

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
APRIL 25, 2007**

A regular meeting of the Board of Trustees was held on Wednesday, April 25, 2007 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342, The meeting was called to order at 1:45 p.m.

TRUSTEES PRESENT

Shirley Barnett	Devin Scott
Koné Bowman	Kevin Williams
Charlie Harrison, Chairman	Debra Woods
Javier Saucedo, Vice Chair	Andrea Wright

TRUSTEES ABSENT

Raymond Cochran (*absent*)
Robert Giddings (*excused*)
Mayor, Clarence Phillips (*absent*)

OTHERS PRESENT

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

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting: March 28, 2007
- B. Communications:
 - 1. Correspondence from Julius Baer Re: First Quarter 2007 Commentary
 - 2. Conference Information:
 - a. Program for Advanced Trustee Studies – NCPERS – July 26-27, 2007
- C. Financial Reports
 - 1. Financial Reports – March 2007
 - 2. Commission Recapture – February 2007
 - 3. Accounts Payable:

a. ADP	\$2,307.47
b. City of Pontiac	1,674.08
c. ES&S	933.49
d. Gray & Co.	8,104.17
e. ICMA	425.00
f. Ikon	208.52
g. Julius Baer	86,158.05

h. Kennedy Capital		59,840.00
i. Loomis Sayles		39,442.04
j. Mellon Global Securities		38,394.97
k. Northern Trust		12,834.89
l. Office Depot		51.85
m. Peritus Asset Management		88,110.79
n. Plante Moran		500.50
o. Pontiac Coffee		18.20
p. Sullivan, Ward, Asher & Patton		5,709.50
q. Systematic		61,612.22
E. Retirements, Refunds, Final Calculations, Re-Examinations		
1. Remove from the Rolls:		
a. Barbare Strohm (deceased 04-03-07)		
b. Wanda Doolin (deceased 03-28-07)		
2. Final Pension Calculations:		
a. Linda Watson	#2255	4,066.47
b. Claude Williams	#2273	4,172.67
c. Walter Schaffner	#2360	2,827.59
d. Patricia Frase	#2365	572.79
e. Lance Payton	#2369	2,502.58
4. Disability Re-Examinations:		
a. Barbara Morgan		

RESOLUTION 07-034 By Saucedo, Supported by Williams
 Resolved, That the consent agenda for March 28, 2007 be approved as amended.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – CAPROC Update

Mr. Tompkins reported that the last determination has been completed for the final settlement document. The Police and Fire Retirement System will be approving their settlement document at Friday’s meeting. The settlement document will be executed by the General Employees Retirement System on Monday, April 30, 2007. The wire transfer to Sullivan Ward will be processed on Monday afternoon.

Mr. Tompkins distributed a joint statement for the Board’s approval. He said now that the final documents have been approved he would like to issue a joint statement for a press release from both Boards. He said it has been reviewed by both systems’ counsel.

Chairman Harrison said that he would not be available on Monday, April 30 to approve the document. He asked that the Board appoint Vice Chair Javier Saucedo to approve the document in his absence

RESOLUTION 07-035 By Bowman, Supported by Scott
Resolved, That the Board appoint Vice Chair Javier Saucedo to approve the CAPROC, LLC final settlement document.

Yeas: 8 – Nays: 0

RESOLUTION 07-036 By Wright, Supported by Scott
Resolved, That the Board approve the joint statement for a press release regarding the CAPROC, LLC litigation.

Yeas: 8 – Nays: 0

Mr. Tompkins left at 1:50 p.m.

Re: Gray & Company – Commission Recapture/Directed Brokerage

Mr. Gray reported that the commission recapture policy needs to be redrafted. It has not been changed since May 28, 2004, when NEPC was the consultant for the fund. There have been a lot of trading and brokerage policy improvements that have changed the industry. In the past a trade could cost 15¢ to 20¢ per share, later decreasing to 3¢ to 4¢ per share. Today a trade costs 1¢ or less per share which leaves little for commission recapture. The policy needs to be updated including language referring to Michigan and minority based firms.

