

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM**

**December 3, 2009**

A regular meeting of the Board of Trustees was held on Monday, December 3, 2009 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 10:09 a.m.

**TRUSTEES PRESENT**

Brian Lee  
Thomas Miller, Vice Chair  
Craig Storum, Chairman

**TRUSTEES ABSENT**

Mayor, Clarence Phillips (*absent*)

**OTHERS PRESENT**

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

Larry Marshall (arrived at 10:  
Devin Scott (arrived at 10:

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**CONSENT AGENDA**

- A. Minutes of Regular Meeting: August 27, 2009
- B. Communications:
  - 1. Correspondence from Artio Global Re: CIO Letter Q4 09
  - 2. Correspondence from DDJ Re: Monthly Summary
- C. Conferences:
  - 1. 2010 NCPERS Legislative Conference – NCPERS – Feb 7-9, 2010
- D. Financial Reports:
  - 1. Financial Reports – October 2009
  - 2. Securities Lending – October 2009
  - 3. Accounts Payable – November 2009
  - 4. Ratification of Capital Calls: Metropolitan Real Estate \$260,000
- E. Remove from the Rolls:
  - 1. Robert Chastain (deceased 11-07-09) survivor benefit of \$3,204.55 / mo to Sally Chastain
  - 2. William Hanger (deceased 11-12-09) survivor benefit of \$1,559.79/ mo to Elaine A. Hanger
- F. Application for Service Retirement
  - 1. Bryan Stoddard – PFFU                      26 years, 2 months                      Age 48
  - 2. John Henson – PFFU                        26 years, 4 months                      Age 49
  - 3. David Derochers – PFFU                    22 years, 11 months                      Age 49
  - 4. Dennis Henderson – PFFU                17 years, 3 months                      Age 50
  - 5. David Lee – PFFU                            24 years, 1 month                        Age 49
  - 6. Harvey Holland – PFFU                    26 years, 2 months                      Age 54
  - 7. Trinidad Martinez – PFFU                24 years, 1 month                        Age 43

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|-----|--------------------------|---------------------|--------|
| 8.  | Stephen Fritz – PFFU     | 27 years, 7 months  | Age 53 |
| 9.  | James Conn – PFFU        | 23 years, 9 months  | Age 48 |
| 10. | Richard Downs – PFFU     | 23 years, 7 months  | Age 45 |
| 11. | Kevin Chapman – PFFU     | 23 years, 9 months  | Age 47 |
| 12. | Anthony Coney – PFFU     | 24 years, 5 months  | Age 48 |
| 13. | Jeffrey Colby – PFFU     | 24 years, 1 month   | Age 46 |
| 14. | Thomas Hilburn – PFFU    | 24 years, 1 month   | Age 46 |
| 15. | Timothy Campbell – PFFU  | 26 years, 9 months  | Age 54 |
| 16. | Craig Storum – PFFU      | 27 years, 9 months  | Age 52 |
| 17. | Gene Swartz – PFFU       | 24 years, 6 months  | Age 50 |
| 18. | Timothy Samson – PFFU    | 22 years, 4 months  | Age 45 |
| 19. | Joseph Mongeli – PFFU    | 22 years, 0 months  | Age 46 |
| 20. | Gregory J. Taylor – PFFU | 22 years, 1 month   | Age 50 |
| 21. | George Hamzik – PFFU     | 24 years, 1 month   | Age 46 |
| 22. | Michael Wells – PFFU     | 26 years, 9 months  | Age 50 |
| 23. | David Potter – PFFU      | 26 years, 4 months  | Age 50 |
| 24. | Rickey Mathias – PFFU    | 22 years, 4 months  | Age 55 |
| 25. | Jeffrey Swartz – PFFU    | 22 years, 0 months  | Age 47 |
| 26. | David Burnett – PFFU     | 22 years, 4 months  | Age 46 |
| 27. | David Duddles - PFFU     | 22 years, 11 months | Age 45 |
| 28. | Roman Prosser – PFFU     | 22 years, 6 months  | Age 47 |
| 29. | Gordon Cooley – PFFU     | 23 years, 0 months  | Age 44 |
| 30. | Christopher Stone – PFFU | 22 years, 5 months  | Age 45 |
| 31. | Michael Pierce – PFFU    | 25 years, 10 months | Age 49 |
| 32. | Vincent Hayden – PFFU    | 24 years, 0 months  | Age 44 |
| 33. | Arturo Macias – PFFU     | 22 years, 4 months  | Age 47 |
- G. Final Benefit Calculation
- H. Application for Refund of Accumulated Contributions:
- |    |                        |            |
|----|------------------------|------------|
| 1. | Raymond Johnson – Fire | \$3,526.28 |
| 2. | Aaron Sailor – Police  | \$3,251.71 |
- I. Request to Change Effective Date of Retirement
1. Stephen Fritz
  2. Craig Storum
  3. Michael Pierce

