

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES REGULAR MEETING

A meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on Tuesday, February 17, 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, Darnell Earley, Robert Erlenbeck, James Goodin, Mark Horrigan, Janice Kehoe, Sandra Kidd, Amy Lindman, Alvern Lock, Donald Phillips, Robert Rosenberger, Georgia Steinhoff, Edward Taylor

ABSENT Lisa DeDolph, Cass Wisniewski

ALSO PRESENT Habeeb Ghattas, Attorney for the Retirement Board
Jeffrey Welch, Attorney for the Retirement Board
Larry Langer, Actuarial Consultant, Gabriel, Roeder, Smith & Co.

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairperson Daniel Hall called the meeting to order at 1:04 p.m.

2. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

Eric Mays, 125 East Russell, Flint, addressed the Board regarding his concerns with the Pension Reform Task Force recommendations and the Board decisions on this Agenda.

Mark White, 1180 North Linden Road, Flint Township (City Retiree), addressed the Board regarding his concerns with the Pension Reform Task Force recommendations and the Board decisions on this Agenda.

A. C. Dumas, 533 East Rankin Street, Flint, addressed the Board regarding his concerns with the Pension Reform Task Force recommendations and the Board decisions on this Agenda.

MOTION – A motion was made by Georgia Steinhoff, supported by Robert Rosenberger, to move Agenda Item #19, *Resolution to Adopt the Action Recommended by the Pension Reform Task Force*, forward to become the next item on the Agenda.

Discussion followed.

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

19. RESOLUTION TO ADOPT THE ACTION RECOMMENDED BY THE PENSION REFORM TASK FORCE

Larry Langer, Actuary for the Retirement Board from the firm of Gabriel, Roeder, Smith & Company, was introduced by Chairman Daniel Hall.

Motion made by Georgia Steinhoff, supported by Robert Rosenberger, that the Retirement Board adopt four (4) of the five (5) recommendations of the Pension Reform Task Force:

- 1) Use of the 2001 Valuation for Fiscal Year beginning July 1, 2003 (FY04)
- 2) Use of the 2002 Valuation for Fiscal Year beginning July 1, 2004 (FY05)
- 3) Extend the Amortization Period to Thirty (30) Years
- 4) This Motion specifically excludes Item #4 - The recommendation to cap the annual change in employer contributions to a 5% increase and a 2-1/2% decrease.
- 5) Use of the June 30, 2004 Valuation for Fiscal Year beginning July 1, 2005 (FY06)

The Chair called for discussion of this motion, suggesting that each item be addressed individually, and noted that Larry Langer is present to answer any questions from the Board regarding these recommendations.

During the discussion, the following points were noted:

- Amortization to 25 years is preferred by some Board Members.
- The current amortization period is 17 years.
- Under Governmental Accounting Standards Board regulations, the maximum amortization period for extending unfunded liability is 30 years.
- The issue of the amortization period may be revisited at any time in the future.
- The actuarial valuation for the year ended December 31, 2003 is needed as soon as possible by the Board.

Habeeb Ghattas noted that, under the law, an annual actuarial valuation is required and the Board is obligated to review these matters annually. Whenever concerns are raised, the Board may wish to consider the System's experience and make recommendations for changes, consistent with their fiduciary responsibilities.

Daniel Coffield stated that a percentage increase cap on contributions is necessary for Hurley Medical Center's budgeting requirements and to prevent HMC from being "blindsided" by a huge, unexpected increase in contributions in any given year. He will be working on this issue with the Actuary over the next month and will bring a proposal to the Board for a higher cap at the next Board Meeting.

After further discussion, the Chair called for a roll call vote on the motion. A request was made that the items be voted on separately.

Amended Motion made by Georgia Steinhoff, supported by Robert Rosenberger, that the Retirement Board adopt four (4) of the five (5) recommendations of the Pension Reform Task Force, voting on each item separately:

- 1) Use of the 2001 Valuation for Fiscal Year beginning July 1, 2003 (FY04)
- 2) Use of the 2002 Valuation for Fiscal Year beginning July 1, 2004 (FY05)
- 3) Extend the Amortization Period to Thirty (30) Years
- 4) This Motion specifically excludes Item #4 - The recommendation to cap the annual change in employer contributions to a 5% increase and a 2-1/2% decrease.
- 5) Use of the June 30, 2004 Valuation for Fiscal Year beginning July 1, 2005 (FY06)

