

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 21, 2012**

A special meeting of the Board of Trustees was held on Tuesday, August 21, 2011 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:04 a.m.

TRUSTEES PRESENT

Lynn Asker (*arrived at 10:40 a.m.*)
Shirley Barnett
Koné Bowman
Robert Giddings
Charlie Harrison, Chairman
Jan Gaffney
John Naglick
Sheryl Stubblefield

TRUSTEES ABSENT

Mayor, Leon Jukowski (*absent*)
Patrice Waterman (*absent*)
Kevin Williams (*excused*)

OTHERS PRESENT

Chris Kuhn, Gray & Company/GrayCo
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Talmadge Gunn, Ambassador Capital
Gregory P, Ambassador Capital
Ricardo Bekin, Ativo Capital Mgmt
Greg Cassano, First Eagle
Drake Craig, Herndon Capital Mgmt.
James Nelson, Herndon Capital Mgmt
Antoinette Scroggins, Herndon Capital Mgmt.

David Cooke, Loomis Sayles
Ryan Fedronich, Mesirow Financial
Tracy Savage, Mesirow Financial
Geoffrey Wilson, Munder Capital
Peter Cahill, NorthPointe Capital
David Desmond, Peritus Asset Mgmt.
Ron Heller, Peritus Asset Mgmt.
John VanGorder, Seizert Capital Partners
Charles Schmidt, Seizert Capital Partners

The meeting was called to order at 9:08 a.m.

Chairman Harrison welcomed the new trustees to the Board and explained the format of the meeting.

Gray & Company - Second Quarter 2012 Performance Review

Mr. Kuhn provided a review of the capital markets. During the second quarter the markets went through a risk off period. During this time fixed income and treasuries do better. Stocks have the worst performance with domestic performing better than international. The U.S. saw better performance than the Euro Zone due to the sell off in the market. Investors put a lot of money into treasuries which tends to strengthen the dollar. All currencies weakened versus the dollar.

As of June 30, 2012 the total plan value was \$411 million with more assets allocated to equities than fixed income. Performance was -2.65% which was inline with the policy index at -2.62%.

Domestic equity performance was -4.03% versus the benchmark at -3.15%. He indicated that active managers had a difficult time keeping pace during this period.

International equity performance was -4.7% versus the benchmark at -7.13%.

Active fixed income performance was 1.85% versus 2.06% for the quarter.

There were no private equity performance numbers due to the lag in reporting for the quarter.

There were some assets being held in cash that basically earned nothing for the period.

First Eagle was funded during the last five days of the month which threw off the performance calculations.

Large cap manager Sawgrass outperformed the benchmark for the period at -2.56% versus -4.01%. In general it was a difficult quarter for all active managers.

Trustee Giddings asked why most active managers underperformed for the period.

Mr. Kuhn indicated that most active managers were not prepared for the various sector under performance in energy, financials, information technology and materials which was a reversal coming out of the first quarter.. Their portfolios were positioned for a continuation of the first quarter.

The Gray Emerging Manager Large Cap performance was -3.98% versus the benchmark at -2.75% and the Large Cap Value performance was -3.23% versus -2.20%.

Mid cap manager Munder's performance for the quarter was outstanding at -4.42% versus the benchmark at -5.60%.

He explained that normally capitalization performance will see either large cap or small cap performance lead the way with mid cap performance in the middle. During this quarter large cap lead the way with small cap next and mid cap last.

Systematic underperformed for the period at -5.14% versus -3.26%. They have consistently outperformed since inception at 1.89% versus the benchmark at -0.13%.

Chairman Harrison asked if the dynamics of the quarter had an impact on performance for all the managers. During the first quarter everyone beat the benchmark.

Mr. Kuhn said that the market performance is looking a lot like last year. The worst picture would be like in 2011 when performance was very bad during the third quarter. The fourth

quarter had some upside but most managers did not beat their benchmark. The market is continuing to move back and forth which catches the managers off guard.

Trustee Naglick asked if there has been a market reversal.

Mr. Kuhn said that there has been a market reversal and that it has went back into a risk on mode.

Small cap manager Loomis Sayle's performance was down for the quarter at -5.20% versus -3.01%. Their long-term numbers are good but this year's returns are on top of the benchmark but trailing with fees.

International equity manager Artio outperformed for the quarter net of fees.

First Eagle was not fully funded. They are the conservative manager in the international equity space.

Trustee Barnett confirmed that Artio is still on watch.

Mr. Kuhn told the Board that Artio is closing down their domestic equity team. They never gained any traction so they made the decision eliminate that part of the company. The international equity team out performed fifteen out of the sixteen years they were in the System's portfolio prior to 2008. Since then they have not out performed the benchmark.

Trustee Barnett asked if there is a better manager.

Mr. Kuhn said that a lot of their clients have fired them and they have lost a lot of assets. They are still a \$20 billion firm. He explained his concerns regarding the Board bringing in a new manager who could be on their way down. The Board brought in First Eagle as a good pairing to Artio in that space.

Trustee Naglick indicated that the assets are split fifty, fifty in that space.

Fixed income manager Munder performed well up 2.35% versus the benchmark at 2.06%. Both of the core fixed income managers' performance was up for the period.

