CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 23, 2011

A special meeting of the Board of Trustees was held on Tuesday, August 23, 2011 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:12 a.m.

TRUSTEES PRESENT
Shirley Barnett
Koné Bowman
Charlie Harrison, Chairman
John Naglick
Tuesday Redmond
Patrice Waterman

TRUSTEES ABSENT
Mayor, Leon Jukowski *(absent)*
Devin Scott *(excused)*
Kevin Williams *(excused)*

OTHERS PRESENT
Cynthia Billings, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Talmadge Gunn, Ambassador Capital
Gregory Prost, Ambassador Capital
Brian Holland, Artio Global Investors
Rebecca Kubick, Artio Global Investors
Keri Hepburn, Invesco
Phil Shaw, Invesco
Michael Barrett, Mesirow Financial
Tracey Savage, Mesirow Financial
Andrea Leistra, Munder Capital
Edward Goard, Munder Capital
Justo Frias, Nexos Capital Partners
Joseph Vadapalas, Nexos Capital Partners
David Desmond, Peritus Asset Mgmt.
Timothy Gramatovich, Peritus Asset Mgmt.
Linda Watson, Retiree

Gray & Company – Second Quarter 2011 Performance Review
Mr. Kuhn provided an overview of the capital markets for the period. He said that there have been a number of major macroeconomic challenges including the sovereign debt issue in Europe and the financial problems in Greece, Ireland, Italy, Portugal and Spain. The fear of a default or restructuring of debt in these countries influenced the market in early July.

The Fed has put the Fed Fund Rate on hold for the next couple of years. He believes that the rate is penciled in for two more years. The yield came down a little in Treasuries which caused a flight to the equity market.

In April the equities market was on the rise but gave back performance in May and June with performance in the 1% to 2% range. Energy and financials were the biggest losers. Energy stocks declined due to the lower oil prices.

Yields were down and spreads widened in the fixed income market. Performance in fixed income was in the 2% range. Spreads widened which saw more corporate bonds traded in the last two months.

Performance was down in the international equity markets which saw a lot of red ink for the period. Germany was the top performer with their economy growing while the rest of Europe struggles. Government debt is still an issue in Portugal, Spain, Italy, Ireland and Greece and there is no way for them to finance this debt based on their current tax structure.

Chairman Harrison asked if they could apply a stimulus solution.

Mr. Kuhn said that there is no way for them to put additional currency to work. They cannot print Euros like the U.S. Treasury prints dollars. In Germany they have a higher Euro rate than they have in southern Europe. They are all tied to the same currency. The bailout of these countries is falling on the backs of the German taxpayers.

Trustee Bowman asked if Germany would get the benefits of any resources in Greece, Italy or Australia based on their loans to these countries.

Mr. Kuhn said that there is no way for this to happen in the bond world. He told the Board that U.S. investors are benefiting from the weakened dollar. The Suisse Franc is a very strong currency.

The total Plan performance came in just under 1% at .90% for the quarter. Year-to-date performance was 6.27% versus the policy index at 5.64%; one-year performance was 25.15% versus 24.71% and three-year performance was 6.82% versus 5.66%. Long-term Plan performance did not meet the actuarial target.

The market saw a flight to equity. Fixed income performance was around 2% for the period.

Sawgrass has been struggling for performance but they were up 3% for the quarter versus the benchmark at 0.76%. This could be the start of a turnaround.

Gray emerging manager large cap performance was 0.52% versus the benchmark at 0.09%. However, the Gray Michigan large cap value performance was down -0.94% versus the benchmark at -0.51% for the period.

Mid cap growth manager Munder had gains inline with the benchmark at 1.63% versus 1.61% for the quarter.

Mid cap value manager Systematic outgained the benchmark -0.19% versus -0.68% for the period.

Loomis Sayles did a good job at -0.94% versus the index at -2.65%.

Kennedy Capital outperformed the benchmark at 0.61% versus -1.61% for the quarter.

Artio underperformed the benchmark for the quarter at 0.06% versus 1.56%. Their performance struggled because they do not have a big financial play in their portfolio. They stay away from the big banks in Europe because they feel they are not solvent. Their portfolio will be protected when the banks run into significant problems have to write off all that debt.

He told the Board that $15 million was taken from the equity managers except for large cap value to raise cash for benefit payments and expenses for the next six months.

Fixed income performance was in line with the benchmark for the period.

Private equity performance numbers were not available. Their performance numbers are accessible forty-five to sixty days after the end of the quarter.

This has been an incredible painful time for the equity markets down approximately 15%. The Total Plan value dropped 20% from $440 million at the end of the quarter to $380 million as of August 19, 2011. The underperformance is on the backs of the equity market.

Chairman Harrison asked if the funding value has suffered based on the shape of the Fund's equity positions.

