

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
APRIL 26, 2006**

A regular meeting of the Board of Trustees was held on Wednesday, April 26, 2006 at the Municipal and Health Services Credit Union, 144 E. Pike Street, Pontiac, Michigan, Lower Level Conference Room. The meeting was called to order at 1:35 p.m.

TRUSTEES PRESENT

Charlie Harrison, III
Raymond Cochran, Secretary
Shirley Barnett
Javier Saucedo
Koné Bowman

Robert Giddings
Debra Woods
Kevin Williams
Andrea Wright

Mayor, Clarence Phillips (*absent*)
Devin Scott (*excused*)

OTHERS PRESENT

Laurence Gray, Gray & Company
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

Re: Appointment of Chairman

Tom Michaud told the Board that they should appoint a new Chairman. Trustee Barnett nominated Trustee Giddings. Trustee Williams nominated Trustee Harrison.

RESOLUTION 06-037 By Woods, Supported by Cochran

Resolved, That the Board of Trustees close nominations and vote for Chairman of the General Employees Retirement System Board of Trustees

Trustee Saucedo – Charlie Harrison, III
Trustee Cochran – Charlie Harrison, III
Trustee Barnett – Robert Giddings
Trustee Bowman – Charlie Harrison, III
Trustee Woods – Charlie Harrison, III
Trustee Williams – Charlie Harrison, III
Trustee Harrison – abstain
Trustee Giddings – abstain

Trustee Charlie Harrison, III received the majority of the votes and was appointed Chairman.

Re: Appointment of Vice Chairman

Tom Michaud told the Board that they should appoint a Vice Chairman. Trustee Williams nominated Trustee Giddings. Trustee Harrison nominated Trustee Saucedo.

RESOLUTION 06-038 By Woods, Supported by Bowman

Resolved, That the Board of Trustees close nominations and vote for Vice Chairman of the General Employees Retirement System Board of Trustees

- Trustee Williams – Robert Giddings
- Trustee Woods – Javier Saucedo
- Trustee Bowman – Javier Saucedo
- Trustee Barnett – Robert Giddings
- Trustee Cochran – Javier Saucedo
- Trustee Saucedo - abstain
- Trustee Giddings – abstain
- Trustee Harrison, III – Javier Saucedo

Trustee Javier Saucedo received the majority of the votes and is appointed Vice Chairman.

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda – March 29, 2006

- A. Minutes of Regular Meeting: March 29, 2006
- B. Communications:
 - 1. Correspondence from GERS to CAPROC Re: Q4 2005 GAAP Financial Statements
 - 2. Correspondence from CAPROC Re: Q4 2005 GAAP Financial Statements
 - 3. Conferences:
 - a. Mellon Trust University – Mellon – June 19-22, 2006
 - b. CAPP – IFEBP – Various dates
 - c. Recovering Investor Assets – IIF – October 5-6, 2006
- C. Financial Reports:
 - 1. Financial Reports – March 2006
 - 2. Securities Lending Report – February 2006
 - 3. Commission Recapture Report – March 2006
 - 4. Accounts Payable:

a. ADP	\$2,078.85
b. American Arbitration Association	23.93
c. Bienstock	626.25
d. C2 Legal of Michigan	74.48
e. City of Pontiac	1,674.08
f. Gray & Co.	8,104.17
g. Ikon	198.59
h. Sullivan, Ward, Asher & Patton (CAPROC)	28,667.53

manager, they have been more than 242 basis points below the benchmark. He said that they would continue to watch GE's performance and keep the Board updated.

Trustee Harrison asked if GE was performing out of their style bucket. He said that their original numbers coming in helped them look good and that their style drift enhanced their returns. However, since moving back to their style they have underperformed. Mr. Gray commented that as an upper median and/or upper quartile manager they have potential. However, they dove into a market where they don't have aptitude. GE has been put on formal watch and are normally allowed a full market cycle to improve their performance. Trustee Harrison asked if GE Asset Management is part of any of Gray's client portfolios. Mr. Gray replied no and that they don't come up as a top tier firm.

Re: Capital Guardian Fees

Mr. Gray stated that with the rebalancing, the asset allocation to Capital Guardian dropped below a certain level taking the fund from a large market to a middle market client. With this change in client class, their fees have dropped from 41 basis points to 37 basis points. He said that Capital Guardian should continue to provide the same level of service.

Re: High Yield Manager Search

Mr. Gray told the Board that they currently have \$21.5 million allocated to high yield with Seix Advisors. However, Seix is a good core manager but not a high yield manager. They don't purchase below investment grade bonds; therefore, they can't keep up with the benchmark.

