

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JANUARY 25, 2006**

A regular meeting of the Board of Trustees was held on Wednesday, January 25, 2006 at the Shrine Room Main level, City Hall 47450 Woodward Ave., Pontiac, Michigan. The meeting was called to order at 1:42 p.m.

TRUSTEES PRESENT

Eugene White, Chairman
Javier Saucedo
Ed Hannan, Secretary

Robert Giddings
Larry Marshall
Debra Woods

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

OTHERS PRESENT

Kone Bowman, Pontiac City Council
Laurence Gray, Gray & Company
Despy Giddens, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Stuart Tompkins, Sullivan, Ward, Asher & Patton, PC
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

Re: Consent Agenda – January 25, 2006

- A. Minutes of Regular Meeting: November 30, 2005
- B. Communications:

RESOLUTION 06–001 By Saucedo, Supported by White
Resolved, That Debra Woods is approved to attend the One-Day MAPERS Conference “In Search of Alpha” in Ypsilanti, Michigan on February 16, 2006.

Yeas: 6 – Nays: 0

RESOLUTION 06-002 By Saucedo, Supported by Giddings
Resolved, That the consent agenda for January 25, 2006 be approved as presented.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Sullivan Ward Asher & Patton – CAPROC Update

RESOLUTION 06-003 By Saucedo, Supported by Woods
Resolved, That the Board of Trustees go into closed session to discuss pending litigation with CAPROC, LLC, et al.

Roll Call

Eugene White, Chairman – yea

Debra Woods - yea

Ed Hannan, Secretary - yea

Robert Giddings – yea

Javier Saucedo – yea

Larry Marshall - yea

Moved to Closed Session at 1:44 p.m.

RESOLUTION 06-004 By, Supported by
Resolved, That the Board of Trustees approve the minutes from the closed session held on November 30, 2005.

Yeas: 6 – Nays: 0

Returned from Closed Session at 2:28 p.m.

Cynthia Billings, Stuart Tompkins left at 2:28 p.m.

Trustee Marshall and Kone Bowman left at 2:30 p.m.

Trustee Marshall returned at 2:35 p.m.

Re: VanOverbeke, Michaud & Timmony – Securities Litigation

Tom Michaud referred to a summary spreadsheet included in the agenda packet. He told the Board that this summary report would be provided to the Board on a regular basis with up-to-date information including lead plaintiff status, counsel, manager, loss and comments. Trustee Giddings asked if a list of the issues could be included. Mr. Michaud said yes and that descriptions and current issues are included in the agenda packets for most securities litigation.

Re: Gray & Company – Mid Cap Wrap-up

Laurence Gray introduced Despy Giddens the Comptroller of Gray & Company to the Board.

He then began a brief summary of the mid-cap growth manager presentations (Munder Capital Management, U.S. Bancorp and Northpointe Capital) from January 24, 2006 for those Trustees unable to attend. However, he first discussed the need to invest the 20% in mid-cap space and how it affects the overall asset allocation of the fund. He pointed out that by adding 20% to mid cap the fund could increase returns with less risk.

Mr. Gray then recapped the mid-cap growth manager presentations and asked the Board if they had any questions. He then distributed the requested updated returns through the 3rd quarter of 2005 for all three managers: Munder Capital Management, U.S. Bancorp and Northpointe Capital. This updated data was reviewed to determine if Northpointe's performance was comparable with the other managers through the 3rd quarter of 2005 since Northpointe had experienced negative 4th quarter numbers.

After reviewing the data, Mr. Gray pointed out that Northpointe's calendar year returns were 500 basis points off for the 3-year period and below 300 basis points for the 5-year returns. He also pointed out that Northpointe underperformed Munder in the 3-year and 5-year risk adjusted returns in an up market. He reminded the Board that Northpointe had said that their performance was in the top quartile and this information showed that it was not. He offered to go over the numbers with Trustee Giddings and Trustee Marshall since they were unable to attend the January 24th meeting. Mr. Gray then summarized that the numbers showed that Munder has consistently outperformed Northpointe.

