

CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
FEBRUARY 10, 2010

A special meeting of the Board of Trustees was held on Wednesday, February 10, 2010 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 10:30 a.m.

TRUSTEES PRESENT

Shirley Barnett
Charlie Harrison, Chairman
Mayor, Leon Jukowski
Javier Saucedo, Vice Chair
Devin Scott (*arrived at 10:38 a.m.*)
Debra Woods
Andrea Wright

TRUSTEES ABSENT

Patrice Waterman (*absent*)
Kevin Williams (*absent*)

OTHERS PRESENT

Chris Kuhn, Gray & Company
Laurance Gray, Gray & Company
Ellen Zimmermann, Retirement Administrator
Deborah Munson, Retirement Accountant
Jane Arndt, M-Administrative Assistant

Paul Elio, Elio Motors
Gino Raffin, Elio Motors
Steven Semansky, Elio Motors
Jeff Yager, ABC Group
Dave Kesselring, AGS Automotive
Kevin Hodgins, Linamar/McClaren
Jeff Johnston, Takata

Chairman Harrison said that the Board heard a brief overview of the Elio three-wheel car presentation. He asked if Mr. Gray had anything to add. This special meeting of the Board is being held to hear Mr. Elio's presentation with any decisions being made after the presentation.

Re: Elio Motors Presentation – Trikke Project

Paul Elio told the Board that he appreciated them coming out on this snowy day. The large entourage that accompanied him includes two members from Elio Motors and the others are their suppliers who also supply parts to General Motors, Ford and Chrysler. It is unusual for an automotive company to include outside folks in their presentation. The suppliers represented today make up 44% of the car base.

McClaren is represented at today's meeting. He explained their involvement and as a supplier how excited they are about this car.

There are four reasons they feel the car will be a success. The first reason is its low price. The original cost was \$5,500.00 but they found they could add air conditioning and power locks and windows and keep the cost at \$5,995.00. The second reason is their high mileage

rating. Their first mileage rating was 66 miles per gallon which surpasses the twenty-five year old standard adhered to by the Japanese automakers. However, since McLaren became involved the rating has risen to 83 miles per gallon. The next reason is the Trikke's five-star safety rating. The last reason is the urgent market demand which includes lower income consumers whose older, high mileage vehicles require a considerable amount of repair but they do not want to put anymore money into them.

These goals were achieved by the team which is committed for a fifteen month period.

The car seats two 6 foot 1 inch men weighing approximately 215 pounds. He explained that they can stretch their legs out in the five inch troughs that run along the side of the vehicle. The secret to the mileage rating is the vehicle's light weight and design which produces less drag. They feel that they have access to every household in America outside of those that have children under sixteen.

He explained the pros of producing a three-wheel vehicle/motorcycle. Millions of dollars are saved on startup costs, the process and pre-revenue startup. The Trykke has access to the HOV (high occupancy vehicle) lane on the freeway that is reserved for vehicles holding two or more people and motorcycles which saves a lot of time on the highway.

They believe they will have four times the market of a traditional automobile. They can compete in both the new car market and the used car market based on the price point of the vehicle.

Trustee Scott arrived at 10:38 a.m.

He compared their vehicle to the Toyota Prius. The Trikke gets 170% of the miles per gallon, it is one sixth the cost and, because it is lightweight, they buy one-third of the raw materials used to make a Prius.

He reviewed the specifics of the front-wheel-drive vehicle including the miles per gallon, price, highway miles per gallon, zero to sixty acceleration, lateral movement, G force and overall size and weight. He showed a video of the vehicle being test driven displaying the handling of the vehicle stating that it out handles most compact cars similar in size.

He described the power of price based on the introduction of the Hyundai in 1987 when they sold 264,000 units. Based on these numbers they feel that they have more opportunity to meet their sales goals based on the soft economy, the "green movement", American made and fuel economy.

There are 25.6 million driving age students that could impact this market. They would sell 256,000 units if only 1% of this market purchased their vehicle.

He said that many green car buyers purchase a Prius because it makes them feel good. There is a desire to go green across all income levels but a lot of buyers just can't afford the cost of a hybrid. He stated that 166,000 Prius's were sold last year to those with incomes of

\$100,000.00 or more. Toyota is currently experiencing some adaptation and product goal volume issues.

There are currently 240 million vehicles on the road with 95 million of these vehicles ten years or older. They feel they can attract buyers who need to be thrifty by allowing them to pay for their new car with the money they will save on gasoline.

