

**CITY OF PONTIAC
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES
JUNE 26, 2014**

A regular meeting of the Board of Trustees was held on Thursday, June 26, 2014, at BeneSys, Inc., Third Floor Conference Room, Troy, Michigan.

Trustees Present

Lon Britton
Nevrus Nazarko, Secretary (leaves 11:40 a.m.)
Deirdre Waterman, Mayor
Craig Storum, Chairman

Others Present

Matt Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Chuck Wytrychowski, BeneSys, Inc.
Liz Edwards, BeneSys, Inc.
Joshua Daitch, Mesirow Financial
Tracey Savage, Mesirow Financial

Trustees Absent

Matt Nye

Chairman Storum declared that a quorum was present and called the meeting to order at 9:00 a.m. to accommodate the travel schedule of the Mesirow Financial representatives.

AGENDA CHANGES

Mr. Daitch and Ms. Savage of Mesirow Financial reviewed their presentation at 9:00 a.m., prior to the VEBA meeting.

Mr. Daitch and Ms. Savage reviewed the managers and their responsibilities. They have partnered with Courtland. Going forward, they are looking for smaller “niche” specialty funds. They reviewed the processes used in fund investment decisions. They reviewed the diversification of assets and the portfolio make-up. They also reviewed the 2013 one-year and fourth quarter time-weighted returns and internal rates of return. They reviewed the graph of quarterly gross and net returns going back to June, 2007. They discussed the breakdown of all investments going back to 2006, and against their benchmarks. They also presented a summary detail of the various funds. Finally, they presented the 2013 fund statements.

Mr. Kuhn noted that they have recently lost team members, and asked how they will monitor issues going forward. Mr. Daitch stated that he manages the total portfolio and reviews what the other managers are responsible for. Trustee Britton asked what is the end-date for the fund? Mr. Daitch stated it is a ten-year fund that will end in 2017, although it may be extended at the tail-end. He expects a liquidation increase in the next few years. He thinks the internal rate of return may be lower than anticipated, and does not expect to see capital calls.

The trustees thanked Mr. Daitch and Ms. Savage for their time, and they left the meeting at 9:20 a.m. The Meeting was then suspended until the conclusion of the VEBA meeting.

CONSENT AGENDA

- A. Minutes of Regular Meeting – May 29, 2014, adjust to show that Co-Chairman Britton called the Meeting to order.
- B. Approval of Closed Session Minutes
- C. Financial Reports
 - 1. Financial Reports – April 30, 2014
 - 2. Bills for Ratification as of June, 2014
- D. Remove from Rolls: Neil McCormack, DOD 05-10-2014: Spouse Janice, Beneficiary and Annuitant, \$2,070.92
- E. Final Benefit Calculations: Troy Estes – PPOA; #16370; \$928.68

RESOLUTION 14-025 By Britton, Supported by Waterman
Resolved, That the items on the Consent Agenda for June 26, 2014, as amended, be approved.

Yeas: 4 - Nays: 0

CONSULTANTS

- A. Gray & Company
 - 1. Summary Table – June 20, 2014
 - 2. International Equity Manager Information
 - 3. Introduction to Hedge Funds
 - 4. Introduction to Timberlands – Tabled to Next Meeting

Gray & Company – Performance Review

Mr. Kuhn discussed Mesirow Financial and its earlier presentation. He noted that the team has changed but he believes we are fine as long as we keep on top of the managers. They have not increased their numbers, but have held steady.

Mr. Kuhn noted that the fund is on the edge of \$250,000,000. Fixed income is better than cash. Trustee Britton commented that Aberdeen's letter states that going forward, they will have two co-managers. Mr. Kuhn noted that he spoke with Ashley Cassel at Aberdeen. They have a couple of new resources coming on board with SWIP. Mr. Kuhn stated he will prepare a write-up on them and the team. Trustee Britton asked that he keep an eye on them, but we do not need to put them on watch at this time.

The meeting adjourned for a break at 10:48 a.m. The meeting reconvened at 11:00 a.m.

Mr. Kuhn stated that Thornburg had a weak month. He is doing a search now of other firms the company has dealt with. Thornburg's style is a core with value style. WHV is "growthier", and they balance each other. Looking on the performance chart, his first choice would have been Thomas White, but they mirror too many of the others. He wants to wait for another month before recommending any changes in order to see the June 30 quarter-end comparisons, and to find a few other possibilities. Trustee Britton is okay with that.

Mr. Kuhn then reviewed his presentation, the Introduction to Hedge Funds. He stated that hedge funds are sometimes thought of as the “bad teenager.” He said we should “throw that thought out.” He also said that some think hedge funds are more risky than others, but they are actually less risky because of the spread of investments. Hedge funds let you express a negative view. A hedge fund manager can sell today, hold, then buy at a later date. They can take less risk in the portfolio.

