CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
MAY 12, 2010

A special meeting of the Board of Trustees was held on Wednesday, May 12, 2010 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan. The meeting was called to order at 10:14 a.m.

TRUSTEES PRESENT

Shirley Barnett
Charlie Harrison, Chairman
Mayor, Leon Jukowski
Javier Sauceda, Vice Chair
Patrice Waterman
Kevin Williams
Debra Woods
Andrea Wright

TRUSTEES ABSENT

Devin Scott *(excused)*

OTHERS PRESENT

Chris Kuhn, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Tal Gunn, Ambassador Capital Mgmt.
Greg Prost, Ambassador Capital Mgmt.
Graham Allen, Bradford & Marzec
Gilbert Garcia, Davis Hamilton
Daniel Kallus, Davis Hamilton
Andrew Harding, PNC Institutional Inv.
Kirk VanDagens, PNC Institutional Inv.

Gray & Company – Fixed Income Manager Finalist Presentations

Mr. Kuhn explained that the System's fixed income manager Allianz (Oppenheimer) had the management team leave which prompted the fixed income manager search. Allianz offered a temporary solution with Nicholas Applegate managing the asset allocation. They have indicated that the System can transfer these funds to PIMCO.

The search began with seven managers. The Board indicated that they would like Gray & Company to narrow down the managers. He and Ivory Day selected four fixed income candidates that would compliment Munder with returns above the benchmark using the intermediate index.

The managers selected were Ambassador Capital Management, Bradford Marzec, Davis Hamilton and PNC.

Mr. Gunn and Mr. Prost arrived at 10:18 a.m.

Ambassador Capital Management

Talmadge Gunn, Sr. Vice President / Sr. Portfolio Manager
Greg Prost, Chief Investment Officer

Mr. Gunn thanked the Board for the opportunity to present his firm. He is a senior portfolio manager for Ambassador Capital and would be the lead portfolio manager for this account. Gregory Prost is the Chief Investment Officer and a CFA.

Ambassador Capital Management has $900 million in assets under management. They are located in Detroit with a small satellite office outside of Chicago. They have five seasoned investment professionals on the team. Their focus is fixed income and managing bonds across the yield curve. They have the ability to manage intermediate, core and core plus. They are more than capable of managing the intermediate mandate with a median account size of $35 million.

He reviewed their representative client list. Their forte is public plans and they are public fund centric.

He explained that their investment style utilizes a top down approach. Mr. Prost will describe their investment process and the macroeconomic basis for their strategy decisions and explain the triggers in the economic cycle.

Mr. Prost said that a fixed income manager watches for big blows in the economic cycle to make sure they protect the portfolio from downside risk. They identify the fundamental trends and opportunities in the market based on a given point in the economic cycle. When they maintain their disciplined approach they outperform the market overtime.

There are specific performance indicators for fixed income managers. He described the economic cycle and the relationship to the yield curve and risk. When the Fed cuts rates the yield curve steepens and when interest rate increase the yield curve flattens.

The Fed's reaction through an economic cycle is also important, especially when you are managing cash and enhanced cash which they do for a number of municipalities.

They are constantly monitoring the market cycle describing the relationship between the GDP and the markets. Interest rate indicators pointed toward the Fed cutting interest rates in late 2007. They were a little early but they took risk positions down in the portfolio in 2006 before the market downturn.

Chairman Harrison asked what indicators they saw when the market began to spiral in 2006. Mr. Prost said that they use fifty separate variables and statistical modeling techniques. In the 1950's the housing market dropped which affected consumers, leading to a drop in the GDP. The housing market has always been a leading indicator. During the most recent decline, corporate bonds were expensive.

Mr. Gunn said that recently a point of focus in their research has been the Michigan economy and Michigan banks. Michigan banks led the country in declining loan quality. Mr. Prost said that a number of their research reports are on banks in Michigan.

