

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES REGULAR MEETING

A regular meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on Tuesday, March 20, 2007 at 1:00 p.m. in the New Committee-of-the-Whole Room, 3rd Floor, City Council Chambers, at City Hall, with the following in attendance:

TRUSTEES & ALTERNATES Daniel Hall – Chairperson, Douglas Bingaman, Peter Dobrzeniecki, Robert Erlenbeck, Ehren Gonzales, Janice Kehoe, Michelle Kirkwood, Amy Lindman, Donald Phillips, Georgia Steinhoff

ABSENT Peggy Cook, Sandra Kidd, Kerry Nelson, Robert Rosenberger, Scott Sutter, Cass Wisniewski

ALSO PRESENT Suzi Bye, Retirement Supervisor
I'Lanta Robbins, Assistant City Attorney/Attorney for Retirement Board
Ivory Day, Jr., Gray & Company
Harland Abraham, Northern Trust Company
David Hoffman, Gabriel, Roeder, Smith & Company

6. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairman Hall called the Regular Board Meeting to order at 1:07 p.m. He noted that a Special Meeting had been scheduled for 9:00 a.m., to continue the hearings concerning overpayments of pension benefits to retirees. However, the hearings were cancelled on Monday, March 19th, by request of Attorney Gregory Gibbs, who stated that he was unavailable due to illness. [Agenda Items #1-5 related to the special meeting.]

7. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

There were no members of the public in attendance who wished to address the Board.

Chairman Hall introduced Carol Carpenter, a co-worker at Hurley who wanted to attend the meeting because of her concerns regarding FERS to MERS issues.

8. APPROVAL OF THE FEBRUARY 20, 2007 SPECIAL & REGULAR BOARD MEETING MINUTES

It was moved by Amy Lindman, and supported by Georgia Steinhoff, to approve the minutes of the February 20, 2007, Special and Regular Board Meetings, as presented.

Attorney L'Lanta Robbins noted that she reviews the minutes, and makes corrections as necessary, before they are submitted to the Trustees for approval.

Upon being put to a vote, the motion carried unanimously.

9. OPTIONS PICKED BY DEFERRED RETIREMENTS *(informational only)*

Randall Disbrow/Hurley Option B \$329.51

10. UPCOMING CONFERENCES *(Placed on file in the Retirement Office)*

- 10.1 Financial Research Associates, 6th Annual Stars & Stripes, April 15-17, 2007, Las Vegas, NV.
- 10.2 Northern Trust, Institutional Client Conference 2007, April 18-20, 2007, Orlando, FL.
- 10.3 Stanford Law School, 13th Annual Directors' College, June 24-26, 2007, Stanford, CA.

A motion was made by Peter Dobrzeniecki, and supported by Amy Lindman, to receive and approve all information/documents listed under Agenda Items #10, #11, #12, and #13, and place all documents on file.

Georgia Steinhoff asked that #13.16 be separated for discussion.

Upon being put to a vote, the motion carried unanimously.

11. COMMUNICATIONS RECEIVED *(All documents have been placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' agenda packets also)*

- 11.1 Piedmont Investment Advisors, Letter from Isaac Green re: Investment Advisory Agreement Notice, February 28, 2007.

11.2 Independence Investments, Independent Thought, 1st Quarter 2007.

- 11.3 Hancock Timber Resource Group, Introduction to Investment Firm, March 1, 2007.
- 11.4 Intercontinental Real Estate Corp., Distribution of Investments, March 12, 2007.
- 11.5 O'Bryan Law Firm, Letter to Bob Erlenbeck re: Mary Jane Veit, March 1, 2007. *(Enclosed)*
- 11.6 Jeffery Hall, Letter to Retirement Board re: Disability Examination, March 5, 2007. *(Enclosed)*
- 11.7 Kathleen Robinson, Letter to Retirement Board re: Disability Retirement, February 9, 2007. *(Enclosed)*

- 12. COMMUNICATIONS SENT** *(All documents have been placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' agenda packets also)*
- 12.1 Letter to Northern Trust from Daniel Hall re: March 1, 2007 Pension transfer, February 20, 2007.
- 12.2 Letter to Northern Trust from Daniel Hall re: Fidelity Real Estate Capital Call, February 20, 2007.
- 12.3 Letter to Northern Trust from Daniel Hall re: Wire out for CB Richard Ellis, February 28, 2007.
- 12.4 Letter to Northern Trust from Daniel Hall re: Transfer from the FERS TO MERS Account, March 5, 2007.