Mr. Kuhn said that the Fund has time to make up the performance. The markets are unpredictable and performance could be up 30% by the end of the year.

Trustee Naglick asked about the fixed income allocation.

Mr. Kuhn said that the portfolio is a little overweight to fixed income. That is due to the money that was taken from the equity managers before the market downturn.

Trustee Naglick confirmed that it takes approximately $30 million per year to make the annual benefit payments.

Mr. Kuhn distributed the manager summary to the Board. He said the summary is intended to assist the trustees on the managers' strategies. This also helps to eliminate the managers from presenting their investment strategies during their presentations.

Meeting Break at 9:34 a.m.
Trustee Redmond arrived at 9:34 a.m.
Trustee Naglick left at 9:34 a.m.
Meeting Resumed at 9:43 a.m.

<u>Economic Overview/Markets Roundtable</u>

Chairman Harrison welcomed the managers and began the introductions.

He indicated that the Board has used the roundtable format the past three to four years. It is the Board's perspective that this format works well. He stated that Mr. Kuhn would act as the moderator during the roundtable session.

Mr. Kuhn said that the roundtable format offers the opportunity to hear differing opinions from the managers. He encouraged them to speak their minds and stated that there is no wrong answer.

He pointed out that the equity markets was much safer during the winter but is now a chaotic market. He asked the managers if this is the second recession or just a soft patch in the market.

Gregory Prost from Ambassador Capital said that the models they used for the past twenty to thirty years are wrong. Historically, the models would indicate that the economy is out of the recession but this is different from those in the past. The debt problem has created an over hang on the economy. He doesn't believe the economy ever came out of the recession. Based on GDP growth there are no signs of an economic recovery. The market reaction has not been normal.

Chairman Harrison commented that the Fed made the statement that they will hold rates until mid 2013. He asked if the managers feel that the Fed will see this through or change their strategy and what they think about the strategy.

Tim Gramatovich from Peritus Asset Management said that he feels the Fed is making a desperate lob to the market. Rates will stay low for a long time and questioned whether the U.S. is becoming Japan. The Treasury has moved the debt from the private sector to the public sector. He feels there will be an adjustment in the next six months versus two years. There is a huge amount of floating rate debt and the stock world is in a conundrum.

The bond world has not experienced the same problems and they did not see a complete meltdown in high yield. Companies have refinanced. This is a different situation from 2008. There is no need for stimulus because they do not need capital. This is going to be a long deleveraging cycle.

He questioned how the equity markets are going to generate rates of returns. With no economic growth what are the multiples in the equity market. He questioned why the price to earnings ratio is at thirteen and not seven to nine. Where are the rates of returns coming from? He does not believe they will see defaults like in 2008. How are companies going to generate dividends? He doubts that the interest rate environment will change form sometime.

Edward Goard from Munder Capital said that the last recession in 2008 was not an industrial led recession it was a financial led recession. The balance sheets have been reset and the price of real estate has come down. He agreed that debt has been transferred from the private sector to the public sector. Corporate balance sheets

The GDP is unsustainable but this is not doom and gloom. However, there will not be a lot of opportunities the next five to ten years. They have shied away from treasuries because of their current negative rate of return.

Chairman Harrison asked that terms like QE3 be explained.

Mr. Kuhn explained QE3 or Quantitative Easing 3. He said that this is when the Fed is an active buyer of fixed income securities which causes the federal balance sheet to quadruple. When the bonds mature the money is put back into the market. Quantitative Easing 1 was not successful and has not spurred or raised the economy. The Fed is getting back less than one dollar for every dollar spent. Normally they would get two dollars for every dollar spent.

Chairman Harrison also indicated that corporations are not using their money to spur the economy. He asked what can be done in the private sector to pick up the economy. Company earnings reports are great but the market and their stocks still go down. What now?

Mr. Kuhn said that unemployment is a bigger part of the problem. If more people were working there would be more money to help spur the economy but companies are not hiring.

Phil Shaw from Invesco said that venture capital and buyouts have not linked into the global side. The global economy is made up of export driven demand. The demand in Europe is weak. Unemployment in Spain is 20% compared to 9% in the United States. Venture capital is unpredictable. Historically, some of the greatest inventions, software and hardware have been developed after a recession based on consumer demand. This could help employment in certain sectors. The government needs to stimulate job growth.

Mr. Kuhn stated that in the short-term the stimulus did not work.

Mr. Shaw said that the stimulus did not work because it was run inefficiently but there is need for additional stimulus.

Michael Barrett from Mesirow Financial said that he agrees that there are a lot of new investments on the venture side. The venture side was once a large employer and put a lot of money into small businesses. However there has not been the same allocation of capital since the tech bubble. Capital efficiency models in venture capital have changed. They are not throwing money into projects and spending has leveled off during the past couple of years.