Mr. Kuhn stated that hedge funds have no benchmark. Trustee Storum asked then how do you measure them? Mr. Kuhn stated that the research institute, HFRI, measures the average return of peer groups, and looks at volatility compared to other asset classes. Most are now registered with the SEC.

Mr. Kuhn stated that hedge funds tend to have less volatility, less risk / return, when benchmarked net of fees. He stated that less than one-half of their returns are from the equity market. He noted that 2011 was a roller coaster year in the U.S. Most managers got out of the market, so they were not in for the upswing.

Mr. Kuhn presented a good / bad / indifferent comparison. He noted some issues with hedge funds. Some will provide risk transparency, some will not. There is the “key man” risk. Leveraging is not seen a lot except in a few strategies. With liquidity, how long do they have to hold onto investments, and how much notice is needed to sell? There are high fees: 1% to 2% annually, 10% to 20% on profits from the first dollar. He showed numbers net of fees, and then discussed the importance of due diligence.

Mr. Kuhn then discussed the differences between having a single hedge fund manager compared to having a fund of hedge funds. Trustee Britton asked if he recommends a single manager or a fund of hedge funds. Mr. Kuhn replied that at \$10,000,000, you could do a single manager, anything less a fund of hedge funds.

Mr. Kuhn then discussed different strategies. He asked if we would want a 5% allocation of \$12,000,000. Trustee Britton commented that he wants diversity, but not so much that we get too thin.

RESOLUTION 14-026 By Britton, Supported by Storum
Resolved, That a 5% allocation for a single hedge fund manager be approved.

Yeas: 3 - Nays: 0

Mr. Kuhn’s Timberland presentation was then tabled until the July 31, 2014, meeting.

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:

Application for IRS Determination Letters for PFRS

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Neil Craig – Overpayment After Death

Attorney Henzi explained that this participant passed away on November 20, 2013. His surviving spouse passed away on November 29, 2013. The Administrator was not notified of the deaths. As such, an overpayment was made in the amount of \$5,527.09. Since the last meeting, Legal searched the Oakland County Probate Court records to find whether an estate was made. There was no estate identified. The Administrator has made unsuccessful attempts to contact the two children of the Participant. The Administrator investigated making a claim for reimbursement from the Participant's bank. The deadline to make such a claim has passed. Given the length of time since the surviving spouse's death, it is highly likely the balance was paid to the heirs. Legal requests direction from the Board on whether to take further action against the two known heirs. Legal sent correspondence to the heirs. The Trustees would leave this open, and if there is no response by September, just close the issue.

Genelda Lavallis – Request for Conversion to Normal Retirement Benefit

Attorney Henzi explained that this participant requested that her retirement benefit be converted from non-duty disability to normal retirement now that she reached age 55. She has 10 years of service. Attorney Henzi has reviewed this matter and opines that the ordinance does not allow for non-duty disability benefits to convert to normal benefits. Ms. Lavallis was told to submit a written request explaining her position. No such request was sent. Trustee Britton commented that she did agree to a non-duty disability. Since the last meeting, Ms. Lavallis responded to counsel to state she is reviewing her file.

Paul Stachowiak / David Agar – Request for Recalculated Benefit (Exhibit A)

Attorney Henzi addressed this issue for the Board in the Attorney Report. The settlement agreement stated that promotional pay would not be included in FAS. They stated they were not active at the time, so were not included. Both signed a waiver signing away promotional pay. Attorney Henzi sent them a letter stating this. The matter is now closed.

PFRS Redeposit Policy – Partial Plan Termination (Exhibit B)

Attorney Henzi addressed this issue for the Board in the Attorney Report. Attorney Henzi will make clear in the letter that ten years of service and age fifty are requirements for participation in the VEBA. He will draft the letters as soon as possible.

Public Employee Retirement Benefit Protection ACT PA 492 (Exhibit C)
Attorney Henzi addressed this issue for the Board in the Attorney Report.

PFRS and VEBA Liability Insurance Renewal – (Exhibit D)
Attorney Henzi noted that the Administrator has forwarded the renewal application to Union Services Agency. The invoice for the annual premium has been placed for payment.

Follow-Up with Service Providers Regarding Fee Disclosure Statement and Political Contribution Disclosure Statement (Exhibit E)
Attorney Henzi sent a reminder to six service providers requesting they return their forms. Since sending these out, we have received several returned documents. The Administrator is working on ensuring all required documents are up-to-date.

Proposed 2014 Budget (Exhibit F)
Attorney Henzi addressed this issue for the Board in the Attorney Report. He based it off of last year's report. It is a reporting requirement, however it is not binding.

RESOLUTION 14-027 By Britton, Supported by Waterman
Resolved, That the proposed 2014 Budget be approved.

