

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 24, 2009**

A regular meeting of the Board of Trustees was held on Wednesday, June 24, 2009 at the Shrine Room, Main Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:40 p.m.

TRUSTEES PRESENT

Shirley Barnett	Devin Scott
Koné Bowman	Kevin Williams
Charlie Harrison, Chairman	Debra Woods (<i>arrived at 2:50 p.m.</i>)
Javier Saucedo, Vice Chair	Andrea Wright (<i>arrived at 1:48 p.m.</i>)

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Sheryl Stubblefield (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence O. Gray, Gray & Company
Pam Hopkins, Munder Capital
Edward Goard, Munder Capital
Gail Perry-Mason, Oppenheimer & Company
Ellen Zimmermann, Retirement Accountant
Jane Arndt, M-Administrative Assistant
Mattie Lasseigne, Retiree
Linda Watson, Retiree

PUBLIC DISCUSSION

Chairman Harrison opened public discussion.

Retiree, Linda Watson asked about resolutions missing in 2008 and 2009 meeting minutes. Ms. Zimmermann and Ms. Billings said that they would look into the issue.

Ms. Watson also asked if it would be illegal or unethical to act on investment information she receives at the meeting. Chairman Harrison explained that it is a public meeting. Ms. Billings stated there would be no recourse since using information from the meeting is similar to getting a stock tip off the television.

Ms. Watson also asked about total fund losses. She asked Mr. Gray how he arrived at losses of 24%. She said that she does not understand since the total fund value was \$487 million in 2007 versus total fund value of \$311 million today.

Mr. Gray said that \$487 million was the highest value recorded for the portfolio. Ms. Watson said that she has read that most funds are down 28% to 30%. Ms. Zimmermann explained that the fund is down 24.8% in calendar year 2008 versus the prior year.

Chairman Harrison and Ms. Zimmermann said that they would forward the current funding level to Ms. Watson.

Ms. Watson also asked if Onyx ever received matching investment funds from the City of Detroit. Mr. Gray said that he would address the question during his segment of the agenda.

Retiree, Mattie Lasseigne asked if the VISA charges in the agenda were for one month. Ms. Zimmermann confirmed that the charges were for one month.

Chairman Harrison explained that the VISA accounts are used to pay for expenses while trustees are attending educational conferences. Ms. Zimmermann added that the VISA account is used to pay for conference registrations and some office expenses.

Ms. Lasseigne said she feels \$14,000.00 is a high amount. She asked if she could have a breakdown of the charges. Ms. Billings said that the charges are not \$14,000.00 every month. Chairman Harrison said that some months are higher than others. He explained that NCPERS and MAPERS conferences fall in the same month.

Ms. Lasseigne also asked if each Board member has their own VISA card. Chairman Harrison confirmed that the trustees have their own card that they use for expenses when they attend educational conferences.

Ms. Billings explained that Ms. Lasseigne can submit a FOIA to obtain the requested information.

APPROVAL OF CONSENT AGENDA

- A. Minutes of Regular Meeting – May 27, 2009
- B. Communications
 - 1. Correspondence from Artio Global Re: April 2009 Fact Sheet
 - 2. Correspondence from ADP Re: Fee Increase
- C. Conference Information:
 - 1. 55th Annual employee Benefits conference – IFEBP – Nov. 8-11, 2009
 - 2. Investing in Infrastructure Conference – IREI – Nov 30-Dec 2, 2009
- D. Financial Reports
 - 1. Financial Reports – May 2009
 - 2. Commission Recapture – May 2009

3. Securities Lending – May 2009
4. Securities Lending Deficiency
5. Accounts Payable
 - a. ADP \$2,521.28
 - b. City of Pontiac 1,674.08
 - c. Coffee Break 36.40
 - d. Gray & Co 8,104.17
 - e. Ikon 198.59
 - f. MES 1,190.00
 - g. Office Depot 18.98
 - h. Plante Moran 11,000.00
 - i. Rodwan Consulting 1,400.00
 - j. Sullivan, Ward, Asher & Patton 5,066.25
 - k. VISA 14,449.18
- E. Retirements, Refunds, Final Calculations, Re-Examinations
 1. Remove from the Rolls:
 - a. Jeanette Davis (deceased 05-23-09)
 2. Application for Service Retirement
 - a. Catherine Colling – NOMC 4 years, 5 months Age 60
 - b. Bruce McNally – NOMC 6 years, 8 months Age 60
 3. Final Benefit Calculation
 - a. Marvin Poston #2473 \$1,075.63 (convert to svc ret)
 - b. Catherine Colling #2485 254.29
 - c. Bruce McNally #2486 221.31
 4. Disability Re-Examination
 - a. Daniel R. Miller