Ms. Zimmermann requested the Board’s approval to add two applications for refund of accumulated contributions: Raymond Johnson (\$3,526.28) and Aaron Sailor (\$3,251.71) to the consent agenda.

**RESOLUTION 09-0** By Lee, Supported by Miller  
 Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

Ms. Billings asked that the Board authorize the Chairman to sign a letter to State Representative Melton asking for his support on House Bill 5323 which is an amendment to Public Act 314.

**RESOLUTION 09-0** By Lee, Supported by Miller

Resolved, That the Board authorize the Chairman to sign the letter to State Representative Tim Melton in support of House Bill 5323.

Yeas: 3 – Nays: 0

Fire Trustee Replacement

Ms. Zimmermann reported that the acceptance of nominating petitions will close on December 9, 2009 for the interim Fire Trustee. Ms. Billings said that since the next meeting is scheduled for January 28, 2009, and without the addition of a replacement for the fire trustee, there will not be a quorum going forward. She recommended that the Board pass a resolution to accept the results of the nominating petitions and, if there is only one petition submitted, that that individual be approved as the fire trustee. If there is more than one petition submitted, there will be an election. Ms. Zimmermann said that to date only one petition has been received for the position on the Board.

**RESOLUTION 09-0** By Lee, Supported by Miller

Resolved, That the Board approve that if there is only one nominating petition received, then according to the Rules and Regulations, that person be hereby declared the new fire trustee and if more than one petition is received, an election will be held.

Yeas: 3 – Nays: 0

Trustee Lee asked what will happen if two nominating petitions are submitted. Ms. Billings said that there will not be an issue and an election will be held.

Ms. Zimmermann thanked Trustee Miller for his long-term service on the Board. Chairman Storum also thanked Trustee Miller and said that he appreciates Trustee Miller's years of service.

*Trustee Miller left at 10:12 a.m.*

**CONSULTANTS**

**Re: Gray & Company**

DDJ / Artio Transition

Mr. Kuhn reported that Ms. Zimmermann worked very hard setting up the transition the day before Thanksgiving. DDJ was less than responsive setting up the account around the holiday. To date, \$3.5 million has been transitioned to Artio. There is still some money with DDJ. He will continue to follow up on the account and report back to the Board.

Chairman Storum asked if there is roughly \$2 million still being held by DDJ. Mr. Kuhn confirmed the amount. He said that the investment is in illiquid securities, primarily bank loans. The remainder of the transition is not at the top of DDJ Capital's list.

### Thornburg International Equity

Mr. Kuhn reported that the transition to the Thornburg investment is all set and should be funded by the end of the year.

### Performance Review – Third Quarter 2009

Mr. Kuhn reported that performance in the third quarter was very good, but the Total Fund trailed the Policy Index at 9.68% versus 10.98%.

Munder and Loomis underperformed this quarter by 200 to 300 basis points below the benchmark. They have met with Munder with regard to their performance and are keeping an eye on them. Loomis has much better numbers since inception. Both managers have quality themes which hurt them during the low quality surge. Munder invests in growth stocks and Loomis invests in value stocks. Munder underperformed due to poor stock selections and their allocations to financials.

Wentworth, Hauser & Violich's performance is up 40% year-to-date.

Boston's performance was right on top of the benchmark.

Oppenheimer's performance was 4.78% versus the benchmark at 3.74%. Their performance is attributed to good credit selection. They have done a good job long-term.

DDJ is being terminated but their performance for the quarter was 16.05% versus the benchmark at 14.82%. They short-term performance was ahead of the equity market but long-term they are still short and significantly short if you include the fees. Artio will have a better all-weather approach with lower fees.