- 13. REPORTS RECEIVED** *(All documents have been placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' agenda packets also)*
- 13.1 Fidelity Investments, Eleventh Distribution, February 14, 2007.
- 13.2 Fidelity Investments, Capital Contribution, February 16, 2007.
- 13.3 Magna Securities, Commission Recapture Report as of January 31, 2007.
- 13.4 Lynch, Jones & Ryan, Trading Summary as of December 31, 2006.
- 13.5 Lynch, Jones & Ryan, Trading Summary as of January 31, 2007.
- 13.6 Dodge & Cox, Investment Performance as of December 31, 2006.
- 13.7 Barclays Global Investors, Don't Kill the Golden Goose – DB Retirement Plans, February 2007.

- 13.8 Asset Services Company, Capital Perspectives, 1st Quarter 2007.
- 13.9 LSV Asset Management, 4th Quarter 2006 Investment Report, January 2007.
- 13.10 Brandywine Global, Quarterly Investment Review, 4th Quarter 2006.
- 13.11 Ariel Mutual Funds, The Patient Investor Quarterly Report as of December 31, 2006.
- 13.12 Peregrine Capital Management, Investment Review as of December 31, 2006.
- 13.13 Franklin Portfolio Associates, Quarterly Update as of December 31, 2006.
- 13.14 Fisher Investments, Foreign Equity as of December 31, 2006.
- 13.15 Northern Trust Reports – January 2007. (*Enclosed*)
- 13.16 Retirement Fund Employee/Employer Contributions. (*Enclosed*)

During a discussion of Report #13.16, Georgia Steinhoff questioned the expense for a conference attended by Attorney I'Lanta Robbins. The International Foundation 2007 Benefits Conference for Public Employees, held in San Diego, California, on March 5-6 was on the list approved by the Board at the February Meeting. Chairman Hall stated that both he and the Mayor approved the expenditure. Attorney Robbins stated that she saw the conference listed on the Board's February Agenda, investigated the subjects to be presented, and found that they were applicable to the public system legal issues she and Attorney Young regularly deal with as the attorneys for FERS. She further noted that she did receive a great deal of excellent information at the conference dealing with issues such as actuarial valuations, governance and nuances in the laws under ERISA, tax implications, etc., which she can disseminate to the Trustees, if desired. Discussion followed regarding conference attendance and approval issues. Chairman Hall asked the Professional Services Committee to review the Board's travel policy and make recommendations if changes should be made, especially: 1) Attendance at one out-of-state and two in-state conferences per year? 2) Eligibility of board members, alternates, attorneys, retirement supervisor, etc.?

Chairman Hall noted that the status of FERS' IRS Tax Determination Letter would be under review again in 2008.

A motion to approve Report #13.16, and place it on file, was made by Amy Lindman and supported by Ehren Gonzales.

Upon being put to a vote, the motion carried unanimously.

14. STATISTICAL REPORT OF BENEFITS (*informational only*)

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Number Retired	3,032	3,027	3,019
Annualized Payroll	\$ 64,198,389	\$ 64,850,497	\$ 65,326,689

15. APPROVAL OF THE APRIL 1, 2007 PENSION PAYROLL TRANSFER

Chairman Daniel Hall reported that a transfer of \$4,021,600 was needed for the payment of the April 1st, 2007 pension payroll, with funds to be taken from the Northern Trust Flint-Drawdown Account #26-19617. The balance in the Northern Trust drawdown account, as of March 16, 2007, was \$21,235,178.75. Chairman Hall stated that no pension assets have been transferred by the Board from the “FERS to MERS Account” into the “General Fund.” The funds set aside in the “FERS to MERS Account” were transferred into the Northern Trust drawdown account to replenish the account for payment of pension payroll. The “FERS to MERS Account” can be replenished from the Fund when needed.