RESOLUTION 09-046 By Barnett, Supported by Saucedo
 Resolved, That the Board approve the consent agenda for June 24, 2009.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Gray & Company

Mr. Gray indicated that Munder Capital was asked to attend today's meeting to discuss options for the fixed income portfolio due to the potential of an inflationary environment. (Oppenheimer Capital presented their ideas on how they would position the portfolio for the Board at the last meeting.)

Trustee Wright arrived at 1:48 p.m.

He distributed flash reports showing the market value of the fund through May 31, 2009 and as of June 23, 2009. As of March 31, 2009, total plan value was \$311.3 million versus \$339.047 through May 31, 2009.

There are a lot of concerns and questions as to whether this is a false rally. He explained that the markets do not go straight up. He said that the trustees should expect some negative news since many macro economic issues have not been addressed. There was some positive news conveyed with Peritus's year-to-date performance at 32.76% which was expected.

Chairman Harrison asked about the asset allocation and if there was a need to change it. He questioned whether there is enough cushion for the basket clause or will it be over its limit because of the changes in the fund's performance. Mr. Gray said that currently, 52% is allocated to equities, 8.2% in international equity and 33.4% in fixed income. There is 5.0% allocated to private equity but monies are continuing to be drawn down. The basket clause is on the cusp of the limit with regard to Public Act 314. He said that normally they would take action according to the policy, however, he would not reallocate right away.

Ms. Zimmermann stated that the fund is normally rebalanced in July. Mr. Gray said that since the markets are volatile it might not be the appropriate time. It is important to respect the policy but not mandatory to make changes. There is no reason to reallocate just to reallocate. Ms. Zimmermann indicated the need to provide for benefit payments.

Trustee Wright left at 1:59 p.m.

Onyx Investment

Mr. Gray said that the funding of the Onyx investment has been frozen and there will be no further capital calls or investment contributions. He said it is believed that the City of Detroit General Employees and Police & Fire Pension Systems committed \$40 million to Onyx.

Trustee Wright returned at 2:02 p.m.

Ms. Watson confirmed there would be no further funding. She asked if the investors split the costs. Mr. Gray said that the initial investors shared in the organizational expenses. He explained that when Onyx found a company they wanted to invest in they would request a drawdown from the committed capital. He said that going forward they would freeze where they are in the relationship.

Ms. Billing said that they have revised the commitment amount. An addendum has been prepared redrafting the commitment amount and fees.

Chairman Harrison asked that Mr. Gray bring the Board up to speed and address any discrepancies with regard to what was in the newspaper.

Mr. Gray told the Board that Onyx was comprised of three primary principals, Roy Dixon, LaRoy Williams and Elliot Fullen. Mr. Fullen moved to Atlanta from Singapore and there was no question at that time that he was a principal of the firm. He believes that when Mr. Fullen weighed his options he decided to stay with Hexion and later relocated to Ohio.

The Board requested a letter in November, 2007 confirming the principals of the firm. He met with Mr. Fullen after that date. He is not a handwriting expert but there are concerns and it would be prudent to freeze the investment at the current level.

He explained that currently Onyx has four separate companies they have made investments in. Based on the information they have received, they expect returns north of 15% with Mr. Dixon predicting returns of 20%. At this time it would be imprudent to continue funding this investment; a wait and see approach is the most appropriate at this time. Changes can be made down the road.

RESOLUTION 09-047 By Barnett, Supported by Saucedo

Resolved, That the Board accept the addendum to the Onyx Capital Advisors Contract freezing the amount of capital committed to \$3,643,200.

Yeas: 7 – Nays: 0

Fixed Income Discussion – Munder Capital

Pamela Hopkins of Munder Capital introduced herself and Ed Goard, the Senior Portfolio Manager on fixed income. She said they were asked to the meeting to review the portfolio and discuss how to position the portfolio for the long-term.

