

**CITY OF PONTIAC, MICHIGAN  
GENERAL EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
JULY 22, 2009**

A regular meeting of the Board of Trustees was held on Wednesday, July 22, 2009 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:37 p.m.

**TRUSTEES PRESENT**

Koné Bowman	Kevin Williams
Charlie Harrison, Chairman	Debra Woods
Devin Scott	Andrea Wright ( <i>arrived at 2:12 p.m.</i> )

**TRUSTEES ABSENT**

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

**OTHERS PRESENT**

Wendy Trumbull, Plante & Moran	Carolyn Clark, Retiree
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.	Edith Kaminski, Retiree
Anthony Asher, Sullivan, Ward, Asher & Patton, P.C.	Jules Ruerat, Retiree
Sharon Almonrode, Sullivan, Ward, Asher & Patton, P.C.	Linda Watson, Retiree
Laurence O. Gray, Gray & Company	
Chris Kuhn, Gray & Company	
Ellen Zimmermann, Retirement Accountant	
Jane Arndt, M-Administrative Assistant	
Sean Kenney, MFS Investment Management	

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The meeting was adjourned at 1:37 p.m. due to a lack of quorum

Chairman Harrison asked if the trustees had any questions regarding the consent agenda. Ms. Zimmermann said that she had planned to add a capital call for ratification on the agenda. She will move the item to the next agenda.

**CONSULTANTS**

**Re: Plante & Moran – 2008 Audit Presentation**

Ms. Trumbull introduced herself to the Board and stated that she was the Audit Manager. The audit went very well with the Retirement Office being well prepared, as always, which made the process go smoothly.

She said that the Independent Auditor's Report states that Plante & Moran is responsible for expressing an opinion of the financial statements of the City of Pontiac General Employees Retirement System based on their audit. They have issued an unqualified opinion which is the best opinion that can be issued. It equates to the system receiving an A+.

The Management's Discussion and Analysis is an unaudited report prepared by management that describes what happened during the year.

The Statement of Plan Net Assets is the balance sheet of the fund. As of December 31, 2008 the system had total assets of \$391.9 million. She noted cash and investments held as collateral for securities lending was \$54.08 million and under deductions assets and amounts due broker under securities lending agreement was \$55.19 million. Under the securities lending program the system loaned out \$54.08 million in securities but they now owe back \$55.19 million. Ms. Billings confirmed that this is a reflection of the securities lending deficiency. Ms. Trumbull said that as of December 31, 2008 net assets totaled approximately \$336 million.

The Statement of Changes in Plan Net Assets reported additions of \$456,911 in net securities lending income. Net investment losses were \$132.5 million which included approximately 30% in investment losses which is the same as most investment losses

She said that the Notes to Financial Statements are the same disclosures this year and there is nothing new.

She explained the Schedule of Analysis of Funding Progress lags one-year because the audit report is prepared before the actuarial valuation. As of December 31, 2007 the actuarial value of assets was \$433 million representing a funding ratio of 167.9 percent. She stated that the actuarial value of assets will decrease due to investment losses but the funding ratio should remain over 100% because the actuary applies a five-year smoothing method which distributes losses as well as gains.

Chairman Harrison confirmed that the system is still over funded and the funding ratio in 2007 was 167.9 percent. Ms. Trumbull said that even with the drop in net assets of \$335 million in 2008 the system's liability is \$260 million which means the system is still over 100% funded which is better than most retirement systems.

Ms. Trumbull referred to the Report to the City of Pontiac Boards. She said that the same report was used for all four retirement boards. In 2007 more fundamental audit standards were put in place. Boards are now treated as part of the audit committee making them responsible for adhering to the appropriate accounting policies. The report is comprised of standard boilerplate language.

They did not encounter any significant difficulties when performing the audit. Certain accounting estimates are particularly sensitive with regard to valuation of alternative investments and their affect on the financial statements. She said there are not too many alternative investments in this system's portfolio but that it is important that they are appropriately stated and the proper due diligence is performed including audited financial statements.

There were no sensitive disclosures affecting the financial statements other than the disclosure of the loss of value of certain securities lending collateral.

She noted the \$3.4 million write down of the CAPROC investment. She also noted that Ms. Munson's books are in such good order that she makes requests to have journal entries posted to the financial statements.

She discussed the status of the basket clause investments. She said that as of December 31, 2008 8.1% of investments fell under the basket clause which is acceptable under Public Act 314 because of the market drop. However, the Board should be aware that the Investment Policy Statement indicates an allocation of 3% to 7% to the basket clause. She recommended that the Board monitor the investment levels and basket clause allocation to ensure the system is brought back into compliance.

She indicated that during their testing there was a COLA payment that was paid to the wrong member. There are controls in place, however, in this instance the error was not detected internally.