A motion to approve the transfer of \$4,021,600 for payment of the April 1st, 2007 pension payroll, from the Northern Trust Flint - Drawdown Account #26-19617 to Citizens Bank, was made by Ehren Gonzales, and supported by Amy Lindman.

Upon being put to a vote, the motion carried unanimously.

16. FINANCE COMMITTEE

Chairman Hall asked the Finance Committee to meet before the April Board Meeting. The Finance Committee members are Peter Dobrzeniecki, Michelle Kirkwood, Cass Wisniewski, and Daniel Hall. Chairman Hall also asked that Peter include a staff member(s). The main agenda item is a review of Hurley Medical Center’s Employees’ and Employer’s contributions since December 2004, with a report of findings and recommendations to be made at the April Board Meeting.

17. PROFESSIONAL SERVICES COMMITTEE

Committee Chair Georgia Steinhoff reported that the Committee met on March 12th and reviewed a second group of retiree pension errors found in the ongoing audit. Some of these retirees will be requesting hearings with the Board. Discussion followed.

Ms. Steinhoff reported that the Committee also reviewed the following issues:

The Committee discussed the disability retirement policy at length, including recent approvals, rejections and pending requests. Attorney Robbins is investigating other retirement systems' disability policies and will also be contacting Attorney Ghattas regarding the Board's past practice. She has been unable to find information in the Minute Master. Chairman Hall will confer with the attorneys for MAPERS. Although some states have statutes governing disability retirement issues, Michigan does not. The Committee is planning to meet with Dr. Roth to discuss options. A meeting with Hurley to discuss working together to find positions available to persons with restrictions would be helpful. Ultimately, a new policy is needed to address the many issues and concerns. Discussion by the Board followed. Robert Erlenbeck noted that a clear delineation must be made between individuals who are already on a disability retirement, and may be coming back, and those who are currently applying; there should be distinct, separate rules applied to each situation. A written opinion is requested from the Attorney.

An updated quote was received from GRS to rewrite the current DOS-based benefit calculator to a Windows platform, as approved at last month's board meeting. GRS decreased the price from \$25,000-\$30,000 to \$23,000-\$27,000. The Committee is recommending that GRS be hired at the reduced price. Chairman Hall asked Suzi Bye to obtain an itemized estimate from GRS.

Information was reviewed regarding the two different multipliers for Hurley's exempt contributory employees. Details on this issue will be brought to the Board in the future.

Information regarding the incorrect calculation of VDO days for FAC, including substantiating evidence and recalculations as discussed at the recent hearings, was presented to the Committee for review and the Committee verified the corrections.

The Committee reviewed Daniel Coffield's pension, and whether there is a provision within the Ordinance that sets a limitation on the amount of money that can be used to calculate his FAC. The System's Attorney has been asked to determine whether that limitation applies to Mr. Coffield. The Attorney's office has forwarded that request to a retirement system expert for review. Discussion followed by the Board. Mr. Erlenbeck stated that Mr. Coffield is currently drawing his pension, but at a lower rate based on Staff's interpretation of the Ordinance. If it is determined that he should have been paid a higher pension, his pension will be corrected retroactively. This may affect other retirees.

Georgia Steinhoff reported that Bob Erlenbeck showed her a document, with her signature as the Retirement Board Supervisor, regarding a bonus payment not being used in the FAC calculation for an HMC retiree. She clarified that another document received from Hurley at the time stated that, as part of a settlement, there was a one-time bonus payment which was not to be included in their FAC. She stated her belief that the letter should have no bearing on other FAC calculations,

as it only addressed a specific payment by Hurley.

