CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 28, 2007

A special meeting of the Board of Trustees was held on Tuesday, August 28, 2007 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9: a.m.

TRUSTEES PRESENT
Shirley Barnett
Koné Bowman
Raymond Cochran, Secretary
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Andrea Wright *(arrived at 9:55 a.m.)*
Debra Woods

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

OTHERS PRESENT
Larry Gray, Gray & Company
Geoff Mullen, Oppenheimer Capital
Gerald Thunelius, Oppenheimer Capital
Joe Gatz, Loomis Sayles
Peter Root, Munder Capital
Pam Hopkins, Munder Capital
Tony Dung, Munder Capital
Tom Mudie, Munder Capital
Matthew Jermak, Kennedy Capital Management
Luke Farell, Capital Guardian
Regina Burden, Capital Guardian
Timothy Gramatovich, Peritus I Asset Management
Jason Pratt, Peritus I Asset Management
James Wallerius, Systematic Financial Management
Ron Mushock, Systematic Financial Management
Tim Ewing, Mesirow Financial Investment Management, Inc.
Tracy Shinkle, Mesirow Financial Investment Management, Inc.
Rebecca Kubick, Julius Baer Investment Management
Timothy Devlin, Julius Baer Investment Management
David Smith, Northern Trust
Robert Kay, World Asset Management
Kevin Yousif, World Asset Management
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSULTANT

<u>2nd Quarter 2007 Performance Review</u>
Mr. Gray noted that the manager's performance numbers have been good. In lieu of hearing the numbers twice the managers will review their performance with the Board.

He encouraged the trustees to engage the managers and ask questions on how the market is affecting them. Question how the credit crunch could affect the fixed income portfolio. Ask them to discuss why the market has given up a lot of gains yet technology shares rose and high quality bonds are up 17%. Ask what impact subprime mortgages will have on the portfolio.

He reviewed the capital markets stating that the market has remained somewhat optimistic despite all the bad news. Consumers continue to spend. Retail sales are up; however, inflation is still a concern. Because the cost of gasoline has been high, the typical worker is taking money that would have been used elsewhere to supplement the cost. How will this affect the economy?

After September 11th, security costs increased which affected the cost of other things. The cost of energy is having a huge effect. The housing market is of great concern with information from the Fed reporting that a large block of subprime mortgages valued at approximately $300 billion are coming due in September.

The Fed held interest rates at 5.25% and plans to inject the market with $36 billion in treasuries.

The growth and value structure of the portfolio was reviewed.

International markets were on top again. The international indices could be a topic for a series of questions for the managers. It is becoming a global economy with most things not being American made. There is an outsourcing movement to India. It is becoming a global society. It is an exciting time to be alive. You should not only be concerned about decisions coming from the U.S. but with decisions from around the world.

The emerging market index was up 15% for the first quarter. REIT developments have slowed down reporting performance for the quarter at -9.9%. REITs had been helped early on by rent flow through as a result of the poor housing market.

Telecom is back from the ashes up 45.4% for the past twelve months and 7.6% for the quarter. The S&P was 20.6% and the Russell 100 returned performance of 16.4% for the twelve month period versus 6.3% and 5.9% for the quarter revealing a turn around in the market.

It continues to be a surprise that there are no red numbers in the fixed income market. With interest up and bond prices down softens the lending in the bond market. Bernancki is doing his magic and handling the pressure of the market and calls to Capitol Hill.

China continues to release false numbers like they have for the past three to four years. They reported growth of 9.1% in 2006 but recently adjusted that number to 11.1%. They have a lot of money and you cannot ignore the concerns with how they are buying large U.S. companies. China represents 15% of the world's economy.

Europe's eastern nations are beginning to develop and have caused a bit of a boom. Europe has found a new market with their former communist neighbors.

Japan is still experiencing banking issues but is continuing to improve. The former Prime Minister did an excellent job reforming the financial markets. The jury is still out on the new Prime Minister.

Fixed income returned great numbers. The Russell 3000 one-year performance was 20.1%. Junk bonds correlate closely to the stock market. International indices reported one-year performance of 27.0% for the EAFE; 42.6% for Asian Stocks; 47.1% for emerging markets. REITS reported one-year performance of 8.3% compared to 24% from last year.

Trustee Barnett asked if the U.S. government is doing something with the bonds. Mr. Gray said they are scheduled to release $36 billion in treasuries. These are being bought by China and Japan.

The top numbers had been adjusted with a footnote indicating CAPROC market value as of March 31, 2007 and that they exited the plan during the second quarter 2007. After speaking with Beth Bialy from Plante & Moran she stated that as payments come in from CAPROC, they have to be reflected in the total performance numbers.

Total plan returns are good with year-to-date performance of 5.1%, 8.3% as of June 30, 2007 and one-year returns of 18.2%.

As of June 30, 2007 a lot has happened in domestic equity. Allocation of the portfolio is good with domestic equity one-year performance at 21.7% and international equity at 35.7%. Bonds are down 15% to 20%. Mesirow has experienced weakness with their value product.