A number of their clients asked why stable value is in their portfolio. He said that Stable Value will not provide 7% to 8% returns but will provide consistent 4% to 5% returns. It is a conservative investment in the portfolio that protects against higher interest rates. As interest rates increase Oppenheimer's returns will suffer. At 4.66% Stable Value is right where it should be. It is becoming difficult to find insurance contracts that banks trust.

The index fund is right on top of the benchmark.

He explained that this has been a difficult time for real estate. He asked if the Board had received a research piece he wrote on real estate. It is a summary analyzing the last twelve months and going forward twelve to thirty-six months regarding real estate investments. He will provide the Board with copies of the report.

The NCREIF is a well established index but is not a good benchmark to use because there is no leverage in the portfolio. They are looking to update this process with a benchmark that would be more accurate in gauging performance. American Realty has very little leverage in their portfolio. Based on this benchmark, American's performance for the third quarter is -9.64% versus -3.32% for the NCREIF; American's portfolio is down over 32% over the past 12 months.

He said that American is pure core real estate. They are in the top third in pure core with low leverage, investing in office, industrial, retail and multi-family. They have no leverage issues in their portfolio and there have been no financial blow ups. The setting is difficult in real estate and in building valuations.

Chairman Storum asked if the reductions come from the valuations and if the red numbers are representative of write downs in valuations. Mr. Kuhn said that American Realty buys their building with 15% to 20% leverage. They hire good tenants, maintain their buildings and have a 90% occupancy rate. However, their valuations have been affected by the overall real estate market. Real estate has issues with local owners who over leveraged their buildings, do not maintain their buildings, have declining occupancy rates and now do not have enough income to cover their expenses; many of these buildings are empty or nearly empty.

*Larry Marshall and Devin Scott arrived at 10:32 a.m.*

Mr. Marshall provided copies of the commercial plans. He said that the fully insured plans are not available. The documentation is through the end of the fiscal year, June 30, 2009 and does not include the recent group of retirees.

*Mr. Marshall and Mr. Scott left at 10:34 a.m.*

Metropolitan and Mesirow are value-added opportunistic real estate investors. Metropolitan has had some issues but are holding up pretty well. Currently, there is some cash in their portfolios. This is the best time to be putting money to work in real estate. The last time the market was this attractive was in the early 1990's. The issue then was an over supply issue versus an over leverage issue. There is still a lot of stress in the market but this is as exciting as it gets in real estate. He reminded the Board that real estate numbers are normally two months behind.

To date, both Metropolitan and Mesirow have put approximately 20% of the investment to work. The Mesirow side has not worked out very well.

They have a lot of confidence in American Realty.

Chairman Storum asked if Mesirow has a lot of cash flow and valuation issues. Mr. Kuhn said that is not the problem. There are currently eight or nine managers in the fund and they are looking to write off two or three of the managers. They have added some good investments. Currently, 70% to 80% of money invested is just breaking even. Vintage Funds started in 2005 through 2006 are happy if they can return capital to their investors.

Chairman Storum confirmed that roughly half of the allocation has not been invested.

Mr. Kuhn said that Metropolitan is concerned with a few underlying managers in their portfolio. Both Metropolitan and Mesirow are looking at secondaries as investment options for their portfolios. Secondaries are investments in existing portfolios that are being sold by institutional investors to eliminate future capital commitments. This is a good time to be a buyer.

He reviewed the flash report as of December 1, 2009. Current market values are down. He attributed this to the \$3.5 million drawn out of the fund to pay bills, pensions and the COLA payments.

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## **NEW BUSINESS**

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### **REPORTS**

**Re: Chairman** - None

**Re: Secretary** – None

**Re: Trustees** - None

**Re: Staff** - None

**Re: Legal**

#### Northern Trust Update

Ms. Billings provided an update for the Board regarding the Northern Trust Securities Lending issue. She said that they have issued a letter reducing unrealized losses down 77%. This will not impact the realized losses. She suggested that a letter be sent to Northern Trust from general counsel. She will verify that there is no impact on the realized losses in the collective trust.

She described some recent litigation directly on point with regard to the securities litigation matter and the investor paying the realized losses. They looked at this litigation to determine whether it would be beneficial to file an injunction. In both cases the Judge ruled that injunctive relief would not be applied. They recommend not filing for injunctive relief.

