

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
JUNE 29, 2006**

A regular meeting of the Board of Trustees was held on Thursday, June 29, 2006 in the Shrine Room, Main Level, City Hall, Pontiac, Michigan 48342. The meeting was called to order at 9:07 a.m.

**TRUSTEES PRESENT**

Thomas Miller, Vice Chairman  
Raymond Cochran, Secretary  
Brian Lee

**TRUSTEES ABSENT**

Mayor, Clarence Phillips (*absent*)  
Craig Storum (*excused*)

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
Sheri Cataldo, Sullivan, Ward, Asher & Patton, P.C.  
Laurence Gray, Gray & Company  
Ellen Zimmermann, Retirement Systems Administrator  
Jane Arndt, M-Administrative Assistant

**CONSENT AGENDA**

Trustee Lee noted that the agenda heading had not been updated from the previous meeting.

- A. Minutes of Special Meeting: May 24, 2006
- B. Minutes of Regular Meeting: May 25, 2006
- C. Communications:
  - 1. Correspondence from Morgan Stanley Re: Portfolio Commentary May 2006
  - 2. Correspondence from PFRS to Morgan Stanley RE: Watch List Notice
  - 3. Correspondence from ADP RE: Fee increase
- D. Financial Reports:
  - 1. Financial Reports – May 2006
  - 2. Securities Lending Report – April & May 2006
  - 3. Commission Recapture – April 2006
  - 4. Accounts Payable – June 2006
- E. Remove from Rolls:
  - 1. Guzman Ruiz (deceased 06-15-06)
- F. Refund of Accumulated Contributions:
  - 1. Damon Young – PPOA                      \$3,324.10
  - 2. Kenneth M. Ayres – PPOA                \$5,383.84
- G. Death Audit Results

**RESOLUTION 06-044** By Lee, Supported by Cochran

Resolved, That the items of the consent agenda for May 25, 2006, be approved.

Yeas: 3 - Nays: 0

## **CONSULTANTS**

### **Re: Sullivan, Ward, Asher & Patton, PC – CAPROC Update**

**RESOLUTION 06-045** By Lee, Supported by Cochran

Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation and settlement.

Lee – Yea, Cochran – Yea, Miller - Yea

*Moved to Closed Session at 9:10 a.m.*

*Returned From Closed Session at 9:36 a.m.*

### **Re: Gray & Company – DDJ Capital Management – High Yield Fixed Income**

**Michael Yeomans, Relationship Manager**

**Michael Forrester, Chief Operating Officer**

Mr. Gray explained that a senior level executive from DDJ had recently left the company and that he had asked DDJ to attend today's meeting.

Michael Forrester introduced himself and Michael Yeomans to the Board. He stated that John Ehlinger had accompanied him in April for the high yield presentation. He said that they were surprised when Mr. Ehlinger suddenly left the company to work for a good friend of his in a small shop in Boston. He assured the Board that there have been no other changes, and that their fifteen member investment team is intact and committed to the Board, adding that David Breazzano is and will continue to be the high yield bond portfolio manager. Mr. Breazzano could not attend today's meeting due to his attendance at a board meeting for Key Energy in Dallas. However, he is available by telephone if needed.

There was discussion about Mr. Ehlinger's sector responsibilities and who would be replacing him. His duties have been split between three managers. Ted Wagenknecht was promoted to senior research analyst and Joe Lind was added in April as a research analyst with six to seven years of high yield experience.

He discussed the current performance of the high yield market stating that through March, 2006 performance is down 1% adding that DDJ is beating the benchmark by 40 basis points. Currently all the markets are challenging with high yield performance up 12.2%. Mr. Gray said that it is always good to bring back the manager to alleviate any concerns in person. He said this firm is a true high yield manager; the assets are coming from Atlantic.

*Mr. Yeomans and Mr. Forrester left at 9:52 a.m.*

**Re: American Realty Advisors**

Mr. Gray told the Board that the contract has been reviewed. He said that Ms. Stewart had asked him to obtain the Board's approval for the funding of \$750,000 on July 5, 2006 for the first draw down. Ms. Zimmermann mentioned that a resolution had been approved by the Board to fund the broad investment, but that she prefers to have an approval to fund capital calls.

**RESOLUTION 06-046** By Miller, Supported by Cochran

Resolved, That the Board of Trustees approve the \$750,000 draw down on July 5, 2006 to the American Stable Value real estate fund.

Yeas: 3 - Nays: 0

**REPORTS**

**Re: Chairman** – None

**Re: Secretary** – None

**Re: Trustees** – None

Trustee Lee commented that a number of members have expressed concern about the stock market and have inquired on the asset allocations and whether the investments of the fund are secure.

1. **Real Estate Committee** – None
2. **Personnel Committee** – None

**Re: Staff**

Munder Capital Management

Ms. Zimmermann distributed a newspaper article regarding a rumor that Comerica is shopping Munder Capital. Munder has no comment. She explained that this could be good news for both Munder and the fund.