He also indicated that there are not as many IPO's because it is difficult to raise capital in the public market so the window is closing. There are a number of qualified companies that can go public but they are on the shelf due to the market volatility. On the buyout side, activity was beginning to build but the uncertainty in the credit market caused it to sub side based on multiples and purchase price.

Jose Frias from Nexos Capital Partners said that economic stability is important. In the short-term the economy needs a kick in the pants. All the ups and downs in the market are creating a negative effect. It may or may not work but two to three months of stability could get companies to invest. The Hispanic market was hurt worse than most. In 2007, 25% of the workers in the construction industry were Hispanic. Today, 12% to 13% employed are Hispanic.

Trustee Barnett left at 10:11 a.m.

He stated that they invest in Hispanic supermarket chains that carry Hispanic-specific products. They are the largest growing group in the United States. He explained that inflation is not a bad thing in the supermarket business because they can pass on the costs to the consumer. He does not believe there will be a fast turn around.

Mr. Kuhn questioned whether the S&P downgrade of U.S. debt was due to the uncertainty in the government and whether it will stir a rally in fixed income.

Mr. Goard said that when QE2 happened and the Fed stepped in and bought bonds rates went up when they should have went down and at the end of QE2 they should have went up instead they went down. He attributed this to many factors including the low GDP growth during the first half of the year and the sovereign debt issues in Europe. The downgrade is not the sole reason the market crashed. It will take awhile for things to change and there will be no immediate impact.

He said that institutional investors use a combination of ratings services including Moody's. He stated that a Deficit Reduction Committee will not put the guidelines in place to make the necessary cuts.

Mr. Shaw said that he does not believe the committee would have the needed votes.

Mr. Goard said that he has no faith in politicians.

Mr. Kuhn asked Mr. Holland the affect of the European community pushing Portugal, Ireland, Italy, Greece and Spain along.

Mr. Holland said that this is not a 2008 scenario. There are packets of growth in the emerging markets. There are some structural improvements needed in the developing markets that have not been addressed. The accumulation of debt is an issue but there is no solution for Europe until their hand is forced. The people in Germany loathe paying the debt for the Club Med countries in southern Europe. The United Kingdom and Asian markets have caused a microcosm with Germany being the major beneficiary of the growth in Europe. The Merkel government and the European Union need to address the significant under capitalization of the banks. The capitalization of the U.S. Banks was more positive.

Trustee Barnett returned at 10:20 a.m.

There are concerns regarding the injection of capital into the financial sector. He said that this will not be a v-shaped recovery it will be a long-term recovery. The fiscal steps that need to be made will impede growth. The Central Bank needs to stimulate the economy with low rates. A 1% reduction in the deficit will have an impact.

Mr. Prost said that the bond market gets things right. The bond market does not believe the Fed. They feel growth will be much slower. QE1 and QE2 did not work or maybe it did work and things were in much worst shape.

Chairman Harrison asked the managers where the economy would be without the stimulus.

Mr. Holland said that the stimulus kept the country on life support. The equity markets are tied to the uncertainty coming from Washington. Nothing has been done to give people confidence and there does not seem to be a leader in Washington. The markets tend to respond more to events.

Mr. Goard said that the stimulus prevented the economy from going into a depression. A lot of people believe that the Fed has some sort of silver bullet. The debt debate just reminded people of the huge amount of debt and how they have lost confidence in the government. The Japanese spent trillions of dollars on their infrastructure but it did not help. It is time for this country to work through the problems.

Mr. Kuhn said that the past stimulus money was put into pick and shovel projects. He questioned whether the money should be put into government work programs as indicated by Mr. Prost of if the country should just take its medicine.

Mr. Prost said that the government needs to put the money directly where it is needed.

Mr. Holland said that putting money into infrastructure projects will not work. It would be better spent to relieve debt burdens at the homeowner level. A good plan is needed or this country will become Japan with a 200% debt to GDP ratio. However, the debt situation is different because the Japanese citizens own their country's debt.

Mr. Gramatovich said that we should let the markets and the vulture community work. The U.S. banking system has healed. Currently banks are borrowing at 0% and buying treasuries at 3% to 4%. Let the markets work. Prices need to come back to norms. We are back to the days when you need 20% down to buy a home and going back to the rational approach. Banks are selling assets. The clearing process will take time.

The auto industry was leasing vehicles at 0% and they over built. Now they are not replacing stuff as it is coming off the market. Things are getting back into equilibrium. It will take time to delever the process. Society has always been about now, now, now. If you cannot afford it you should not buy it. We are looking at sub par growth due to how we have borrowed ahead for a decade.

Mr. Prost does not agree with the concept of letting the markets work. In 2008 without the original stimulus what would have happened. There would have been massive bank failures and Toyota would have bought General Motors.

Mr. Gramatovich asked how the government can fix deflation.