She stressed the importance of proper due diligence with regard to alternative investments as more funds are allocated to that investment space. From an audit perspective, it is important to qualify the assertions made by the investment manager by requiring detailed and independent reports that are a true reflection of the fair market value of the investment.

They continue to recommend that the system look into document storage and document imaging and implementing a disaster recovery plan. Ms. Zimmermann said that the Retirement Office has moved many files to an offsite storage facility. She also stated that periodically the system's electronic files are being backed up. She is currently working with the IT Department to develop a document imaging process utilizing current scanning capabilities. She is also in the process of drafting a disaster recovery plan.

*Ms. Trumbull left at 1:54 p.m.*

**Re: Sullivan, Ward, Asher & Patton – Securities Lending**

Tony Asher asked if the trustees understand how securities lending works. Chairman Harrison said that they were provided the information in the past and have attended sessions on the subject. Mr. Asher said he would like the minutes to reflect for the record that his firm provided a basic understanding of securities lending.

He explained the securities lending process. The custodian (Northern Trust) reaches an agreement with the system which is incorporated into the custodian agreement to provide securities to borrowers who put up a fee of 102% of the collateral in cash for the securities. He described how the monies earned off the borrowed securities at 102% were split between the system and the custodian. However, when the borrower returns the securities the system has to return the collateral even if the collateral investments have lost money. This causes a collateral deficiency or shortfall.

Trustee Wright arrived at 2:12 p.m.

The meeting was called to order at 2:12 p.m.

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## APPROVAL OF CONSENT AGENDA

- A. A. Minutes of Regular Meeting – June 24, 2009
- B. Communications
  - 1. Correspondence from Kennedy Capital Re: Reporting Upgrade
  - 2. Correspondence from Artio Global Re: May 2009 Fact Sheet
  - 3. Correspondence from Oppenheimer Re: Organizational Changes
  - 4. Correspondence from Nexos Re: Q1 Operations
- C. Conference Information:
  - 1. 60<sup>th</sup> Diamond Anniversary MAPERS Fall Conference – MAPERS – Sept. 13-15, 2009
  - 2. Investment Trade Summit – Opal Financial – Sept. 23-25, 2009
  - 3. Liability Driven Investing – P&I – Sept. 15-17 or Sept. 22-24, 2009
- D. Financial Reports
  - 1. Financial Reports – June 2009
  - 2. Commission Recapture – June 2009
  - 3. Securities Lending – June 2009
  - 4. Securities Lending Deficiency
  - 5. Capital Call Ratification
  - 6. Accounts Payable
    - a. ADP \$2,893.60
    - b. Artio Global 51,699.18
    - c. Berwyn Group 230.00
    - d. City of Pontiac 1,674.08
    - e. Coffee Break 54.60
    - f. Economist 8.40
    - g. GFOA 112.40
    - h. Gray & Company 8,104.17
    - i. Ikon 213.43
    - j. MGFOA 7.00
    - k. Northern Trust 34,735.08
    - l. Office Depot 268.49
    - m. Peritus Asset Mgmt. 77,877.78
    - n. Plante Moran 1,245.00
    - o. Stevens Record Management 54.24
    - p. Sullivan, Ward, Asher & Patton 7,612.25
    - q. Systematic 40,109.15
    - r. UIM 77,077.91
    - s. VISA 1,635.87
    - t. Q2 Due To/Due From (493.53)
- E. Retirements, Refunds, Final Calculations, Re-Examinations

General Employees Retirement  
Regular Meeting,  
July 22, 2009



Trustee Bowman – yes  
Chairman Harrison – yes  
Trustee Scott – yes

Trustee Williams - yes  
Trustee Woods - yes  
Trustee Wright - yes

*The Board Moved to Closed Session at 2:16 p.m.*  
*The Board Returned from Closed Session at 2:55 p.m.*  
*Meeting Break at 2:55 p.m.*  
*Meeting Resumed at 3:01 p.m.*

Chairman Harrison explained that the Board would be losing its quorum so he asked that any items that need to be voted on be presented.

## **REPORTS**

**Re: Chairman** – None

**Re: Secretary** – None

**Re: Trustees/Committees**

**Re: Administrator**

Semi-Annual Rebalancing – Moved from New Business

Ms. Zimmermann requested that the Board approve the cash flow rebalancing plan as recommended by the consultant to provide for benefits and operating expenses for the next six months.

**RESOLUTION 09-056** By Woods, Supported by Scott

Resolved, That the Board approve the transfer of \$2,425,000 in September from the Oppenheimer fixed income portfolio and \$2,425,000 from the Munder fixed income portfolio to provide for benefits and operating expenses for the next six months.

Yeas: 6 – Nays: 0

Placement Agency Policy Draft – Moved from Unfinished Business

Ms. Zimmermann asked if the Board was ready to vote on the Placement Agency Policy Draft. Chairman Harrison said that because the Board is about to lose its quorum, he would prefer that this agenda item be carried over to the next meeting.