He stated that they brought eight manager names to the Board. From those names it was determined to hear from five managers (Babson, DDJ, Delaware, J P Morgan Chase and Peritus). After hearing the manager presentations the list was narrowed to three: DDJ, J P Morgan Chase and Peritus.

There was discussion comparing up/down market capture, consistency ratings and credit ratings for the managers. Down market capture showed DDJ at -85.3% and Peritus at -150.17% which displayed their ability to make money in a down market. Credit ratings exhibited the ability of these managers to reach down and take advantage of opportunities showing Peritus at 60% invested in CCC rated bonds at the time of this snapshot.

Discussion continued regarding the five-year risk return chart. Ms. Zimmermann asked if standard deviation can be positive. Trustee Harrison asked if there was the potential for more risk with Peritus than other managers. Mr. Gray explained that Peritus's negative deviation is actually positive deviation and that high returns can offset associated risk. Mr. Gray provided the peer rankings for the managers with Peritus ranking in the 1st to 5th percentile, DDJ ranking in the 10th to 12th and JPMorgan Chase in the 25th-50th percentile.

Trustee Giddings told the Board that this decision is not a civic issue but should be based on manager performance, looking for a less conservative manager and adding alpha to the portfolio. He pointed out that the Board is looking for a less conservative manager. He added that there has been a lot of discontent with J P Morgan and how they handle clients with their centralized trust team. He also stated that he feels the Board should retain their fiduciary independence.

An initial vote was taken to see which manager the Board preferred.

Trustee Saucedo – JPMorgan Chase
Trustee Cochran – Peritus
Trustee Barnett – Peritus
Trustee Bowman – JPMorgan

Trustee Woods – JPMorgan Chase
Trustee Williams – JPMorgan Chase
Trustee Wright – Peritus
Trustee Giddings – Peritus

Trustee Cochran disclosed that his son works for J P Morgan Chase out of New York, but for a different branch of the business.

Mr. Gray disclosed that Peritus retains a third party marketing firm.

Discussion continued. Trustee Cochran added that both Peritus and DDJ are boutique firms that only focus on high yield. Trustee Barnett commented that Peritus has no public fund clients. Trustee Harrison commented that he is still concerned about the risk and referred to the standard deviation. Trustee Wright responded by commenting that at the March meeting her impression was that the Board was looking for something different and that this investment affects 5% of the total fund. Trustee Bowman asked if the fund was locked in to their decision. Mr. Gray replied that there is a 30-day termination notice with the manager.

RESOLUTION 06-041 By Williams, Supported by Barnett

WHEREAS, the Retirement Board is vested with the general administration, management and operation of the Retirement System and has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

WHEREAS, the Retirement Board has reviewed with its investment consultant the Retirement System's investment portfolio and asset allocation in light of: (1) the portfolio's historical performance; (2) recent changes in the economic and financial market conditions; and (3) the Retirement Board's goal of maximizing future gains without overtly increasing risk or volatility in the portfolio, and

WHEREAS, in light of the foregoing factors and upon recommendation of its investment consultant, the Retirement Board is desirous of making changes in its investment manager and the structure of its current portfolio, and

WHEREAS, the Retirement Board's investment consultant has conducted an investment manager search and has presented to the Retirement Board prospective managers for consideration, and

WHEREAS, the Retirement Board is of the opinion that by hiring an investment management firm to manage a high yield fixed income portfolio, the Retirement System will have greater diversity and accordingly less potential volatility, and

WHEREAS, the Retirement Board has reviewed and discussed the prospective investment managers and has interviewed potential candidates, and

WHEREAS, the Retirement Board has discussed investment, philosophy, strategy, historical performance, and fee structure of various firms and is of the opinion that Peritus I Asset Management, LLC. (“Peritus”) meets the Retirement Board’s requirements, and

WHEREAS, the Retirement Board, upon the recommendation of its investment consultant and having completed its due diligence, is desirous of retaining Peritus as an investment manager of the Retirement System, therefore be it

RESOLVED, that Peritus I Asset Management, LLC is hereby appointed as investment manager to manage a high yield fixed income portfolio, and further

RESOLVED, that subject to approval of a final agreement as to form and content by the Retirement Board’s legal counsel and the Retirement Board, the Retirement Board enter into a written agreement with Peritus and that such agreement be executed by appropriate signatories on behalf of the Retirement Board, and further

RESOLVED, that the Retirement Board’s investment consultant is hereby directed to coordinate the reallocation of the Retirement System’s assets and to ensure that the reallocation is consistent with the Retirement Board’s discussion and investment guidelines, and further

RESOLVED, that Seix Advisors shall be terminated upon transition of the assets to Peritus, and further

RESOLVED, that copies of this resolution be forwarded to Peritus; and the Retirement Board’s Custodian and Investment Consultant.