He discussed how they use the variation in the yield curve shape to track the underlying fundamentals. He showed how concentrating holdings (bullet strategy) in a five-year time period returned 6.19% versus a three month to ten-year barbell with a combination of cash and ten year bonds returned 3.37%. It is important to recognize when the yield curve is steepening in order to properly structure the yield curve exposure and add incremental performance. In the bullet you are not positioned to take advantage of a steepening yield curve.

Mr. Kuhn asked how they take advantage of opportunities if their approach is opposite. Mr. Prost said that they have to closely monitor rates.

Their sector quality management looks at relative opportunities and risks in yield spreads. In 2006 and 2007 corporate bonds did not provide attractive yields over Treasuries. They moved out early and gave up some yield selling corporate bonds to purchase treasuries. Most fixed income managers will not give up yield. He said they may underperform when taking yield off the books.

Their subsector is setup the same way. They compare the current risk in the economy relative to the yield premium that is received for owning a sector. He reviewed the corporate index sub-sector.

Chairman Harrison asked if this approach brings down beta. Mr. Prost said that they look at the picture of where it stands in the cycle. It would cost the same amount of performance to put a bar bell on. They use a top down approach.

They use a bottom up approach for individual selections. They keep each position small at less than 1% of the portfolio. They buy a lot of positions and are not trying to find a few great names. They stay disciplined.

Chairman Harrison asked if at any point they can shift gears into a core plus with derivatives. Mr. Prost said that on occasion they can make that trade but that it does not make sense in a fixed income portfolio.

Chairman Harrison described how high yield has leveled off and dividends have flattened. He asked if that is something they would like to put into the portfolio. Mr. Gunn said that would mean taking on more risk during this period. Mr. Prost said that they can overweight to corporate bonds which are cheap but only high quality bonds.

Mr. Gunn said that risk is definitely too high. Mr. Prost said they are not being paid to take risk.

Mr. Gunn said that their core process has performed well for them. They take a little less risk than the market. Recognizing sector structure helps their performance. Their excess returns have been over 1% versus the benchmark since inception. They use off the shelf products to evaluate risk by stressing the portfolio for varying economic and interest rate environments.

They use a top down buy sell discipline. Their approach is to overweight the utility sector which historically has a lower default risk. This keeps their standard deviation around the norm and to keep things from getting out of whack.

Mr. Gunn thanked the Board for the opportunity and congratulated the System for winning the award for top performing small public fund in the country.

Ms. Zimmermann asked which product they are describing. Mr. Gunn said that both their products look like core but this portfolio would have a shorter duration.

Ms. Billings asked about the management fee schedule.

Chairman Harrison asked if he runs this portfolio in a similar style to when he ran the portfolio at Munder Capital. Mr. Gunn said they are running the average bond maturity at the benchmark. Munder runs close to the index. They are a bit more circumspect and take risk off the table. The Munder style has more exposure but will out perform over time. Ambassador is more conservative but will take advantage of opportunities

Mr. Gun and Mr. Prost left at 10:50 a.m.

Bradford & Marzec
Graham Allen, FCMA, Principal

Graham Allen introduced himself to the Board. He said that he has been in the business for thirty-three years with twenty-eight of those years managing institutional funds. He originally started out in equities. He thanked the Board for the opportunity.

He is the head of the fixed income portfolio. He left Bradford & Marzec for a short period and rejoined in 2003.

Bradford & Marzec was founded in 1984. They currently have $3.6 billion in assets under management. The bulk of their assets are in core and core plus. The firm's sole focus is fixed income and it is all they manage.

They are 100% employee owned with thirty-seven employees. There are sixteen investments professionals on the team, half specializing in credit. All the investment staff is based in Los Angeles.

Credit continues to be a focus. They are very conservative. They buy directly into the market and do not have any derivatives, ETF's and no leverage.

They use a sector rotation approach looking for relative value. Their process has been developed over years of moving through market cycles. They have a liquidity emphasis which is how they beat the market.

He explained that their performance is based on the four P's; people, philosophy, process and performance. They have been doing this for a long time with their track record going back to the early 1990's. The senior portfolio management team is highly experienced in fixed income which helps them understand the relative value. They have deep bench traders. Most people have tenure and have been with the firm for ten years.