**RESOLUTION 09-057** By Bowman, Supported by Woods

Resolved, That the meeting be adjourned at 3:05 p.m. due to lack of a quorum. The meeting continued as a courtesy to those present.

*Trustee Bowman left at 3:05 p.m.*

**Re: Gray & Company**

Mr. Gray distributed the preliminary unaudited performance data and a flash report in the interim of the quarterly performance report.

He reported the value of the total plan assets. As of March 31, 2009 they were \$311 million, as of May 31, 2009 they were \$339 million, as of June 30, 2009 they were \$342 million and as of July 20, 2009 they were \$347 million. He said the high returns in the second quarter have erased the losses of the first quarter, however the longer-term performance is relatively flat. It has been a difficult year for defensive positioned managers. When the market took off these managers were left behind. Some of them are ahead of the curve. For the period ending June 30, 2009 high yield performance was up 41.3%. They were expecting strong performance from high yield securities. Performance has been quite good. He asked if there were any questions.

The CIT Group bonds in the securities lending portfolio were sold on July 16, 2009 and July 17, 2009. It was thought they were worth \$.90 on the dollar but they only received \$.57 on the dollar. This loss was realized when these bonds were removed from the securities lending portfolio.

Internally Bob Hubbard has been meeting with Oppenheimer in reference to investing in futures.

He distributed an updated brokerage firm list including minority and female brokers. He explained that they dialed up their due diligence. None of these firms have any glaring or legal issues with the SEC. They are all good firms that are registered in Michigan. They removed Merrill Lynch from the list even though they are great on the execution side but a firm their size tends to run into a lot of legal issues. Ms. Billings confirmed that most of the issues are administrative.

Chairman Harrison said that the list of brokers should be kept to a minimum and feels Gray & Company should continue to take care of it. Mr. Gray said that he would work with Ms. Zimmermann to compose a letter and handle this as an administrative issue.

Chairman Harrison asked if this required a vote. Ms. Billings confirmed that no vote was required.

**Re: Legal**

CompuCredit Corp

Ms. Billings reported that they are still waiting for the hearing to be scheduled on the Defendants' motion to dismiss.

Merrill Lynch Bond Litigation

Ms. Billings reported that the settlement is still pending in the United States District Court for the southern District of New York. They will continue to monitor this situation on behalf of the Board.

The DIRECTTV Group, Inc. Derivative Litigation

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Ms. Billings reported that the Complaint for Breach of Fiduciary Duties was filed and they are waiting to proceed.

#### IRS Determination Letter

This matter is currently pending with the IRS.

#### Willa Hayes, Letters of Conservatorship

Ms. Billings referred to correspondence sent to the Retirement Office containing a true copy of the updated Letter of Conservatorship for Willa Hayes. This will allow the Retirement Office to release Ms. Hayes' pension benefit checks that were being held and resume the issuance of her benefit checks.

#### Freedom of Information Act Request

Ms. Billings reported that a FOIA request was received from Mattie Lasseigne. Based on the volume of the request a letter was sent extending the period of time from five business days to fulfill the request to a period of time not to exceed ten additional business days.

#### CAPROC L.L.C.

Ms. Billings referred to a copy of the Termination of Escrow Agreement contained within the Legal Report.

#### Memorandum Regarding FBAR Filing Tax Form for Investments in Foreign Companies

Ms. Billings reported that the IRS has taken the position that investments in foreign companies require the investor to file an F Bar which is an informational form filed on an annual basis by investors who have financial interests in foreign countries. Normally, this form is due on June 30<sup>th</sup> every year. However, the IRS has extended the deadline to September 23, 2009. She stated that she will work with the consultant to determine if the Retirement System is required to file the form with the IRS. Mr. Gray said that the banks in Atlanta have been enormously helpful offering their assistance filling out the form.

#### Artio Global Management LLC Form ADV

Ms. Billings reported that the Retirement Office received the ADV Part I from Artio Global Management. This is the form used by an investment manager when registering with the SEC. The ADV Part II has been requested. This manager has no criminal issues.

#### Coughlin Stoia Fourth Quarter 2008 Portfolio Monitoring Report

This report provides a list of securities litigation that was filed during that quarter along with finalized settlements. If there are any finalized settlements pertaining to the system a proof of claim will be filed on behalf of the system.

#### Miscellaneous Articles

- IFEBP Benefits & Compensation Digest, July 2009, Actuarial Assumptions Looking at the "Whole" Picture.



Ms. Billings stated that this article is supplied for the trustees' information. She said that the article is a good primer on the process used by the actuary to perform the actuarial valuation and the assumptions used.