Chairman White opened the meeting for discussion.

Trustee Saucedo commented that if the Board votes in Munder Capital Management as the Mid-Cap Growth Manager, they will control a large portion of the portfolio. Trustee Giddings responded by saying that Munder had once before controlled a high percentage of the portfolio. Mr. Gray commented that Munder would control 25% of the portfolio or \$111 million.

Trustee Giddings continued by saying that he hasn't seen any changes in the firm. He said that they are a solid organization and one of the top firms. He also mentioned that the money is held at a custodian bank and that the Board should not be concerned about the money. He also spoke about the 30-day and out clause in the contract. He asked if having more funds with Munder controlled by different teams would give the Board leverage when negotiating fees. Mr. Gray agreed that it should add leverage to negotiating fees.

Trustee Hannan commented that Munder does well on mid-cap growth. Trustee Saucedo added that he likes the new numbers.

Trustee Marshall asked if the vote had to be taken at this month's meeting, noting that there were three new Board members. Trustee Giddings commented that the asset allocation had been completed for over three months.

Mr. Michaud interjected that prudence dictates that the vote should be taken, however, there is nothing in the bylaws that mandates the vote be taken at this meeting. However, he again pointed out that the sooner the vote is taken the better for the fund.

Trustee Saucedo added that the vote would have been taken at the meeting on January 24, 2006, but there were not enough trustees for a quorum. Chairman White pointed out that there are six trustees present at the meeting and that they have the required number for a quorum. He also stated that he felt that the vote should be taken at today's meeting.

Ms. Zimmermann stated that if the Board postpones the vote, they may be extending the transaction another three months. She also added that the fund is currently invested in an underperforming manager and that any delay adds to the loss. Trustee Marshall reiterated that there are three new trustees that are not present to participate in the vote.

Roll Call:

Chairman White – yea

Trustee Saucedo - yea

Trustee Hannan – yea

Trustee Marshall - yea

Trustee Giddings – yea

Trustee Woods - yea

RESOLUTION 06–005 By Saucedo, Supported by Hannan

Re: Munder Capital Management, Inc. - Appointment of Investment Manager

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

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

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

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

WHEREAS, the Retirement Board is of the opinion that by hiring an investment management firm to manage a mid cap growth equity portfolio, the Retirement System will have greater diversity and accordingly less potential volatility, and

WHEREAS, the Retirement Board has reviewed and discussed the prospective

investment managers and has interviewed potential candidates, and

WHEREAS, the Retirement Board has discussed investment, philosophy, strategy, historical performance, and fee structure of various firms and is of the opinion that Munder Capital Management meets the Retirement Board's requirements, and

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

RESOLVED, that Munder Capital Management is hereby appointed as investment manager to manage a mid cap growth equity portfolio, and further

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

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

RESOLVED, that the investment managers be requested to coordinate with the Retirement Board's investment consultant to facilitate a smooth and cost effective transition of the management of the Retirement System's assets, and further

RESOLVED, that the Retirement Board hereby directs its Custodian to open an account for the Retirement Board for its new investment manager Munder Capital Management, and further

RESOLVED, that copies of this resolution be forwarded to Munder Capital Management; and the Retirement Board's Custodian and Investment Consultant.

Yeas: 6 – Nays: 0

Mr. Gray briefly summarized the Mid-Cap Value Manager Presentations (Wedge Capital Management, LLP, Systematic and RS Investments) from the January 24, 2006 meeting. He asked for questions and whether Trustees Giddings and Marshall would like him to review the numbers.

Chairman White confirmed that discussions regarding the mid-cap value manager were left for today's meeting. He also mentioned that most of the Board is leaning toward Systematic excluding Trustee Hannan who favors RS Investments.

Mr. Gray discussed Gray & Company's due diligence with regard to the selection

process. He also mentioned that Wedge had recently been hired by one of their clients.

