

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
MAY 30, 2012**

A regular meeting of the Board of Trustees was held on Wednesday, May 30, 2012 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:54 p.m.

TRUSTEES PRESENT

Koné Bowman
Phyllis Long
John Naglick, Secretary
Sheryl Stubblefield
Patrice Waterman
Kevin Williams

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Laurance Gray, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M- Administrative Assistant
Larry Marshall, Retiree (*arrived at 1:50 p.m.*)

TRUSTEES ABSENT

Shirley Barnett (*excused*)
Charlie Harrison, Chairman (*excused*)
Leon Jukowski, Mayor (*absent*)
Tuesday Redmond (*excused*)

PUBLIC DISCUSSION/UNION REPRESENTATIVES - None

AGENDA CHANGES

Ms. Arndt informed the Board that Chairman Harrison has requested that the Board approve his attendance at the Opal Public Funds Summit East Conference in Newport, Rhode Island, July 18-20, 2012. He has been selected as a panelist for one of the sessions. In the past Opal has paid for his airfare and a portion of his hotel bill when he served on a panel.

RESOLUTION 12-043 By Williams, Supported by Bowman

Resolved, That the Board approve Chairman Harrison's attendance at the Opal Public Funds Summit East being held in Newport, Rhode Island on July 16-18, 2012.

Yeas: 6 – Nays: 0

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: April 25, 2012

B. Communications

1. Correspondence from Senate Fiscal Agency Re: Senate Bill 797
2. Correspondence from GERS to Ms. Kilburn Re: Retirement Option Request
3. Correspondence from Ambassador Re: Strategies

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4. Correspondence from AMBS Re: May 2012 Newsletter
 5. Correspondence from Artio Re: Newsletters March and April 2012
 6. Correspondence from Munder Re: Newsletter and Organizational Changes
 7. Correspondence from Oakbrook Re: April Activity
 8. Conference Information
 - a. 58th Annual Employees Benefits Conference – IFEBP – Nov. 11-14, 2012
 - b. Thriving in Turbulent Times – NASP – June 18-20, 2012
- C. Financial Reports
1. Financial Reports – April 2012
 2. Capital Calls:
 - a. First Eagle \$31,000,000
 - a. GrayCo Alternative Partners 229,885
 3. Accounts Payable – May 2012
 4. Death Audit 04-18-12
- D. Retirements, Refunds, Final Calculations, Re-Examinations
1. Remove from the Rolls:
 - a. Lorraine Angel (deceased 04-30-12)
 - b. Rose Ann Frazier (deceased 04-21-12)
 - c. Janet Lloyd (deceased 04-01-11)
 - d. Mary J. Pena (deceased 04-25-12)
 - e. Jean Rickel (deceased 04-07-12)
 - f. Leora Trevino (deceased 04-07-12)
 - g. Owen Winnie (deceased 04-19-12): survivor benefit of \$1,703.39/mo to ben. Carolyn Winnie
 - h. David Zuithof (deceased 04-29-12): survivor benefit of \$1,677.78/mo. to ben. Vicki Zuithof
 2. Application for Service Retirement:

a. Alvin Phillips – Local 2002	10 years, 1 month	Age 61
b. Bruce D. Allen – NOMC	20 years, 11 months	Age 60
c. Lynne A. Irwin – NOMC	8 years, 11 months	Age 55
 3. Final Benefit Calculations:

a. Antonio Macias	#2257	\$5,063.30
b. William Baldwin	#2484	2,009.83 (overpayment)
c. Willie Ramsey	#2564	4,960.69
d. Lewis Vaughn	#2568	594.67
e. Lynne A. Irwin	#2690	462.15

Trustee Williams indicated that paragraph five on page six needed to be amended to read, “Trustee Williams asked Ms. Zimmermann whether there is a process in place during an employee’s absence.”

RESOLUTION 12-044 By Naglick, Supported by Williams
 Resolved, That the Board approve the consent agenda for May 30, 2012 as amended.

Yeas: 6 – Nays: 0

Vice Chairman Bowman indicated that action items would be moved up on the agenda due to the potential loss of quorum.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees

Trustee Waterman indicated that the Personnel Sub Committee met to discuss updates and operations in the Retirement Office. They are in the process of scheduling another meeting to include the Police & Fire System in the Personnel Subcommittee.