Oppenheimer Update

Mr. Gray said that he met with Gerald Thunelius and Deirdre Guice of Oppenheimer and wants to meet with them again. He also met with the CEO a couple of weeks ago in their New York Office. Since Bill McDaniel retired the team is relatively new together. The initial biography on Gerald Thunelius is that he uses more of a quantitative approach versus Bill McDaniel's strategy of relying on quality to drive the portfolio and buying positions to mirror the index. He said currently the relative performance of the portfolio is near the benchmark. Based on the investment policy, he recommended that Oppenheimer be put on watch and that the Board should review their performance for the next two quarters.

Chairman Harrison asked if Gerald Thunelius's approach could add more alpha to the portfolio. Mr. Gray said that it could add alpha but in a different way. He explained that Gerald Thunelius is very talented and was with Gartmore Morley Financial and prior to that he was with the Dreyfus Corporation before joining Oppenheimer. He said that there should not be any wholesale changes during the transition pointing out that the only difference is that the quantitative approach utilizes different screens.

Matthew Greenwald has worked on Oppenheimer's fixed income team with Bill McDaniel for seventeen years. Martin Fetherston recently joined the team in March. Mr. Fetherston's approach is more quantitative and mathematical, similar to Gerald Thunelius's strategy.

RESOLUTION 07-037 By Woods, Supported by Saucedo
Resolved, That the Board put fixed income manager Oppenheimer Capital on watch.

Yeas: 8 – Nays: 0

Onyx Update

Mr. Gray said that the due diligence process is a joint effort between him and Tom Michaud. He said that they have the responsibility of bringing quality managers to the Board while Tom Michaud reviews the manager's documents for compliance. He will bring a written draft to the next meeting for the Board's review.

He said that since this manager is new to this asset class they are conducting a thorough audit of their operating agreement as a precaution and to provide a level of safety for the Board. Gray's legal counsel, Alonzo Long, a former SEC attorney has reviewed the Private Placement Memorandum and found the same points and shared the same opinion that Tom Michaud indicated in his legal opinion. These issues have been sent to Onyx's legal counsel for response.

Mr. Michaud said that the Board requested a summary of the issues that need to be addressed in a bullet point format. He said that he has categorized the areas and items in question. He explained that Onyx is continuing to work with other potential investors. They are not currently positioned to close on the agreement. If there are any questions from trustees or changes that need to be addressed, they should be submitted in writing by early next week. Ms. Zimmermann said that she will disseminate the information.

Chairman Harrison asked if the issues in question had been sent to Onyx. Mr. Michaud said that they have been sent. Trustee Wright asked when the document was sent and if there is a deadline. Mr. Michaud said that the document was sent to Onyx's legal counsel on April 24, 2007. There is not a deadline but Onyx is anxious to resolve the issues and get it done. Their attorney should be contacting him with information by next week. Mr. Gray said that all changes should be added by the next meeting.

Chairman Harrison asked if Nexos has sent their operating agreements. Mr. Michaud responded that he received their operating documents and is in the process of drafting a legal opinion. He will forward the documents to Mr. Gray for his review.

Asset Allocation

Mr. Gray said that the asset allocation needs to be tweaked. The current allocation rationale has served us well but needs to be reevaluated. Since the asset allocation drives more than 90% of the returns of the portfolio, it is important to get it right. He does not want the Board to have a jaded view of real estate based on the CAPROC experience. He said that there are better, more standardized real estate products.

He said he had previously discussed an all cap strategy with the Board. It will consist of an overlay of small, mid and large cap and be an addition to the domestic equity allocation. Currently, Mesirov is the only domestic equity active value manager beating the benchmark.

Julius Baer's current allocation of approximately 10% of the portfolio in international equity is doing a good job but presents a risk by being such a large portion of the portfolio.

He told the Board that currently there are a number of managers that are courting the system. John Saleki of Horizon is an all cap manager. Atlanta Life is a large cap growth manager. Other potential managers are Thornburg and Loomis which both produce good numbers. All these managers will go through the same screening process before being brought to the Board. He asked the trustees to tell him if there are managers they would like considered. All potential managers will be put through the same screens.

Trustee Wright suggested Mayfield Gentry as a real estate manager. Mr. Gray said that they are a good firm. However, in his opinion, the large cap equity allocation should be addressed first. He also thinks the Board should wait until the dust has settled on the real estate allocation. He expects to bring a list of real estate managers to the Board in eight or nine months.