Ed Goard stated he will provide an update of their current performance and discuss how inflation can affect the portfolio. He said that the portfolio is now positioned to mitigate risk from long-term inflation.

Performance is currently up 50 to 52 basis points at 1.84% year-to-date versus the Barclay's Aggregate at 1.32% and 1.70% quarter-to-date versus the benchmark at 1.21%.

They feel the market has recovered from the liquidity crisis caused by the Lehman bankruptcy. The economical crisis is not over but the liquidity crisis is. Chairman Harrison asked that he explain the liquidity crisis.

Mr. Goard said that there were no willing buyers of issued debt in the fourth quarter of 2008 and the first quarter of 2009 with reduced execution in the market and no bid offers. Presently, transaction costs are normalizing and issuances are increasing.

Chairman Harrison asked what the lowest bond rating in the portfolio is. Mr. Goard said that the lowest rated bonds allowed are BBB- which is one level above junk in the portfolio.

Chairman Harrison asked what they are doing to rev up returns. He said that there are a lot of decent companies that had A paper but are now rated at B or less.

Mr. Goard said that their performance boost is due to an overweight in three different financial sectors. With government programs backing the purchase of mortgages, they have insured that investors will not take a hit and have brought liquidity back. They are buying agency Mortgage-

Backed Securities and Asset-Backed Securities and credit card debt and auto receivables through TALF.

He said they feel the market outlook is early in the recovery cycle. With the government printing this much money, inflation is coming.

He discussed the factors that will create inflation. The first factor is an increase in job creation. However, currently unemployment is 9.5% nationwide and will go higher and job creation will not happen anytime soon. In turn, consumers will budget their money and will not spend.

The second indicator of inflation is an increase in income. Presently, lower skilled labor is being squeezed out and the government is capping the incomes of high-end earners. This represents another reason for the decrease in consumer spending.

The third factor that indicates the economy is moving into an inflationary period is borrowing. Today, household debt represents 80% of outstanding debt which includes mortgages, second mortgages, private equity loans and credit cards. In December, 2006, housing stock was valued at \$21.9 trillion and outstanding mortgages were valued at \$10.5 trillion with a loan-to-value (LTV) of 48%. Since that time, the housing market has decreased the loan to value approximately 30% which has decreased the borrowing capital. This represents a stock value of \$15.3 trillion with outstanding mortgage debt of \$10.5 trillion and an LTV of 68%.

Approximately, one-third of homes have no mortgage which means that borrowers have mortgage values of \$10.27 trillion to \$10.5 trillion with an LTV of 98% with some borrowers being underwater.

Home loans and home equity loans are now capped at 80% and underwriting standards are very tight. Based on the numbers there is no borrowing capacity. Consumer cannot borrow money in order to spend and this will take sometime to fix. In the 1990's the household debt to public debt ratio was 1:1. It is currently at 4:1.

The banking system is hobbled. Allowed leverage has been reduced to 12:1 from 33:1 which means less lending capacity. Banks are paying back TARP money and not lending it out to consumers. There will not be demand based on borrowing from future earnings as there was in the past.

There was discussion with regard to credit card lenders and the excessive interest rates they charge.

Mr. Goard said that the Fed is holding short-term interest rates very low. Eventually, the banking system will repair itself.

On the other hand, countries such as Brazil, India and China could cause inflation globally by their demand for natural resources. There will be obvious signs when inflation will come to fruition. There are internal components as well as external components that can cause inflation.

Trustee Wright left at 2:31 p.m.

Trustee Barnett asked Mr. Goard to explain their options for improved performance without taking excessive risk.

Mr. Goard said currently they are investing approximately 1% in TIPS (Treasury Inflation Protected Securities) and will slowly increase their allocation during the next year. They will continue to overweight sectors supported by government programs. And, they will underweight long-term paper.

Trustee Bowman left at 2:35 p.m.

In order to reach for more yield in an inflationary period they have other options. They could look at a greater duration variance to the benchmark because there is less interest rate risk. They do not try to predict interest rates but would consider doing it by increasing their allocation to floating rate notes. The value of the coupon would go up as interest rates increase and prices go down.

Trustee Wright returned at 2:36 p.m.

They could measure their performance against a shorter duration benchmark like the Barclays Aggregate 5-year that would reduce interest rate risk. They could also utilize a more opportunistic approach investing in non-agency mortgages and distressed mortgages. They could look at the TALF product.

Ms. Hopkins said that they will have to look at restriction in the investment guidelines. Mr. Goard asked what the investment guidelines are on futures. Traditionally, they have not used futures but could use them or interest rate swaps to better manage the yield curve risk.

Mr. Gray said that they are not currently looking to go that route. Ms. Britton said that they would not make any wholesale changes now. Mr. Goard would contact the Board before moving in that direction.

Mr. Goard left at 2:39 p.m.

Meeting Break at 2:39 p.m.

Trustee Wright left at 2:39 p.m.

Trustee Woods arrived at 2:50 p.m.

Meeting Resumed at 2:50 p.m.

Chairman Harrison said that the directed brokerage list needed to be updated. They are looking to add minority brokerage firms.

Mr. Gray said when they completed their review of the minority brokerage list they decided to go with a full RFP process. They sent an RFP out to every brokerage firm on the list. This will insure the firm is capable of doing business and will disclose any litigation issues.

When he spoke with Ms. Perry-Mason she felt that what they do is basic work that everyone can do. He assured her that everyone cannot.

He said in order to get ahead of the curve on fixed income it will take some involved meetings and education for the trustees to fully understand. It is important for the trustees to feel comfortable and understand what the managers are doing. He said that they have been working very hard during these times to stay on top of the portfolio managers.

He told the Board that he will be conducting a session on TALF, TARP and PPIP at the Fall MAPERS Conference.

Oppenheimer & Company – Directed Brokerage Firm

Gail Perry-Mason from Oppenheimer & Company said that execution is very important and makes a big difference in the performance of the portfolio. Oppenheimer & Company was established in 1881 and weathered the Great Depression.

What makes them different and unique is that they are both a local and national company. They work within the community providing scholarships and support for local students.

She described her background starting as a receptionist and how she self-taught and learned the investment advisor business. At that time, there were no women or minority licensed investment advisors.

As a secretary, she used her own resources to put on a seminar to educate people on investing. She brought in a number of clients and was promoted to secretary/broker and put on probation for ninety-days. Today, she is the Senior Director of Investments.

Each year she rents a bus and takes her clients to Chicago to attend shareholder meetings. She teaches her clients how to vote proxies. They also visit the trading floor.

She believes it is important to teach children how to manage money. She holds a camp called the “Money Camp” for young people.

Chairman Harrison conveyed that he had told the Board about Ms. Perry-Mason and her character. He feels it is important to know the person behind the numbers.

Ms. Perry-Mason left at 3:11 p.m.

Mr. Gray said that Ms. Perry-Mason is a very dynamic and great person. He used to work at Oppenheimer & Company. They do not pressure managers to trade with them.

Trustee Barnett asked if they have ties to Oppenheimer Capital. They do not.

UIM Portfolio – Alpha Capital

Mr. Gray explained that Alpha Capital was a manager in the UIM portfolio. Their performance numbers for the quarter were quite good. However, based on recent allegations of substance

abuse by the president, their portfolio was liquidated and moved to another firm. It is important to pay attention to headline risk. They had to move the money to a new firm because it would be impossible for Alpha to stay in business.

REPORTS

Re: Chairman

Chairman Harrison said in light of all the negativity directed toward the pension fund it does not get the proper acknowledgement. They recently asked the actuary for the unaudited funding level based on the current market. The actuary estimated that the funding level is 150%. They are comfortable with the current funding level and with the systems 1st percentile ranking in the United States.

He wants to be on the record stating the importance of education conferences and that the trustees do attend the classes. They use the knowledge they attain to keep the funding level high and to pick good managers. The City of Pontiac has not had to make any contributions toward paying pension benefits for several years and the system is in superb financial condition.

Ms. Billings referred to her statement released to the Detroit Free Press that made a very strong statement with respect to the funding level of the Retirement System being one of the best in Michigan. Ms. Billings stated that the Free Press statement was drafted with the assistance of the actuary.

Re: Secretary - None

Re: Trustees/Committees - None

Re: Administrator

Ms. Zimmermann said it has been suggested that active employees and retirees will have to pay for a portion of their healthcare. She would like to send a letter to retirees even though she does not have any details at this time. She feels it is important to keep the retirees up-to-date. There are a lot of upset and worried people.

RESOLUTION 09-048 By Woods, Supported by Saucedo

Resolved, That the Board approve the Retirement Administrator to send out communications to the retirees to keep them informed of the current healthcare benefit issue.

Yeas: 6 – Nays: 0

Trustee Barnett asked if the retirees can go and buy their own insurance and opt out. Ms. Zimmermann stated that at this point there is no specific plan. The emergency financial manager (EFM) was required to balance and get the budget out. The unions would have to voluntarily agree to any benefit changes or payment cross charges. We will have to wait and see what happens on July 1, 2009. Ms. Zimmermann stated that she volunteered to be the contact point for the retirees. She suggested that a letter be sent to retirees to make them aware of the proposed changes.

RESOLUTION 09-049 By Woods, Supported by Saucedo

Resolved, That the Board of Trustees authorize the administrator to send a letter to retirees concerning the proposed changes in health insurance.

Yeas: 6 – Nays: 0

Re: Legal

CompuCredit Corp

Ms. Billings reported that the Retirement System was appointed lead plaintiff on October 22, 2008. A Motion to Dismiss Motion was filed on March 18, 2009. The Plaintiffs' opposition was filed on May 20, 2009 with the Defendants' reply due July 8, 2009. A hearing on the Defendants' Motion to Dismiss has not yet been scheduled.

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

Ms. Billings reported that the Complaint for Breach of Fiduciary Duties was just filed.

Northern Trust – Securities Lending

Ms. Billings reported that the issue is still pending.

IRS Determination Letter

This matter is currently pending with the IRS.

CAPROC L.L.C.

Ms. Billings referred to the Termination of Escrow Agreement contained within the legal report.

BLB&G Portfolio Watch, first Quarter 2009

Ms. Billings stated that this is for the trustees' information. She referred to an article that announced that the IRS has made a fix to the withholding tables for pension payments. Ms. Zimmermann reported the plan sponsor would have to make an election each pay period.

Union Representatives – None

UNFINISHED BUSINESS

Trustee Barnett said that at the last meeting Michelle Zeeman stated she was interested in becoming the Deferred Trustee. However, her husband is retiring soon and she will be gone the majority of the time and would miss a lot of the meetings.

NEW BUSINESS

Re: Death Audit

Ms. Zimmermann reported that periodically a death audit is processed to insure that the system is not paying benefits to a deceased retiree. The audit returned one person whose death had been reported to the Retirement Office.

Re: Placement Agency Policy Draft

Ms. Zimmermann reported that a national pay-to-play scandal is currently being investigated by the states from New Mexico to New York. A number of people have been sent to jail. She felt it was important to draft a placement agency policy regarding the current situation. Many systems are drafting a policy to avoid future problems.

Ms. Zimmermann suggested that the trustees review the draft and make any changes or additions and vote at the next meeting. She said that generally the system is made aware by managers when they are using a third-party marketer. This has not been an issue for our system. She suggested that the policy be incorporated into the Investment Policy Statement.

Chairman Harrison noted that the system has been acting in accordance without a written policy.

Re: Finance Director

Trustee Woods informed the Board that Plante Moran has been appointed the Finance Director for the City of Pontiac. She asked if they would assume the position of Secretary on the Board and whether it is mandatory that the Finance Director hold a position on the Board. Ms. Zimmermann said that legal counsel should review the ordinance regarding this issue.

RESOLUTION 09-050 By Woods, Supported by Williams

Resolved, That the Board direct legal counsel research and issue an opinion as to whether the Finance Director's trustee position on the Board can be held by an outside contractor.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING AND ADJOURNMENT:

Regular Meeting: July 22, 2009 1:30 p.m. - Shrine Room, Main Level, City Hall

ADJOURNMENT

RESOLUTION 09-051 By Saucedo, Supported by Scott

Resolved, That the meeting be adjourned at 3:44 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on June 24, 2009

Sheryl Stubblefield, Secretary
As recorded by Jane Arndt