized that the May meeting of the Federal Reserve will be the first real meeting for Chairman Bernanke following Alan Greenspan's departure. Economists have expressed a level of uncertainty regarding Chairman Bernanke's first recommendations.

Mr. Gray then discussed the international equity market with the Board. He pointed out that China has intentionally under reported growth numbers to the world trying to avoid a trade war. They have reported growth at 9% when their growth has been closer to 10%-13% due to their 30% growth in exports. China's current GDP is \$2.2 trillion, larger than both Great Britain and France combined. He also compared China's GDP to the European Union which consists of 25 countries who reported a total GDP of \$11.5 trillion with growth at 2%. Growth for the U.S. was 3.6% with Japan at 1.9%. China is presently absorbing a huge percentage of the world's resources. Current estimates show them utilizing 60% of the world's concrete and 50% of the world's steel.

Mr. Gray reviewed the summary of the manager performance for the quarter. He stated that the total plan one-year numbers were good at 5.4% given the hurricane and the war in Iraq. He also commented that the three-year numbers at 11.6% and the five-year numbers at 5.2% (including the tech bubble) were great risk adjusted returns.

GE Asset Management's underperformance for the last quarter of 2005 was attributed to poor stock selection. Their long-term performance is also below the benchmark with their one-year numbers ranked in the 90th percentile out of 327 managers.

Oppenheimer is coming back outperforming the benchmark in the fourth quarter. Their performance was due to their stock selection and overweighting in consumer discretionary and financials. For the quarter their performance ranked in the 11th percentile.

Mesirow slightly underperformed the benchmark in the 4th quarter due to underweighting in financials and industrials. However, their long-term performance continues to be ahead of the benchmark.

Loomis, Sayles & Company's performance continues to be good and consistent.

Kennedy Capital was down for the quarter, but their one-year performance was solid at 9.5% and ranked in the 14th percentile.

Julius Baer underperformed both the EAFE and the international equity manager due to low weighting in Japan.

Fixed income performance was aggressive for Oppenheimer and Munder and was attributed to their high quality portfolios.

Seix Advisors being a high quality high yield bond manager will never keep up with the benchmark due to their inability to invest in CCC rated bonds like their peers.

Capital Guardian was overweighted in U.S. for the quarter which was a positive performer. However, their one-year numbers at -3.8% were not pretty. Mr. Gray explained that they need to add global diversification. He commented that their three-year performance at 7% looks good. However, he wondered if their allocation was worth it after his conversation with Capital Guardian.

He told the Board that they would continue to watch Cap Guardian and Seix Advisors.

Mr. Gray concluded the manager analysis with ChrisKen stating that they are currently in the liquidation and distribution phase. He told the Board that the total amount owed is \$4.3 million.

Lastly, Mr. Gray remarked that the portfolio is doing well due to domestic equity performance. He continued by commenting that the portfolio is not taking lots of risk and that there are no inherent problems. He will setup a meeting with GE Asset Management to see what they are actually doing.

Trustee Saucedo asked how the GERS fund ranks compared to peers. Mr. Gray stated that the average funds performed at 2.1% for the quarter with the GERS fund performance at 1.7%. However, he commented that it is difficult to do a fair comparison given the current asset allocation distribution. He stated that he will provide comparisons at the next meeting.

Trustee Hannan mentioned that it would be helpful to add more detail on the manager analysis showing the manager hire date. He also commented that GE may have an issue with their style. Mr. Gray replied saying they would look at them, check their process to determine if they were out of zone. Trustee Hannan added that he uses the details on the manager analysis as a cheat sheet.

Trustee Marshall arrived at 2:23 p.m.

REPORTS

Re: Chairman – None

Re: Secretary - None

General Employees Retirement
Regular Meeting, February 22, 2006

Re: Trustees / Committees

Real Estate Committee – None

Personnel Committee - None

Re: Administrator

Ms. Zimmermann referred to a document in the agenda sent by Councilman Bowman where he requested information on rehired retirees.

Re: Legal

None.

Re: Union Representatives - None

UNFINISHED BUSINESS

Re: Rebalancing Plan for Mid-Cap Funding

Mr. Gray stated that at last month's meeting he did not address the rebalancing and the transferring of monies to fund the mid-cap growth and value managers Munder Capital and Systematic Financial Management.

There was discussion regarding where the money to fund the new mid-cap managers Munder Capital and Systematic should come from. It was felt that despite Oppenheimer's three month performance numbers, that long-term they had been the weaker manager. The Board determined that they would use the assets from Oppenheimer to fund the mid-cap portfolio. Mr. Gray remarked that Oppenheimer had not been formally terminated. He also stated that the fund still needs large cap exposure. He looked at the large-cap portfolio evaluating Mesirov and Oppenheimer. He felt that both managers still had value, but felt that Oppenheimer had altered their investment style.

RESOLUTION 06 -021 By Barnett, Supported Hannan

Resolved, That the Board of Trustees terminate Oppenheimer Capital Equity and fund the rebalancing of the mid-cap growth and mid-cap value portions of the portfolio.

Yeas: 9 – Nays: 0

Re: Grievance Memos

Ms. Zimmermann re-informed the Board that she had not been able to meet with Mr. Marshall to discuss the issue due to his busy schedule.

