

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
APRIL 28, 2010**

A regular meeting of the Board of Trustees was held on Wednesday, April 28, 2010 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:10 a.m.

**TRUSTEES PRESENT**

Brian Lee  
Matthew Nye  
Craig Storum, Chairman

**TRUSTEES ABSENT**

Mayor, Leon Jukowski

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Systems Administrator  
Jane Arndt, M-Administrative Assistant  
Diane York, Retiree/City Employee (*arrived at 11:42 a.m.*)

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**CONSENT AGENDA**

- A. Minutes of Regular Meeting: March 25, 2010
- B. Communications:
  - 1. Correspondence from MAPERS Re: Pension Board Takeover Legislation
  - 2. Correspondence from PFRS Re: Oppenheimer Watch Letter
  - 3. Correspondence from Artio Global Re: Fact Sheet February 2010
  - 4. Correspondence from Munder Capital Re: Staff
  - 5. Correspondence from GRS Re: Fees for Program Changes
  - 6. Correspondence from PFRS Re: Budgeted Benefit Cost FOIA
  - 7. Correspondence from Denise Buckley Re: City Cost Allocation
  - 8. Correspondence from Ms. Munson Re: Contribution Status
  - 9. Correspondence from Oppenheimer Capital Re: Downgrade
- C. Conferences:
  - 1. Plan Sponsor National Conference – June 15-17, 2010
  - 2. Investment Courses at Wharton – IFEBP – May & July
  - 3. Washington Legislative Update – IFEBP – May 3-4, 2010
  - 4. Stars & Stripes – FRA – June 17-18, 2010
  - 5. Program for Advanced Trustee Studies – IFEBP – July 26-28, 2010
- D. Financial Reports:
  - 1. Financial Reports – March 2010
  - 2. Securities Lending – March 2010
  - 3. Accounts Payable – April 2010

- 4. Capital Calls:
- E. Remove from the Rolls:
- F. Application for Service Retirement
- G. Final Benefit Calculation
  - 1. Frances Finnegan           #2398           \$1,704.46
  - 2. Herschel Morris Jr.       #2475           1,591.88
  - 3. Terri Covington           #2487           2,893.27

Ms. Zimmermann distributed a letter from Oppenheimer Capital regarding the downgrade of a bond in the portfolio. She asked that this be added to the consent agenda.

Trustee Lee asked if there was a problem with the recalculation of Frances Finnegan’s pension benefit. Ms. Zimmermann stated that typically it is difficult getting information from Human Resources. Without the information the benefit cannot be calculated.

Trustee Lee asked if was more or the same amount. Ms. Zimmermann said that it is normally within \$10.00 of the estimate.

Chairman Storum stated that the payout is also included which could be a few hundred dollars that needs to be refunded to the member. Ms. Zimmermann said that the appropriate paperwork is required to complete the process.

Chairman Storum suggested that in order to expedite the process the Board should submit a FOIA request for the information.

Chairman Storum also asked if Ms. Zimmermann sent back the GRS Software Services Agreement with the proposed fees for the updates. Ms. Zimmermann stated that she signed the agreement to make sure the changes are completed so the Fire benefits can be calculated.

Trustee Lee asked what Union Services Agency is. Ms. Zimmermann explained that they provide the fiduciary liability insurance.

Chairman Storum asked the current amount of the insurance. Ms. Zimmermann stated that the Board is insured for \$2 million.

Chairman Storum asked about the results of the survey presented at the last meeting and questioned whether the Board is adequately insured.

**RESOLUTION 10-030** By Nye, Supported by Lee  
Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

**CONSULTANTS**

**Re: Gray & Company**

Police & Fire Regular Meeting  
April 28, 2010

### RMK Timberland Presentation

Mr. Kuhn said that the Board approved the timber investment two years ago. There have been some issues with the international portion of the strategy and they have had a difficult time raising funds. The fund is very close to closing. The System chose the fund with a 65% domestic to 35% international ratio.

Jim McBride is here today to present a brief overview of the investment and discuss changes that have occurred in the past year. Since there is a new trustee it makes sense to review the investment.

