CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
OCTOBER 25, 2006

A regular meeting of the Board of Trustees was held on Wednesday, October 25, 2006 at the Affinity Group Credit Union, Lower Level Conference Room, 144 E. Pike Street, Pontiac, Michigan 48342, The meeting was called to order at 1:37 p.m.

TRUSTEES PRESENT

Shirley Barnett
Raymond Cochran, Secretary
Robert Giddings
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Devin Scott
Kevin Williams
Debra Woods
Andrea Wright *(arrived at 1:34 p.m.)*

TRUSTEES ABSENT

Koné Bowman *(absent)*
Mayor, Clarence Phillips *(absent)*

OTHERS PRESENT

Larry Gray, Gray & Company
Andrea Coffey-Stewart, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Tom Michaud, VanOverbeke, Michaud & Timmony, PC
Judy Storum *(arrived at 1:40 p.m.)*
Ellen Zimmermann, Retirement Systems Administrator
Deborah Munson, Retirement Accountant *(arrived at 2:10 p.m.)*
Jane Arndt, M-Administrative Assistant

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: September 27, 2006
B. Communications
   1. Correspondence from Board to J. Storum Re: Response to Request for Information
   2. Correspondence from W. Harris Re: Request to Council for Increased Benefits
   3. Correspondence from Oppenheimer Capital Re: Bill McDaniel Retirement
C. Conference Information
   1. Public Fund Boards Forum – Public Fund Boards Forum – Dec. 9-12, 2006
D. Financial Reports:
   1. Financial Reports – September 2006
   2. Securities Lending – August 2006

3. Accounts Payable:

a. ADP	$2,266.64
b. City of Pontiac	1,674.08
c. Gray & Co.	8,104.17
d. Ikon	98.59
e. International Foundation	675.00
f. Loomis Sayles	37,996.20
g. Plante Moran	1,430.00
h. Pontiac Coffee	26.00
i. Shelby Lock & Key	272.00
j. Slade's Printing	48.00
k. Sullivan, Ward, Asher & Patton	15,708.00
l. Systematic Financial Management	55,011.82
m. VanOverbeke, Michaud & Timmony	4,386.50
n. Visa	4,408.57

E. Retirement, Refunds, Final Calculations, Re-Examinations

1. Remove from the Rolls:
   a. Walter Drenkhahn (deceased 10-13-06): survivor benefit of $696.11/mo to Glenia Drenkhahn
   b. Opal Grant (deceased 09-22-06): survivor benefit of $464.41/mo to Paul Grant
   c. Doratha Sinclair (deceased 09-23-06)
   d. Patricia Stevens (deceased 10-06-06): survivor benefit of $1,056.01/mo to Ronald Stevens
2. Application for Service Retirement:

a. Patrice Waterman – Non union	21 years, 6 months	Age 49 (70 point resolution)

3. Final Pension Calculations:

a. Richard Hahn	#2291	$2,495.83
b. Eunice Teel (revised)	#2348	$1,073.38
c. John Claya (off deferred)	#2339	$1,704.97

Application for service retirement for Patrice Waterman was removed from consent agenda. Discussion revealed that the City Council approval was postponed to the November 2, 2006 Council Meeting.

RESOLUTION 06–085 By Woods, Supported by Sauceda
Resolved, That the consent agenda for October 25, 2006 be approved as amended.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton – CAPROC Update

RESOLUTION 06–086 By Woods, Supported by Barnett
Resolved, That the Board will move to closed session to discuss pending litigation.

Roll Call:

Shirley Barnett	Javier Sauceda
Kone Bowman	Devin Scott
Ray Cochran	Kevin Williams
Robert Giddings	Debra Woods
Charlie Harrison	Andrea Wright

The Board moved to closed session at 1: 35 p.m

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The Board returned from closed session at 1:40 p.m.

Ms. Storum arrived at 1:40 p.m.

Ms. Billings left at 1:40 p.m.

RESOLUTION 06–087 By Woods, Supported by Sauceda
Resolved, That the Board will approve the closed session minutes from the September 27, 2006 meeting.

Yeas: 9 – Nays: 0

Re: Gray & Company – Alternative Investments
Mr. Gray distributed copies of an updated agenda for the meeting stating that the Board wanted him to look at alternative investments and contacted him between the meetings. He reviewed the details of the agenda with the Board stating that the Board will be looking at private equity managers at today's meeting. He said that this investment was brought to him by the Committee. He said that this would be a new asset class for the portfolio adding that the portfolio is currently well-funded but adding alternative investments may add more diversification and slightly more in returns. Gray & Company presently has a number of clients investing in the alternatives space.

He stated that they are compacting a lot into one meeting. Normally, only one subject would be addressed at a meeting. However, given the number of issues to discuss he encouraged the members to debate, discuss and ask questions. He said that during the meeting they will conduct an educational session so the trustees will have a good grasp on the space and feel comfortable with the basics. He added that MAPERS provides good sessions on private equity that can add a better level of understanding. He also told the Board that they would be reviewing both the Investment Policy Statement and the asset allocation analysis.

Mr. Gray will discuss the pros and cons of private equity which is not the Orange County derivatives and the Amaranth hedge fund blow ups. The board will discuss private equity as that is what the Committee expressed interest in. He said that investing in alternative investments can add both risk and reward, but is not the answer to all prayers. He said that if everyone was comfortable with the session then they will get presentations from managers. The managers presenting at today's meeting are proven in the space. He also told the Board that Onyx's principal will not be presenting at today's meeting because he is out of the country attending to an IPO meeting in China where he currently resides. Trustee Wright asked if the Board would be conducting Board business first. Chairman Harrison said that they would finish the Board business before the alternative investment sessions.