Their philosophy has remained consistent since inception. They know it works based on their performance. They are looking for liquidity that enables them to position the portfolio in anticipation of market cycles. At the end of 2008 there were significant assets for sale which enabled them to buy underpriced securities. Having liquidity helps in times of market stress.

Their process has evolved. 2001 and 2002 were some of their worst years due to the World Com accounting fraud. They now have much better risk controls looking at duration and sector risk on a daily basis. They determine their maximum downside by measuring tracking error. They look for the best returns with the least risk.

Their process is a top-down team approach. They meet weekly to analyze the global macroeconomic trends. If they think the economy is picking up they increase their corporate exposure or increase cyclical credits. Changes are proposed by one portfolio manager, it has to be seconded by another portfolio manager and the majority rules.

Their performance ranking for their core product from March, 2008 through March, 2010 ranked in the top one percentile. They were happy with performance at 1.5% over the benchmark. They are not doing crazy stuff, just solid conservative bond management. This performance is not out of the norm since they are consistently ranked in the top percentile. Their senior portfolio management team has long tenure and experience.

Yield on corporate bonds were wide but corporate bonds did not cause the problem. During this period, spreads in Corporates were the widest ever seen in the United States. By taking a six to twelve month view of what is happening in the economic and market cycles, the team looks for relative value between fixed income sectors, shifting into the treasuries market. You do not want to go too long or too short.

They had bought the best quality corporate bonds and saw huge returns. In times of market stress, preservation of their clients' capital is their main focus. This means that in order to avoid risk sometimes you have to give up returns. They also wanted to make sure they were able to sell the bonds. They do their own in-house credit analysis rather than rely on the rating agencies.

He reviewed the meltdown of the credit market in 2008. Based on their top down investment process they were unhappy with mortgages and sold all subprime and mortgage backed securities. This is good proof of their process at work.

In January, 2009 they added high quality commercial mortgage backed securities back into the portfolio which represented index risk and volatility.

He described their performance attribution. The performance for their core composite was 11.12% versus the Barclays Aggregate at 5.93%, representing 5.19% in excess returns. They look for a bulk of their excess returns to be generated from a combination of sector rotation at 45% and security selection at 35%. Duration and yield curve positioning at 20% are used to enhance returns but is not a huge portion of the process.

He reviewed their core composite performance gross of fees. Their one-year returns as of March 31, 2010 are 13.25% versus the index at 7.69%.

Their goal is to be able to reproduce their performance. He reviewed the core composite rolling returns versus the peer universe. They have consistently ranked in the top percentile.

Their Core Composite Sharpe Ratio has consistently ranked in the top percentile versus their peer universe. They are proud of their track record.

He explained that they have over twenty-five years of core fixed income experience. Their philosophy has remained consistent since inception. Their top-down repeatable investment process has been refined over decades of market and economic cycles. They have consistently produced long-term, above-benchmark performance and compare favorably with other managers.

The fee schedule on the intermediate core product is 23 basis points.

Chairman Harrison asked what the investment commitment is from the City of Ann Arbor and Birmingham. Mr. Graham said the commitment is $6 million.

Chairman Harrison also asked if their clients are all institutional. Mr. Graham said that 35% of their clients are public funds.

Mr. Kuhn asked if he would explain their credit analysis. Mr. Graham said that they start with the index and constantly analyze the main component. They underweight to the index which increases the average credit quality. They sell subordinate debt and buy senior debt when switching sectors. They are constantly analyzing the portfolio and corporate earnings, new issues accounts research and look at earnings report daily.

Mr. Graham left at 11:19 a.m.

Trustee Williams asked why both managers focused on the 2007 to 2008 period.

Mr. Kuhn said that they focus on that period because the market blew up in 2008. If the manager did a good job in 2008 their portfolio stayed liquid which is a true stress test.

Chairman Harrison pointed out that Ambassador Capital moved into treasuries in 2006 versus Bradford Marzec in 2007.

Meeting break at 11:22 a.m.
Meeting resumed at 11:26 a.m.

