CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
SEPTEMBER 23, 2011

A special meeting of the Board of Trustees was held on Tuesday, August 23, 2011 at the City Council Conference Room, City Hall, Pontiac, Michigan 48342. The meeting was called to order at 1:17 p.m.

TRUSTEES PRESENT
Shirley Barnett
Koné Bowman
Charlie Harrison, Chairman
Leon Jukowski, Mayor
Phyllis Long
John Naglick
Tuesday Redmond

TRUSTEES ABSENT
Devin Scott *(absent)*
Patrice Waterman *(absent)*
Kevin Williams *(absent)*

OTHERS PRESENT
Cynthia Billings, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Jane Arndt, M-Administrative Assistant

Gray & Company – Global Equity Manager Presentations
Chairman Harrison welcomed Phyllis Long as the newest member of the Board. He indicated that they are a friendly, crazy but decent bunch of people.

The purpose of this special meeting is to interview managers for the global equity space.

Mr. Kuhn indicated that the allocation to real estate is being transferred to global equity. They brought six candidates for the Board's review and the three managers at today's meeting were selected to present their investment strategies.

First Eagle Investment Management
Greg Cassano, Vice President Institutional Sales and Marketing

Mr. Cassano thanked the Board and Mr. Kuhn for the opportunity. He joined the firm in June, 2008 as the Vice President of Product Relationship specializing in public funds and unions.

First Eagle is an independent asset management firm controlled by the Arnhold family and the employees. The Arnhold family is personally involved in the business and is a fourth generation firm family.

The firm has been located in New York City since 1937. All their operations are done at 1345 Avenue of the Americas. As of June 30, 2011 they had $60 billion in assets under management in relationship and institutional investors.

He told the Board that the Arnhold Family invests side by side with investors with $600 million of their own money invested in the same strategy and with the same fees.

Their investment principals are value oriented, long-term conservative discretionary investor. Their two major objectives are to preserve and protect capital. This strategy was built to outperform in down markets.

He provided an overview of their representative institutional investors. They currently have $7.4 billion in institutional assets under management. He stated that this is not the entire list of their institutional clients. Those mentioned are the investors who agreed to be included in the presentation materials.

Trustee Barnett asked what percentage of the firm is owned by the family and the percentage owned by the employees.

Mr. Cassano said that the Arnhold Family owns 65% of the firm, 15% is owned by key employees and 22% is owned by a private equity firm in Boston. Up until 2002 they owned a broker/dealer business and an investment banking businesses which they sold to TA Associates, a private equity firm. They recapitalized the equity into the firm. Their objective is to buy out the 22% owned by TA Associates.

John Arnhold is the face of the organization. His father who is ninety years old is an active member of the Board and the organization.

Trustee Barnett questioned whether the father and son are the key principals of the firm.

Mr. Cassano said that John Arnhold is fifty-five years old and that there is no exit strategy for the family. They will continue to be involved in the firm.

Ms. Billings questioned the firm’s name change.

Mr. Cassano said that the retail business and the mutual fund business were known as First Eagle but the institutional business was still known as Arnhold Bleichroder. It was difficult to present the various strategies referring to different names so they brought all the products together and branded them as First Eagle.

They recently added $800 million in U.S. public funds. They have seven public fund investors in Michigan. As of June 30, 2011 the global value team has $53 billion in assets under management.

They have been managing global equity since 1979. There are not a lot of managers have a track record that long.

Their Senior Advisor, Jean Marie Aviard has forty-seven years of investment experience. He retired as the portfolio managers but is still involved as an advisor and an investor.

They global value team is a fourteen member team with ten research analysts and four portfolio managers.

He explained that the $3.2 billion in gold has always been an investment in their global equity strategy. The allocation to gold is to protect and preserve the capital in the portfolio.

Their investment objective is to achieve attractive real returns while preserving their investors' capital over time and producing excess returns. They are steady eddies that buy and hold companies for the long-term.

He reviewed their historical gross performance results. They have had strong long-term performance versus the MSCI World Index at 16.03% versus 9.82%. As of September 21, 2011 they were up 7% versus the benchmark.

Their standard deviation is also low compared to the benchmark at 10.46% versus 15.16%.

In order to preserve capital they own companies for the long-term and focus on absolute returns. Their strategy is currently down 2% but they have generated positive returns in thirty-one of the thirty-two calendar years.

