

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES MEETING

COMMISSION RECAPTURE REVIEW

A meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on Tuesday, February 10, 2004 in the Committee-of-the-Whole Room, 3rd Floor, City Council Chambers, at City Hall, with the following in attendance:

TRUSTEES &
ALTERNATES Daniel Hall – Chairperson, Daniel Coffield, Peter Dobrzeniecki,
Robert Erlenbeck, Amy Lindman, Alvern Lock, Robert Rosenberger,
Georgia Steinhoff, Cass Wisniewski

ABSENT Lisa DeDolph, Darnell Earley, James Goodin, Mark Horrigan,
Janice Kehoe (out of town), Sandra Kidd (out of town),
Don Phillips (attending NCPERS), Ed Taylor (out of town)

ALSO PRESENT Habeeb Ghattas, Attorney for the Retirement Board
Christopher Brunner, Vice President, Lynch, Jones & Ryan
Christopher Harlin, Lynch, Jones & Ryan
Patricia A. Winans, CEO, Magna Securities Corporation
Ray Frolich, Vice President, Northern Trust
Mac Nickey, Vice President, Northern Trust

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairperson Daniel Hall called the meeting to order at 1:10 p.m.

2. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

There were no members of the public wishing to address the Board.

3. COMMISSION RECAPTURE REVIEW

Lynch, Jones & Ryan

Christopher Brunner, of Lynch, Jones & Ryan (LJR), made a presentation to the Board regarding LJR's commission recapture efforts on behalf of the Flint Employees Retirement System (FERS). He noted that FERS has had a commission recapture program in place for two years. He also gave an overview of commission recapture, what it is and how it works. LJR is a broker that executes trades for money managers, like any other broker. However, as a commission recapture broker, they do not provide research services. Since the commission is meant to pay for execution costs and research credit, commission recapture brokers "unbundle" the commissions, keeping the portion for execution costs and paying back to the plan the portion of the commission that would have paid for research credits. The trades given to commission recapture brokers by money managers are those trades that do not require research by the broker for best execution. He also noted that LJR is an agency-only broker, which means they never take possession of the securities; they only connect the buyers and sellers.

The recaptured commission fees are paid back to the plan on a monthly basis, either by check or electronic transfer. Currently, these fees are deposited into the FERS' cash account at Northern Trust. The fees may also be kept on account with LJR and used to pay expenses the Board incurs for purposes that directly benefit the Fund. When asked by board members if those expenses could include travel to educational seminars and conferences, Mr. Harlin responded that such expenses would be acceptable, provided the travel was of direct benefit to the Fund. Each trip would be evaluated to ensure it met the legal criteria and, if so, the expenses could be paid out of the commission recapture dollars earned by the Fund and kept on account with LJR.

Mr. Brunner noted that plan sponsors typically ask money managers to target a certain percentage of trades for their commission recapture program, an average being 30%, which is what FERS has set with their money managers. A letter was sent to the money managers by FERS, when the commission recapture program began, requesting that the managers use the three commission recapture brokers with which FERS has agreements for a target of 30% of their trading, on a best execution basis. He recommended that such letters be sent to the money managers periodically to reinforce the importance FERS places on this program and encourage participation by the money managers. LJR prefers to receive copies of any correspondence sent to the money managers regarding commission recapture so they can keep in touch with the money managers to encourage participation in the program and the use of LJR. Dan Hall noted that money managers should be contacted by letter annually and also reminded of the commission recapture program when they come before the Board for their reviews.

Mr. Brunner reported that the normal commission is \$.05 to \$.06 per share. As a commission recapture broker, they keep 50% of the commission and pay the other 50% to the Fund. LJR paid to FERS in 2002 - \$39,722, and in 2003 - \$13,344. LJR executes domestic equity, international equity and domestic fixed income trades.

Magna Securities Corporation

Patricia Winans, CEO of Magna Securities, made a presentation to the Board regarding the commission recapture efforts of Magna Securities for the past two years on behalf of FERS. The commission recapture monies paid to FERS were \$11,293.04 in 2003 (from 3 money managers) and \$17,534.58 in 2002 (from 4 money managers). The market volume was down in 2003, which may account for the decrease. Ms. Winans also gave a history of the firm and their current operation. She suggested that the Board require the money managers to submit to the Board reports of all trades made and the brokers used (where the commissions went) in order to have more knowledge of fund transactions and be able to better track commission recapture efforts by the money managers.

Northern Trust

Mac Nickey, Vice President for Northern Trust, made a presentation to the Board regarding the commission recapture program at Northern Trust. He noted that Northern uses a broker network and then prepays the commissions back to the plan before the brokers pay Northern. FERS received \$11,429 in 2002 and \$29,801 in 2003 from commission recapture efforts by Northern Trust.

Dan Hall noted that these presentations were very helpful. However, he has some concerns that will be taken to the Investment Committee at their next meeting. He also noted that a day-long educational session for the Board is under consideration.

The Board recessed for a break at 3:05 p.m.
Alvern Locke left the meeting at 3:05 p.m.
The Board reconvened the meeting at 3:12 p.m.

4. OTHER BOARD BUSINESS

Dan Coffield requested that the following Investment Committee Recommendations be placed on the Agenda for next Tuesday's Board Meeting:

- a) Fixed Income Manager Awards
- b) Recommendations on Watch List and Termination

Dan Coffield reported that the 2004 annual membership invoice was received from the Council of Institutional Investors, with a potential cost to FERS of \$6,000 to \$8,000. He sent an e-mail to the Council stating that FERS could not afford the dues this year and would not be renewing their membership. The Council responded with a waiver of the membership fee for 2004, allowing FERS to remain a member at no cost.

Amy Lindman asked that “Wallace Jones Update” be placed on the Agenda for next Tuesday’s Board Meeting.

Dan Coffield noted that the Community Foundation of Greater Flint met yesterday and narrowed their consultant search to four firms. He has information for the Professional Services Committee regarding the Foundation’s search, including copies of their RFP responses. Dan Hall noted that he would like to review that information. Dan Hall also noted that he will include copies of the responses for the consultant search in the Board packets after the closing date of 2/26. The ad was published in *Pensions & Investments* newspaper on 1/26/04.

Dan Hall noted that he wants the reason for the consultant search noted, for the record, as he has received inquiries from industry reporters for an interview in order to do a story on FERS: The Board is performing our due diligence. There has been no contract with a consultant since 1999. We’re checking out the industry and performing our fiduciary responsibility to look into consulting and whether we’re getting “the best of the best.” No other comments (negative) should be made concerning Callan. Ken Brunke at Callan is aware of the search and his company is considering whether or not they want to be included.

5. ADJOURNED

A motion was made by Amy Lindman, supported by Dan Coffield, to adjourn at 3:18 p.m.

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

Respectfully submitted,

Peter Dobrzeniecki, Secretary