CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 26, 2014

A special meeting of the Board of Trustees was held on Tuesday, August 26, 2014 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:05 a.m.

TRUSTEES PRESENT
Jane Arndt
Shirley Barnett
Koné Bowman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Nevrus Nazarko *(arrived at 10:00 a.m.)*
Deirdre Holloway-Waterman *(arrived at p.m.)*
Patrice Waterman

TRUSTEES ABSENT
Walter Moore
Kevin Williams

OTHERS PRESENT
Cynthia Billings, Esq. Sullivan Ward Asher & Patton
Chris Kuhn, Gray & Company/GrayCo
Deborah Munson, Interim Executive Director
Talmadge Gunn, Ambassador Capital Mgmt.
Gregory Prost, Ambassador Capital Mgmt.
Allan Meyers, City National Rochdale
Wayne Titche, City National Rochdale
Greg Cassano, First Eagle Investment Mgmt.
Ademir Zeco, GrayCo Alternative Partners
James Nelson, Herndon Capital Management
Marc Reid, Herndon Capital Management
Britt Joyce, Lombardia Capital Partners
Kevin Sapanli, Lombardia Capital Partners
Kristina Pierce, Mesirow Private Equity
Tracey Savage, Mesirow Private Equity
Amit Sanyal, Piedmont Investment Advisors
Clarissa Parker, Piedmont Investment Adv.
Craig Haynes, PNC Institutional Invest.
Aman Patel, Systematic Financial Mgmt.
Jim Wallerius, Systematic Financial Mgmt.

The meeting was called to order at 8:52 a.m.

Chairman Harrison welcomed the Board to the manager review meeting.

Gray & Company – Second Quarter 2014 Performance Review
Mr. Kuhn provided an overview of the System's 2014 second quarter performance. The theme for the second quarter capital market headlines was "The Great Contradiction." He told the Board that based on the performance of the equity and fixed income markets it appears that the two asset classes are interpreting the same data but drawing different conclusions.

During the first quarter the fixed income market saw a significant decline in the Gross Domestic Product which was thought to be based on weather-related issues. Yet inflation was not an issue and rates declined which generated solid performance for bonds.

The equity market looked at the same data and suffered only a brief decline in January and rebounded strongly with modest gains in February and has continued to build on that performance.

Global market performance was up during the second quarter with all asset classes posting gains. This was a great quarter for equities with the S&P posting quarterly returns of 5.2% and one-year returns of 24.6%; the Russell 2000 posted returns of 2.1% and 23.6%, respectively; the MSCI EAFE (non U.S. equity markets) posted returns of 4.1% and 23.6%, respectively and the MSCI Emerging Markets posted returns of 6.6% and 14.3%.

Fixed income returns for the second quarter were 2.0% with one-year returns at 4.4% for the Barclays Aggregate and 2.6% and 8.9% for Citigroup non-U.S. government bonds.

Chairman Harrison indicated that the performance was based on twelve month rolling returns. Emerging markets were open to the upward swing and were the best performing section for the quarter at 6.6%. He noted that at the last manager review meeting most managers did not feel emerging markets would perform well.

Mr. Kuhn stated that fixed income performance for the first few months of 2014 was a big surprise. They have seen interest rates come down across the industrialized world.

The total fund value as of June 30, 2014 was $502.9 million. Performance for the period was 3.30% net of fees. Equities underperformed for the period with returns of 4.13% versus the benchmark at 4.87%. International equity returns were 3.46% versus the benchmark at 4.09%. Fixed income outperformed the benchmark gross of fees 2.16% versus 2.04%. There are no private equity returns to report for the quarter.

He reviewed the Fund's one-, three-, five-, seven-, ten- and fifteen-year performance versus the policy index. He noted that the Fund's fifteen year performance number of 6.72% was slightly below the policy index and indicated that it included the tech bubble.

Trustee Gaffney stated that the Fund is making back its losses during the really good years.

Mr. Kuhn told the Board that lower quality outperformed during the period.

Large cap growth manager Sawgrass came up a little short for the period at 3.75% versus 5.13%. He did noted that their three-year performance is ahead of the benchmark 17.38% gross of fees and 16.73% net of fees versus the benchmark at 16.26%.

The GrayCo emerging manager portfolio was behind the benchmark 3.94% versus 5.24%. They are looking to make some changes in that portfolio.

The GrayCo Michigan large-cap value portfolio outperformed the benchmark gross of fees 5.17% versus 5.10%.

Mid-cap growth manager Munder struggled during the period with performance of 3.59% versus the index at 4.37%.

Mid-cap value manager Systematic returned performance of 4.62% versus the benchmark at 5.62%. Their one-year performance outperformed the index at 27.90% versus 27.75%.

Small-cap was a weak environment during the period but both Loomis, Sayles and Kennedy Capital outperformed their benchmark 3.88% versus 2.38% and 3.64% versus 2.05%.