He reviewed their investment process strategy. They hold 90 to 130 diverse securities in the portfolio. They are a value manager and are bottom up fundamental stock pickers which fits with their investment philosophy. Historically their turnover is low. They are an all capitalization manager across all strategies. They are benchmark unaware. They move along and pay no mind to benchmark under or over weights. This is predominantly an equity portfolio but it has a low percentage of non-equity securities including gold, fixed income and cash. Not having constraints allows them to actively manage cash. As of today there is 10% cash in the portfolio.

They find opportunities by spanning the capitalization structure across investment industries and at both ends of the value spectrum. They look for companies that are domiciled in Japan but only 15% of their returns are attributed to Japan. The rest is global performance.

He described Shimano Inc. which manufactures fishing reels and bicycle parts. He said that just about every bike that is made has a Shimano part.

Trustee Barnett asked how they rank among their peers.

Mr. Cassani said that they rank in the top quartile.

He reviewed their top ten holdings including Cintas a global uniform supplier, Comcast and American Express.

He described their research efforts. They are document driven and do their own securities homework to determine the value of a company. They hold research discussions each week and prior to making an investment they confirm the company's fair value. They are very research intensive performing 75% to 80% of their research in house.

He provided a comparison of their investment allocations compared to the index during the periods of time that included the collapse of the Japanese market in 1988; the tech/telecom bubble in 2000 and the most recent financial collapse in 2007 versus the benchmark.

They had no allocation to Japan in 1988. They did not participate in tech/telecom because it did not meet their discipline.

In December, 2006 their allocation to financials was 1.7%. They are not fans of large banks based on their balance sheets. They do own financials but they look for smaller regional banks with low leverage.

He indicated that they are disciplined value oriented investors. He thanked the Board for the opportunity to present their strategy and asked if there were any questions.

Chairman Harrison asked if the p/e ratio threshold comes into play.

Mr. Cassani said that they do not take big bets and only hold a 2% position in any one security. They look at price to book and price to earnings across an array of names. They tend to focus more on EBITDA to analyze and compare company profitability.

Chairman Harrison asked if value companies have decent dividends.

Mr. Cassani said that value companies have decent dividends but it is not a major criteria but it does play a role in some names like banks.

Trustee Naglick asked if it is too early for value investments in China and India.

Mr. Cassani said that they feel it is too early but they are traveling there to look at ideas. They are a conservative manager and only have 7.8% exposure to emerging markets in the portfolio. Their portfolio has more of a gold play with $1.5 billion invested in gold bullion. Currently, CBRI is doing the work and comprising their wish list. They look at developed countries and are currently over weight to Japan and the United States. They look for eclectic royalties and revenues received from outside the domiciled country.

Trustee Barnett asked who would be their contact at the firm.

Mr. Cassani said that he would be the main contact. There is also a public fund team for First Eagle. He has resources to assist him.

Ms. Billings asked out their fees.

Mr. Cassani said that the management fee for a separate account is 75 basis points. He referred to page forty in their presentation materials.

Mr. Kuhn indicated that their investment may not qualify for a separate account and they would be looking at the institutional commingled fund.

Mr, Cassani said that the commingled fund looks and feels like a separate account. There is an extra layer of fees that would raise the fee to 89 basis points but would include all the custody for the client.

Ms. Billings asked if they are flexible with their contract terms.

Mr. Cassani said that as a Limited Partner they are agreeable to side letters. He indicated that the side letters confirm their fiduciary responsibility.

Ms. Billings said that the investment for a Limited Partner is $100 million. She questioned whether a Side Letter Agreement could be done in the commingled fund.

Mr. Cassani said that he was not sure about the $100 million investment and would take a separate account into advisement.

Mr. Cassani left at 1:57 p.m.

Wentworth Hauser & Violich
David A. Schwarzenberger, CFA – Sr. Vice President Business Development

Mr. Schwarzenberger thanked the Board for the opportunity. He stated that he is the Senior Vice President of Client Service.

The firm has a quality proven investment history. They have a rich heritage of managing institutional and high net worth client portfolios since 1945.

They are a stable organization with their investment professionals averaging twenty-two years of investment industry experience and fourteen years with WHV. They have a total of eighty-one people on staff with twenty-seven investment professionals.

He described the joint venture between Hirayama Investments, LLC and WHV which became effective in January, 2009. This is a ten-year agreement.