Davis Hamilton Jackson & Associates
Gilbert Garcia, Managing Partner, CFA
Daniel K Kallus, Partner, CFA/CIC

Mr. Garcia introduced himself and Mr. Kallus to the Board. He has been in the bond business and on the money management side his entire career. He started his career with Soloman Brothers and has been with Davis Hamilton for eight years. He manages the fixed income portfolio for the firm.

Mr. Kallus has been with the firm for twelve years and is a Senior Portfolio Manager for the equity portfolio. Prior to joining the firm he was an analyst, equity trader at Shell Pension Trust and worked at Smith Barney as an investment consulting analyst.

The firm was founded in 1988. They were sold to an institutional partner. They are currently transitioning and buying themselves back owning 75% of the firm with 60% held by minorities and women. By July 1, 2010 they will be 100% employee-owned and 75% minority and women-owned. Being employee-owned makes them work harder.

The firm has $2.1 billion in assets under management with $1.5 billion in fixed income with the balance in high quality equities. Their fixed income products are broken down with 38% being in the aggregate or the full market and another 37% in intermediate government and credits. The remainder is in TIPS and short government durations. Two-thirds of their clients are public pension funds.

He reviewed their representative client list. He pointed out that the names in dark green have been with their firm for over ten years.

Mr. Kallus said that their investment goal and philosophy is simple and straight forward. They are looking to outperform their benchmark using a high quality strategy with low turnover and less risk. The anchor of their consistent investment results comes from their core principles. The fixed income portfolio is the anchor in the allocation which allows investors to take risk in other allocations. They look to provide consistent income by investing in high quality positions that are flexible which reduces credit risk.

Mr. Gilbert said that they make sure they invest in corporate securities rated single A or better in large, global issues companies. The portfolio is dominated by U.S. Treasuries, agency debentures like Freddy Mac and Fannie Mae and agency mortgage-backed securities.

Their spread product is concentrated in the short to intermediate maturity range to reduce credit risk versus the aggregate portfolio index with a maturity range of one to thirty years with 10% of securities grater than ten years. There are no spread products in the intermediate part of the curve.

Trustee Woods returned at 11:32 a.m.

You have to rely on your manager. There are no big surprises in their portfolio. They do not utilize non-dollar denominated bonds, high yield securities, BBB rated securities, zero-coupon debt, derivatives, leverage or securities lending in their portfolio. You do not have to participate in these to out perform net of fees. It might be old fashioned to have only high quality issues in the portfolio.

Because they are flexible they can adjust to changing market conditions and have the flexibility to recognize market opportunities. In 2003 there was a historically wide yield curve. He explained how using a barbell type investment strategy would work better in this type of market condition. During this period they were able to buy on the short end in products such as mortgage balloons, corporate inflation protected securities and callable agencies. They had 40% invested in short-term financial securities (the index has zero in smaller market opportunities). These investment opportunities are within the characteristics of their portfolio.

He explained how their proprietary models and software assist them with monitoring the portfolio. Their models add another layer of checks and balances and they do more homework. Their liquidity model ensures the securities are tradable at all times.

They do not invest in high yield or derivatives and take limited interest rate risk. They actively rotate sectors and yield curve risk.

He discussed their investment process policy. They feel data is subjective. They look at the most important factors: market sentiment; monetary policy; economic forecasts; valuations and inflation. He gave an example of how in 2003 and 2004 interest rates rose in the bond market. Everyone was either positioned that way or neutral. Fixed income is a wonderful bedrock.

The investment team meets each morning. Their fundamental research and analysis looks at five factors and historical data. They review their liquidity, duration and spread models versus their quantitative findings. They set target ranges for the portfolio in duration, yield curve, sector percentage and sector duration contribution. They continually monitor the risk controls of the portfolio. Each quarter they review the accounts and the dispersion around the accounts.

Mr. Kallus said that the fixed income and equity teams are integrated when looking at corporate bonds. They only look at high quality corporate bonds.