Most managers are doing extremely well. You can not ask for better numbers from Munder with performance for the quarter at 11.8% versus the benchmark at 5.9%.

Systematic returned performance at 6.6% versus the benchmark at 3.7% for the quarter. Their one-year performance was 400 basis points above the benchmark.

Trustee Cochran left at 9:45 a.m.

Loomis is showing steady performance of 4.7% for the quarter and 9.4% year-to-date. Joe Gatz has done very well taking less risk then the index and producing higher returns.

Kennedy Capital has continued to provide out performance since inception with a return of 17.8% versus the benchmark at 9.1% for the ten-year period.

Julius Baer outperformed the benchmark 300 basis points for the quarter and returned one-year performance of 35.7% versus the benchmark at 27.0%.

The fixed income side has been slightly negative for the three-month period but one-year returns were 7.1%.

Trustee Wright arrived at 9:55 p.m.

It is a similar story with Oppenheimer Capital. Jerry Thunelius has been making the portfolio his own. There has been high turnover in the portfolio but it will be okay.

Munder was hovering slightly above the benchmark.

Peritus is a true high yield manager. There was concern that they held onto a lot of cash, but they still outperformed the Merrill Lynch High Yield Master Index 0.8% versus 0.3%.

Capital Guardian's one-year performance was 6.5% versus the benchmark at 4.7%.

Despite the headlines on private equity and subprime the managers are still delivering good returns for public funds. Expect to see a slow down.

He asked if the trustees had any questions.

Trustee Barnett asked if the negative news regarding China will have any impact on the markets. Mr. Gray said that it should not have any affect. He said that some of the activities at the Olympics may have to be postponed due to conditions created by the smog. Not long ago the U.S. experienced the same issues during the industrial era. A lot of environmental agencies were established due to that period.

Meeting break at 10:05 a.m.
Meeting resumed at 10:30 a.m.

Economic Overview/Markets Roundtable

Mr. Gray asked that introductions be conducted around the table between the trustees, manager and staff. The first topic introduced for roundtable discussion was the subprime meltdown and how will affect the markets.

Mr. Gramatovich from Peritus said as it relates to high yield, the subprime issue has become a contagion. He said that it is relative to the asset class starting in 1984 this is the fifth shakedown they have gone through. The domestic loan guys seem to be taking a lot of the brunt. He said that September will be interesting with $250 billion to $300 billion in transactions that need to be done. He is not seeing a lot of forced selling but last month dealers were prudently pulling money to work in financial distress. He does not know what impact subprime will have but it is guilt by contagion.

Mr. Pratt from Peritus stated that the Fed is providing a lot of liquidity and capacity for the subprime market. This is going to be a big challenge for the Fed. When the economy grows and the stock market does not they tighten the spreads to generate yield.

Mr. Thunelius from Oppenheimer Capital said that they have barely skimmed the surface of subprime. The subprime issue will continue with the last reset in Spring 2008. People are looking at AAA security structures. The Fed is doing a great job providing adequate liquidity and the market continues to move quality assets even more then expected. Total subprime resets are expected to be $300 billion. The first reset was in May, 2007 at $50 billion and will continue to drop off with the last reset expected in Spring 2008 at $58 billion.

He has sold off approximately15% of companies he feels have been over sold. He said it is a different world and you do not want to purchase a product that is over sold. Some were quality products before the subprime issues occurred like Countrywide. There are some tainted companies trading at cheaper levels but he does not think the liquidation has fully happened and prices can get cheaper.

Mr. Gray asked if this has changed the way he has adjusted the portfolio and what is he doing to make it his own. Mr. Thunelius said that things are moving to a greater degree and that he is removing financial credits and within two weeks will remove those that are under pressure and buy treasury securities because of what is happening.

Geoff Mullen from Oppenheimer said that there have been subsequent moves from financial to treasures.

Mr. Gray asked how this has affected the global markets.

Mr. Farrell from Capital Guardian stated there has not been as much subprime contention overseas or in the Southeast Asian market. However, in September, 2006 the European banks began buying U.S. CDO and CLO securities rather then loans. Many of these included subprime packaged in AAA securities that were BBB or below that were sold to European banks who recorded the losses to their financial statements, primarily in Western Europe but not as much in the Far East. Emerging markets took a hit because U.S. investors were reducing their risk portfolio which was the same way they reacted in July.

Mr. Gray asked how this has affected the equity side.

Mr. Root from Munder Capital said that the market has rejected risk but how far it goes is unknown. It is not clear how the spill over will affect the economy. It will depend on what the Fed does. If they lower interest rates it will cause more pain. If they cease credit the economy will slow and widen credits spreads which will make it riskier to own paper.

Mr. Mudie from Munder Capital stated that the change has not affected earnings too much. Stocks are still pretty cheap with good fundamentals.

Mr. Devlin from Julius Baer explained that the international market has felt some spillover effects. From mid-July to mid-August the international market was down 13%. The last time this occurred was spring 2006: there was a 16% drop in the market when the Bank of Japan pulled back their liquidity. He feels there is no reason for subprime to have long-term effects in the global market.

Mr. Yousif from World Asset Management said that subprime represents only 9% of overall mortgages. Banks are repackaging mortgaged backed securities. Banks keep some subprime like Countrywide. But subprime is not only held by banks, firms like Goldman Sachs, Bear Stearns and State Street used them as hedge fund leverage. The value of the outstanding mortgages used as collateral has been reduced and are not being paid back. Investors have no choice but to sell the loans. The Fed stepped in and injected money and over night the rate provided liquidity for the markets. Earnings will pull through but there is still concern with the restructuring. When everyone comes back to work in September we will get a better idea.

Trustee Barnett asked how the tainted products from China will affect the market.

Mr. Mushock from Systematic said that the best sectors in emerging markets are industrials, basic materials and energies with an under weight in consumer discretionary. Housing inventories are at an all-time high with a sixteen year supply. There is a big difference between what buyers are willing to pay and what sellers are willing to take. The strength is in consumer staples, healthcare and utilities. This has caused a good environment for stock pickers based on earnings.

Mr. Wallerius from Systematic said that the tainted products from China have caused Mattel to lose a lot of market share from Barbie to Barney. They have sold it out of their portfolio. The lead paint issue has had a negative impact on the brand.

Trustee Barnett asked what can be done to stop China from their back door investments in the United States.

Tim Devlin from Julius Baer said that the dollar would deteriorate if China was not investing in the United States. A weaker dollar would be better for trading.

Chairman Harrison asked what Bernanke will do during the next two to three quarters to get out of the subprime issue and the downturn in the housing market. He said it seemed that the market was primed for a correction. What will the Fed's response be?

Mr. Dong from Munder Capital feels it is unavoidable that some homeowners will lose their homes. It is important to protect the economy against inflation and enable it to grow. The markets are predicting the Fed will lower rates to help people keep their homes but there will be pain. This crisis is similar to the dot com burst of the late 1990's. It may be necessary to endure a crash like in 1987. It could be a good thing in a sense. The market is out of whack. There has been too much speculation and not enough focus on risk. This could restore health to the market. He does not think it is a disaster. Stocks are still pretty cheap.

Joe Gatz from Loomis Sayles said that he thinks the Fed will ease the rates. The market is beginning to re-price credits and rewrite ratings. It is not the obligation of the Fed to secure the capital markets and bail out the bad guys.

Mr. Ewing from Mesirow thinks the Fed will be forced to ease the problem because there is too much debt. The economy will slow down. Credit will decrease and savings will increase.

Mr. Smith from Northern Trust said that the valuation factors and probabilities along with highly leveraged hedge funds have gone sideways. The selling of strong companies will restore credibility to the market.

Mr. Mushock from Systematic said that the first part of the decade saw negative savings rates and a consumer spending cycle extended with credit based on house values. With the interruption of the credit cycle roll over the consumer is in trouble. Consumer company stocks versus non-consumer stocks are not screening. They are seeing better performance in staples and healthcare.

They sold Bear Stearns five months ago. This looks like a replay of the third quarter of 1998. The capital markets were positioned to see a 58% decline in the fourth quarter of 1998, so the Fed lowered interest rates and it turned out not to be a temporary thing. The economy may not snap back as quickly.

Consumer debt levels are high from spending a lot of money and they have no credit left. Alpha is waiting to be generated. Stocks are cheap with P/E ratios of 13-30 times earnings.

Mr. Root from Munder said that the Fed only seems concerned with the unemployment rate. He does not feel they will see it as a problem until it reaches 5%. In general the fundamentals of the economy are still moving along well. As long as people are working they will still spend money.

Mr. Pratt said if the Fed makes a move it will signal things are worse then they are. Bernanki says he wants to be transparent and that it is just a small part of the economy.

Trustee Bowman asked how the price of oil, rising costs and the lack of refinery capacity affect the economy.

Mr. Thunelius said that petro-dollars and countries that earn money from oil will contest the market and keep prices low. Oil rich companies are buying commercial real estate. Bernanki made it very clear in his 2002 speech that he would approach a market in turmoil by buying back long-term bonds to dampen volatility.

Trustee Bowman asked if the research into alternative fuels will have an affect on food.

Mr. Thunelius said that it has caused the farmers a dilemma determining whether they will feed their cows or sell their corn for fuel. This could cause trouble for the consumer.

Mr. Ewing said that in the global markets there is limited excess capacity. Do not be underweight in energy.

Mr. Gatz said that alternative fuels and energy assume a high level of risk and is not a value stock in the small cap market. They are looking at supermarket stocks which are strong.

Mr. Jermak from Kennedy Capital said that alternative fuels have caused a shift of money from wind to finding bio fuel resources going to farmers. Alternative fuels are inefficient and short lived. Last year there was an over planting of corn. It is more difficult to find players from a value perspective because it assumes a lot more risk.

Mr. Gray asked the managers if hedge funds and private equity are drying up.

