CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT MINUTES
SPECIAL MEETING
MAY 20, 2009

A Special meeting of the Board of Trustees was held on Wednesday, May 20, 2009 at the Amway Grand Plaza, Berkey Room, Grand Rapids, Michigan. The meeting was called to order at 9:02 a.m.

TRUSTEES PRESENT
Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

TRUSTEES ABSENT
David Flaisher, Secretary *(excused)*
Mayor Clarence Phillips *(absent)*

OTHERS PRESENT
Cynthia Billings, Sullivan, Ward, Asher & Patton, PC
Laurence Gray, Gray & Company
Bob Hubbard, Gray & Company
Jay Butterfield, American Realty Advisors
Brian O'Connell, DDJ Capital Management
Robert Fernald, Goode Investment Management, Inc.
Bruce Goode, Goode Investment Management, Inc.
David Cooke, Loomis Sayles
Joshua Daitch, Mesirow Financial Institutional Real Estate
Tom Landis, Mesirow Financial Institutional Real Estate
Jet Taylor, Metropolitan Real Estate
Pam Hopkins, Munder Capital
Tom Mudie, Munder Capital
Daniel Hynes, Northern Trust
Geoff Mullen, Oppenheimer Capital
Tom Scerbo, Oppenheimer Capital
Gerald Thunelius, Oppenheimer Capital
Miriam Ballert, Wentworth, Hauser and Violich
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant

CONSULTANT

Re: Investment Policy Statement Review
Mr. Gray said that there are some minor revisions needed to the Investment Policy Statement.

Trustee Raymond Cochran will be replaced on the cover with Trustee David Flaisher. Trustee Miller asked if it would be more appropriate to list the trustee position on the cover page versus their name. Ms. Billings said there is no legal requirement to list the names but it is an official document and a summary plan projection.

Ms. Zimmermann said the names could be captured elsewhere. Mr. Gray said that the trustee names are recorded with the minutes at each meeting.

It was determined that the names would be removed from the Investment Policy Statement.

RMK was added to the Investment Manager section. Andrew Kelsen was replaced with Chris Kuhn under Investment Consultant.

Minor language changes were made under Domestic Fixed Income Managers regarding the average duration percentage versus the benchmark. The investment grade rating was also revised to address the issue with managers taking the higher rating.

Ms. Billings asked if the rating change for investment grade bonds was in regard to the Oppenheimer split-rated bond rating issue. She said that she reviewed the issue with regard to Public Act 314 and provided Mr. Kuhn with language for the IPS that complied with PA 314.

Mr. Gray said that the manager would take the higher rating. They played around with the split rate issue. They changed the language to alleviate that problem. Look for higher rating.

Ms. Billings asked if Oppenheimer should be contacted. Mr. Gray said that this is a totally different issue.

Mr. Gray explained that the staff has had some issues with Oppenheimer's high turnover rate and the use of futures to shorten duration. Net of fees, Oppenheimer's performance has been above the benchmark. However, it is important for the trustees and staff to be comfortable and understand the methodology used to obtain this performance. Futures are the current rage, but that does not mean the Board has to go with that methodology.

Ms. Zimmermann said that when Bill McDaniel retired and Jerry Thunelius took over the portfolio the turnover increased. They were told that Jerry was tweaking the portfolio during the transition. To date, the turnover has not decreased. She said that she wants to understand futures but it will take more time to understand.

Chairman Storum asked if Chris Kuhn could come in and hold a session on futures. Ms. Zimmermann said that Geoff Mullen from Oppenheimer has offered to provide an informational session.

Mr. Gray said that Andrew Kelsen and Tom Zimmermann from his firm understand futures very well. It would be beneficial if someone came in from academia to provide an informational session. He confirmed that even if the Board has a better understanding of futures they still do not have to go that route. Trustee Miller said he does not know if he wants or does not want to invest in futures.

Mr. Gray said that throughout the industry the manager-trustee relationships are stale. He has contact with the staff in between meetings but limited contact with the trustees.

He does not want the trustees to feel that they are just popping in on a month to month basis for the meetings. Trustee Miller said that he is very comfortable with the relationship they have with the consultant and feels he can call or email and will always receive a response.

Mr. Gray said that there were a lot of issues in 2008 he had to address. At the end of 2007 the plan was 103% to 105% funded. He asked if the actuary has provided the funding rate for 2008. A lot of plans are on auto pilot and many have had cash flow issues with many having to sell off investments to pay benefits.

Trustee miller said he would like to look at bulletproofing the plan to limit the liabilities. He would also like to provide educational session for staff.

Chairman Storum said he has requested an experience study from Rodwan.

There was discussion on how the trustees want to bulletproof the plan. Mr. Gray asked if the intention is to be more aggressive with a portion of the plan or if they are looking for something less exotic. Trustee Miller said he is looking at a more conservative strategy. Trustee Lee agreed. Chairman Storum said that he is not looking to swing for the fences. His idea of being aggressive is investing in an international equity manager with exposure to the emerging markets. He would like to keep the contributions down given the issues with the City. Mr. Gray said he wants to insure that they are in sync with the Board's needs.

As of March 31, 2009 total plan assets were $198 million. As of May 14, 2009 total plan assets are $206 million representing a bounce back of 4%. This does not represent an overall turnaround in the market but is positive.

The fund has been able to achieve good returns with index funds and fixed income. He asked if the Board wants to continue their passive approach with large cap. He questioned which strategy passive versus active management can provide the most out performance.

The system's mid cap and small cap managers are doing a good job. The high yield manager DDJ has given the plan true exposure to high yield where in the past they had a closet high yield manager.

In the future, the Fed Fund Rate will track up and will affect fixed income performance. Active management would better serve the plan when interest rates rise. There are concerns about inflation with as much money that has been printed. Index funds will not do anything based on their correlation to the index. Real estate products will provide some exotic abilities.

He advised the trustees to continue to think about ideas they have for the plan. They will hear a lot of good advice and are doing a good job of not reacting to what is around them.

He asked if they had any specific questions or concerns.

Chairman Storum asked whether RMK Timberland Group will accept the reduced investment amount with only 1% being available in the basket clause. Mr. Gray did not feel it would be a problem.

Ms. Billings explained that there was an issue with the Thornburg investment being part of the basket clause. They have agreed to create a separately managed account to eliminate that issue. Trustee Lee confirmed that the fees would be increased by 15 basis points to 17 basis points for this account. It was determined that the fee structure for the other international equity managers would be reviewed. Trustee Lee said that Baring had the highest fee structure with Hexavest the lowest.

Trustee Miller asked about The Boston Company. Chairman Storum explained that they have steadily under performed and Thornburg was chosen to replace them as the international equity manager.

Ms. Zimmermann stated that having a separately managed account with Thornburg will require tax reclaims. Mr. Gray said that they will have to check with the custodian regarding fees and tax reclaim forms.

Ms. Billing asked if it is normal for a manager to not be registered under the 1940 Investment Company Act. Mr. Gray said that it is not uncommon. She questioned what specific guidelines or regulations they are not required to follow. He said that he knows this excludes them from having to be audited by the SEC every three years. However, he feels that these audits are a positive aspect for a company.

Ms. Billings reported that a class action lawsuit has been filed versus Northern Trust and that it is ERISA based. Sullivan Ward is looking to put together a plan of action within the month. They plan to hire an expert to see if there is a cause of action. They will put something together for the Board.

Chairman Storum said he feels it would be best to go with the class action lawsuit since it is a large group. Ms. Zimmermann said that the lawsuit states that they did not know where the collateral pool was invested.

Mr. Gray said that within the fine print in the index funds there is language that allows the index funds to use securities lending.

Chairman Storum said that he would like to reinstate tuition reimbursement for the retirement staff. He also feels this would be a good time to change the structure of the Retirement Office with the State in. It is difficult to address wage increases and other issues within the current structure.

He also thinks that the trustees should accompany Gray & Company on due diligence trips. If a trustee is interested and has the time he should go through the Retirement Office to schedule a visit.

Re: Economic Overview/Markets Roundtable

Mr. Gray explained the format and stated that most of the managers have participated in the past. The purpose of the roundtable is to hear the managers' opinions regarding the macro economic environment. Bob Hubbard will be driving the discussion during the session. Introductions were made around the table.

Mr. Hubbard said that they are looking for a point versus counterpoint discussion. The first topic was whether we moved from a depression, to a recession and what is the state of the recovery.

Daniel Hynes from Northern Trust said that they expect an up tick in the fourth quarter. They feel that inventories are decreasing and by the end of the year companies will begin to rebuild their inventories. They feel the economy will begin to come out of the recession during the fourth quarter and will see a spark in the first quarter of 2010. There will be an up tick in inflation.

Jay Butterfield from American Realty Advisors said that the great issue is whether the economy is going through an L-curve or a U-curve recovery. The stock market is not sustainable without jobs and liquidity. He does not see a substantial recovery until well into 2010.

Brian O'Connell from DDJ Capital Management concurred. The government initiatives have added a spike but it will be a long path to recovery. Most asset/liability studies are showing that one in every four or five companies will default. It will be a long process throughout 2010.

Tom Mudie from Munder Capital said that they do not have a formal opinion but the economy is much worse than it was in 1973 or 1974. The market seems to rally on less bad news instead of on good news. It will be a long time before things improve.

Miriam Ballert from Wentworth, Hauser and Violich said that she agrees with the consensus. They are seeing signs of a recovery globally which could be an upside for domestic equity.

Mr. Gray said that with one in four companies expected to default, the drop in GDP and the huge mass of leverage on the consumer side, people are worried about their jobs. He asked if the managers think that, psychologically, they have been changed permanently.

Mr. Mudie said that a lot of people have hunkered down. He is unsure if anything has really changed and he thinks you cannot change a leopard's spots and things will go back to the way they were.

Ms. Billings arrived at 10:42 a.m.

David Cooke from Loomis Sayles said that this area (Michigan) is not a microcosm of the rest of the country. Trustee Miller said that a lot of people are getting out of the market and putting their money where it is safe.

Pam Hopkins from Munder Capital said that she and her husband have cutback. She feels that they will continue to be more debt conscious in the future.

Bruce Goode from Goode Investment Management feels that the crisis has shifted from sub prime to credit cards. People will be forced to make adjustments.

Mr. Hynes said that he feels that increasing regulations will tie people's hands. However, people have pretty short memories and when the market becomes efficient and the economy is doing well they will revert back to their old ways.

Geoff Mullen from Oppenheimer Capital said that demographically the country is getting older which results in less spending because typically older people spend less. He feels immigration will be used as a vehicle to make the country younger.

Jet Taylor from Metropolitan Real Estate said that the days of easy credit and using your home as an ATM are over.

Ms. Ballert said that the U.S. consumer is not leading the global economy. Poverty is approaching the middle class. Demand will come from the emerging markets.

Mr. Butterfield said that manufacturing, service and technology can sustain the U.S. economy and a lot will depend on how the consumer spends their assets. When they feel richer they will take more credit and there will be an enormous amount of liquidity generated into the economy. However, inflation will take much of the liquidity out.

Mr. O'Donnell said that historically the market environment started with a spurt, then a burp and was back. He feels the market will experience a reversion to the mean when the economy stabilizes. When home values up track and liquidity rebounds consumers will once again borrow money for cars and homes. The Administration has control of the situation.

Mr. Butterfield said that it started the same way in the early 1980's. Consumers tend to forget and it is hard to change human nature.

Mr. Hubbard asked the managers what the future holds for the automotive industry. Will there continue to be a “Big Three.” What will happen to the size and number of models offered?

Robert Fernald from Goode Investment Management said he thinks fuel economy is a big issue. He questioned whether they will be able to produce an SUV that gets fifty miles to the gallon. Fuel economy is not an issue for the SUV driver.

Mr. O’Donnell said that there is a safety issue that will cause a huge political battle between the NTSB and the Administration over the size of the car. The NTSB has been helping the automotive industry with their safety standards.

Mr. Goode said that if the size of cars is reduced they will not accommodate the average family based on both size and numbers. The cost of an Escalade Hybrid is $75,000.00.

Mr. Hynes said that fuel economy and safety are issues that will have to be addressed. Small cars from India will have to meet safety requirements, so it is tough for them to make an impact in the U.S.

Mr. Butterfield said he feels that the government is interested in getting out of the car business as quickly as possible. He asked what affect it will have with the United Auto Workers owning a significant percentage of the company.

Mr. Gray asked how the government will get out of the automotive business.

Mr. Hynes said that Northern Trust took $1 billion in TARP funds and then restrictions were placed on them. To get out it is a negotiating process. Government came back and said they would let us out in three to nine months. The government has to let you get out.

Tom Landis from Mesirow Financial International Real Estate said that it is a hassle to deal with the government. They put too many dictates on the business.

Mr. Scerbo said that things looked dire for Chrysler back in 1982 when they were on the brink. They have an incredible strong profit structure that could work with twelve to thirteen million units. They need to recalibrate the number of units manufactured. He was an automotive analyst for a long time. He feels Ford and General Motors will survive. It is inconceivable that a Fiat-Chrysler will work. He said that Volvo is up for grabs. Japanese companies are weaker than they thought. This is a painful period in Michigan.

Mr. Gray asked if General Motors will merge with another company. He said that unemployment is currently 12% to 13% in Michigan.

Mr. Scerbo said that with the core space down it is an attractive opportunity and there is a technical and logistical advantage. Things look bad now but when the market stabilizes it will be profitable. In 1982 they were ready to knock the lights out and at the end of 1982 the business was profitable.

Mr. O'Donnell said that Ford is the logical partner. In the distressed world they are buying Ford debt for twenty cents on the dollar. You can buy $9 billion of senior secure first lien debt for $18 million. Asian providers would pay dearly. General Motors wants Ford to be there. They have to work out union concession issues.

Mr. Scerbo said that Ford is in a relative position of power. He thinks this is similar to the airline industry in the 1980's. American Airlines won but they eventually lost.

Mr. Hubbard moved the discussion to the energy sector and asked what the reasonable long-term price for oil is.

Ms. Ballert explained that oil is a favorable sector for WHV. Long-term they see the price being based on supply and demand. Current demand in the U.S. is low. The demand in China has increased 14%. They feel this is an attractive place to be. The Saudi's need oil priced at $80.00 per barrel in order to be profitable. An $80.00 barrel of oil would be a tertiary recovery. They feel this is a depleting asset with not enough reserves being found to contain demand. This will result in future problems which will affect prices. They expect an increase in demand from emerging markets.

Gerald Thunelius arrived at 11:02 a.m.

Mr. Landis said that he feels the government has produced the supply problem. They will not use oil fields in this country. They will cripple their own economy while aiding other economies.

Ms. Ballert said that there is plenty of oil in the world that is not being accessed. Technically they can find the oil but it takes a lot of money to get it out.

Mr. Butterfield said he is concerned about the shift of oil suppliers with the Middle East depleting their supplies. Shifting to Russia, African States, Pakistan and South America could pose problems for the United States and put us in a difficult position. These countries could control the U.S. growth pattern based on the amount of debt owned and oil supplies from foreign nations.

Mr. Gray said that at the conference some of the energy managers believed strongly that oil prices will rise to $200.00 per barrel.

Ms. Ballert said that they do not put a price tag on oil. They believe that the world wide liquidity shift to tangible assets will control long-term prices.

Gerald Thunelius from Oppenheimer Capital said that a number of things dictate the price of oil including the value of the dollar and the stock piling of reserves.

Mr. Fernald said that the $200.00 per barrel forecast could be based on an inflation adjustment and a declining dollar.

Mr. Hubbard stated that even the 2008 MAPERS Conference focused on Green Energy and included discussion about whether energy was on a bubble. He asked about what the longer-term trends and issues would likely be.

Mr. Thunelius said that the rest of the world cannot grow at $200.00 per barrel oil. Many sectors would be unfairly punished such as agriculture. There are a number of cash flow opportunities for credits.

Mr. Mudie said that he agrees with Ms. Ballert that oil is a depleting asset. The U.S. has a lot of natural gas; however, there is not a lot of political will to change to clean coal, nuclear or other technologies. Energy is a tricky industry. It is hard to find a more volatile sector.

Ms. Ballert said that energy and materials are Richard Hirayama's favorites. He looks at the emerging markets and the focus on building their infrastructures with $22 trillion currently being put into infrastructure. These countries have better balance sheets than many developed market nations and could affect prices.

Mr. Cooke believes that $200.00 per barrel oil would be based on inflation and prices will be back to $60.00 per barrel. He explained that a penny rise in the price of a gallon of gasoline takes a lot of money out of the economy. If it goes back up the world economy will come crashing down. This is the time to take advantage of market opportunities like healthcare and energy.

Mr. Gray said there seems to be an agreement between the managers that oil will be somewhere in the $50.00 to $200.00 per barrel range.

Mr. Hubbard asked about the housing market with record low housing starts and the trends of single home construction. When will we see a recovery?

Mr. Butterfield stated that 25% of homeowners are underwater. The housing situation will pick up and go down monthly. Stabilization of housing sales in the West is seeing prices 50% less than a year ago. The numbers do not suggest a recovery in the market or sales. This has caused an impact on multi family where they are under weight. There is more supply than people to rent. With weak housing prices and weak job numbers he does not believe we have seen the bottom yet.

Mr. Cooke said that the housing market in Michigan is comprised of foreclosures and market resets. He feels the prices will bottom out in 2010. If a guy gets a job out of state and has to sell his house in Michigan, good luck. Most homeowners are underwater with their mortgage being more than the value of the asset. If you lose your job what do you do? This is just the tip of the iceberg. Half of the house sales are foreclosures.

Mr. Landis said that from a real estate perspective they are looking at commercial, retail and industrial. Due to job losses, fund of fund managers are leveraging property 70% to 80%. Banks are rolling loans. The theory is rolling loans gather no losses. They feel the market downturn will continue through 2009, 2010 and 2011, bottoming out in 2012. The upside is there are a lot of great buying opportunities.

Mr. O'Donnell said that home ownership is the American Dream. But 25% are underwater, jobs are decreasing, unemployment is rising, the cost of oil is up and it is difficult to find a local job. No one knows what will happen but something has to break.

Mr. Butterfield said that he does not believe we can have an economic downturn without a recovery. The cratering dollar is good for exports. Multi-family will eventually come back and there will not be a lot of excess supply when the recovery comes around.

Mr. Taylor from Metropolitan Real Estate said that his firm invests in commercial real estate. He respectfully disagrees with Mr. Butterfield regarding the leasing of apartment properties. He said that most of the worker bees are living in apartments. These properties are different than the Class A garden properties Mr. Butterfield is referring to. He thinks it will get worse before it gets better. This is the best buying time for investors they have seen since the Resolution Trust Corporation during the early 1990's. They are not seeing a lot of over supply or new building.

Mr. Gray said that new building is relative in some pockets. Four new towers were put up in Buckhead, Georgia where there is a saturation level of eight years. Mr. Butterfield said that the specialty products are well ahead of demand. Mr. Gray said that it will take patience to wait for returns.

Mr. Butterfield feels this is the buying time of the decade in Class A properties if you have capital to put to work. Much of this is based on the credit quality of the tenants. New acquisitions have been outperforming legacy assets. There are a number of new core properties coming onto the market. The fund still has $50 million in commitments to call. They are currently 20% leveraged. It is a good time to make additional acquisitions.

Mr. Taylor said that their expectations and numbers are not looking too pretty in the near future. They are higher leveraged than American Realty. This fund is still early in the process looking at a timeframe of five to seven years. It is more advantageous to hold than to be a seller at this time.

Tom Landis said that the United Kingdom is ahead of the U.S. Real estate requires a level of patience and pacing. They currently have $85 million in compelling opportunities in Brazil which has a large middle class that is growing. They are looking at opportunities in China and Japan as well. They are avoiding India because there are too many bureaucratic issues. The fund is currently two years into the J curve which reflects steep unrealized losses.

Mr. Hubbard acknowledged short-term losses but asked the managers what are their realistic return expectations.

Mr. Thunelius said that with inflation expectations he feels $200 per barrel oil would hurt the economy. The velocity of the dollar is needed. Job losses are still occurring at a significant pace. He sees a v-shaped recovery for equities. If rates go higher it will devastate the real estate market. He expects to see fixed income returns of 4% with high quality bonds and spread compressions.

Bank of America just issued bonds with less than one million shares cut to zero. Own sub debt of Bank of America preferred sub debt bonds…of capital structure. A large central bank came out and sold their assets. Goldman Sachs upped the credit of Bank of America. Hedge fund players bought shares that were cut to zero. There is a lot of extreme manipulation in the markets.

Mr. O'Donnell said that on the high yield side investing in B to CCC rated securities with good capital structures are finding huge opportunities on a risk perspective. They are expecting 18% to 20% returns year-to-date based on the April 30, 2009 returns versus the PBGC. With one in every four companies defaulting, good opportunities will continue.

Mr. Goode said that they are looking at returns of 3½%. Rates have dropped from 4% on high quality short duration. Wrap providers are more positive.

Mr. Hynes said that the tightening of spreads is encouraging whether short-lived or a sign of things to come. They are still waiting to see how the government intervention will work out. Performance returns of 4% are significant. Asset Backed Securities are seeing a lot of illiquidity.

Mr. Gray asked if the trustees have any questions.

Chairman Storum asked what impact government intervention and the current conditions in the auto industry, housing market and unemployment will have on the country and what service the U.S. will provide to the rest of the world to survive.

Mr. Hynes said he thinks the U.S. will evolve and we will become a service provider industry. If you let the economy float people will migrate.

Mr. Thunelius said that it is important for the U.S. to stabilize growth. When the U.S. economy slows it still affects the economy globally. The Middle East will step up and buy our debt. He feels the industries that will thrive are healthcare, IT and manufacturing. When the U.S. stops buying trinkets, a number of countries like Japan and Germany who export everything will realize the effect.

Mr. Landis said that longer term we will have to wait and see what the negative affects are to manufacturing. New products and technologies may come out of this. From an automotive perspective, supplies are depleted and he thinks demand will be there.

Mr. O'Donnell said it will be interesting to see what the U.S. is like in ten to fifteen years. Capital and technology will find partners in other countries. He thinks healthcare, IT, science and education will be the thriving industries.

Trustee Miller said he feels the cornerstone is jobs and asked where the jobs will be coming from.

Ms. Ballert said that Americans want to work and there will be opportunities in science and engineering.

Mr. Mullen said that with the recapitalization of the financial services industry smart kids went to Wall Street instead of being a doctor.

Trustee Lee asked what will happen with healthcare and will it change when the economy situation rights itself.

Mr. Thunelius said that a lot of money will be spent on healthcare. The country will face a number of ethical and moral dilemmas regarding the terminally ill and whether it makes sense to continue care.

Ms. Ballert said that there are a number of linchpins for healthcare. She explained the issues that her children who are surgeons have encountered. It is difficult to pay back student loans, malpractice insurance and accept the reduced rates insurance companies pay doctors.

Mr. Butterfield said that it is a bifurcated system. Wealthy individuals will continue to receive quality healthcare. New technologies will drive healthcare investments. The system will provide a basic level of care. The trend will be to move away from employer-provided healthcare. The concentration will be on providing a minimum level of care and the focus will be on catastrophic care.

Meeting Break at 12:00 p.m.
Meeting Resumed at 12:47 p.m.

Manager Presentations

<u>Loomis Sayles – Small Cap</u>
Mr. Cooke said that Loomis Sayles has been in business since 1926. They currently have $120 billion in assets under management with $50 million committed to proprietary research this year. They have 493 employees and have not experienced any across the board layoffs and have maintained their staffing.

Their portfolio strategy looks for fundamentally sound undervalued small cap companies. These companies are misunderstood, undiscovered and special situations such as corporate spin offs that can add value.

Their year-to-date performance is 2.5% as of May 20, 2009 versus the benchmark at -5.5%. They are underweight in financials and stayed in high quality which made a lot of sense since last year.

Their second quarter performance is 300 basis points behind the benchmark. They continue to look for attractive high quality opportunities. They remain underweight in financials.

Healthcare worked well for the portfolio and energy took away performance. They held 4% in cash which added 170 basis points of performance. They try to maintain fully invested with 3% to 5% in cash which is a challenge.

He described the characteristics of the portfolio. The average market capitalization of the Russell 2000 Value Index is $750 million with a 75% allocation. The market cap for the index has dropped. They have increased names for liquidity. Loomis Sayles' average market capitalization is $1.4 billion with 44% allocated to companies less than $1 billion.

He thanked the Board and told them he truly appreciates their continued support.

<u>American Realty Advisors – Core Real Estate</u>
Mr. Butterfield said that American Realty Advisors is a core real estate manager. They maintain a diverse core real estate portfolio with broad level exposure.

There have not been any firm changes. They are one of the largest privately held real estate managers and are 100% employee owned. They have not experienced any turnover. They have not made any new acquisitions and moved acquisition people to analysts. They have a strong capital structure with no firm level debt and a solid twenty-year track record.

The American Core Realty Fund is an open-end diversified core commingled fund with $1.8 billion in gross assets. They are 100% equity owners or largely majority owners in unique property opportunities.

There have been a number of style drift opportunities in core which would have required increased leverage. They maintain a strict core discipline. This caused a lag on the upside but helped on the downside. They have done well against other open-end core managers. They are well positioned in core opportunities with their focus on Class A and some Class B well-leased institutional properties.

The fund's initial commitment was $10 million in 2006, but they were unable to put the money to work. The majority of the commitment was invested in 2007 and 2008. To limit the downside risk they have dialed down the leverage to 13%. The value of the investment as of March 31, 2009 is $8.6 million.

The first quarter of 2009 was ugly with performance at -12.8% with similar performance expected in the second quarter. Things should improve after that. They are looking at appreciation of 35% trough to peak. The properties have maintained a high occupancy rate; at 93% in January, 2009. They are looking at an 80% to 90% range during the next year with a 14% lease rollover. They have very little debt and are not acquiring any new leverage. They are not under pressure to sell properties. The last property sold was in December, 2007 and the last property acquired was in February, 2008.

He reviewed the geographical diversity of the portfolio. He said that there is not a core market in Michigan. They are looking for areas with solid job growth, diversified employers and stability in home values.

They are looking to expand their market weight in industrials next. Consumer patterns have dropped off in luxury and retail. They are looking for retail opportunities in neighborhoods in grocery and drug store anchors. Office market weight is in areas that have substantial stabilized job growth markets.

He explained the lack of liquidity due to falling real estate sales. Since the third quarter of 2007 quarterly sales are 94% off peak which makes pricing and valuations difficult. There is no money to borrow for transactions. Until credit opportunities open, they cannot take properties to market but there are a lot of good quality properties on the market at fire sale prices.

He reviewed the indicators to look for in a recovery: housing prices stabilize, employment growth resumes, global demand increases, commercial real estate transactions resume and housing sales rise.

He feels it will get better in mid-2010. There is not a lot of good news for the next year. Those managers who maintain income are winners and focus on good paying tenants.

Wentworth, Hauser and Violich – International Equity
Ms. Ballert thanked the Board for allowing them manage their assets. She said that during the roundtable discussion she presented a brief overview of the portfolio and shared Richard Hirayama's view with the Board.

She reported that Hirayama Investments, LLC was recently created between Wentworth, Hauser and Violich and Hirayama Investments where they engaged in a formal ten year-commitment. Many of their clients were pleased that Richard Hirayama entered into a long-term commitment. Mr. Hirayama now receives a larger share of the equity. Hirayama Investments will be the onlyl manager for Wentworth, Hauser, Violich's international equity investments.

Laura Stankard was recently made partner. Allison Goodson was hired in October, 2008. She has an MBA from Wharton and was an analyst with Dodge & Cox before joining WHV.

In February 2009, George Springman retired and Reiner Triltsch from Federated Investors was hired as the new CIO. WHV is a conservatively managed ship.

She reviewed their top holdings and weightings. They utilize a growth style and are a top down sector rotation manager of super cycles. They manage positions in major super cycles and are overweight in the most attractive and underweight in the least attractive. Their current sector weight is 33% in energy but it can go as high as 40% and 22% in materials. They define their country weightings a little different from the EAFE. They use the tax domiciled country of the company.

Their country weighting is 25.6% to Canada which is rich in energy, materials and railroads. They also have holdings in oil field services and in the three largest mining companies that sell iron ore to China.

2008 was a rough year with portfolio performance of -46.63% versus the benchmark at -43.06%. In the second quarter of 2008 they significantly out performed the benchmark but the third and fourth quarters were bad when the bear market hit. She explained that there was a fifteen-day period that started near the end of September where the market experienced a significant downturn in energy with hedge funds unloading significant amounts energy futures.

For the first quarter of 2009 they are ahead of the benchmark -2.89% versus -13.85%. Year-to-date they have outperformed the benchmark 12.89% versus -2.68%. Since inception, the portfolio has outperformed the benchmark 2,500 basis points.

Their strategy is all about energy. Richard Hirayama anticipates a deceleration of the decline. He feels that infrastructure spending will lead the recovery. There have been a lot of commitments to infrastructure with China having already spent half of their commitments. The demand for copper has increased to 87% and 81% for crude. Investors feel there will be a long-term impact of stimulus spending with all developed nations experiencing long-term inflation and emerging markets having more tangible investments and deflation.

There are some interesting parallels with the bull market from 2003 to 2007 versus the 1970’s. The roaring bull market from 1970 to 1972 saw oil, gold and materials lead the way. In 1974 and 1975 the economy experienced a recession. The resumption of the second bull market occurred in 1975 during a stagflation period.

The price of oil from 1970 to 1980 was $1.35 to $39.00 per barrel. There are different geopolitical issues now versus then. She referred to the nationalization of Saudi Arabia. A super cycle can last five to twenty-five years. Richard Hirayama feels this has the potential to be another super cycle. The question is whether it can last another fifteen years based on the recent energy bubble.

She discussed urbanization in emerging market countries. She said that ten million people are migrating from rural areas to the cities. The five largest cities in the world are in the emerging markets. This is positive to the portfolio.

China continues to modernize and add new buildings which creates additional consumption and requires imports of energy and materials. As demand picks up there will be pressure to increase prices.

Their strategy has a v-shaped economic sensitivity. As emerging markets lead the recovery they will have a competitive advantage. Growth in 2009 is 8.3% increasing to 10.2% in 2010. Their strategy allows for a back door way to play emerging markets but the downside is not as steep as an emerging market portfolio.

<u>DDJ Capital – High Yield</u>
Mr. O'Donnell said that Tony Ranaldi thanks the Board for their business. He provided a quick update of the firm.

They are a boutique firm with forty employees. There are no outside deterrents. Dave Breazzano is the President and Chief Investment Officer. They are 100% employee-owned. The equity is distributed to the co-founders and twelve key firm employees with equity ownership. Their high yield flagship strategy was established in 1997 and totals approximately $4 billion. Their focus is lower credit quality high yield, stressed and distressed securities with a bias toward small and mid cap companies. They maintain a consistent repeatable process. There are no financials, high tech or tort litigation fraud in the portfolio.

He reviewed the organizational chart of the eighteen key employees comprised of an analytical team, trading team and legal team. David Breazzano and the analytical team comprise the Advisory Board on the distressed side.

The High Yield Group Trust is their seventh fund and it is beginning to wind down. The core strategies are distressed debt for control, high yield bonds, and total return loan and credit hedge fund.

He described their investment philosophy and process. They identify small and mid cap companies that are often overlooked. They look at the lower credit quality of the high yield market. They utilize a bottom-up, fundamental approach that emphasizes rigorous diligence and downside protection. They buy into companies at deep discounts to intrinsic value coupled with strong creditor protections.

He described the characteristics of their portfolio. There are currently sixty positions in the portfolio. Credit quality ranges from B to CCC. The average credit quality is CCC versus the Merrill Lynch High Yield at B. Historically their default rate is 2% or lower. The portfolio performance is inline with the market on the downside but better on the upside. Anticipated turnover is 25% annually, but in 2007 it was 50%.

He compared the quality ratings of the portfolio versus the MLHY as of March 31, 2009. He said that the strategy works quite well.

He assessed the top ten holdings in the portfolio. It is a concentrated portfolio involved with all issues. They feel that 2009, 2010 and 2011 is a good time for high yield.

He reviewed the top five contributors in the portfolio. As of March 31, 2009, these holdings have added 844 basis points of performance and 342 total basis points versus the index. Year-to-date they are up 9.1%.

He described a snapshot of the rest of the organization. They currently have $4 billion in assets under management and are geared for staff. They are excited about the opportunities. One of the key factors of their organization is that they have a legal staff on board.

Ms. Zimmermann asked which benchmark they use. Mr. O'Donnell stated that they use the Merrill Lynch High Yield Index II.

Meeting Break at 1:46 p.m.
Meeting Resumed at 1:56 p.m.

<u>Oppenheimer Capital – Fixed Income</u>
Mr. Scerbo said they have been managing money for the fund since 1995 and thanked the Board. He is the Managing Director and is currently transitioning with Geoff Mullen who has been named to the Executive Committee. He has been with Oppenheimer for fifteen years and has worked on Wall Street for twenty-seven years. Jerry Thunelius is the head of fixed income and manages the portfolio for the system since Bill McDaniel retired.

Performance for the period of March 31, 2009 through May 14, 2009 was 1.4% versus the benchmark at 1.3%. Performance for the quarter was -0.6% versus 0.1%. One year performance is 3.5% versus the benchmark at 3.1%. To date performance is up 80 basis points.

Mr. Thunelius said that in 2008 they led off with high quality. Avoiding credit worked well in 2007 and 2008 but not in January, 2009. They underperformed during the first three weeks of 2009 because they did not have enough BBB in the portfolio. When risk rallied they were underweight in industrials. He sees the market being more technical than temperamental. The worst credits led the up track. They held more quality positions versus the benchmark that contained significantly more BBB. They were over allocated to Agency but did not want to chase the market. They will stay in more things that touch government until market fundamentals return.

He reviewed their sector weightings. They have added more financials since the Lehman collapse. When spreads widen credit is not coming back. Post Lehman market back to pre-Lehman financials became very attractive. The government adopted the Swedish playbook. AIG credits are on life support but government owns it and cannot let it go bankrupted.

They were underweight in industrials but added energy and agriculture positions. They are not looking for super cycles just good companies with cash flow. They are underweight to mortgages but will stay with it for now. CMBS have government back stopping deals. Their exposure to Agency is high with basic vanilla performance coming back. The portfolio duration is close to the index.

He said that he disagrees with those who have a v-shaped market outlook. Currently, the market is technically driven and somewhat stuck in the mud. More things need to happen to get back to a fundamental market. Be careful of things the government is not touching. He does not feel that interest rates will get out of hand and credit will come back. It will be a slow recovery.

<u>Goode Investment Management, Inc. – Stable Value</u>
Mr. Goode thanked the Board for their business. He said that Robert Fernald is the Senior Portfolio Manager. He said he is transitioning Mr. Fernald to take his position. He is hiring a new marketing person later this year. They have been managing money for the fund since 2004.

He used the example of the blackout of August 14, 2003 to display market impact. Stable value can be a shock absorber in difficult times.

He reviewed the fund's account balance in the Goode Stable Value Trust Fund. He said that the initial investment was $14 million in 2004. $1.5 million has been taken out of the investment and today the balance is $15.5 million.

They are a top quartile manager and are in the top decile versus their peer group in the Hueler Pooled Universe.

The Index Plus Strategy is underweight in treasuries and corporates and overweight in asset backed securities and mortgage backed securities. He compared their performance versus the Barclays Capital Intermediate Government Credit Index. Market yield for intermediate treasuries were 1.69% versus 1.61% and intermediate credit at 6.96% versus the benchmark at 6.81%. He said that the crediting rate return of 4.4% is blended into the portfolio.

They have no lower rated credit exposure.

Trustee Miller asked if he is concerned with the AIG wrap. Mr. Goode said they were concerned before the government stepped in and took over. AIG continues to be on life support but they will sell this asset to a company that has a strong hand in the insurance industry and they will take over. They are looking at other potential providers.

<u>Northern Trust – Intermediate Fixed Income Index & Russell 1000 Index</u>

Mr. Hynes reviewed the latest company developments. Organizationally, Bob Browne is the new Chief Investment Officer. They recently consolidated operations and terminated 450 employees which was a 5% reduction.

They do not have any exposure to sub prime debt and they made money in 2008.

The first quarter performance of the Northern Trust Global Investment Index Fund was relatively flat with performance of 0.09% versus the benchmark at -0.05%. One-year performance was 2.05% versus 1.96%.

The Russell 1000 Value Equity Index Fund performance was -16.62% versus the benchmark at -16.77%. One year returns were -42.30% versus -42.42%.

Some of the index funds experienced some performance drag due to the securities lending issues but March through May they have outperformed the benchmark. Currently 6% of securities are on loan. Financial services and consumer discretionary sectors are down but consumer staples are strong.

There was discussion regarding the 6% of securities that are out on loan. Mr. Gray said that currently 15% of securities are out on loan and asked if this is driven by demand. He also asked if there has been a change to this product and whether the bad securities were pulled out. Mr. Hynes said that they pulled the Lehman securities out of the collateral pools.

Ms. Billings asked about the losses. Mr. Hynes said that there are unrealized losses on both funds. Lehman was the only realized loss and was only 7 basis points in the security lending portfolio which is fairly small.

Ms. Billings confirmed that there were 5 basis points of unrealized losses and only 3 basis points were related to the Lehman securities.

Mr. Gray asked if there were any performance numbers for April and May. Mr. Hynes said that the securities lending portfolio is up 10 basis points to 15 basis points. In April the portfolio was up 27 basis points.

Meeting Break at 2:26 p.m.
Meeting Resumed at 2:36 p.m.

<u>Munder Capital – Mid Cap</u>
Ms. Hopkins provided the organizational update. There have not been any changes in their management structure. In November 2008 they reduced their work force by twenty-two employees or 16%. There were no changes in mid cap, client service or portfolio management. They exited cash management in the first quarter of 2009. Current assets under management are $13.6 billion with approximately $5 billion in cash.

Mr. Mudie said that the compliance guidelines are included in the presentation materials and they are in compliance with the investment policy statement.

He reviewed their performance summary. He said that 2007 was a fabulous year for them, beating the market by 14%. Growth was in favor and the portfolio had a growth bias. However, performance in 2008 was not good. They reduced positions and made a shift toward value in 2008 and added exposure to some emerging markets. There were no real torpedoes that dropped aggressively. The environment was extremely harsh. In the third quarter of 2008 they positioned the portfolio to be more defensive by purchasing companies with better balance sheets to improve the quality of the companies. This caused them to trail on the upside during the low quality rally.

Their performance for the first quarter of 2009 was -6.61% versus the benchmark at -8.66%. Performance as of April 30, 2009 was 9.87% versus 9.91%. One-year returns are -39.95% versus the benchmark at -40.82%.

They began to see their first positive numbers during the first quarter of 2009 then the market bottomed out on March 9, 2009. Their performance returns trailed on the upside due to the low quality rally. The S&P Mid Cap 400 Index contained securities rated from A+ to C with the lowest rated stocks experiencing the highest returns but having the highest debt ratios during that time period. The S&P was up 40% from the trough with Munder up 34%. The market over bought and they pulled back to make the portfolio more aggressive.

He described their performance attributes by sector. Financials were the best contributor but they were underweight. Healthcare was the worst detractor with a few stocks that were very disappointing. He reviewed the top five positions that contributed and detracted to their relative performance.

Their risk controls are stock selection versus market timing or sector bets. The decomposition of active returns for the three-year period showed that stock selection provided the best returns.

Calendar year returns demonstrated that since inception Munder has consistently performed in the upper quartiles versus their peers other than the one-year comparison.

The portfolio is fully invested with a current market value of $12.5 million.

He reviewed the equity characteristics as of March 31, 2009. This showed that the earnings growth for the system’s portfolio has had a higher growth rate compared to the index, better profitability and has provided better value.

They have focused on packaged good stocks. Their sector weightings are plus or minus 3% versus the benchmark. Typically, there are no large positions in any one stock.

He referred to the appraisals and biographies of the mid cap growth financial team. They recently added Madan Gopal as an equity analyst to the team.

<u>Metropolitan - Real Estate</u>
Mr. Taylor said that Metropolitan Real Estate Partners Fund VII is currently in the market place.

He provided an organizational update. They are not affiliated with Metropolitan Life. They currently have twenty-nine employees on staff.

There has not been any turnover in the investment team. They recently brought Andrew Jacobs on board who has experience in domestic markets and secondary markets. Margaret McKnight recently made partner. They are currently recruiting another analyst for the team. The average real estate experience of the team is more than twenty years. It is good to have experienced investors through various market cycles. Last year they analyzed 330 funds.

The MREP Fund VI closed at the end of 2008. This fund adheres to a deep value investment strategy. They look to capitalize on market sectors and capital opportunities.

This is a horrible time for sellers with the dramatic drop in prices but a good time for buyers. Currently, 75% of the capital is not invested. They have experienced some notable unrealized losses. This portfolio has leverage of 65%. There are some interesting opportunities in the distressed assets pool. Rent transactions are down 30% across the country. Deleveraging will continue for two to three years. Shadow occupancy is decreasing.

Weighted average major property sector cap rates have increased to 8.0% from 6.3% at the beginning of September, 2008. Real estate prices will decline an additional 17%.

Patient investors will be rewarded. This will be an unusually long recovery with not as much excess supply. Expect a strong recovery at the end of the period due to the lack of financing and less building. Inflation will bode well for real estate pricing.

Markets are pricing debt at equity-like yields offering great buying opportunities at 25¢ to 30¢ on the dollar. Loan to own will pick up incremental debt. Equity seller capitulation is expected as the fundamentals continue to erode and debt maturities occur. Managers are underwriting high teens or better internal rate of returns on better quality assets in major markets. There are historically low prices as risk mitigates. Some Limited Partnerships are under pressure to sell their fund interests. A lot of these are not priced appropriately. This will only last a couple of years. He said that they bought two Avalon Bay properties for 40¢ on the dollar.

Real estate is an effective inflation hedge. From 1973 to 1981 private real estate outperformed inflation and the S&P 500. From 1982 to 2007 it outperformed inflation but underperformed equities.

This is an excellent time to deploy capital. This will be one of the top performing asset classes in the next five years. They are planning to add two more managers with ten managers currently in the fund. There is a lot of dry powder to invest. They anticipate 15% to 25% capital calls this year.

He reviewed the individual fund managers. Acacia Property Corporation's primary focus is apartment properties geared toward Class B workforce. Cabot Industrial Value Fund III, L.P. is well financed with an industrial focus. Covenant Apartment Fund VI, L.P. is a renovator of apartment properties in Tennessee and the Midwest. Normandy Real Estate Fund II, L.P. deals in office properties and recently foreclosed on the John Hancock Building in Boston. Prime Finance Partners deals in distressed debt with investing his own money into three different loans.

AG Commercial Real Estate Debt Fund, L.P. is primarily responsible for most of the fund's unrealized losses. This particular fund experienced a 53% capital loss mark to market. They are looking to replace this manager.

Diversification is important. They are well diversified geographically and by sector. They currently own 200 different properties. The fund should benefit from a period of easy leverage.

<u>Mesirow MFIRE - International Real Estate</u>
Mr. Landis introduced Senior Managing Director and Portfolio Manager Joshua Daitch. He thanked the Board for their business as one of the fund's early supporters.

Mr. Daitch said that they are seeing some of the best buying opportunities of a generation. The black cloud is not only floating above the United States but around the globe.

The fund is an actively managed diversified non-U.S. fund of funds. Their strategy is more opportunistic at 70% to 85% and 15% to 25% is value added.

They look at 350 to 400 international real estate funds annually. Initial due diligence is performed on 75 to 125 of these funds. Intensive due diligence is done through deal flows with Cortland Partners by utilizing their extensive network, databases and other outside sources. The portfolio is strategically diversified with a small percentage of niche managers and diversified managers and the largest percentage being mid to large cap regional managers from Prague to Paris.

The portfolio is diversified by risk adjusted market allocations. They focus on transparent core properties. Exposure to emerging markets represents tremendous investment opportunities.

MFIRE International Partnership Fund I is a mix of diversified and regional managers. The target is fifteen to twenty managers with seven managers currently in the fund. The targeted committed capital is $200 million with capital committed of $83.5 million to date. There are seven partnerships currently invested in the fund. The current status of their opportunistic strategy is 78% as of December 31, 2008.

The portfolio has a large geographical allocation to Canada. They are also looking at emerging market properties in Brazil and Chinese residential properties. Twenty percent of the portfolio is in debt backed by real estate. The internal rate of returns is negative. He discussed their mark to market value and gross real estate returns.

Trustee Miller stated that to date that 30% of their returns are negative. Mr. Daitch said that there have been some problem children in the portfolio. These are also typical J curve losses. Very few markets are immune. He is confident they will hit 15% returns.

Trustee Miller noted that four out of the seven managers have underperformed. Trustee Lee asked if there are things they would change to the structure of MSREF VI that they would not do again. Mr. Daitch said that they would be more focused on niche managers. They believe in their platform and timing.

He reviewed their portfolio performance. They currently have $83.5 million in committed capital with $31.3 million invested in real estate and $2.3 million distributed. To date, $33.6 million is invested with $14.7 million in realized/unrealized losses.

Ms. Billings confirmed the total partner's equity of $443,287.00 based on fees and losses of $471,620 and contributed capital of $949,074 as of December 31, 2008. Mr. Daitch said that there has been a net investment loss of $107,156, net realized gains on investments of $6,901 and a net change in unrealized depreciation on the investment of $371,365.

Mr. Daitch said that positive performance drivers will be slow paced investments, diversification and a liquid financing market in Canada. Negatives are J-curve losses that will be elongated due to the slow pace to get capital out. There are very few players or markets that are immune.

He discussed the drying up of the debt market. He also stated that an $8 billion real estate fund is extremely large which can negatively affect buying options and forced selling.

Spreads will come in and costs will come down. There will be some rare acquisition opportunities.

Mr. Gray asked if they are looking to tweak or scrub down the process with Cortland. Mr. Daitch said that they are continually improving and updating the process. Some of the underperformance was the result of strategy drift. They looked backward versus forward at the micro level.

The Managers left at 3:40 p.m.

Re: Meeting Wrap-Up

Trustee Miller said he is a balance sheet/income statement guy. Metropolitan Real Estate did not show what the fund had contributed to date or the position to date. He said that beating the benchmark does not mean anything to him. Chairman Storum agreed and said he is looking for performance on a quarterly basis.

Mr. Hubbard said that they could provide internal rate of returns and quarter by quarter breakdowns for the managers.

Trustee Miller also stated that he would like to see a performance-based fee structure for managers. Mr. Gray said that type of fee structure is usually two to three times more. Mr. Hubbard added that managers are looking to make money on back end. They also discussed fee structures based on committed versus drawn capital.

Trustee Miller said that Cortland Partners' data points and their ratios have not been good so far. Mr. Gray said that Cortland Partners is hugely successful. He said that Jim Tyree would be happy to guide them.

Chairman Storum said he is more concerned with American Realty because they bought in high and their long-term commitment. Mr. Gray said that the system will have to ride out the storm.

The Meeting Concluded at 4:05 p.m.