Re: Asset Allocation Analysis
Mr. Gray reiterated that over 90% of the return set is from the asset allocation. He said that they work hard to find the proper blend of assets that will provide a good return. He said that irrespective of which manager is hired a diverse and well balanced asset allocation should provide good returns. The prior asset allocation has been working nicely.

Mr. Gray said that some trustees prompted them to look at other asset classes. The alternatives asset class came about by way of Turks and Caicos that they deem an alternative investment as was CAPROC.

He told the Board that as a co-fiduciary they needed to take a close look at the Turks & Caicos investment. He said that as part of the due diligence they needed to perform background checks and check the history of the companies involved in the investment. He said that they had a lot of questions and were not able to obtain the information requested. He said that he didn't feel that the firm was prepared for the scrutiny of an institutional investor. Therefore, he will be closing the books in writing on this investment.

He said at the request of the committee they will be looking at the broad category of alternative investments which includes real estate, real assets, gold, timber, commodities, private equity and hedge funds. He said that this is the first time that this fund will be looking at this space. He said that alternative investments are overall a worthy investment and that he has a number of clients that are in some form of alternative investment. He told the Board that this is not typical stocks and bonds. They can add diversification to the portfolio if it is properly done.

He said that because of the legal issues and risk of these investments they must provide a higher return set. He spoke about direct energy, hedge funds and private equity. He said that they narrowed the investment to either hedge funds or private equity. He said that there seems to be too much money in hedge funds for too few deals. As a consultant, he pays a lot of attention to "headline risk". He used an example of the risk associated with hedge funds describing the Amaranth venture that resulted in the evaporation of $6 billion dollars. He stated that hedge funds are not a good place to be.

Mr. Gray explained that private equity is putting money into a business venture. He said that a lot of good companies got their start from venture capital. He told the Board that Onyx is a venture capital firm. However, he told the Board that Elliott Fullen from Onyx will not be able to attend today's meeting. Two other managers will be presenting to the Board at the meeting today.

He outlined the asset allocation analysis assumptions and methodology. He said the portfolio is currently returning 7.5%; it is meeting the target actuarial assumption goals. The portfolio should continue to meet the target over time. He also said that by adding alternative investments it presents the opportunity to reduce risk while slightly increasing returns.

By adding an alternative investment the average expected return of the target allocation is 7.77%. The median expected return would be 9.23%. Adding private equity at 5% would increase the expected return of the preferred allocation to 8.05% and the median expected return of to 10.00%. He said the money would come from global fixed income. Because private equity takes its money in draw downs, global fixed income termination would not have to be a fire sale. Mr. Gray discussed the capital markets assumptions. He said there is no crystal ball that can predict results. However, by following a sound methodology and asset allocation models you can reduce risk and anticipate returns. He said that Ivory Day from their Chicago office has been in the business since 1971 and his asset allocation models are considered cutting edge.

He stated that they look at a broad subset of data to determine private equity assumptions. He said that they forecast private equity to return 11.6% over the next several years. He added that it is important to buy the best of the best to ensure better performance.

Trustee Scott left at 3:10 p.m.

He reviewed the risk return ladder for asset classes with a $1 million initial investment over a seventy-nine year period ending December 31, 2004. It showed that private placement was between bonds and stocks based on standard deviation and returns. He cautioned that the return set is so broad that you must select the best of the best or returns would be less than bonds. You have to be much more careful because private equity is a contractual relationship that locks you into the investment for ten years with drawdown obligations. Private equity has high volatility and it is highly illiquid. He said that the appraisal value process can only guess at the value. It has even greater uncertainty than real estate. Active manager selection risk is high.

He outlined a historical ten-year study based on asset class comparing expected returns to expected risk to expected efficiency based on current asset allocation. He said that private equity expected returns were 11.2% with an expected risk of 40%. He said that it is important to hire someone that can do the job. He also said that if private equity was added to the asset allocation it would provide a cushion above the target of 7.5% at 8.05%. Standard deviation would be up 80 basis points with no increase in risk.

Ms. Munson asked if historical returns for hedge funds exclude managers that went out of business from the data set. Mr. Gray said that was true and that it is in their disclaimer. Chairman Harrison added that the system is not looking at hedge funds. Mr. Gray also said that there is a survival bias built into hedge funds but it is not as pronounced in private equity. Ms. Stewart said that the hedge funds industry is not as regulated as private equity. Ms. Munson asked if there was a high level of regulation in private equity. Mr. Gray said that they prefer private equity managers that are registered investment advisors.

Chairman Harrison asked if alternative investments, specifically private equity firms, raise money on the institutional side and whether they have a higher standard of regulations and scrutiny. Mr. Gray answered that typically you have an attorney and a body of people working together to ensure only credible people come to the table.

Trustee Giddings asked when IPO's go public whether they affect the private equity return. Mr. Gray confirmed that it can affect the returns.

Mr. Gray told the Board that this is a huge asset class and they are just touching on the broad sectors. He said that they have clients who invest in alternatives with one local entity that is investing in timber. He said that Andrew Kelsen is currently attending forestry school to add expertise in this area to the firm.

Ms. Zimmermann asked about the expected efficiency ratio. Mr. Gray said you want to be close to 1.0 which will make the portfolio more efficient as a whole. It makes the portfolio more apt to weather all seasons resulting in efficiently meeting the actuarial return assumption. It is different then a macro economic environment.

Mr. Gray reviewed the asset class average correlation chart based on ten-year returns. He said that you look for how asset classes relate to each other.

Ms. Storum left at 3:30 p.m.

Mr. Gray said that it would have a very small effect on the portfolio. He said from a Board standpoint the portfolio is currently 26 basis points ahead of target and the question is whether 55 basis points is worth it. He said it is a subjective argument and asked whether the Board is looking for a few additional basis points.

He told them about the City of Houston which has allocated 35% in private equity because they need to meet an 18% annual target return number. He said that private equity has served them well. He added that they use some of the best possible managers, Carlysle and KKR.