Mr. Gilbert reviewed the portfolio characteristics. The index has 35% allocated to Corporates with one-third in BBB-rated securities. Their portfolio as of March 31, 2010 had 51% allocated to Corporates and is now closer to 60%. They have the ability to make up income versus the index. They have produced more yield than the index with average yield to maturity, average maturity, average coupon and average duration.

Mr. Kallus reviewed their composite returns gross of fees. They have a straightforward goal which is to beat the benchmark with less risk. They are not driven by one or two years of performance they are looking for long-term consistent performance.

Mr. Garcia thanked the Board for the opportunity and asked if there were any questions.

Chairman Harrison asked about the former partners Alford Jackson. Mr. Gilbert said that Mr. Jackson left in 2005 to work in private equity. On January 1, 2011 the firm name will be changed to Garcia Hamilton. Hamilton will remain in the firm name.

Ms. Billings asked about their management fee structure. Mr. Garcia said on an investment of $45 million the fee would be 22 basis points.

Mr. Kuhn asked if they have an issue running against the Barclays Intermediate Aggregate Index. Mr. Garcia said they are comfortable running against that index.

Mr. Garcia and Mr. Kallus left at 11:49 a.m.

Trustee Woods asked what AMG stands for. Mr. Kuhn said that it stands for Affiliated Management Group. They are purchased several investment management firms as a way to benefit from the revenue stream and provide succession planning for the firms.

Chairman Harrison said that Davis Hamilton has the most risk based on the comparisons yet their presentation was completely opposite.

Mr. Kuhn said that not all risk is bad. They are a true intermediate fixed income manager versus the other managers who are core fixed income. They have the highest up market capture and they over weight in corporate bonds tempered with high quality.

Mr. Harding and Mr. VanDagens arrived at 11:55 a.m.

PNC Capital Advisors, LLC
Andrew Harding, Chief Investment Office, Fixed Income
Kurt VanDagens, CIMA, Vice President

Mr. VanDagens thanked the Board for today's opportunity. He has been with the bank for twenty-one years. Mr. Harding has been the CIO since 2001 and is the lead portfolio manager for fixed income.

PNC's Financial Services Group has more than 150 years of fiduciary and money management experience. They have over 300 professionals with a Midwest-centric footprint serving a variety of institutional clients.

They have a local presence in the community with seven client service professionals. Their focus is that the client comes first. They have been a member of MAPERS since 1994.

They have $33.0 billion in assets under management as of March 31, 2010 which makes them large enough to be well resourced especially for trade executions. They have $11.6 billion in fixed income assets with $5 billion representing public sector assets.

He reviewed their representative client list. They have extensive experience servicing public fund clients.

He described how their investment teams can focus on managing the portfolios. PNC has centralized resources that provide client service, sales and compliance and risk management.

Mr. Harding said that the portfolio management team manages assets across the spectrum from cash management to long duration. Their team of 22 people includes strategy and portfolio managers, portfolio and sector specialists, risk management and research, structured research and credit research gives them the ability to have more eyes on the portfolio versus one person operating in a vacuum.

They utilize a top-down investment process looking at active sector rotation combined with the economic outlook and security analysis to construct the portfolio. Their macroeconomic outlook is that the Fed will be on hold the rest of the year. The U.S. economy will see a moderate recovery versus a low global recovery. The stimulus will continue and add to the deficit which will put pressure on interest rates two to three years out. Core inflation will decelerate during the next six months to a year.

They hold strategy sessions weekly to formulate their economic outlook based on monetary policy, fiscal policy, geopolitical outlook and inflation expectations.

They are duration neutral with the yield curve flattening and ten-year treasury notes yielding 3-1/2%. When the yields are 4% or greater they will move into ten-year treasuries. They do not feel that the economic growth will be V-shaped. They use sector rotation to review the relative value within sectors to determine sector allocation.

They put the sectors together like a mosaic painting looking at the picture first and then creating the portfolio. Mortgage-backed securities and asset-backed securities are somewhat stable with the corporate bond area a little more volatile. They feel that the credit and structured products like CMBS, ABS and MBS fit their strategy and risk reward profile. They are responsible for their own security rating analysis in the portfolio.

