

CITY OF FLINT EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES MONEY MANAGER REVIEW MEETING

A meeting of the Board of Trustees of the City of Flint Employees Retirement System was held on Tuesday, November 9, 2004, at 1:00 p.m., 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, Robert Erlenbeck, Sandra Kidd, Donald Phillips, Robert Rosenberger, Georgia Steinhoff, Ed Taylor, Cass Wisniewski

ABSENT Peggy Cook, Peter Dobrzeniecki, Jim Goodin, Mark Horrigan, Jan Kehoe, Amy Lindman, Al Lock

ALSO PRESENT Habeeb Ghattas, Attorney for the Retirement Board
Larry Langer, Gabriel, Roeder, Smith & Company (Actuaries)
Kenneth Brunke, Callan Associates
William H. Roach, Jr., Globalt Investments
Gary E. Fullam, Globalt Investments
Craig T. Callahan, ICON Advisers, Inc.
Joseph Solaka, ICON Advisers, Inc.
Harland Abraham II, Northern Trust Global Investments
Curtis L. Spears, Northern Trust Global Investments
Mary K. Guy, State Street Global Advisors
Vincent Thornton, State Street Global Advisors
Heather McGoldrick, State Street Global Advisors
Geoffrey R. Lemieux, Wellington Management
Paul A. Fawcett, Wentworth, Hauser & Violich

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairman Daniel Hall called the meeting to order at 1:08 p.m.

2. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

No members of the public wished to address the Board.

3. CALLAN ASSOCIATES OVERVIEW

Kenneth Brunke presented the Callan Associates Investment Measurement Service Quarterly Review for the City of Flint Employees' Retirement System for the quarter ended September 30, 2004, giving an overview of fund performance, with special focus on the companies that will be making presentations at this meeting. Mr. Brunke recommended that a new asset allocation study be conducted.

A question and answer session and discussion followed by the Board.

Globalt Investments

William H. Roach, Jr., President, and Gary E. Fullam, CFA, CIO, of Globalt Investments, reviewed the FERS investments and presented the performance report for Globalt for the 3rd Quarter ended September 30, 2004.

A question and answer session and discussion followed by the Board.

ICON Advisers, Inc. (formerly Meridian Investment Management)

Craig T. Callahan, President/CIO, and Joseph Solaka, Marketing Services Representative, of ICON Advisers, Inc., reviewed the FERS investments and presented the performance report for ICON for the 3rd Quarter ended September 30, 2004.

A question and answer session and discussion followed by the Board.

The Board recessed for a break at 2:37 p.m.

The Board reconvened the meeting at 2:47 p.m.

Northern Trust Global Investments

Harland Abraham, Vice President, and Curtis L. Spears, Investment Relationship Manager, for Northern Trust Global Investments, reviewed the FERS investments and presented the performance report for Northern Trust for the 3rd Quarter ended September 30, 2004. They noted that Northern plans to give clients their reports via CDs and on-line access, rather than issuing the reports on paper. An update on personnel changes at Northern Trust was also given.

A question and answer session and discussion followed by the Board. When asked if the fee structure at Northern Trust was negotiable, Mr. Spears responded that it was. Chairman Daniel Hall noted that the Investment Committee may be working with Northern to recommend investing the \$1,500,000 currently in the cash account and reallocate \$419,000 currently in a fixed income fund (formerly the drawdown fund).

State Street Global Advisors (SSGA)

Mary K. Guy, Primary Client Service Officer, Vincent Thornton, and Heather McGoldrick reviewed the FERS investments and presented the SSGA performance report for the 3rd Quarter ended September 30, 2004. Ms. Guy reviewed SSGA's fee structure with the Trustees also.

A question and answer session and discussion followed by the Board. When asked if SSGA's fee structure was negotiable, Ms. Guy responded in the affirmative. Chairman Daniel Hall and Daniel Coffield, Investment Committee Chair, noted that the Investment Committee will be reviewing and evaluating the asset allocation and fee structure.

Wellington Management

Geoffrey R. Lemieux, Vice President of Wellington Management, reviewed the FERS investments and presented Wellington's performance report for the 3rd quarter.

A question and answer session and discussion followed by the Board.

Wentworth, Hauser & Violich

Paul A. Fawcett, Vice President of Wentworth, Hauser & Violich, reviewed the FERS investments and presented their performance report for the 3rd quarter.

A question and answer session and discussion followed by the Board.

4. MERS UPDATE

Larry Langer, of Gabriel, Roeder, Smith & Company, was present to respond to the Board's questions regarding the need for a second actuary to review the calculations and methodology for the pending Hurley Medical Center employees' pension transfer to MERS. Mr. Langer reiterated his statement from his 9/13/04 letter indicating that GRS recommends a second actuarial review of their calculations and answered questions.

Discussion followed by the Board. Chairman Daniel Hall stated that MERS requires certified service credit information from HMC when the transfer happens. The Board agreed to continue the search for a second actuary to replace Rodwan & Nichols. Chairman Daniel Hall asked Dan Coffield to write a letter requesting quotes from other actuarial firms.

In further discussion, the Board Members noted that there has been a great deal of pressure from Hurley employee groups to speed up the transfer process. However, there are many steps that must be taken to legally effect the transfer. The process should have been researched and evaluated before the change was negotiated. Ed Taylor noted that the City Council is considering opening a one-time window to give all Hurley employees and retirees the option of moving to MERS and then all new hires would be in FERS.

