

**CITY OF PONTIAC
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES
JUNE 27, 2013**

A regular meeting of the Board of Trustees was held on Thursday, June 27, 2013, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan. The meeting was called to order at 11:30 a.m.

Trustees Present

Lon Britton, Vice Chairman
John Naglick, Secretary
Craig Storum, Chairman

Others Present

Chris Kuhn, Gray & Company
Bram Schreurs, Gray & Company
Matthew Henzi, Sullivan, Ward, Asher & Patton
Chuck Wytrychowski, BeneSys, Inc.
Darris Garoufalis, BeneSys, Inc., *excused*
Liz Edwards, BeneSys, Inc.

Trustees Absent

Matthew Nye
Leon Jukowski, Mayor

The meeting was called to order at 11:30 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Minutes of Regular Meeting – May 30, 2013
- B. Minutes of Special Investment Manager Roundtable Meeting – June 5, 2013
- C. Communications
 - 1. Mesrirow’s Letter with Respect to Todd Fowler’s Departure
- D. Financial Reports
 - 1. Financial Reports – April 30, 2013
 - 2. Bills for Ratification as of May 31, 2013
- E. Capital Calls: Metropolitan VII, \$73,000, June 25, 2013
- F. Metropolitan VI Real Estate Cash Distribution, \$319,226 on June 13, 2013
- G. Remove from Rolls as of May 31, 2013
 - 1. Garry Cox, (deceased 05-29-2013), spouse Belinda is beneficiary and annuitant
- H. Final Benefit Calculations:
 - 1. 24 Final Calculation After-Tax Checks Mailed on 6-17-2013, correcting estimated payments:

Burroughs, Dessir	Claeys, Donald
Daves, Michael	Ford Jr., Robert L

Garrison, Kevin
Guyton, Quinton
Lyons, David
McLaughlin, Brian
Nye, Jeffrey
O'Neill, Timothy
Reyes, Wendy
Rhodes, Patricia
Stefani, James*
Wade, Dion

Gray-Allen, Jerri
Joiner, Frederick
Macias III, Antonio
Miller, Robert
Olsen, Nels
Rainge, Louis
Reyes, William
Riggs, Bradley
Thomas, Brian
Waldo, Dale*

* Pending sick pay review

I. QDRO:

1. Melanie Hoffman
2. Fay Guyton, recalculation

RESOLUTION 13-035 By Britton, Supported by Naglick
Resolved, That the Consent Agenda for June 27, 2013, be approved.

Yeas: 3 - Nays: 0

CONSULTANTS

A. Gray & Company

- a. Summary Table – June 20, 2013
- b. Asset Liability Review – June, 2013
- c. Risk Analysis, June, 2013

Re: Gray & Company – Performance Review

Mr. Kuhn noted that fixed income funds are taking a hit. He reviewed in depth asset liability and risk analysis of the Fund. He believes the Trust is funded for approximately seventeen years, but we need to strive for an annual 7½% return. We must try to minimize loss during periods of underperformance and maintain asset allocation. We must set objectives for ten years out, and look at liquidity, market fluctuation and various risk factors. With core fixed income funds, yields go up and down. When you go back 20 years you see trends, and the randomness of returns can last for a long period. Mid-cap funds seem to be the best performer. Emerging markets may be higher over the next ten years. He demonstrated different mixes of funds in order to achieve the 7½% goal. Trustee Britton stated that with a particular mix, we'd have to look at laddering because of the aging-in factor. Mr. Kuhn suggests moving away from core funds and into mixed sectors. He suggests we continue in real estate, but also look at timber, minerals, and commodities. Trustee Britton has no interest in private equity funds as they are not transparent, and much time is needed to evaluate and monitor.

Mr. Kuhn presented Model Total Fund Allocations showing the current Portfolio Mix and Characteristics and four different options. The Trustees leaned towards Option 3 as shown:

	<u>Current</u>	<u>Option 3</u>
Fixed Income	36.0%	30.0%
Equity	55.0%	50.0%
Alternatives	9.0%	20.0%
Expected Return	7.23%	7.67%
Standard Deviation	10.31%	10.27%

Mr. Kuhn next presented Model Fixed Income Allocations showing the current Fixed Income Portfolio Mix and Characteristics and three different options. The Trustees leaned towards Option 2 as shown:

	<u>Current</u>	<u>Option 2</u>
Core Fixed Income	83.3%	60.0%
High Yield	5.6%	15.0%
International Fixed Income	5.6%	12.5%
Emerging Market Debt	5.5%	12.5%
Expected Return	3.81%	4.26%
Standard Deviation	3.82%	4.28%

Mr. Kuhn next presented Model Equity Allocations showing the current Equity Portfolio Mix and Characteristics and three different options. The Trustees leaned towards Option 2 as shown:

	<u>Current</u>	<u>Option 2</u>
Large Cap	49.1%	35.0%
Mid Cap	12.7%	20.0%
Small Cap	12.7%	15.0%
International Equity	19.1%	15.0%
Emerging Market Equity	6.4%	15.0%
Expected Return	8.77%	8.82%
Standard Deviation	17.49%	18.23%

Mr. Kuhn next presented Model Alternative Allocations showing the current Alternative Portfolio Mix and three different options. The Trustees were undecided:

	<u>Current</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
Real Estate	100.0%	70.0%	50.0%	40.0%
Real Assets	0.0%	30.0%	25.0%	20.0%
Hedge Funds	0.0%	0.0%	25.0%	20.0%
Private Equity	0.0%	0.0%	0.0%	0.0%
Direct Lending	0.0%	0.0%	0.0%	20.0%

Mr. Kuhn suggests we hold off making a decision for now, and continue to review the options. Trustee Britton requests that Ambassador Investments be at the July meeting.

Mr. Schreurs discussed risk management and understanding risk. There are two components to it: measuring and analyzing risk, then changing it. There are in-house analytical tools to look at current risk. He looked at our March 31 holdings, and reviewed absolute risk rather than relative risk. He discussed standard deviation, expected shortfalls, average loss, and marginal risk. He discussed estimates, risk contributors, and diversification. He will update the graphs to show five-year returns.

Break at 1:25 p.m.; reconvene at 1:40 p.m.

RESOLUTION 13-036 By Naglick, Supported by Britton

Resolved, That the Board move to closed session to discuss pending litigation at 1:40 p.m.

Yeas: 3 - Nays: 0

The Board moved to closed session at 1:40 p.m.

Mr. Kuhn and Mr. Schreurs left at 1:40 p.m.

The Board returned from closed session at 2:07 p.m.

RESOLUTION 13-037 By Britton, Supported by Naglick

Resolved, That the Board approve the May 30, 2013, closed session minutes.

Yeas: 3 – Nays: 0

RESOLUTION 13-038 By Britton, Supported by Naglick

Resolved, That legal counsel take action on issues as discussed.

Yeas: 3 – Nays: 0

REPORTS

- A. Chairman
- B. Secretary
- C. Trustees Committees
- D. Legal, Attorney's Report, Sullivan, Ward, Asher & Patton, P.C., Matthew Henzi

Attorney Report – General Matters: Attorney Henzi presented a report regarding all PFRS business as set forth in his Attorney Report for General Matters.

There was discussion with respect to the current actuary, Rodwan Consulting Company, providing factors on an ongoing basis.

Gabriel Roeder Smith & Company– actuarial software. Attorney Henzi stated that Gabriel Roeder's legal counsel stated that the company will give back the refund. Attorney Henzi stated he needs to take action to pursue this.

RESOLUTION 13-039 By Britton, Supported by Naglick

Resolved, That legal counsel take action with respect to Gabriel Roeder's agreement to refund fees charged.

Yeas: 3 – Nays: 0

There was discussion with respect to sick time payouts. Attorney Henzi called Mr. Ford who stated he received two checks in 2011, therefore we will note that he has gotten paid and assume no changes are to be made. Attorney Henzi also tried to follow up with Mr. Stefani's attorney but has gotten no response. He asked Trustee Naglick to see if any sick pay was paid out to him. Trustee Naglick said he will check with the Human Resources staff. Mr. Wytrychowski asked how can we know for future retirements if they received the sick time payout? Attorney Henzi stated that the sick time payout is made when an employee applies for retirement. We should continue to do this in the future. We should ask Trustee Naglick's staff to confirm the payout, then cut the check. The wage will be included in the final calculation. Attorney Henzi noted that an employee should have received the vacation payout within 30 days of termination, but the sick payout is made at retirement. Trustee Britton stated that we should send a letter to those who are eligible for the sick time pay out and direct them to go to the City at retirement to indicate the sick time dollars to be included in the calculation. Trustee Naglick stated he will go to Human Resources and get the list of those who are eligible for the sick time payout.

CAP Commercial Mortgage – Tax Appeal - The Fund will receive a refund of approximately \$15,000.

UNFINISHED BUSINESS

- A. There was discussion with respect to actuarial assumptions and withdrawal factors. Mr. Wytrychowski noted there seems to be a disconnect between payout assumptions and valuation assumption factors. Trustee Storum believes it is outlined in the collective bargaining agreements. Discussion was tabled and will be revisited at the next meeting.