He told the Board that the wave toward alternatives started with high net worth individuals like the Rockefellers and Vanderbilts, then was taken up by higher education, then public funds and Taft-Hartley funds. There is less alpha now: return expectations were 5% over the S&P but are now reduced to 3%. He said that the excess returns are being extracted. It is important to stay with the best because too many firms are chasing too few deals. He also commented that public funds live very much in a fish bowl.

Chairman Harrison asked what experience Mr. Gray has had with his clients and emerging firms. Mr. Gray said that he has good experiences with new emerging firms (those with assets under management under $2 billion). There have been no failures. He said that Smith Barney works with smaller firms such as women-owned and minority-owned firms and are known for their expertise. He said that if you pick a good manager you avoid the bad. Mr. Gray also told the Board that his firm was recently awarded $100 million from the Chicago Teachers to invest in emerging managers.

Mr. Michaud left at 3:38 p.m.

Mr. Gray told the Board that the Investment Policy Statement comprises the investment guidelines for the fund. He said before the Board can move forward there are changes that would need to be approved.

Chairman Harrison asked if the Investment Policy Statement should have been changed before the CAPROC investment. Ms. Stewart replied that real estate is included, however, the policy restricted private placements and they consider CAPROC one.

Ms. Stewart reviewed the changes needed in the Investment Policy Statement. Changes were made to the table of contents. Other changes included adding private equity to the target asset mix at 5% with a permissible range of 3% to 7% and global fixed income being deleted. She said that the master limited partnership entry under Prohibited Investments was deleted.

Mr. Gray pointed out that the performance report ending June 30, 2006 showed Cap Guardian below target with underperformance of minus 30 basis points gross of fees: as an underperforming manager they should be replaced.

Trustee Wright asked why the Board was allowed to invest in private placement in the past without updating the Investment Policy Statement. Ms. Zimmermann explained the investment was classified as real estate and fixed income (for the mortgages) and the Board was enthusiastic about the concept of the REOC. She said that the consultant at that time did not look to the underlying organizational structure.

Ms. Stewart referred to a private equity manager section which was added under the master manager guidelines detailing the three types of funds allowed. Also included was a chart detailing the target asset allocation within private equity.

Mr. Gray commented that direct investment was originally eliminated but it is now okay. He said that sixty to one hundred twenty actual companies are included in a fund of funds explaining a direct fund versus a direct investment. He used Black Rock as a direct fund example. He said that the first goal is to spread within private equity.

Trustee Giddings asked about the drawdowns and whether the money is set aside or if there would be a scramble to get the money. Mr. Gray said that the manager will give three weeks to a month's notice before a drawdown.

Trustee Barnett asked if the system would have to wait five years before seeing any returns. Mr. Gray said that it could take that long to see returns. However, many of the companies in the portfolio can be more mature. He also explained that they use a true J-Curve in a limited partnership and that they can't reinvest the money it has to come out and back to you.

Trustee Cochran asked about returns during the draw sequence. Mr. Gray said that the commitment is one amount and the payments that come back to the fund are income.

Ms. Zimmermann said that the CAPROC investment raised accounting concerns and when there was a return of capital it reduced the investment value. She asked if the Board commits $10 million with an initial $2 million draw as an asset for duration will it be clearly itemized as a capital investment. Chairman Harrison added that CAPROC took all the money up front versus private equity.

Ms. Zimmermann expressed concern about the probability and reliability of tracking the investment. It seems that it could take more time to monitor 5% of the portfolio then the other 95%. Chairman Harrison remarked that on behalf of those who were here in the initial states of the CAPROC investment, they had relied on the professionals in place at the time. The investment will be gone over thoroughly if we go with this.

Mr. Gray told the Board that Gray & Company is an expert in the asset class and that they would not allow all monies drawn down at once. He also said that the Board will receive a single sheet of paper with a check attached with their return of investment that clearly documents the investment. Trustee Giddings interjected that the Board is now holding their advisors more accountable.

Re: Private Equity
Mr. Gray told the Board that equity investments in private companies have historically offered higher returns. They are usually offered through limited partnerships and that he believes in the structure.

He explained the types of private equity including leveraged buyouts; venture capital; mezzanine capital; distressed debt; industry specific private equity and fund of funds. He told the Board that it is important to diversify.

Chairman Harrison left at 4:08 p.m.

He broke down the commitments to private equity by category showing that they are relatively consistent. He said that special situations like Turks and Caicos don't really fit the definition.

Trustee Woods left at 4:09 p.m.

He cautioned the Board that if they are not happy with the investment they can not liquidate. This is a long-term investment and despite losses they must continue to fund the capital calls.

Trustee Giddings asked if the managers look at individual companies and markets or whether they are committed to staged investment. Mr. Gray replied that companies are not locked into you as much as you are to the fund of funds. They can change their operating styles. He said that the important considerations are risk tolerance, diversification, correlation and returns.

Chairman Harrison and Trustee Woods returned at 4:12 p.m.

Mr. Gray referred to a chart which displayed private equity total returns versus standard deviation. It showed that there was less overall risk while increasing returns versus stocks and bonds. The growth of private equity investments in emerging markets have been picking up as well as in the U.S. and Europe. He told the Board that they don't want to be part of a company that deals in hostile takeovers.

He described an internal rate of return chart on U.S. buyouts. He told the Board that private equity is not the answer to everyone's prayers. He said that this investment is not about timing the market. He said that the good vintage years were 1986 and 1993. The bad years 1998 through 2001 were due to poor economical conditions. There will be good and bad years. It is important to set up a systematic program where you put a little in each year.