Ms. Billings said that it took seven to eight months to negotiate the original contract due to issues with the international portion of the contract.

Trustee Nye asked if there are two investment pieces. Mr. Kuhn confirmed that the System has committed to invest in two separate RMK Timberland Funds.

Mr. McBride arrived at 9:19 a.m.

Mr. McBride thanked the Board for the opportunity to provide an update of their funds.

RMK Timberland was founded in 1981 and is the oldest timberland investment manager. They started as First Bank of Atlanta then became Wachovia, Wachovia became part of First Union and were then sold to Regents Bank.

They have had thirteen to fourteen commingled funds.

They are portfolio management driven. Their people are out of the forest industry and academia. To date they have liquidated six funds

Ms. Billings confirmed that the System's assets will be invested in the new funds.

Mr. McBride said that at one time they invested in timberland property in Michigan which was a mix of pine and hardwoods. They sold the property in the late 1990's.

They have a diverse portfolio in the United States. They recently made their first European investment in Hungary consisting of poplar trees. These trees are on a three-year rotation and are sold to the power plant.

Chairman Storum asked if they harvest or if they sell the trees. Mr. McBride said that in the United States they sell the standing timber. From a tax standpoint it is better than paying the UBIT. They sell the standing timber most of the time.

Mr. McBride said that investing in timber has the same characteristics as commercial real estate. It is a good portfolio diversifier with unique asset characteristics.

They just started to cut trees with prices increasing. The value of timber is based on the products that can be made from them. The Southeastern United States is the largest producer of timber trees. A tree six inches in diameter takes thirteen to fourteen years to grow and is primarily used for paper pulp. A tree nine inches in diameter is used for chip and saw and can produce two 2" by 4" timber boards with the chip being used for pulp. The final harvest is comprised of trees twenty-five to thirty years old. These trees are more valuable and can produce 2" by 6" and 2" by 8" timber boards or can be used for telephone poles.

There are a number of ways to add value. Pine needles can be used for gardening mulch. The chip left on the property can be used as bio mass. The European Union is looking to use all non fossil fuels by 2020. Wood will help them get there. They want to build bio mass plants across Europe. Chip trees could be shipped to Europe but there is too much demand competing with the paper mills.

The last couple of years have been difficult. There are two major uses for timber. Housing represents 30% of the market and paper and packaging represent 70%. The housing market has been terrible but the bigger side of the market has not seen such a significant decline.

Lumber has more of a local market because it is bigger and harder to transport. Most countries can meet their own needs. The U.S. has imported lumber from Canada due to the recent value of the dollar. Currently, there has been less demand.

Chip can be put on ships and transported around the world. There are two hundred acres of timber in Uruguay that will be exported to Europe. They are looking to get into Chile because it is more competitive in shipping timber to Asia.

There is growth on the pulp and paper side and they are looking to develop the portfolio with younger trees. There is a lot of demand in China and India due to the expanding middle class for products like toilet paper, Kleenex and big boxes for products. Prices fell on larger trees but are up on smaller trees. China is a big buyer.

Prices have bounced off the bottom and things will level off in the next year or two. There is a good window on the acquisition side.

The international market will see growth especially in the southern hemisphere. They have long growing seasons and good rainfall and the costs are lower. They started in Uruguay because of political stability. There are a lot of open fields available to plant trees.

The trees grow faster in Brazil than in any other country. It takes a long time to make acquisitions there because their tax structure is very complicated compared to the United States. They recently made twenty acquisitions in Brazil. It is a very diverse market similar to the U.S.

He discussed the growth of eucalyptus trees in Minas Gerais State in Brazil and their usage. Most of these trees are used for charcoal in the pig iron industry. It can also be sold as pulpwood for the new pulp and paper facilities in Brazil.

He showed examples of the fast growth of the Eucalyptus trees. They believe this strategy has a strong diversification by geography, species, age, and end markets. It does not take long for the trees to reach one hundred feet in height.

Trustee Lee asked if they are immediately harvested. Mr. McBride explained how the Eucalyptus is a hardwood and after cutting it produces new sprouts from the stump. The strongest sprouts are left on the stump. The stumps can last for four or five growth cycles.

The market has been distressed in the U.S. Brazil has a diverse market and is their second largest investment allocation after the U.S.

He described the global timberland portfolio. Investors can allocation any percentage they want to the domestic and/or the international portfolio. He explained that the European funds are subject to tax. The U.S. portfolio is widely diversified and away from the shoreline. The Latin American locations are in Argentina, Brazil, Chile, Paraguay and Uruguay. In Central and Eastern Europe they are looking at locations in Hungary, Estonia, Latvia, Eastern Germany, Romania and Bulgaria. These areas have been hit hard with 50% decreases in the value of timberland.

Ms. Zimmermann confirmed that most of the money is being invested in the primary acquisition targets. The A shares are U.S. only and the B-shares are outside of the U.S. The current allocation is 20% / 80% but the investor can elect any combination.

They did not anticipate it would take this long to get the non-U.S. portion of the fund through the legal process in Luxemburg. The preliminary changes have been made and they are waiting for the final approval. The first closing should be in June. The first investment will be during the third or fourth quarter in Brazil.

Ms. Billings asked if the U.S. fund is ready. Mr. McBride said that it is not and they do not expect the first close for that fund until the third or fourth quarter. The contract is finalized.

Mr. Kuhn asked what the current commitments are in the U.S. fund. Mr. McBride said that they currently have \$25 million in commitments for the U.S. fund and will close at \$75 million. The non-U.S. fund has \$160 million in commitments and will close at \$300 million.

Trustee Lee questioned why the ratio is 20% / 80%. Mr. McBride said that they have found a number of good opportunities outside the United States.

If the market changes they can revisit the allocation.

Mr. Kuhn said that it sounds like they have added more timberland to the portfolio.

Chairman Storum asked whether the percentages should be changed.

Trustee Nye asked if new contracts will have to be negotiated. Mr. McBride was not certain whether new contracts would be necessary.

Mr. Kuhn asked if the fees would be the same: 125 basis points on the non-domestic fund with a 6% hurdle rate on the 20% / 80% split and a 10% hurdle rate in the domestic fund.

Trustee Nye asked what the expected returns are. Mr. McBride said that they anticipate returns of 10% to 11%.

Ms. Billings asked how long the investment will be tied up. Mr. McBride said that the investment is held in the fund for a period of twelve years along with the possibility of three one-year extensions.

Chairman Storum said that the System took an aggressive stand a few years ago when they set the allocations to the two funds. He asked if the allocations should be adjusted. Mr. Kuhn said that he would review the target allocation and diversification between domestic and international.

Trustee Nye asked if there is a chance that the funds will never close. Mr. Kuhn said that with \$100 million in invested commitments the funds will close.

Ms. Billings confirmed that when the basket clause decreased it changed the amount of the investment. Mr. Kuhn said that the basket clause went from 10% to 5%.

Mr. Kuhn said that the Fund saw a good run in high yield. He reviewed the DDJ issue. He suggested that some money could be trimmed from the Artio portfolio as a way to find some additional assets for this investment in the basket clause.

He also added that the Board is looking at hedge fund of funds and said they could provide a comparison between timber and hedge fund investments.

Chairman Storum said there may be an advantage investing in timberland now based on the current prices.

#### Intermediate Fixed Income Search

Mr. Kuhn explained that the Board is looking at intermediate fixed income managers due to the departure of Jerry Thunelius at Oppenheimer Capital. He explained that the rest of the team left and went with Jerry who started his own firm, TCP Global Investment Management, LLC.

It seems that Allianz (formerly Oppenheimer) was not planning to continue the fixed income product. The System was basically told that they could invest in the PIMCO commingled fund or take their money elsewhere. Currently, the investment is being managed by Nicholas Applegate whose expertise is in high yield and convertible bonds. The portfolio will be fine during the transition period.

When they originally proposed this search they were looking for a manager that could compliment Oppenheimer. He spoke with Mr. Thunelius who said that the portfolio is positioned well should do well this month.

Mr. Thunelius has asked if he could provide a brief presentation to the Board. He is suggesting that he has a lot more investment tools and technology to work with now. Mr. Kuhn asked the Board if they would like to include TCP in the search. He said that they were not in the database and that he used Oppenheimer's past performance.

The Board discussed Oppenheimer's performance and the amount of turnover in their portfolio under Mr. Thunelius' management. Chairman Storum said that the portfolio was managed differently by the previous manager but the portfolio has performed well under Mr. Thunelius.

Chairman Storum recommended that they continue looking at two managers. Mr. Kuhn said that the allocation does not have to be divided equally.

Mr. Kuhn said that they had some issues in the database looking at the Allegiant product. He reminded the Board that they presented this product to the VEBA Board last August. This is slightly different than that strategy. He will walk the Board through the differences.

*Meeting break at 10:15 a.m.*

*Meeting resumed at 10:27 a.m.*

Mr. Kuhn said that this is more of a replacement search.

Ambassador is a local firm located in Detroit.

Trustee Lee said that he would like to include TCP Global.

Mr. Kuhn said that PNC is a larger bank with \$34 billion in assets under management versus a firm with \$3 billion. Their fixed income team is located in Cleveland, Ohio.

They employ a sector rotation strategy which is most common in fixed income. They find a sector like corporate with the most value and break down that sector by industry. They look at the historical valuations and cyclical nature of the sector to determine if it is a good time to invest in that sector and whether it is the best place to pick up yield versus market risk.

Ms. Zimmermann asked if Tal Gunn is affiliated with Ambassador. Mr. Kuhn confirmed that Mr. Gunn joined Ambassador after he left Munder Capital.

They use a top down approach to determine the sector and a bottom up approach in their security selection process to determine how safe the credit is.

Bradford Marzac is similar to Ambassador. Ratings do not determine the investment. They develop their own ratings. They always comply with the guidelines.

Chairman Storum confirmed that Bradford Marzac performs their own credit ratings. Mr. Kuhn said that they use the yield curve for duration positioning and shorten duration based on interest rate risk.

Davis Hamilton does more interest rate forecasting. Their portfolio contains A or better quality securities and intermediate issues only. They only look at investment grade bonds.

Orleans does not have any treasuries or asset-backed securities in their portfolio. They feel that treasuries pay the least amount in yield. They would be a good compliment to a manager that takes a little less interest rate risk. Davis Hamilton would be a good compliment with their current yield at 4.2% versus Orleans at 3.2%. John Gordon has a local office.

There was a question regarding Davis Hamilton's current yield numbers. The trustee books recorded the current yield at 4.2% versus Mr. Kuhn's book at 4.5%. Mr. Kuhn said he would verify the performance number.

Smith Graham uses a sector rotation strategy and a more bottom up approach looking at what sectors have the best opportunities and would make a good investment. Their risk management focus employs a 2:1 upside/downside ratio. Over the time horizon they would lose 10% but make 20%.

Weaver Barksdale uses a top down approach with a sector rotation strategy. They are overweight to treasuries and corporate and fall in line with the old Oppenheimer strategy. They use duration management mitigate interest rate risk to protect the portfolio. They move out of the index rationale. PNC falls into the same category.

Mr. Kuhn reviewed the managers' performance comparison gross of fees in trailing returns and calendar year returns. He said the Oppenheimer used a different benchmark than the other managers. He explained the difference in the benchmarks and how it applied to the returns. He also indicated that Ambassador has the shortest track record. Ambassador is growing their portfolio in intermediate, core and core plus. He also explained that 2009 was an incredible year for these managers.

There was discussion regarding which managers would be the best fit. Mr. Kuhn recommended Orleans and Smith Graham would be best suited as complimentary managers.

Trustee Nye confirmed that the Fund's fixed income manager is supposed to carry less risk in the portfolio. Mr. Kuhn said that fixed income should be your stable manager.

Trustee Lee indicated that Ambassador had the best returns.

Mr. Kuhn told the Board that PNC manages money for three other Gray & Company Michigan public funds. Their numbers are much better than what is on the sheet. They are a close second to Bradford Marzac.

After further discussion the Board determined they would hear presentation from four managers.

Chairman Storum asked if they should look for a manager that compliments TCP Global.

Ms. Zimmermann suggested that they pick four managers two standard and two different.

Mr. Kuhn said that TCP has sizable assets and Mr. Thunelius is more motivated now than he was last year. He said he would have no problem moving into an intermediate strategy. The managers base their relative positions on the benchmark and look at the benchmark to manage the duration. He explained how duration works and how the portfolio the manager will use treasuries to shift the duration.

Mr. Kuhn reviewed the three-year and five-year risk return charts. He said it is hard to gauge Ambassador because of their short track record.

Trustee Lee asked if TCP is stable and whether there is a long-term contract in place. Mr. Kuhn said that Mr. Thunelius has equity in the new firm. He currently has \$400 million in assets under management. A lot of his former clients have followed him to TCP.

Chairman Storum questioned whether TCP would be using futures. He also commented on Ambassador's good performance numbers.

Mr. Kuhn suggested that they hear the manager presentation for the core piece at the regular meeting off site. The other piece can be pushed back later in the summer. It is important to get the portfolio over to the new manager. The Northern Trust Index Fund can be allocated to the winner or a percentage.

**RESOLUTION 10-031** By Lee, Supported by Nye

Resolved, That the Board hear presentations from intermediate fixed income managers Ambassador, Bradford Marzac, TCP Global and Weaver Barksdale at the May 27, 2010 meeting.

Yeas: 3 – Nays: 0

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary**

**Re: Trustees**

Trustee Nye said that he is looking to purchase a laptop computer and would be interested in computerizing the agendas.

Ms. Billings said that a number of pension systems are moving to electronic meetings. She also stated that some pension systems have the ability to spread the cost across a number of different funds.

Ms. Zimmermann asked about the Open Meetings implications and if there would be an issue if information could not be shared during a meeting.

There was discussion regarding this issue. The trustees welcomed the idea of moving the meetings in that direction.

**Re: Administrator**

Disaster Recovery

Ms. Zimmermann reported that she found a consultant to begin work on the disaster recovery program. He took estimated the number of files to help him put together a plan for data backup. He is looking at the application setup and will assist her in selecting new actuarial software. He will also look at the current use of technology in the office and what may be needed; the goal is causing as little disruption to the City side as possible.

He is very well qualified. To get started his fee is \$7,500.00. He will spend a week working with us learning our office functions and what applications we use. He will look at the work flow, our computers and our backup systems.

Ms. Billings recommended that the Board bring him in as part of the process.

Ms. Zimmermann explained that she feels a sense of urgency to move on this because there is currently no backup for the paper files. She would like to get a temporary in to work on scanning the files for backup as soon as possible. Currently, if we are unable to connect to the payroll system we can go to Allen Park to input the retiree payroll information.

The consultant will assist her in finding an actuarial software program that will allow the staff to input program changes, has good reporting tools and functions. The GRS software is a simple database and they are expensive and unpleasant every time there is a change.

Chairman Storum asked if the total cost is a competitive price. Ms. Zimmermann said that the \$7,500.00 fee will help the consultant come up with an overall plan and total cost. She is willing to obtain competitive bidding. The overall project cost will be significantly more.

Trustee Nye asked whether the consultant is a contractor. Ms. Zimmermann explained that the consultant from keyIT Solutions.net was recommended by the head of IT for Oakland Schools.

Chairman Storum questioned whether from a legal standpoint if this could cause issues with the City process.

The Board determined that they would like Ms. Zimmermann to obtain additional estimates for required disaster recovery and IT services.

*Diane York arrived at 11: 42 a.m.*

Ms. York delivered documents requested through the PF VEBA Board's FOIA Request.

*Ms. York left at 11:43 a.m.*

Chairman Storum directed Ms. Zimmermann to have Ms. Munson review the requested documents and provide a summary.

**Re: Legal**

Northern Trust

Fossil, Inc.

Ms. Billings reported that the case is proceeding through the initial states of litigation.

Gildan Activewear, Inc.

Ms. Billings reported that the Court granted the Defendants' Motion to Dismiss. The plaintiff filed a Motion for Reconsideration. We are currently awaiting the Court's ruling.

UBS/AG Securities Class Action

Ms. Billings reported that the hearing on the Defendants' Motion to Dismiss has not been set. They will continue to advise the Board with respect to this matter.

Airgas Securities Litigation

Ms. Billings reported that this securities litigation came up between meetings. It was presented to Chairman Storum; however, he was unable to get into the office to sign the Retainer Agreement. He authorized the Administrator to sign the paperwork on his behalf. She asked that the Board ratify the Administrator's signature on the Retainer Agreement in the matter of the Airgas Securities Litigation.

**RESOLUTION 10-032** By Lee, Supported by Nye

Resolved, That the Board ratify the Administrator's signature on the Airgas Securities Litigation Retainer Agreement.

Yeas: 3 – Nays: 0

IRS Application for Determination Letter

Ms. Billings reported that the IRS contacted her requesting additional information by May 5, 2010. She will continue to advise the Board with respect to this matter.

RMK Global Timberland Resources Fund – Refer to Consultants

Distressed Municipal Pension System Act

Ms. Billings informed the Board that legislation has been introduced in the State House and Senate to establish a mandate that if a municipal pension system is distressed and meets certain criteria established in this legislation they will be forced to participate in the Michigan Employees Retirement System (MERS).

Ms. Billings stated that in order to be considered a distressed pension system two of the following criteria would have to be met. The City fails to make their contributions; the contributions total 30% of payroll; the contributions exceed 15% of the City's total revenues; the

contributions represent 25% of the City's assets, a trustee is convicted of misuse of pension trust funds and if performance returns over a ten-year period are 2% less than MERS' performance numbers.

There is an amendment that if the pension system has \$2 billion plus in assets they will be allowed two seats on the Board for a two-year period.

Mr. Kuhn said that MERS gets to defer their costs, uses a seven-year smoothing method and a thirty-year amortization period.

Trustee Lee asked if there is any criteria that the City could control that would force this System into MERS. Ms. Billings said that an employer could cause a system to go to MERS if the employer failed to pay contributions for 120 days provided another criteria was also met.

The Wall Street Journal Article, March 29, 2010 – Gurus Urge Bigger Pension Cushion

Ms. Billings informed the Board that an article published in the March 29, 2010 issue of the Wall Street Journal indicated that there are proposed revisions in the accounting standards (GASB) that are looking to modify the reporting requirements on how pension liabilities and assets are reported for public pension systems which will have an affect on local government balance sheets. A pension system will have to have a funding level of 80% to be considered healthy.

Mr. Kuhn said that they discussed this a year ago when they met with the actuary.

Northern Trust

*The Board moved to closed session at 11:58 a.m.*

*Mr. Kuhn and Ms. Arndt left at 11:58 a.m.*

*The Board returned from closed session at 12:02 p.m.*

*Ms. Arndt returned at 12:02 p.m.*

**Re: Union Representatives - None**

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**NEW BUSINESS**

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**UNFINISHED BUSINESS**

**Re: FOIA on Budget Costs – Tabled**

**Re: HELPS Letter to Retirees**

Chairman Storum reported that Matt Wells will find out when he receives his first pension benefit check whether he will require the use of this program to pay for additional healthcare costs.

**Re: Actuarial Software Search** – Refer to Administrator

**Re: Disaster Recovery Plan** – Refer to Administrator

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**SCHEDULING OF NEXT MEETING**

Special Meeting – Wednesday, May 26, 2010 – Soaring Eagle Hotel, Mt. Pleasant, MI

Regular Meeting –Thursday, May 27, 2010 – Soaring Eagle Hotel, Mt. Pleasant, MI

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**ADJOURNMENT**

**RESOLUTION 10-033** By Lee, Supported by Nye

Resolved, That the meeting be adjourned at 12:06 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 April 28, 2010.

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*As recorded by Jane Arndt*