CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
FEBRUARY 22, 2005

A special meeting of the Board of Trustees was held on Tuesday, February 22, 2005 at the conference room at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 8:50 a.m.

TRUSTEES PRESENT

Eugene White, Chairman
Ed Hannan, Secretary *arrived at 9:30 a.m.*
Charlie Harrison
Javier Sauceda
Kevin Williams
Debra Woods

TRUSTEES EXCUSED

Shirley Barnett *(excused)*
Robert Giddings *(excused)*
Larry Marshall *(excused)*
Mayor Willie Payne (*excused)*
Paulette Poehlman *(excused)*

OTHERS PRESENT

Doris Ewing, NEPC
Craig Svendsen, NEPC
Dierdre Guice, Oppenheimer Capital
Bill McDaniel, Oppenheimer Capital
Frank LaCates, Oppenheimer Capital
Bob Kay, World Asset Management
Kevin Yosif, World Asset Management
Tal Gunn, Munder Capital
Michael Crowe, Mesirow Financial
Tim Ewing, Mesirow Financial
Nancy Ward, GE Capital
Sean Tole, GE Capital
Deborah Munson, Retirement Accountant
Ellen Zimmermann, Retirement Systems Administrator

NEPC Overview

Ms. Ewing discussed the asset/liability study handout. She explained that performance is often driven by what happens in the market place. She reviewed the broad market benchmarks. The S&P 500, representing the broad equity market, despite concern in the marketplace, was still pretty strong at over 9% for the quarter and over 11% for the year. Small cap companies represented by the R2000 benchmark, led over the large cap with returns of 14.1% for the quarter and 18.3% for the year. The Citi PMI EPAC benchmark, for international equity was up 15.5% for the quarter and 20.4 % for the year. On the fixed income side, the Lehman Aggregate was up just 1% for the quarter and 4.3% for the full year. NEPC's expectation for the bond market was 4.5%. High yield returned 4.6% for the quarter and 11.1% for the year. World bonds returned 8.5% for the quarter and 10.4% for the year. Equity did much better than fixed income for the period.

Discussing the treasury yield curve, Ms. Ewing noted interest rates are rising. The short end of the curve shows an increase, but at the longer end of the curve yields are down for the year. Mr. Svendsen stated that small cap out-performed large cap; emerging markets out-performed developed markets internationally; the deterioration of the dollar helped international returns. Noting the differences in returns for international and domestic equity, and emerging versus developed for international, he said diversification helps. Global fixed income benefited from the weak dollar. The fund has exposure to this asset class.

Mr. Svendsen said that the capital markets are reviewed annually by NEPC. In the first nine months of 2004, the market was distracted by Afghanistan, Iraq, oil prices, and the election. Following the U.S. election attention returned to balance sheets. Companies were growing at 15-18%; oil prices fell back; the market rallied and credit spreads tightened.

Going forward the dynamics have changed. NEPC had recommended small cap and high yield but feel that now they have pretty much come to their value per Ms. Ewing. If the fund was overweighted, they would recommend reeling in the allocations. Value has had a nice long run. If there was no commitment to growth stocks, she recommended there should be some exposure. Active management will add more value over the index. Their firm is recommending hedge funds, private equity, globally diversified TAA and portable alpha for non-traditional allocations. She said one must consider the allocation.

Ms. Ewing suggested that the board continue the non-traditional allocation with an allocation to core real estate. She also said the board should consider a core-plus bond strategy, TAA strategies and should consider reducing the small cap allocation. She said the board should maintain the current high yield and global bond allocations. She indicated these changes would increase returns in the portfolio. Chairman White questioned the recommended reduction in small cap. Ms. Ewing suggested reducing the allocation to about 8% with remaining 2% going to a new asset class or being distributed among the existing asset classes.