Mr. Gray stated that in the buyout market there are increasingly larger funds that are raising large pools of capital. Trustee Giddings asked if there is too much money chasing too few good deals. Mr. Gray replied that it is the same in private equity. He also said that the big guys don't need any more money. Mr. Gray referred to a chart that showed the mega funds and how most are over-subscribed. He added that Gray & Co. can invest in Kohlberg Kravis Roberts & Company (KKR).

Mr. Gray reviewed a chart showing that venture returns are twice as volatile as the S&P 500. He also pointed out that this concludes that private equity manager selection and due diligence is critical in order to achieve desired performance. He showed that there is a huge difference in performance between managers in the top and bottom quartiles 23% versus 4%. He also said you need to use a top manager to access the best deals.

Ms. Munson asked about fund of funds regarding their two layers of fees. They set an asset fee of 2% and receive a fee of 20% on cash out. She asked if the returns were gross of fees. Mr. Gray acknowledged that they were and that they would pay close attention.

Mr. Gray discussed the structure of the funds. The trustees discussed the difference between emerging managers and private equity funds of funds. There was discussion regarding how to select funds and what to look for. Mr. Gray stated that you look for experience in the field and a successful track record. You also look for a manager that invests their own money (alignment) and offers fair financial terms.

Mr. Gray distributed a side by side comparison of the managers who would be presenting to the Board. He pointed out that Elliott Fullen from Onyx Capital Advisors worked with KKR and Apollo in the past. He is currently in China working on an IPO and was unable to attend today's meeting. He said that Roy Dixon from Onyx is a great marketer, however, they need Elliott here for the presentation. He added that Onyx would present at the next regular meeting.

Trustee Giddings asked why the Board was interviewing managers now. Mr. Gray answered that it was a request from the committee. Chairman Harrison commented that the Turks and Caicos proposed investment opened an opportunity to invest in alternatives. He said that there was a question with what to do with the space since they had been looking since May. So instead of waiting until next year they decided to go further and determine whether to invest in this space.

Trustee Giddings commented that the normal process usually involves a pool of managers for review with a Board decision on which managers would present. Chairman Harrison said that is why Mr. Gray is providing an educational overview for private placement.

Trustee Williams left at 4:55 pm.

Trustee Giddings remarked that this could result in another CAPROC situation due to deviating from the process. Chairman Harrison again replied that they decided to look at the alternative space today or they can stretch it out since they squeezed in a lot of information today. Trustee Giddings said that he is still concerned that nothing is guaranteed. He also asked if this could become a CAPROC-like situation and that he's worried about the overexposure.

Chairman Harrison said that the consultant will go through all the information and that they have a lot of experience in this asset class. He also said that they will be thorough and deliberate.

Trustee Williams returned at 4:58 p.m.

Ms. Munson asked if Onyx was doing the Turks and Caicos investment. Mr Gray replied no. Trustee Barnett asked how Onyx got in and whether they were the same group that brought Turks and Caicos.

Trustee Woods left at 4:59 p.m.

Mr. Gray said that the Board will be hearing presentations from two fund of fund managers and one emerging manager. He said that it is a lot of information to compact into one meeting, but he wanted to give the Board enough information to express their business concerns.

Trustee Wright asked what the goal of today's meeting is; whether the Board is looking to revise the Investment Policy Statement, the asset allocation and select a manager. Chairman Harrison acknowledged that they would need to revise both the IPS and the asset allocation as well as hear the presentations.

Trustee Williams expressed his concern that it was not fair to the Board that they were not informed ahead of time regarding the additional agenda for the meeting and that it would run until 7:00 p.m. Trustee Wright concurred.

Break at 5:10 p.m.

Trustee Cochran left at 5:10 p.m.

Re: Invesco Private Capital

Phil Shaw, General Partner – New York Office
Mary Kelley, General Partern – Denver Office
April Simon, Client Service – Atlanta Office

Ms. Simon introduced Phil Shaw and Mary Kelley to the Board. She told the Board that one of Invesco's key strengths is the experience of their team. The general partners, Mr. Shaw and Ms. Kelley, have over thirty years of combined experience. Invesco has offered a consistent repeatable process for more then twenty years. They have access to the leading funds in the business. They provide a flexible product structure.

She described the organizational structure. AMVESCAP has a total $414 billion in assets under management which includes Invesco with $226 billion in institutional investments, AIM Investments with $171 billion retail investments and Atlantic Trust Private Wealth Management with $16 billion in private investments. She stated that Invesco is not associated with any banks or insurance companies. She also told the Board that there is significant employee ownership. She said that their investment team has a lot of experience in private equity and private capital. She said that they are currently in the process of recruiting three senior associates. She referred to their fund of funds client list as being diversified and pointed out that they have a large number of public fund clients.

She gave a description of the product stating the target size is $500 million. The product will be approximately thirty-five to forty-five funds. There will be a two to three year commitment. The funds will be comprised of venture capital, leverage buyouts and special situations and be a flexible product structure. The diversity and flexibility of the product will provide a built in safety valve.

Ms. Zimmermann left at 5:17 p.m.

She reviewed the flexible structure of their product which revealed diverse portfolio targets. She also told the Board that they have the choice of a diversified global product or a sector-specific fund.

She described how they use a safety valve to deal with volatile fund flows. She said that the General Partner can reallocate up to 5% of each sector fund into related investments. This insures that the fund is committed over a reasonable time frame while avoiding unanticipated volatility.

Ms. Zimmermann returned at 5:20 p.m.

Mr. Shaw explained their investment philosophy. He said that their process allows them to build a diverse portfolio for their clients. He told the Board that the private markets cannot be timed. He said that you do not want to over concentrate an investment: it is a recipe for disaster. They perform in depth due diligence by exploring each investment and asking a lot of questions. Their risk controls utilize a diverse two to three year investment with global geographical exposure. They also look at the size, stage, industry, and investment strategy of the fund.