Peter Dobrzeniecki reported that he attended a meeting with Cass Wisniewski, other Hurley staff, Bob Erlenbeck and Suzi Bye, regarding documentation and information sharing with Hurley to allow the processing of pensions on an accurate and timely basis. Several issues were resolved. Bob Erlenbeck reported that the meeting was very beneficial and that Hurley will provide data back to 1993 in the format needed. This will help to ensure that City of Flint employees and HMC employees are treated identically in relation to the calculation of their pensions.

The next meeting of the Professional Services Committee is scheduled for April 11th.

18. FERS TO MERS TRANSITION

Chairman Daniel Hall asked the Attorney if a second letter had been sent to the HMC Board of Managers and, if so, whether there had been a response? Attorney Lanta Robbins stated that she sent a letter, dated February 28, 2007, reiterating the request for information that was previously sent in August 2006. To date, there has been no reply from Hurley to either letter. Copies were distributed. Discussion followed. Chairman Hall stated that the intent of the letter is to begin the process of implementing the steps required of the Board in order to facilitate the transfer to MERS. Bob Erlenbeck stated that one reason this information was requested from the Board of Managers related to a meeting with representatives from MERS, Hurley, and the City to ascertain the status of the MERS transfer. At that meeting, Hurley's legal counsel made it very clear that the only group that speaks for HMC, in regards to MERS issues, is the Hurley Board of Managers. Further, they indicated that any representations previously made by any individuals from Hurley, including those who served as members of the Board of Trustees, did not necessarily represent the interests of HMC. Chairman Hall noted that Cass Wisniewski was not present to participate in today's discussion.

19. RETIREMENT ORDINANCE REVISION COMMITTEE

Chairman Hall stated that the Ordinance change regarding the multiplier for Hurley Exempts was given its first reading on March 12th. The second reading is on March 26th.

20. INVESTMENT COMMITTEE

Chairman Hall reported that the Investment Committee has not met; however, there was a very well-presented educational session by Gray & Company on Monday, March 12th, which included money manager presentations.

21. GRAY & COMPANY

Consultant Ivory Day noted that the purpose of the March 12th money manager presentations was twofold: 1) To allow the new small cap managers, Allegiant and Keeley, to present their performance data. 2) To review the performance of Globalt, which has been underperforming. The presentations were followed by an educational session on alternative investments, conducted by Andrew Kelsen, Director of Alternative Investments for Gray & Company. Mr. Kelsen presented the various alternative investments available to pension funds and then focused specifically on private equity and real estate. Discussion followed regarding the performance of the small cap managers. Mr. Day noted that Keeley's return in the 3rd quarter was a minus 8.7% and they ranked in the 100th percentile. In the December quarter, they showed a 15.1% return and ranked in the 1st percentile. This was a very dramatic turnaround in one quarter; however, the ups and downs are very typical of small cap investments, which perform much better than large cap in the long term. The Allegiant representatives discussed their new quantitative strategy, which is performing as promised.

Mr. Day noted that Globalt has been underperforming for the past 12-18 months, although they are still in the top half of the universe of growth managers. He recommended that a closer look be taken at the allocation of the managers within the asset classes, beginning with the large and all cap managers. Mr. Day distributed a Manager Allocation/Re-Balancing Schedule to the Trustees. He recommended that the four all cap and large cap managers; i.e., Northern Trust, Globalt, Dodge & Cox, and ICON Advisers, be "optimized." In other words, he would perform a detailed analysis of these four managers, and then a decision could be made on the best allocation among them for the greatest efficiency from that asset class. Discussion followed.

Chairman Hall introduced the Actuary, David Hoffman, from Gabriel, Roeder, Smith & Company (GRS), who distributed a draft of the 61st Annual Actuarial Valuation Report for the year ended June 30, 2005. Chairman Hall asked the Trustees to review the Report in preparation for a discussion with Mr. Hoffman at the April Board Meeting. Chairman Hall also noted, for clarification, that the annual valuations are very different from the two valuations done in 2006 specifically for Hurley and the FERS to MERS transfer.