Mr. Kuhn said that he does not see how it will impact the core fund and not the collective fund. He will check into whether there will be capital gains due to this. He will check into the collective funds. Ms. Billings asked that he work with Sharon Almonrode on this issue.

#### Fossil, Inc.

Ms. Billings reported that they are still waiting for the Court to issue a ruling on the Defendants' motion to dismiss.

#### Gildan Activewear, Inc.

Ms. Billings reported that a hearing for the Defendants' motion to dismiss has not yet been scheduled.

#### UBS/AG Securities Class Action

Ms. Billings reported that the securities litigation is in the initial states of litigation.

### Merrill Lynch Bond Litigation

Ms. Billings reported that the matter is still pending.

### IRS Application for Determination Letter

Ms. Billings reported that the matter is still pending with the IRS.

### Correspondence Regarding Ability of Member to Withdraw Retirement Application

Ms. Billings referenced her legal opinion regarding a situation with a firefighter who applied for retirement on Wednesday, November 11, 2009 with an effective date of Saturday, November 14, 2009. He attempted to withdraw his application but was unable due to the closure of the Retirement Office, November 12, 2009 and November 13, 2009.

She stated that in the Collective Bargaining Agreement there is nothing that indicates a member cannot withdraw his application based on the language and the voluntary nature of a member's retirement. She also reviewed the Retirement System Ordinance and the Rules and Regulations and did not find any provisions that would prevent a member from changing their mind and withdrawing their application. The only time a member cannot rescind his retirement is after the benefit has commenced and could impact the actuarial integrity of the system.

### Correspondence Regarding Political Contributions

Ms. Billings referenced correspondence drafted regarding political contributions being solicited from investment managers for campaign purposes. The only way an investment manager can make a contribution is if he/she lives in the community and can vote for the candidate. The contribution would be limited to \$250.00.

Ms. Zimmermann stated that the letter did not indicate that if a contribution is made there is a two-year ban imposed on the manager from managing the assets. There was a question whether the letter should be amended to state this provision that could potentially affect investment management services provided.

Chairman Storum recommended that the Board direct legal counsel to follow through and send the letter to the investment managers.

### House Bill Number 5323 – Proposed Amendment to Public Act 314

Ms. Billings referenced the correspondence being sent to State Representative Tim Melton asking him to support House Bill Number 5323.

### City/Employee Contributions

Ms. Billings stated that at the last meeting it was reported that the city and employee contributions to the Fund had not been paid. At that time it was determined that if the contributions were not paid within ten days a demand letter would be sent to the City. In the interim the City has paid the contributions through a pay period in October. She recommended putting the demand letter on hold.

Trustee Lee asked what is an acceptable lag for the City to make their contributions. Ms. Billings said that nothing is specifically stated with regard to public plans. There is a provision in private plans that require contributions to be made by the fifteenth of the month following the month contributions are withheld. She indicated that the City has always been timely in making their payments. She felt that in light of the financial issues of the City they are making the payments within an acceptable timeframe.

Chairman Storum said that there has never been a problem in the past. He suggested sending a notification to the City if the contributions lag more than forty-five days. Ms. Billings did not find a reason to make any changes in the CBA with regard to the contribution payments. She stated that in the Ordinance it states that the contributions should be paid per pay period.

There was a question whether there could be interest due when the contribution payments lag or are only made once per year.

#### IRS Further Extends Effective Date of Normal Retirement Age Regulations for Governmental Plans

Ms. Billings reported that the IRS has extended the effective date of normal retirement age regulations with respect to governmental plans through 2013. She said that this is due to the number of plans with provisions for twenty-five and/or thirty and out that would not comply with the normal retirement age under the new regulations.

**Re: Union Representatives - None**

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#### **UNFINISHED BUSINESS**

**Actuarial Software Search** – Move Forward

**Re: Disaster Recovery Plan** – Move Forward

**Re: HELPS Letter to Retirees** – Move Forward

**Re: Experience Study** – Move Forward

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#### **PUBLIC DISCUSSION**

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#### **SCHEDULING OF NEXT MEETING**

Regular Meeting – Thursday, January 28, 2010 at 9:00 a.m., Shrine Room, City Hall

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**ADJOURNMENT**

**RESOLUTION 09-0** By Lee, Supported by Miller  
Resolved, That the meeting be adjourned at 11:00 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 December 3, 2009.

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*As recorded by Jane Arndt*