Trustee Hannan commented that he likes RS Investment's performance with regard to their calendar year returns. He said that RS is a proven value manager pointing out their 5-year and 3-year performance numbers. He was especially impressed with their numbers from 2002-2004.

Ms. Zimmermann asked Mr. Gray if RS Investments uses a star system. Mr. Gray replied that they do and that he lives in the building where he works and makes the final decisions on investments. Mr. Gray added that prior to 2002 more freedom was seen in their management style. Mr. Gray said that their most recent process is solid. He also mentioned that the SAF Audit presented to the Board from RS Investments is something he seldom sees from a firm. Trustee Giddings asked if they had the audit done because of litigation.

Trustee Hannan continued the discussion regarding cash flow analysis versus earnings-based analysis. He also told the Board that he was turned off by Systematic's way they sell stock.

The Board discussed the fee structures of the managers. Wedge is firm on their fee and will not budge. RS Investments and Systematic will negotiate fees.

Mr. Gray wrapped up the discussion saying that all three are solid firms. Wedge uses a good process with consistent returns. Systematic also has a solid process, a good client list and has received good marks from clients. Lastly, RS Investments is a very good manager with a reclusive team approach.

RESOLUTION 06-006 By Saucedo, Supported by White

Re: Systematic Financial Management, L.P. - Appointment of Investment Manager

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

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

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

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

WHEREAS, the Retirement Board is of the opinion that by hiring an investment management firm to manage a mid cap value equity portfolio, the Retirement System will have greater diversity and accordingly less potential volatility, and

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

WHEREAS, the Retirement Board has discussed investment, philosophy, strategy, historical performance, and fee structure of various firms and is of the opinion that Systematic Financial Management meets the Retirement Board's requirements, and

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

RESOLVED, that Systematic Financial Management is hereby appointed as investment manager to manage a mid cap value equity portfolio, and further

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

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

RESOLVED, that the investment managers be requested to coordinate with the Retirement Board's investment consultant to facilitate a smooth and cost effective transition of the management of the Retirement System's assets, and further

RESOLVED, that the Retirement Board hereby directs its Custodian to open an account for the Retirement Board for its new investment manager Systematic Financial Management, and further

RESOLVED, that copies of this resolution be forwarded to Systematic Financial Management; and the Retirement Board's Custodian and Investment Consultant.

Yeas: 6 – Nays: 0

Mr. Gray and Ms. Giddens left the meeting at 3:30 p.m.

REPORTS

Re: Chairman – None

Re: Secretary

Trustee Hannan discussed recent newspaper articles regarding accepting holiday gifts. He stated that in order for the Board to protect themselves they should consider adopting some form of ethics policy guidelines.

Tom Michaud commented that transparency and disclosure is order of the day. He stated that he has documentation he can bring to a future meeting for discussion.

Re: Trustees / Committees

Real Estate Committee – None

Personnel Committee - None

Re: Administrator

Resolution of Appreciation

Ms. Zimmermann passed out proposed copies of Testimonial Resolutions of Appreciation for the three trustees who have recently left the Board.

RESOLUTION 06–007 By Saucedo, Supported by Hannan

Resolved, That the Board of Trustees approve the Resolutions of Thanks for Trustees Poehlman, Harrison and Payne.

Yeas: 6 – Nays: 0

CAPROC Annual Shareholders Meeting

Ms. Zimmermann informed the Board that the CAPROC Annual Shareholders Meeting is scheduled for March 2, 2006 and that the Board needs to appoint a Trustee to attend.

RESOLUTION 06–008 By Saucedo, Supported by Hannan

Resolved, That the Board of Trustees approve Trustee Saucedo and/or Trustee Hannan to attend the CAPROC Annual Shareholders Meeting.

Yeas: 6 – Nays: 0

2006 Valuation Fee Quote - Gabriel Roeder Smith & Company

Ms. Zimmermann presented the Board with the 2006 quote for valuation fees from Gabriel Roeder Smith & Company. The quote for 2006 will be between \$17,000 and \$20,600.00. Ms. Zimmerman told the Board that the actual fee for 2005 was \$18,000.00.

Trustee Giddings asked if the service level has been good. Ms. Zimmermann commented that the new contact has done a better job.

RESOLUTION 06-009 By Hannan, Supported by Woods
Resolved, That the Board of Trustees approve the 2006 Valuation Fee Quote from Gabriel, Roeder, Smith & Company.

Yeas: 6 – Nays: 0

Re: Legal

Re: Union Representatives - None

UNFINISHED BUSINESS

Re: Ordinance Cleanup - None

Re: NOMC Sub-Committee

Tom Michaud discussed the issued legal opinion forwarded to the Board of Trustees regarding the NOMC Board of Trustees intent to gain access to assets currently held in the GERS pension fund. Mr. Michaud stated that he stands behind his legal opinion and that nothing has changed.

Trustee Hannan asked whether the legal opinion addressed deferred compensation or the defined benefit plan. Mr. Michaud replied saying that the NOMC summary missed the point and that their position was skewed.

Ms. Zimmermann asked about a response to the committee. The Board directed that a letter be drafted stating that the executive summary was received from NOMC and the Board's opinion has not changed in an attempt to close the issue.

Resolution 06-010 By Saucedo, Supported by Hannan
Resolved, That the Board of Trustees receive and file Executive Summary from NOMC and notify the committee that the GERS Board continues to concur with legal counsel's opinion.

Yeas: 6 – Nays: 0

Trustee Giddings stated that the NOMC Board of Trustees can not gain access to the fund. He told the Board that he was on the committee to privatize the hospital and that their intention was to turn over the hospital's pension responsibility to the City of Pontiac. Mr. Michaud asked if Trustee Giddings would summarize the committee's intent during the privatization.

Re: Annual Committee Review - Postponed

NEW BUSINESS

Re: Certification of Election Results

Ms. Zimmermann distributed election results to the Board of Trustees. The trustee election results showed that Devin Scott received the greatest number of votes and was duly elected to the office of Retiree Trustee of the General Employees Retirement System. Ms. Zimmermann requested that the Board approve a resolution to adopt the official election results.

Resolution 06-011 By Saucedo, Supported by Hannan

Whereas, a General Election for Retiree Trustee to the Board was conducted on January 24, 2006, and

Whereas, the official results of the election have been certified and canvassed

Resolved, that the official election results are hereby certified by the Board of Trustees.

Yeas: 6 – Nays: 0

Re: Employee-Trustee Election Calendar

Ms. Zimmermann distributed the Employee Trustee Election Calendar to the Board. The election will be held on March 28, 2006 for an employee trustee whose term will end effective March 31, 2006. Ms. Zimmermann stated that Chairman White has agreed to canvass the election.

Resolution 06-012 By Woods, Supported by Saucedo

Resolved, That the Board of Trustees approve the election calendar for the Employee-Trustee for the term ending March 31, 2010 and designate Chairman White as the election canvasser.

Yeas: 6 – Nays: 0

Re: GERS Semi-Annual Cash Flow Rebalancing

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

Resolution 06-013 By Giddings, Supported by Hannan

Resolved, That the Board of Trustees approve the transfer of \$8,700,000 from the Oppenheimer Equity account to the Cash Manager account for the funding of benefits and operating expenses.

Yeas: 6 – Nays: 0

Re: Cost Studies and Agreements

Ms. Zimmermann stated that the Retirement Office had received two memos from the Human Resources Departments in response to grievances. The memos indicate that the Human Resources Department has agreed to change service credit for retirement purposes for two individuals.

Ms. Zimmermann expressed serious concern regarding determination of credited service for retirement purposes done outside of the Retirement Office. If there are changes in the method or process for determining service credit, it could create problems for the System and the City. She said that the Retirement Office has not received copies of the grievances.