Joseph Vadapalas from Nexos said that the affects have been devastating. During the last year net worth in the Hispanic community has went from $12,000.00 to $6,000.00 and in the African American community it has went from $12,000.00 to $5,000.00. There has been a 65% downturn in household worth. We need to bring household wealth back up. The market cannot take care of itself. Using stimulus or not using stimulus are both wrong. We need to address the social issues not just look at the market.

Meeting Break at 10:48 a.m.
Meeting Resumed at 10:58 a.m.

Munder Capital Management – Core Fixed Income
Ed Goard, CFA – Chief Investment Officer
Andrea Leistra, Investment Manager

Ms. Leistra said that they recently purchased Integrity Asset Management. The acquisition was made to round out their investment offerings.

The fixed income team remains the same. Ed Goard is the CIO of fixed income.

She told the Board that they value their relationship.

Mr. Goard said that during the second quarter and recently there has been a flight to quality. The spreads are not up with treasury yields. This was due to the issues relating to the debt ceiling, European debt concerns and the debt concerns in Japan.

They have taken a defensive position in the portfolio with credits as the place to be since treasuries have negative yields. They are flush with cash, overweight to corporate bonds with A to B ratings and underweight to treasuries.

He reviewed their performance. During the quarter they trailed the benchmark by 9 basis points. Their one-year trailing returns were 50 basis points ahead of the benchmark. Their three-year annualized returns were up beating the benchmark by 35 basis points.

He described their sector weightings indicating an underweight to treasuries and agencies compared to the benchmark. They are overweight to financials primarily in property and car insurance companies. They are also overweight to asset backed securities with a focus in credit card and auto receivables. They are structured well enough to withstand the downturn. He indicated that there has been an increase in the amount of credit protection for bondholders with lower credit borrowers not being allowed to invest in that sector. Their allocation to CMBS is in the vintage 2005 and earlier with low delinquency and default rates.

Their average coupon is 5.36% versus the benchmark at 4.19%. The average life is 7.5 years inline with the benchmark at 7.4 years. Yield to maturity is 3.24% versus the index at 2.84%. Quality is Aa3/AA- versus AA1/AA2 which is slightly lower than the benchmark. The effective duration is 4.7 years versus 4.5 years. It was 6.3 years but they shortened the duration relative to the benchmark.

Chairman Harrison asked about their quality ratings. Mr. Goard said that they have picked up additional yield but the low rating is primarily due to their underweight to treasuries.

Chairman asked about the affect of inflation on the portfolio.

Mr. Goard said that the inflation rate is at 1½% to 2%. Anything inside of ten years is getting negative returns.

Mr. Kuhn asked if they have looked at Treasury Inflation-Protected Securities (TIPS).

Mr. Goard said that they have kept an eye on the models but they have not seen any strong inflation signals.

Chairman Harrison asked that the term TIPS be explained.

Mr. Goard said that TIPS have a lower coupon rate as and the inflation rate increases the government increases the coupon based on the CPI inflation rate.

Chairman Harrison asked if they prefer regular treasuries over TIPS.

Mr. Goard said that TIPS do not protect against interest rate increases. He does not feel that inflation is a concern in the near term.

Ambassador Capital Management – Intermediate Core Fixed Income
Talmadge Gunn, Sr. Vice President & Sr. Portfolio Manager
Gregory Prost, CFA – Chief Investment Officer

Mr. Gunn told the Board that they are the Fund's Intermediate Core Fixed Income Manager. They are shorter in average maturity and more defensive.

They have just over $1 billion in assets under management which is twice the size they were when they received the Fund's mandate one year ago and recently added new mandates. They are exclusively a fixed income manager. Their intermediate core product has a maturity range of zero to ten years and is comprised of government bonds, corporates and mortgages.

He reviewed the portfolio strategy. He told the Board that currently investors are not being compensated for owning treasuries. They are overweight to corporate bonds, utilities and industrials. They do not own financials or any business that can go out of business in one day. He used Lehman Brothers as an example.

They are invested in regulated industrials and utilities. The S&P assessed the default rate with regard to utilities and found them to be more defensive in maturity and structure. They are underweight to treasuries and agency bonds and overweight to utilities and industrials. Their quality distribution is underweight to AAA. He indicated that the S&P is 80% weighted to AAA and generally structured securities.

He assessed their performance as of June 30, 2011. Their performance gross of fees was 3.37% versus the benchmark at 3.42% and net of fees 3.21% versus 3.42%. He said that they are happy with their performance averaging 3%.

Their strategy to enhance the portfolio involves focusing on the yield curve. He explained risk based on the yield curve. He said that managing the difference between short and long-term rates is not sustainable. If the short-term rate is held low the long-term rate may move closer and if so the portfolio will perform very well and overtime will provide the same amount of yield. You can normalize the risk when you buy short to intermediate duration bonds. Their approach is to take no risk and less default risk and to take the stable path to be a steady and more consistent manager.