Upon being put to a vote, Item #1, Use of the 2001 Valuation for Fiscal Year beginning July 1, 2003 (FY04), carried unanimously:

| | | |
|------------|--------------------------|--------------------------|
| Roll Call: | Daniel Coffield – Yes | Amy Lindman – Yes |
| | Janice Kehoe – Yes | Robert Rosenberger – Yes |
| | Georgia Steinhoff – Yes | Ed Taylor – Yes |
| | Peter Dobrzeniecki – Yes | Darnell Earley – Yes |
| | Daniel Hall - Yes | |

Upon being put to a vote, Item #2, Use of the 2002 Valuation for Fiscal Year beginning July 1, 2004 (FY05), carried unanimously:

| | | |
|------------|--------------------------|--------------------------|
| Roll Call: | Daniel Coffield – Yes | Amy Lindman – Yes |
| | Janice Kehoe – Yes | Robert Rosenberger – Yes |
| | Georgia Steinhoff – Yes | Ed Taylor – Yes |
| | Peter Dobrzeniecki – Yes | Darnell Earley – Yes |
| | Daniel Hall - Yes | |

Upon being put to a vote, Item #3, Extending the Amortization Period to Thirty (30) Years, carried with a vote of 7 to 2:

| | | |
|------------|--------------------------|--------------------------|
| Roll Call: | Daniel Coffield – Yes | Amy Lindman – No |
| | Janice Kehoe – Yes | Robert Rosenberger – Yes |
| | Georgia Steinhoff – Yes | Ed Taylor – No |
| | Peter Dobrzeniecki – Yes | Darnell Earley – Yes |
| | Daniel Hall - Yes | |

[Item #4, the recommendation to cap the annual change in employer contributions to a 5% increase and a 2½% decrease, is excluded from the motion and from the vote.]

Upon being put to a vote, Item #5, Use of the June 30, 2004 Valuation for Fiscal Year beginning July 1, 2005 (FY06), carried unanimously:

| | | |
|------------|--------------------------|--------------------------|
| Roll Call: | Daniel Coffield – Yes | Amy Lindman – Yes |
| | Janice Kehoe – Yes | Robert Rosenberger – Yes |
| | Georgia Steinhoff – Yes | Ed Taylor – Yes |
| | Peter Dobrzeniecki – Yes | Darnell Earley – Yes |
| | Daniel Hall - Yes | |

Chairman Daniel Hall noted that the Board of Trustees and the City Administration need to work together on issues of information sharing, timeliness, etc. in order to avoid future problems of this nature. This is part of the fiduciary responsibility of all and benefits everyone involved in the Retirement System.

Peter Dobrzeniecki asked that the Board recognize and extend their appreciation to Larry Langer for his extra efforts over the past few months in working with the Board and the Task Force, making recommendations and offering assistance.

Chairman Daniel Hall requested an official resolution from the Secretary of the System, for signatures, reflecting the four recommendations that were passed.

3. APPROVAL OF THE JANUARY 20, 2004 MONEY MANAGER/REGULAR BOARD MEETING MINUTES

It was moved by Georgia Steinhoff, and supported by Daniel Coffield, to approve the minutes of the January 20, 2004, Board of Trustees Regular Meeting.

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

4. APPROVAL OF THE FEBRUARY 10, 2004 COMMISSION RECAPTURE REVIEW MINUTES

It was moved by Robert Rosenberger, and supported by Georgia Steinhoff, to approve the minutes of the February 10, 2004, Board of Trustees Meeting held for the purpose of a Commission Recapture Review, with one correction as noted.

Chairman Daniel Hall noted that Ray Froehlich's name was misspelled on page 8790:

Original Entry: Ray Frolich, Vice President, Northern Trust

Corrected Entry: Ray Froehlich, Vice President, Northern Trust

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

5. APPLICATIONS FOR VOLUNTARY RETIREMENT

Steven Anderson
DPW/1600

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 35,929.60 |
| Accumulated Contributions: | 32,393.40 |
| DRET: | 25.38 |
| Effective Date of Retirement | 12/27/2003 |
| Service: 32 Years, 10 Months | |

The retiree elected the Option A in the amount of \$2,333.70.

Jack Perkins
DPW/1600

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 45,440.30 |
| Accumulated Contributions: | 43,053.49 |
| DRET: | 28.39 |
| Effective Date of Retirement | 12/27/2003 |
| Service: 25 Years, 0 Months | |

The retiree elected the Option B w/pop-up in the amount of \$2,134.61.

Robert Erlenbeck requested that Item #5 be tabled pending further review. Chairman Daniel Hall tabled these items.

