

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

**August 30, 2007**

A regular meeting of the Board of Trustees was held on Thursday, August 30, 2007 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:27 a.m.

**TRUSTEES PRESENT**

Raymond Cochran, Secretary  
Brian Lee  
Thomas Miller  
Craig Storum, Chairman

**TRUSTEES ABSENT**

Mayor, Clarence Phillips (*absent*)

**OTHERS PRESENT**

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

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**CONSENT AGENDA**

- A. Minutes of Regular Meeting: July 26 , 2007
- B. Communications:
  - 1. Correspondence from DDJ Capital Re: July High Yield Market Overview
  - 2. Correspondence from The Boston Company Re: Personnel Changes
  - 3. Correspondence from Munder Capital Re: New Portfolio Team
  - 4. Conferences:
    - a. Visions, Insights & Perspectives - IREI - Jan. 15-17, 2008
    - b. 2<sup>nd</sup> Annual MATPERS - IMN - Sept. 17-18, 2007
- C. Financial Reports:
  - 1. Financial Reports - July 2007
  - 2. Commission Recapture Report - July 2007
  - 3. Securities Lending -
  - 4. Accounts Payable - August 2007
- D. Final Pension Calculations:

1. Keith Batchelor	#2256	\$ 4,439.18
2. Denise Jackson	#2258	2,532.49
3. John McQueen	#2294	3,067.94
4. Jeffrey Mudge	#2310	3,893.44
5. Loren Kelley	#2317	3,246.66

Trustee Lee had a question regarding the pension calculation for Keith Bachelor. The first twenty years were calculated at 3% and the last 4.8 years were calculated at 2.5%. He asked if this was the percentage used for PPSA. Ms. Zimmermann said she believed so but would double check .

Chairman Storum asked why it is taking so long to complete final calculations. Ms. Zimmermann stated that she was unaware of the issue, but all the pending finals for PFRS have now been completed.

**RESOLUTION 07-041** By Miller, Supported by Cochran  
Resolved, that the consent agenda be approved as presented.

Yeas: 4 – Nays; 0

## **CONSULTANTS**

### **Re: Gray & Company**

#### Boston Company Update

Mr. Gray reviewed a series of communications received for the period August 8, 2007 ending August 22, 2007 from the Boston Company and Munder Capital Management. They were in reference to the departure of members of Boston Company's international core team joining Munder Capital. The Boston Company has filed a lawsuit against the members of Munder's Boston International Equity team. He advised the Board to sit tight and let the legal issues work themselves out. This is a common occurrence and often this type of case will favor Munder.

He informed the Board that Boston Company has offered a discount in fees. He assured them that this should not affect the quantitative side of the investment. The quantitative model they utilize remains in place and is solely owned by Boston Company. He said that in this case the qualitative and comparative process could be affected. He suggested that they be put on watch for the next two quarters. Munder received \$1.2 billion in from Prudential.

Trustee Lee asked about the fee discount offered by Boston. Mr. Gray stated that they offered a 25% flat fee discount.

**RESOLUTION 07-042** By Lee, Supported by Miller  
Resolved, That the Board approve to put the Boston Company on watch for the next two quarters.

Yeas: 4 – Nays: 0

**RESOLUTION 07-043** By Miller, Supported by Lee  
Resolved, That the Board accept the flat fee 25% discount in fees offered by The Boston Company.

Yeas: 4 – Nays: 0

Chairman Storum asked about Boston's quantitative model. Mr. Gray said that it is very solid and that that if you leave you can not take it with you. However, you can tweak it as long as it is not the exact same model. The only concern would be on the qualitative side. They have very smart people working on the portfolio. You should be getting the same results with a very smart group of people.

Chairman Storum also asked if the employees left due to an attractive offer or problems in the inner workings of the firm. Mr. Gray stated that it was the result of an attractive offer. He has seen a lot of these offers. A silo is built inside a company and it makes it easy to move an entire team.

### 2<sup>nd</sup> Quarter Performance Report

Mr. Gray gave his analysis of the second quarter performance report: the numbers are good but not stellar. The whole plan is around the benchmark with slightly less risk. Some of the new additions to the portfolio should begin to pay off well. Total plan numbers for the quarter revealed performance of 5.1% versus the policy benchmark at 3.2%. Year-to-date numbers showed performance of 6.9% versus the benchmark at 5.5%. He stated that the actuary should be happy with these numbers.

The plan was to move the CAPROC receivable off the books and record it as a footnote. However, after speaking with Beth Bialy from Plante & Moran it is still recognized as an investment under Public Act 314 and has to stay on the report to accurately reflect total assets. Chairman Storum asked if there can still be a line item that reports performance ex-CAPROC. Mr. Gray confirmed that it will remain on the Manager Performance Summary.