Chairman Harrison reminded the Board that there is no need to be quick to draw the trigger on managers.

Miss Munson asked why the System's small cap-managers trailed the benchmark during the three-year period.

Mr. Kuhn stated that Kennedy trailed the benchmark 12.79% versus 14.57% but Loomis Sayles outperformed 15.69% versus 14.64%.

Trustee Bowman noted that mid-cap manager Systematic underperformed in the five-year period.

Mr. Kuhn indicated that since inception Systematic has outperformed the index 8.21% versus 7.13%.

Miss Munson indicated that with management fees of 100 basis points and 85 basis points the small-cap investments are not paying back or keeping up with the benchmark. She also asked why the ten-year and fifteen-year performance did not indicate performance net of fees.

Mr. Kuhn indicated that if you take 1% off the small-cap managers' performance for those periods both managers provided good returns to the System.

Chairman Harrison told the Board that Kennedy is the oldest and longest performing manager for the System.

Mr. Kuhn did state that Kennedy has not been performing well lately. He told the Board that when you hire a quality manager you ride out the cycle instead of changing managers at the end of a cycle.

Miss Munson asked if the Fund's managers' are evaluated on their performance gross or net of fees.

Mr. Kuhn stated that when you measure performance you compare both gross and net of fees. When you measure versus your peer group you measure gross of fees. Fund performance is measured net of fees.

International equity manager First Eagle is a deep value manager so their performance is no surprise. He noted that they keep 10% or more in cash in their portfolio.

Chairman Harrison stated that First Eagle was brought in to compliment international equity manager Artio.

Mr. Kuhn told the Board that international equity manager WCM was brought in to replace Aberdeen and to balance performance with First Eagle.

In a down market First Eagle with be up 10%. They are a defensive manager.

Core fixed-income manager Munder was slightly ahead of the index 2.14% versus 2.04%.

Intermediate fixed income manager Ambassador outperformed the benchmark 1.36% versus 1.23%. This strategy can outperform in a rising interest rate environment.

High yield manager Peritus struggled during the credit crisis with seven-year performance of 7.91% versus 8.90%. They outperformed for the quarter 3.54% versus 2.57%.

Mr. Kuhn explained that they have added a new graph to the performance report. The graph analyzes the value added to the portfolio during the past five years. It measures a combination of the S&P and T-Bills to generate 7.5% performance. That performance combination is run against the System's portfolio measuring the cumulative value-added and five-year rolling average. This shows the benefit of diversifying the portfolio. The System is realizing a 2% to 4% advantage over the rolling five year average.

He described the chart which displayed the System's portfolio growth over the past five years. The total value of the Plan for the five-year period ending June 30, 2014 was $342.550 million with a net cash flow of $86.945 million and an investment increment of $247.295 million resulting in an ending value of $502.900 million.

He also reviewed the graph comparing the System's performance versus the total returns of its peers. The Fund has consistently performed in the tenth percentile for the past fifteen years versus other public funds.

Chairman Harrison stated that this is outstanding since there is no money going into the Fund.

<u>Kennedy Capital Small Cap Growth Update</u>

Mr. Kuhn reported that he has been negotiating the management fee with Kennedy Capital. They have agreed to four years at 75 basis points and then 100 basis points thereafter. The System is currently paying 100 basis points. The second option is 85 basis points for the life of the investment.

There was discussion regarding the management fees.

Chairman Harrison stated that he would not want the System to lose its chance to invest in this strategy due to the management fee.

Trustee Giddings felt that 85 basis points is a good deal based on Kennedy Capital's track record.

Trustee Arndt questioned why the management fee is so high. Other managers including mid-cap and fixed-income earn fees of 50 basis points and 35 basis points. The System is paying long standing small-cap manager Loomis Sayles 85 basis points.

Mr. Kuhn explained that small-cap managers have to perform more research than other asset classes which is why they charge higher management fees.

Trustee Arndt expressed concern that this strategy does not have a proven track record and questioned the five-year composite performance numbers.

Mr. Kuhn stated that this investment strategy came from Missouri Valley Partners. The portfolio and management team moved to Kennedy and stayed intact which is why they could use the prior performance for this strategy.

Trustee Gaffney stated that the Board is not investing an additional $10 million they are moving $10 million of the current investment with Kennedy Capital to the new strategy. The reduced management fees will also save the System money. She also noted that Kennedy is a good performing manager.

There was a question about whether the management fees could be renegotiated at a later date or if language could be put into the management agreement.

Ms. Billings indicated that this is an at-will agreement and can be terminated at any time.

RESOLUTION 14-076 By Giddings, Supported by Bowman
Resolved, That the Board approve the 85 basis points management fee for the $10 million small-cap growth investment with Kennedy Capital.

Yeas: 7 – Nays: 0

Trustee Giddings questioned why Piedmont is attending the meeting. He thought that they were being removed from the GrayCo Emerging Manager Large Cap portfolio. He asked if there will be a discussion with the manager prior to the meeting.

Mr. Kuhn stated that they are concerned with Piedmont's performance at are still looking at options. They did return good performance for the period.

Meeting break at 9:50 a.m.
Trustee Nazarko arrived at 10:00 a.m.
Meeting resumed at 10:05 a.m.

Economic Overview/Markets Roundtable
Chairman Harrison welcomed the managers and began the introductions around the table.

Mr. Kuhn stated that he will ask question regarding economic type topics regarding the markets. This gives the Trustees the ability to receive a lot of information listening to the viewpoints of the managers. He asked if there were any managers that have not been involved in the roundtable format.

He told the managers that there have been differing interpretations of the market data with regard to the equities market and the fixed income market. Which opinion is right versus wrong. He also asked the managers whether interest rates will be rising.

Chairman Harrison added that the Fed held their meeting in Jackson Hole, Wyoming. Janet Yellen provided a mixed report and shied away from providing information regarding interest rates. He asked the managers how they feel about rising interest rates and their impact.

Gregory Prost from Ambassador Capital stated that he feels interest rates will stay low. Europe and Japan are going through deflationary situations with ten-year yields at their lowest historical rates. U.S. yields have the highest rates. Janet Yellen understands that she cannot raise rates based on unemployment rates and the subdued economy. They feel rates will stay lower for a lengthy period. With the Fed pulling bonds and money out of the market place interest rates have to remain lower. This is the opposite of what was expected. Their question is what the Fed will do when the next downturn happens.

Ademir Zeco of GrayCo Alternative Partners stated that the likelihood is that there will be no sharp rise in interest rates. This supports the equities market. They expect to see a rise in rates mid-2015. This will be good for equities when the economic indicators are improved. Jobless claims have decreased and there has been some improvement in consumer confidence with increased investors. Stocks are a good place to be. The market will see rising rates in 2015 and the GDP will increase 50 basis points to 2.5% over the next six months.

Aman Patel from Systematic stated that yield-based stocks like REITS will return the highest yields. They have done well in the lower interest rate environment. The emerging markets and global markets will be a challenge. Economic indicators and the housing market are a positive and bank loans are increasing. They feel that there will be an increase in inflation.

Wayne Titche from City National Rochdale indicated that there will be corrections in both markets. Commodity prices and oil prices decrease in a low inflationary environment. This will also lower the P/E for stocks.

Craig Haynes from PNC stated that rising interest rates are not a great environment for equities. Equities perform well in a low rate low inflation market.

Chairman Harrison asked the managers when they think interest rates will rise and if they see a market correction coming. He also asked if that will be good for the economy long-term. He questioned whether the managers are waiting to get through the market correction

Mr. Kuhn asked when the managers think the correction is coming.

Their macro views have not changed based on a twelve- to twenty-four month market rally. Global equity managers have not seen anything corrected in the financial architecture. They are still defensive and still adding to cash. Companies are taking their gains off the table. Things are overpriced. They continue to purchase gold at a 50%/50% split between bouillon and miners. Their allocation to gold is currently 9%.

Chairman Harrison asked if their position in gold will pay off.

Mr. Cassano stated that their allocation to gold will pay off.

Amit Sanyal from Piedmont Investment Advisors stated that the tech bubble in the early 2000's and the 2008 credit crisis induced a recession. The banking sector is improving and household balance sheets have improved. They are in a position to harness that growth and performance in their portfolio.

Chairman Harrison asked what role banking balance sheets play in the long-term.

Mr. Sanyal stated that financial institutions are no longer using a cowboy-style lending process. There are more standards on the credit side. Borrowing is picking up. There are constraints on commodity prices. Europe and Japan are continuing to keep interest rates low.

James Nelson from Herndon Capital stated that they have a constructive view to the U.S. economy. Companies have better balance sheets, better margins and cash flows. They are continuing to grow business. He discussed the average length of a recession. They do not believe that a recession is coming. Growth is slow. Due to the modest pace of economic growth companies are able to grow. They are waiting for consumers to kick in. They do not feel that interest rates will rise sharply. As long as the economy ticks along the Fed will not increase rates dramatically or it could have a negative impact.

Allan Meyer from City National Rochdale stated that there is so much money in the system it has to go somewhere. There will be $2 trillion to $3 trillion in excess reserves once Quantitative Easing ends and these bond proceeds will be reinvested. The Fed paying interest on the reserves will help to keep rates low.

Mr. Cassano stated that the Fed goes into closed door session to discuss the money slushing around in the system which sits at approximately $4 trillion. Industry is living on a line of credit. Interest rates will gradually tick up.

Britt Joyce from Lombardia Capital agreed with Mr. Cassano. Unemployment is at 6% but compensation needs to be looked at because household income is flat. The Fed does not have anything else to fight with. Another crash like in 1929, 1987 and 2008 could take the air out of the markets. Nothing is overvalued. They can still put capital into the markets. Utilities and REITs are up. There are still opportunities.