6. APPROVAL OF PENSIONS PREVIOUSLY REPORTED

Daugherty Johnson/City

Revised Years of Service 20 years/11 months

Includes 1 year, 11 months redeposit per settlement agreement

Motion by Georgia Steinhoff, supported by Amy Lindman, that the Board adopt the recommendation of Legal Counsel dated February 10, 2004 (reference Communication #8.25 from Habeeb Ghattas) to approve the revision of Daugherty Johnson, Jr.'s credited service to include an additional 1 year and 11 months, as required by Section 35-35(d) of the Retirement Ordinance, subject to proof of payment of the required redeposit amount.

It was noted that Mr. Johnson has paid the required redeposit amount.

Donald Phillips requested that the Board's attorney emphasize, for the record, that settlement agreement letters have no bearing on the Board of Trustees.

Habeeb Ghattas stated that his recommendation to the Board was that, under the Public Employee Relations Act (PERA), the Board should not be involved in any grievance processes. He did receive a copy of a "grievance settlement" between the parties in this situation. However, his concern (the specifics are referenced in his memo) was the fact that the collective bargaining agreement does not speak to the issue in question and, essentially, the parties agreed that it was not a question under the terms of the collective bargaining agreement. His advice to the Board, based upon his understanding of the law, is that the Board is only subject to a grievance settlement when it relates to a provision of the collective bargaining agreement. To the extent that the parties themselves agreed that this so-called grievance resolution was not arbitrable, and that it was not a matter addressed in the collective bargaining agreement, to call it a "grievance settlement," in his opinion, usurps the authority of the Board of Trustees to construe and interpret and make effective the provisions of the Retirement Plan. Therefore, the so-called "settlement agreement" is not binding on the Board of Trustees since it is not, in his opinion, in compliance with PERA. It was his advice to the Board that, should the Board be inclined, it could pursue litigation and resolution of this matter. At this time, his recommendation to the Board is to avoid litigation and adopt the recommendation being submitted. However, in no event should this be construed or should it be considered that the Board of Trustees is acquiescing or adopting the so-called "grievance settlement" with regard to Mr. Johnson. The Board of Trustees, consistent with its responsibilities and authority, is administering the retirement plan. His recommendation to the Board is that Mr. Johnson would be entitled to purchase the additional years of service credit. The additional caveat is that the System must receive proof that Mr. Johnson paid for that time in accordance with the provisions of the Ordinance.

Chairman Daniel Hall requested documentation in the next agenda packet confirming that this redeposit has been made by Mr. Johnson.

Upon being put to a vote, the motion passed with a vote of 8 to 1.

7. UPCOMING CONFERENCES

- 7.1 Investment Training & Consulting Institute, Auditor Training Spring Seminar Series, March 29-30, 2004 Lake Tahoe, CA. (On file in Retirement)
- 7.2 NYU Stern, 10th Annual Mid-Sized Pension Management Conference, April 27-30, 2004, Boston, MA. (On file in Retirement)
- 7.3 International Foundation, Opportunities and Risks: Strategies for the Future, April 28-30, 2004, Tucson, AZ. (On file in Retirement)
- 7.4 Information Management Network, 9th Annual Public Funds Summit, March 14-17, 2004, Phoenix, AZ. (On file in Retirement)
- 7.5 Information Management Network, Transition Management Symposium, March 15-16, 2004, Phoenix, AZ. (On file in Retirement)
- 7.6 Council of Institutional Investors, Spring Meeting 2004, March 24-26, 2004, Washington, DC. (On file in Retirement)

It was moved by Ed Taylor, and supported by Amy Lindman, to add the stated conferences to the list of authorized conferences.

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

8. COMMUNICATIONS RECEIVED

- 8.1 International Foundation, Employee Benefits Digest, January 2004. (On file in Retirement)
- 8.2 International Foundation, 50th Anniversary Information Booklet, January 2004. (On file in Retirement)
- 8.3 Bank of New York, Soft Dollar Update, December 8, 2003. (On file in Retirement)