Trustee Scott left at 2:14 p.m.

Mr. Gray said that he would start putting together a list of potential managers. He commented that the Board is lucky to have the local MAPERS organization.

Trustee Wright asked about the performance report. Mr. Gray reported that the numbers are available but it takes awhile to get the comparative data from managers: it will be available next month.

Trustee Barnett asked about Peritus's performance. Mr. Gray reviewed their performance stating that their gross returns for the first quarter were 2.97% with net returns of 2.75%. The fund is currently paying a lot for this product. The net returns out performed the benchmark, however, only 40% of the allocation is currently invested. This means that the fund is currently paying a fee of 150 basis points on the remaining 60% held in cash.

Mr. Gray met with Ed Taylor who reported that the market has been very difficult and that Peritus did not want to buy just for the sake of buying. As of last night, 50% is currently invested. He also stated that the remaining allocation should be invested within the next thirty days. Mr. Gray said that he would place a call to Peritus expressing the Board's concern but not to rush investing the cash for the purpose of investing.

Chairman Harrison commented that Peritus is doing a good job with the portion they have invested: couldn't Peritus invest the remainder in the current holdings? Mr. Gray said that Peritus is looking to ask permission to buy a \$1.9 investment outside of the normal high yield scope. There was discussion that they should return the non-utilized portion of the allocation until it is needed. Mr. Gray said that Peritus is a true high yield manager and will be judged on their net performance.

Trustee Scott returned at 2:23 p.m.

Mr. Gray left at 2:25 p.m.

Re: VanOverbeke, Michaud & Timmony - Private Equity Update

Mr. Michaud stated that he just received the operating agreements from Nexos. He recently put together the documents for INVESCO. He distributed a copy of the legal opinion on how the INVESCO Partnership Fund V, L.P. qualifies under Public Act 314. He said that they currently do not have an initial close date. To date they have \$70 million in commitments and are waiting to raise \$100 million to close. They foresee an initial close at the end of the second quarter. He is in the process of working on a side letter agreement. He said that INVESCO is different from Onyx and Nexos and more inline with Mesirow. He said that even if the Board wanted to close they could not.

Trustee Wright asked if Mr. Michaud's concerns were the items in bold. Mr. Michaud said that the bolded items were used for the purpose of categorizing. He also said he wanted to remind the Board that there is a provision within Public Act 314 that puts a limit on the amount a public fund can invest in private equity. Ms. Zimmermann stated that it is called a basket clause and that it also applies to high yield investments. The consultant monitors the allocation so it does not exceed the state regulations.

Trustee Bowman left at 2:30 p.m.

Deferred Application Legal Opinion

Mr. Michaud reviewed his legal opinion regarding the commencement of deferred retirement. He used a generalized opinion as a guideline for dealing with this issue in the event it arises in the future. He said that this opinion should eliminate the expectation of receiving a lump sum retroactive payment.

Trustee Scott questioned whether the member was eligible to receive a benefit when he left and if the member overlooked the fact that he could have received a benefit. Ms Zimmermann and Mr. Michaud discussed commencement of benefits. Trustee Scott also asked if past practice allowed for retroactive benefit payments. Mr. Michaud said that it did not.

RESOLUTION 07-038 By Woods, Supported by Wright

Resolved, That the Board accept, receive and file the commencement of deferred retirement legal opinion and forward a copy to Husmukh Dahya.

Yeas: 7 – Nays: 0

REPORTS

Re: Chairman

Chairman Harrison stated that the Service Provider Review Committee reviewed the evaluations. He asked that Tom Michaud step out of the meeting.

Mr. Michaud left at 2:34 p.m.

Trustee Saucedo commented that only five surveys were returned for review.

Re: Secretary – None

Re: Trustees/Committees - None

Trustee Bowman returned at 2:36 p.m.

Board Newsletter

Trustee Wright distributed a draft of the newsletter she has been working on. She said that she has four sections of the newsletter completed. One section is titled “Myths about the Board.” She asked for the trustees to provide comments and suggestions for the newsletter. Chairman Harrison asked Trustee Wright to email the newsletter to the trustees/staff for comment.