NEW BUSINESS

- A. Trustee Elections: The trustee terms for the Chairman and Vice Chairman are until June 30. They must be reelected in July, and will be on the July Meeting Agenda.
- B. Letter with Respect to Confidentiality of Benefit Amounts: It was noted that pension amounts are not to be released. Attorney Henzi responded to a question posed by the Mayor: Does the City have to keep calculations and amounts confidential; can the City keep confidential the salary and service used, but just release the gross dollar amount? Attorney Henzi stated that it is all confidential information, and not to be released.
- C. Chubb Fiduciary Liability Renewal: The renewal is with a \$1,000,000 liability cap. There is a \$25,500 annual premium due.
- D. 2012 Actuarial Report Update: Attorney Henzi told Denise Jones of Rodwan Consulting Company that time is of the essence and expects her to be at the next meeting with the completed valuation.
- E. The Trustee I-Pad Video Conferencing demonstration will occur at the August meeting.
- F. Participant Website: Mr. Wytrychowski discussed the website and its implementation. BeneSys has been piggybacking the City's website. Establishing the BeneSys website is on our to-do list. Once we provide accurate content to the Implementation team, the website will be loaded and live in two weeks. Trustee Storum will send the firefighter logo, and photographs of folks in action.

SCHEDULING OF NEXT MEETING

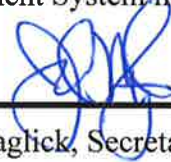
Regular Meeting – Thursday, July 25, 2013 – BeneSys Inc., 700 Tower Dr., Suite 300, Troy, MI 48098 at 10:00 a.m. (Tentative)

ADJOURNMENT

RESOLUTION 13-040 By Britton, Supported by Naglick
Resolved, That the meeting be adjourned at 3:12 p.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true and correct
minutes of the meeting of the Police and Fire
Retirement System held on June 27, 2013.



John Naglick, Secretary
As recorded by BeneSys

MODEL ALTERNATIVE ALLOCATIONS

Alternative Portfolio Mixes

	Current	Option 1	Option 2	Option 3
Real Estate	100.0%	70.0%	50.0%	40.0%
Real Assets	0.0%	30.0%	25.0%	20.0%
Hedge Funds	0.0%	0.0%	25.0%	20.0%
Private Equity	0.0%	0.0%	0.0%	0.0%
Direct Lending	0.0%	0.0%	0.0%	20.0%

The table depicts the Fund's Target Alternative Allocation (Current) and three (3) other Alternative portfolio options.

Please refer to the important disclosures on page 2 of this presentation.

MODEL TOTAL FUND ALLOCATIONS

Portfolio Mixes and Characteristics

	Current	Option 1	Option 2	Option 3	Option 4
Fixed Income	36.0%	35.0%	30.0%	30.0%	25.0%
Equity	55.0%	55.0%	55.0%	50.0%	55.0%
Alternatives	9.0%	10.0%	15.0%	20.0%	20.0%
Expected Return	7.23%	7.29%	7.59%	7.67%	7.89%
Standard Deviation	10.31%	10.38%	10.77%	10.27%	11.18%

The table depicts the Fund's Target Allocation (Current) and four (4) other Total Fund portfolio options.

Note: The expected returns and standard deviations for the Total Fund Allocations are based on asset class returns and do not include any excess performance from active management.

MODEL FIXED INCOME ALLOCATIONS

Fixed Income Portfolio Mixes and Characteristics

	Current	Option 1	Option 2	Option 3
Core Fixed Income	83.3%	70.0%	60.0%	50.0%
High Yield	5.6%	10.0%	15.0%	20.0%
Intl Fixed Income	5.6%	10.0%	12.5%	15.0%
EM Debt	5.5%	10.0%	12.5%	15.0%
Expected Return	3.81%	4.06%	4.26%	4.47%
Standard Deviation	3.82%	4.02%	4.28%	4.65%

The table depicts the Fund's Target Fixed Income Allocation (Current) and three (3) other Fixed Income portfolio options. The Current allocation for Intl Fixed Income was calculated using 50% of the Franklin Templeton Global Bond Fund allocation; the Current allocation for EM Debt was calculated using 50% of the Franklin Templeton Global Bond Fund allocation.

Note: The expected returns and standard deviations for the Fixed Income Allocations are based on asset class returns and do not include any excess performance from active management.

MODEL EQUITY ALLOCATIONS

Equity Portfolio Mixes and Characteristics

	Current	Option 1	Option 2	Option 3
Large Cap	49.1%	40.0%	35.0%	20.0%
Mid Cap	12.7%	20.0%	20.0%	20.0%
Small Cap	12.7%	10.0%	15.0%	20.0%
Intl Equity	19.1%	20.0%	15.0%	20.0%
EM Equity	6.4%	10.0%	15.0%	20.0%
Expected Return	8.77%	8.85%	8.82%	8.42%
Standard Deviation	17.49%	17.78%	18.23%	18.92%

The table depicts the Fund's Target Equity Allocation (Current) and three (3) other Equity portfolio options. The Current allocation for Intl Equity was calculated using 75% of the allocation for Thornburg and WHV; the Current allocation for EM Equity was calculated using 25% of the allocation for Thornburg and WHV.

Note: The expected returns and standard deviations for the Equity Allocations are based on asset class returns and do not include any excess performance from active management.

Please refer to the important disclosures on page 2 of this presentation.