He said that they use a star approach with Richard Hirayama.

As of June 30, 2011 they had $16.9 billion in assets under management.

He reviewed the portfolio assets with the bulk of their assets $13.98 billion invested in international/global equity.

Their institutional assets by client type include exposure to all major plan types.

He provided an overview of their representative client list. He said that they were pitching their international equity strategy to a Canadian client who liked their idea but said that their idea of a global equity strategy includes the United States. So in 2005 they launched their global equity strategy.

He indicated that the clients portrayed in blue are invested in their international equity strategy and those in tan are invested in the global equity strategy.

They are proud of the length of their client relationships. They are the only original manager still left with the City of Flint. It is attractive to retain relationships.

He explained that Richard Hirayama is the Managing Member of the investment team. He has a Masters of Business Administration from the University of California Berkley. He has been in the industry for forty-two years and with the firm for twenty-one years.

Ms. Stankard has been in the industry for thirteen years and working with Richard Hirayama since 2001. Ms. Goodson joined the firm in 2008.

He indicated that Richard Hirayama identifies trends.

He said that their investment philosophy depends on investing in the most attractive global economic sectors. They are primarily a bottom up manager but use a top down process looking at countries.

They look at companies focused on sectors rather than countries. The turning point was the fall of the Berlin Wall. Instead of the markets being regionally focused they became globally focused.

As investors they are more focused on sectors regardless of geographic location. In 1999, Richard Hirayama had 50% allocated to tech and telecom. He sold everything in early 2000 and made the move to oil and energy and has been there ever since.

They are a growth earnings manager that identifies the most attractive global sectors looking for supply and demand imbalances.

They look at grand investment super cycle trends. The market is not usually company oriented it is trend oriented.

He described the 1980's Japanese investment trend, the tech/telecom trend in the 1990's and now the oil and energy trend in the 2000's. There is usually a trend.

Trustee Bowman asked how they know to get out and if their strategy is always looking for the next super cycle.

Mr. Schwarzenberger said that they are always looking for the next super cycle.

Trustee Bowman said there will always be a need for oil and utilities. He referred to the new shortage of corn. There will never be an end to demand.

Mr. Schwarzenberger said that they look for supply and demand imbalances. The emerging markets are currently in an industrialization demand.

Chairman Harrison asked about the holdings in their portfolio.

Mr. Schwarzenberger said that they hold their positions long-term and do not reposition based on short market trends.

Trustee Redmond left at 2:14 p.m.

Their risk controls include a sector max of 40% at cost that shall be invested in any one economic sector. No more than 30% at cost shall be invested in any specific country. No more than 20% at cost shall be invested in emerging markets. And, their maximum allowable investment in any single issuer shall be 7.5% at cost or 10% at market of total portfolio.

The entire world has adopted. The emerging markets represent 85% of the world's population. They are industrializing and there is not enough capacity to meet these needs. He indicated that 600 million people will move into cities in emerging market countries. China is the largest consumer of cement at 60% and they use 40% of the iron in the world. The emerging markets have been the bright spot in the global markets. He stated that the IMF has growth at 4% for the emerging markets but it is well above that.

Trustee Redmond returned at 2:17 p.m.

Trustee Bowman asked if growth in China and in their economy is considered a super cycle.

Mr. Schwarzenberger said that China is growing at 10%. Their one child policy will come into play. It will be difficult for them to make room for all those people.

The fertility rate is much higher in India and the other emerging market countries. They think these trends will continue. Their Gross Domestic Product will over take the United States in the future.

Trustee Naglick stated that China will not grow in absolute population but they will see growth in their middle class.

Mr. Schwarzenberger explained that they do not have any direct exposure to China. With the industrial market demand increasing there is strong demand and weak supply. They invest in suppliers and service providers of what China needs.

He reviewed a chart depicting the world's oil demand and production. He said that the increase in demand from the emerging markets will deplete resources. In 2010 the need is 87 million barrels of oil and in 2020 it will require 100 million barrels. The graph indicated that it will take 5% to 6% in new supplies to meet demand.

He described their portfolio weightings and characteristics. They have approximately thirty-four holdings in the portfolio. They do not have any tech or telecom in their portfolio. He indicated that they have 6% allocated to financials in their portfolio in comparison to the MSCI that has financials as their largest sector. They find more opportunities to outperform by not weighting with the benchmark.