They use yield spreads to determine sectors, sub-sectors and securities including over weights and under weights within each sector. They manage and evaluate risk to verify their strategic approach to the portfolio. It is important to know what risk you are taking in order to confirm the risk is where you want to be.

The portfolio is constructed using an asymmetric bond profile. There are limitations by credit quality with a maximum cash position of 5%. Diversification is important to fulfill their strategy, not a granular approach that adds transaction costs. Sector percentages are limited and their duration position is managed plus or minus a 20% maximum relative to the benchmark.

He reviewed the sector and quality allocation of their Intermediate Aggregate Portfolio. Structured products make up a large percentage of this portfolio. They feel this positions the portfolio for the best returns. Mortgage backed securities are less volatile, have better returns and have a better standard deviation versus the benchmark.

Chairman Harrison asked if the low risk in the portfolio is attributed to a lot of AAA rated securities in the portfolio. Mr. Harding said that they do not take on adverse positions or go outside of their benchmark. The quality rating of their portfolio is rated AA. Chairman Harrison asked the quality rating of the benchmark. Mr. Harding stated that the benchmark's quality rating is A.

Trustee Wright asked what PNC stands for. Mr. VanDagens said that it does not stand for anything. The original name was Pittsburgh & Providence National Corporation. Mr. Harding said that PNC and legacy National City merged. They are a known brand and have a local client service footprint in the Eastern United States and the Midwest. They recently received a $100 million dollar mandate from Alaska. They are a strong local player.

Mr. VanDagens reviewed their performance stating that all the managers invited to the meeting are competitive or they would have not been invited.

Their five-year percentile rankings versus the eVestment Universe Peers as of March 31, 2010 found them in the 17th percentile for excess returns and in the 38th percentile for up market capture. He explained their up and down market capture and tracking error stating that they adhere to their discipline versus the benchmark without a lot of style drift.

They are different from the other managers because they have deep resources and staying power. They have the structure of a big firm with a close personal client focus. They have a high quality portfolio, their client service team is located in Troy and they have deep roots in Michigan.

They are offering a 20% discount on their fee structure at 24.3 basis points.

Mr. Harding and Mr. VanDagens left at 12:28 p.m.

Chairman Harrison asked the trustees for their recommendations.

Ms. Zimmermann asked Mr. Kuhn to review the manager fees.

Mr. Kuhn said that the management fee for Ambassador is 30 basis points, 23.5 basis points for Bradford Marzec, 22 basis points for Davis Hamilton and 27 basis points for PNC with a 20% discount rate.

He asked if the trustees had any questions. The Barclays Intermediate Aggregate Strategy is a relatively new benchmark that is seven years old. There has not been a lot of money run against it. These managers have the tools in their tool box to run against it.

Davis Hamilton allocates a lot to mortgages. Bradford Marzec and Ambassador run against the core index. It is not a perfect comparison and the performance is not an apples to apples one. Ambassador and Bradford Marzec have the advantage. All the managers' performance numbers are competitive.

Chairman Harrison asked if all the managers stayed within the Intermediate Aggregate would their numbers change. Mr. Kuhn said that there would be a little less interest rate risk and there would be a minor change in duration. Ambassador and Bradford Marzec would have higher volatility.

Trustee Williams asked about the managers' positions based on quality ratings with PNC capable of moving down to BB. Mr. Kuhn said that Bradford Marzec has the ability to move down to high yield as well.

Chairman Harrison asked Mr. Kuhn to provide a brief recap of each manager. Mr. Kuhn said that Ambassador is local and very competitive. They are the smallest manager and have the shortest track record. PNC is local, has a longer track record and more assets. Davis Hamilton has the weakest performance, they do not dip down into BBB's but they had the strongest presentation. They have a higher credit quality than the others but they are heavy into Corporates.

Trustee Barnett said that she liked Davis Hamilton. But she likes PNC for their long track record.

Trustee Wright said she liked Ambassador and PNC. She did have a problem with Ambassador's fee.

Trustee Woods said she liked Ambassador.