The current domestic equity allocation is 41% with 27% allocated to large cap index funds. Recently, it has been easier for active managers to produce out performance versus passive managers due to the structure of the index.

Large cap value performance for the quarter was 5.0% versus 4.9% for the benchmark. This put them in the 81<sup>st</sup> percentile. One year performance was 22.0% versus the benchmark at 21.9% which put them in the 31<sup>st</sup> percentile.

Munder's mid-cap equity performance for the quarter was 11.8% versus the benchmark at 5.9% putting them in the 1<sup>st</sup> percentile. One-year performance was 23.9% versus 18.5% ranking them in the 10<sup>th</sup> percentile.

Loomis Sayles' performance for the quarter was 5.1% versus the benchmark at 2.3% ranking them in the 4<sup>th</sup> percentile. Joe Gatz had tweaked the portfolio for the period with an under weight in industrials and an over weight in financials. Those sector weightings have changed to date. Eleven of the companies in the Loomis portfolio recently merged or were bought. The portfolio under his management has become a reflection of him.

He spoke about the international equity portfolio and the out performance demonstrated by Wentworth, Hauser & Violich. Their second quarter performance was 18.6% versus the

benchmark at 6.4%. He said that Richard Hirayama continues to demonstrate that he can produce stellar performance. He conveyed that Mr. Hirayama writes a financial memorandum that is somewhat bizarre. He will forward copies to the Board.

There was discussion whether Mr. Hirayama would be present at the Manager Review Meeting in September. Ms. Billings commented that Wentworth, Hauser & Violich is making a presentation to the City of Monroe on September 15, 2007. Mr. Gray stated that since he is a one-man show it would be better to have him in the office managing the portfolio.

Jerry Thunelius from Oppenheimer has worked hard to tweak the portfolio and make it his own. Their second quarter performance was -0.6% versus the benchmark at -0.5% ranking them in the 13<sup>th</sup> percentile. Oppenheimer's performance for the year was 5.8% ranking them in the 21<sup>st</sup> percentile; three-year at 3.8% in the 36<sup>th</sup> percentile; five-year at 4.5% in the 27<sup>th</sup> percentile and their ten-year performance at 6.0% ranked them in the 7<sup>th</sup> percentile.

Chairman Storum remarked that there was a lot of turnover in the portfolio during the quarter. Mr. Gray said that Mr. Thunelius has been positioning the portfolio toward high quality and buying a lot of high quality treasuries.

DDJ Capital's performance for the quarter ranked in the 1<sup>st</sup> percentile at 1.4%. They were overweight in CCC bonds for the quarter.

Goode Stable Value Fund ranked in the 1<sup>st</sup> percentile and outperformed both indexes for the quarter. Their performance is based on preserving principal through all interest rate environments and ensuring book value liquidity for the portfolio.

He said that real estate is okay but performance is not stellar. They have a target and expect to see the managers do some bottom fishing due to the drop in the market.

There was discussion on how the real estate settlement was being reported

Overall, the top line is improving and the portfolio should be getting better with the addition of a true high yield manager and the real estate allocation. He said that he wanted to sit down with the trustees and discuss whether they have any questions regarding the make up of the portfolios. He said that he does not want the trustees to question why he does not recommend the same investments, managers or funding status to this fund as he does to the GERS. They do not use a cookie cutter approach. He asked if the trustees had any questions regarding the different system's portfolios.

## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** – None

**Re: Trustees**

Police & Fire Regular Meeting  
August 30, 2007

Trustee Miller asked if the letter regarding the Human Resources Director being given the right to administer service credit and FAC was sent to Council. Ms. Billings stated that the letter should have been received in the Council Office last Friday, August 24, 2007 and is included in her legal report.

He also asked if there was any follow-up to a member of the staff working from home. Ms. Zimmermann reported that Melissa Tetmeyer returned to work today.

**Re: Staff**

Deborah Munson

Chairman Storum stated that while Ms. Tetmeyer was off work Deborah Munson took over her duties and performed a lot of out-of-class work. He suggested that Ms. Munson should be paid for the extra work or given a bonus.

Trustee Cochran stated that since the rest of the City is so short staffed with a lot of people pitching in to get the work done it would not be appropriate. Trustee Miller commented that it could open a Pandora's box. Trustee Cochran also commented that you would not want to establish unwarranted precedence for someone working below their classification.

Trustee Miller suggested that to recognize and show the Board's appreciation for Ms. Munson's efforts she be taken out for a nice dinner.

Chairman Storum stated that this is why the system should have their own employees.

Final Benefit Calculations

Ms. Zimmermann stated that there were four outstanding final benefit calculations. She said they were completed and included in today's agenda.

Richard Luxon, President of the Pontiac Fire Fighters Union left her a message asking to meet with her. She has no idea what this is in reference to.