Peritus Asset Management
Timothy Gramatovich, CFA – Chief Investment Officer
David Desmond, Chief Operations Officer

Mr. Gramatovich told the Board that things are going well. Their performance is good and they are beating the equity index except the NASDAQ.

They are not being paid to take credit risk. They are finding that default risk is subdued and not because of the bond package. Their yields are in excess of 9% outperforming treasuries by 850 basis points and which is double the historical norms. He added that they achieved this performance and have never seen 0% interest rates. High yield is a good, misunderstood asset class. The downgrade of the U.S. bond market is absolutely meaningless. The bond market is the only market that remains large and liquid enough to accommodate the risk-off trade. He said that credit is either AAA or D.

Their performance is down a bit this time of year but it generates more buying in their asset class and capital continues to come in. Things are looking good. Their risk and reward levels are at attractive levels. He indicated that they have a launched the only actively traded ETF product that individuals can purchase Peritus's HYLD.

Chairman Harrison said that he spoke with Larry regarding this product.

Mr. Kuhn asked what sectors they are steering clear of.

Mr. Gramatovich said that when they break down risk they look at the type of business, the lending practice and how high in the structure. They are steering clear of deep cyclicals.

With energy prices slightly down they will look into themes. It is too early and dangerous to go into healthcare. They require more clarity regarding Medicare and Medicaid reimbursements.

There has been a 40% decline in the prices of oil but gasoline prices are staying the same. The hard floor for oil is around $80 per barrel but it won't stay there. The industry has convinced the market that the marginal cost for a barrel of oil is $80. They will not invest in anything that is deeply cyclical. They look for an effective maturity of 3 to 3.2 years. They do not have any strong takes on interest rates. It is a quirky world now and you could see significant sell offs in this type of market. They look for a more permanent investment structure.

Dave Desmond said that they are staying away from financials and gaming.

Trustee Barnett asked about investments in the pharmaceutical industry due to the shortage of cancer drugs.

Mr. Gramatovich said that he was not aware of this issue and has no opinion.

Artio Global Investors – International Equity
Brian Holland, First Vice President - Portfolio Manager
Rebecca Kubick, Relationship Manager Institutional Investments

Ms. Kubick told the Board that Mr. Holland has been managing the portfolio for the past four years. Their firm currently has $50 billion in assets under management with 80% allocated to international equity. They recently added two new strategies credit and emerging.

They have added some new members to the Artio global team including one senior portfolio manager Stephen Lew who has sixteen years of expertise in the Asian emerging market with an international and global perspective. They also added three new generalists to the team.

Mr. Holland reviewed their recent underperformance. Year-to-date they underperformed the benchmark at 2.06% versus 4.98%. He told the Board that the global markets have been very volatile especially in Europe. Due to the sovereign debt issues in Europe they have 0% exposure to continental banks in their portfolio which has hurt their performance. Financials have been historically relative to their portfolio performance with heir active share similar to the benchmark at 80% but is now 20%.

There are challenges in the developed world with sub par growth versus the 1970's. This could persist for the next several years to a decade.

Currently, their emerging market exposure is 35%. They are underweight to Japan and split between companies that are more domestically and globally oriented. They have a negative view of Japan and are significantly underweight.

They are not invested in domestic developed companies in Europe. They look for companies with good balance sheets like Seimens, Louis Vuitton, L'Occitane and Prada and other luxury companies that are listed in Hong Kong with 50% to 55% of their revenues coming from emerging market consumers.

Based on their regional positioning there could be a wholesale sell off of European assets. They recently swapped to United Kingdom shares versus Australian shares in Rio and BHP which are large mining companies.

Chairman Harrison confirmed that Artio had asked the Board to approve their emerging market exposure to 35%. He questioned what would have happened if their exposure had not been increased and whether that increase has given Artio the ability to gain performance.

Mr. Holland said that the best risk adjusted returns come from emerging markets based on job creation and credit exposure. Their credit exposure to Brazil brought down their inflation and interest rate exposure trading at 4 times book due to their expansion of credit.

They look at the moderate emerging markets and are more domestically focused. The balance sheets in these countries are more solvent and have significant surpluses. These countries have a better financial status and there is more trading between these emerging market countries because they are not relying on investors to buy their debt.

He described the drivers for their portfolio going forward. They feel that there will be a long-term secular rise of the emerging market consumers in consumer staples, consumer discretionary, infrastructure and healthcare. As these markets become more westernized they will begin developing western illnesses like diabetes.

Energy, metals/mining and cement will be positively viewed long-term with a focus on gold and gold mining companies. They also have a positive outlook on industrials including transportation and technology. If money is not moving through the system there cannot be inflation in the transportation and technology sectors.