Their core portfolio is built on well established funds. He said that it is important to watch brand names because there is a trend to gravitate toward one thing. He said that it is important to move in the opposite direction when a sector is experiencing large capital inflows. He said that is why they deliberately target mid-size funds and look at the point in the cycle for strategies.

He discussed their investment process. He stated that their process begins by reviewing and comparing offerings on a daily basis. Their reputation and longstanding tenure as an investor in alternative assets is a magnet for basic deal flow. The next step is performing due diligence by investigating, negotiating and closely monitoring investments. A bulk of the senior partners' time is spent dealing with issues and sharing workloads with staff.

He told the Board that skill (versus luck) is responsible for repeating past performance. He said that the keys to venture portfolios are identified by market needs, evaluating technology and attracting management. Buyout portfolios are identified by sales growth, operational margins, debt and cash flow.

They negotiate by aligning the economic interests of the limited partners and general partners and strengthen the terms designed to protect limited partners. He also said that they actively evaluate the portfolio by closely monitoring performance during the life of the portfolio.

Ms. Kelley told the Board that manager selection in private equity is critical because there is a wide range of returns between a top and bottom manager. She said that it is important to select well. She also said that you want to look for long-term top quartile results.

She reviewed Invesco's annualized returns. She referred to the ten-year annualized returns at 28.3% and the fifteen year returns at 25.8% and how they compared to other types of investments.

She described the Invesco Partnership Fund V and the proposed terms. She explained that the target size is $500 million with a two to three year commitment period. The fund term will be twelve years with two one year extensions, if required. She also stated that the annual management fees are 70 basis points for the first year, 80 basis points for the second year and 90 basis points for years three to eight. The fees will begin to reduce 10% per year starting in year nine, not to go below 50 basis points. There is a 10% fee on secondary partnership purchases with a sponsor commitment greater then 1%.

Mr. Shaw concluded stating that returns are not sustainable at the recent levels and that the Board should not expect premium private equity returns of 25%. However they should look forward to out-performance of 300 to 500 basis points above fixed income.

Chairman Harrison asked what percent of the $500 million fund represents emerging managers. Mr. Shaw replied that new blood is vital. Using an example of forty managers he said that approximately six to eight or 20% could be emerging managers. However, he did say that money in a new fund is often a spin out from another fund and that it is important to fine tune dollars based on conviction you have about a manager or a fund. Ms. Kelley added that on average first time funds are too risky. You have to look at their talent pool as well as perform due diligence,

Trustee Wright asked about the choices available between the diversified, mixed or sector specific products. Mr. Shaw said that the Board could set their own mix, but that most use the predetermined mix. They recommend that mix because it is most appropriate for those with no previous exposure to this asset class.

Ms. Simon thanked the Board for the opportunity.

Ms. Zimmermann asked for the definition of carry interest. Mr. Gray replied that it is a share of profits over a certain level that the investment manager will be paid, typically 20%.

Mr. Shaw, Ms. Kelley and Ms. Simon left at 5:40 p.m.

Re: Mesirow Financial
Paul E. Rice, Sr. Managing Director – Chicago Office
Michael J. Barrett, Managing Director – Chicago Office
Tracey Shinkle, Vice President, Client Services – Michigan Office

Mr. Barrett told the Board that he has been with Mesirow for twenty-two years all in private equity. He is a managing director of private equity. He is involved in the portfolio investment process and the fund of funds investment process.

He told the Board that Mesirow is a financially stable firm with more then 1,000 employees nationwide. He said that they have been involved in the private equity market since 1982. They have had limited turnover and are an employee-owned fund of funds firm.

He said that Mesirow has access to the premier managers in private equity and venture capital. He said that they have full coverage of the private equity market both here and in Europe. They currently have $1.5 billion in assets under management in private equity. They are a premier fund of funds manager with more then 150 years of combined experience. They are successful in partnership and direct co-investments. They are also a registered investment advisor and a fiduciary for plan assets.

He reviewed their representative private equity client list. He said they are deeply involved in plan asset advisement and proud of their client list. He pointed out the local Michigan clients.

Mr. Rice thanked the Board for the opportunity. He told them that preferred access to top-tier private equity managers is an important ingredient in acquiring investment opportunities. He said that he has twenty-five years of experience in private equity. In his early years he developed the portfolio for the State of Michigan Retirement System eventually managing over $5 billion in partnership investments. He added that he served on the Mesirow Advisory Board before joining the firm.

He also told the Board that Marc Sacks and Tom Galuhn are his partners on the team. He pointed out that Tom Galuhn has over twenty-six years of experience in private equity investments and Marc Sacks has fourteen years of experience. He added that his partners both worked for Adams Street Partners which is one of the largest private equity fund of funds firms.

He reviewed the investment team. He stated that James Tyree started in private equity in the early 1980's and is the current CEO. He said that they have a full compliment of staff which includes a full-time marketing group, communications, legal, compliance, information technology and accounting.

Fund IV is a diversified fund of funds. It has a variety of funds with full market coverage. The fund target is $500 million with a three to four year commitment period. There are thirty-five funds in the portfolio allocated by sub-asset class.

Trustee Woods left at 5:56 p.m.

Their process starts with a large universe of 250 to 300 private equity firms. They put people in the process who are looking for funds. They narrow down to twelve to fourteen funds each year. They do their own evaluation of companies and final due diligence.

Their partnership selection criteria look for a cohesive, high-quality management team with a deep domain expertise and a consistent focused strategy. They also look for a stable organization with low turnover, a good track record, and robust high quality deal flows which offers good terms and conditions.

Trustee Woods returned at 6:00 p.m.

He referred to a list of their most recent partnership commitments. He said that they have access to a number of quality funds like Texas Pacific Group (TPG), Berkshire Partners who are in their seventh fund, Doll Capital Management and Peninsula Capital Partners of Michigan.