Don Phillips reported that he met with Larry Langer, on behalf of the URGE members, regarding the method used for the 13th check calculations. The calculations, showing there would be no 13th check this year, were done in accordance with past practice. Mr. Phillips asked Mr. Langer to attend an URGE Executive Board Meeting (at URGE's expense) to explain the process.

Don Phillips distributed copies of a letter of request to the City Administration asking for the methodology that was developed in 1985 or 1986 by Sandra Rodwan for calculating and distributing 13th checks for retirees.

5. NEW MANAGERS UPDATE/LEGAL

Chairman Daniel Hall stated that a letter is being drafted to go to City Council, with the signed Dodge & Cox equity contract attached, to request approval of their fees, per Judge Yuille's ruling.

Habeeb Ghattas updated the Board regarding the status of money management contracts. He noted that he requests a copy of each manager's contract, then reviews the draft and adds the language necessary to comply with the Board's policies and Public Act 314.

Dodge & Cox-Fixed Income/Bond Portfolio (\$40,000,000): Tom Duggan, at Dodge & Cox, has indicated to Mr. Ghattas that the minimum for a separately managed account is \$75,000,000; however, in light of their relationship with FERS, they would accept \$60,000,000 minimum. An investment less than \$60,000,000 must be invested in a comingled account. Information was received yesterday from Dodge & Cox regarding the comingled account, but he has not yet had an opportunity to review it. He will report further at the next meeting.

Wells Capital-Fixed Income (\$40,000,000): When contacted about the contract, Wells indicated that they were unaware of the Board's decision to invest with them and they requested a letter from the Board indicating its interest in hiring their firm.

Once a letter is received, they will send contract information for review. It is his understanding from Daniel Hall that no letters of notification have been prepared. On October 19, the manager notified Mr. Ghattas that a \$40,000,000 investment must be managed through a comingled account; it is not an investment of sufficient size for a separately managed account with their firm.

Lee Munder-Fixed Income (\$10,000,000): Munder sent a draft contract to Mr. Ghattas, who reviewed the draft, made a number of suggested revisions, and returned it to them. He is now working with Munder on the attached exhibits. Other than Exhibit B, which addresses the issue of fees, the exhibits require little modification. The major contractual issues to be resolved are whether or not Michigan law, or another state's law, prevails and issues regarding fiduciary liability insurance, and anti-terrorism and the Patriot Act legislation. He is expecting a response to his revisions soon.

Piedmont-Fixed Income (\$10,000,000): After receiving their proposed contract, Mr. Ghattas made revisions and returned the contract. On November 1st he received an exhibit regarding the investment guidelines under which the manager would operate. Those guidelines have been forwarded to Daniel Hall and Dan Coffield for review by the Investment Committee and Callan Associates. From a legal standpoint, he did not see any significant concerns or issues with the proposed guidelines.

Bank One-Fixed Income (\$40,000,000): Bank One had taken the position that they were not going to send a contract draft until FERS had Investment Guidelines established or adopted. After informing them that the FERS Investment Guidelines are currently in draft form, and not yet adopted, they finally agreed to send a contract. After making a number of revisions to the contract, it is being returned to Bank One tomorrow.

Chairman Daniel Hall stated that he and Dan Coffield will work on drafting a letter to each of the fixed income investment managers indicating that the Board has approved those allocations. These contracts will be listed as agenda items until finalized.

Discussion followed. If responses to the letters indicate that the Board-approved allocation amounts are unacceptable for the fund intended, the Board can then decide whether to invest with the manager in a different fund or invest with a different manager. Habeeb Ghattas noted that two of the managers have already indicated that a separate fund is not an option with the current allocation. The Board may not wish to send a confirmation letter unless the Board is willing to agree to a comingled account.

6. OTHER BOARD BUSINESS

Chairman Daniel Hall noted that the Trustees now have mail trays in the Retirement Office and can pick up their mail at anytime during business hours. If the mail is not picked up, it will be included in the agenda packets.

Chairman Daniel Hall led a discussion of the Board's concerns regarding their inability to receive financial and expenditure information from the City for the Retirement System. Don Phillips and Sandy Kidd have sent a formal request for information to the Mayor and City Administrator Peggy Cook. Since the Board is responsible for oversight of these funds, the information is necessary in order to meet their fiduciary responsibilities. Attorney Habeeb Ghattas stated that the Board is entitled to the information. In addition, the State Treasurer had recommended the information be given to the Board. Mr. Ghattas also stated that a FOIA request should not be necessary. Chairman Daniel Hall noted that the Mayor has said the Board is irresponsible if they don't know what they are spending; however, the Board cannot know without the proper financial information.

Chairman Daniel Hall reported that the Information Management Network is willing to pay registration, flight, and hotel costs to four different conferences for any trustees who wish to attend. The only cost to the trustee would be the per diem/food costs.

A motion was made by Georgia Steinhoff, and supported by Sandra Kidd, to approve attendance for Daniel Hall and Don Phillips at the NCPERS Legislative Workshop in Washington, D.C., in February, notwithstanding the travel policy.

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

Attorney Habeeb Ghattas reported that the Michigan Court of Appeals has scheduled an oral argument on January 18, 2005, in the case in which the Board has been seeking declaratory relief regarding its authority to hire independent counsel. The underlying issue in that case is whether or not State law pre-empts the Ordinance.

7. ADJOURNMENT

There being no further business to discuss, it was moved by Georgia Steinhoff, and supported by Sandra Kidd, to adjourn the meeting at 5:35 p.m.

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

Respectfully Submitted,

Peter Dobrzeniecki
Secretary