Negatives that could affect the portfolio are Japanese domestically-focused equities, selection continental European financials, telecom and utilities. From an equity perspective these do not look as good as from the bond perspective. They currently have a zero weighting to continental European financials.

Chairman Harrison asked what will drive consumer discretionary.

Mr. Holland said that globally automakers like Daimler and Volkswagen and some U.S. automakers are drivers in that sector. He also said that luxury companies like Burberry and Louis Vuitton with retail stores in Hong Kong along with Pantaloon in India will be factors. They have a lower exposure to consumer staples because of the food inflation in the emerging markets.

Mr. Kuhn indicated that at the next manager review meeting they plan to reshuffle the format with a mix of equity, fixed income and private equity managers. He told them not to be surprised if they are invited to the manager review meeting held in February, 2012.

Meeting Break at 11:51 a.m.
Meeting Resumed at 12:56 a.m.

Invesco
Phi Shaw, General Partner
Keri Hepburn, Senior Director

Ms. Hepburn presented the key attributes of the company. They currently have $4.2 billion in committed assets under management.

She reviewed their investment team. She indicated that Mary Kelly is transitioning toward retirement in 2012. Henry Robin was hired in September, 2010 to take her place. She indicated that Mr. Robin will be speaking at the Fall MAPERS Conference.

Mr. Shaw indicated that the System's commitment was $2.5 million with half of the commitment drawn totaling $1,238.525. As of March 31, 2011 the estimated net asset value (NAV) was $1,321,342 which is slightly above cost. They are seeing some investment earnings early in the portfolio life.

The cost-weighted life of dollars invested is two years which is short based on the young life of the portfolio. The investment is normally drawn over five years and held for a period of four to six years and if successful could hold for six to ten years.

The U.S. buyouts and venture capital have posted positive returns. There have been some write downs in the international portfolio with.

Their internal rate of return at 8.1% was in the top quartile gross "diversified" for the first quarter of 2011. Their net "diversified" IRR of 4.2% was in the second quartile for the same period.

He reviewed their fund's gross aggregate performance based on cost versus total asset value. He compared the second quarter 2010 versus the estimated second quarter 2011 valuations for Venture 5 at 1.03 times versus 1.36 times; U.S. Buyout V at 1.04 times versus 1.08 times and International V at 0.73 times versus 0.97 times.

He described the gross and net performance versus the benchmark. Fund V gross performance was 8.1% versus the media benchmark IRR at 0.2%. Fund V net performance was 4.2% versus 0.5%. He explained that the management fees have stronger impact in the early years of the fund. He compared their net performance at 4.2% to the S&P 500 at -4.0%. Overall, this has been a good start for the fund.

Trustee Bowman left at 1:04 p.m.

He provided an overview of the fund's largest distributions from the second quarter 2010 through second quarter 2011. This included the Spark Capital II Fund which includes twitter. They sold 20% of their stake in twitter for $113 million versus their $85 million investment and still have additional liquidity. Twitter is valued at approximately $2 billion.

Target Partners II in the International portfolio holds Ubitexx Mobile Business which provides mobile device management software which returned performance at 2.7 times cost and Scoreloop a provider of mobile social gaming at 4.0 times cost when sold to Research in Motion. These were early venture capital positions.

In the U.S. Buyout portfolio United BioSource Corporation a holding in the Berkshire Fund VII develops and commercializes biopharmaceuticals and medical devices provided risk effectiveness. They were sold to Medco Healthcare Services.

Accel X part of the U.S. Venture portfolio was the original sponsor of facebook but it is not in this portfolio. They sold diapers.com and SOAP.com which are online vendors of baby, health and beauty supplies to Amazon.

These were early wins for the fund.

He indicated that there is still $1.7 million to recycle for future drawdowns and 50% of the capital is still to be committed. They were more positive six months ago.

Chairman Harrison asked about the future drawdowns and at what point they are in the J curve.

Mr. Shaw said that normally they would still be going down in the J curve but distributions have begun and there have been positive cash flows. There will be more drawdowns next year. Distributions could cover the drawdowns.

Chairman Harrison asked if Fund V is closed.

Mr. Shaw said that Fund V is closed and they just started raising capital for Fund VI this summer. They are currently using a warehousing line of credit for Fund VI to commit to underlying funds and have received three or four commitments.

He said that he expected a positive rebound for the Venture Capital portfolio.

Mesirow Financial Private Equity
Michael Barrett, Managing Director
Tracy Savage, VP - Institutional Sales & Marketing

Mr. Barrett said that they have financial stability with no leverage in the fund. They currently have $3.4 billion in private equity asset commitments.
He reviewed the equity investment team. He indicated that the firm sponsors' associates for MBA's which has resulted in these candidates becoming vice presidents and prominent members of the firm. He told the Board that Paul Rice is acting as a senior advisor to the investment team on the buyout side. He is sixty-seven years old and has been retired for a number of years. They recently hired a young associate with two years in the banking program out of the University of Indiana.