David Hoffman reviewed with the Board the 13th check calculations. Financial information was provided to GRS by the Finance Director so they could make a determination of the rate of return for calendar year 2005. Per the Retirement Ordinance, if the average return does not exceed 8%, there would be no 13th check payable for the previous calendar year. After reviewing the December 31, 2005 information, the return was found to be insufficient to issue the 13th checks in September of 2006.

22. LEGAL COUNSEL UPDATES

Attorney I'Lanta Robbins reported that the Take Two Interactive class action lawsuit is still in the discovery phase.

Attorney Robbins gave an update on the Claude Miller (26/27 pays) lawsuit: The Court of Appeals issued an opinion on February 27, 2007 affirming Judge Yuille's decision grant-ing the Defendant's Motion for Summary Disposition. Plaintiff appealed the decision and lost on the appeal. Some of the issues presented included a breach of contract claim, a constitutional rights claim and a request to amend the complaint to add new allegations. The Court of Appeals agreed with the Trial Court's opinion that a 365-day period could be included in the FAC, using two 26-pay years and a 27-pay year, consistent with past practice. The Plaintiffs' next option is to appeal to the Michigan Supreme Court. Discussion followed.

Chairman Hall noted that he is still receiving quarterly reports from Milberg Weiss, although FERS terminated its relationship with them. He asked I'Lanta Robbins and Julie Sadler to review prior correspondence and contact them again. He also noted that they were only to be paid if they were successful in recovering any funds for the System, which they had not done when they were terminated.

Attorney Robbins distributed copies of a letter from the Bank of Ireland regarding an out-standing invoice from 2004. The Board terminated the Bank of Ireland effective November 30, 2004. Since that time, they have continued to send invoices for \$42,666.81 in fees for the partial quarter (October/ November 2004). At a prior Board Meeting, Mr. Dobrzeniecki reported that during the termination process, the Bank of Ireland liquidated some of FERS' assets into cash, against written direction. This cost the Fund a considerable amount in fees. Therefore, he has recommended that this invoice not be paid. Discussion followed. Chairman Hall referred the issue to the Investment Committee for a recommendation. In the meantime, a response should be made to the Bank of Ireland.

A motion was made by Georgia Steinhoff, and supported by Amy Lindman, to send a letter to the Bank of Ireland acknowledging that FERS received their invoice, which is under review, but noting that the Fund has issues to take up with them regarding their mishandling of the liquidation.

Upon being put to a vote, the motion carried unanimously.

Georgia Steinhoff inquired about Communication #11.5, a letter from an attorney representing Mary Jane Veit, who wishes to set up a special needs trust for her pension beneficiary. Attorney Robbins will research this type of trust and report to the Committee in April. Ms.

Steinhoff also noted that correspondence was received from Jeffrey Hall (#11.6) and Kathleen Robinson (#11.7), regarding their denials of disability retirements. Mr. Erlenbeck reported that the letter from Ms. Robinson was a request for information through FOIA and his staff responded appropriately, through the legal office. Mr. Erlenbeck stated that he would respond to Mr. Hall that the disability retirement issues are currently under review and an answer will be forthcoming when they are resolved. Chairman Hall asked Suzi Bye to contact Dr. Roth about attending the next Professional Services Committee meeting to discuss disability retirement issues.

23. DB/DC CONVERSION

Bob Erlenbeck stated that there was nothing new to report at this time.

24. OTHER BOARD BUSINESS

Peter Dobrzeniecki stated that he would include year-to-date financial statements and the Fiscal Year 2008 Budget information in the next agenda packets.

The Trustees discussed scheduling hearings for pension errors. Chairman Hall noted that scheduling additional hearing dates would be discussed at the next hearing on April 17th.

25. ADJOURNED

There being no further business to discuss, it was moved by Amy Lindman, and supported by Ehren Gonzales, to adjourn the meeting at 2:36 p.m.

Upon being put to a vote, the motion carried unanimously.

Respectfully submitted,

Peter Dobrzeniecki, Secretary