The new owner will be issued a credit card with a \$300.00 limit that can be used to charge fuel. The credit card will be billed three times the amount charged for fuel. If the owner charges \$10 for gasoline their credit card will reflect a charge of \$30.00 with \$20.00 of the charge going toward the vehicle loan at approximately \$6,200.00. The vehicle will be under warranty which means they are literally giving the cars away.

There is also the potential for the Trykke to replace a lot of older fleet vehicles that currently get 17 miles per gallon.

Trustee Barnett asked how Elio Motors would be paid. Mr. Elio said that the credit card company would pay Elio when the car leaves the dealership. This approach allows the consumer to see their gas savings paying for the car.

Ms. Zimmermann asked if there is only one option. Mr. Elio stated that there are a number of traditional financing options.

Ms. Zimmermann asked how many gallons of fuel the vehicle holds. Mr. Elio said that the vehicle holds eight gallons of fuel which means a range of approximately 640 miles.

Trustee Barnett asked about the location of the gas tank and whether it is under the passenger's seat in the back. She was concerned about a rear impact resulting in an explosion. Mr. Elio showed a slide of the vehicle depicting the gas tank, its safety aspects and its location in relation to traditional vehicles.

Trustee Sauceda asked if the vehicle has a transmission or is chain driven. Mr. Raffin said that it has a transmission that is fully encapsulated in the frame.

Trustee Sauceda asked how it drives in the snow. Mr. Raffin said that the vehicle performs in the snow like any other front-wheel-drive vehicle in that segment.

Mr. Elio described their operations process. Accessories are added at the point of sale which keeps the price of their vehicle low. This is different for the big guys when they are adding functionality. They normally have three standard option packages for each model (SE, LE, etc.) which includes a number of options. You have to pay for all of the options even if you do not want all of them.

Takata has been trying to introduce a display incorporated into the steering wheel that is Bluetooth enabled for seven years but they have not been able to get it through the OEM. It can be installed in a Trykke for \$80.00 but would cost \$1,600.00 in any other vehicle. The

markup at Elio Motors would be 20%. They are hoping this will be a viable test market and if 40% of these \$5,900.00 cars have these installed then they might be able to push these through with Tier 3 suppliers ready to install. This could create a lot of value for customers. Currently, it is too difficult for large manufacturers because they cannot afford too many models.

Consumers will be able to pick from eight colors and either a manual or automatic transmission.

They will be sold in small dealerships located in strip malls by non-commissioned sales people. It will cost approximately \$153.00 to sell a vehicle. Their projected budget would include an advertising platform of \$95 million. He explained that large manufacturers' pay approximately \$6,000.00 for advertising, architecture, business model and supplier process for every \$24,000.00 vehicle they produce.

Their dealerships will be small and will not include a service department. Service needs to be accessible to consumers and will be provided by Mieneke and Midas who have the necessary electronic diagnostic equipment with training provided by Elio Motors. Midas also has over 2,000 locations across the United States which is the same number as Toyota dealerships.

Their product branding will state that three wheels work just as well as four, are safe and explain the cost benefits.

He discussed supplier branding and that Kia, Ford and Mercedes Benz all get their parts from the same place they do. Marketing materials will show that the SRS is by Takata which is the same as the major manufacturers.

Chairman Harrison asked if they will be doing internet-based marketing. Mr. Elio said that there is a lot of new media technology but because this is a new vehicle they cannot sell it over the internet the first year. Their Vice President of Marketing has worked for Tenneco Automotive, Midas and a local advertising firm and designed their media strategy. They feel their public relations capability is huge and will get a lot of press.

Chairman Harrison also asked if their political connections will offer any advantage. Mr. Elio said that there are \$76 million in tax advantages being offered and they have applied for a \$260 million ATVM loan from the Federal Government. They have not had any discussions on the public relations side but their company will create new American jobs.

Ms. Zimmermann asked if they currently have one prototype. Mr. Elio confirmed that there is one J5 prototype that is located in Rochester Hills. He welcomed the Board to contact him to see it in person and take it for a test drive.

They get together with all the suppliers every four weeks to work on the car. This is something that has never been done.

Ms. Munson asked what the vehicle's top speed is. Mr. Elio said that it has a top speed of 107 miles per hour.

Ms. Munson asked how many units they plan to produce. Mr. Elio said that they are looking to produce 236,000 cars the first year and 450,000 the second year of production.

Ms. Munson asked how much money they are looking to raise. Mr. Elio said that they have applied for \$45 million in new capital tax credits and \$260 million in ATVM loans. They are one month into the ATVM loan process which takes approximately six months. They are confident that they will receive the ATVM money. They qualified for this loan due because their vehicle can provide 25% better gas mileage. He explained that the ATVM Bill was co-sponsored by Senators Levin and Stabenow which has given them a lot of political support.