Re: Administrator

2011 Audit

Ms. Zimmermann reported that the auditors were in the office and completed the first step of the audit process. The cost for the 2011 audit will be \$14,460.00.

LaJuan Craft Disability Leave

Ms. Zimmermann reported that she received a revised update on when Ms. Craft will return to the office. The original date was June 1, 2012 and that date has been extended to July 1, 2012.

Election Issue

Ms. Zimmermann reported that there was an issue regarding the Member Trustee Election. The letter is located under New Business in the agenda.

Re: Legal

Hospital Deferred Retiree – Bruce Deschere

Ms. Billings reported that Mr. Deschere is a hospital deferred vested member. He received correspondence from the Retirement Office annually in the form of a benefit statement which indicated that he would receive a \$100.00 per month benefit when he retired. He was in the process of withdrawing his contributions when Ms. Zimmermann noted that the \$100.00 per month benefit could not be correct based on the amount of contributions he had in the System. She determined that his actual benefit would be \$662.38 per month.

Mr. Deschere stated that if he would have known the correct amount of his benefit, he would have requested his retirement benefit when eligible. He is asking that the Board rectify this error and provide him his retirement benefit retroactive to April, 2011 when he was originally eligible. Clearly Mr. Deschere did not have all the facts to make a decision.

Vice Chairman Bowman confirmed that Mr. Deschere is asking for his benefit to be retroactive to the date of his eligibility.

Trustee Williams asked if this would alleviate any legal action going forward.

Ms. Billings stated that it should alleviate any legal actions because damages will have been minimized.

RESOLUTION 12-045 By Waterman, Supported by Williams

Resolved, That the Board approves Bruce Deschere to receive a retroactive retirement benefit effective April, 2011.

Yeas: 6 – Nays: 0

Brigida Cantu

Ms. Billings reported that Brigida Cantu left employment with the City in 2002. At that time she was told in writing that she was not eligible for a benefit. She recently came back to the Retirement Office to inquire about a benefit and it was determined based on an opinion by Tom Michaud in 2007 that she was eligible for a benefit. She was never notified of this change in her eligibility.

She was eligible to retire effective October, 2008. When she contacted the office last year she thought she had to wait until age sixty-two to draw her pension benefit. Because she received incorrect information there was not way for her to know to contact the Retirement Office to apply for her benefit.

Trustee Stubblefield questioned the refund of Ms. Cantu's contributions.

Ms. Zimmermann explained that in the past if a member withdrew their contributions they would lose their eligibility for a pension benefit. Although five years later after she received the first letter it was determined that under the Reciprocal Act she would get credit toward her eligibility but not toward her benefit.

Vice Chairman Bowman questioned what her benefit is based on.

Ms. Zimmermann explained that a member could have twelve years of service credit eligibility which would be applied for vesting purposes based on the Reciprocal Act. However, the member's benefit could only be based on their last seven years of employment because they withdrew their contributions for their previous five years of employment.

RESOLUTION 12-046 By Waterman, Supported by Long

Resolved, That the Board approve Brigida Cantu's pension benefit retroactive to October 6, 2008.

Yeas: 6 – Nays: 0

RESOLUTION 12-047 By Williams, Supported by Naglick

Resolved, That the Board approve the move to closed session to discuss pending litigation in the Northern Trust, Onyx, Balowski, Lockheed, HMA, Quest, Wal-Mart, MBIA and Green Mount matters.

Roll Call:

Trustee Bowman – yea
Trustee Long – yea
Trustee Naglick - yea

Trustee Stubblefield - yea
Trustee Waterman – yea
Trustee Williams - yea

The Board moved to closed session at 2:08 p.m.

Mr. Marshall, Ms. Arndt, Mr. Gray and Mr. Kuhn left at 2:08 p.m.

The Board returned from closed session at 2:21 p.m.

RESOLUTION 12-048 By Naglick, Supported by Williams

Resolved, That the Board ratify the Administrator’s signature in the Walmart Corporation Securities Litigation Agreement.

Yeas: 6 – Nays: 0

RESOLUTION 12-049 By Naglick, Supported by Williams

Resolved, That the Board approve the Settlement Agreement in the MBIA Securities Litigation.

Yeas: 6 – Nays: 0

RESOLUTION 12-050 By Naglick, Supported by Williams

Resolved, That the Board ratify the Secretary’s signature on the Green Mountain Coffee Roasters Securities Litigation Agreement.

Yeas: 6 – Nays: 0

RESOLUTION 12-051 By Naglick, Supported by Williams

Resolved, That the Board ratified the Administrator’s signature on the Walmart securities litigation.

Yeas: 6 – Nays: 0

Service Credit Question – Graves

Ms. Zimmermann reported that at the last meeting she informed the Board that member Rodney Graves was given credit for his four months of CETA time. However, he was not eligible for his CETA service credit which resulted in an overpayment.

Ms. Billings noted that she will be sending correspondence to Mr. Graves indicating that he was overpaid \$30.00 per month.

Ms. Zimmermann confirmed that Ms. Billings will advise the member regarding the overpayment.

Wilkerson Overpayment

Ms. Zimmermann reported that Ms. Wilkerson went through her financial transactions and it was determined that she did receive the two overpayments. She has requested to reimburse the overpayment by making a \$100.00 per month payment to the System.

RESOLUTION 12-052 By Stubblefield, Supported by Long

Resolved, That the Board approves Ms. Wilkerson's repayment schedule of \$100.00 per month to the Retirement System.

Yeas: 6 – Nays: 0

Trustee Election

Ms. Zimmermann reported that the Retirement Office moved quickly to conduct the elections, however there was a problem with the Member Trustee ballot and candidate statement: one of the candidates was a beneficiary and not eligible to run. The Retirement Office will send out a notice regarding the error and will indicate that the ballot will be redone and that the information will be sent at a later date. She was just notified and received the determination that the member was ineligible yesterday.

Trustee Williams was concerned about how this would be perceived if the Board waited to send out correspondence noting the error. He indicated that he would like the correspondence sent as quickly as possible that one of the members was ineligible to run.

Trustee Long questioned the process and how the ballots are sent out.

Ms. Zimmermann explained that the ballots are sent out with the candidate statements and voting instructions. The envelope also includes a ballot envelope and a return envelope with a signature line. The member's completed ballot will be put inside the ballot envelope and then inside the return envelope which they will sign before mailing.

The return envelope signature is verified against a list of eligible members and the ballot envelope is removed from the return envelope. This preserves the privacy of the member's vote.

She indicated that the Retiree Trustee and Hospital Trustee elections are running as scheduled.

RESOLUTION 12-053 By Naglick, Supported by Waterman

Resolved, That the Board authorizes the Administrator to send out a notice to the members indicating that one of the persons on the ballot was ineligible to run and that the ballot and candidate statements will be corrected and resent to the members.

Yeas: 6 – Nays: 0

Trustee Stubblefield left at 2:40 p.m.

The Board lost its quorum at 2:40 p.m.

CONSULTANTS

Re: Gray & Company – First Quarter 2012 Performance Report

Mr. Gray provided an overview of the capital markets. He said that the sovereign debt issues in Europe, especially in Spain, Greece and Italy, have caused a lot of turmoil in the markets. There has been a dramatic decrease or hard landing in China's economic growth. They have been the leading global economy with double digit growth which has slowed to single digit or zero. This decline and the slow growth in the United States has attributed to the day to day volatility in the market.

He said that Chris Kuhn has taken control of the capital market headlines. He used a great analogy for this quarter's capital market review, "The Hunger Games."

The Fed Funds rate has technically been at zero for the past two years. It cannot stay at this rate forever. Unemployment rates need to come down and be sustained or economic growth cannot be maintained.

The U.S. equity markets reported strong performance during the first quarter with the S&P 500 at 12.58%; Russell 1000 Growth at 14.69% and Russell 2000 Growth at 13.27%. There has been a lot of volatility in the market and that performance has been given back during the past two months. The total value of the Fund was \$400.3 million as of December 31, 2011; \$431 million as of March 31, 2012 and as of May 25, 2012 is down to \$406 million based on the recent weak performance.

International equity markets were up for the period but bond prices were down. There is a lot of concern regarding long-term rates and runs on the banks in Portugal and Spain. These banks have taken on a lot of debt.

The slowdown in China has also affected their banking systems. They have a lot of money but no one knows the truth. The influx of people moving to the large cities has slowed and many of these banks own the debt on empty buildings.

Trustee Naglick said that during the MAPERS Conference they indicated that a lot of money is still being invested in fixed income. The last he checked investors should be running from fixed income.

Mr. Gray said that Bill Gross made a speculation that was very wrong. Performance for ten-year bonds has been pushed off with expected losses of 10% to 15% if rates rise from 1.6% to 3.5%.

Trustee Naglick indicated that he liked the new manager review format.

Mr. Gray indicated that they have changed the format of the report per the Board's request. The Total Plan gross performance for the quarter was 9.34% and 9.19% net of fees versus the policy index at 9.55%; the one-year performance gross of fees was 3.80% and 3.22% net of fees versus 5.07% and three-year performance gross of fees was 18.33% and 17.50% net of fees versus 19.42%. The three years numbers were strong but not good versus the policy index.

He indicated that twenty-five percent of the portfolio is allocated to fixed income. They like the diversification which has helped performance but it is not there now. There has been a large inflow of money into fixed income that they do not understand based on the long-term duration.

They are waiting for the private equity performance numbers.

Loomis Sayles continues to do a great job for the Fund.

International equity manager First Eagle should perform well and be a good match with Artio.

Fixed income manager Munder provided good relative performance. Ed Goard is still the portfolio manager for fixed income and they are comfortable with the existing group. Munder's strategy has not changed. They are looking to replace these people before the end of the year. This is a good environment for hiring highly qualified individuals.

Gray & Company recently hired a person from Bosnia. They have been receiving resumes from highly experienced and talented individuals from all over the world.

Munder is the System's core fixed income manager. They have been stress testing their client's portfolios based on a 1%, 2% and 3% rise in interest rates.

Peritus is the high yield manager for the System. High yield tracks well with the stock market.

Fixed income manager Ambassador can shorten the duration versus Munder. He questioned whether the Board would like him to speak with Munder to find out if they would like to shorten their duration. There are a lot of managers avoiding Treasury Bonds and buying more corporate bonds.

He said you still can't ignore the wild ride of the economy around the world and continuing printing of money. These global issues will push interest rates. Ten year treasuries peaked at 18% in 1981 and now they are at 1.6%. The alternative is that there is more room to lose money. This is the biggest exposure in the portfolio.

The private equity performance numbers have not come through.

He noted that their report is still carrying Onyx.

Ms. Zimmermann stated that Ms. Munson is working with Bernard at Northern Trust to change the numbers including Nexos.

Vice Chair Bowman left at 2:58 p.m.

He reviewed the five-year rolling quarterly returns which indicated that there are better returns with less risk versus the policy index. The Total Plan annualized returns are 4.46% with 15.52% variability versus the policy index at 3.71% with 16.7% variability.

Trustee Naglick acknowledged that Gray & Company has put a lot of work into the quarterly performance report.

Mr. Gray said that the Board wanted to invest in Michigan-centric and minority-owned managers.

Trustee Naglick said that there has also been an internal discussion regarding performance in large cap and whether it should be moved into an index fund.

Mr. Gray explained the tech telecom bubble and how most index funds are over-weighted to technology and telecom. Active managers are not as concentrated in that sector.

Vice Chair Bowman returned at 3:03 p.m.

UNFINISHED BUSINESS

Re: Partial Plan Termination

Ms. Zimmermann reported that legal counsel has supplied the information needed last month for the partial plan termination. She is in the process of identifying members. Once the members are identified she will send a letter to the member including an estimate of their benefit.

Re: Rent/Overhead

Ms. Zimmermann referred to the letter from the Emergency Manager regarding the rent/overhead issue.

The Emergency Manager said that as of February 1, 2012 the Retirement System became the employer. Over the years the Retirement System has reimbursed the City for their space and administrative costs. For the 2012 budget he has proposed a \$3,000.00 per month charge to the System. This is a reduction from the previous \$41,000.00 per year charge. He has asked that the Board make a decision on whether the staff is going to stay in their space or they will need to relocate by July 1, 2012.

Human Resources is moving where the Emergency Manager use to be located and DPW will be moving into their space. The Retirement Office can retain their existing space or Plante & Moran will move into the space. Engineering will move to where Federal Programs is currently located.

There was discussion that a joint meeting should be scheduled between the GERS and Police & Fire Personnel Subcommittees.

Trustee Bowman felt that \$3,000.00 per month is a considerable amount for the space. He questioned whether contractors can have the space if they are not leasing it and cannot have a City phone number.

Ms. Zimmermann stated that this not good timing for a move based on the current workload in the office.

The Board directed the Administrator to look into a month to month lease and to set up the joint meeting.

Re: Larry Balowski – Refer to Legal (Closed Session)

Re: Trustee Elections – Refer to Administrator

Re: Service Credit Question – Graves – Refer to Administrator

Re: Request for Retroactive Benefit – Cantu – Refer to Administrator

Re: Request for Retroactive Benefit – Deschere – Refer to Administrator

Re: Wilkerson Overpayment – Refer to Administrator

NEW BUSINESS

Request for Retro Pay – Benion

Ms. Zimmermann reported that member Donnie Benion was eligible to draw his pension benefit effective January, 2012. However, he did not receive notice and stated that he has been told that other individuals have actually been given the information.

Trustee Naglick recommended that this issue be referred to legal for review.

Re: Executive Orders S-203, S-204, S-205

Ms. Zimmermann referred to the Executive Orders issued by the Emergency Manager regarding the pre-65 retirees paying 20% or the equivalent hard cap toward their medical insurance premium effective July 1, 2012. The letter to the retirees has not been sent out to date.

The Emergency Manager has indicated that the Retirement Office has to setup the deductions.

Vice Chairman Bowman asked whether the Retirement System has to follow the directive of the Emergency Manager and whether the Retirement Office should send a communication out to the members.

Trustee Naglick stated that the Human Resources Department will send out a letter with an election form.

Retiree, Pam Britton asked if the deduction for medical insurance can be taken out before the pension benefit is taxed based on IRS Code.

Ms. Zimmermann stated that she does not know. Members of the Police & Fire Retirement System are able to claim \$3,000 of expenses when they file their taxes at the end of the year.

Trustee Long said that the deduction can be pre-taxed if it falls under Section 125 as a Cafeteria Plan. The document would have to be drafted as a Section 125 Cafeteria Plan.

There was discussion whether this is a pension function and if the System's legal counsel should draft the document or should it be drafted by the City. The question was also raised whether it is appropriate for the Retirement System to pay for the drafting of the document.

Trustee Long said that she is drafting the document for the active employees.

The Board directed Ms. Billings to look into the issue.

Re: Legal (Continued)

Fiduciary Liability Insurance

Ms. Billings reported that the deletion of recourse has been issued by the insurance agent as requested.

Mesirow Financial Private Equity Partnership Fund IV

Ms. Billings reported that this issue is still pending.

Estate of Martin Wilkerson – Refer to Administrator

Maniloff FOIA Request

Ms. Billings reported that she previously denied this FOIA request until the individual identifies his/herself to show they have legal standing under the Act.

Trustee Waterman questioned whether the person requesting the information has to pay a fee.

Ms. Billings stated that under the State statute the System may charge copying charges and fees based on the wages and fringes of the lowest paid employee who is able to provide the information.

Proposed Amendment to Open Meetings Act

Ms. Billings reported that there is a proposed amendment to the Open Meetings Act that members have to be present in order to be counted toward the quorum and in order to vote.

Update on Pubic Act 314

Ms. Billings reported that the changes for Public Act 314 (SB-797) would effectuate changes in trustee education, the basket clause and require a Summary Annual Report sent to members. She indicated that the bill made it through the State Senate today.

Motley Rice Portfolio Monitoring Report First Quarter 2012

Ms. Billings reported that this is for the trustees' information.

Bernsteing Litowitz Portfolio Monitoring Report First Quarter 2012

Ms. Billings reported that this is for the trustees' information.

Hospital Deferred Retiree – Bruce Deschere – Refer to Legal

SCHEDULING OF NEXT MEETING

Regular Meeting: June 27, 2012 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

The meeting adjourned at 3:22 p.m.

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on May 30, 2012

Secretary, John Naglick

As recorded by Jane Arndt