He examined their country weightings with Switzerland at 22.4% with investments in oil field service companies and Canada at 21% with investments in mineral and mining companies.

He described their historical performance gross and net of fees versus the MSCI World (Net) Index. He said that they have a lower correlation to the S&P Index versus the MSCI Index.

He assessed their comparative performance versus the PSN global universe. Their one-year performance ranks in the 3rd percentile versus the index in the 57th percentile.

Trustee Bowman questioned the fragility of the emerging market governments.

Mr. Schwarzenberger said that they only invest in developed market strategies and in companies that provide services and supplies.

Chairman Harrison asked if investing in sectors versus the broad market is a role of the dice regarding exposure of over exposure.

Trustee Redmond left at 2:26 p.m.

Mr. Schwarzenberger said they may under perform the benchmark but they have consistently out performed the benchmark for the last decade. Their sectors have been identified as the best performing sectors.

Chairman Harrison thanked Mr. Schwarzenberger for his presentation.

Mr. Schwarzenberger left at 2:28 p.m.
Trustee Redmond returned at 2:28 p.m.

Chairman Harrison questioned the amount of the allocation.

Mr. Kuhn said that the allocation is approximately $30 million. This investment will be paired with the Artio core international equity strategy.

Chairman Harrison confirmed that First Eagle is a value manager and Wentworth, Hauser & Violich is a growth manager that invests in sectors and countries.

Trustee Naglick indicated that WHV does not invest in countries they invest in suppliers.

Dundee Wealth, Inc.
John P. Lehning, Sr. Vice President, U.S. Business Development (present)
David L. Fingold, Vice President & Portfolio Manager, Goodman & Company (via telephone)

Mr. Lehning stated that he works for DundeeWealth U.S. in Philadelphia. He is the Senior Vice President for U.S. Business Development. David Fingold is the Portfolio Manager who works in the Investment Management Division of Goodman & Company Investment Counsel, Ltd. in Toronto, Canada.

He told the Board that their firm is headquartered in Toronto, Canada. They are a global diversified financial services company. They are in the top ten of mutual fund companies in Canada. As a Canadian organization they have always had a global orientation and looked at investment opportunities globally. They are a member of the Scotiabank Group which is one of the largest financial banking institutions in the world.

Their unconstrained portfolio construction has helped them consistently beat the benchmark by populating the portfolio with their best ideas.

They have thirty different investment strategies and an experienced investment team. Each member of the team has expertise in their assigned industry and sector.

As of June 30, 2011 they had $49.4 billion in assets under management. He indicated that the Board would be working with David Fingold and Wayne LeSage.

Mr. Fingold thanked the Board for the opportunity to present their strategy. He indicated that his industry awards did not include the 2010 Morningstar U.S. Equity Fund Award.

He provided a brief description of his earlier experience in the restructuring of a steel mill in Hamilton, Ontario that had went into debt. He led the turn around team and was instrumental in the restructuring of the business turning operating losses into profits. He explained that he now understands that financial risk is not a hypothetical.

He provided a detailed summary of the members of the portfolio management team. Izet Elmazi is a CFA Charter Holder and Portfolio Manager. He described the analysts, their roles and their sector experience. He indicated that they will not invest in a company if they will not produce their financials.

They believe that the best way to achieve capital appreciation is to invest in high quality companies with proven records of operating profitability and favorable long-term economic prospects at attractive valuations.

They believe that buying at a discount to intrinsic value is difficult to determine. Their investment approach identifies companies with free cash flow that and those companies benefit from having strong balance sheets and will out perform.

They look at the S&P 1500 and buy those companies in the top percentile of free cash flow. They reject companies with poor balance sheets. They look for those companies with boards that are focused and experienced with good capital allocation and a strong business strategy. They like boards with women directors. They are not invested in U.S. funds.

They have an all cap concentrated portfolio of twenty-five to forty names with 20% exposure to emerging markets. They were overweight in financials from 2004 to 2007. They moved their financial investments into Real Estate Investment Trusts which are the best performing financials. REITs invest in high end properties in cities like Boston.

Most importantly they sold Lehman Brothers, Lincoln Financial and Nationwide before the bottom fell out. If they had not sold those securities they would not have booked performance. They do not hold bad companies. Their sell discipline is proven. Their 5% position protects from risk.