- 8.4 David Babson & Co., The Babson Staff Letter, January 9, 2004. (On file in Retirement)
- 8.5 David Babson & Co., The Babson Staff Letter, January 23, 2004. (On file in Retirement)
- 8.6 Piedmont Investment Advisors, Thank you letter, January 23, 2004. (On file in Retirement)
- 8.7 Investor Responsibility Research Center, Global Security Risk Monitor, January 2004. (On file in Retirement)
- 8.8 Callan Associates, San Francisco Office is Moving, January 2004. (On file in Retirement)
- 8.9 Callan Associates, Year in Review Letter, January 15, 2004. (On file in Retirement)
- 8.10 Gabriel, Roeder, Smith, News Scan, January, 2004. (On file in Retirement)
- 8.11 Pacific America Securities, Commission Recapture Brokerage, December 29, 2003. (On file in Retirement)
- 8.12 Bank of Ireland, Client Update, 4th Qtr., 2003. (On file in Retirement)
- 8.13 Bank of Ireland, Invitation to Dinner in Chicago, March 19, 2004. (On file in Retirement)
- 8.14 Bank of Ireland, Invitation to Dinner in New Orleans, February 18, 2004. (On file in Retirement)
- 8.15 Notice to City of Flint Employees' Retirement System from Direction Bruxelles I Societes, re: Contributions Directes, January 14, 2004. (On file in Retirement)
- 8.16 Oppenheimer Capital, Note to Lisa DeDolph re: Consultant Search, February 11, 2004. (On file in Retirement)
- 8.17 RCM, Letter to Lisa DeDolph re: Performance for 2003, 4th Qtr. 2003. (On file in Retirement)
- 8.18 Callan Associates, Memo to Callan Clients re: P&I Article: SEC Targeting Pension Fund Consulting Firms, January 13, 2004. (Enclosed)
- 8.19 Bank One, Letter to Daniel Hall re: Thank you letter, January 26, 2004. (Enclosed)
- 8.20 ICON Advisers, Letter to Lisa DeDolph re: Name change, February 6, 2004. (Enclosed)

- 8.21 Fidelity Investments, Letter to Daniel Hall re: Capital Contributions, January 20, 2004. (Enclosed)
- 8.22 City of Flint Employees' Retirement System, Letter to Paul Marx re: Disability Exam, February 4, 2004. (Enclosed)
- 8.23 City of Flint Employees' Retirement System, Letter to Phillip Snyder re: Disability Exam, February 4, 2004. (Enclosed)
- 8.24 City of Flint Employees' Retirement System, Letter to Jill Higgerson re: Disability Exam, February 4, 2004. (Enclosed)
- 8.25 Habeeb Ghattas, Memo to the Board of Trustees re: Daugherty Johnson, February 10, 2004. (Enclosed)
- 8.26 Habeeb Ghattas, Letter to Atty. Brian Lavan re: Larry Mallard Lawsuit, February 2, 2004. (Enclosed)
- 8.27 Habeeb Ghattas, Letter to Wallace Jones re: Temporary Restraining Order/Withholding Pension Payments, February 5, 2004. (Enclosed)

It was moved by Amy Lindman, and supported by Robert Rosenberger, to receive the communications on file.

Discussion followed. Regarding #8.21, Letter to Daniel Hall from Fidelity Investments: this is an acknowledgement of a transaction informing the Board that a drawdown has been made, per the requirements of the Board for these transactions.

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

9. REPORTS RECEIVED

- 9.1 State Street Global Advisors, Appraisal Report as of January 2004. (On file in Retirement)
- 9.2 Lynch, Jones & Ryan, Trading Summary as of December 31, 2003. (On file in Retirement)
- 9.3 Magna Securities, Commission Recapture Report as of December 31, 2003. (On file in Retirement)

- Retirement)
- 9.4 Sims Global Investors, 2003 Year End Results & Comments. January 7, 2004 (On file in Retirement)
 - 9.5 Bank of Ireland, Statement of Holding as of December 31, 2003. (On file in Retirement)
 - 9.6 Bank of Ireland, Statement of Holding as of January 31, 2004. (On file in Retirement)
 - 9.7 Bank of Ireland, Quarterly Report for period ending December 31, 2003. (On file in Retirement)
 - 9.8 Skyline Asset Management, Small Cap Value as of December 31, 2003. (On file in Retirement)
 - 9.9 Meridian Investment Management, Portfolio Update as of December 31, 2003. (On file in Retirement)
 - 9.10 LSV Asset Management, LSV 4th Qtr. Update, January 2004 (On file in Retirement)
 - 9.11 Merganser Capital Management, Investment Memorandum 4th Qtr. 2003. (On file in Retirement)
 - 9.12 Fidelity Investments, Monthly Investment Update as of December 31, 2003. (On file in Retirement)
 - 9.13 Fidelity Investments, Monthly Investment Update as of January 31, 2004. (On file in Retirement)
 - 9.14 RCM, Portfolio Report as of December 31, 2003. (On file in Retirement)
 - 9.15 RCM, Portfolio Report for quarter ending December 31, 2003. (On file in Retirement)
 - 9.16 Intercontinental Real Estate, Notice of Capital Call, January 30, 2004. (On file in Retirement)
 - 9.17 GLOBALT Investments, Equity Strategies, 4th Qtr. 2003. (On file in Retirement)
 - 9.18 State Street Global Advisors, Account Summary as of December 31, 2003. (On file in Retirement)
 - 9.19 Northern Trust Reports – December 2003 (Enclosed)

9.20 Retirement Fund Employee/Employer Contributions (Enclosed)

It was moved by Amy Lindman, and supported by Georgia Steinhoff, to receive the reports on file.