Ms. Munson asked if they know when they will receive this money and how much money they need to go into production. Mr. Elio said that they need to raise \$15 million in private capital to go into production. An investment of \$5 million would allow them to ramp up all departments during the next nine months.

They have been on hold since last April due to the downturn in the economy. They are looking to raise \$15 million. Currently, an investment from the Retirement System for \$5 million with \$2.5 million used to ramp up their engineering process with \$50,000.00 used for attorney, accountant and consultant fees. The remaining \$2.5 million would allow them to produce the eighteen prototypes.

Ms. Munson asked how much they have received in private capital. Mr. Elio said that he has contributed \$5 million of his money to the project to date.

Trustee Barnett said she is still concerned for the safety of the passenger in the vehicle. Jeff Johnson from Takata insured Trustee Barnett that the passenger in the Trikke would be better protected than a passenger in a similar sized vehicle today. Their vehicle has airbags on each side of the passenger and a seatbelt. The driver would have two side airbags and a roof rail mounted airbag.

This vehicle has gone through the same testing and development like every other automobile including the same simulations used by General Motors for crumple zones. The composite material used is made in California by PLC which is used in the predator missile boxes. It is also the same material used by SMC for the Viper and Corvette. The entire body and interior encompasses six pieces that costs \$255.00 and is shipped on pallets.

Steve Semansky said that he has twenty-two years experience in the automotive industry. He said this has been a unique and exciting project especially putting together the team.

Mr. Elio provided a brief overview of the team members from Elio Motors biographies.

Lynwood Johnson comes from Chipotle which is a restaurant chain with 850 stores

Gino Raffin is the Vice President of Manufacturing. He came up through the ranks at Chrysler. He will be in charge of tooling and equipment. He was involved in the launch of Chrysler's minivan, the Neon, the LHS and the Viper. He said there are no problems with this vehicle. Their timing was bad because of the current financial situation.

Kevin Hodgins is from Linamar formerly McLaren. They are working on the vehicle's powertrain. They came onto the team last spring.

Dave Kesselring is from AGS Automotive which designs bumper impact systems and frames. Initially they were skeptical but quickly became believers. There is nothing to compete in this price point.

Jeff Johnston from Takata said that the team has done a great job assembling the vehicle. It has a safety canopy. A side impact in a three-wheel vehicle does not have the same affect. With a single wheel in the back the vehicle spins away and allows the driver to manage acceleration and there are airbags on each side which is a lot safer.

Jeff Yager is from the ABC Group. They designed the fuel systems for the Buick LaCrosse and the Chevrolet Malibu, the RTV Minivan and the Chrysler 300 Series. The same mounts and valves they used for these vehicles are applied to the Elio vehicle. This is a new retail market for them. They are looking to produce various accessories including spoilers, and running boards for the vehicle.

Mr. Elio spoke about his business relationship with Mike Deighan of Motors Liquidation Company. He explained that the tax incentives of \$76 million from the State are transferable. They also have an opportunity to supply fleet vehicles for the State of Michigan. Governor Granholm wrote a letter that accompanied their ATVM application.

Ms. Munson left at 11:30 a.m.

He discussed how Fisker Automotive a California company received a \$528 million loan as part of the Stimulus Bill to finish building their \$90,000.00 electric vehicles in Finland. This loan follows a \$465 million loan to Tesla Motors another California electric-car startup this past May.

He is looking to build American vehicles that can be shipped to Europe and China.

They would not be eligible if this was strictly about electric versus gas powered vehicles because of their tail pipe emissions. However, if they build 500,000 vehicles they can reduce U.S. gas usage by 0.8%.

He described how the GDP has fallen from 33% to 22% since 1980. In 1960 30% of the GDP was from manufacturing and now it is 12%. They have the capability of creating 31,000 new American jobs with 14,000 jobs in the community where the plant is located. This would help reduce the State's unemployment benefits by \$276 million.

Ms. Arndt asked if using the former General Motors Truck and Bus plant is contingent on the System's investment.

Mr. Elio said that Wayne County previously approved a \$5 million investment but it was contingent on buying a Chrysler plant that is currently for sale by the Capstone Advisory Group. There is another investment opportunity from the City of Detroit Employees Retirement System of approximately \$10 million that is also contingent on working to locate in Detroit but they are waiting on the due diligence.