Their investment strategy provides full market coverage with diverse target sub-asset class allocations appropriate to the prospective investment environment. They do not have investments in the emerging markets. Most of the portfolio is domestic based managers at 75% to 80% with 7% in European funds and a small allocation to China.

The inception of the fund was in November, 2006. To date, there is $848.1 million in committed capital with 50% of the capital drawn. There is a lot of capital left to be invested. They recently added two new funds. They are out of the J curve. Their estimated performance as of June 30, 2011 is not quite first quartile but strong second quartile at 8.6% versus the benchmark at 5.2%. They are currently outpacing the S&P 500 at 8.6% versus 7.9%.

He reviewed their vintage year diversification. Vintage diversification slowed in 2007 and 2008.

There are nine hundred active companies underneath forty-seven funds. The fund is nicely diversified. When they are fully invested there will be approximately 1,200 companies. They recently slowed their investment commitment. He described their sub-asset class allocations with 37% in U.S. buyouts, 25% in venture capital, 20% in non-U.S. buyouts and 18% in special situations. The portfolio is right on target.

They are seeing strong recent investment activity in the venture capital funds. Fortress V is a troubled asset on their watch list.

Accel Growth Fund has a growth equity and later stage venture capital strategy. Their investment to Accel with investments in facebook and Groupon is a good compliment to Invesco who is invested in twitter. This fund's performance has seen unrealized mark-ups of facebook and Groupon.

Canaan Fund VIII has an early state venture capital strategy. Their expertise is in the information technology and healthcare sectors. He indicated that they are invested in Zoosk a social dating network.

Thoma Bravo Fund IX utilizes a small to mid cap buy and builds and middle market buyout strategy. They have a nice software sector focus.

They are keeping to their strategy and have lots of capital for investments.

Chairman Harrison said that they are impressed with these two firms. The shortening of the J curve is indicative of their ability to make good investments. The Board appreciates their efforts.

Nexos Capital Partners, LLC
Justo Frias
Joseph J. Vadapalas

Mr. Vadapalas said that their performance for the period of July 1, 2010 through June 30, 2011 is down 10.37%.

He indicated that they sold their interest in the supermarket chain in Texas. There was a decrease in the sale price versus the actual costs. It was the sole asset in the fund. The fund made the decision to sell the asset due to the downward trend. Rural Texas has suffered through their worst draught in several decades. There is not enough growth to grow the Hispanic platform. They are looking to in vest in other Hispanic markets.

Mr. Frias said that they are staying with the demographic and looking for reinvestment opportunities.

Ms. Hepburn, Mr. Shaw, Ms. Savage and Mr. Barrett left at 1:37 p.m.

Chairman Harrison asked that Mr. Kuhn take the lead.

Mr. Kuhn said that the Board has addressed their concerns regarding this investment. The $14 million in assets is very small in the private equity world. It is hard to visualize a diverse portfolio. The Board has requested that Nexos return the investment and close the door on the deal. By mandate no more than 20% can be allocated to one investment.

Mr. Vadapalas said that at the time the fund acquired Mass Marketing they requested a diversification waiver which required a reduction of their upside of the profits from 20% to 11.7%.

Ms. Billings questioned who waived the diversification clause.

Mr. Vadapalas indicated that GKM Newport a $7 million investor in the fund waived the clause. He explained that GKM Newport was bought by the Macquarie Funds Group during the latter part of 2010. They reduced their upside from 20% to 11.7%. They had been entitled to 20% of the profits but they reduced them to 11.7% due to the diversification risk. They thought they had taken care of that issue when they noted it at the bottom of the financial statement.

Chairman Harrison asked how much money is currently sitting in cash and for how long.

Mr. Vadapalas said that the $11.2 million currently in cash has been there for two months. The sale of the asset closed on March 24, 2011.

Chairman Harrison stated that technically the System is paying 2.5% on cash.

Mr. Kuhn indicated that there were no profits only a loss on the first investment.

Mr. Vadapalas said that the 2.5% fee is on committed capital of $14.6 million.

Ms. Billings asked what their current investment plans are and how they plan to diversify the investment.

Mr. Vadapalas said that they are continuing to focus on the super market sector. They have looked at a number of transactions. Since March they have looked at twelve deals and eight are still alive.

He described their potential investments in process including a Letter of Intent issued in June, 2011 with California-based Viva Markets which is one of the largest Hispanic-focused supermarket chains in the United States. They operate supermarkets in Los Angeles, Denver and Colorado Springs.

They entered into a Letter of Intent with the owner of two malls in Ogden and Salt Lake City, Utah. They are also looking into a Dallas based supermarket chain with fourteen stores located in heavily Hispanic areas.