Mr. Gramatovich said that it is a unique asset class which has created massive leverage and overpricing in the market. He sees huge things coming down. In the late 1980's the valuations used splits and zero coupons to overpay. Bonds are a loan market and have received all the money from buying up collateral and debtor in possession but the valuations will not work now.

Private equity markdowns have been seven to nine times the EBITA and went as high as fourteen or fifteen. Valuations have the deals marked down before the ink dries. The question is why are private equity firms going public yet making pitches for firms to go private.

Clearing the market yields to pay more interest on debt is a technical problem with no assets to back them. The golden era is over in private equity. Those going in now will lose money.

Mr. Thunelius said that when hedge funds dipped into the finance business where they do not belong they became recipients of petro dollars which will unwind. Bernanki will not help them. Credit is the fuel and the credit markets are in lockdown.

Mr. Farrell said that the smart guys at the top are very smart. Hedge funds are blowing up. It should not be any surprise. The Blackstone IPO is done. Private equity is done and he saw the end coming when the Feds started to raise rates. More risk controls will be seen in underwriting standards going forward. This will be good for the bond guys. Hedge funds will take the first hit. They are not gone but will change dramatically.

Mr. Root said when times are good risk is rewarded. Leveraged private equity deals will not continue. When the market stops going up risk is not rewarded. The economy will slow.

Mr. Jermak said that when the credit spread tightens it affects small cap's ability to access capital. You need capital to invest from one buying cycle into the next. This is more difficult for small cap.

Mr. Yousif said that hedge funds are bad. Whether looking to buy long, short or arbitrage looking for opportunities. ETFs have a better turnaround with a sell earning strategy. Long and short positions exploit the inefficiencies of the market. Leverage is not healthy for the economy. Collateral loans with illiquid securities if called were sold for a lower price which was a shock to the market because of leveraged funds.

There was a lot of private capital with mergers and acquisitions in 2000. They were seeing a lot of cash coming across versus stock. Now that there is a credit crunch that party is over. Acquisition premiums in the market are gone.

Mr. Gray asked if the trustees had any questions.

Meeting Break at 11:50 p.m.

Meeting Resumed at 1:00 p.m.

Manager Performance

Munder Capital – Core Fixed Income

Mr. Root is the lead portfolio manager. Their performance is a bit different today then it was on June 30, 2007. They invest the same way and are a high quality bond manager. They look for better quality and do not rely on credit ratings. They roll in and out of sectors to add value and position along the yield curve and active issue selection.

He reviewed their performance. The second quarter was difficult. There was a major sell off overseas and in China. With the Bear Stearns sell off rallied the market in the first quarter. The Fed eased the rise in interest rates across the curve. Munder's performance year-to-date was 1.24% versus the index at 0.97%. One-year performance was 6.20% versus the benchmark at 6.11%. Annualized returns have been slightly above the benchmark at just over 4% for the three-year period and just under 5% for the five-year period.

Bonds struggled during the second quarter. For the past twelve months low quality has outperformed high quality. That changed starting in July and August.

Higher quality issues performed better then the benchmark while longer-maturity issues struggled more then short with an increase in the spread. With the current average life weightings and the in flow of petro dollars, long term bond rates are low. With the yield curve at 5.6%, the market is more of a bull and is moving toward international bonds. If the market normalizes you will see more of a bar bell strategy.

Pam Hopkins said that they are in compliance with the Investment Policy Statement and included it in the presentation materials. Her organization update reported that since the management-led buyout from Comerica they have a new partner, Crestview, and all is going well. This has increased the percentage of employee ownership. They recently opened a new office in Boston, hiring ten new employees, seven coming from The Boston Company international core equity group.

She reported that Tony Dong has been promoted to Vice Chairman. Ed Goard is a new addition to the fixed income team. The mid cap team has added Tom Mudie and Geoff Wilson.

She disclosed her association with the City of Pontiac General Employees Retirement System and VEBA. She said that directed trades to minority/women-owned firms is not applicable in fixed income.

Trustee Barnett asked Mr. Root to explain pass throughs. He said that they are mortgages that are bundled together by Freddie Mac and Fannie Mae and sold to investors. The mortgages currently in the news are non-agency mortgages.

<u>Oppenheimer Capital</u>

Mr. Mullen echoed the comments of the other managers. Oppenheimer has been managing money for the fund for more then twenty years. Mr. Thunelius is a newcomer who joined Oppenheimer in January replacing Bill McDaniel and is heading up the fixed income group.

He reported that they are in compliance with the investment guidelines and objectives.

The actual value of the investment as of June 30, 2007 is $46.7 million. Their performance was 39 basis points ahead of the benchmark. It has been a very volatile period in the market starting in June through August 24, 2007. There has been a lot of turnover and repositioning in the portfolio that has added value and contributed to 95 basis points of performance.

Mr. Thunelius said they have moved financial credits from Bear Stearns and Goldman Sachs to treasuries and they did well in July.

The market environment is seeing a higher level of volatility. Credits are more attractive but there is no benefit to be there. People will be looking for safety in quality. He thinks the Fed will move more aggressively in the fall.

The market cycle has four shapes to the yield curve. With the bull steepening he continues to position the portfolio.

He reviewed the portfolio changes as of December 31, 2006 and June 30, 2007. He pointed out the difference in financial and treasury sector weightings in that period. Financials as of December 31, 2007 were 29.3% versus 5.3% as of June 30, 2007 and treasuries were 18.6% versus 31.1% for the same periods. Duration is most important with respect to the yield curve. It is too early to engage financial credits.

He summarized the portfolio sector weighting, quality and duration versus the benchmark. Their portfolio is higher quality then the index. It may not be sexy but it protects the portfolio.

Interest rates are hard to predict. The yield curve will continue to steepen over the long-term. The overall direction in the short-term is to buy back long-term bonds.

Chairman Harrison asked if the changes in the structure of the portfolio since January are part of his long-term strategy. Mr. Thunelius said that the derivatives market has grown beyond expectations. He feels savings will grow so the marketplace will begin to own more six month credits with opportunities.

<u>Peritus Asset Management</u>
Mr. Gramatovich said there have been massive changes of as June 30, 2007. They were just funded late last year and the portfolio has remained high in cash. They view this as their own cash and are not getting paid to take a lot of credit risk. They outperformed the benchmark but are just getting started.

They did not want to rush into the market. The interest income of the portfolio is substantially larger then traditional fixed income and capital gains. Capital gains come from packaging the right companies. You need to separate the bond from the business. They look for opportunities in AAA and D rated credits, whichever is paying and not in default. Their equity research looks at the entire universe and does not rely on ratings.

Since July the portfolio is 85% allocated. They are not seeing a lot of forced selling since they are only in the secondary market where collateral is hard to find.

They are not reacting one way or the other. If you get the credit right you get paid. They are floating some credit rated securities in the portfolio. With the collapse of natural gas has been a negative in the energy market. Industrials have benefited from this packaging. Coal has come off as a positive.

Chairman Harrison asked how they look for high yield performance and get it from BBB or lower rated bonds. Mr. Gramatovich said that they do not look at performance versus the benchmark. They use a different credit matrix which is conservative related to the multiples which are always problematic. Some home builders will not survive which will ultimately create a bid for foreign money. You have to take emotion out and be analytical. There are a lot of million dollar companies whose value has dropped to 60% or 70% of their original worth. He looks to see if he can still make money with those companies. In bond land you want to get paid first.

Trustee Barnett confirmed that the portfolio is 85% allocated and asked when the last 15% will be allocated. Mr. Gramatovich said that it should be positioned in the next few weeks.

Capital Guardian

Ms. Burden said Capital Guardian is the global fixed income manager for the fund. Mr. Farrell has been with the firm for three years coming from J.P. Morgan. He works within the investment group. They are not a pooled fund. They are a commingled global institutional fixed income fund that is five and a half years old. There are three to six members in the investment team managing the money. Jim Mullaly recently left the team to focus on U.S. fixed income. Robert Neithhart was added as a generalist to manage the global portfolio. They are still employee-owned and privately held.

Mr. Farrell said that they manage global fixed income in the U.S., Euro zone and Southeast Asia. He said that interest rates moved as expected correlated with the markets and have peaked in most countries globally. They benefited from predicting that tide.

They outperformed the benchmark by 43 basis points. They are not benchmark-centric but expect to outperform by 100 basis points to 150 basis points over time.

Their attribution overview displayed total excess returns of 1.87%. This is typical of what to expect. Their team is currently focused on country allocation and their currency exposure that has demonstrated added value. Their duration curve, quality profile and sector allocation are pretty close to the index. They pride themselves on their credit research.

Their portfolio is diverse with their primary allocation in the U.S. at 34% because of the past twelve months. They have added some positions in Japan with Germany and the U.K. being the other primary country allocations.

They are neutral to the dollar and underweight in the yen and Euro. They are looking for value in currencies globally and have the information advantage to invest and be more diverse in smaller currencies.

He reviewed their sector summary allocation. Versus the index they are underweight in foreign government by 4%; overweight in corporates and under in mortgage-backed securities. They have captured a fair amount of selling mortgage pass-throughs from Fannie Mae and Freddie Mac. There is an opportunity to add some unsecured mortgages from what Thornburg and Countrywide have had trouble selling and holding them for a period of about one year.

Some subprime is good. They currently own 0.2% in subprime. Their analysts know the market well. A lot of subprime has been AAA wrapped and over collateralized and can be bought from 80¢ to 90¢ on the dollar including the insurance wrapper. It is not a big piece but a place to add value.

With the central bank injecting liquidity over the summer his personal feeling is that the Fed has done all the right things. He thinks Bernanke would rather provide liquidity without bailing people out by cutting the Fed fund lever to reestablish the moral hazard in the market. With inflation trending down he believes that it will be his focus and there is a 50/50 chance he might do it.

The Eurozone needs to see strong growth. The Japanese rally, with the yen overvalued, will begin to weaken.

He sees investing up to 20% tactfully in less then investment grade bonds, using the flexibility through the fourth quarter to capture some high yields.