Copies of the securities lending report for month ending July 31, 2007 were distributed.

**Re: Legal**

Ferro Corporation Litigation

Ms. Billings reported that Lerach Coughlin has determined it is in the best interest of the Retirement System to file an appeal of the lower court's decision.

United Rentals

Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

Jarden Securities

She reported that on August 24, 2007 a Notice of Deposition and a Request for Production of Documents was served to non-party Munder Capital Management to be held on September 21,

2007. A Notice of Deposition was also served to lead plaintiff the City of Pontiac Police and Fire Retirement System to be held on October 9, 2007 in New York City. A member of the retirement system should attend the deposition.

**RESOLUTION 07-044** By Miller, Supported by Cochran  
Resolved, That the Board approve Trustee Lee to attend the Jarden Securities Class Action Litigation deposition to be held in New York, New York on October 9, 2007.

Yeas: 4 – Nays: 0

Trustee Lee's travel arrangements were discussed that they might coincide with the Institutional Investor Forum Trustee Lee is attending in New York, October 11, 2007 through October 13, 2007.

Maxim Integrated Products

Ms. Billings reported that the Defendant's FOIA Request was denied. Lerach Coughlin has offered to provide the documents at their office. They are still battling this issue.

Ms. Billings stated that she just received the second amended verified complaint and has not had time to read it. She asked that the trustees appoint someone from the Board to sign off after her review.

**RESOLUTION 07-045** By Miller, Supported by Lee  
Resolved, That the Board authorize Trustee Cochran or Ms. Zimmermann to approve the Maxim Integrated Products, Inc. Shareholder Derivative Litigation Second Amended Complaint after legal review.

Yeas: 4 – Nays: 0

Fossil, Inc.

Ms. Billings reported that the motion is still pending.

Tempur-Pedic International, Inc.

Ms. Billings reported that the Defendants' Motion to Dismiss is still pending.

Operating Agreement of P.P.&F. Management LLC

Ms. Billings stated that the Operating Agreement of the P.P. & F. Management LLC is still pending. She stated that she has the copies for execution and requested that the Board approve the operating agreement.

Trustee Miller asked about the independent board member that is to attend the CAPROC Board Meetings. Ms. Billings stated that Laura Lauer was hired by the Board to attend the meetings but that there have been no meetings. Trustee Miller questioned the need to have someone on retainer to attend meetings that do not occur.

Ms. Billings was directed to send a letter to the CAPROC attorney to find out when they will be holding the next meeting. Trustee Miller asked if there is a legal requirement for CAPROC to hold either a quarterly or annual meeting and whether they are fulfilling this obligation.

**RESOLUTION 07-046** By Lee, Supported by Cochran  
Resolved, That the Board approve the P.P. & F. Management LLC Operating Agreement

Yeas: 4 – Nays: 0

Trustee Miller stated that he had a comment regarding the attorney for the City of Southfield Police and Fire Retirement System and how he assisted CAPROC in securing a second mortgage for the Board's property in Florida. He confirmed that legal counsel for the General Employees Retirement System works for the same firm.

Ms. Billings stated that they were contacted by Weisman regarding the Florida property and that the bank wanted the system to sign off due to the notice of interest on the September 30, 2006 refinancing.

In October, 2006 with the assistance of Michael VanOverbeke's office, CAPROC was able to refinance the Florida property so they could repay the \$6 million loan provided by the City of Southfield Police and Fire Retirement System. This transaction was prior to the April, 2007 settlement agreement.

Trustee Miller discussed how the building is now leveraged. Chairman Storum asked why the Southfield would take out a second mortgage on a property in Florida. Ms. Billings asked if the Board would like to obtain updated copies of the title agreement. It would cost \$1,000 to process the title work.

Chairman Storum asked if they had an obligation to disclose this information. Ms. Billings stated that since CAPROC made their payment and continues to make their payments and the \$6 million is listed in the financials, there may be no recourse at this time.

Trustee Lee asked if the trustees would be negligent in their fiduciary responsibility if they did not further investigate this issue.

There was discussion regarding the leverage of the Florida property. Trustee Miller stated the fact that with the building being refinanced and the cash taken out, in the event there is a foreclosure the leverage would be less. Chairman Storum asked if the Board has any options since there is no value left with CAPROC leveraging the property in order to pay back Southfield.

#### Metropolitan Real Estate Partners V, LP

Ms. Billings reviewed the recommended changes for the Metropolitan Real Estate Partners V L.P. Limited Partnership Agreement and the Subscription Agreement for a Limited Partner. Changes included requiring ten business days notice for capital calls; deletion of paragraph fourteen; amendment of paragraph eighteen to include FOIA, acknowledgement by the General

Partner as an investment fiduciary; addition of a no discrimination clause; striking the Limited Partner personal guarantee; the venue change from New York to Michigan; revision of indemnify clause and insure that beneficial owners referenced in the Subscription Agreement do not include retirees, members and beneficiaries of the system. She stated that in no way should there be a blanket statement that could include members and beneficiaries.

American Stable Value Fund Addendum to Adoption Agreement

Ms. Billings stated that the addendum to the adoption agreement was acceptable and that the Board should approve.

**RESOLUTION 07-047** By Miller, Supported by Lee

Resolved, That the Board authorize Chairman Storum or Trustee Cochran to approve the American Stable Value Fund Addendum to the Adoption Agreement.

Yeas: 4 – Nays: 0

Mesirow Financial Institutional Real Estate – Amendment to Limited Partnership Agreement

Ms. Billings stated that she has reviewed the first amendment to the Agreement of Limited Partnership and found it to be acceptable and of benefit to the members. She stated that they lowered the percent in interest from seventy-five percent to fifty-one percent.

**RESOLUTION 07-048** By Lee, Supported by Miller

Resolved, That the Board authorize Chairman Storum or Trustee Cochran to approve the Amendment to the Mesirow Financial Institutional Real Estate Limited Partnership Agreement.

Yeas: 4 – Nays: 0

Miscellaneous Correspondence to Mayor Clarence Phillips

Ms. Billings reported that correspondence was sent to Mayor Clarence Phillips to restate the Board's concern with regard to the Human Resources Department personnel requesting the staff to process benefits in violation of Public Act 728.

Trustee Miller stated that he is very concerned about the personal liability and whether the Human Resources Director is considered a fiduciary and if the Board will be held personally responsible. Ms. Billings stated that certain decisions are not fiduciary decisions but are considered settlor functions. These are generally discretionary decisions by the employer. There was discussion whether the Council would approve these decisions or pay for the cost studies every time there is a disagreement regarding service credit or FAC between the Human Resources Director and the Retirement Office.

Ms. Zimmermann stated that the language appears in a number of the general system's contracts. The Human Resources Director has agreed to clarify the language to read that he will provide the service credit and FAC only in the event there is a dispute, but that the responsibility reverts back to the Retirement System when parties are in agreement. Because the members have been promised benefits, the cost studies have been requested.

Bernstein Litowitz Portfolio Monitoring Report for the Second Quarter 2007  
Provided for trustee information.

Lerach Coughlin Portfolio Monitoring Report for the Quarter Ended March 31, 2007  
Provided for trustee information.

Bernstein Litowitz Institutional Investor Advocate  
Provided for trustee information.

Miscellaneous Article Regarding Municipal Pension Systems  
An article regarding funding in other states was provided for trustee information.

**Re: Union Representatives** - None

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## **NEW BUSINESS**

### **Re: Longevity Calculation**

Ms. Zimmermann reported that while Ms. Munson was working with Chairman Storum on the longevity calculation she discovered an error in the calculation which affects the FAC for Police and Fire.

In 2003 the Payroll Division changed a pay code which included lump sum holiday pay in the longevity calculation for Police and Fire in error. Ms. Munson contacted Phyllis Long who has corrected the mistake going forward.

This calculation affects six dispatchers who are members of the General Employees Retirement System. The FAC was also overstated for a number of Police and Fire retirees.

There was discussion about the additional compensation is being received, if it is a significant impact to the pension estimate and if the monies need to be recovered.

Ms. Zimmermann stated that the Retirement Offices does not recover the monies if the difference between what is tied out in payroll and the FAC is de minimus.

Chairman Storum requested Ms. Zimmermann bring back information containing retiree names and the amounts. Ms. Zimmermann asked for direction from the Board.

Ms. Billings stated that from a legal standpoint and as a fiduciary the trustees are responsible for making the retirement system whole. She said that the trustees should review who is affected and the amounts.

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## **UNFINISHED BUSINESS**

**Re: Actuarial Search** – In process

Police & Fire Regular Meeting  
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**Re: Ordinance Update Status**

Ms. Zimmermann reported at the last meeting that the letter was received by the City Attorney. She offered to have legal counsel meet with him if he has any questions regarding the changes. To date it has not been determined when it will appear on the Council agenda.

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**SCHEDULING OF NEXT MEETING**

Special Meeting on September 19, 2007 at 9:00 a.m.; Amway Grand Plaza Hotel, Grand Rapids, Michigan.

Regular Meeting on September 20, 2007 at 9:00 a.m., Amway Grand Plaza Hotel, Grand Rapids, Michigan

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**ADJOURNMENT**

**RESOLUTION 07-049** By Lee, Supported by Miller  
Resolved, That the meeting be adjourned at 10:52 a.m.

Yeas: 4 – 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 August 30, 2007.

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Raymond Cochran, Secretary  
*As recorded by Jane Arndt*