He discussed the target manager commitments for Fund IV. He said that TPG has never experienced a loss. He also referred to TPG's recent acquisitions in consumer products that represent the brands Cutex and Vitaminwater.

Mr. Barrett reviewed the investment status for their private equity partnership funds. For Fund III he said that it is a $500 million fund with 2/3 of the capital committed. He said that the fund has full market coverage across twenty-seven partnerships with no meaningful performance to report at this time.

Fund II has committed capital of $235 million with $134 million capital drawn. He said that Fund II first quartile performance has produced annual returns of 20.4% since it's inception in June, 2001.

The investment status of Fund I as of September 30, 2006 shows $217 million in committed capital with $204 million in capital drawn. Since its April, 1999 inception performance is 0.8%. Most recent returns are in the second quartile.

He summarized the terms of Fund IV. He said that they charge an annual management fee with no carry interest. As the general partner Mesirow receives 1% of total capital. He also said that the ten people on the investment team are also the limited partners.

Chairman Harrison asked about emerging funds as part of the portfolio. Mr. Rice replied that only a small number of firms look for emerging partnerships. He said that most want top tier funds with track records. Mr. Barrett added that they look for first time funds but not first time investment managers.

Mr. Rice, Mr. Barrett and Ms. Shinkle left at 6:07 p.m.

Mr. Gray apologized for the lack of communication regarding the day's agenda. He said that this is a different market and that both firms have proven track records and have been in the field for a while. He said both are good candidates adding that he is excited about the space.

He said that the books are closed on the Turks and Caicos investment due to lack of information. He said that before going forward the Investment Policy Statement changes will have to be approved and the new asset allocation will have to be adopted.

Chairman Harrison left at 6:16 p.m.

Ms. Munson asked Mr. Gray if he thinks it's a good idea to go into the private equity space. He replied that the fund does not need to invest in the space. Ms. Munson asked if he would recommend it. He said that he brings ideas for the portfolio to the Board. The fund is currently in the top half of funds in the country. This is more of a portfolio diversification discussion that the Board needs to have. He said that often if a fund is over-funded they will not take the extra risk, but others will invest a small amount in the space.

Chairman Harrison returned at 6:18 p.m.

RESOLUTION 06–088 By Barnett, Supported by Woods
Resolved, That the Board will adopt the Investment Policy Statement changes including the edit on page seventeen as amended.

Yeas: 7 – Nays: 0

Roll Call:

Trustee Barnett	Trustee Williams
Trustee Giddings	Trustee Woods
Trustee Harrison	Trustee Wright
Trustee Sauceda	

RESOLUTION 06–089 By Woods, Supported by Wright
Resolved, That the Board will adopt the revised asset allocation adding 5% to private equity funded by the elimination of global fixed income.

Yeas: 7 – Nays: 0

Trustee Williams left at 6:22 p.m.

Chairman Harrison asked about the Onyx presentation. Mr. Gray said that because the principal was in Shanghai and could not be here he brought two good large and experienced fund of funds firms for the Board's review.

Mr. Gray said that he would like to see the Board invest the minimum of $5 million with both managers. He said that he feels very good about starting with them and moving into the space slowly.

He said that Onyx is an emerging fund brought to him by the Board. They are still conducting due diligence. He also told the Board that Onyx would be a direct investment. Trustee Giddings commented that there is no reason to bring Onyx in because they are new and have no other investors or money.

Chairman Harrison commented that if it suits the Board they can see Onyx at the next meeting and vote then. Trustee Barnett said that she would not be at the next meeting. Trustee Giddings again said that he feels there is no reason to bring in Onyx.

Chairman Harrison asked Mr. Gray how many start ups he has dealt with. He replied that he has had good experience to date. However, he said the law of averages is against us. He also told the Board to separate Onyx from the other two firms. He added that he was told there was an interest in emerging and minority and/or woman owned firms which Onyx is both. Trustee Giddings again commented that Onyx has no returns on record.

Ms. Munson asked if the Onyx office will be in China. Mr. Gray said the plans are to start an office in the U.S. in Atlanta. Onyx has been involved in financial planning since 1989 and is now moving into asset management.

Ms. Wright said that she is confused about the investment. She said it is unfair not to hear from more emerging market managers. She also felt she was getting mixed signals about the investment.

Mr. Gray replied that Onyx was a Board suggestion brought about by the Turks and Caicos investment. He said that it was a mistake to put them on the same page with the private equity managers. He again told the Board that he recommends that they go in for the minimum investment of $5 million. Trustee Giddings remarked that since this was so urgent he feels that the Board should act tonight.

RESOLUTION 06–090 By Barnett, Supported by Giddings
Resolved, That the Board will approve to retain Mesirow Financial and Invesco as private equity managers for approximately $5 million each pending contract review by legal counsel.

Yeas: 7 – Nays: 0

Chairman Harrison told the Board that Ms. Billings needs to schedule a special joint meeting. He asked the trustees to respond timely regarding the CAPROC matter.

Mr. Gray told the Board that Onyx has been moved to the November meeting and will have forty-five minutes to present.

Trustee Wright asked if it is necessary for Tom Michaud to be present at every meeting since he often does not have a report. She also asked if Ms. Billings could have emailed her inspection report. She felt that this could have reduced the amount of legal fees incurred. Trustee Giddings said that legal counsel was asked to attend each meeting to assure legal proceedings are followed during the meeting.

REPORTS

Chairman - None

Secretary - None

Trustees/Committees

> **Re: Real Estate Committee** – None
> **Re: Personnel Committee** - None

Administrator

<u>Ronald Gracey</u>
Ms. Zimmermann explained to the Board that Ronald Gracey has been informed that with his current service credit and his reciprocal time from the Police and Fire Retirement System he is eligible for a pension benefit. At this time he is not being offered disability and is considering his options.