Trustee Barnett asked about their holdings in Israel. He said that they are U.S. supported and their credit is good and they pay their bonds. Their currency continues to appreciate. The investment yield is 6.5% which is strong.

Mr. Gray concluded the fixed income presentations. The fixed income allocation target is 25%. Oppenheimer and Munder have been with the fund for a long number of years. Year-to-date they have ranked in the second percentile of managers. They have performed solidly in the upper decile. Average returns for the year have been 7.1% and the managers have returned strong performance for the past ten years at 6.4%.

Julius Baer – International Equity

Ms. Kubick said that she has been a relationship manager with the firm for five years. Tim Devlin is Director of Client Service and will be doing the heavy lifting.
Globally Julius Baer has assets under management of $337 billion with $70 billion in institutional only investments and $63 billion in international equity.

The stability of their international equity team is one of the driving factors that have helped them outperform the benchmark and achieve their performance prospectus. They have not lost a member of their team since 1995. The average tenure is seven years and fifteen years in the industry. The team comes from all cultural backgrounds.

On March 31, 2004 the system invested $41 million in the Julius Baer international core multi-cap strategy. To date that investment has grown to $52 million. She confirmed they are compliant with the investment policy statement. On December 21, 2006 the System moved their assets from a separately managed account to a commingled fund. They are compliant with the commingled fund guidelines.

Mr. Devlin said that the benchmark does not include emerging markets. The one-year performance was 800 basis points above the benchmark at 7.93%. Year-to-date they are up 7.23% through August 24, 2007. Since inception they have provided 4.35% of over performance versus the benchmark with returns of 24.82%.

He reviewed their philosophy as a diversified core portfolio. They utilize Michael Porter's five step dynamics process to deliver consistent growth. Their concentration is not with companies and their balance sheets. Their process uses a bottom-up micro factor process when analyzing developed markets, a hybrid approach that utilizes both and a top-down macro factor process when analyzing emerging markets.

All regions returned positive performance the first six to twelve months. Japan has lagged and they do not find it an attractive investment. It has been over valued from their perspective. They are currently underweight in Japan.

There was a lot of global turmoil in February but they were still able to provide positive returns. There was a downturn in the international markets the first half of 2006 but for the twelve month period ending June 30, 2007 the EAFE was up 27%. There have been some temporary dislocations but the global markets will be just fine.

Sector attribution revealed no sign of deviation with over four hundred positions in the portfolio similar to the index. They are not indexers. They were 300 basis points overweight in financials under in developed markets and over in emerging markets. Eastern European banks that are run by the West are a positive position. They were underweight in information technology. U.S. technology companies are more intellectual and leading edge compared to overseas companies. Manufacturing companies overseas are overrated and do not deserve the high multiples. A couple of energy positions in Russia hurt them. But they see a lot of opportunity and a lot more to be made.

Half of the portfolio is heavily weighted in Western Europe. They are seeing a lot to gain with multiple exposures from the restructuring. It is possible that new President Nicolas Sarkozy will bring reforms to France.

The emerging markets exposure is 22%. They see this position as a function of where they are seeing opportunities to branch out into the European hopefuls like the Ukraine, Belarus, etc. They do not do a lot of currency hedging but have hedged the yen.

Chairman Harrison asked if including emerging markets in the portfolio is a short-term or long-term strategy and whether it adds risk. Mr. Devlin said that they do not draw the line between developed and emerging. EAFE is slow when moving a country from emerging to developed. Emerging markets have more risk but when you compare the risk to the EAFE it is the same standard deviation as EAFE.

Eastern Europe was under the communist regime and it is early in the thawing period. Poland, Czechoslovakia, Hungary and Korea are more developed.

Mr. Gray said that when they go out to clients and recommend Julius Baer we tell them that your performance has been great with a 20% to 22% blending. Thanks for the performance.

Meeting Break at 2:15 p.m.

Meeting Resumed at 2:30 p.m.

<u>Northern Trust</u>
David Smith said that they offer a lot of innovative products as an institutional index manager. Their Russell 1000 Growth Equity product is in compliance with the investment policy guidelines. Terry Toath, their COO, stepped down in June.

Large cap has done well over the past year. Performance was 6.87% versus the benchmark at 6.86% with just over 21.4% since inception. Growth out performed value and large cap out paced small cap with all sectors reporting positive numbers for the period. Year-to-date performance was 8.14% versus the benchmark at 8.13%.

<u>World Asset Management</u>
Mr. Kay said that they are a large cap S&P 500 index manager. The have transitioned and are a wholly owned subsidiary of Comerica. Everything is going smoothy. They are growing their staff, product line and synergy. Comerica has two hundred people moving to Dallas. WAM is staying in Birmingham.

Mr. Yousif said this is their fourth year at the manager review meeting. Since the investment inception their performance has been stellar at 13.58% versus the benchmark at 13.55%. Their one-year performance was 20.61% versus the benchmark at 20.59%. The initial investment was $29.6 million on May 21, 2003 and market value as of June 30, 2007 is $50.4 million.