Roll Call:

Trustee Barnett – yea	Trustee Bowman – yea
Trustee Cochran – yea	Trustee Giddings – yea
Trustee Saucedo – yea	Trustee Williams – yea
Trustee Woods – yea	Trustee Wright – yea
Trustee Harrison - yea	

REPORTS

Re: Chairman

Chairman Harrison thanked the Board for its vote of confidence. He also said he would contact Ms. Zimmermann for a CAPROC update.

Ms. Zimmermann said that she would setup a time to meet with the new trustees to update them on CAPROC. She also mentioned that it is customary for the Chairman to meet with her after the agenda is compiled before the next scheduled meeting.

Re: Secretary

Trustee Cochran commented that he felt that the Board did a good job by reaching a consensus. He told the Board that he has confidence in Larry Gray’s manager selections and that they could

not have made a wrong choice. He said that they owe it to the fund to do the best possible job. He also said that nothing is carved in stone and if the manager isn't meeting the needs of the fund it can be addressed.

Re: Trustees / Committees

Real Estate Committee – None
Personnel Committee - None

Re: Administrator

Ms. Zimmermann said that if any of the trustees are having issues with their VISA cards they should bring them to her for activation.

Ms. Zimmermann welcomed the new and returning trustees. She asked the Board to make a motion to send a resolution of thanks to the departing Board members.

RESOLUTION 06-042 By Saucedo, Supported by Bowman
Resolved, That the Board of Trustees send a resolution of thanks to the departing Board members.

Yeas: 9 – Nays: 0

Ms. Zimmermann stated that last month correspondence was received from Bob Davis of NOMC regarding improving the benefit to hospital retirees. She told the Board that it is customary to send a written response. Trustee Barnett told the Board that she had contacted Mr. Davis' office but would like Mr. Michaud to respond in writing as well.

RESOLUTION 06-043 By Barnett, Supported by Woods
Resolved, That the Board of Trustees approve legal counsel to provide a written response to NOMC regarding their request.

Yeas: 9 – Nays: 0

Re: Legal

Tom Michaud explained to the new trustees that when the SEC takes action against companies it often results in a shareholder class and derivative action. He said that the fund has recently lost shares with Sybron Dental Specialties, Inc. and Thomas Nelson, Inc. who are being investigated for potential breaches of fiduciary duties to shareholders. Both were holdings in the Loomis small-cap account. He asked to pursue the action on the Board's behalf.

RESOLUTION 06-044 By Saucedo, Supported by Wright
Resolved, That the Board of Trustees approves the pursuit of lead plaintiff in the Sybron Dental Specialties and Thomas Nelson cases as recommended by legal counsel.

Yeas: 9 – Nays: 0

Trustee Harrison asked how legal fees are recovered. Mr. Michaud replied that the Court dictates the fees. He also said that fees are recovered only if a settlement is awarded.

Re: Union Representatives - None

UNFINISHED BUSINESS

Re: Ethics Policy

Ms. Zimmermann and Mr. Michaud referred to the updated ethics policy for the Board's review. Mr. Michaud explained that there has been a lot of bad press and that disclosure alleviates the risk and protects the Board. Ms. Zimmermann explained that at the last meeting the Board asked counsel to update the ethics policy.

Mr. Michaud went over the change to the ethics policy which referred to disclosure in written form or verbally in an open meeting. He told the Board that for the sake of transparency the Board wanted a disclosure policy. He also reminded the Board that it is good practice that during a search there is a "quiet time" when there should be no contact with managers who are involved in the search.

There was discussion about the changes. Mr. Michaud told the Board that they are looking for something workable that makes sense. Trustee Barnett asked about how the policy affects conferences. Trustee Harrison asked about meetings that are of a non-business nature. Mr. Michaud concluded that disclosure would be in the best interest of the Board.

Re: Grievance Memos

Ms. Zimmermann informed the Board that she has been trying for some months to obtain copies of the grievance memos from Human Resources/Labor Relations granting service credit. She said that the data must be reviewed to determine the differences. The Retirement Office cannot change service credit based on an answer to a grievance per the Board's legal counsel. She stated that she has not been able to meet with Mr. Marshall.

Re: Ordinance Cleanup - None

Re: Annual Committee Review – Tabled

NEW BUSINESS

PUBLIC DISCUSSION

Trustee Wright thanked the Board for their welcoming attitude and how much she appreciated it.

SCHEDULING OF NEXT MEETING

Regular Meeting: May 31, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06 -045 By Saucedo, Supported Barnett
Resolved, That the meeting be adjourned at 3:24 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing is true Minutes of
the General Employees Retirement System
held on April 26, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt