

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
JANUARY 24, 2007**

A regular meeting of the Board of Trustees was held on Wednesday, January 24, 2007 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342, The meeting was called to order at 1:39 p.m.

**TRUSTEES PRESENT**

Koné Bowman  
Raymond Cochran, Secretary (*arrived at 1:52 p.m.*)  
Robert Giddings  
Charlie Harrison, Chairman

Javier Saucedo, Vice Chair  
Devin Scott  
Kevin Williams  
Debra Woods  
Andrea Wright

**TRUSTEES ABSENT**

Shirley Barnett (*excused*)  
Mayor, Clarence Phillips (*absent*)

**OTHERS PRESENT**

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

---

**APPROVAL OF CONSENT AGENDA**

- A. Minutes of Regular Meeting: November 29, 2006
- B. Communications:
  - 1. Correspondence from Capital Guardian RE: Monthly Update
  - 2. Correspondence from Munder Capital RE: Completion of Buyout
  - 3. Correspondence from Julius Baer RE: Q4 Commentary & December Portfolio
  - 4. Correspondence from Kennedy Capital RE: Personnel Changes
  - 5. Conference Information:
    - a. One Day Seminar Series – MAPERS - Feb. 22, 2007
    - b. Transition Management Conference – P&I – Feb 15, 2007 & March 1, 2007
    - c. 2007 Annual Legislative Conference – NCPERS – Feb. 5-7, 2007
    - d. Institutional Client Conference – Northern Trust – April 18-20, 2007
    - e. Client Training Conferences – Northern Trust - March 20 -21, 2007 ;  
June 26 -27, 2007 (will focus on GASB reporting) ; Oct 23-24, 2007
    - f. Trustees & Administrators Institutes – IFEBP – Feb 26-28, 2007 & June 11-13, 2007
    - g. Liability Driven Investing Summit – IMN – March 12-14, 2007

- h. Technology Solutions for Public Fund Management & Operations – IMN – March 12-14, 2007
- i. 12<sup>th</sup> Annual Public Funds Summit – IMN – March 12-14, 2007
- j. 2007 Benefits Conference for Public Employees – IFEBP – March 5-6, 2007
- k. Defined Benefit Plans: Fix or Freeze? – SRI – March 19-20, 2007
- l. NCPERS Annual Conference – NCPERS - May 18-24, 2007
- m. 6<sup>th</sup> Annual Stars & Stripes – FRALLC – April 15-17, 2007
- n. Investment Courses at Wharton School – IFEBP – various dates

C. Financials

- 1. Financial Reports – November & Preliminary December 2006
- 1. Commission Recapture – October & November 2006
- 2. Securities Lending – November 2006
- 3. Accounts Payable:

a. ADP	\$4,381.56
b. Berwyn Group	230.00
c. Caspar Corporation	207.90
d. City of Pontiac	1,674.08
e. Gabriel, Roeder, Smith & Co.	17,700.00
f. GE Asset Management	9,758.00
g. Gray & Co.	16,208.34
h. Huttenlocher Group	23,166.00
i. Ikon	450.79
j. IFEBP	50.00
k. Julius Baer	79,062.23
l. Ledy Design Group	17,467.51
m. Mellon Global Securities Services	584.00
n. Office Depot	132.50
o. Oppenheimer Capital	29,189.72
p. Plante Moran	230.00
q. Pontiac Coffee	53.88
r. Scott Harris	330.00
s. Sullivan, Ward, Asher & Patton	14,855.74
t. Systematic	57,845.65
u. Visa	1,712.11

E. Retirements, Refunds, Final Calculations, Re-Examinations

- 1. Remove from the Rolls:
  - a. Eleanor Hyde (deceased 11-06-06)
  - b. Mark Jones (deceased 01-10-07)
  - c. Helen Wilson (deceased 01-06-07)
  - d. Doris Koch (deceased 01-04-07)
  - e. Ethel Kay (deceased 12-30-06)
  - f. Terrie Smades (deceased 01-03-07)
  - g. Beth Segula (deceased 11-24-06)
  - h. Doris White (deceased 12-22-06): survivor benefit of \$278.04/mo. to Thomas White
  - i. Mary Kathleen Fisher (deceased 12-09-06)



**RESOLUTION 07-003** By Bowman, Supported by Saucedo  
Resolved, That the consent agenda for January 24, 2007 be approved as amended.

Yeas: 8 – Nays: 0

**CONSULTANTS**

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

**RESOLUTION 07-004** Bowman, Supported by Saucedo  
Resolved, That the Board will move to closed session to discuss pending litigation.

**Roll Call:**

Kone Bowman	Devin Scott
Robert Giddings	Kevin Williams
Charlie Harrison	Debra Woods
Javier Saucedo	Andrea Wright

*The Board moved to closed session at 1:43 p.m*

*Trustee Cochran arrived at 1:52 p.m.*

**RESOLUTION 07-005** By Wright, Supported by Scott  
Resolved, That the Board approve the closed session minutes from the November 29, 2006 meeting.

Yeas: 9 – Nays: 0

*Ms. Billings and Mr. Tompkins left at 2:00 p.m.*

*Mr. Gray left at 2:00 p.m.*

**Re: VanOverbeke, Michaud & Timmony - Securities Litigation Update**

**RESOLUTION 07-006** Scott, Supported by Williams  
Resolved, That the Board will move to closed session to discuss pending litigation.

**Roll Call:**

Kone Bowman	Devin Scott
Robert Giddings	Kevin Williams
Charlie Harrison	Debra Woods
Javier Saucedo	Andrea Wright
Raymond Cochran	

*The Board came out of closed session at 2:08 p.m.*

*Trustee Bowman and Trustee Scott left at 2:10 p.m.*

**Re: Fiduciary Liability Insurance**

Mr. Michaud distributed a memorandum regarding the fiduciary liability insurance policy. He said that he reviewed the policy regarding the recourse provision. If the policy pays, the insurer can go after the individual to recover: that is called recourse. This policy allows for that. The trustees need a non-recourse rider. He advised the Board that a non-recourse rider or endorsement should be included in the policy. Any fees associated with the non-recourse provision would have to be paid by the individuals, the unions or the City of Pontiac. Trust funds can not be used to pay for the provision. He added that the endorsement would have to clearly define the coverage. The Board must rely on their agent to provide appropriate coverage.

*Trustee Bowman returned at 2:13 p.m.*

*Trustee Scott returned at 2:14 p.m.*

The policy coverage is \$2 million with a \$25,000 deductible and an annual premium of \$23,166.00. The Board should ensure their insurance representative understands the policy and he should determine that the policy's coverage, limits and premiums are consistent and appropriate for this market and the retirement system.

This is a claims-based policy versus an occurrence policy. Past decisions (occurrences) are covered as part of the policy as long as the Board did not know there was a problem, like CAPROC. He emphasized that the policy does not cover the CAPROC investment. He said that a rider was added excluding CAPROC from the policy. Further clarification should be obtained regarding the discovery period extension.

The policy covers the general plan, the current trustees and any past or future trustees or employees. He recommended having the insurer expand coverage to staff by name or title versus the current language "employees of the System". Trustee Giddings asked about the coverage for the estate, heirs and legal representative regarding if a person becomes incompetent. Mr. Michaud said that the policy would not exclude someone from coverage if they became incapacitated.

Trustee Giddings asked about the amount of coverage (\$2 million) stating that he has seen \$5 million in coverage for funds half the size. Mr. Michaud said that the most common coverage amounts are in the \$1 million to \$2 million range and occasionally \$5 million. He said that he has never seen coverage over \$10 million regardless of fund size. Trustee Wright asked if the fund had ever been sued. Mr. Michaud replied that he is not aware of any legal proceedings during his ten to twelve years as legal counsel for the Board.

Mr. Michaud described the fiduciary liability and defense cost coverage. Defense cost coverage could potentially use the entire \$2 million coverage amount before going to trial. He said that the Board should clarify whether pre-trial legal costs are covered under the policy.

The coverage includes breach of fiduciary duty, administrative errors and investment of plan assets. Administration should include the investment of plan assets. He said that the policy will not cover an incident if the Board had prior knowledge that it was a risky investment. Mr. Michaud discussed exclusions noting that there are some outright exclusions (CAPROC), some claims are excluded, but defense costs are covered and the failure to comply with disability benefit provisions is excluded. He told the Board to clarify whether the policy will cover legal actions regarding disability discrimination and if there are other exclusions that will not be covered.

He stated that the policy does not insure property. He again said that the Board should be aware that it is a claims-based policy.

He explained that it is important that the Board's insurance representative acknowledges being the agent for the Board and is the person responsible for notifications from CHUBB, determining whether coverage, limits and premiums are consistent and appropriate for the Retirement System. The Board should ensure that the agent is a representative who works on behalf of the Board and not as a representative for CHUBB.

If you become aware of something at issue, you must notify them in writing and the policy designates the insurance agent. The agent must have a clear understanding of his role and that he will have to notify the underwriter. Mr. Michaud discussed deadlines regarding disputes and arbitration. He added that any lapse in the policy could result in a claim not being covered. He discussed deadlines and that any dispute would go through arbitration. He asked where the arbitration for CHUBB would be conducted.

Chairman Harrison asked that Mr. Michaud follow-up on the points he mentioned during his overview specifically the non-recourse issue. Ms. Zimmermann commented that the trustees need to make a payment for the non-recourse rider. She said that in order for the trustees to be covered they need to pay \$25.00. She said she would collect the monies and remit to CHUBB.

Trustee Wright questioned the email included in the consent agenda from Heather Bishop to Steve Fladger to Ms. Zimmermann stating that there is a provision in the policy and that a non-recourse option is not needed. Mr. Michaud said that there is a recourse provision in the policy and that the Board should obtain a non-recourse rider. He said he would prefer that the agent put the rider in writing to make sure that there is no recourse.

Trustee Giddings asked if the cost would be \$25.00 per year. Ms. Zimmermann replied that the cost would be \$25.00 annually. Mr. Michaud stated that this is the typical policy and clarified that the fee can not come of retirement assets.

Trustee Giddings asked if heirs of Board members would have to continue to pay the non-recourse fee. Mr. Michaud told him no.

Ms. Zimmermann said that Mr. Michaud should work with Steve Fladger to go over the issues and concerns addressed in his legal opinion. Chairman Harrison concurred that Mr. Michaud should contact Steve Fladger. Trustee Wright questioned why Ms. Zimmermann couldn't

contact the insurance representative as a cost savings measure since all the issues were laid out in Mr. Michaud's legal opinion. Ms. Zimmermann said that she is not qualified to interpret this type of contract nor would she understand the legal interpretations or changes that would be needed. Trustee Saucedo commented that Mr. Michaud should handle the contract to make sure the issues are resolved correctly. Mr. Michaud said that he should be able to settle the issues and minimize the cost.

### **Re: Gray & Company**

Mr. Gray reported said they do not yet have the audited year-end numbers. Current plan assets are \$468 million. He said that large cap equity performance could be improved upon. He said that the WAM S&P 500 Index Fund has investment assets totaling \$46 million and that the Northern Trust Growth Index has \$34 million. He said that Mesirow is the active large cap growth manager.

He said that they looked at an overlay of the portfolio and found that an all-cap strategy could provide positive performance. He said that the Russell 3000 Index measures the return of the overall market: an all-cap overlay strategy could add major performance by dominating the market sector that is most favorable whether it is large, mid or small cap. He said that this strategy could replace the Northern Trust Index. Chairman Harrison asked if the strategy would utilize the entire asset allocation of \$119 million currently in large cap. Mr. Gray said that would only occur if they could find a manager that could add value with prudent cost savings and that the same manager has added value net of fees consistently for many years. He suggested 1/3 large growth, 1/3 large value and 1/3 all cap.

Trustee Wright asked if this strategy would only apply to large cap. Mr. Gray responded that it would replace large cap and that the target amount would be \$119 million. He said a similar asset allocation would make sense.

Ms. Zimmermann asked if the \$119 million in large cap was the recommendation. Mr. Gray said the modeling would be one-third in large cap growth, one-third in large cap value and one-third in all cap would add value. She asked about passive versus active. He said it makes sense to find an active manager that provides higher performance and growth net of fees. He said that some of his clients have done this for a long time by either investing in the Russell 3000 Index or using an all-cap strategy.

He also said that the fund needs to maintain exposure in real estate. He said that the Board should not let CAPROC scare them away from real estate. He said that there are a lot of good managers out there whose performance beats bonds. The internal rate of return is forecast at more than 8%.

He said that at the last meeting the Board made the decision to invest in private equity. He said that the Invesco investment has not been completed. Chairman Harrison asked about the status of the Mesirow investment. Mr. Gray said that the Mesirow investment agreement had been finalized.

Mr. Gray said that the asset allocation for private equity is \$20 million with \$5 million allocations each to Mesirow and Invesco which are fund of funds managers. He said that leaves \$10 million allocated to private equity direct investments. There is a legal memorandum regarding the Mesirow investment later on the agenda. Invesco's documents are in process.

Mr. Gray told the Board that they should exercise prudence putting money into the Onyx investment. He said that as a consultant their business is to conduct searches and perform due diligence. As a consultant he has never recommended investing more than \$3 million into a direct fund. It is a risk to invest because, once the funds are committed, the money is beyond your control unlike traditional investments. He has not uncovered anything regarding Onyx that is illegal but he would not go beyond a \$3 million to \$5 million initial investment.

Onyx has received two \$10 million verbal commitments: every consultant operates differently. The Board could put conditions on how to make the investment. Specifically, monitoring Onyx and whether they stay with their investment strategy of buying or investing in Midwest manufacturing companies.

He said that LaRoy Williams is with the company and came from UHY. He said that Elliot Fullen is committed to opening an office in Atlanta. However, he did say that he has reviewed recent releases from Borden and he could not find the connection between Elliot Fullen and KKR or Apollo. He said that due to Mr. Fullen's current involvement with the IPO he has not been able to complete the due diligence. Chairman Harrison commented that there were mergers with KKR, Apollo and Borden and Mr. Fullen was there at the time.

Mr. Gray said that it is important to look at the numbers. He said that they are looking to close the fund at \$400 million. Trustee Bowman asked Mr. Gray if he would make the investment. Mr. Gray replied that he believes that Roy Dixon will build a strong company in time; however, he would wait to verify the quality of the initial companies they buy. He said he would monitor them for their consistency. However, once you sign the contract you're committed to the investment.

Trustee Bowman again asked if they should make the investment. Mr. Gray responded stating only if they can stomach a startup. He said that this is the first time Mr. Fullen has done something like this without company commitments or backing. He said that he would direct the assets in small amounts because of the risk. He asked if the Board was concerned that this could be another CAPROC consuming all the Board's time. He told the Board that they don't have to close the door on the investment, but if it gives them pause they should not do it at this time.

Trustee Wright asked about the Investment Policy Statement and the amendment prior to investing in an emerging manager. She also asked about the Board's fiduciary responsibility to hire people with experience not someone off the street. Mr. Gray said that according to Roy Dixon, Elliot Fullen is now on board. Mr. Fullen says he is committed and will be in the U.S. by spring. Mr. Gray said the Board should not change its policy for an investment. LaRoy's experience does not line up like what we would like to see. Elliot is on as a partner and has experience. However, we are looking for a written confirmation.



Trustee Wright asked about the timeframe of the investment and the \$10 million commitments from the other two boards. Mr. Gray said that there is no timeframe and it is entirely up to the Boards. They could continue to monitor Onyx. He said that it could take a while for their first close.