One-Day MAPERS Conference

Ms. Zimmermann distributed MAPERS Conference materials to the Board. She said that if anyone was interested to contact Jane Arndt.

Re: Fiduciary Liability Insurance Renewal

The invoice to renew the fiduciary liability insurance was received. The renewal cost is \$26,630 versus \$24,000 for 2005.

RFP Committee – RFP for Custody

The joint RFP Committee needs to bid out for custody. There is currently a vacancy on the PFRS RFP Committee. Trustee Lee agreed to join Trustee Miller on the committee.

### Northern Trust

Ms. Zimmermann stated that GERS terminated their large cap growth manager and is now invested in an index growth fund through Northern Trust. A fee schedule of 4 ½ basis points was negotiated by Gray and Company for GERS and PFRS by combining the two funds for invoicing purposes only. Prior fee schedules were 8 basis points for the first \$25 million and 6 basis points for the next \$25 million. This is a substantial savings. The invoice will be split by staff for reporting purposes.

### PFRS Website

Ms. Zimmermann explained the need for a PFRS website for members. This would allow members access to basic information, forms and minutes. The IT Department has agreed to create pages and update as needed.

### **RESOLUTION 06-047** By Lee, Supported by Cochran

Resolved, That the Board of Trustees approve the creation and update of a Retirement Office website.

Yeas: 3 - Nays: 0

### 30-Day Notice

Ms. Zimmermann told the Board that due to the City's financial condition there are a number of layoffs occurring. Since the Retirement Office receives no advance notice of these actions, the GERS Board waived the 30-day notice requirement. This is not expected to be an issue for the Police and Fire Retirement System, however, she wanted to make the Board aware that there may be potential for short dates to accommodate members going out before the next meeting.

### **Re: Legal**

### Ferro Corporation Litigation

Ms. Billings described the lead plaintiff status of the Ferro litigation. Due to accounting improprieties, Ferro has filed restated financials with the SEC. A mediation settlement has been scheduled for August 2, 2006 in San Francisco. A member of the Board or Ms. Zimmermann will need to attend the mediation.

### **RESOLUTION 06-048** By Cochran, Supported by Miller

Resolved, That the Board of Trustees approve Trustee Lee to attend the Ferro Corporation mediation settlement in San Francisco on August 2, 2006.

Yeas: 3 - Nays: 0

### United Rentals

The Policemen's and Firemen's Retirement System was appointed lead plaintiff in November, 2005. In May, 2006 the secretary signed the retainer agreement. An amended complaint was filed for alleged backdating of stock options since 1995 for hundreds of millions of dollars. Financials were also grossly misstated. The complaint is attached. Ms. Billings requested that the Board ratify the previously signed retainer agreement.

Given the status of Montag & Caldwell it was determined that the Board will send a letter requiring them to hold a minimum number of shares to maintain the original ownership for litigation purposes, in the event the manager is terminated.

**RESOLUTION 06-049** By Cochran, Supported by Lee  
Resolved, That the Board of Trustees ratify the United Rentals litigation retainer agreement.

Yeas: 3 - Nays: 0

Ordinance Cleanup

Ms. Billings discussed the ordinance cleanup and the need to take the information from the memorandum and incorporate the changes into the ordinance. The trustees will need to review the changes. Trustee Miller commented on Section 20 (a) in the ordinance stating that the statement “shall be fixed by the City Commission:” should be changed to Retirement Board to eliminate any questions.

There was also discussion regarding the minimum distribution requirements under Section 6.

DDJ Capital Management LLC Adoption Agreement

Contracts have been finalized. DDJ has accepted the changes to the adoption agreement and as such it is in a legally acceptable format for adoption on behalf of the Retirement System. Funding is done only once a month, so they will be funded August 1.

Chubb Fiduciary Liability Insurance Binder

Ms. Billings referred to a copy of the fiduciary liability insurance binder.

BLB&G Institutional Investor Advocate

There was discussion regarding the number of corporations that have committed fraud in the market. Mr. Gray remarked that the backdating of options is a big issue. Ms. Zimmermann added that the Wall Street Journal tracks the number of corporations that are currently under investigation.

**Re: Union Representatives - None**

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**NEW BUSINESS**

Trustee Lee mentioned that he was approached by Detective MacQuarrie regarding his military duty contribution payback. Ms. Billings said members have a five year time period to repay the contributions. Ms. Zimmermann remarked that Detective MacQuarrie can contact her office regarding any questions.

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**UNFINISHED BUSINESS**

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**SCHEDULING OF NEXT MEETING** –Meeting on July 27, 2006 at 9:00 a.m., Shrine Room, Main Level City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

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**ADJOURNMENT**

**RESOLUTION 06-050** By Lee, Supported by Cochran  
Resolved, That the meeting be adjourned at 11:04 a.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 29, 2006.

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Raymond Cochran, Secretary  
*As recorded by Jane Arndt*