He said the S&P 500 index is constrained to larger companies of $500 billion or greater market capitalization. It is comprised of all U.S. companies and all must represent a sector. The current sector weight in financials is 20.8% which reflects the economy. It is a $2 billion to $8 billion commingled fund.

The past year has been a great run. You only see returns of 20.6% every five or six years. With the sub prime issue they have returned performance of 1.29% since June 30, 2007. The S&P has stayed unchanged for the last year. That is the difference in a bull market. The Fed has done a great job of giving us breathing room and putting liquidity in the market.

<u>Mesirow Financial</u>
Mr. Ewing said that Mesirow uses a three stage process selecting their stocks. Stage one is a structured valuation looking for under valued stocks. Stage two is fundamental research where they focus on due diligence and screens. Stage three is their portfolio construction that focuses on risk management and uniform execution.

He reviewed the portfolio summary. Market value is $34 million with 97.9% of assets invested. Cash is a little high and slower to put to work.

Things have been stale for the past month to month and a half. Dell and Intel are now considered value stocks and are making positive contributions to the portfolio. Positions have changed for the quarter with small cap and cyclical having done well. They sold some and are moving into higher quality.

They are in complete compliance with the investment policy statement.

It is harder for large cap characteristics to look different from the benchmark. Selling at a sub discount to S&P 500 was more difficult.

He reviewed their sector weights. They are seeing potential in healthcare and information technology due to the slowing in the economy. They are currently underweight in financials using a survivor's focus. They do not see any value in utilities or consumer discretionary.

As of June 30, 2007 mid cap and cyclical did well and large cap was weak. During the second quarter they began to see a reversal and are encouraged by the higher quality stocks they are seeing now.

Mr. Gray asked what his performance expectations are going forward. Mr. Ewing said that the cycles were seeing low quality do well and the market is strong. They have been able to buy high quality that they feel will perform well later.

Systematic Financial Management

Mr. Wallerius said that he attended the review last year and Ron Mushock is the portfolio manager. Their results have been very good relative to their inception on March 22, 2006.

He reviewed their performance from inception to date at 19.2% versus the index at 16.6%, second quarter performance was 6.6% versus 3.7%, one-year performance at 26.6% versus 22.1% and year-to-date through yesterday was 12% versus 1.9%, respectively.

Mr. Mushock thanked the Board and said they have been managing this strategy for seven years and have outperformed the index consistently by 3% to 5%. They designed the portfolio to be better then the index. They value low price to book but not low earnings. Stock prices fall as they come under pressure from consumers. By evaluating a company's performance based on their earnings is a better way to manage a hybrid portfolio approach. They start with 2,000 companies and filter to 150 with fifteen each in ten economic sectors. They then assess the company by their new products, customers, earnings estimates and inventories. They do not take big position bets at 5% plus or minus to the index position which is roughly one and a half positions.

They are broadly diversified with seventy stocks in the portfolio. They look to hit for average and do well in the middle and end cycles. They miss the beginning of a new fold market and buy when the market is down. They do not take a lot of risk: they are patient buyers. They have a good sell discipline. Their performance is relative in terms of their patience.

Year-to-date performance is up 6.2%. Their current strategy is over in industrials and under in financials and low to credit and yield curve risk. They are currently underweight in housing and sectors impacted by the housing market including carpet and furniture. They are underweight in consumer discretionary and over in consumer staples, telecom, healthcare and information technology. Utilities weighting is equal to the index.

He said they have included a copy of the Investment Policy Statement. They are in compliance. They have a pre-trade compliance system with the average trade costing 2.9¢ down from 3.4¢. They have been utilizing more ECN's and have hired their own traders. There have been no ownership or process changes.

Trustee Barnett asked if the issues with tainted paint will affect the future of Mattel. He said that they bought Mattel at $22.50 and sold at $26.00 before the lead based paint issues. They will stay away until the impact is known. Mattel is a good company with a good reputation. They have enough cash to stay the issue.

<u>Munder Capital (Mid Cap Growth)</u>
Mr. Mudie said that it has been a good year with their performance at 24.64% versus the benchmark at 18.51%. Since inception they have consistently returned performance above the benchmark. Current performance since inception is 15.30% versus the index at 11.66%.

Consumer discretionary added 2.3% of performance with industrials adding 1.5%. Financials added performance of 1.5%. As a growth manager they do not normally invest in utilities. Consumer staples returned disappointing earnings. Performance was not as strong as anticipated in technology with the buyout of aQuantive, Inc. by Microsoft at a 75% premium.

There was a lot of good news and this was one of their best quarters ever but do not expect this type of performance to continue. They can not always do this well. It is important that they stick to their discipline. Companies that traded in high percentages versus earnings growth had the lowest yield.

They utilize a bottom up strategy looking for good companies. They overlay their risk controls and give companies scores. They screen down the list of available companies and apply their qualitative analysis. As of yesterday, there were eighty names in the portfolio. It is survival of the fittest and they compete against themselves. If one gets added, one must leave. The companies have better then average growth rate, earnings and reasonable valuations and plus or minus market multiples. They keep cash at a minimum and use ETFs to keep fully invested if necessary. Sector weights are plus or minus 3% of the benchmark. As a growth manager their risk controls are mid cap mandated and usually do not look at energy or utilities. They are very stock selection focused.