Trustee Cochran asked if there are any operational activities. He commented that Onyx cannot drawdown before their first close. He asked if they would wait to close at \$150 million or would they make their first close now. He said that he would prefer to wait and have them demonstrate their ability to perform in this asset class. Mr. Gray responded that a snapshot can then be taken of the companies they acquire whether they are core Midwestern companies before making the commitment.

*Trustee Woods left at 3:03 p.m.*

Trustee Cochran stated that he has concerns about the investment. He asked if their second close would be around \$50 million and suggested that the Board watch Onyx's progress to determine if it is a viable option. He said if Onyx has good performance then the Board could invest in little chunks perhaps \$2.5 million

Chairman Harrison asked if the fund would be investing \$5 million. Mr. Gray said that is the decision of the Board.

*Trustee Woods returned at 3:05 p.m.*

Mr. Gray said he has provided the Board with the history, reasoning and gut feeling that they will be a good firm in time. The Board interviewed two fund of funds managers and did not interview other managers on the direct investment side. He said it would not be fair or comparable to interview a startup versus a KKR, BlackRock or Carlisle.

Trustee Giddings asked if this is an appropriate investment for public funds. He said that they have no track record and two verbal commitments. Would this investment even be covered under the fiduciary liability policy?

Mr. Gray said that this is an asset class that could add diversification to the portfolio. However, because they did not interview other managers there could be a potential problem: public funds operate in a "fishbowl". He said to be fair they should interview with firms with a similar start-up status. The Board could interview more firms who do direct investment and are start-ups.

Trustee Giddings said there is no recourse for losses. Mr. Gray concurred. Trustee Wright asked if there is any recourse in a fund of funds investment. Mr. Gray replied that the SEC could go after them. Trustee Giddings opined that this was another investment like CAPROC.

Trustee Cochran asked if it was certain that Onyx had \$20 million in commitments. Mr. Gray replied that no contracts had been signed.

Mr. Gray said that he wants to be very clear and deliberate: he cannot support an investment of \$10 million at this time.

Chairman Harrison stated that the Board relies on Mr. Gray's advice. Mr. Gray has always said to go through the process and when he feels comfortable with the investment he will bring it forward.

Trustee Cochran said that he understands that it is difficult for a startup to get their first dollar in order to succeed. He would like to see Onyx succeed, however, because it is an unregulated investment with no safeguards, he would like to see them go through a couple of closings before getting in. The Board could wait until they raise \$150 million and invest higher up the stairs, perhaps waiting for the third close to see if they get there. He said that this is the safest option for the plan and that they should not assist with a startup until they have satisfied the criteria. Trustee Giddings said that they should not be putting the fund's money on the line.

Trustee Bowman called to move forward and invest \$5 million with Onyx Capital Advisory Fund I, LP.

**RESOLUTION 07-007** By Bowman, Supported by Woods

Resolved, That the Board approve the investment of \$5 million to Onyx Capital private equity investment.

**Roll Call:**

Bowman – yea	Scott – nay
Cochran – nay	Williams – nay
Giddings – nay	Woods – yea
Harrison – yea	Wright - nay
Sauceda – nay	

Motion Failed. Yeas: 3 – Nays: 5

Trustee Wright asked why they have to make a decision right now. Chairman Harrison asked when the drawdown would occur. Mr. Michaud said that once the Board has entered into an investment agreement they are committed and the money can be drawdown at any time by the manager. Chairman Harrison asked if that is the norm or do established companies take the funds over time.

Trustee Bowman said that he has been through the process of raising capital and the first close could be predicated upon receiving the \$5 million investment from the fund. He said if the Board waits until they feel they can trust the company or until a certain amount of capital is raised Onyx could continue to wait for commitments.

Trustee Cochran replied that the Board should be operating as a good fiduciary. He said that the investment should be structured that Onyx has to reach a certain threshold by displaying a good investment strategy and demonstrating performance after their first close. Mr. Gray said that the

Board could specify that they get \$60 or \$100 million first. Trustee Giddings opined it is the Board's job to safeguard the plan, not to promote a start-up.

Chairman Harrison commented that the Board is either in or out.

Trustee Cochran said that he would feel better professionally if he was sure that Elliot Fullen was firmly on Board. He asked if Mr. Fullen was currently employed by both Hexion and Onyx. Mr. Gray said that he should be on board sometime in the spring or summer. Mr. Michaud said that employment agreements can be requested. He said that the Board has a right to ask for the records.

Trustee Wright asked why there is a rush. She said that there seems to be an uneasiness and uncertainty waiting for the other two commitments. She said that the Board only interviewed one company. She asked if the Board was to interview another manager in the asset class would the Board be perceived as being more knowledgeable and informed. Mr. Gray said yes and that it would demonstrate a level of fiduciary responsibility. Trustee Wright said that the Board should not be in a rush and should interview another manager. Mr. Gray asked if the Board wanted him to bring back names that are emerging or new in the space to the next meeting.

Trustee Scott suggested that the Board watch and wait to see where Onyx is since the \$20 million in commitments may not be realized. He asked about the drawdown process and if they can take the money before it is needed. Mr. Gray said that Onyx can adjust the closing and drawdown at will.

Trustee Scott questioned why the Board is in such a hurry to make the investment. Mr. Gray replied that there is no rush from his perspective.

Trustee Wright said that she would like to see one more manager to be fair. Mr. Gray reiterated that an investment in a new fund should not be more than \$5 million.

Ms. Zimmermann said that it would be more prudent if they interviewed more managers. There was discussion regarding how many managers in the direct investment alternative space should be interviewed.

**RESOLUTION 07-008** by Cochran, Supported by Wright

Resolved, that the Board direct Gray and Company to bring in two private equity direct investment managers to interview.

Yeas: 6 – Nays: 3

*Meeting break at 3:38 p.m.*

*Trustee Bowman left at 3:45 p.m.*

*Return from break at 3:47 p.m.*

There was another discussion regarding approving the payment subject to legal review. Trustee Williams asked about the rider. Trustee Wright said that Mr. Michaud had pointed out a number of issues in his legal opinion that need to be addressed. It was noted that the payment to CHUBB for the fiduciary liability insurance had already been processed. Mr. Michaud said that he would contact the agent to resolve the issues previously discussed.

There was discussion regarding investing in investment managers. Mr. Gray said that the investment management firms that the fund gives money to are profitable companies. As an example, internal rates of return at September 30, 2006 for inception to date were 37% and higher. He said it works like investing in private equity, however, you would be investing directly in a firm like Munder Capital for five to seven years. He said there would be a buy back or claw-back clause allowing the investor to buy the shares back later for much more and this has been a big success. He would like the Board to explore investing in investment management firms

He gave examples of companies like EARNEST Partners in Atlanta that went from 0 to \$23 billion in seven years. SouthernSun Asset Management in Memphis that started with \$10 million to \$15 million that just closed out at \$1 billion in assets under management. They have been very successful in choosing these companies.

Chairman Harrison asked if these are emerging companies that need capital. Mr. Gray said that this option would spread risk over several companies with some emerging companies. Trustee Cochran commented that you could invest in a large company and their good people could leave and start another company and you could invest in them.

Mr. Gray concluded his report.

## **REPORTS**

### **Re: Chairman**

Chairman Harrison directed the trustees to be timely with their travel reconciliations. He said that receipts should be given to Ms. Arndt as soon as the trustee returns from their conference.

He reminded the Board that the professional service provider survey needs to be turned in to Ms. Zimmermann. He asked Ms. Zimmermann how many she had received to-date. She said that she has received two or three surveys. He informed the Board that they have had two months to complete and return the survey. He asked if anyone needs a copy of the survey and requested that they send them to Ms. Zimmerman as soon as possible.

He also reminded the Board that they need to provide conference confirmations to Ms. Arndt in a timely manner. Ms. Arndt said she needed IFEBP confirmations as soon as possible.