Trustee Marshall asked what is necessary. He commented that the Union and City sign when the retirement should begin. He also said that the grievance was filed, the City answered it and it has not been finalized.

Ms. Zimmermann asked if the Retirement Office has all the information (PAS Forms, MOU's, etc.) from Human Resources. Trustee Marshall thought the PAS forms were all the same. Ms. Zimmermann questioned how the service could be different if the data is the same. She said that there may be a need for actuarial cost study. This could raise concerns about the accuracy of the Retirement Office work.

Trustee Marshall said that there were a number of MOU's written in the 1980's that refer to changes in service credit calculation and that he wrote many of the MOU's.

Mr. Michaud asked if there has been a counter from the Union. Trustee Marshall replied no, and that if they do not agree with the City, they can go to arbitration.

Mr. Michaud stated that for legal purposes there needs to be a paper trail documenting the process to shield the System. If the dates differ from those of the Retirement Office, it could invalidate all service credit dates. If there is a grievance, an MOU is needed to document the issue and to foreclose the ability to challenge the service credit calculation in the future. It is important to insulate the System. He suggested working with the actuary to figure out what the cost would be. It is a matter of form. The process must be documented.

Trustee Marshall said it was based on the contract and the past. Mr. Zimmermann said that she and Trustee Marshall need to meet and determine the differences if both have the same records. Trustee Marshall indicated he will provide the information.

Ms. Zimmermann and Trustee Marshall will meet to discuss the process and to determine why service credit for these two members is different than that calculated by the Retirement Office

Re: Medical Director

Ms. Zimmermann reported to the Board that Dr. Tripp from the MES Group has passed away. She told the Board that Dr. Campbell would be the interim replacement for Dr. Tripp. She asked for direction from the Board regarding whether to stay with the current firm or to look at other providers.

Chairman White asked about the rates of service. Ms. Zimmermann replied that she assumed they are all comparable. Trustee Giddings asked if Dr. Tripp was in private practice. He was told that Dr. Tripp did have his own practice.

Mr. Michaud stated that there are a limited number of providers. He also told the Board that they should not hire a doctor that only works for this group and does not have a private practice. He suggested that the Board get feedback and use a hands-on approach. He also thought that the Board should take their time looking for a replacement. He conveyed to the Board that he didn't feel a RFP would get many responses. Mr. Michaud commented that this would be a good education process for the new trustees.

Trustee Giddings asked if there are a lot of firms with experience. Mr. Michaud replied that there is not a great variety of firms. Ms. Zimmermann told the Board she would obtain information on two or three medical groups for the February meeting with interviews scheduled for March's meeting.

Resolution 06-014 By Saucedo, Supported by White

Resolved, That the Board of Trustees direct the Administrator to obtain information from two or three potential Medical Directors.

Yeas: 6 – Nays: 0

PUBLIC DISCUSSION

Trustee Giddings asked about the security and retention of Board data with the addition of three new Board members. He commented that data should be shredded and not thrown in your garbage.

Ms. Zimmermann stated that she would meet with new trustees and provide them with materials and information on current issues before the Board.

Ms. Zimmermann also informed the Board that she attended a records retention software demonstration in Ann Arbor in preparation of a disaster recovery system for the Retirement Office.

Trustee Woods asked to attend the IFEBP CAPPP Classes on March 18-19, 2006.

Resolution 06-015 By Saucedo, Supported by White

Resolved, That the Board of Trustees approve Trustee Woods to attend the IFEBP

CAPPP Class in Ft. Lauderdale, Florida on March 18-19, 2006.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: February 22, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06 -017 By Woods, Supported Giddings
Resolved, That the meeting be adjourned at 4:04 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing is true
Minutes of the General Employees
Retirement System held on January
25, 2006.

Ed Hannan, Secretary
As recorded by Jane Arndt