**Union Representatives – None**

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## **UNFINISHED BUSINESS**

### **Re: Placement Agency Policy Draft – Tabled to Next Meeting**

Ms. Zimmermann reported that there has been a number of national pay-to-play scandals where managers were paying kickbacks to get investments placed. The drafted policy mandates full disclosure and spells out consequences.

### **Re: Financial Director Trustee**

Ms. Billings reported that when the Emergency Financial Manager appointed Plante & Moran as the Finance Director there were questions as to whether this person would be considered as a trustee on the Board. She said that the person appointed to that position is, in fact, a trustee based on the ordinance.

A question was raised regarding the fact that Plante Moran prepares the System's annual audit. Ms. Billings stated that there is no public sector guidance regarding a party-in-interest providing services to the System. Under ERISA the guidance for the private sector in that a party-in-interest could sit on the Board provided they recused themselves from voting or issuing any type of opinion and/or discussing matters related to their firm, including but not limited to paying bills and renewing the contract.

Ms. Zimmermann said that as a firm, Plante & Moran may not want to take on the fiduciary liability. Ms. Billings said they may have to rework their agreement.

Trustee Wright said that the Emergency Financial Manager eliminated the Finance Director position from the budget. The position has been changed to CFO.

Trustee Woods said that Denise Buckley who is the unofficial CFO from Plante & Moran said that they do not have a contract to date confirming this position.

Ms. Billings said that if there is no Finance Director, then that position on the Board remains vacant. Chairman Harrison said the Board should leave things as they are and at some point things will revert back to how they were.

Ms. Billings said that Board composition is determined by collective bargaining. Trustee Scott asked if the EFM Fred Leeb has the authority to put himself on the Board. Ms. Billings said that if he did use his power to put himself on the Board the Unions could take the position that such action was an unfair labor action.

Chairman Harrison stated that at this point he would like to remove the item from the agenda because there is nothing the Board can do. Because there are currently only nine trustees it is important to determine if there will be a quorum for the Manager Review and Regular meeting being held on August 25, 2009 and August 26, 2009.

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## **NEW BUSINESS**

**Re: Semi-Annual Rebalancing** – Moved to Administrator

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## **PUBLIC DISCUSSION**

Chairman Harrison asked if there were any items for discussion.

Retiree, Carolyn Clark stated that she was glad to hear that the retirement system is over 100% funded. She also asked that in the future the trustees speak up during the meeting so they can be heard.

Retiree, Jules Ruerat said that he retired in 1994. He said it has been over twenty-six years since the retiree trustee on the Board was a City retiree. He said that with the number of hospital retirees that vote the retiree trustee will always be a hospital retiree. He said he does not feel that City retirees have any representation on the Board. He would like the Board to pass an amendment allowing for a City Retiree Trustee.

Ms. Zimmermann said that the Retirement Ordinance would have to be amended in order to change the composition of the Board.

Mr. Ruerat said that City retirees and hospital retirees are as different as night and day.

Chairman Harrison suggested that the retirees meet with Trustee Barnett who is the retiree trustee. She is very amicable and would be more than happy to meet with the retiree representatives. As a body the Board cannot make any changes.

Ms. Billings stated that in order to add a trustee to the Board it would have to be collectively bargained.

Retiree, Linda Watson confirmed that no actions were taken during the closed session. She also requested a copy of the approved audit report.

Trustee Scott questioned a communication sent out to the retirees from the Retirement Office on behalf of the Board. He felt that the correspondence should have come from the City Administration and felt that the Administrator was serving two masters.

Ms. Zimmermann said that at the last meeting the Board directed her to send any pertinent information regarding the healthcare issue to the retirees. She had no intention of causing a

conflict with the Administration. She stated that the information contained in the correspondence had been printed in the newspaper. She added that she had volunteered to help on the committee working on the healthcare issue.

Chairman Harrison and Ms. Zimmermann confirmed that Trustee Scott was objecting to the content of the letter sent to the retirees. Ms. Zimmermann stated that she was contacted by Susie Shoemaker confirming the date and time of the meeting to include with the mailing. She was under the assumption that the Emergency Financial Manager was aware of the meeting and that it had been confirmed with him. She apologized for any miscommunication.

Retiree, Carolyn Clark said she received the letter and when she read it did not think that the Board was involved in anyway with scheduling the meeting.

Retiree, Edith Kaminski asked about combined large cap manager UIM. She asked why there was limited performance history for the manager. Mr. Gray explained that the manager was hired one year ago and the history in the report pertains to the time the manager has been in the fund.

The meeting concluded at 3:40 p.m.

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**SCHEDULING OF NEXT MEETING AND ADJOURNMENT:**

Special Meeting: August 25, 2009, Marriott at Centerpoint, Pontiac, MI

Regular Meeting: August 26, 2009, 2009 1:30 p.m. – Affinity Group Credit Union

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I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on July 22, 2009

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*As recorded by Jane Arndt*