<u>Appeal of Disability Determination – Poston</u>
Ms. Zimmermann stated that the Retirement Office is currently working with Mr. Poston on the Board of Review process. He is appealing a recent disability determination by the Board per the Medical Director.

<u>Disability Income Verification</u>
Ms. Zimmermann told the Board that a procedural issue has occurred with the income verification process for those currently receiving a disability retirement benefit. She explained that in April the procedures were confirmed with the IRS on what forms were needed to obtain the information requested in order to process the verifications. However, the process has changed between April and September with no notification from the IRS provided.

She said that the IRS has supplied most of the information requested. For some members the IRS returned a letter saying that the individual has not filed a return, however, based on information provided by the member, the staff knows that is not the case. In order to continue the process the office would have to resend forms to the designated members asking them to sign in order to acquire the needed information. Ms. Zimmermann said that this tends to raise concerns and makes the members nervous. She would like to avoid this if possible. She added that if the forms were again sent that by the time they were received back in the office and forwarded to the IRS it would be time to start the process for 2006 income.

Mr. Michaud recommended that the Board should accept the response from the IRS due to the time constraints and not require the additional work. He said that the staff should review the information received and begin the process again in April, 2007.

Ms. Zimmermann further related that none of the current disability retirees to date have gone over the income limitations. She said that in her experience they have always reported all their earnings when requested and have been consistent with the policy. Trustee Wright asked if there could be any type of penalty assessed. Ms. Zimmermann replied that there would be no adverse affect for the members.

Ms. Zimmermann requested that the Board forego the policy and allow the office to stay the course and accept the information that has been received and follow up only if perceived necessary.

The Board directed Ms. Zimmermann to accept the information provided by the IRS and proceed as required.

<u>William Harris Correspondence to City Council</u>
Trustee Barnett asked about the letter in the consent agenda from William Harris to the City Council requesting a benefit increase. She asked if there had been any reaction or response from the Council.

Chairman Harrison said that the Council President was planning to discuss the issue at a subcommittee meeting and that Ms. Zimmermann should attend.

Legal - None

Union Representatives – None

UNFINISHED BUSINESS

Re: Ordinance Clean-up – In Process

Re: Service Credit Information to Members – Pending

Re: Fiduciary Liability Insurance
Ms. Zimmermann referred to the quote from CHUBB for the fiduciary insurance included within the agenda. She said that the premium for the policy would be $23,166.00 per year which would provide $2 million in liability coverage per year with a $25,000 deductible.

Trustee Wright asked about recourse insurance that the trustees would pay out-of-pocket at a cost of around $25.00 per trustee.

Mr. Michaud said that the insurance is a non-recourse insurance plan which prohibits an individual trustee from litigation and damages. He said that insurance companies will look for recourse from individuals to recover damages. He said that the proposed policy should be explained by the agent so the Board understands the risks and coverage. Chairman Harrison requested that Steve Fladger attend the next meeting to explain the policy.

Trustee Giddings asked about the level of coverage and who selected the level. Ms. Zimmermann said that the coverage was based on the financial statements, the PFRS quote and the legal data provided. The Board concurred and directed Ms. Zimmermann to put the agent (Steve Fladger) on the agenda for the next meeting to discuss the coverage and limitations of the policy.

Re: CETA Programs

Ms. Zimmermann stated that there is an active member who was inquiring why her CETA time was not being properly credited for time worked toward her retirement benefit. She explained that there were different CETA Benefit Programs and that this member was in a benefit program where they were considered a temporary employee and the maximum length of the participation in this program was eighteen months. Trustee Woods asked if the member's CETA Program considered her a temporary employee when she was hired. Ms. Zimmermann referred to a document in the consent agenda prepared by Deborah Munson to confirm the information.

Ms. Zimmermann explained that there were amendments for employees hired prior to 1978 and those hired after 1978. Those employees hired prior to 1978 did receive retirement service credit. However the amendment for those that started after 1978 did not include a retirement service credit.

Trustee Woods said that there are a number of members of the Teamsters Union who have asked about this issue. She confirmed that Ms. Redmond is not currently eligible for a pension benefit at this time. She added that all the employees in question work in Community Development. She also said that she stopped the Teamster's Agent from filing a grievance assuring him that the Board would handle the issue.

Trustee Scott asked what powers the Board has in regard to this issue expressing that he felt it was unfair. Mr. Michaud replied that the Board does not have the power to implement or make changes. He said that benefit changes are the responsibility of the unions and City. The Board is vested with the authority to comply with the retirement ordinance.

Trustee Wright said that she would not look at this situation as unfair as much as it is unfortunate for those affected members. She suggested that Board send a written notice to these members.

Chairman Harrison asked if it was the responsibility of the Human Resources Department to convey this information to the members when they were hired. Trustee Barnett asked when members stopped making contributions in the retirement system. Ms. Munson replied that most stopped in 1975. Mr. Michaud suggested that a letter should be sent from the Board with the information supplied from the memo in a more generic format.

RESOLUTION 06–091 By Wright, Supported by Cochran
Resolved, That the Retirement Office send a letter to members with CETA service that explains the provisions as they relate to retirement service credit.

Yeas: 9 – Nays: 0

Re: Custody Search
Chairman Harrison told the Board that the joint Custody Committee met to review the RFP's from the three custodians involved in the custody search. He said that the three choices were Mellon Trust, Northern Trust and Bank of New York. After the review, the committee indicated that Northern Trust was their first choice.

During the meeting, the committee asked Ms. Zimmermann and Ms. Munson to travel to Northern Trust to perform the due diligence because they, especially Ms. Munson, work directly with the custodian.

Ms. Zimmermann reported that they met with the team and several principal players. They were shown reporting demos, discussed accounting needs and payment processing and what they felt were the responsibilities of the team.