### **Re: Secretary - None**

*Trustee Saucedo left at 4:00 p.m.*

**Re: Trustees/Committees**

Chairman Harrison said that once the surveys have been received a meeting of the Professional Services Review Committee will be scheduled to go over the results.

**Re: Administrator**

ChrisKen Disposition

Ms. Zimmermann reported that she received correspondence from ChrisKen regarding the disposition of properties being sold. She said that the ChrisKen Residential Trust was terminated on December 31, 2006 and replaced it with a Liquidating Trust. They anticipate wrapping up with a final disposition of fees no later than December, 2007.

SAEA Contract

Ms. Zimmermann distributed copies of the SAEA contract. She stated that the contract has been settled. She noted that new members will not be part of the defined benefit plan. She also told the Board that it included a 65 point early-out provision.

**RESOLUTION 07-009** By Wright, Supported by Scott  
Resolved, That the Board receive and file the ratified SAEA contract.

Yeas: 8 – Nays: 0

Northern Trust Custody Transition

Ms. Zimmermann informed the Board that the custody transition is complete. She said that all assets have been transitioned. There were a couple that took longer but all have been resolved. She said that the SEC Lending Agreement and Commission Agreement have been signed. Online systems are up and running.

Trustee Giddings asked if the fund was paying custodian fees on the monies invested in the Northern Trust Index. Ms. Zimmermann replied no. Mr. Michaud told the Board that the fees were negotiated are very good. Mr. Gray stated that the fee on the index products is 3 basis points. Ms. Zimmermann noted that the Police and Fire Retirement System hired Northern Trust and the fees for both pension plans were negotiated down from 6 basis points to 3 basis points by Gray & Company.

Paula Barasch – NOMC

Ms. Zimmermann informed the Board that an issue has come up regarding service credit calculations with an NOMC employee Paula Barasch. She said that Ms. Barasch worked at NOMC for twelve years and seven months before the privatization and has worked since then. She now believes that she has twenty-five years of service credit and should begin collecting her benefit at age 55. Melissa Tetmeyer has been working with Melinda Lyons at NOMC to obtain the accumulated service credit. According to Ms. Lyons, Ms. Barasch is not eligible, however, by the old method she would be eligible. There are currently three employees in pay status whose service credit was calculated by this method. Apparently, Ms. Lyons and Shirley Barnett do not use the same method to determine service credit. Ms. Zimmermann told the Board that it

is not the responsibility of the Retirement Office to determine NOMC service credit. She will work with the parties to resolve this issue.

### Teamster Early-Out

Trustee Wright asked if there was a follow-up on the early out for Teamsters. She said that a member had asked her about the issue. Ms. Zimmermann replied that it is in the hands of City Council: the cost study was done a year ago. Trustee Wright confirmed that the Board does not vote on early outs. Trustee Woods said that Trustee Wright could refer Teamster members to her and she could provide them with information.

### **Legal**

Mr. Michaud reported that favorable security lending fees were negotiated with Northern Trust.

### Mesirow Financial Private Equity Partnership Fund IV, L.P.

Mr. Michaud stated that he reviewed the Mesirow Private Equity Contract and his legal opinion is included in the agenda. He said that once the contract is signed the Board is committed for a minimum of twelve years. He reviewed the key provisions for compliance with Public Act 314. The investment is a fund of funds alternative investment. He summarized the terms and conditions of the agreement. He noted that Mesirow will not agree to be a fiduciary to the fund which means the Board has a heightened level of responsibility. He said that the investment fits within the system's allocation.

Chairman Harrison asked if the agreement had been rectified because he received a call from Tracey Shinkle of Mesirow. He said that they are about to close at the end of the month. The Board does not want to forget their fiduciary responsibility but they want to get in on the close. Mr. Michaud said that the first close for the fund was November 1, 2006. He said that the final close for the fund will occur when they reach commitments of \$400 million. He said that the second close is scheduled for the first week of February and there are not hard and fast close dates.

He suggested the Board ask for a side letter to make sure they get most favored nations status. This provision allows those who invest in the first \$40 million of the fund to receive the same fee structure as those who invest later. He said they should explore if Mesirow would be willing to agree.

He also said they should ask for a side letter that allows inspections rights to the books. Another side letter which would allow for disclosure of conflict of interest. This would allow for a relationship of standing similarly situated with other investors. He said the structure is very common and reminded the Board that they are locked into a commitment of \$5 million for twelve years.

Chairman Harrison asked if these terms were unfair since this is a very large firm with a good track record. Mr. Michaud said that it is okay to request these terms and that these tweaks are routinely done for large investors. Trustee Giddings added that this is all favorable with no downside risk. Mr. Michaud stated that Mesirow has already agreed to these changes.

Mr. Michaud said that he needs to go through the subscription documents and complete the side letters.

**RESOLUTION 07-010** by Wright, Supported by Williams

Resolved, that the Board receive and file the Mesirow Financial Private Equity Partnership Fund IV, L.P. legal opinion and direct legal counsel to draft the side letter agreement.

Yeas: 8 – Nays: 0

Trustee Giddings commented that if Mesirow takes in over 25% of the fund in ERISA money they are deemed a fiduciary. Mr. Michaud responded stating that they are not obligated to take more ERISA money, however, funds I, II and III were structured that way. They may be deemed a fiduciary later.

**Union Representatives** – None

---

**UNFINISHED BUSINESS**

**Re: Fiduciary Liability Insurance – Non Recourse**

Discussed earlier in meeting by Mr. Michaud.

**Re: Ordinance Clean-up**

Have not redrafted – postponed.

**Re: Service Credit Information to Members - Postponed**

---

**NEW BUSINESS**

**Re: Death Audit**

Trustee Wright said that she reviewed the death audit and that it revealed one member on the list. Ms. Zimmermann said that the office had been notified of the member's death.

**Re: Ratification of Cash Flow Shortage Transfer**

Ms. Zimmermann explained that due to a spreadsheet error there was a cash flow shortage. She asked the Board to ratify the transfer of funds.

**RESOLUTION 07-011** by Cochran, Supported by Williams

Resolved, That the Board of Trustees ratify the transfer of \$200,000 from Kennedy Capital to the cash account and \$1,800,000 from Loomis Sayles to the cash account to cover the shortfall.

Yeas: 8 – Nays: 0

**Re: Semi Annual Cash Flow Rebalancing**

Ms. Zimmermann asked that the Board approve the cash flow rebalancing plan as recommended by the consultant.

**RESOLUTION 07-012** by Woods, Supported by Scott

Resolved, that the Board approve the transfer of \$6,340,000 from Julius Baer International Equity Account, \$1,460,000 from Systematic and \$2,160,000 from World Asset Management to the Cash Manager Account for the funding of benefits and operating expenses.

Yeas: 8 – Nays: 0

---

**PUBLIC DISCUSSION**

Provision to Buy Future Time

Trustee Woods asked if there is a provision that allows a member to buy future time in order to retire. Ms. Zimmermann replied no. She told the Board that a member who has been separated from service is eligible to buy back their service credit after being reemployed for a minimum of three years. At that time they can re-deposit the withdrawn contributions with interest and regain their service credit.

Trustee Election Calendar

Chairman Harrison asked if there are any trustees up for reelection in 2007. Ms. Zimmermann said that Trustee Scott's position on the Board will expire on March 31, 2007. She said that the election calendar will be distributed at next month's meeting.

---

**SCHEDULING OF NEXT MEETING**

**Regular Meeting: February 21, 2007 at 1:30 p.m. in the Shrine Room of City Hall.**

---

**ADJOURNMENT**

**RESOLUTION 07-013** By Wright, Supported Scott

Resolved, That the meeting be adjourned at 4:30 p.m.

Yeas: 7 – Nays: 0



I certify that the foregoing is true Minutes of the General Employees Retirement System held on January 24, 2007.

---

Raymond Cochran, Secretary

*As recorded by Jane Arndt*