Mr. Gray stated that both mid cap managers Munder and Systematic were hired in March, 2006 and currently comprise 26% of the domestic equity asset allocation.

<u>Loomis Sayles – Small Cap Value</u>
Mr. Gatz said that they are in compliance with the Investment Policy Statement, portfolio strategy and brokerage/commission recapture policies.

The portfolio realized 18.6% the trailing year, 220 basis points above the Russell 2000. The theme of the equity market prevailed. Stock selection was clearly the area of value added. They have been buying companies exposed to global infrastructure expansion as opposed to sector weighting and market timing.

They have not taken any distinct bets in high quality or low quality equity. The portfolio contains 165 stocks. Year-to-date merger and acquisition activity has seen thirteen stocks bought out from the portfolio. The last large merger and acquisition activity of his career was seen in 2000, with seventeen stocks bought out from underneath the portfolio. Third quarter performance to date is down 2.8% versus the Russell 2000 down 4%. They were able to pick up 120 basis points of performance. They returned solid performance for the second quarter.

The portfolio has out performed ten out of the last twelve years. Three year performance was 400 basis points above the benchmark with five year performance 220 basis points above the index.

There are four key factors that accounted for their consistent performance were stock selection driven by a bottom up process, merger and acquisition activity, high quality prevailed over low quality and sector weightings with an overweight in materials and processing and underweight in healthcare.

He reviewed the highlights of the portfolio with financial services representing 19% of the portfolio. The portfolio is modestly overweight in late cycle sectors like materials and processing and producer durables that do best when driven by capital spending themes. They are consistently underweight in consumer discretionary and healthcare being cautious when looking for high-quality healthcare.

He reviewed the portfolio positioning stating their position is to be fully invested and utilize a quality theme. They look for attractive valuation metrics and lower total debt to equities. He discussed the sector distribution and top ten holdings in the portfolio.

The earnings growth outlook is a more balanced environment. They envision mergers and acquisitions will slow down. Large cap is closer to peak profitability than small cap. The depreciation of the U.S. dollar traditionally favors large cap versus small cap stocks.

Going forward access to capital markets will be a key question for small cap companies.

Kennedy Capital
Matt Jermak stated that Kennedy Capital has been managing money for the system since 1993. They utilize a bottom-up stock picking process with a portion put into growth stocks. Value has out performed but they are looking for future value added.

They currently have sixteen experienced analysts that provide excellent sector coverage and research.

The current portfolio has $26.1 million in assets under management as of June 30, 2007. It is comprised of approximately ninety-eight stocks that are trading with less downside risk. On average the P/E and price to book ratios are less then the Russell 2000 benchmark. Market capitalization is in line with the benchmark with long-term debt to capital equal to the benchmark.

Small cap has performed very nicely. Year-to-date performance is 11.2% versus the index at 6.5%; one-year performance is 19.6% versus 16.4% and since inception performance is 17.1% versus 10.8%. The past six years have been pretty spectacular times. Small cap has consistently provided out performance but large cap and mid cap may be taking the lead for the next year or so.

He stated that sector attribution added 282 basis points of alpha to the portfolio. Consumer discretionary and healthcare under performed for the quarter. They are looking to add healthcare service companies to the portfolio. Financial services out performed based on not owning REITS and banks. Recently they added six small bank positions will evaluate performance closely during the next quarter. Performance in industrials, energy, producer durables and cable did quite well.

During the second quarter they sold a number of materials and processing positions. They are slightly below the index due to profit taking. They have a set sell discipline. They added more technology during the last three months. They are currently underweight in consumer discretionary. Overall, the portfolio is very well diversified.

They are compliant with the Investment Policy Statement. ECN's have reduced the price of a trade to 2.6¢.

Mr. Gray said that small cap represents 10% of the asset allocation and returned upper decile performance for the past sixteen to eighteen years.

Manager Presentations Concluded at 3:52 p.m.

Recap

Mr. Gray said that he likes the transparency offered in this format. This allows the trustees to get a general sense of who the managers are and what makes them tick. He said that he received suggestions from the trustees for the next manager review session. Trustees felt that name badges and name tents for the table would be helpful. There was a request for the consultant to provide questions for trustees prior to meeting. There was the question whether it would be better to hold two half day sessions.

He said that the fixed income and equity managers have had a good run except Mesirow which has been off 100 basis points. Chairman Harrison stated that Mesirow is the only large cap value manager and their position is a more defensive one. Mr. Gray said that he will bring an update on Mesirow's process to the September meeting. He said that they do not do well during hyper-growth periods. Chairman Harrison said that their strength is protecting on the downside. Trustee Barnett questioned how they rate relative to their peer universe.

Mr. Gray said that they will address private equity at the regular meeting. The world has changed significantly during the past two months.

The meeting adjourned at 4:05 p.m.