Re: Ordinance Cleanup - None

Re: Annual Committee Review – Postponed to March

NEW BUSINESS

Re: GVEBA Employee Trustee

Chairman White informed the Board that the General VEBA Board has a vacancy that needs to be filled. Ms. Zimmermann explained that this trustee is elected by the employee trustees of the GERS Board. After brief discussion, Devin Scott was nominated to the General VEBA Board of Trustees.

RESOLUTION 06 -022 By Hannan, Supported Woods

Resolved, That the Board of Trustees appoint Devin Scott to the General VEBA Board of Trustees.

Yeas: 3 – Nays: 0

Roll Call:

Marshall – yea

Woods – yea

Scott - yea

Re: Medical Director

Tom Michaud addressed the Board telling them that they need to review the resumes in the agenda and appoint a new medical director. He opened the topic for discussion.

Trustee Giddings asked if Ms. Zimmermann had met with the candidates. She replied no, but that the Board had worked with both firms. She said that their service had been considered good. She asked if the Board wanted to bring them in for an interview process.

Trustee Hannan asked if Dr. Campbell was currently working or going to school. He also felt that Dr. Chiodo has more experience. He didn't feel he could get a good sense of Dr. Campbell's experience working with pension systems. Chairman White asked if there was a need for a committee. Trustee Hannan asked if Ms. Zimmermann could get more information.

Tom Michaud recommended that the Board not select a doctor that does worker's compensation for the City.

Trustee Giddings asked who Police & Fire uses. Ms. Zimmermann replied that they use Dr. Roth from the University of Michigan. She also commented that he is in Ann Arbor and currently only schedules appointments on Wednesdays. She felt that sending people to Ann Arbor instead of Southfield and limiting them to Wednesday appointments could become a problem.

Trustee Giddings left the meeting at 2:39 p.m.

Trustee Hannan asked if references were received with the resumes.

Mr. Michaud stated that there are limited firms that provide the type of service the Board is looking to acquire. He said it is important that the doctor has resources and an understanding of your system. He commented that these are issues of a sensitive nature and that the Board needs a doctor who understands their policies and processes.

It was determined that the Medical Director's Committee of Chairman White, Trustee Hannan and Trustee Scott would meet with the candidates before March 28, 2006.

Trustee Giddings returned at 2:44 p.m.

Re: Ethics Policy Review

Tom Michaud provided the Board with the latest headline illustrations of worse case scenarios where public pension boards had found themselves in a position of impropriety. He briefly explained to the Board that there is an ethics policy in place. He stated that it is important for the Board to review and understand the policy. He also stressed that it is important for the trustees to understand that there are expectations and a code of conduct that should be put into practice.

Trustee Williams asked who represents or talks for the Board if there is an inquiry from the press. Mr. Michaud replied that specific questions should be submitted to the Chairman in writing. He continued by saying that any questions regarding investments should be directed to the consultant.

Trustee Williams made specific reference to a newspaper article referring to trustee travel that had been printed in the Oakland Press. He pointed out that it made the Board look bad and questioned where the information came from. Mr. Michaud referenced the Open Meeting Act stating that Board business is a matter of public record. He again commented that trustees need to take their behavior into consideration and remember that they are acting on behalf of the Board. It only takes one trustee to reflect badly on the entire Board. The Board is acting in a fishbowl of public scrutiny. If there is any doubt, a trustee should disclose to the full Board.

Trustee Williams again asked who speaks for the Board and if there is protocol in place. Mr. Michaud replied that all inquiries need to be processed through the Chair in writing which will give the Board more control over the process. He again stated that there are procedures in place.

There was discussion regarding previous comments to the press regarding the Board. It was stressed that it reflects poorly on the Board.

Trustee Williams asked if there are parameters or a process regarding who can attend conferences and seminars. Administrator Zimmermann replied that trustees or staff who receive a certificate showing their attendance and participation have a degree of protection. She also mentioned that she and her staff are required to write a brief summary when returning from a conference or seminar. Trustee Williams opined that trustees should have to attend meetings regularly and if they do not, they should not be able to attend conferences.

Mr. Michaud asked the Board about their expectations of an ethics policy. He recommended transparency and full disclosure. Trustee Hannan remarked that the policy needs more

parameters and that he feels vendor dinners, etc. need to be disclosed. Mr. Gray commented that one of his clients goes around the table to briefly disclose who met with managers and what was discussed during the Board Meeting. Discussion followed regarding potential changes to the policy.

Re: Reappointment Letter of Recommendation

Ms. Zimmermann told the Board that Trustees White and Trustee’s Saucedá’s terms will terminate in March and it is customary for the Board to send a letter of recommendation to reappoint the current trustees to the City Council. There was discussion regarding whether this was necessary or required. Tom Michaud explained that it has always been done.

RESOLUTION 06 -023 By Barnett, Supported Hannan

Resolved, That the Board of Trustees send a letter to Council recommending the reappointment of Trustee White and Trustee Saucedá.

Yeas: 6 – Nays: 3 – Abstained: 2

Roll Call:

White – yea	Barnett – yea
Giddings – yea	Sauceda – yea
Scott – yea	Williams – abstained
Hannan – yea	Marshall - nay
Woods - abstained	

PUBLIC DISCUSSION

None.

SCHEDULING OF NEXT MEETING

Regular Meeting: March 29, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06 -024 By Saucedá, Supported Barnett

Resolved, That the meeting be adjourned at 3:13 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing is true Minutes of the General Employees Retirement System held on February 22, 2006.

Ed Hannan, Secretary
As recorded by Jane Arndt