He provided an overview of their global value opportunities strategies as of June 30, 2011. Many of the active managers are already out of date. They underperformed the rally in 2009 due to the out performance of low quality securities. They bought 800 calls or 2% of the fund and synthetically invested the portfolio to aid in performance. They never use leverage option strategies. The fund had 2% to 3.5% in option premiums.

Mr. Lehning indicated that they did not borrow money to buy the calls.

Mr. Fingold said that they did not borrow money and that they run with some residual of cash.

Ms. Billings questioned whether they are required to follow the derivative investment guidelines included in Public Act 314.

Mr. Fingold said that in Canada it is illegal to write a put without having cash to put up.

Ms. Billings asked if they are flexible with their contract terms.

Mr. Lehning said that they have taken on separate levels of fiduciary responsibility for clients.

Mr. Lehning left at 3:02 p.m.

Chairman Harrison indicated that Wentworth, Hauser & Violich had the most expensive fees. He questioned whether they would negotiate.

Mr. Kuhn stated that they have a number of clients in that strategy and did not believe they would negotiate their fees.

Ms. Billings pointed out that First Eagle's fees are 89 basis points.

Mr. Kuhn indicated that DundeeWealth had the least expensive fees.

The Board discussed the risk reward performance for each manager.

Trustee Naglick informed the Board that the Police & Fire System has WHV in their portfolio.

Mr. Kuhn used the risk analogy that First Eagle is the baby roller coaster and WHV is the Magnum.

Chairman Harrison said that he liked First Eagle and indicated that when the market is doing well they are somewhat behind but perform well in a down market.

Trustee Naglick asked if the Board should be looking for a manager that takes a little more risk since their other investments are in the safe zone. He was concerned that First Eagle holds a lot of gold in their portfolio.

Mr. Kuhn said that they use gold to pair back their exposure and to protect the portfolio on the downside.

Trustee Naglick pointed out that Goodman is buying insurance on the other side to pick up extra performance.

Chairman Harrison questioned whether the Board is looking for a manager that will compliment Artio or one that will gain alpha.

Mr. Kuhn said that WHV will provide a lot of performance when their sectors come into favor.

Chairman Harrison indicated that Artio follows the benchmark.

Mr. Kuhn said that they have followed up their due diligence on Artio. They are a good international equity manager and have a high exposure to emerging markets.

Trustee Bowman asked which manager is the best compliment.

Mr. Kuhn stated that First Eagle and Goodman have the longer track records and the best downside protection.

Chairman Harrison asked if they should take the alpha or grab a defensive posture.

Mr. Kuhn said that it comes down to the Board's risk tolerance. WHV has the most risk, then Goodman and First Eagle has the least risk.

Chairman Harrison said that it comes down to derivatives versus gold.

Mr. Kuhn asked if the Board wanted to take a straw poll. The WHV pairing was not ideal. He likes First Eagle's downside protection. No equity manager compares with First Eagle's downside protection.

They believe that we are in the third inning of the materials, industrial super cycle. Most countries are moving away from nuclear.

Trustee Bowman stated that he likes WHV.

Trustee Naglick said that he loves their story.

Mr. Kuhn said that they do not have a short track record. Their international strategy was started in the early 1990's. They have an impressive long-term track record.

Trustee Barnett pointed out that WHV has the most expensive management fees.

Mr. Kuhn said that WHV is roughly 10 basis points higher but the Board should not use that as a determining factor.

Trustee Bowman said that he would invest his money with WHV but because of the risk he would not invest the System's money.

Mr. Kuhn suggested that if the Board likes WHV they can put one-third of the allocation into WHV and the rest into the Artio strategy that is in the more traditional core international equity space.

Chairman Harrison said that he likes First Eagle. They have a better safety net and participate on the upside. Goodman has a little more standard deviation.

Trustee Naglick asked from a legal standpoint if it is better to have a separate account.

Mr. Kuhn recommended that they start with the commingled fund that offers a better custody aspect. First Eagle does an excellent job of coordinating.

Chairman Harrison indicated that the System would be taking on more risk with Goodman to achieve the same performance.

RESOLUTION 11-087 By Barnett, Supported by Bowman
Resolved, That the Board retain First Eagle Investment Management as the System's global equity manager pending legal review.

Yeas: 7 – Nays: 0

RESOLUTION 11-088 By Barnett, Supported by Bowman
Resolved, That the Board adjourn the meeting at 3:31 p.m.

Yeas: 7 – Nays: 0