CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT MINUTES
SPECIAL MEETING
MAY 4, 2011

A Special meeting of the Board of Trustees was held on Wednesday, May 4, 2011 at the Grand Traverse Resort, Michigan Room, Acme, Michigan. The meeting was called to order at 10:01a.m.

TRUSTEES PRESENT	**TRUSTEES ABSENT**
Brian Lee, Vice Chair	Leon Jukowski, Mayor
Matt Nye	John Naglick, Secretary
	Craig Storum, Chairman

OTHERS PRESENT

Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, Assistant
Jennifer Lundmark, American Realty Advisors
Scott Rubin, Artio Global Advisors
Mike Mulvihill, Artio Global Advisors
Bruce Goode, Goode Investment Management
Robert Fernald, Goode Investment Management
David Cooke, Loomis Sayles
Joshua Daitch, Mesirow Financial Institutional Real Estate
Tracey Savage, Mesirow Financial Institutional Real Estate
Jet Taylor, Metropolitan Real Estate
Andrea Leistra, Munder Capital Mgmt.
Tom Mudie, Munder Capital Mgmt.
Daniel Hynes, Northern Trust
Jerry Thunelius, TCP Global Invest Mgmt.
Miriam Ballert, Wentworth, Hauser & Violich

CONSULTANT

Re: Capital Markets Review

Mr. Kuhn distributed the Fund's updated market value as of April 25, 2011. It was a good quarter for the Fund with performance up just over 4%, one-year performance at 14.05% and two-year performance at 20.66%.

Equities were good with large cap value at 5% but small cap had better performance gains.

Munder Capital was behind the benchmark at 7.86% versus 9.36%.

Loomis Sayles continues their good performance with returns of 8.37% versus the index at 6.59%.

International was not as strong. The dollar depreciated significantly versus other currencies and drove returns higher for international equities.

It will be a difficult going in fixed income. However, April was a good month for these managers.

Real estate is missing its performance numbers but they should be in the 4% range. They will provide the performance information when they receive the numbers.

He informed the Board that he has provided a summary for each representative manager. This will allow the managers to focus on their performance review and take five minutes off each presentation.

At the last meeting he indicated that they received a letter from the Compliance Department at TCP Global. He has been swapping calls with Brad Goldman. The Board decided to bring Jerry Thunelius in earlier to discuss the correspondence.

Mr. Thunelius said that his company is not relevant. The letter went out stating that TCP is looking to execute a joint venture because they are struggling with capital.

Mr. Kuhn confirmed that TCP is looking for an outside partner.

Mr. Thunelius said that from a company aspect the fixed income portfolio is fine. The tools are all paid for and they are prepared to work.

The issue is associated with the company and their need to enter into a joint venture due to capital issues.

The resignation of the CIO and his assistant have not had an impact on his area of the company. It is unfortunate to see two people leave.

He told the Board that he received the letter regarding the search for a venture capital firm one day prior to their clients receiving theirs. Some of the clients are up in arms and are very unhappy about the changes and uncertainty. He expects to receive a number of termination letters.

Mr. Kuhn asked him what their assets under management are to date.

Mr. Thunelius said that they currently have $978 million in assets under management. They touched one billion briefly. Their original goal for the portfolio was $750 million. Capital is not coming in from other areas of the company but his area is fine. He does not feel that they will have any chance to grow now. When clients see that a company needs to merge they usually perceive it as being symptomatic of other problems.

Mr. Kuhn asked him if he is involved with the decision making process regarding the joint venture.

Mr. Thunelius said that if he was involved he would run the business much leaner. We are living in a different world today and some aspects of this business do not exist any longer.

Ms. Zimmermann asked about TCP's organizational structure.

Mr. Thunelius said that there were two investment groups and now there is just his group. Technology wise they have solid tools to manage the portfolio. The other investment group was unable to get clients. In October, 2010 that group had enough capital to run their business for three to four months.

They have a small technology group but they are able to continue to build out systems even though they are relatively small.

If he was in the Board's shoes he would have a number of concerns. He indicated that their portfolio has performed well over the one, three and five-year periods. Fixed income will find it difficult to deliver performance if rates rally. If rates do not move they will have limited ability to do much.

Trustee Lee asked if they are looking for another firm.

Mr. Thunelius said that they were hired as contractors with a three-year contract. However, if the clients leave there will not be a business to run. It is not cost effective to have only one product. They need $1 billion to $1.4 billion in their fund to run the business efficiently. They have not pursued anything else.

Trustee Lee asked when there contract expires. Mr. Thunelius said that their contracts run for another two years.

If he were the client he would ask a lot of hard questions. You need to secure capital during the growth phase of the fund. He does not see clients coming through when they are out of the growth phase. He indicated that he and his team would have left if they were not under contract.

Mr. Kuhn asked if there are any possible mergers.

Mr. Thunelius said that he has been traveling and has visited a few firms. Chartwell is a small fixed income shop with $1.5 billion in assets under management. They wanted to hire his team but not TCP. They did not want to take on the liability. He does not believe that a merger is possible.

He noted that as a Board they have listened to a lot of different investment ideas. He told them that Bloomberg is critical to their investment management process and it is all paid for. He also told the Board that their team and their mid office function is in good shape.

Ms. Zimmermann questioned their contract with TCP.

Mr. Thunelius said that the TCP organization consists of his team. The administrative function has caused the overhead. If they begin to lose clients TCP will start to unfold. He, Mike and Marty are not going anywhere. In the original company structure they were suppose to represent

20% of TCP. TCP has not been paying their expenses. If TCP defaults on their bonuses and salaries it could allow them to move the team out.

He would understand if the Board decides to change managers if they have another manager on their list with a better capital structure.

Meeting Break at 10:29 a.m.
Meeting Resumed at 10:39 a.m.

Re: Economic Overview/Markets Roundtable
Mr. Kuhn thanked the managers for their attendance. Introductions were made around the table.

He explained the round table format noting that most of the managers are veterans of this format with only a couple of new guys. The managers will be asked questions referring to economic topics and there are no right or wrong answers. The Board wants to hear their ideas as money managers. They are not asking about performance issues.

Mr. Kuhn referred to the big news regarding Osama Bin Laden and whether it could affect the markets.

Tom Mudie from Munder Capital said he did not feel that this would impact the market.

Miriam Ballert from Wentworth, Hauser & Violich agreed and said that they will wait and see if there is any retaliation that could impact the equity markets.

Mr. Thunelius commented on Bin Laden's million dollar compound. He said if that is a luxury compound there should be more room for impact in the emerging markets.

Mr. Kuhn asked the impact of the declining dollar on the commodities markets and how low can it go.

Joshua Daitsch from Mesirow Financial said that they are bearish on the dollar. As long as interest rates in the U.S. stay relatively low, the dollar will be under pressure.

Michael Mulvihill of Artio Global Investors said that they are not fans of the Euro versus the dollar. Ninety percent of their benchmark is relative to the Euro. They are more negative on the Euro due to the restructuring of government debt that may cause some countries to leave the Euro. It does not have a positive constructive side.

Mr. Kuhn asked if interest rates will be the driver of currency. How long will the U.S. be able to sell Treasuries to other countries at current rates and a weakening dollar?

Mr. Thunelius said that he does not see China selling off Treasuries. He does not believe that the Fed has any intention of raising rates. They are hinting at a QE3. The weaker dollar is keeping rates low. Fixed income returns will be weak but with options in the market.

Robert Fernald from Goode Stable Value said that the Fed wants to keep rates low with a weak dollar. There is not an absolute hard level on the dollar; there will be a gradual move. With the frustration in the marketplace, the Fed will extend the period of low rates. He feels that the Fed will hold off until 2012.

Mr. Mulvihill said that the weak economy cannot sustain high interest rates. Rates will slowly climb as the economy comes out of the recession. It took five consecutive quarters of GDP growth in 1992 before rates increased. There are concerns regarding deleveraging and the end of policy stimulus and support. He does not feel there is much room for high interest rates.

Andrea Leistra from Munder Capital said that she recently traveled with the head of the fixed income team. They do not believe that rates will increase anytime soon based on unemployment levels and low wage growth.

Daniel Hynes from Northern Trust said that his company feels the same way. At some point there will be inflationary impact but the current impact is coming from commodities and price spikes. The Fed is sticking to their guns.

Mr. Thunelius said that the number one item stolen from Walmart is food. Most of the food is stolen around the first of the month when the welfare cards come out. In this environment people cannot demand a salary increase.

Ms. Ballert said that Richard Hirayama looks at the global environment. She noted the turmoil in the Middle East and North Africa. Workers in those areas make $2.00 per day or less with no defined income to assist with the rising cost of food and necessities. The food inflation in those areas has caused a lot of unrest. In the U.S. workers have more of a cushion but there are a lot of people out of work. She found the Walmart issue interesting.

Mr. Thunelius said that there were food riots in the United Kingdom recently.

Ms. Ballert said that there were food riots in China at the end of 2010.

Bruce Goode from Goode Stable Value said he was surprised to hear that people are stealing truckloads of food.

Mr. Thunelius said that it was the largest heist in Florida. They stole $350 million worth of tomatoes.

Mr. Kuhn asked if the inflationary course the U.S. is taking is the proper action; that deflation was the greatest fear.

Ms. Ballert said that inflation is highest in the emerging markets.

Mr. Kuhn said that the United Kingdom has a higher inflation rate. It is time for the U.S. to raise rates or bring another punch bowl.

Mr. Fernald said that raising rates to 2.6% would be a move against inflation. It is hard to say who is right and that it depends on where you live. The Fed is looking at whether there is full employment.

Mr. Thunelius said that the Fed is right if you have savings and a job. The Fed is wrong if you are retired or without a job and shopping at Walmart.

Mr. Kuhn asked if real estate would appreciate higher rates.

Jet Taylor from Metropolitan Real Estate said that they do not try to forecast rates. It is a great benefit of leverage overseas. They feel they will rise overtime.

Mr. Daitsch said that base rates are low and borrowing rates are high on a relative basis. Borrowing levels are flat due to banks being conservative with regard to lending. If interest rates increase spreads may come down. They are most concerned with base rates rising. Bernanke is trying to maintain low rates, which is what is best for the country. The Fed cannot infuse this type of liquidity in the marketplace without inflation.

He said that the issue is not due to fundamentals. China is spending money outside of U.S. Treasuries which is artificial liquidity. They are concerned how that will drive rates before economic growth.

Mr. Kuhn asked if keeping rates low hurts the dollar and drives food and oil prices higher. David Sowerby said that the economy recovery will falter if oil goes above $140.00 per barrel and we will be in big trouble. He asked how the managers think we will get out of this trouble.

Mr. Milvihill said that lower rates help to stimulate spending and demand. If there is no control the economy will spiral out of control. Higher oil prices have more impact on demand than inflation.

Ms. Ballert said that the largest position in their portfolio is oil but they do not want to see $200.00 per barrel oil. Saudi Arabia would rather see oil at $80.00 to $100.00 per barrel with more orderliness in the market. She said that geo-political issues can affect the oil reserves using the example of an oil embargo in Russia. Wikileaks reported that Saudi Aramco overvalued their oil reserves by 40%. As oil prices continue to increase the oil reserves have been reassessed and have been over valued 50% to 60% since the 1980's. Energy is actually in a reasonable price range.

Mr. Taylor said that if you say you have more you can pump more. He asked if there is a way to find out how over estimated the oil reserves are.

Jennifer Lundmark from American Realty said that Exxon said that they are depleting the supply quicker than they are tapping the reserves. They have never made that type of statement before.

Mr. Fernald said that there does not seem to be a way out. The European Central Bank only looks at inflation and the Fed looks at the unemployment rate. You can raise the value of the dollar or raise rates.

Mr. Hynes said that the solution is corporate growth. Analysts are saying you will never see $2.50 per gallon gasoline again. If corporate growth is spurred it will help to get unemployment down and wages up which should help the economy out of this mess.

Mr. Daitsch said that this country is very strong and has survived previous recessions. An efficient economy is needed. In the past there was never such a downturn in the mobility of the work force. In Michigan people cannot leave to go where the jobs are. Mobility has been hindered which is the same problem in the European Union. That is why he thinks the stimulus is not working. It does not bode well for a U or V-shaped recovery.

Mr. Kuhn said that in the past manufacturing has always come back putting home builders and trades back to work. He questioned how this can happen this time. Many of these skills are not transferable.

Ms. Lundmark said that employment is spotty. They look at good quality properties in the core space in areas with good employment like Seattle, Orange County and Boston. They have to pick properties carefully and not in markets that do not support the market.

Mr. Taylor said that there has been two months of good job growth especially in the office market. They are seeing job growth in the coastal markets.

Ms. Lundmark said that occupancy drives growth. Job growth is not widespread and there are still issues in downtown Chicago.

Mr. Daitsch said that 35% to 40% of the transactions have been in Washington, D.C., Maryland and Virginia due to the government getting bigger.

Ms. Lundmark said that normally the IRS does not leave a building. There is more investment risk now in government buildings.

Mr. Goode said that he has a property in Washington, D.C. that has been on the market for six months.

Mr. Daitsch said that certain markets and micro markets are just recovering. U.S. real estate is just not the way to go. New York and Paris are capitalizing the largest percentage of the real estate market.

Mr. Fernald said that job growth comes from small companies. The economic business environment is not there for small business. The big economic drivers are absent.

Trustee Nye left at 11:19 a.m.

Mr. Thunelius said that the big companies have access to capital.

Ms. Ballert said that the large companies have more capital on their balance sheets than at any other time.

Ms. Zimmermann said that she has a friend with a small manufacturing business. In the past they had access to capital but now they are in a special asset group where the access to capital is restricted. It seems that now there are controls in place to determine what you can do. She asked what is replacing car, weapons and other manufacturing.

Ms. Lundmark said that that business at the Port of Los Angeles is back to its previous levels due to the processing of empty containers. They are arriving at the Port full and returning empty.

Mr. Kuhn said that the largest companies in the U.S. have come through the recession without laying off employees but they have not hired any new employees.

Mr. Mulvihill said that small mom and pop companies used their home equity loans in the past for funding their businesses.

Ms. Lundmark said that larger companies like Deloitte & Touche who have received infusions of capital can still pay their rent versus smaller middle market companies.

Mr. Kuhn said that during the past two years the equity markets have experienced decent returns. He asked whether there is still value and room to go.

David Cooke from Loomis Sayles said that three years ago this group had a discussion regarding the cost of oil at $140.00 per barrel and then it dropped to $40.00 per barrel. Most plans beat the S&P 500 especially small cap and international managers. They are a small cap manager and they outperformed by 100 basis points and have had a great run. Large cap is becoming more attractive.

The market looks fine. They are not high on oil and the Fed is defensive based on the unrest in the Middle East and North Africa. It is the fear of the unknown. Corporate profits look good. Consumer staples and healthcare is on the rise and it seems that the market is getting back to normal. The massive moves are over. They are seeing more movement in middle and large cap. Some say it is a stock pickers market but it is always a stock pickers market. A P/E of 19 is accurate with corporate profits looking good but it cannot be based on cost cutting anymore.

Mr. Mudie said that valuations are pretty reasonable. Earnings growth will drive stock prices higher. They will be cautious in the short run with their focus on companies growing faster. Mid cap leads large cap coming out of recession going from a bear to bull market and there is still a ways to go. He agrees with Mr. Cooke that revenue growth versus earnings growth has been driven by cost cutting.

Mr. Kuhn asked what these companies will do and where they will put the cash on their balance sheets to work.

Ms. Ballert said that they are an international equity manager that focuses on energy and materials and use it as an advantage for the future. Many names in their portfolio are not over valued. They look at sectors versus the market perspective.

Mr. Cooke said there have been a number of corporate takeovers.

Mr. Hynes said that there have been a number of stock buy backs. Dell recently issued a dividend. He also said that merger and acquisition strategies are building in corporates.

Ms. Ballert said that Apple has more cash on their books than any other corporation in the United States.

Mr. Cooke said that the current Administration recently held a luncheon with business leaders but they are really not interested in business and are anti-business. They keep villainizing business. CFO's are not spending because they do not know what the policy will bring and do not like the tax issues. He told the group that General Electric did not pay taxes last year.

Ms. Ballert said that corporate decision makers will not take the risk based on concerns over government policy. Bill Gates is currently investing in energy companies to build fourth generation nuclear power plants. These plants will be run by computers with no human interaction. We need those types of companies that will take risk.

Mr. Kuhn said that based on the current Administration's policy on healthcare do the managers anticipate tax increases.

Mr. Hynes said that the government has no choice but to raise taxes to pay for things like retiree pensions. It can be reformulated.

Mr. Fernald said that there needs to be a policy in place for small business that they can depend on. He feels that raising taxes will not close the loophole on the deficit and that raising taxes is political.

Mr. Cooke said that even if you tax the top 5% of the wealthiest at 100% it would not close the deficit loophole. When they tried that in New Jersey they lost one hundred millionaires when they left the state.

Mr. Hynes said that incomes taxes will go up. Municipalities are significantly raising their fees for services.

Mr. Taylor said that currently the top 5% are paying 95% of the tax revenue and it cannot continue. There needs to be a redistribution of taxes.

There was discussion on the taxing of pensions in Michigan and how that will affect the state.

Ms. Zimmermann said that Michigan is a recreation state that depends on tourism. If they tax pensions there is a good chance that a number of retirees will leave the state.

There was discussion that municipalities have to raise taxes in order to keep services.

Mr. Thunelius said that most people do not trust government officers to spend their tax dollar efficiently. As a country we are more divided on who can fix the problem. Individuals need to understand that they need to adjust their lifestyles and that taxes have to be raised in order to keep services and address issues.

Mr. Kuhn asked the managers if they have heard any good investment ideas they can share with the Board.

Mr. Mudie said that unfortunately he does not hear other managers' ideas.

Mr. Fernald said that a number of their clients are being directed by their investment consultant to drive returns by investing in riskier asset classes to add to their performance like hedge funds and alternatives.

Ms. Ballert said that every plan is different and has different risk tolerance. It makes it difficult to suggest an idea.

Mr. Hynes said that the hedge fund world is looking to index half their assets with futures and synthetic swaps.

Ms. Lundmark said that some of the larger real estate plans are looking at esoteric niche strategies.

Mr. Daitsch said that he has seen some managers long short the commodity space. There are margins to be made.

Mr. Mulvihill said that a number of plans like the emerging markets and emerging market debt. Consult a fund of fund emerging market money manager to determine where the growth is.

Scott Rubin from Artio Global Investors said that some plans are looking at social responsible investments.

Mr. Cooke commented on absolute return funds they never have any down years. It is a hot topic.

Meeting Break at 12:00 p.m.
Meeting Resumed at 1:00 p.m.

Manager Presentations

Loomis Sayles – Small Cap Value
Mr. Cooke told the Board that Don Thelon will be taking an indefinite leave of absence effective July 1, 2011 to spend more time with his family.

Joe Gatz is still the lead portfolio manager and the analysts are the same. They will be hiring a co-manager. If Mr. Thelon returns there will be three product managers for the fund.

Their small cap value strategy outperformed the Russell 2000 value index during the quarter. Stock selection was the key positive. Their sector weighting was a neutral factor with some fall out from attractive valuations.

Their top performing stocks included Wellcare Health Plans, Atlas Air Worldwide Holdings, Inc. and Lufkin Industries. Lagging stocks included GSI Group and Spartan Stores.

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

He reviewed their trailing returns as of March 31, 2011. Their performance for the quarter was 8.49% versus the Russell 2000 Value at 6.60% with excess returns of 1.89%; the one-year period 28.13% versus 20.63% with excess returns of 7.5% and the three-year period was 10.0 versus 6.76 with excess returns of 3.24%. Their performance beat the benchmark by 260 basis points over the last ten years.

He provided an overview of their calendar year returns indicating that 2008 was a tough year.

Their sector distribution showed an underweight to financials and a slight overweight to consumer staples. They are currently overweight to consumer discretionary but gave it great pause because they expect it to come down. They also increased their technology holdings and reduced the cash balance held in the portfolio.

From their perspective the key drivers of performance for 2010 will remain the same for 2011 including solid corporate earnings growth, strong balance sheets and relatively low interest rates. Key risks remain including high unemployment, high consumer and government debt, weak housing market and the uncertain direction of interest rates. Their strong fundamental analysis continues to be critical to their future outperformance.

He referred to a list of their account holdings and sector weights as of March 31, 2011.

Munder Capital – Mid Cap Equity
Ms. Leistra provided the organizational update. Their current assets under management at the end of the 2011 first quarter are $18 billion which includes the addition of a smid, small and mid cap value team.

Gavin Hayman a mid cap analyst recently joined the team.

She also told the Board that they were awarded the Mid Cap Manager of the Decade by Plan Sponsor.

Mr. Mudie said that they look at six factors coming out of the bear market. High risk and low quality led the market rally for the first six months. The first twelve months smaller stocks led the rally but recently stock size has not mattered and there has been no favorable pattern. The second twelve months has seen the highest P/E stocks perform better and is has been favorable to stock pickers.

They were able to beat the market by a small margin ranking in the top 18th percentile with total one-year returns of 27.45% versus the S&P MidCap 400 Index at 26.95%. He referred to the calendar year returns for 2008 and 2009 which were bad performance years.

He described the deconstructed mid-cap market cumulative return for the past twelve months. They underperformed when the market was rising but over performed when the market was declining due to their defensive position. The twelve month summary showed that they had strong performance on a risk adjusted basis with beta performance at 0.95% and alpha at 2.00%.

He reviewed their best to worst performing sectors from March 31, 2010 through March 31, 2011. Energy was their best performing sector but their exposure to gas weakened their performance. Telecom performance was flat for the period. Healthcare performance was down.

He described their top five detractors, including Amedisys, a maker of sleep apnea masks whose total returns were down 55.63% for the one-year period which they recently sold. They will continue to hold Cree, Inc. a manufacturer of led technology because their long-term story is good. They recently purchased Aeropostale, Inc.

Their top five contributors included ARM Holdings a designer of microchips which are used in the Apple I-Pad. Their semiconductors require much less power than those manufactured by Intel. However, Tony Dong recently sold their position because the valuation was too stretched.

Mr. Kuhn questioned whether Tony Dong's responsibilities have changed since being named CIO or is he still the mid cap portfolio manager.

Mr. Mudie said that Tony Dong has a lot of assistance in the overall running of the business. His job is to make sure that the right people are in the right spots. He has improved the reporting and quantitative analysis. To insure the integrity of their firm he reports to the Board.

Mr. Kuhn asked why they changed their benchmark.

Mr. Mudie explained that the S&P 400 capitalization at $10 billion with 85% of the companies at $5 billion is too low. The Russell Mid Cap Index has a market cap of $20 billion with a weighted average capitalization of $8 billion which allows them to buy better mid cap companies.

Ms. Leistra said that changing the benchmark has not resulted in any changes to the portfolio. Many of their clients agreed with this change and were already using this index.

<u>Wentworth, Hauser & Violich, Inc.</u>
Ms. Ballert said that Richard Hirayama sends his greetings. They have been managing money for this System for four years and one month.

Their assets under management have grown to $16 billion with $12 billion invested in international and global equity. Mr. Hirayama is the original architect. He and Laura Stankard have been together since 2001. Allison Goodson joined the firm in 2008. Both Ms. Stankard and Ms. Goodson were recently made partners which is an honor and in recognition of their hard work.

Ms. Ballert said that performance in 2007 and 2008 was 41.52% versus the MSCI EAFE Index at 8.88% during the bull market. The market took a huge turn during the last two quarters of 2008 resulting in performance for the year of -46.63% versus the benchmark at -43.06%. There was a strong recovery in 2009 with returns of 60.71% versus the benchmark at 32.46%.

She told the Board that 2010 was a volatile year. Their performance was good during the first quarter at 5.97% versus the benchmark at 3.45% but there were issues during the second quarter including the debt crisis in Europe, particularly Greece, there was the fear of a slowdown in China and the worry of a double dip recession. They did experience a strong fourth quarter producing returns for 2010 of 20.71% versus the index at 8.21%. They did not make a change or a trimming to the portfolio in 2010.

Their performance through the first quarter of 2011 since inception is 55.26% versus the index at -8.07% resulting in performance of 63.33% overall.

She referred to a snapshot of the portfolio. They are a big picture manager that is sensitive to the global factors including emerging market nations and urbanization. The portfolio characteristics included their top ten holdings, sector weightings and country weightings.

Their largest sector weightings are to energy at 36.2%, materials at 26.4% and industrials at 14.6%. Sector weightings are important to their portfolio which has not changed since 200. The energy weighting provides a majority of the performance along with good selections within the sector. They are underweight to consumer staples and their portfolio does not include technology or consumer discretionary positions.

The PIGS nations (Portugal, Ireland, Greece and Spain) created a lot of volatility in the marketplace. They do not have exposure to Japan or Greece. Their largest country exposure is to Canada. The MSCI EAFE does not have any exposure to Canada.

Their positions in Switzerland include Noble and Transocean which are positive. In Ireland they own Cooper Industries and Ingersoll Rand. Their top ten positions do not include international oil. They own oil field services which alleviates any oil field crises.

They sold a small position in a German utility company based on growing interest rate environment issues. They have some other minor positions. The funds from the positions they sold went back into their Canadian railway position.

She said that there have been no changes to their thought process.

Many of their clients asked how far in the super cycle does Richard Hirayama think we are. She said that he believes we are in the fourth inning of a nine inning game and it could be a double header.

Mesirow Financial International Real Estate
Mr. Daitsch told the Board that they currently have $51 billion in assets under management.

He reported that Jim Tyree, the Chairman and CEO of Mesirow Financial passed away. He was his mentor. His legacy was that he operated the business as a holding company. He was a member of the investment committee. He is being replaced by two new members Mike Clarke and Todd Fowler.

The MFIRE International Partnership Fund I is a June, 2007 vintage fund. To date, 85% of the capital has been committed and approximately 50% of the capital has been drawn. They are beginning to draw more capital and are seeing a number of very attractive opportunities as liquidity comes back into the market.

They had five commitments early in the cycle but have only committed to three funds from 2007 through 2010. These are their best performing funds. They have added three new funds since December, 2010.

They have a diverse portfolio with a large exposure to Canada. Their global portfolio focuses on small and mid-size niche players in their market areas. They still have some exposure to larger diversified managers who have a competitive advantage in their markets.

They have fourteen funds in the portfolio that fall under their green, yellow or red light management categories. The three red light funds are losing investments and they have incurred loses related to these managers.

The one yellow light fund is MGPA a Japanese-based fund with exposure to Singapore office properties. The fund was up 35% in the fourth quarter but they have not swapped or moved it to the green light category to date. The green light funds' performance is at or above the benchmark.

The System has committed $5 million with an approximate degradation of $435,010.00 in the capital account represents a 9% loss of the total commitment. It is very early in the investment life and their patience will continue to pay off.

There is a lot of good dry powder to work with. The fees are distorting the performance numbers. They look at performance on a property by property basis. They have returned 3,400 basis points of alpha over Cambridge the past eighteen months. They will continue to actively deploy capital.

There are $3.5 million in net losses or 5.2% of invested capital or 1.5% of the total portfolio. These losses were in the red light funds but will be made up as capital is deployed and offset by gains in other parts of the portfolio.

The investment period should be over in June and they expect a significant increase in capital calls. It has taken four years to add properties to the fund, now they will be begin to build value and then they will harvest the fund.

Trustee Lee asked if they expect 7% of the commitment per quarter and whether they will be fully invested by the end of next year.

<u>Artio Global Investors – High Yield</u>
Mr. Mulvihill said that they currently have $51.3 billion in assets under management with $10 billion allocated to fixed income with $5.3 billion in high yield and the rest is allocated to global international equity.

They recently added two new team members.

The System has been invested since 2010. They outperformed the benchmark 72 basis points during 2010.

They were overweight to B-rated securities which made performance difficult in 2010 but they are doing better through the first quarter of 2011 slightly trailing the benchmark.

He explained there are two main themes in fixed income excess returns which are interest rates and Treasury returns. From December 31, 2009 through September 30, 2010 interest rates were the main performance contributor. From October 1, 2010 through March 31, 2011 Treasury returns were positive due to negative interest rates and credit was positive with companies investing in improvements. They like single B-rated and lower quality securities.

High yield issuances continue to be strong. There is a lot of money going into fixed income. The refinancing trend continued with 72% of bond and loan issuance used to refinance existing debt. This has pushed maturity out longer term. High yield spreads widened by 13 basis points in March but are now coming down.

They have added non-U.S. exposure of approximately 30% with roughly 12% denominated in U.S. dollars and the balance issued in local currency. They see value in European high yield and increased their allocation to 17.5%. They hedged out all their Euro exposure with the majority of their exposure to emerging market currency in Brazil, Mexico, Canada and Australia. They maintain a positive view of bank loans since it is more senior than other debt. It is difficult to find the valuations they are looking for.

He explained where they are in the credit cycle. In 2009 they reached a peak in default rates which are down now. They feel that high yield will have a good positive environment for the next two to three years.

Goode Investment Management

Mr. Goode thanked the Board for their business. He said that the U.S. economy is slowing and inflation may increase over the next couple of years.

They were having some capacity issues but wrap providers are coming back to the market.

They are moving to the Wilmington Trust which allows them to offer their fund to small and mid sized funds not only full sized funds. Northern Trust only allowed for trustee to trustee transfers.

Mr. Fernald said that they recently hired a new marketing person. There have been no other organizational changes.

Stable value is a proven pure investment product. Bank valuations are guaranteed by wrap providers. However, wrap providers are more cautious these days and have added restrictions. The reduced interest rates and shorter durations have seen yields falling across the board.

He provided their performance comparison as of March 31, 2011. The Goode Stable Value Trust Fund year-to-date performance gross of fees has been a little below the benchmark at 0.58% with their one-year performance at 2.63%. Their three, five and six-year performance at 3.57%; 4.15% and 4.23% have been in the top quartile versus the Hueler Pooled Fund Universe.

The fund's characteristics have seen a slight build in their cash position. Getting wrap providers has been challenging and has made it harder to get rid of the cash position. They have carried more cash than they would like and it has hurt their performance.

He provided an overview of the product composition of the portfolio. Constant Duration Synthetics represent 54% of the portfolio, Cash Investments at 30%, GICs at 10% and Fixed Maturity Synthetics was short at 5%. Replacement insurers detracted from GICs. He said that they are comfortable with their 50% attribution position in Constant Duration Synthetics Bonds which have added performance at 2½ to 3 years. In a constant raising rate environment they like a cash position to get the money working.

He explained the Book Value Warp Exposure as of March 31, 2011. They currently have no exposure to insurance companies and all their holdings are at the book value.

Northern Trust – Indexed Fixed Income

Mr. Hynes said that the Intermediate Government/Credit Bond Index Fund performance for the one-year; three-year and 5-year periods have been moderate due to low treasury yields.

The Russell 1000 Value Index Fund performance for the first quarter of 2011 was 6.48% versus the benchmark at 6.46% with solid one-year returns of 15.29% versus 15.15%. Energy, industrials and consumer discretionary were the leading sectors with consumer staples the worst performing sector due to commodity prices.

The Russell 1000 Growth Index Fund was up 18.33% for the on-year period versus the benchmark at 18.26%. Energy, industrials and utilities were the main performance drivers with telecommunications being the biggest detractor.

He said the current trend is leaning to the index side with clients going from active to passive management because they do not feel they are getting bang for their buck and the fees are lower. A number of clients are looking to tweak their benchmarks due to tax considerations because they get taxed different on capital gains. These are the two trends they have seen over the last year.

Mr. Kuhn asked where there outperformance is coming from. Mr. Hynes said that the performance in the Russell 1000 Value and Growth Indexes is coming primarily from securities lending with 5 basis points to 10 basis points coming from the strategy.

Some unrealized losses have come off since 2008 which are now leveling off with more normalized returns in securities lending.

Mr. Kuhn asked which pool the System is in. Mr. Hynes said that they are in the Core USA Fund which is a money market fund in compliance with Rule 2-a7 with a maximum maturity of thirteen months and an average weighting of ninety days.

<u>TCP Global Investment Management</u>
Mr. Thunelius said that performance has been relatively flat for the first quarter of 2011 at 10 basis points. Their rolling one-year returns at 7.34% provided 278 basis points of performance over the benchmark. Their rolling three and five year returns have been relatively strong. The primary driver of their performance is their exposure to credit spread reduction. The time in fixed income for making easy money is over.

Credit quality is important and they are seeing the least amount of credit exposure in the index than ever before. They currently have 11.2% allocated to BBB rated credits. The highest quality credits are more liquid. A lot of valuations are too expensive. There are a lot of opportunities in financials right now which are represented in their top ten corporate exposures.

They feel that duration will be flat to the index. If rates go down we will see a significant difference next year. They think the yield curve will flatten and is currently too steep.

Mr. Kuhn asked if there are any tools that could be used in fixed income to help performance.

Mr. Thunelius said that the System could have some exposure to currency in the portfolio with the weak dollar. There are also some investment grade government bonds.

Mr. Kuhn confirmed that he does that for some of his other clients.

American Realty Advisors – Core Real Estate

Ms. Lundmark told the Board that they currently have $3.4 billion in assets under management firm wide. They are seeing more core transactions this year than last and four times as many as they saw in 2009 even though they are more expensive. It is important to pick the right sub markets to be in.

Income returns for core real currently exceed 6%. Seventy percent of returns are stable and traditionally come from income and not appreciation. Core real estate returns of 20% are not sustainable.

As of March 31, 2011, they currently have $2 billion in gross market value. The entrance queue is $600 million now. They have $100 million in cash and called 40% of outstanding drawn capital in January, 2011.

They recently hired three new senior acquisition people which will help to push the cash to work. They anticipate calling the capital by July 1, 2011.

The Core Realty Fund is well diversified geographically and by property type. Occupancy is a little off from one year ago. Small and medium businesses have been impacted but large businesses are doing well.

She referred to the fund's property type, size and geographic diversification data.

She reviewed the System's investment summary as of March 31, 2011.

She provided an overview of their performance history as of March 31, 2011. Their one-year returns gross of fees were strong at 16.99%. They are expecting returns in the mid-teens for 2011. Returns are being driven by the capital markets and not fundamentals.

Mr. Kuhn asked if pricing has stabilized. Ms. Lundmark said that most markets are not seeing the level of transactions that have occurred in Washington, D.C.

She provided an example of a community shopping center anchored by a grocery store in the Washington, D.C. market. There were more than forty bids on the property and they were the only bidder that actually went to evaluate the property. There are more deals now and opportunities than one year ago.

Metropolitan Real Estate Equity Management, LLC

Mr. Taylor said that the investment team is intact with six members and they just named Andrew Jacobs partner yesterday. They will be opening an office in Hong Kong.

Their investment philosophy is focused on value-added and opportunistic strategies. They look for properties that are beaten up and need fixing.

Core pricing rebounded in 2010. There will be more opportunities going forward.

There is need for new equity to restructure and replace dysfunctional capital structures. Returns are generated by selectively providing new equity to replace capital. They look for b-note, mezzanine and preferred equity; loan-to-own; purchasing foreclosed assets by anticipating which assets may foreclose and direct purchasing from illiquid owners. They also look at possible larger plays like business class hotels.

He provided an example of a Los Angeles industrial property built in 2009. They purchased the property during the fourth quarter of 2009 at $52.50 per square foot which was 83% of the replacement cost. It was 77% leased at acquisition and within twelve months is 100% leased with a current estimated value of $70.00 per square foot. The current cash yield is 21% and they expect to double their money on this property. Many people are running from this industry but they are seeing many opportunities.

He gave another example of a loan-to-own multifamily property in suburban Washington, D.C. in Maryland. They purchased the debt on this property at a 71% discount to total par value of subordinate financing and 68% of the replacement cost. They plan to renovate the units. They expect to foreclose on this property and gain title with potential for repayment. They are looking at a 30% to 32% internal rate of return or two to three times their investment.

He reviewed a summary of the MREP Fund VI. The fund has total commitments of $244 million with 66% of the capital called to date. They expect to call 25% to 30% of the remaining capital this year. The audited numbers will be coming out within the next two weeks. Last year the fund was up 28%.

He described the fund's diversification by underlying fund, property type and location. The fund has thirteen managers with one approved but not closed. The investment focus is 43% in loans, 31% in residential, 11% in office and 7% in industrials. Most of the properties are located in the southeast and pacific regions.

Fund VII currently has thirteen managers. The allocation to property type is 30% in loans, 20% in rental apartments, 17% in industrials and 20% in office.

He reviewed their current and projected final multiple. Their projected multiple for Fund VI is a multiple of 1.48 with an assumed multiple of 1.6 on uncalled capital. They feel that the multifamily recovery will continue and industrials will continue to do well. Suburban office remains weak with CMBS losses to remain as projected. They are not projected an IRR because it is difficult to predict cash flow. There is a lot of dry powder in Fund VII.

He described the top performing properties by sector. Multi family rentals, distressed and industrials are the best performing sectors. Median returns are up across sectors and more stable. Suburban office continues to struggle and they are building in a transition phase. They are very optimistic going forward.

Trustee Lee asked what the actual gains are for Fund VI. Mr. Taylor said that Fund VI gains are approximately 28% but they do not have the actual audited numbers.

Thornburg Investment Management
Mr. Kuhn indicated that the manager was unable to attend today's meeting because of a scheduling conflict with an event being held at their offices.

There have been on changes to the investment team.

He reviewed the performance of the International Value Fund. The one-year performance was 16.45% versus the benchmark at 10.42%.

Their first quarter performance with attribution analysis outperformed the benchmark by 90 basis points. The best performing sectors were technology and industrials which were driven by stock selection. Consumers discretionary and consumer staples hurt the fund's performance.

The meeting concluded at 2:39 p.m.