Mr. Patel stated that interest rates will rise in a gradual fashion. The earnings cycle has increased and the U.S. economy turned around three years ago. Europe just began its turnaround during the second quarter. REITs are trading at 140% in the market. There will be a severe correction.

Mr. Kuhn indicated that Italy just fell back into a recession and the European Central Bank is scrambling to bring things back into check. He asked if this will be a trigger to the U.S. markets.

Mr. Titche stated that Europe was the slowest to respond to reality. The ECB said that it will do whatever it takes. France fired its Finance Minister due to derogatory comments he made regarding Germany. When Europe creates enough easing it will help the U.S. markets.

Mr. Cassano stated that folks are not paying attention to Eurozone prices. Germany's economy is the most sound and Spain and Italy spits and stutters with their economies. This will not affect the U.S. markets. Quantitative Easing will not correct the matters in the Eurozone. Continuing to interject fiat currency will not help.

There are issues with the sanctions on Russia. Multinational companies can make 40% of their income in the global markets. The global economy will continue to limp along. China will always have an issue whether it is on the credit side, corruption side or the pollution side.

Chairman Harrison stated that nothing will happen as long as Germany and Europe get their energy from Russia. The BRIC nations are tired of using the dollar for their petrol currency. They have created a mini-IMF with $100 billion. These nations make up 22% of the global GDP. That will have to mean something and have an effect.

Mr. Zeco stated that there should be an affect from the sanctions. German's economic growth is at 1.1%. An increase in spending will help to give a boost to the overall economy.

Mr. Prost stated that you only have to look at Japan whose demographics have not changed in twenty to twenty-five years. They have not allowed any of their banks to fail. Europe took the same approach and promised to not let banks fail but 640 banks were allowed to fail. Europe not delivering as quickly as they need to will affect the global economy and keep rates low. This is not something that will turn around quickly.

Mr. Cassano stated that if you look at the emerging markets they have seen more stable demographics. They are moderately exposed to emerging markets. However, it is better to invest in developed equity markets in the event of a market issue.

Mr. Meyers indicated that their New York Office has emerging market experts. They have also opened an office in India. They find that market very attractive.

Mr. Nelson agreed and indicated that it is a challenge investing with domestic multinational firms.

Mr. Sanyal stated that emerging markets feel pressure when interest rates go up. The Euro does well when exports are more favorable.

Chairman Harrison again asked what will happen long-term with the petrol dollar. The U.S. is controlling the cost of oil with the dollar as the reserve currency but will the U.S. lose that status.

Mr. Titche stated that the U.S. will lose that control long-term. It could take longer than what everyone thinks. It is not such a bad thing. It is a responsibility the U.S. does not want. It could take decades.

Mr. Prost stated that the dollar looks great compared to the yen and euro. The dollar is a safe haven. It cannot change quickly because the U.S. has the most stable currency. There is still a need for a regional currency. The U.S. is still the largest consumer in the world. It is a macro issue.

Trustee Nazarko asked about the alliance between Russia and China and if the investment managers are taking that alliance into account or hedging against it.

Mr. Sanyal stated that Russia is an energy producing powerhouse. The U.S. could become a more avid producer and should be able to hold its own.

Mr. Kuhn asked about the real unemployment rates and whether lower paying jobs is the reason for the decrease. He asked the managers when wage growth will go back to pre-2008 rates and when will household income increase.

Mr. Joyce stated that there are a few areas of good income growth. The healthcare industry is seeing good income and job growth. Housing starts are depressed but prices have taken a nice bounce. However, there are still substantial inventories. They will start to produce new homes in the next few years. There has been a wage increase for the top 1% in New York.

Mr. Nelson stated that bank balance sheets are good and we should see job growth when they start lending. He questioned to whom the banks are lending. A lot of the issues are due to healthcare debt on household balance sheets. Once housing picks up and household balance sheets improve we should start to see a spur in spending.

Mr. Patel stated that they have seen later cycle expenditures from Burger King buying Tim Horton's and Coca Cola purchasing a substantial stake in Monster Drinks. This should provide some income growth.

Mr. Cassano stated that as far as the energy sector is concerned the Russian crisis is too new to see where the relationship will go. West Texas, the Dakotas and Canada need to allow growth in the energy market.

Mr. Sanyal stated that civil engineering and construction companies are struggling to find engineers and labor. The U.S. education system is not geared to this industry. The U.S. is not allowing enough H-1B VISA's to fill these positions based on tighter immigration policies.

Mr. Prost stated that if the Feds raise rates the yield curve will flatten. There will be a bump in rates but it will be a slow increase with five-year rate at 2%. Long-term rates will fall with rising interest rates. Pension funds want to lock in these rates.

The short and intermediate portion of the curve will rise but long-term will be flat. Liability driven investments will keep investments in check.

Mr. Patel stated that consumer confidence and inflation indicators need to be in the right place for long-term rates to rise.

Mr. Kuhn asked the managers if there are any investment areas they would recommend like agriculture. It seems that there is a natural imbalance in agriculture in trying to feed the world's population.

Mr. Patel stated that they are benefitting from their investment in Tyson. With global diets transitioning to protein Tyson is exporting a lot of chicken, beef and pork. Corn prices have decreased so this is a good global play.

Mr. Zeco stated that industries like water-management and livestock-management startups would be a good investment area but there are no proven models. It is prudent to wait to see how startup funds do. There are also huge bets on carbon emissions.

Mr. Joyce stated that they have holdings in DuPont which produces seeds and pesticides. They work to get more food out of each acre and increase yield. Pesticides and fertilizer are pivotal in feeding the masses. However, Europe and Vermont are against genetically-modified food.

Mr. Meyers said that he would look at European bank debt.

Mr. Zeco also indicated that hedge fund-of-funds are investing in longer term credit products to mitigate the effect of long-term rising interest rates. They produce better yield than traditional fixed income.

Chairman Harrison asked if the managers are looking at real estate having some growth potential with the upward swing of the credit markets.

Mr. Zeco stated that they would not lock up capital in real estate. There are some loan restructuring products that produce nice yields of 9% to 12% with low volatility.

Meeting Break at 11:30 a.m.
Trustee Holloway-Waterman arrived at 11:40 a.m.
The meeting resumed at 11:40 a.m.

Systematic– Mid Cap Value
Jim Wallerius, Partner – Client Services & Marketing
Aman Patel, CFA, Partner & Portfolio Management

Mr. Wallerius thanked the Board for their investments and expressed his condolences for Ms. Zimmermann's death.

They are in compliance with the System's reporting and investment guidelines. They also met the directed brokerage goals.

They have added four new employees, two new partners and two investment analysts. He and Mr. Patel also increased their equity positions in the firm.

They have had a good long relationship with the System and their performance since inception is 9.9% versus the index at 8.5%. The System's investment with them has grown from $37 million to $53 million.

Over the last five years there has not been a market down turn and they have provided 2% growth each year and done a good job at retaining value. They do not expect to see 20% growth during the next five years. They have not seen downside performance for some time. Managers show their skill in a down market.

Mr. Patel stated that their focus is on good positive earnings and solid companies. They are not driven by the big dividend chase. Rates are low in the mid-cap index with a 35% yield expectation. When interest rates rise you will see some compression. In 2013 rates went up 2% but they went down this year. Capital spending has increased. They are overweight to later cycle sectors and underweight to yields because they are too expensive. They are also underweight to REITs.

Chairman Harrison confirmed that they are staying true to their strategy.

Mr. Wallerius stated that their view is that yield stocks are overvalued. Stocks that should trade at 80% are trading at 130%. If the Feds keep dabbling they will keep the cycle going longer.

Trustee Barnett asked what their best performing stock was.

Mr. Patel stated that Synerex Energy was their best performer.

Trustee Barnett also asked if they have any timber investments.

Mr. Patel stated that they have an investment with International Paper. Timber allocations are more correlated with housing. Those stocks are considered REITs and are over-priced.

First Eagle Asset Management
Greg Cassano, Sr. Vice President, Public Funds

Mr. Cassano indicated that there have been no organizational changes since 2008. Their global value portfolio team is stable. He indicated that their senior gold analyst passed away and was replaced in house. They went through a six month recruitment process to replace that analyst on their team. They currently have thirteen research analysts.

He was sorry to hear of Ms. Zimmermann's passing. He enjoyed working with her and she will be missed.

Their philosophy is to do what they were hired to do which is to be a conservative long-term value added investor. They have a diversified portfolio with 125 holdings. They manage an all-cap global portfolio with a non-equity exposure to gold to protect on the downside. They currently have a 7% allocation to bouillon and 4.7% allocation to miners. Their all-cap equity allocation represents 67% of their portfolio.

In this market it was not a surprise that they underperformed. Their performance since inception is 12.25% versus the benchmark of 17.22%. They build in a lot of cash in the portfolio so they are not forced to move names in and out of the portfolio. Cash is an active risk but it provides discipline and allows for a defensive position in the portfolio. They are currently carrying 21% of the portfolio in cash.

Their gold allocation hurt their performance in 2013. They did sell off some gold-mining holdings in 2013.

They apply a valuation-centric theme. They are bias to tech and telecom since the tech bubble. They stick to their discipline.

Chairman Harrison indicated that First Eagle was hired based on their defensive style. The System does not expect them to outperform in this type of market. This manager protects on the downside. He still likes gold and noted that it was shorted in 2013 which caused its decline.

Trustee Arndt indicated her concern regarding the 21% allocation to cash on which the System is paying management fees. She also noted that last year First Eagle was carrying 25% of the System's investment in cash.

Mr. Cassano stated that in this market environment the allocation to cash should be streamlined down to the mid- to high-teens. It has been as high as 25%. After the credit crisis their allocation to cash was at 6% in 2009 based on their discipline. It is a risk and can lag performance. They are always looking to deploy capital but do not want to stray from their discipline.

Trustees Nazarko and Holloway-Waterman left at 12:10 a.m.

Herndon Capital Management – Large Cap Growth
James H. Nelson, III, CFA, Co-Portfolio Manager/Director or Research
Marc Reid, Director of Marketing and Client Services

Mr. Reid extended their condolences to the Board and Ellen Zimmermann's family on her passing. He told the Board that their firm recently lost two team members.

They are compliant with the System's investment and ethics guidelines.

He also noted that they recently added four new analysts with sixty-two years of collective experience. There have been no organizational changes.

Mr. Nelson indicated that their performance has been up 25.14% since last year and they have outperformed the benchmark which was 24.61%.

Their top performing sector from stock selection was healthcare. Biotech companies grew 75%. Their growth was due to inversion which provided lower tax rates.

He discussed their investment in Coach which negatively contributed to their portfolio with performance of -30.56%. They still feel it is worth keeping in the portfolio. The company has a solid balance sheet with $800 million in cash and $400 million in short-term debt. The company is a global and proven brand and the market share leader. The company has been caught in a cycle of defending their price position and fending off brands like Michael Kors. Coach just hired Marc Jacobs from Louis Vuitton whose performance was up 90%. Their cash flow gives them the ability to support designer dividends.

Long-term they will have those types of names in their portfolio. They feel their portfolio is positioned well with companies whose price-to-earnings is lower than the market. They are looking at long-term growth rate at 25%.

He told the Board that their third quarter performance is currently up 40 basis points.

Trustee Barnett asked what was their best performing holding.

Mr. Nelson indicated that Endo Pharmaceuticals was their best performing stock.

Mr. Kuhn noted that Herndon Capital's 4% allocation to cash cost them performance of 1%.

Lombardia Capital
Britt Joyce, Managing Director & Sr. Research Analyst
Kevin Sapanli, Client Service Manager

Mr. Sapanli expressed their condolences on the passing of Ms. Zimmermann.

He indicated that their firm is in a stronger position with $4 billion in assets under management compared to $3.2 billion last year. They have added a number of new investors.

Their large-cap value strategy grew from $7.9 million last year to $9 million. They did lose two accounts from their large-cap value strategy but these accounts switched to another one of their investment strategies.

Last year he reported that Alvin Marley temporarily replaced CEO Jorge Castro due to a medical leave. Mr. Marley has permanently replaced Mr. Castro as the CEO which is a major change in the leadership.

He told the Board that three of their six strategies now have ten-year track records.

Mr. Joyce told the Board that their large-cap value strategy employs a disciplined value approach. They purchase quality companies that sell at a large discount to intrinsic value and include a favorable risk/reward profile.

Their investment philosophy is that you should be greedy when others are fearful and fearful when others are greedy.

He provided an overview of their portfolio construction and how they identify the thirty to forty stock holdings in their portfolio.

Their second quarter performance at 5.92% versus the benchmark at 5.10% has returned 0.82% in excess returns net-of-fees and their one-year performance was 26.48% versus the benchmark at 23.81%. Their good stock selection has paid off.

He explained their performance attribution. They focus on stock selection and not on market timing. They have found that it is difficult to apply differential valuations to telecom and IT.

He reported that their positive performers were Walgreens and Blackstone. Walgreens reorganized and was a solid producer. They recently sold that stock. Blackstone bought Hilton and recently made $8.5 billion on the Hilton IPO.

Their negative performers were Cisco which relies on government spending and Citigroup whose capital return program the Fed recently rejected.

The managers left at 12:19 p.m.

Chairman Harrison told the Board that the Mayor contacted him about bringing up the 420 Transfer issue. The City recently hired a consultant, Tony Saunders who was the former Emergency Manager for Benton Harbor and she asked that he be added to the Board's agenda for tomorrow's meeting. He is not in favor of adding this to the agenda without going through a process.

Ms. Billings stated that Mr. Saunders is from the firm Conway McKenzie and is looking to put together proposals for retiree healthcare.

Trustee Bowman felt that this issue should be presented to the Finance Sub-Committee prior to being presented to the full Board pursuant to the Board's established process.

Ms. Billings stated that they are looking to share information with the Board.

Trustee Gaffney stated that she would like to have the information first so she can review it prior to the meeting.

Trustee Waterman concurred that this should go through the Sub-Committee.

Chairman Harrison asked that legal counsel reach out to the Mayor indicating that the issue will be referred to the Finance Sub-Committee for review prior to it being included on the agenda.

RESOLUTION 14-0 By Gaffney, Supported by Barnett
Resolved, That the Board direct legal counsel to reach out to the Mayor and Tony Saunders to go through the Board's Finance Sub-Committee process.

Yeas: 7 – Nays: 0

Meeting Break at 12:30 p.m.
Trustees Bowman and Waterman departed at 12:30 p.m.
The meeting officially adjourned at 12:30 p.m. due to a loss of quorum
Meeting informally Resumed at 1:36 p.m.

Piedmont Investment Advisors, LLC
Amit Sanyal, Sr. Vice President, Co-Portfolio Manager/Strategy Analyst
Clarissa Parker, Vice President, Investor Services

Ms. Parker introduced herself and noted that Mr. Sanyal was recently promoted to Co-Portfolio Manager/Strategy Analyst at their firm.

They conveyed their condolences at the passing of Ms. Zimmermann. She also noted that the System's business continuity has continued without a hitch.

As of June 30, 2014 their large-cap core product strategy represents $1.5 billion of their assets under management. They recently picked up a $75 million investment from Babcock & Willis TSG Nuclear which builds nuclear power plants.

She also noted that they were one of three managers that were hired to manage the TARP money. They recently acquired a senior analyst Paul Delaney who led their Bank Advisory Services team who performed services as part of their TARP team.

She reviewed their performance with the Board. Their performance for the second quarter was 5.79% net of fees versus the index at 5.23% with excess returns of 0.56%. Their year-to-date performance was 7.37% net of fees versus the index at 7.14% with excess returns of 0.22%.

Mr. Sanyal told the Board that three of their top five performers were from the energy sector. He also indicated that Apple has been performing well since they acquired it in 2012.

Pfizer, Inc. was one of their underperformers due to their failed bid for AstraZeneca. They still believe in this holding.

Amazon had a tough go during the first two quarters but their performance is up 40 to 50 basis points for the third quarter.

They recently added Monster Beverage Corporation to their portfolio. Coca Cola is willing to pay 16.7 price-to-earnings for that holding.

They recently removed Citigroup, Inc. and home builder D.R. Horton, Inc. from their portfolio.

He provided a brief overview of how their model of sustainability is behaving based on their key investment themes.

Chairman Harrison stated that the Board is looking at the manager from where they came from and will watch them going forward and how their year plays out. He likes the holdings in their portfolio.

Mr. Sanyal stated that they have a concentrated portfolio of forty to forty-five names.

Mesirow Financial – Private Equity
Kristina Pierce, CFA, Vice-President, Private Equity
Tracey Savage, Vice President, Institutional Sales & Marketing

Ms. Savage thanked the Board for their investment. She indicated Ms. Pierce is with the private-equity group in Chicago, Illinois.

Ms. Pierce indicated that Fund IV was started in November, 2006 and is fully funded with thirty-nine underlying partnerships. The fund is in-line with its targets. The fund is fully committed and 80% of the capital has been drawn. The City of Pontiac General Employees' Retirement System committed $5 million and has contributed $4 million and has received $1.2 million in distributions. The gross internal rate is 26.5% with the System's IRR at 9.4% as of June 30, 2014.

They are looking at some portfolio triage in Fund IV going forward. They are happy with the performance and their exit strategy should be in the 16% to 20% range.

She attributed their performance drivers in Fund IV to New Enterprise Associates which utilizes a multi-stage venture capital strategy with an internal rate of return of 20%; Trinity Ventures uses an early-stage venture capital strategy with an IRR of 31% and a 2.0 times net multiple and Canaan Partners utilizes an early-stage venture capital strategy with a 16% IRR and a 1.5 times net multiple and 8% times cost.

Chairman Harrison asked what stage of the J-curve Fund IV is in.

Ms. Pierce indicated that it has taken sometime but they are now distributing capital.

Fund VI is in the early stage and was started in June, 2013 and is 44.7% funded. The fund has drawn down 7.5% of the capital. The General Employees' Retirement System has committed $3 million and has made contributions totaling $200,000.00 to date.

She reviewed the performance drivers for Fund VI. Madison Dearborn Capital Partners V is a Chicago-based firm that utilizes a large leveraged buyout strategy. Their current IRR is 54% with a 1.4 times multiple. Another driver of the Fund's performance is Thomas Bravo which performs mid-market buyout deals with an IRR of 153% with a 2.4 times multiple. They recently sold a company called Insight.

She explained that they purchased a secondary which means that they bought a pre-existing investor commitment. They are looking to have 10% of the capital invested by the end of the year and expect performance of 3% to 4% per quarter.

AMBS Investment Council
Allan Meyers, Senior Vice President
Wayne Titche, CFA, Managing Director/Senior Portfolio Manager

Mr. Meyers provided a brief overview of the firm's history and their large-cap value equity strategy.

There have been no material changes to their investment philosophy or strategy. They recently added an analyst. They are in compliance with the System's Investment Policy and directed brokerage policy. To their knowledge no conflicts of interest exist with regard to their management of the System's portfolio.

He reviewed their performance and indicated that they had a problem with their performance due to a large withdrawal which knocked off 76 basis points of performance.

He reviewed their holdings characteristics. They feel that the economy will continue to churn along. There are thirty-nine holdings in the portfolio with a forecasted P/E ratio of 13.1 and forecasted earnings growth of 12% with a 2.2% yield.

They were overweight to consumer discretionary, healthcare and IT and underweight to utilities, financials and energy.

Their largest holdings were in the healthcare sector. They also own Apple which was a good performer and feel into their range.

He provided an overview of the best and worst performers in their portfolio.

He went over the recent year-to-date transactions. They bought Constellium NV CI A which provides components for the Ford F150, Mercedes and BMW. They sold Hertz Global Holdings Inc. due to the company's accounting issues.

Mr. Kuhn asked why they do not have holdings in the utilities sector. He asked if these stocks are overvalued.

Mr. Meyers indicated that if you go back ten to fifteen years and analyze performance versus cost in the utilities sector you will see that they are overvalued.

PNC Institutional Investments
Craig Haynes, CFA, Institutional Client Advisor

Mr. Haynes told the Board that his firm has maintained their compliance. Their CEO left to head up a firm in Toronto. Their Chief Risk Officer replaced the CEO with no disruption to the firm.

The System's assets of $9.2 million are fully invested. They look to invest in companies that exceed earnings estimates. Their 2013 performance came from P/E expansion and future performance is coming from earnings growth.

Their best performing sectors were energy, consumer discretionary and healthcare.

Wynn Resorts was one of their best performing stocks in consumer discretionary as was Magna International that supplies parts for the Ford F150 whose stock performance was up 53%.

They were underweight to large pharma, noting Jazz Pharmaceuticals.

Ambassador Capital Management – Intermediate Fixed Income
Talmadge Gunn, Sr. Vice President & Sr. Portfolio Manager

It is their job to generate wealth, take the medicine and pay the bills. Or, provide income and liquidity for the Fund.

They are in compliance with the System's guidelines and mandates. They have consistently provided performance over the past four years. What is unique to their portfolio is that it is defensive in nature.

Their year-to-date performance is 3.07% versus the index at 2.25% and since inception performance is 3.56% versus 2.95%.

He explained that the bond market rotates through sectors and bond holdings. They provide exposure to the broad sectors.

He indicated that they expressed their concern to the Board regarding corporate bond issues and requested municipal bond exposure. Adding municipal bonds to the portfolio provided the biggest driver for performance. Normally investors use these bonds to provide a tax feature and these bonds provide less yield.

Their sector allocation were strong and they avoided underperforming names

Mr. Gunn confirmed Chairman Harrison's question that the exposure to municipal bonds drove their performance. He added that they are comfortable with the names they selected including the State of Georgia and the State of Washington which are liquid names.

Mr. Kuhn asked if he is concerned with compressed spreads.

Mr. Gunn stated that they are concerned because the compressed spreads were like this prior to the credit crisis. There is a strong conviction that yield premiums will take risk down in those portfolios. Municipal bonds helped.

GrayCo Alternative Partners
Ademir Zeco

Mr. Zeco told the Board that the fund is fully committed to the six underlying funds. To date there is $18.25 million committed to the fund. It is unusual for a private equity fund not to have a J curve.

Since inception their gross IRR is 19.9%. They have been lucky on the hedge fund side. He also noted that a significant part of the portfolio is fees that usually add to the J curve.

He reviewed the hedge fund portfolio indicating that it has a gross IRR of 15.6% and is returning performance three times the stock market. The distributions returned are controlling capacity.

The private equity portfolio collected $15 million in commitments which is invested in ten underlying funds. These funds have been able to secure funding at low rates.

The real estate portfolio has a total commitment of $4.1 million and a gross IRR of 16.0%. It has outperformed the S&P by 8% annually.

Trustee Barnett asked what is Third Point Offshore Fund, Ltd.

Chairman Harrison confirmed that Third Point Offshore Fund, Ltd. deals in currency manipulation.

Mr. Zeco stated that the IRR will go up significantly for Parmenter since they recently sold a property in Charlotte for approximately two times their investment. The purchased the building for $163 million and sold it for $250 million. It was the highest priced property sold in Charlotte since before the credit crisis.

The managers left at 2:35 p.m.

Gray & Company Wrap-up

Mr. Kuhn asked whether the Board had any questions or suggestions for the next manager review meeting.

Ms. Billings suggested microphones to ensure everyone could hear the managers.

It was also recommended that the tables be arranged in a square.

There was discussion regarding the managers' presentations and how to better manage the information presented including using a template.

The meeting ended at 2:48 p.m.