Trustee Waterman said she liked Ambassador because they are smaller and hungrier. She also liked Davis Hamilton.

Trustee Williams said he liked PNC and Ambassador.

Trustee Sauceda liked Ambassador and PNC.

Chairman Harrison said he liked Ambassador and PNC. The System has a Michigan-centric approach. He also feels that these two managers have less volatility and likes their local presence.

Trustee Wright asked if the allocation should be split. She also asked if there is a way to bring down Ambassador's management fee to 25 basis points.

The trustees voted between intermediate fixed income managers Ambassador and PNC.

Roll Call:

Trustee Barnett – Ambassador	Trustee Woods - Ambassador
Trustee Wright – Ambassador	Trustee Waterman – Ambassador
Trustee Williams – PNC	Chairman Harrison - Ambassador
Trustee Jukowski – Ambassador	Trustee Sauceda - Ambassador

RESOLUTION 10-044 By Wright, Supported by Waterman
Resolved, That the Board retain Intermediated Fixed Income Manager Ambassador pending fee and contract negotiations.

Yeas: 8 – Nays: 0

Trustee Woods stated that once a resolution passes the Board is a team. The trustees are all in this together.

Chairman Harrison said that he feels this is a good team and their recent award confirms that. He commended the Mayor for recently standing up for the Board. He said that it takes the Board, the consultants, the Administrator and the Retirement Office staff to make the team and that is how they were able to win the award.

Trustee Waterman told the Board that Fred Leeb is trying to mess with the Retirement System money and wants to know how we keep him from going into the Fund and taking the money.

Ms. Billings said that Mr. Leeb is requesting an actuarial study and looking into a 420 Transfer per the Internal Revenue Code. She explained that the memorandum does not take the State statute into consideration. The Internal Revenue Code 420 Transfer also has to be in compliance with the State statute. The only way pension assets can be transferred is if both are in compliance. The State statute allows for 50% of the interest earned on contributions to be used for reimbursing retiree healthcare. The lesser of the two statutes is the amount that can be transferred.

Chairman Harrison asked what happens if the funding level falls below 125%. She said that the City would be required to contribute money to bring the funding level back to 125%. There was discussion regarding the $6.8 million allocated in the 2011 to 2012 Budget to pay for retiree healthcare costs. It was also indicated that the General VEBA Fund is being looked at to assist in funding retiree healthcare costs.

Ms. Billings said that notwithstanding the state law, a 420 Transfer requires that all current employees to be 100% vested and any employee who has terminated employment within one year of the transfer date also becomes 100% vested in the Retirement System. This will have to be collectively bargained.

Mayor Jukowski said that Mr. Leeb has retained Timothy Currier from Beier Howlett as his attorney. He asked theoretically if Mr. Leeb could take assets out of the Fund what is the realistic amount that could be withdrawn.

Ms. Billings said that with the constraints of both the Internal Revenue Code and the state statute, it does not appear that any assets may be taken from the Retirement System and used to pay retiree health care. The Board has a fiduciary responsibility to follow the law. She will check to see if assets can be taken out of the VEBA.

Ms. Zimmermann pointed out that the Police & Fire VEBA has not received detailed backup for the amount the City has indicated needs to be reimbursed for retiree healthcare. The Fund has the fiduciary obligation to only use assets for the payment of retiree healthcare for police and fire members who are retired after a specific date.

Trustee Barnett asked what would happen if the Hospital wanted to withdraw the monies they contributed to the Fund and whether it would make a difference.

Ms. Billings described the IRC and State statutes and stated that the System would be in direct violation of Federal or State Law if both were not in compliance.

It was pointed out that the money was budgeted into the General Fund and the adjusted Recommended Budget did not go before City Council.

Mayor Jukowski said that Mr. Leeb has an attorney and that $100,000.00 was added to the Executive Office Budget to pay for legal fees.

RESOLUTION 10-045 By Waterman, Supported by Barnett
Resolved, That the Board adjourn the meeting at 1:23 p.m.

Yeas: 8 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees' Retirement System held on May 12, 2010.

Prepared by Jane Arndt