He discussed the opportunities associated with locating at the plant located in Pontiac. The plant was owned by Motors Liquidation Company and was purchased by North American Dismantling. They would hold the title and lease the plant back to them. This would be the best deal and they are willing to sit down and work with them.

He explained the advantages and attributes of the Pontiac plant. The plant is 3.4 million square feet, has \$700 million in installed equipment, \$46 million in robotics, 36 miles of conveyors, has its own power and water treatment plants and is situated on 180 acres.

Mr. Raffin said that the plant could be easily adapted for their production process and speeds up the time frame.

Mr. Elio said that the technical risk is mitigated because this is not an invention. The market risk is based on the product which will sell. The execution risk will be reduced if the Pontiac plant is used. The team can have it all done in seven months.

He feels that if they sell 170,000 units they can reach \$1 billion in sales faster than Google or Microsoft did.

He reviewed the valuation of the investment and potential returns. If 250,000 units are sold they are looking at a price to earnings ratio of 20%.

Ms. Arndt asked if they had presented this investment to any direct venture firms. Mr. Elio said that State Treasurer, Robert Kleine introduced them to representatives from Credit Suisse who had \$10 billion on hand for direct venture. However, based on the economic situation they were unable to secure these funds.

Mayor Jukowski stated that he has a sports car and a motorcycle. He asked what their demographic is. Mr. Elio said that they are targeting low income buyers with older vehicles who require a new vehicle because they do not want to put money into a failing vehicle. He also stated that their research has indicated there will be significant high end demand which surprises him. He thinks their demographic is much broader than that.

Mayor Jukowski asked about the profit margin per vehicle. Mr. Elio said that the profit margin is \$1,000.00 per vehicle. Mayor Jukowski said it is difficult to believe that they can produce the vehicle for that cost.

Mr. Semansky said that their vehicle has been designed and built for the automotive production process. Many of these components are currently in production and are easily assembled.

Mr. Elio said that they get the volume of full automotive value. The total cost of the vehicle is \$4,500.00. He feels their numbers are realistic. They do not have to support the huge infrastructure that the large manufacturers do with parts, dealership, service, sales and market support. He gave an example of how much the front-end bumper system of a Chevrolet Silverado costs. The supplier cost is \$150.00, the dealership cost is \$600.00 and if the parts that make up the bumper system are sold separately they would cost \$1,800.00.

The large manufacturers waste a lot of money invested in over specification. Their suppliers will be able to make more money with them compared to the large manufacturers.

Mr. Semansky added that General Motors reduced costs by closing dealerships.

Trustee Woods said she cannot see driving this vehicle in the snow. Mr. Elio said that it handles as well as a Ford Taurus in the snow. Its wheelbase is longer than a Honda Accord and it has more headroom than a BMW 330.

Mr. Raffin said that having only one wheel in the back gives it less drag in the snow which makes it easier for a front-wheel-drive vehicle. You can also put a McLaren supercharger in the vehicle for an additional \$800.00. It comes with air conditioning and power windows and is ergonomically designed.

Mr. Elio said they are looking for a commitment of \$1.5 million from the System right away. It will take sixty days to perform the due diligence and will commit to the City of Pontiac to lock this in. Trustee Wright confirmed that they are looking for a \$1.5 million commitment up front.

Ms. Arndt asked if the vehicle's safety rating is based on a motorcycle or an automobile. Mr. Elio said its safety rating is based on an automobile. Calling it a motorcycle allowed them to expedite the EPA process.

Chairman Harrison asked him what their next move is. Mr. Elio said that timing is important and that they like the Pontiac plant.

Mr. Elio added that dealership marks up their parts six times so they can make money. The front bumper on their vehicle will be available for purchase at stores carrying NAPA auto parts for \$40.00 which will help create brand loyalty.

Trustee Wright asked which insurance will be required for this vehicle, motorcycle or automobile. Mr. Elio said that it will be insured as a motorcycle which is less expensive.

Mayor Jukowski asked if it will require a motorcycle endorsement or license. Mr. Elio said it differs from state to state. However, no helmet will be required.

There was discussion regarding the Yugo that blew off the Mackinac Bridge. Mr. Raffin said that the issue with the Yugo was its sail area. The aerodynamics of their vehicle would eliminate the sail area.

Mr. Gray said that the City of Detroit Employees Retirement System did not use their standard consultant to perform due diligence on this investment. He asked if he could get a copy of the recommendations. He also asked if Mr. Elio thought McTevia & Associates would talk to him regarding this investment. Mr. Elio said this is the only deal of this type they have ever recommended.

Mr. Elio, Mr. Kuhn and the other presenters left at 12:10 p.m.