Ms. Ewing reviewed the dollar growth in the program noting that the System started the quarter with $412 million and ended with $435 million. For the year, the fund earned $40 million and withdrew $17 million and has more than earned the amount of withdrawals. Money is being moved out of small cap to get to target; the rebalancing is not reflected in the 12-31-04 numbers. The fund is under the allocation in bonds and will be rebalanced to target; it is a low-returning asset class. Other assets class recommendations will offset that. She discussed a chart that showed how the fund allocation has shifted; equity allocation has come down quite a bit in recent time periods which is appropriate considering the maturity of the plan and the liabilities.

She reviewed the public fund equity commitment; the average public fund has 61.6%; this fund has 50.6%. Equities outperformed bonds for the quarter. This System will have lower returns than the average plan but the mix must be based on your needs and objectives. Retired lives versus active employees projected in early 2000 such that in 2009 total liabilities would be $272 million while the active lives liability would be about $70 million. Ms Ewing said the conservative stance was based on the maturity of the plan. She said they did this analysis five years ago and it called for a conservative allocation due to the number of retirees.

Ms. Ewing reviewed the plan performance. For the quarter, the total return was 6.9% and ranked 74. For the year, total return was 7.2% and ranked 52. For those funds with a similar equity allocation, the fund ranked 29 for the quarter and 42 for the year. Trustee Harrison questioned the composition of the peer group. Ms. Ewing replied that it is those funds with 40-55% equity allocations. She did not think the fund needed to be 62% invested in equities unless the liabilities have changed over the past five years. She offered to revisit the asset/liability study due to the change in the actuarial interest rate assumption. Equities were the strongest performer in the past year. The portfolio has, year over year, protected well in the down markets. The Board has weeded out a lot of the under-performing managers over the past several years.

The risk/return charts were reviewed. For the 3-year period, the fund had a median return with less than median risk. Active management cost a little over this period. Overall the fund is in a nice position; diversification measures have benefited the plan over the period.

Mr. Svendsen explained that the equity-only composite return was 10.4% and that was an average return. The international equity ranking was the 3rd percentile; the manager is Julius Baer and their allocation to emerging markets benefited them. Fixed income managers displayed a conservative stance against rising interest rates and were defensive. The return for global bonds was in the middle. Real estate performance continues to drag. He reviewed the style analysis noting that most of the firms plot well per what they were hired for. GE Asset Management has moved back to the growth area.

Trustee Hannan arrived at 9:30 a.m.

Loomis tracking a little more core than value although the index is reconstituted each year. Oppenheimer large cap had another rough quarter. They increased the allocation to health care as a defensive move, then news on Celebrex etc. hurt them. Mesirow was hurt by the allocation to health care as well. Kennedy had an excellent quarter and was up 16.7% versus the benchmark at 14.1%. They benefited from strong stock selection over several sectors. Loomis was underweight to financials, over-weighted to industrials. Stock selection hurt them; some companies missed earnings. Long term they have under-performed over the 5-year period. Julius Baer, the international equity manager was up 18.7% for the quarter beating the EAFE index by 430 basis points. They ranked first in the universe for the period.

For fixed income,Munder reflects a defensive posture of a portfolio. The firm is known to have a high quality portfolio. Low quality securities performed better for the period. The 5-year number was right at median. They have added 10 basis points over this time period. Oppenheimer also shows a conservative nature of portfolio. They had a lower duration than the index and did get hurt in the automotive sector. For the five years they were under the benchmark by 10 basis points and are structured much like the index.

The high yield manager, Seix, returned 2.7% for the quarter. They did better than the domestic bonds but were under the benchmark due to the quality they hold. The poor credits did very well so they did not benefit from the run up in that sector. The 3-year number puts them in 43rd percentile and with a return of 10.9%. Cap Guardian's 1-year return was 10.3%; they also went defensive and ranked around median.

Ms. Ewing discussed a memo from Capital Guardian informing of the investigation by NASD having to do with their retail arm that distributes mutual funds. American Funds Distributors had a complaint brought against them for the anti-reciprocal rule. It was alleged they gave commissions to brokers distributing their funds in a quid quo pro arrangement. The charges are against a sister company. Capital Research and Management and American Funds Distributors are defending themselves against the charges and saying they have not violated the rules. She will keep the board informed on this issue.

The Board is now trying to get out of the investment with CAPROC; there was also a write down in investment. ChrisKen is winding down: Dearborn and St. Louis have another manager lined up. She suggested this Board may want to do the same.

Per Ms. Ewing, the Board can tweak the portfolio and increase the returns. She said that for fixed income there are other things you can do as well to enhance returns. A handful of managers out there can implement the strategies. She can have people come in to discuss the strategy – do education. Discussion of TAA and core plus strategies followed. She suggested maybe 5% in TAA. They can track the equity versus fixed portion and should not have a problem remaining within the PA 314 limits. The other thing on the table is real estate. The Board will be getting money back from ChrisKen and may want to consider starting a search. These funds could go back into a core strategy for real estate. She suggested taking 2% from small cap and will have

information to direct the 2% at the March meeting. She suggested having two or three managers come in and talk about tactical asset allocation. She said they invest in traditional types of securities and have five or six strategies. Ms. Zimmermann asked about monitoring compliance with PA 314. Ms. Ewing responded that sinc ethis was such a small part of the portfolio, even large shifts would not create a problem. She said NEPC is equipped to provide monitoring. She suggested the Board could bring people in but not retain a firm at this time. ChrisKen was hurt in apartment down turn as they were 100% invested in apartments. These core managers are well-diversified funds.

Oppenheimer Capital – Fixed Income

Dierdre Guice, Bill McDaniel

Ms. Guice discussed the portfolio summary noting that the current market value was $62 million. For the quarter, fixed income was hurt in the automotive sector. Mr. McDaniel said the two-year number was good; last year was difficult.

Ms. Guice said the Federal Reserve raised rates five times in 2004; they increased high-quality mortgages which added to performance. GMAC and Ford Credit were down for the year and they were overweight in those two securities. Treasury securities were generally up for the year. Those two are well-managed companies. Loan losses are low. However, both are tied to the parent companies that are struggling. GM is coming out with new products next year and Ford did this year; the competition is intense. It has been quite a while since they have made money in autos although they do in trucks. All the profits came from the finance subsidiaries. The parent companies were downgraded and so too subsidiaries; now just one level above junk bonds. There are a huge number of mutual funds that cannot hold junk. Recently, Lehman Brothers included Fitch in the rating structure. Fitch is very lenient. They are a smaller firm. They have sold the GMAC bonds but not the Ford Credit yet.

The portfolio is about even with the index now, yielding about 8% now. While it was painful to drop the auto finance issues, they took them off the table to avoid the potential downgrade. He discussed the conflict of interest inherent with the rating agencies that rate new issues for a fee. Now about 40% of the portfolio is in pass-throughs that are AAA rated. One gets a lot of extra yield on those. Chairman White asked whether they have increased duration. Mr. McDaniel replied that they had a little. He said that last year once could almost chart bond yields inversely from oil prices. The high cost of oil is a huge tax on the economy and slows the economy down. At end of the year when oil prices came down, the bond yield went up. Interest rates began to rise again. The Fed will continue to raise them as they think the economy is going pretty well. Aside from the autos and the employment numbers, things are rolling along well. Barring natural disasters, things are recovering.

Long term rates (30-year) are at 4.75% now; you need a gap. He said he did not know where inflation is going to come from. This is a worldwide economy now. We are more fuel efficient now than in past decades although it has taken a long time. He indicated he

had just bought some TIPS (treasury inflation protected securities) for the portfolio for the first time. They have performed very well. There are not many outstanding and there are a few huge buyers; the supply and demand factor is key. They still have a lot of corporate bonds in the portfolio. He thinks they will continue to perform well; balance sheets are strong, they hold lots of cash and fixed charge coverage is good. Corporations are not issuing securities – low supply. There are huge deficits and a trade imbalance; buying foreign goods with dollars. It has to be invested back somehow – in our bonds. Central banks have been buying investment grade corporate bonds and treasuries. He thinks they will continue to do well.

They are closer to an index duration now than last year. Interest rates may continue to go up; comfortable being closer to the benchmark duration. Those dynamics will help us this year. Thinks interest rates may stay low and bonds will do well.

Trustee Williams left at 10:40 am

World Asset Management

Bob Kay, Kevin Yosif, Tal Gunn

Mr. Kay introduced Mr. Yosif, the senior portfolio manager. Mr. Kay reported that World Asset Management (WAM) has 16 professionals and they have moved to Suite 250. They hired another investment analyst from the far east who came here in 1995 and has been a fantastic addition. He reminded the trustees that they invested in the S&P 500 Collective Fund. They were hired in May of 2003 with $29.5 million. The value is not $34 million and that includes withdrawals of $1.1 million and $3 million.

Since inception, performance has been 20.33 % for the fund and beat the index by 1 basis point. They strive to hit the benchmark. He noted that the figures are gross of fees in the presentation. The ten largest holdings are same as those of the benchmark. He reviewed performance at 1-31-05 noting it dropped since year-end. Since inception the fund returned 17.61 % versus the index of 17.60. He noted that they track the index very closely. They fully replicate the S&P 500 and they make changes the same day as the index. They do buy and hold; they do what the index does. The S&P reflects the economy as best as it can. They will look at the sectors and reflect it in the index. In the index the largest sector is financials. They look at the large cap firms over $4 billion and they add it into the S&P. They are held there until the company is bought out, goes bankrupt, or is the subject of "lack of representation" (about to go bankrupt). It is not the 500 largest companies.

Mr. Svendsen asked him to comment on the issues with free float. Mr. Yosif said that they have market cap stock weighted outstanding shares in the S&P – even those that are not available for purchase. Free float will be coming to the S&P to adjust out the shares not available for purchase. That will make the index more efficient. You currently cannot own the index due to the number of shares unavailable. Once it goes to free float you will be able buy the entire index. This makes it a more investable portfolio. The

concern with the change in a weighting scheme is the cost. If everyone knows in advance, people will front-run making it more costly for us. The S&P has broken it into two phases to deal with that. They will not trade the portfolio until March 18 and October 18. The costs will be low because they are one of the largest 20 managers and brokers want their business. They can often trade for less than a penny

The Board is invested in a commingled fund with $33 million and fund is $16 billion. The Board is an important client. They use a two- step process. The portfolio and cash are first weighted correctly. The second issue is cost – trading with the index. Generally brokers are strong Wall Street firms. Minority owned firm inclusion is a goal for this year. They generally trade at two cents a trade or less, often for free. That translates in to the performance of the fund. They returned 12.09% versus 12.07% for the index. Clients go in and out, there is cash in the account, custodial account fees cost them money; that accounts for the difference in returns.

Munder Capital

Tal Gunn

Mr. Gunn provided an overview of the approach saying that they do not take interest rate risk or try to anticipate interest rates. Most managers pick good sectors, maturities and individual securities. Most miss on what predicting what interest rates are going to do. They neutralize the interest rate risk by mirroring the benchmark. They had the same pattern of returns for December. They were a little ahead of the index for January, the trailing quarter and year. Generally government agencies and treasuries performed poorly. The market was more comfortable with direction of economy, the federal reserve's tightening of rates. They have been pushing short-term rates higher but long-term rates stayed about the same for the year. The difference began to narrow, what is called a flattening rate environment. They repositioned for that change and added value.

He reviewed the portfolio characteristics. At the end of the quarter there was approximately 2% in cash although they try to minimize the cash holdings for clients so there is liquidity for benefit payment. The value of the portfolio went from $56 million to $66 million and about $7 million of the increase was contributions from the plan. The duration is 4.2 years. If interest rates decline by 1% the portfolio will increase in value by 4.2%. They keep duration close to the index. They hold slightlly higher quality than the index. The portfolio has concentration in short-term and long-term durations. Chairman White inquired about the use of TIPS. Mr. Gunn replied that they consider them; big driver is current valuation. There are two components to valuation; 10 year TIPS are now overvalued but they look at them constantly.

Trustee Hannan asked how they try to mirror the duration noting that in looking at the components there are different durations in the index. Mr. Gunn replied that they vary by components; corporate bonds are on the long end, mortgages are at the short end. Overall, the portfolio has same sensitivity as the index but not necessarily the same components as the index. Risk adjusted relative weights were reviewed. They do not

own a lot of treasuries and are over the index in exposure to agencies and corporates. They take on more exposure in shorter and longer securities taking less in the intermediate structure to add value. They hold less than the index in treasuries and more in agencies, AAA, AA and A – not BBB. Securities are priced based on risk.

He reviewed the historical yield curve, maturities and the change in yield. Shorter maturities (3 months to 5 years) increased; the 30-year bond actually declined in yield. By positioning the portfolio as they did it outperformed a static portfolio. In 1999 there was a flat yield environment. The current environment is also abnormal. Around the year 2000 was a normal rate environment. The foreign banks have really financed the deficit; our government decided not to issue 30-year bonds now. There are still companies that still need to benchmark against a long-term issue. It creates a more volatile environ. With respect to rates, the government has decided it is ok with the decline in the U.S. dollar. That should cheapen our debt relative to other nations but we have not seen it to the extent expected. When foreign governments stop buying debt, long-term rates could go much higher.

He reviewed the first and second halves of 2004. In the second half of the year rates moved down especially in the long end of the yield curve. Rates bounced around in 2004. He reviewed taxable fixed income returns. The highest quality securities had a very tough quarter; lower quality categories did well. The auto companies fall in the BBB category, also AT&T and big cyclical industrials. There was a similar story for the year. To enhance the value of portfolio they look at other areas since they are not taking the high-risk securities. They will not invest outside of the benchmark. They are fairly cautious going forward. He thinks corporates have done well and may not be as strong going forward. They will hold mortgage-backeds but not those with the volatility of a traditional pass-throughs. They own maturities more similar to the index than last year. They are locking in profits now by changing the structure.

Oppenheimer Capital – Large Cap Value

Dierdre Guice, Frank LeCates

Mr. LeCates has been with the firm for nine years and has 36 years of experience. The best way to do well is to buy undervalued securities. They are looking for those selling at 30% discount to the intrinsic value. The value of the account has gone down in size; $35 million has been withdrawn. The value now stands at $28 million. Performance from inception to date is in line with the index. The portfolio is up 1% year-to-date.

He discussed the equity drivers for the year. The economy gained momentum; there were lower taxes and low interest rates. Employment did not pick up as rapidly as it normally does due to the high oil prices that acted as a tax and that offset the behavior of the positive factors. They do not try to predict interest rates. They try instead to figure out what a stock will earn in normal times and so they steered away from companies that were benefiting from low interest rates. Those companies continued to benefit longer than they anticipated. They feel the economy will strengthen gradually. Their

compensation for the slow start will be that it will be long-standing and their holdings will then do exceptionally well.

When interest rates stayed very low, investors looked for higher yields and were buying low quality bonds and high dividends. People were buying lower quality bond issues to upgrade yield. That flows into the value-oriented market. The higher yielding stocks have performed better. Their belief is that the dividends are no better than if reinvested. At times, paying dividends is popular; this has been one of those times. He reviewed the portfolio characteristics. Oil stocks helped performance as well as investment in AT&T Wireless, Nucor and Wellpoint. What did not do well were not bad companies – the slow takeoff of the economy has just not pushed them forward. Examples of this type of company are Inco, International Paper, etc. He reviewed the top 10 holdings.

Mr. LaCates discussed the sector weights in the portfolio. Materials, IT, industrials and consumer discretionary were over-weight. These sectors are cyclically sensitive and did not do as well as expected last year. Financials, telecom and utilities did well and they were underrepresented in these. The portfolio was not positioned properly for 2004; it is proper for 2005. The economy is moving toward a long expansion and they expect the yield bubble to unwind. For the last 5 years, value has outperformed growth as a group. Their style has always been on the "growthy" side of value. When in an environment that is growth, they generally outperform value by a good amount. Over all periods, the equity portion has outperformed the S&P 500. They are looking for a multi-year period when the market will be good for them. They tend to look longer-term than their competitors. They will sacrifice yield for growth prospects.

Corporate America sitting on more cash than ever before. This cash is all they can hold without getting in trouble with shareholders. They think corporations will now begin to spend on capital expansion and then will begin to hire. If not, then they will either have to buy other companies, increase the dividend, or repurchase their own stock.

Mesirow Financial

Mike Crowe, Tim Ewing

Mr. Crowe said they have been on board for five months now. He reviewed the philosophy saying they view themselves as one of the legs of the stool working for the participants of the fund. He introduced Mr. Ewing, the co-portfolio manager on the account saying they worked for 12 years together. As of 1-31-05, cash was at 1.2%. The highest cash level was 4.5% at December but they do not market time and try to minimize cash position.

No manager can promise performance, they but will stick with the process. Their process did not work well in the tech bubble. What they offer is the consist application of a bottom up stock selection process focusing on low-priced stocks with a relatively high yield. On a trailing 12-month basis he reviewed the portfolio characteristics. They are buying attractively valued securities giving higher profitability than their competitors on

a consistent basis. “Bottom up” means building a portfolio stock-by-stock, seeking approximately the 50 best values they can find. As a result, it sometimes skews the sector weightings. They are under in finance, equal the index in consumer discretionary, under in utilities and telecom, over in materials and hold little in tech because it is not generally cheap enough.

Mr. Ewing said it was an interesting quarter. In the last half of the year, elections, oil price volatility and market in general was very hot. They tend not to perform as well in that environment. They do not manage short-term and see this as a long-term portfolio. Mr. Svendsen noted their overweight to healthcare and asked whether this was a rising interest rates bet. Mr. Ewing said that it had nothing to do with interest rates; these were just stocks that were beaten down. A portfolio needs diversification so they will not have too few sectors, but sector weight is not a primary factor. They review the 1000 best securities and rank them based on cost. They then analyze the reasons for the under-valuation. Companies are sitting on a lot of cash and will pare down debt and repurchase stock with the excess cash.

The portfolio performance through the end of January 2005 was down 1.5%: the S&P was down 2.4%; the Russell was down 1.8%. Since inception, the fund return was at 8.7%, the S&P was up 7.7% and the Russell 1000 was at 10.1%. Mr. Crowe reviewed the inception-to-date figures on a handout noting they were in the 25% of managers.

For 2005, they think that they will be lucky to get high single-digit returns and dividend income will become increasingly important this year. Dividends in the portfolio increased by 24% for a one-year period from 2003 to 2004. The last four months of 2004 were very strong. Mr. Svendsen noted the big under-weight to financials noting that some say it is hard to analyze. Mr. Crowe said they have had them in the portfolio in the past but these not cheap now. Banks have a habit of shooting themselves in the foot by trying to grow to meet Wall Street expectations. Mr. Ewing said they are over in the insurance area and have had over-weights in the past two years noting their tremendous pricing power.

GE Asset Management

Sean Tole, Nancy Ward

Ms. Ward reviewed the team. Over last year and a half they have added two analysts; one in healthcare, one in basic materials. They look at the business on a yearly basis to ensure they are supporting the business appropriately. She is now reporting directly to the CIO and there was one retirement during the year. This product has garnered a lot of assets in the past year.

She gave a summary of philosophy and process. They are a bottom-up firm and are not aggressive growth. They seek 30-35 stocks of double digit growth that will be around for the next three to five years. Turnover for the portfolio is 20-30%.

Ms. Ward discussed performance for the 4th quarter when the portfolio returned 10.52% compared to the Russell 1000 Growth index at 9.16%. Returns inception-to-date were 15.24% versus 14.14% for the Russell. They have outperformed the Russell 1000 Growth. It was a value market last year. They did see times leading up to the election when in general, the Russell had a difficult time due to health care. Healthcare had a tough time last year, especially pharmaceuticals. It is hard for companies to conduct studies for all groups for all time periods. They are now looking as orthopedics in consideration of the aging demographics. Labeling was an issue for pharmaceuticals as well where it was being questions whether the drugs from Canada were good and safe. A lot of medications can have derivative uses. It was a very busy news year. Phizer and Merck were on the cusp of 10%. That is when they began to look at some changes in the type of firm. The tech weight is down from last year; some did not do well and some were not capable of sustainable growth so they were paring back there. She discussed some other examples of companies and strategies that were in the news.

Trustee Harrison left at 2:20 p.m.

They sold out of Gilette and now have no weight in that area; walmart is a possibility. They have nothing in consumer staples but that helped in short-run last year. Poor performers included Intel (uneven order flow) although they still think they are market leader with above average growth. They hold a lot of R&D right now and are a global winner in the merger and acquisition area. They feel they have a sustainable position. The market was discounting some companies 30-50%; margins may have peeked in some companies.

Trustee Harrison returned at 2:25 p.m.

They bought Monsanto as an opportunistic growth bet. The company looks at genetic makeup of crops and looks to enhance that. They expect 15-18% growth in the next few years. They added to the position in the last six months but it is an unusual item for them.

Trustee Harrison commented that according to the style analysis this is the first time GE has been in the growth bucket; they had plotted in the core bucket. Ms. Ward said that they are traditionally on left side of the growth box. It is not necessarily that they changed but the bucket moved. Stocks had a few names with higher beta that tilted them away from core and toward the growth box. They are trying to get the right companies with the right earnings and cash flow streams. Some of the names like Phizer moved to value box. They pretty much plot to the left of the Russell; the box was moving right based on the nature of the market. They do look at those quarterly and are aware of where they are: they do not change the process. They are more disciplined than aggressive. Mr. Tole said they have very low portfolio turnover at 20%. There have probably been less than seven names that have changed. Ms. Ward added that they are keeping up on the international landscape as well.

The market overview per the quarterly client call indicated that the indices show growth doing less well than value. Leadership in the market has been in energy; utilities have done pretty well although there was a sell-off today. Earnings for the quater were pretty good. Oil prices were over $50 and CEO's were being cautious about where they would spend their money. Stocks are selling at about 17 times; they are not overly expensive right now. The question is when companies will step in and start spending instead of the consumer. Mr. Svendsen asked about the current high cash positions. Ms. Ward replied that they are more concerned about where they will spend.

The large cap area moved sideways up to the election as it was not an area where investors were focused (sc and mid cap). Investors rotate back towards quality. Some companies with earnings were doing better after the end of the year and investors are now looking to add these. The market may have been impacted by hedge fund activity. They are investors not traders.

The market balance sheet has pros and cons. As to the velocity of the increase in interest rates, they do not think Greenspan will step on the breaks to fast. They are seeing pricing in some industries. On the asset side, the domestic landscape looks very good. GDP is better than 3%. They are maintaining a good stock selection process and invest instead of just trading.

WRAP UP

Ms. Ewing thought it would be helpful to discuss how NEPC calculates returns. They do not take the managers' numbers and put them in the system. They act as an independent 3rd party and take information from the custodian. They also get numbers from managers. Usually the numbers for equity are close. Fixed income is a negotiated market so they can not get numbers as readily. NEPC will get them together to reconcile so numbers may not be exact. Case in point is Julius Baer: they buy currency, invest and re-convert to dollars; then NEPC analysts have to reconcile the differences in currency. So they are processing data from two separate sources. They may not match up precisely. Also there are differences in how the custodian tracks data; i.e., cash basis. Managers own a stock as soon as trade is placed. The differences should be minor.

In general, the fund is performing nicely. The Board has a couple of managers on probation; Oppenheimer large cap for performance and GE for style. Oppenheimer is still weak on performance; consideration should be given as to whether to give them more quarters to improve. Some money coming in from ChrisKen; the Board may want to get a manager lined up. Some other suggestions on re-positioning the portfolio; this is a mature fund and is conservative. Managers have done a respectable job for you.

The Board has two bond managers that are conservative. Munder has done better than Oppenheimer. Both are doing the same thing; there is opportunity to broaden out that portfolio.

Meeting adjourned at 3:05 p.m.