Yeas: 3 - Nays: 0

Riggs EDRO (Exhibit G)
Attorney Henzi addressed this issue for the Board in the Attorney Report.

Robbins Geller Portfolio Monitoring Report May 30, 2014 (Exhibit H)
Attorney Henzi addressed this issue for the Board in the Attorney Report.

Service Credit Upon Conversion from Duty Disability to Normal Retirement Benefit
Attorney Henzi discussed the issue of applying service credit when an individual converts from duty disability to a normal retirement benefit. He advised that yes, an individual does get credit for the duty disability period if he retires. He stated that the pension check is not reduced for workers compensation payments. He recommends that final average salary be used for the final year.

RESOLUTION 14-028 By Britton, Supported by Waterman
Resolved, That the final average salary be applied for the final year of wages when an individual converts from a duty disability to normal retirement.

Yeas: 3 - Nays: 0

Tim Morton – Eligibility to Draw Benefit After Vest Income at Age 50 (Exhibit I)
Attorney Henzi addressed this issue for the Board in the Attorney Report.

Board Election

Attorney Henzi discussed the terms of Trustee Nye and Trustee Britton. Trustee Nye's and Trustee Britton's terms end on June 30, 2014. The Administrator will send the Notice of Vacancy to the appropriate firefighter and police participants. The Notice will advise that they have thirty days to nominate a candidate or to submit their Candidate Statement if they wish to run. If there are no other candidates, then Trustee Nye and Trustee Britton will automatically be re-elected. If other candidates submit a statement, then the Administrator will mail out the election forms and instructions.

Summary of Investment Changes Enacted by PA 314 (Exhibit K)

Attorney Henzi addressed this issue for the Board in the Attorney Report.

Amendment to PA 314 Regarding Travel Reporting Requirements (Exhibit L)

Attorney Henzi stated that an amendment was recently signed into law which requires a "qualified system" to be bound by specific travel reporting requirements for trustee education and travel. He noted that a "qualified system" is defined as a system in which a system is created and established by a city with a population of more than 600,000. This will apply to the City of Detroit Retirement Systems only. The bill was passed by the State House on May 22, 2014, and by the Senate on June 3, 2014. The Governor signed it into law on June 19, 2014. The Legislature is expected to give it immediate effect when they resume legislative sessions on July 16, 2014.

Proposed Amendment to Open Meetings Act Regarding Content of Meeting Minutes (Exhibit M)

Attorney Henzi stated that a bill was introduced in the House to amend the Michigan Open Meetings Act to require that meeting minutes contain specific information concerning roll call votes. For instance, if a decision on any matter of policy is not unanimous, the minutes should reflect how each member voted. If the public body does not retain a tape recording of the meeting, the minutes should include the main points of the discussion supporting and in opposition to each measure under consideration, and a summary of the remarks for each person who addresses the public body. The bill was referred to committee on May 14, 2014.

Proposed Amendment to Open Meetings Act Regarding FOIA Requests (Exhibit N)

Attorney Henzi stated that a bill was introduced in the House which would amend Michigan's Freedom of Information Act (FOIA) by requiring a public body to waive the fee for reproducing public records if the request for records is made by an elected public official in furtherance of his/her duties as an elected public official. The bill was referred to committee on May 27, 2014.

Supreme Court Decision Halliburton Co. v Erica P. John Fund (Exhibit O)

Attorney Henzi addressed this issue for the Board in the Attorney Report.

UNFINISHED BUSINESS

- A. Scott Wedge / Christopher Young, Duty Disability to Normal Retirement
- B. Participant Website
- C. Actuarial Valuations
- D. Munder Capital Management / Victory Capital Management Acquisition Consent Form

The Scott Wedge / Christopher Young, Duty Disability to Normal Retirement issue was addressed in the Attorney's Report.

The participant website is in progress.

The actuarial valuations are in progress. Rodwan will present them at the July Board meeting.

The Munder Capital Management / Victory Capital Management Acquisition Consent Form was tabled until the July Board meeting.

Mayor Waterman stated that we are now responsible for the 2014 / 2015 budget, and the 2015 / 2016 budget is the first not left by the emergency manager. The TAB board did not accept it because a 420 transfer could handle the health care shortfall.

NEW BUSINESS

- A. Trustee Elections

Trustee elections were addressed in the Attorney's Report.

CORRESPONDENCE

- A. FOIA Request and Response, June 5, 2014
- B. Aberdeen Merger Correspondence, June 10, 2014
- C. Letter to Auditors, June 18, 2014

NEXT MEETING DATE: Scheduled for July 31, 2014

RESOLUTION 14-029 By Britton, Supported by Waterman
Further Resolved, That the meeting be adjourned at 1:31 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 26, 2014.



Nevrus Nazarko, Secretary
As recorded by BeneSys