Chairman Harrison said that there are several things to consider. They are asking for quick money. He feels some due diligence is needed before the System could write them a check.

Mr. Gray said that they would perform the typical due diligence looking for liens, bankruptcy or legal issues recommending more not less. It is a compelling idea but does it have a chance of succeeding.

Mayor Jukowski said it is interesting but he does not know. There would be limited appeal in the fifty plus market. He commented on the fact that it drives no better or no worse than other similar-sized cars in the winter. He is in favor of due diligence but nothing quick and would not give them \$1.5 million up front. Even if Mr. Gray said that it is a solid investment he would still have to think about it. He asked that the trustees state whether they see themselves driving this vehicle when stating their opinion of the investment.

Trustee Barnett asked how many Smart Cars you see on the roads. She is not in favor of the investment. She would not drive or ride in one.

Chairman Harrison said that he does not see himself driving one. He shares the same opinion as Mayor Jukowski. Without due diligence the System cannot make this type of investment but the System will have to pay for the due diligence. There may be some other investments out there that are better for the System. This is out of the norm based on the Investment Policy Statement and does not fit in the realm.

Trustee Wright said that it is an interesting concept. They are marketers and were speaking like the numbers are absolutes, but they are only claims. She would not drive the vehicle. She is in favor of them utilizing the plant in Pontiac.

Trustee Saucedo said he would not drive or ride in the vehicle. He feels this is too high risk.

Trustee Scott said he likes the tax revenue potential.

Mayor Jukowski asked how much the due diligence would cost. Mr. Gray said it would cost between \$50,000.00 and \$75,000.00. He hired four engineering students to interpret the

documentation and to perform a survey with college students. Students looked at this as a disposable car.

Ms. Zimmermann asked if there is room in the basket clause. Mr. Gray said there was room a couple of weeks ago but the market has been down so he will have to recalculate.

Chairman Harrison said this is not a bad asset class but it is out of the mainstream. He asked if the backlash is worth the risk. He referred to the headline risk and the reaction of the retirees. It is too bad they have to be concerned about backlash.

Trustee Scott said that it would be a great thing for the City.

Chairman Harrison said that the first priority is whether it will make money for the System but it would be nice to do something for the City. However, the Board's first priority has to be its members.

Trustee Wright asked if there is anyway to limit the cost of the due diligence. Mr. Gray said that his biggest concern is losing the entire investment if the market does not embrace the vehicle.

Trustee Wright left at 12:47 p.m.

Ms. Zimmermann said she liked how they are working with the suppliers and their off-the-shelf marketing approach. The components of the vehicle are inexpensive to replace. This is not like a traditional automobile company and there are profit incentives for their suppliers. She likes his process but still does not know if it will fly.

Mr. Gray said he can perform the due diligence but no one knows if the company will be successful.

Chairman Harrison left at 12:50 p.m.

Trustee Saucedo asked if this has been presented to any other pension systems. Mayor Jukowski said that Wayne County has approved an investment but it is contingent on them locating in Wayne County.

Trustee Scott left at 12:51 p.m.

Trustee Saucedo said he would approve the investment if the System is able to get their money back or if they could secure the System's assets by having leverage on the building.

Trustee Barnett said that could make a difference in whether she would vote for the investment.

Chairman Harrison and Trustees Wright and Scott returned at 12:53 p.m.

There was a concern that while the due diligence is being performed he could go elsewhere which would close the deal and the System would be responsible for the cost of the due diligence.

Chairman Harrison said that the two no votes essentially kills the deal.

There was consensus that if the investment could be secured it has the potential to be approved. Even with the building empty it has value. It would be a way to insure the System gets the money back. Chairman Harrison said this would depend on the deal Elio Motors has with the demolition company.

Mr. Gray confirmed that the Board would approve the investment if a lateral deal could be made that would secure their position.

He said that a direct investment is much different from private equity because there are layers of experts in private equity analyzing and vetting the investments.

Mayor Jukowski confirmed that the Board agrees to perform due diligence if the investment can be secured and will not invest \$1.5 million in the short-term. Chairman Harrison confirmed that the Board was ready to vote based on these contingencies.

RESOLUTION 10-012 By Jukowski, Supported by Saucedo

Resolved, That the Board approve Gray & Company to perform due diligence on the Elio Motors investment contingent on whether the assets of the investment can be secured.

Yea: 7 – Nay: 0

RESOLUTION 10-013 By Wright, Supported by Woods

Resolved, That the meeting be adjourned at 1:02 p.m.

Yea: 7 – Nay: 0