Re: Administrator

Audit

Ms. Zimmermann reported that the auditors are in the office this week. The Chairman signed two copies of the audit professional services contract.

Trustee Wright asked if it was a conflict of interest to have Plante & Moran auditing their financial work when they are preparing the financial statements. Ms. Zimmermann said that the only interaction between the function Plante & Moran provides for the City and the audit for the retirement system involves the wire transfer process. All financial applications for the retirement system are handled through the custodian bank. She also commented that she believes there are separate business sections within Plante & Moran that work independently of each other. Trustee Wright asked how long they have been responsible for the retirement audits. Ms. Zimmermann said that they have been providing audit services for the retirement system since before she started with the City. She also stated that they do good work and their fees are reasonable.

Defined Contribution Plan for SAEA

Ms. Zimmermann said that the SAEA contract has been amended to close the defined benefit plan to new hires. Going forward, the amendment allows for SAEA members to be part of the 401(a) defined contribution plan similar to that for non-union and appointed employees. However, it still has not been determined if the members of SAEA will be allowed to participate in the existing plan or a new plan. Details of the plan design such as the contribution rates and vesting schedule have not been received. This change will require a plan amendment.

She referred to a response from the City Attorney stating that the existing defined contribution plan was established in 2004, but details of the new plan have been established. The terms of the plan need to be specified due to the long-term effects on the City’s finances and the retirement plan. These terms need to be enacted by ordinance or an amendment to the existing ordinance. Ms. Zimmermann commented that it would be helpful to know if this will become a trend. Trustee Scott commented that it is difficult to bring all the unions together at the same time.

Trustee Barnett asked why the bargaining units would choose the defined contribution plan when the defined benefit plan is better. Ms. Zimmermann said that the defined benefit plan would be

better for the City's cash flow problems because no contributions are currently needed from the City. This was an issue of concern recently because a newly hired employee was told he would not be eligible for the defined benefit plan. However, based on the wording of the contract this employee was eligible for the defined benefit plan. Ms. Zimmermann said the issues still need to be addressed.

Service Provider Survey Results

Chairman Harrison described the format of the surveys with a rating scale of 0-5 with 5 being the best score, 3 as satisfactory and less than 3 needing improvement. Ms. Zimmermann compiled the scores from the surveys. He said that each category score was recorded and scores were averaged for each category. The total average scores were recorded at the end of the report with a total average score of 3.03 recorded.

He said that there were not many comments recorded on the surveys. Based on the findings four out of the five surveys recommend replacing the service provider with one recommendation for retaining. The committee endorses moving forward with the RFP process. He asked the trustees for their direction. Trustee Wright asked which trustees are on the committee. The members who reviewed the surveys were Chairman Harrison, Vice Chair Saucedo and Trustee Bowman. Trustee Woods and Trustee Williams were not in attendance.

RESOLUTION 07-039 By Barnett, Supported by Scott

Resolved, That the Board move forward with the RFP process for legal counsel and allow current legal counsel to submit bid.

Yeas: 8 – Nays: 0

Trustee Bowman left at 3:02 p.m.

Mr. Michaud returned at 3:02 p.m.

Legal

Ordinance Update

Mr. Michaud thanked Trustees Woods and Williams and Ms. Zimmermann for their time and efforts working on the ordinance. He said that there is outdated language that requires updating. There are areas that need updating to comply with IRS requirements. Some sections need fine-tuning allowing for past practice. Most of the updating is more of a cleanup. He asked that the Board review the ordinance stating it would be a good exercise for new trustees. When the Board is comfortable with the document it will be forwarded to the unions and then to Council for adoption.

Trustee Barnett asked why there are reserved areas. Mr. Michaud said that for drafting purposes reserve numbers are left so the format of the working document does not change.

Union Representatives – None

UNFINISHED BUSINESS

Re: Ordinance Clean-up – (See Legal Report) - Continued to next meeting.

NEW BUSINESS

Re: Defined Contribution Plan for SAEA Employees – (See Admin Report)

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: May 30, 2007 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 07-040 By Saucedo, Supported Williams
Resolved, That the meeting be adjourned at 3:08 p.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on April 25, 2007.

Raymond Cochran, Secretary
As recorded by Jane Arndt