He explained that these investments will occur over the next two to three months.

Ms. Billings asked how much of the $11.2 million from the first project will be used for Project Viva.

Mr. Frias said that 70% to 80% will be invested in the one projects. They have several co-investors interested in a regional Hispanic supermarket chain that would add buying power and would help to bring prices down.

Chairman Harrison asked if the Viva Markets project would be the springboard.

Mr. Vadapalas said that the performance was constantly down for the Texas chain which he attributed to the drought and the lack of agriculture to support it. It was hard to bring investors in due to the performance.

Mr. Frias stated that in 2008 when they originally presented this investment they felt it would be safe because the supermarkets were located in rural areas far away from the big box chains.

He said that there is another chain they are looking at that could come into play within the next six months including a Dallas chain that the owners are looking to sell. They are also looking to acquire product and combine with a back office function and bring in small retailers. That is their game plan and they understand the Board’s concerns.

Ms. Billings asked if they can bring in more investors. Mr. Vadapalas said that the fund was closed after one year.

Ms. Billings asked how much time each manager spends working on the fund.

Mr. Frias said that he spends 100% of his time on the fund and is paid $2,000.00 per month.

Mr. Vadapalas said that he spends 70% of his time working with the fund.

Mr. Kuhn confirmed that Eduardo is still working full-time as part of the firm.

Ms. Zimmermann said that she is confused by the multiple sales to subsidiaries Mass Marketing and Super S. She asked if they are wholly owned by the fund and why the transfers and sales occurred.

Mr. Vadapalas said that there were no sales under the fund. He explained that their tax attorney setup the C Corporation allowing for holding companies beneath it to accept assets directly. The two layers were tax driven.

Hill Corporation was a C Corporation above the C Corporation Mass Marketing with Latino Marts, LLC underneath that. The LLC was able to accept non-C Corporation assets.

Ms. Zimmermann questioned the loss of value indicated in the financial statements.

Mr. Vadapalas said that the $1.3 million was spent on legal fees to setup the fund.

Ms. Zimmermann explained that the loss of value on the surface was difficult to understand.

Mr. Vadapalas said that they can use the existing structure and will not have to spend the money twice.

Ms. Zimmermann asked about the proportion of the co-investment.

Mr. Vadapalas said that they are looking at least double with one group looking to invest $30 million but they want preferred stock.

Mr. Frias said that getting co-investors has been the problem. He explained the operating investment breakdowns for Project Viva, Project B and Project Utah.

The Project Utah would be an easy deal because there are only two stores and they would only have to purchase the inventory. However, they would start with Project Viva and Project B before they would look to open two stores in rural Utah.

Mr. Kuhn questioned whether they have financing for these projects.

Mr. Vadapalas said that Mass Marketing and Super S had lenders. These lenders are still available for the expansion plan and to grow their strategy. He said that they also have used mezzanine lenders.

Mr. Kuhn questioned the increased risk factor putting people in front of the investors to get paid.

Mr. Vadapalas indicated that they would not over leverage in these times.

Mr. Frias said that there is a bond group in Europe looking to expand in the U.S. Hispanic market as an equity lender.

Mr. Kuhn questioned whether Mr. Frias and Mr. Vadapalas could understand the situation from the trustees' perspective. It looks as if they are repeating what they did the first time putting all the fund's assets into one investment. The trustees are concerned that they are throwing good money after bad. He encouraged them to walk away with what is left.

Mr. Frias said that he respectfully defers. This is a good investment for everyone. This is not good money after bad.

Mr. Kuhn asked if the Walmart factor is a growing concern and whether Viva Markets have lost sales to Walmart.

Mr. Frias said that they lost gross profits not sales. There is not a Walmart within twenty miles. Most of the consumers walk to the store. Viva and Walmart do not serve the same segments.

He apologized for the investment results and told the Board that they plan to turn that around.

Mr. Vadapalas said that they will send the required compliance letter.

Mr. Frias and Mr. Vadapalas left at 2:25 p.m.

Ms. Billings said that the Board needs a recommendation from Gray & Company.

Mr. Kuhn said that Nexos has experience in these markets but they are not looking to diversify the investment.

Ms. Zimmermann said that the System should be able to get their investment back based on the diversification language in Public Act 314 stating that only 20% of the fund can be allocated to an investment. She also indicated that the Board never received a waiver or diversification clause. They stated that it was included as a footnote on the financial statement and basically said that the investor was unable to understand the language.

Ms. Billings said that the Board needs to act on Gray's relationship with the Chicago Transit Authority. She could work with CTA's legal counsel to get out of the fund.

She also indicated that she will look at the law and into getting an injunction to block investments by the fund.

Mr. Kuhn said that he will put together a request stating that the Board wants to take their money out of the Nexos Fund.

The meeting adjourned at 2:32 p.m.