Ms. Zimmermann stated that after their review everything was satisfactory and felt confident in their ability to service the fund. Ms. Stewart added that Northern Trust's commission recapture quote at 80% was excellent. She also commented that it would be a good idea for both Boards to move quickly since there is a limited amount of time to perform the transition before the end of the year. Ms. Zimmermann also stated that along with the transition there will be two payrolls and COLA being processed before the end of the year.

Trustee Giddings asked if there would be free custody for the $34 million currently handled by Northern Trust. He was told that there would be no transaction fees or asset charges on the $34 million. He also asked if the committee had looked at local vendors.

Chairman Harrison replied that there are only a few major players. Trustee Giddings asked about Comerica and National City. Mr. Gray said that there are only a few larger companies that commit to this business. He said that smaller banks are doing the job. Trustee Giddings asked about Wachovia. Ms. Stewart said that Comerica and National City shop out that service and provides a turnkey platform. Wachovia has recently sold most of their trust business.

Chairman Harrison remarked that Ms. Stewart did a good job of putting together the information for the custody search. He also stated that the committee had ranked the vendors in order with Northern Trust being first; Mellon Bank being a distant second and Bank of New York third. Trustee Sauceda added that Bank of New York was too expensive.

Ms. Zimmermann also told the Board that during the last custody search Northern Trust was the other finalist, Mellon. She felt that going with Northern Trust will save the staff time preparing custom reports and will provide a better level of reporting for the Board. She also mentioned that she has worked with Northern Trust in the past and that they will prepare reports as needed.

Trustee Giddings suggested that a written report describing the custody search be submitted. Ms. Zimmermann said that she would prepare the report for the Board.

RESOLUTION 06–092 By Woods, Supported by Sauceda
WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System and has fiduciary responsibilities relative to the proper administration of the pension trust fund, and

WHEREAS, the Board has previously utilized the services of Mellon Institutional Trust, as custodian, and

WHEREAS, the Board, in light of its fiduciary responsibilities, requested proposals through its Investment Consultant, Gray & Company, and conducted reviews regarding custodial services, and

WHEREAS, the Board has reviewed with its Investment Consultant the custodial services in light of those services and fees offered by custodians and is of the opinion that it is in the best interest of the Retirement System to change custodians, and

WHEREAS, the Board, having completed its due diligence, is of the opinion that Northern Trust meets the Board's requirements, therefore be it

RESOLVED, that the Board hereby terminates its custodial agreement with Mellon upon transition of the custodial services to Northern Trust, and further

RESOLVED, that subject to approval of a final agreement as to form and content by the Board's legal counsel, the Board of Trustees enter into a written agreement with Northern Trust and that such agreement be executed by appropriate signatories on behalf of the Board, and further

RESOLVED, that Mellon is requested to coordinate with the Board and its representatives to facilitate a smooth transition of custodial services.

Yeas: 9 – Nays: 0

Re: Capital Guardian Fee Reduction Ratification
Ms. Zimmermann requested that the Board ratify the amendment letter signed by the Chairman to lower the Capital Guardian fee schedule from forty-one basis points to thirty-seven basis points.

RESOLUTION 06–093 By Barnett, Supported by Sauceda
Resolved, That the Board ratify the Capital Guardian Fee Reduction Amendment Letter.

Yeas: 9 – Nays: 0

NEW BUSINESS

Re: Online Estimate Calculator

Ms. Zimmermann referred to a proposal for a web-based benefit estimator from Gabriel, Roeder, Smith & Company included in the consent agenda. She said that there was an inquiry regarding the service a few years ago but a quote was never obtained from GRS. She said that there are three online sites for other GRS clients that can be used for the Board's review.

She went over the details of the quote. She said that the initial project cost which includes the development of the software would be $12,000 to a maximum of $16,000. There would be ongoing costs for hosting and maintaining the software on the web at $100 per month. The system could also lease the software at a cost of $500 per month with a 2.5% annual increase with an initial five-year commitment.

Trustee Wright asked if the IT Department was asked for a quote to build it from scratch. Ms. Zimmermann said that she had not approached the IT staff for a bid because they are thinly staffed.

Trustee Barnett asked how long it normally takes for the Office to provide an estimate. Ms. Zimmermann replied that it takes a few days to within a week. She told the Board that estimates require obtaining the PAS Forms from Human Resources, verifying the pay history and transactions such as break in service or other circumstances to ensure the service credit used in the calculation is correct. Ms. Zimmermann also said that within the employee handbook there is a section that walks a member through preparing an approximate estimate.

Chairman Harrison commented that the cost is a lot for a benefit estimator. Ms. Zimmermann said that there is a different perspective between the two Boards with regards to providing this tool.

It was determined that the Board would decline on the proposal for the web-based benefit calculator at this time.

Re: Certificate of Deposit Renewal

Ms. Zimmermann informed the Board that the certificate of deposit at the Municipal and Health Services Credit Union is due for renewal. She said that the both funds maintain a CD in the amount of $100,000 which allows them to be fully insured. She also said that each year they roll over the principal and take the interest. She added that the current rate of the investment is 3.25% and that the reinvestment rates will be 4.35% with an annual yield of 4.42%. She asked the Board to provide direction as to the reinvestment of these funds.

RESOLUTION 06–094 By Barnett, Supported by Wright
Resolved, That the Board renew the Certificate of Deposit in the amount of $100,000 for one year at Municipal & Health Services Credit Union.

Yeas: 9 – Nays: 0

PUBLIC DISCUSSION

SCHEDULING OF NEXT MEETING

Regular Meeting: November 29, 2006 at 1:30 p.m. in the Shrine Room of City Hall.

ADJOURNMENT

RESOLUTION 06-095 By Sauceda, Supported Wright
Resolved, That the meeting be adjourned at 6:43 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing is true Minutes of the General Employees Retirement System held on October 25, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt