CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 25, 2009

A special meeting of the Board of Trustees was held on Tuesday, August 25, 2009 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:02 a.m.

TRUSTEES PRESENT
Shirley Barnett
Charlie Harrison, Chairman
Koné Bowman
Javier Sauceda, Vice Chair
Debra Woods
Andrea Wright

TRUSTEES ABSENT
Mayor, Clarence Phillips *(absent)*
Devin Scott *(excused)*
Kevin Williams *(excused)*

OTHERS PRESENT
Chris Kuhn, Gray & Company
Laurance Gray, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Tim Devlin, Artio Global Investors
Rebecca Kubick, Artio Global Investors
Marquette Chester, Invesco
Lauren O'Bryan, Invesco
Ryan Fedronich, Mesirow Financial
Tracy Shinkle, Mesirow Financial
Ed Goard. Munder Capital Mgmt.
Pam Hopkins, Munder Capital Mgmt.
Roy Dixon, Onyx Capital Advisors
Erica Robertson, Onyx Capital Advisors
Gerald Thunelius, Oppenheimer Capital
Tom Scerbo, Oppenheimer Capital
Tim Gramatovich, Peritus Asset Mgmt.
Dave Desmond, Peritus Asset Mgmt.
Ron Heller, Peritus Asset Mgmt.
Patrick Gregory, UHY Advisors
Lance Payton, Retiree
Jan Persson, Retiree
Linda Watson, Retiree

Chairman Harrison welcomed the trustees and staff. He reviewed the agenda and meeting format.

Gray & Company - Second Quarter 2009 Performance Review
Larry Gray provided a brief overview of the capital markets and the System's second quarter performance. Broader economic information will be discussed during the manager roundtable.

This was a good period compared to former periods. There is still a question whether the economy is recovering or turning around. The current recession is the deepest and worst since the Great Depression having lasted eighteen months with a decline of 3.1% in the GDP. Since the 1940's the average recession has lasted approximately twelve months with a 2.1% drop in GDP.

The projected budget deficit in 2009 is $1.841 billion which represents 12.9% of the GDP. The only other time it reached this level was during World War II.

He discussed the affects of consumer spending on GDP. Household lending has been shut off and credit card spending has dried up. The economy needs spending but consumes are being conservative. There are concerns at the macro level where the money will come from.

He explained how credit card companies are dong their own job of monitoring credit card debt by cutting lines of credit. At one point a consumer may have had a $10,000.00 limit but it has been reduced to $5,000.00.

Unemployment historically has been a lagging statistic. The current unemployment rate is 9.4% nationally but is much higher in Michigan. The unemployment rate for college graduates and high school graduates is 24% to 30% in Michigan because they are competing with adults for these jobs. A number of households have one unemployed member which means soccer moms are competing for these jobs with the assumption that they are more knowledgeable and reliable and will make a better employee.

Since March, the S&P 500 performance has increased 35%. The market experienced a nice rally in the second quarter. There is still the question whether this will be a W-shaped or an L-shaped recovery. There are big concerns on what will happen when the stimulus money is backed out of the economy.

The equity market rallied with the reconfirmation of Bernacke. There is a lot of interest in China buying bonds; currently foreign investors own 60% of our treasury debt.

Mr. Kuhn stated that the government has been trying to control the yield curve by going into the market. However, they are not a big enough force to manage the entire market. They are trying to keep interest rates low for home buyers.

The S&P 500 was up 16% for the second quarter and up 35% since the March lows. Based on this strong performance many investors are taking their gains.

Due to the narrowing of credit spreads, economic improvement in the market and investors looking to take more risk, the fixed income market is returning to its usual activity.

The beginning market value of the fund was $315.2 million. Net cash flow was -$8.6 million with asset value changes of $33.5 million. The market value of the fund ending June 30, 2009 was $342. However, this is a long way from where it was.

Total plan value in the equity position underperformed in the current quarter. He said that lower quality companies did well and higher quality companies will do well later in the market cycle. Most equity investors do not hold low quality. Some were caught flat footed when the market took off.

Mr. Kuhn said that if you look at the full year performance, except for one or two managers most out performed and did better when the market was down. If you lump them in together it helps in the down market and will help in the second half of the market rally.

Mr. Gray said that in the up/down market capture most of the managers in the fund do well.

Kennedy Capital did well with second quarter performance of 26.34% net of fees versus the benchmark at 20.68%.

Artio under performed for the quarter at 20.17% versus the MSCI EAFE at 25.43%. Emerging markets were up 34% for the quarter due in part to the BRIC countries and those rich in natural resources.

Fixed income managers did well for the period with Oppenheimer at 2.26% net of fees and Munder at 2.20% net of fees versus the benchmark at 1.79%.

High yield manager Peritus has done really well and experienced a nice reversal in their performance. He explained how credit spreads at 2,000 basis points affected their past performance. For the period their performance is 31% net of fees versus the benchmark at 23% and year-to-date performance is 41% versus 29%.

He said they are trying to get their arms around the private equity reporting numbers. He indicated that Nexos will not be at the meeting because they are closing on a big deal. He will invite them to the next regular meeting. He said that the private equity investment numbers are currently exhibiting the "J-Curve" effect.

Investment Policy Statement Review

Mr. Kuhn distributed a draft of the Investment Policy Statement. He said that the IPS was revised about a year ago and there is not a lot to change.

On page fifteen the section regarding the global bonds guidelines has been removed.

On page ten item six the futures and options strategy has been addressed as well as on page fourteen. He referred to the last two pages of the IPS. They contained the futures and options language for the Board's review.

He said that Oppenheimer has requested to use futures as a way to manage interest rate risk in their portfolio. The manager feels they can do better with futures. He said that it is his opinion that the Board should feel comfortable with this strategy and that Gray & Company should provide additional information before the Board makes their decision.

Chairman Harrison asked about the pros and cons and whether they are easing into core plus. Mr. Kuhn said that Oppenheimer would like to manage the interest rate risk with futures, however, they could also use cash. He said that they had looked at going into core plus but there were basket clause issues.

Ms. Billings pointed out that futures are permissible under Public Act 314.

It was determined that this would be added to the September meeting regular agenda for further discussion and approval.

Ms. Billings indicated that the lag seen in the equity portfolio is a common theme with most pension systems because they have invested in higher quality managers.

Mr. Gray thanked the Board for their vote of confidence during this treacherous period.

Economic Overview/Markets Roundtable

Chairman Harrison welcomed the managers with introductions being made around the table. He said that for some this is their first manager review session.

Mr. Gray said that they are looking for a broader economic overview of the market. The roundtable will last approximately forty-five minutes. He asked the managers with the Fed trying to keep interest rate lows as a way to stimulate the economy, how far out do the managers see before interest rates increase.

Gerry Thunelius from Oppenheimer Capital said that 2010 will be a difficult year for the bond market. The Fed's actions of lowering interest rates and attempting to restore liquidity into the market will have a big impact in the next year .

Ed Goard from Munder Capital said it is his opinion that inflation is three to five years down the road. With the crash caused by the biggest credit bubble, the Fed printing money will be inflationary in the long-term. There is concern about the $2 trillion in stimulus money that was injected into the economy. With wealth depleted and a lack of positive GDP growth this economy is not sustainable.

Tim Gramatovich from Peritus Asset Management said that if you look at the situation specifically from a credit perspective the consensus is that rates are heading up. There is a question on how real the China factor is and whether the data they are reporting is real. Iron ore was dumped on the market trading 35% below market rates. If production was really picking up why would they under value it. He feels both fixed income guys make sense. However, he feels that interest rates will be stagnant for awhile.

Mr. Gray asked how the managers would structure their portfolios.

Tim Devlin from Artio Global Investors said there is so much liquidity it would be foolish not to recognize and appreciate the current market and fully participate in the rally. They came in the year defensively postured and changed significantly due to the amount of stimulus money injected.

Mr. Thunelius said that the interest rate crowd thinks everything will be stagnant even though the S&P is up 68%. Inflation is coming and companies better build up inventories fast. He discussed the fact that that there has not been a post Lehman recovery. The economy went down far and fast and if you subscribe to Milton Friedman's "plucking theory" inflation will happen fast.

Mr. Goard felt that inflation is down the road despite the fact that the Treasury is issuing $100 billion in treasury bonds each quarter, other drivers like unemployment, employee wages and credit creation suggest inflation is still a ways off. Most companies are using credit to repair their balance sheets. Still see credit contracting with inflation not being an issue now. We are currently using the exact same policies the Japanese tried with the quantitative easing of interest rates and adding fiscal stimulus. Long-term buy and hold equity strategies sadly do not work but there will be periodic bumps in the GDP with no positive growth. They are underweight in treasuries. Lack of inventory will drive growth.

Mr. Gray said that the economy needs Gross Domestic Product growth. Without it the market will not go anywhere.

Mr. Goard said that fiscal stimulus will make things fell less bad. He does not see more sustainable growth rates. He thinks there will be short runs and pops in the GDP and doubts there will be sustainable financial services with credit contracting.

Mr. Kuhn asked if the managers think that credit will come back at some point at a more sustainable level.

Mr. Goard said that it will come back but with much less leverage due to strict credit standards.

Mr. Thunelius said that with treasuries at 14 basis points and companies missing returns of 68% in the equity markets, credit is going to come back. Someone at Ford needs car seats and will begin to rehire. However, it will not come back the way it was. Companies holding cash will not continue and vendor financials will come back.

Chairman Harrison asked at what stage credit will trickle down to the consumer. He explained that companies are using alternative methods to make money by raising fees and lowering credit lines. It is the only way they can make money on existing clients. The government would have been better served if they would have sent a check for $100,000.00 to each citizen instead of giving it to the financial institutions.

Marquette Chester from Invesco said that the financial system and banking system is broke even though the government has put stimulus money into the system. The FDIC is broke. He cannot see change anytime soon. The larger banks are reducing credit lines and are fundamentally looking at 2011 before significant change. It will take twelve to eighteen months for the toxic assets to be flushed out of the system. The government is using the Japan dynamic as a recovery model. The only difference is that Japan did not address their banking system. Private capital has been affected and cannot get money from traditional sources. Firms with peak capital will weather the storm.

Mesirow said that the banks will shore up their balance sheets with TARP money and by taking significant write downs to avoid any huge surprises going forward. Most of the failures will be with smaller banks. Low inventories will have impact and infrastructure projects beginning in early 2010 will spur the economy and trickle money down to workers.

Mr. Gramatovich said that he and Ron Heller have been inside some of the smaller regional banks. It does not take much to create a banking problem. Eighty-one banks have closed so far. There are still a large number of CDO's and construction and developer loans in default which have yet to vaporize. He discussed how the economy will rebuild and there will no longer be a fake economy where you can put $20.00 down and buy a television at Best Buy. The automotive industry was building 10 million units per year with current projections at 8.5 million units per year. It seems like a disaster to some requiring 20% down and allocating 35% of the household income for a home mortgage. Vacancy rates are soaring. There is a natural gas storage surplus and he does not understand how oil can be priced at $74.00 per barrel. Where is the demand? Reflation trade has added value in equity market. He does not know what type of recovery it is we have today. He asked since when is savings money bad.

Mr. Thunelius said that he disagrees with the demand for oil and the amount of cash companies are holding. He said it makes no sense to hold money in treasuries when you can buy Citibank bonds at 4% over treasuries. The FDIC is broke and we are all going to pay for it. He does not feel that anymore large banks are going to fail and the smaller community bank failures have been priced in. The TARP money kept banks like Goldman Sachs and Bank of America around. Citibank recently hired a person at $6 million per year to sell their corporate bonds.

Mr. Gramatovich asked how that will affect the GDP. There is still some value in credits after pricing in the risk. They are opportunities in bond land. Not seeing an over consumption for decades. However, it does not affect the real world or the economy. There are twenty industries that are not looking to grow in the future.

Mr. Thunelius said that he lives in Long Island, New York and there are no economy cars for purchase. The "Cash for Clunkers" program seemed silly but someone is buying these cars and someone is making them. Not all industries will be affected but there are changes happening and we are on the edge.

Mr. Chester said that consumers drive the economy and asked what will happen with the net loss of $12 trillion in the financial structure. At the end of the tech bubble there was the internet what will be at the end of the financial crisis. There is a huge gap that will not be made up in the short term. There will be moderate growth and it will not go back to where it was quickly.

Mr. Thunelius said it will happen fast. There was $87 trillion in credit default swaps and now there is $26 trillion. Investors are trying to make decisions on the edge. There were a lot of companies priced for the Great Depression.

Mr. Gray asked what is next if the managers feel that buy and hold is not a good strategy.

Mr. Goard said that buy and hold did not work in Japan. There are opportunities to make more dynamic investments.

Mr. Gramatovich said you have to be nimble and sell equities.

Mr. Devlin said there is a broader mandate around the world and there is growth outside of the United States in emerging markets. To a large extent the growth is coming from commodities and resource rich countries. All the U.S. spending will have a negative impact on the dollar over time.

Manager Presentations

Munder Capital (Fixed Income)
Ms. Hopkins said that they have been managing investments for the System since March, 1987. They value their relationship and thank the Board for their trust and confidence over the years.

She announced that Peter Root who has been with Munder Capital for nineteen years will be retiring at the end of the year. They are actively searching for his replacement. He has committed to staying on with the firm until his replacement is found.

She referred to the disclosure statement included in their presentation materials.

Mr. Goard said that their theme is liquidity. Since the fourth quarter of 2008 and the first quarter of 2009 liquidity has been easing with a sense of normalcy returning to the financial market. With the issuance of $100 billion in treasuries per month they are underweight in treasuries and overweight in mortgages, ABS, CMBS and holding larger names in financials. Year-to-date returns as of June 30, 2009 were 49 basis points ahead of the benchmark and as of July 1, 2009 their three-year annualized returns were 21 basis points ahead of the benchmark. They are making a comeback but still have plenty of wood to chop.

He reviewed the characteristics of their portfolio. Their sector weighting to mortgages is currently 8% above the benchmark. They are slightly overweight to CMBS compared to the benchmark. Their largest sector weight in comparison to the benchmark is in ABS at 11.8% versus 0.5%. They are more underweight to treasuries than they have been in the past five years. They are overweight in AAA quality at 18.4% versus the benchmark at 5.8%.

Their average coupon was 40 basis points to 50 basis points greater than the benchmark. Average levels for quality and duration were in line with the benchmark.

Chairman Harrison asked if their AAA paper was true AAA quality. Mr. Goard said that some of it is AA and A. They use their own internal rating system and run their own credit assessment.

Chairman Harrison asked what their plans are to create alpha. Mr. Goard said that credits will have a higher intrinsic value. Chairman Harrison also asked how long it will be before ratings are true to form.

Mr. Kuhn asked about their strategy with duration being slightly under the benchmark. Mr. Goard said that they do not make huge interest rate bets and their approach is to target duration close to the benchmark.

<u>Oppenheimer Capital</u>
Tom Scerbo from Oppenheimer Capital said that they have been managing money for the System since March, 1987 and appreciate the twenty-two years of business.

The current market value of the investment is $45.1 million. One-year performance is 60 basis points ahead of the benchmark at 6.7% versus 6.1%. Trailing one year returns are 160 basis points over the benchmark.

Mr. Thunelius said that they believe the economy is on the edge of turning around. They are overweight in credit spreads. When interest rates rise in October to November they will manage the duration in the portfolio. He thinks the yield curve will flatten and two-year treasuries yields will be overpriced. Currently the portfolio is overweight in industrials and financials. There will be opportunities in credit spreads. It is their opinion that Citibank is now a treasury.

Chairman Harrison asked about the government's current position and ownership of banks and the buy up of bank assets. Mr. Thunelius said that winners will pick up the assets of small banks that fail. The government cannot toy inside the banking system.

Mr. Kuhn said that when the government steps in they reduce the recovery value for bond holders. The government gave cents on the dollar for GM and Chrysler paper.

Mr. Thunelius said that GM bondholders lost money but GM was not making any money. There was too much money on the company sidelines. GM kept credit cheap. He was surprised regarding the government conveyance in the auto industry. Just in time inventory management compounded the damage.

He said that the portfolio is underweight to CMBS due to the potential number of community banks that could fail. There will be opportunities in the future.

In 2010 rating agencies will upgrade their standards. They are keeping everything rated low because they are scared. The Fed has a tough job ahead.

He described how everything in his personal life costs more.

Mr. Kuhn said that there duration is longer than the benchmark and asked how this fits with their opinion that interest rates will go up. Mr. Thunelius said that volatility is priced wrong and feels that their duration will go down in October.

Peritus Asset Management
Mr. Gramatovich said that they do not own any CMBS. They made a lot of money in 2009 but feel that credit was punished in the fourth quarter of 2008. They do not rely on rating agencies and regardless if it is as AAA rated or D rated if it is not paying AAA it is in default.

They have had a good year with returns of 41.4% versus the benchmark at 30. None of them expected what happened in 2008 but they have made all the money back and then some. Performance through July is 53%.

He explained that the mark downs on credits that have paid well. They positioned the portfolio to revolve around the collapse of the CLO market. Instead of companies issuing bonds they structured floating rate obligations that have collapsed. There are $500 million in mature funds that have to be refinanced. The days of raising a lot of cheap money are gone. Many of these companies are coming through the high yield guys for refinancing.

They are seeing more opportunities in senior secured credit when they normally invest in subordinate credit which started in March or April. Many of the high discounts are now trading up the credit quality ladder and they are clipping higher coupons priced at 90 cents to 95 cents on the dollar. This has created less volatility in the portfolio. He has no clue where interest rates will go. They plan to keep the portfolio in higher quality which is less sensitive to interest rate duration. Going up the quality spectrum will prepare them for the next cycle.

Ron Heller said that the market has changed on the trading side. In the past 80% of the trades in the market were made by four or five big traders. It is currently a trader's market.

Mr. Gramatovich said that credit is a good place to be. Companies are deleveraging and paying down debt. The psychology of business has changed with balance sheets, managing liquidity during these tougher economic times. He feels good about the next few years with double digit cash flows going forward.

Trustee Wright asked if the economy will have a W, U or L-shaped recovery. Mr. Gramatovich said that they are not looking for a rosy scenario for the economy. He does not expect to see any immediate improvement in production with sales down 40%. Growth will be based on whether a company can pay their debt and keep going. Businesses are selling inventories down in order to build working capital. Cyclical businesses look good now. An L-shaped recovery will keep the current capital structure going forward.

Mr. Kuhn asked what their current yield is. Mr. Heller said they are at 11% with Mr. Gramatovich confirming their yield just a hair over13%.

Artio Global Management
Rebecca Kubick thanked the System for their business managing money for the fund since 2004.

She updated the Board on the status of the IPO. They were originally looking at the public offering last year but postponed it due to the market conditions. Currently the firm is looking at the upcoming fourth quarter. CEO, Richard Pell will continue to maintain 20% of the stock.

She reviewed the investment team. She stated that they have never lost a portfolio manager.

Tim Devlin reviewed their returns and highlights of the market. The MSCIACW ex-U.S. performance was up 70% and was a difficult benchmark to keep up with. The EAFE recorded year-to-date performance of 7.95%. Year-to-date regional performance was driven by emerging markets at 36.01%. These numbers hid the volatility and fear that had gripped the financial markets. Based on the volatility they took a defensive strategy by underweighting emerging markets after the Lehman collapse. Once the stimulus money was allocated to the financial markets everything changed quickly. They have repositioned the portfolio by slightly overweighting emerging markets compared to the benchmark but missed the initial rebound. They do not look at emerging markets as an asset class. They look at each country individually.

He explained their concerns regarding China and stated they were underweight but they have now neutralized their weighting. The reflation of stimulus money has added growth to China. Commodity rich countries like Brazil, Chile, Australia and Canada is where to be in the foreseeable future.

Their defensive position and high quality bias made sense coming into the year. When the bell rang lower quality did better and there was a lower quality bias. They were underweight to financials and when the market clearly changed, when money was pumped into the banking sector. They reduced their underweight to financials but are cautious on what they own. During the period they held higher cash levels but are now fully invested.

They lagged the benchmark in early March and into April but the portfolio is now fully in the market. They feel the market performance will continue for awhile longer with cash now coming in from the sidelines. They will continue to be part of the strong rally.

Mr. Kuhn questioned whether their investments are strictly commodity-oriented or include currency. Mr. Devlin said that they do like currency. They are less positive on energy and see more growth coming from the new world versus the old world.

Mr. Kuhn asked whether history books will report that 2008 was the year the world economy shifted from the United States to China. Mr. Devlin said he would never discount the ingenuity of the U.S. economy for future growth. Certainly the U.S. and Europe have a lot to recover from.

Mesirow Financial

Mr. Fedronich presented an overview of Mesirow Financial. They have $29 billion in assets under management firm wide. They have managed over $2.8 billion of private equity commitments since inception. They have very little debt on their financial sheet. They have a cohesive and experienced investment team built over a period of 25 years.

The private equity investment program has demonstrated a proven track record to provide full market coverage and diversification by sub-asset class, vintage year and manager. They have a consistent investment strategy focused on investing with premier private equity managers including buyout, venture capital, mezzanine and distressed/turnaround. They have a strong alignment of interests with their clients with a significant number of the private equity staff investing alongside the limited partners.

He reviewed the private equity investment team which included Chairman, Jim Tyree; Senior Managing Director, Thomas Galuhn, Senior Managing Director, Marc Sacks and Senior Advisor Paul Rice. Paul Rice has entered into retirement but he continues to be a senior advisor on the team.

He indicated that their representative client list including corporate clients, endowments and foundations, Taft-Hartley pension plans, international clients including the Australian Government Employees Super Fund and public pension plans which represent 50% of their clients.

He reviewed the characteristics of the Mesirow Financial Private Equity Partnership Fund IV, L.P. It was formed in November, 2006. Fund capitalization is $910 million with 82% capital committed, 39 closed commitments with 24% of the capital drawn. The target sub-asset class allocations are 20% non-U.S., buyout at 35%, special situations at 18% and venture capital at 27%.

Special situations include distressed equity restructuring, mezzanine and industry-focused strategies. Current private equity and second interests exposure is overweight due to the elimination of private equity distressed sellers that are being bought at extreme discounts. During the second quarter financials and evaluations are beginning to settle down.

Fund IV is currently 80% committed with more than 6% deployed. Currently the valuations are low and have not entered into vintage years. He pointed out a few of the underlying commitments including the Huron Fund III and Peninsula V which is a mezzanine fund.

He described their top tier manager commitments for 2009 through 2011. He explained their manager due diligence process.

The System entered into a $5 million commitment with 24% of the committed capital called to date. The Limited Partners will have exposure to approximately 1,000 underlying investments of which the majority is unrealized.

He described the sub-asset class diversification, the broad industry diversification and the geographic diversification of the fund. Private equity is a long-term asset class which began in the 1970’s. There are a lot of extremely experienced investors in their investment program, which plays to their strength.

Chairman Harrison asked if they have encountered a lot of good buying opportunities. Mr. Fedronich said that in private equity they have to hold onto assets to achieve value. In the past an asset was held two to three years. Based on the current extreme situation assets are being held five to eight years on average. The day of the quick flip is over. Most of their managers are operational-oriented and did not do business that way.

Mr. Kuhn asked if there are any secondaries in the portfolio. Mr. Fedronich explained that they have one large European firm which they purchased at a 50% discount. The seller did not get capital. Mr. Kuhn asked if they are looking more. Mr. Fedronich said they are and they have allocated 10% of the portfolio to these strategies.

<u>Invesco Private Capital</u>
Mr. Chester introduced himself and Product Manager, Lauren O'Bryan indicating that Ms. O'Bryan is a Michigan native and a graduate of the University of Michigan.

He said that they currently have $1.7 billion in assets under management with $40 billion in assets under management worldwide. They have been active in private equity investments managing more than $4.0 billion in commitments since 1982. They offer competitive performance in turbulent markets and access to premier funds like the Wilbur Ross distressed debt fund. They have a proven track record of successful investing in multiple market cycles.

Private equity is a long-term asset class and they do not believe that the private markets can be timed. A lot of the large capital inflows are no longer there. Investments require more due diligence including portfolio level risk controls that are diverse across funds including size, industry, geography, strategy, stage, and vintage years. They have seen extremely competitive performance in emerging manager funds and are spreading the opportunity sets around. They did lose money in an association in Europe.

Lauren O'Bryan presented a portfolio overview of the Invesco Partnership Fund V. The System's commitment is $2.5 million with $600,000.00 of the committed capital drawn to date. She explained that the fund is not underwater and that the net asset value of $509,207.00 is based on the FASB 157 Mark to Market accounting rules that require private equity firms to use mark to market value versus public funds.

Private equity is a long-term asset class which invests in a company to create value and profit. She explained that due to the early stages of the investment capital inflows outweigh outflows which negatively affect returns in the early years which she referred to as the "J-Curve" effect. The capital inflows are normally the first one to three years with the harvest period beginning in the third to eighth and then the fund wind downs.

They recently held their final closing on June 8, 2009 with a final fund size of $126 million. To date 25% of the capital has been drawn down. She explained that there is still plenty of dry powder available to invest in depressed valuations.

The current portfolio consists of $112 in commitments with fifteen private equity partnerships.

She reviewed the high level financial summary of the fund.

She described the diversification of the portfolio and the investment focus of the fund. The portfolio is currently invested in U.S. Buyout and Corporate Finance at 40%, International at 30% and Venture Capital at 30%.

She described a number of the funds in the portfolio and gave a brief synopsis. Pinebrook is a newly formed fund by the former Vice Chairman at Warburg Pincus which targets private equity investments in energy and financial sectors. They do not use any leverage. They employ a line of equity approach with investments having to meet specified milestones in order to get money.

She spoke about Scorelieux, a technical company in France whose focus is mobile gaming. They are looking for this company to grow to $13 billion by 2012. The I-Phone just launched a number of their mobile games in beta format.

Spark Capital, a venture capital company, is looking to seed companies working on battery technology. They have also been heavily involved in Twitter which is an on-line journal. During the next decade their focus will be media infrastructure.

During their twenty-five vintage years investing in private equity they have consistently provided long-term performance other than the collapse in 2000.

Meeting Break at 11:55 a.m
Meeting Resumed at 1:00 p.m.

Onyx Capital Advisors
Mr. Dixon announced that LaRoy Williams has left the company to pursue other interests but will maintain an equity position in the company. He introduced Erica Robertson who will head up their strategic growth initiative. She holds a Masters Degree from the University of Michigan.

As of June 30, 2009 the net asset value is $26 million. During the period the Fund has made equity investments into SCM Finance, LLC which equates to 50% of the company, with SMC Credit, LLC which represents 65% of the company and Hi-Tech Associates. The Hi-Tech Associates investment was made through Onyx Intelligence Solutions, LLC which was setup in order to make the purchase of the Hi-Tech Associates stock. This investment comprises 95% of the company. The Fund also made an investment in Galaxy Aero Holdings, LLC which equates to 47% membership interest.

The Fund had a net investment gain of $2.175 million recognizing a fair value increase in their investments. The increases in values are due to the performance of the assets and the outstanding underlying values.

He reviewed the unaudited Statement of Investments in Portfolio Assets as of June 30, 2009. He reported the cost basis and fair value of the investment. He also indicated that there is a 10% discount due to ownership.

He presented the unaudited Statement of Operations. Total investment income as of June 30, 2009 was $544,739.00 with total expenses of $147,122.00 and net investment income of $397,617.00. The net change in the unrealized appreciated was $1.778 million resulting in a net investment income of $2.226 million.

The unaudited Statement of Assets and Liabilities showed $21.3 million in portfolio investment assets, $4.8 million in cash and accrued interest and dividends. Total accrued liabilities were $108,404.00 which resulted in total assets of $26 million. Net assets consisted of $23.7 million with $2.2 million in earnings making total net assets of $26 million.

He presented investment information pertaining to the Second Chance Motors. SCM Finance, LLC provides automotive floor plan financing customized for the dealer on pre-owned vehicles. There are not many companies that provide financing for dealerships to keep cars on their lots. This equity investment is in preferred stock that allows the company an 8% coupon and gives Onyx the option of converting its investment into equity.

In 2008 they realized sales of $494,482.00 in 2008 and are expecting sales of $618,000 in 2009 with current sales at $216,000.00.

He explained the exit strategy for SCM Finance. The plan is to increase its interest income to $1.7 million through 2012 at which time the company is expected to liquidate through an IPO.

Ms. Billings asked if he is concerned about the “Cash for Clunkers” program and whether it will affect SCM’s business. Mr. Dixon said that he is not concerned and it has not affected SCM’s business with them having a record month and sales of 157 units last month. Their market is geared toward consumers with credit issues and the immigrant market.

SMC Credit provides end-user financing for core buyers. They currently own 65% and anticipated an increase. They are collecting 85% to 90% of the paper they have issued. They have expanded the business to dealers outside of SCM representing approximately 20% of their revenue. They recently installed new operating software MEGASYS to increased operating efficiencies. They have a centralized underwriting collection center in Conyers, Georgia.

The exit strategy for SCM Credit is either to sell to a larger finance company or buyer looking to get into the automotive finance or to increase their interest income to $6.4 million at which time they will liquidate through an Initial Public Offering.

Second Chance Motors is the conduit of the other branches. It is a Georgia-based automotive sales company concentration on the growing pre-owned vehicle market. In 2008 their sales were $10 million and are slated to do approximately $12 million in 2009.

They recently opened a location in Houston, Texas; Jonesboro, Georgia and Decatur, Georgia. They have also established a dealer service center in Conyers, Georgia. They purchased new dealer software that creates a cookie-cutter model which helps them to open up new dealerships quickly.

Their exit strategy is based on the mezzanine note that will retire in 2011.

Hi-Tec Associates is a technical staffing company that supplies technical and administrative personnel to the aerospace and defense industries. They have a coveted top secret security clearance. They have been around for thirty years. Their representative client list includes Lockheed Martin, Raytheon and General Dynamics.

The company's sales are down which is systemic due to the economy. They have replaced the CFO and have expressed their new vision with management and all office employees at their quarterly meeting.

They are looking for organic growth with existing clients and to expand their focus to the energy sector. They recently added a key customer that is opening an engineering center in Lakeland, Florida. They are also attempting to re-establish their customer relationship with Disney.

Trustee Barnett confirmed that they are looking to re-establish their customer relationship with Disney. Mr. Dixon said that the owners had not continued to pursue that relationship.

Their exit strategy is to expand sales growth to $60 million and they are looking at acquisitions that could push sales over $100 million. This company is very attractive and a natural fit for many buyers who are looking for top secret clearance, stellar performance, an outstanding customer base and established systems.

Galaxy Aero Holdings, LLC is a designer and manufacturer of precision tooling for the business jet industry located in Winfield, Kansas. They have 120 employees with current revenues in the $22 million ballpark.

They have implemented cost cutting measures to handle the economic slowdown and backlog of orders. More orders are coming from Asia and Europe.

Patrick Gregory from UHY Advisors which is a CPA firm said that his firm brings in the final pieces of the company. They deal with management, back logs and push forward initiatives for Hi Tech and the SCM organizations.

Ms. Robertson said that Hi-Tec is in a great space and it is a great time to look at their internal strengths and strategies and to expand client relationships.

Mr. Gregory said that the automotive industry is experiencing trying times but there are opportunities for SCM. Many banks have taken a hands off approach to auto financing but the demand is there. The southeast area of the United States is a great place to expand this business.

Ms. Robertson said that SCM is doing well now and SCM's market business is expanding. People are looking for someone to give them a loan. Their new software has allowed them to easily expand their dealerships. They have also employed a more aggressive marketing approach.

Mr. Gregory said that Galaxy Aero Tooling makes injection moldings and precision tooling for business jets. The back log of orders is down with a number of orders coming in from Asia and Europe for Cessna and Beechcraft aircraft. Ms. Robertson confirmed that they have eliminated the back log increasing fulfillment efficiencies.

Mr. Gregory said that the exit strategy is to sell the company for ten times the multiple. The exit strategy was delayed and in this strategy they are looking at eight times to nine times the multiple.

Mr. Gray asked if there were any questions and thanked the managers for their participation.

The managers departed at 1:39 p.m.

<u>Wrap-Up</u>
Mr. Gray indicated that the System has hired some very bright people and have a good slate of managers. He referred to the sparring between high yield manager Tim Gramatovich and fixed income manager Gerry Thunelius and how it added a level of transparency to the discussion. He really likes the asset allocation of the portfolio. He will invite Nexos to the next regular meeting.

Chairman Harrison said he really likes the concept of the roundtable discussion. It offers cognitive information and a broader viewpoint of the economy which is imperative in light of what is going on today.

Gray & Company has provided stellar performance as the gatekeepers for the System. He added that the consultant and legal counsel work well together.

He commented that Artio's performance is not normally where they are but he is not concerned. He feels the asset class will be slower going forward.

He feels good about the portfolio as a whole and is looking for large cap growth to do well going forward.

He offered encouragement to the Board and Staff. He said that most people lump them in with the City and the General Fund. He stated that they are all doing a good job.

Vice Chairman Sauceda said it was the best manager review meeting he has ever attended. He likes the roundtable discussion format.

Mr. Gray said that they want to do the best job at what they do. Please let them know if there is anything they can improve on.

Ms. Billings asked if the Board had any concerns about the Onyx investment with the departure of LaRoy Williams from the firm.

Mr. Gray explained that he is not beating up on Onyx when he is asking for details. He has done more due diligence on behalf of this investment than for any other manager.

There was discussion regarding the private equity managers and whether they are all required to provide detailed information. Trustee Wright asked if Nexos will be required to provide the same detail as Onyx. Mr. Gray explained that Mesirow and Invesco have been in this space for quite sometime. Nexos is a new manager but not new to the space. He is planning to work closer with the smaller firms in the future.

Ms. Zimmermann said that the information from Onyx is the best to date. She feels going forward that Erica will supply detailed financial information. She also mentioned that there is confidential information in the agenda packet regarding the conference call with Onyx that should not be shared.

Trustee Wright said this was the best meeting she has attended in 3½ years.

The meeting adjourned at 1:57 p.m.