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

10. STATISTICAL REPORT OF BENEFITS

| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|--------------------------------|---------------|---------------|---------------|
| Number Retired | 2,889 | 2,964 | 2,983 |
| Annualized Payroll | \$ 54,816,669 | \$ 58,416,621 | \$ 62,242,511 |
| 13 th Check | \$ 3,756,982 | -0- | -0- |
| Charter 13 th Check | \$ 71,320 | -0- | -0- |

No action is necessary by the Board.

11. APPROVAL OF THE MARCH 1, 2004 PENSION PAYROLL TRANSFER

Robert Erlenbeck presented the request for a transfer to cover the March 1, 2004, pension payroll, noting that the request provides additional information, as requested by the Board at last month's meeting. As of today, the Citizens Bank account balance is \$1,579,000. Therefore, the requested contribution amount has been lowered to \$4,200,000, which allows funds to remain at a sufficient level to cover outstanding checks. He will continue to monitor the accounts, investigate the trends, and present further information at next month's meeting.

It was moved by Amy Lindman, and supported by Robert Rosenberger, to transfer \$4,200,000 from State Street Global Advisors to Citizens Bank for payment of the March 1, 2004 pension payroll.

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

Georgia Steinhoff asked Peter Dobrzeniecki if he had the information requested in January regarding the “Walk Across Sheet” (Report #9.20); specifically, the overdraft charge and the \$80,000 credit. Peter responded that he would have the information available shortly and will put it in the next agenda packet. He would also be happy to meet on this issue to review the information in detail.

12. AUDIT COMMITTEE REPORT

Chairman Daniel Hall reported that there has been no meeting of the Audit Committee since the last Board Meeting; however, a meeting will be scheduled prior to the next Board Meeting, with recommendations to be made to the Board.

13. DB/DC COMMITTEE REPORT

Chairman Daniel Hall reported that there has been no meeting of this Committee since the last Board Meeting. The Committee was comprised of Al Locke, Robert Rosenberger, Jan Kehoe, Georgia Steinhoff, and Lisa DeDolph. Chairman Daniel Hall appointed Peter Dobrzeniecki to replace Lisa DeDolph on this Committee and he appointed Robert Rosenberger to be the Chair of the DB/DC Committee.

14. DUE DILIGENCE COMMITTEE REPORT

Sandra Kidd, Co-Chair of the Due Diligence Committee, reported that no meeting had been held since the last Regular Board Meeting.

15. PROFESSIONAL SERVICES COMMITTEE REPORT

Georgia Steinhoff reported that the Professional Services Committee met on February 9 and discussed the three disability re-evaluations - Snyder, Marx and Higginson - noting that their re-examination dates will be sometime in March.

Also discussed was the RFP deadline of February 26. The next meeting of the Committee is scheduled for March 1 in order to begin developing the questions to send in response to the RFPs received. Daniel Coffield has provided some information from another search to assist in this process.

The Social Security Equating Option was discussed. Ms. Steinhoff distributed a copy of the Retirement Ordinance language change drafted by former City Attorney Michael Joliat, with the assistance of one of the City's Actuaries, Sandra Rodwan. This proposed ordinance language was written about ten years ago, but was never adopted. The Committee is requesting that this issue be on the March agenda.

Chairman Daniel Hall requested that the Board review this ordinance before the next meeting, since this is an important issue that needs to be addressed and resolved.

16. INVESTMENT COMMITTEE REPORT

- Fixed Income Manager awards
- Recommendations on Watch List and Terminations

Daniel Coffield distributed the minutes of the Investment Committee meeting held on February 6. He reviewed the overall Fund performance for the 4th calendar quarter. The markets were up and the Fund did very well, growing to \$773,000,000, a return of \$57,000,000, or 8%, in one quarter. The assumed rate of return for a year is 7-3/4%.

Mr. Coffield distributed and reviewed the performance scorecard, which shows how all of the money managers performed compared to their benchmarks. As a result of their performance, and after discussion with Ken Brunke, the Committee recommends termination of the Retirement System's relationship with Dresdner RCM.

Motion to terminate the Retirement System's relationship with Dresdner RCM made by Daniel Coffield, supported by Amy Lindman.

Discussion followed.

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

Daniel Coffield reported that the performance of the international equity manager, Bank of Ireland, has also been below benchmark. Upon advice from Ken Brunke, at Callan Associates, the Committee is proposing putting the Bank of Ireland on the watch list.

Motion to place the Bank of Ireland on the watch list was made by Daniel Coffield, and supported by Amy Lindman, with the Board sending a letter to the Bank of Ireland advising them of their status with the Retirement System.

Discussion followed. Chairman Daniel Hall noted that the Bank of Ireland should be invited to give a 1st Quarter report to the Board. The next money manager review meeting is scheduled for April 13. The Board should evaluate them more closely at that time.

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

Daniel Coffield then addressed the issue of rebalancing of funds back to the targeted asset allocation, noting there is currently too much money invested in stocks and too little money invested in bonds.

Motion to move \$6,000,000 from Dresdner RCM to the Russell 1000 Growth Index Fund at State Street and the balance of \$30,000,000 from Dresdner RCM to be used for fixed income investments, made by Daniel Coffield, supported by Amy Lindman.

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

Daniel Coffield addressed the issue of fixed income investments. Based on the presentations in February, the Committee is making recommendations for fixed income investments with Bank One Investment Advisors, Dodge & Cox and Wells Fargo, along with Piedmont as an emerging manager.

Motion to award \$50,000,000 each to Bank One, Dodge & Cox and Wells Fargo, with \$10,000,000 to Piedmont, a total of \$160,000,000, which includes \$30,000,000 coming from Dresdner RCM and \$43,000,000 coming from Wentworth Hauser (who will go from \$127,000,000 down to \$84,000,000), with the remainder of the \$160,000,000 coming from the bond index fund, made by Daniel Coffield, seconded by Amy Lindman.

Discussion followed. This motion allows for the fixed income investments and further rebalancing of the Retirement Fund.

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

Chairman Daniel Hall noted that the next step, after notification of allocations, will be negotiation of contracts and fees, with the assistance of Attorney Habeeb Ghattas. Also, in accordance with the policy, due diligence recommendations are needed from the Committee.

Motion, as is past practice of this Board and the Industry with new money managers, that the Board negotiate contracts and negotiate fees, subject to satisfactory due diligence reports, made by Daniel Coffield, supported by Amy Lindman.

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

Chairman Daniel Hall noted that the next Investment Committee meeting is scheduled for March 12, with Committee Members Daniel Hall, Peter Dobrzeniecki, Amy Lindman, and Dan Coffield.

17. TRAVEL POLICY

Chairman Daniel Hall led a discussion of Board travel issues, noting that a listing of unreimbursed travel expenses for the Board has been provided in the agenda packets. The listing gives all information known by the office regarding trips taken and not reimbursed. It also notes that some receipts are missing. Board Members were asked to work with Julie Sadler to ensure all paperwork is in order so that Peter Dobrzeniecki can request payment for these trips from Ed Kurtz, Emergency Financial Manager. Also, there is an ongoing discussion of Board travel regarding due diligence visits with Ed Kurtz. Mr. Kurtz has said he is willing to approve travel for some educational conferences. The Industry is also evaluating their travel policy for education and due diligence. Here in the Flint community, the GISD is re-evaluating their travel policies and reimbursement levels. The Board of Trustees should also re-evaluate their travel policy regarding the number of educational trips allowed, costs, etc. The Investment Committee should review the Board's Investment Policy, along with the Travel Policy, in order to determine how best to conduct due diligence.

Sandra Kidd requested a listing of the most recent due diligence visits and the length of time since some of the money managers have been visited. A list of visits that are still needed should be made and taken to Mr. Kurtz for approval.

Daniel Coffield noted that, given the situation with the City of Flint, the Board needs to work with the City to minimize expenses as much as possible; for example, not sending so many trustees to the same conferences. However, it is through education that the Trustees learn about issues that can generate major income for the Fund. Without educational trips, Trustees would be neglecting their responsibilities in an industry that is changing very rapidly. Also, Callan has prepared a list of questions to use during due diligence visits. The Board should not invest millions of dollars with a money manager without doing their due diligence, just as other Boards do. This is the Board's long-standing practice, and Callan Associates has stated that other Boards do the same.

18. LEGAL COUNSEL UPDATES
- Wallace Jones

Habeeb Ghattas stated that Wallace Jones is a former firefighter and current retiree. As part of a divorce proceeding, his pension benefit with FERS was to have been allocated pursuant to an EDRO. However, Mr. Jones retired prior to the signing of the EDRO with FERS. Under the law, the EDRO is not valid in that instance. Habeeb informed both attorneys of that fact. Since that time, Mrs. Jones has attempted to obtain the benefit through new counsel, seeking an order to obtain some portion of Mr. Jones' pension benefit. During this process, the judge assigned to the case, Judge Thomas Gadola, passed away. Since then, there have been a number of judges assigned to hear this case. The Retirement Board became involved when, in the course of discussions with the attorneys, Habeeb indicated that although an EDRO was not available to the parties, based upon the language of the EDRO legislation, he agreed with the attorneys that under the Pension Benefit Protection Act, a specific order allocating a particular percentage to each of the parties, per a court order sent to the Retirement System, would be honored by the Board of Trustees. However, a Receiver was appointed by one of the judges involved and the Receiver sought to have an order entered to compel the Retirement System to pay 100% of Mr. Jones' pension benefit to the Receiver, rather than to either party, for later determination as to how it was to be divided between the parties. Habeeb indicated to the Receiver that, in his opinion, such an order was in violation of the law and he recommended that they rework the order and send a copy to him in order to avoid another court hearing. Instead, the Receiver filed an ex parte temporary restraining order directing the Retirement System to make no payments pending further hearing of the Court. Habeeb believes the original order, and the ex parte order, are in violation of the law and he filed a motion on behalf of the Board of Trustees to have the temporary restraining order dissolved. They appeared in court on this matter, but the judge declined the Board's motion, indicating that he believed the parties were attempting to resolve their differences, and that he was not inclined to change the status quo. Also, the judge wanted the payments made to the Receiver, subject to a further report and recommendations by the Receiver to the Court. Habeeb reported to the Board at the last meeting the results of that hearing. The current question is whether or not the Board is inclined to appeal the decision. This is a question of significant public policy; specifically, a provision in the Ordinance known as the Anti-Alienation Provision, that prohibits pension benefits from being restrained or garnished or otherwise subject to court orders, with certain exceptions. Among these exceptions are the EDRO, child support orders, and the like. In Habeeb's opinion, this particular order did not fall within the stated exceptions; however, the Court disagrees. From a public policy perspective, does the Board wish to appeal the Judge's position? Although this one case is not necessarily binding in terms of other issues, and since the Court ordered a hearing on the issue quickly, it does not seem to be cost effective to appeal the matter at this time. There has recently been a proposed order submitted under what is known under court

rules as the “Seven-Day Rule,” which provides that one of the parties submits an order and circulates copies and all parties have an obligation to raise their objections within seven days. Habib received a copy of the proposed objections by Mr. Jones’ attorney, Carol Jaworski. This is the current status of the matter.

Mr. Jones is present and has expressed his concerns to Board Members regarding the fact that he is receiving no income. Amy Lindman asked if there was any legal way for the Board to give Mr. Jones some of his pay, since the Receiver is taking 100% of his pay and giving him nothing, leaving him no money even to appeal this situation. Peter Dobrzeniecki noted that, if a judge gives the City an order, as the Finance Director, he feels bound to follow that order.

Habib Ghattas stated that David Newblatt was recently appointed to serve the remainder of Judge Gadola’s term. The Board has no place, or responsibility, to get involved in the specifics of this case. However, there is a significant public policy concern regarding compliance with a particular court order that, as the consulting attorney to the Board, he does not feel is in compliance with the Law. The Board can appeal to the Court of Appeals or, since there is now a permanent judge in that seat, seek to have the matter reconsidered (for which Habib could prepare a motion for reconsideration), or wait until the parties have the next hearing, which is scheduled for March 16. At this hearing, the Receiver is to submit recommendations regarding the allocation of the pension benefit. Presumably at that Hearing, or sometime thereafter, an order would be entered that would hopefully comply with the Law. The current order directs the Retirement System to pay 100% of Mr. Jones’ benefit to the Receiver which, in Habib’s opinion, does not comply with the law. If the Judge, under the authority of the Pension Benefit Protection Act, issues a ruling allocating the pension benefit between the parties, the System would be obligated to honor that order. The current concern/issue is the order of 100% being paid to the Receiver. It is hoped that the parties can come to an understanding and the Court would generate an order that the System can accept as being in compliance with the law. His recommendation is that it might be best to wait and see how the Judge rules on March 16 before taking action; however, he can file a motion for reconsideration, if the Board desires.

Discussion followed.

Mr. Jones addressed the Board, noting that a court-appointed receiver has ruled that Mrs. Jones is to receive 37% of his pension; however, the receiver also directed that Mrs. Jones should get 100% of his pension for the next ten years in order to make up for the time during which she received no portion of his pension.

Chairman Daniel Hall stated that, since the next Board Meeting is scheduled for March 23, and there is a court order with the System, he feels the matter should be tabled at least until a further ruling by a judge. The consensus of the Board is that nothing further should be done at this time. Once a ruling is made, a decision can be made by the Board on whether or not further action is warranted.

- Mallard v City & Board

Habeeb Ghattas noted that the Agenda Packet includes a letter to Mr. Mallard's attorney, Mr. Lavan (#8.26), with a proposed stipulation of order for dismissal, which has been signed and will be filed with the Court. He believes that the matter is now concluded, as far as the Board and the City are concerned.

- Board v. Kurtz

Habeeb Ghattas stated that there has not yet been a court decision regarding the Board's motion for a preliminary injunction. He is prepared to file a motion with the Court by the end of this week requesting a decision from the Judge. A letter was sent on December 15, 2003, by Steven Spender (Special Counsel for the Board), reminding the Court that a ruling had not been issued or received; however, there has been no response. Habeeb recommends that, if no decision is rendered by the next Board Meeting, this should be an agenda item for possible further action.

19. RESOLUTION TO ADOPT THE ACTION RECOMMENDED BY THE PENSION REFORM TASK FORCE

This item was considered earlier in the meeting.

20. OTHER BOARD BUSINESS

Chairman Daniel Hall noted that a letter is needed for the transfer of the pension payroll.

Chairman Daniel Hall read to the Board a letter of thanks from C. B. Richard Ellis, along with a crystal commemorative plaque, for investing \$6,000,000 in a \$500,000,000 real estate acquisition. This letter will be placed on file and a copy will be included in the next agenda packet.

Robert Erlenbeck will investigate a reference in a newspaper article that referred to a retiree whose pension was miscalculated and report to the Board the status of the correction of this retiree's pension. Amy Lindman will provide the retiree's name to him.

Chairman Daniel Hall noted that the 2002 valuation rates will now go into effect on July 1, 2004 (FY05). However, research is needed to find out if the Board had previously adopted any rates for that period. He noted that the Board still needs, before July 1, to adopt the valuation rates for 2002.

Robert Erlenbeck reported that the review of the calculations for buying time is continuing. There were 123 people who purchased time and about 75% have been reviewed to date. He is working with Larry Langer also to discuss the process and calculations. The Finance Department is assisting his staff and they are holding meetings to set up procedures in preparation for resuming retiring employees once again.

Chairman Daniel Hall stated that future pension calculations should be reviewed by a Committee for accuracy prior to being presented to the Board of Trustees for approval.

Darnell Earley noted that the investigation and evaluation process includes the following:

- 1) Re-certifying all calculations that have been made.
- 2) At this point, there is an interim operation in place involving the personnel of the Insurance, Risk & Benefits and the Finance Departments. They are working together to ensure that people will be able to retire through the System in a timely manner.
- 3) Administration and staff members are reviewing and evaluating all processes within the Retirement System. This had not been done for several years and it is now evident that there were no adequate checks and balances in place that would have allowed management to catch the very serious problems that have been found. A major problem that was discovered was that there wasn't enough disclosure about what was happening, giving the Administration no way to catch the problems until they came to light when a Finance Department review raised questions. They are trying to maintain the integrity of the System, while devising a plan for the future that ensures these problems don't happen again. All involved personnel are working together to determine the issues, problems and solutions.
- 4) A determination will be made at a later date, based on a thorough evaluation and assessment of the System, of the long-term needs for operating the System. Once it is determined what processes and procedures should be implemented to best run the System, proper staffing of that operation can be decided.

In response to questions from Trustees, Robert Erlenbeck reported that the investigation reviewing the calculations has not yet been completed; therefore, it would be inappropriate to discuss the mistakes, or the number of mistakes, that have been found. Upon completion of the investigation, the information will be reported to the Board.

Donald Phillips requested the funding ratio of the System, once the new numbers are available from Larry Langer.

21. ADJOURNED

There being no further business, a motion was made by Edward Taylor, supported by Robert Rosenberger, to adjourn at 3:15 p.m.

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

Respectfully submitted,

Peter Dobrzeniecki, Secretary