High yield looks a lot like equities so when equities sell off those bonds take performance hits.

High yield manager Peritus's performance for the period was 0.82% versus the benchmark at 1.83%. Their three-year performance of 17.53% versus 16.16% captured the rally but their five-year performance at 5.19% versus 8.20% includes the difficult equity market period of 2008 through 2009.

There are no private equity performance numbers to report for this period.

Ms. Zimmermann asked if the lagging returns could be reported.

Mr. Kuhn said those performance numbers would be included in the one-year June to June period.

Chairman Harrison asked where those investments are related to the J-curve. He asked that Mr. Kuhn talk with those managers to get an idea of where their performance is. The Board needs to consider that as well.

Mr. Kuhn said that the information is contained under Tab 3 of the performance report.

He explained that if you look at the annualized Internal Rate of Return (IRR) Mesirow has made about 6% on their portfolio over the last five years. The System has received \$151,504.00 from the manager in distributions including fees.

He also explained the difference between time-weighted returns and annualized returns. The System has no way of controlling the assets going in and out of the fund so they use the IRR to determine performance.

Mr. Kuhn distributed the market values as of August 17, 2012. The market weighted returns were \$421.7 million versus \$410 million as of June 30, 2012. The Fund was rebalanced in order to pay benefits.

Ms. Zimmermann added that the rebalancing was also done to provide assets for expenses and funding private equity.

Mr. Kuhn reported that Ken Hudson is no longer with Northpointe Capital. He also noted that Dave Cooke is representing Loomis Sayles.

Trustee Naglick stated that the Fund's current market value is \$420 million. He stated that it is recommended that retirees only pull 3% to 4% out of their IRA's annually. He questioned that the System is using a higher percentage of their assets annually.

Mr. Kuhn said that it is assumed that when the last member leaves there is a zero balance in the Fund. He understands that Trustee Naglick is concerned on how much of the principal is being spent. However, this Plan is in a well funded position. He works with systems that are spending 8% to 12% of their assets annually. GERS is spending around 6% to 8%.

Meeting break at 9:45 a.m.

Meeting resumed at 10:00 a.m.

Economic Overview/Markets Roundtable

Chairman Harrison welcomed the managers and began the introductions.

He explained the format to the new trustees and indicated that Mr. Kuhn will moderate the session and guide the discussion.

Mr. Kuhn explained that the roundtable format has been changed to provide a mix of equity managers with fixed income managers. It provides a broader discussion opposed to a single asset class focus.

He indicated that they encourage the trustees to ask questions. The trustees are not investment professionals by nature so he asked that the managers keep the information easy to understand.

One year ago the markets were okay. Even with equities up and fixed income making positive returns it just doesn't feel good. It seems like there is more risk in the market versus a year ago even with the equity downturn. He asked what the managers see.

Ricardo Bekin from Ativo Capital Management said that it seems there is more of a measure of implied value but it does not show. There is a lot of risk in the market which is reason for concern.

Geoffrey Wilson from Munder Capital said that there is a lot of downside risk in the market and that the market focuses on volatility and will shoot up dramatically. Processes have gone out the window. There are great concerns regarding the future of the global economy with a lot of countries unable to pay their liabilities. U.S. corporations are doing well with high profit margins and robust earnings growth. But there is not a lot of international growth.

Chairman Harrison questioned whether the economy as a whole is sending mixed signals especially with the talk of QEIII. He indicated that the housing market and unemployment add more negative components to the situation yet the market continues to rise. His concern is that the markets are being over inflated and manipulated and are on a slippery slope. Europe and the Euro are on their last leg, so how can the markets be up. He asked if the managers think the markets are over inflated and manipulated.

Drake Craig from Herndon Capital said that the markets have climbed the wall of worth and there are a lot of concerns. Over the last year the markets have done reasonably well. Normally when there are concerns in the market, opportunities present themselves. They have not been paid to take risk in previous market cycles. Companies are in better positions due to cost cuts and profits are good but they are only seeing a small uptick in revenues.

A lot of the economic activity has been from the Fed adding stimulus to the economy. Without those catalysts you would not have seen that market growth. That is what you want to see the government do but at the same time you need to see demand for products and services. It is difficult to be comfortable as an investor with what they are seeing in the market. They are a large cap growth manager and are paid to take risk but they have not been paid to take risk in the past several years like they previously were. More consistency is needed in the market. It is all about stock selection.

Ron Heller from Peritus Asset Management said that it is all about market manipulation. The Fed will not open their balance sheet and they are probably holding equities. The U.S. economy growth is at 1.5% and the market is at an all time high which does not make sense. The question

is what do you do going forward. You are seeing lower corporate balance sheet profits. Canada just lowered their corporate tax rate.

Greg Prost from Ambassador Capital stated that the Fed is truly manipulating the market. Interest rates are chasing yield and bond rates are at 0% with many investors moving into junk bonds. The Fed is trying to get risk put on the books with some spillover into equities.

Greg Cassano from First Eagle stated that they are a conservative manager especially with the tons of uncertainty in the market and the leadership changes globally. Uncertainty will be around until the changes take effect. The U.S. is the lesser of two evils so they are focusing on domestic companies with good fundamentals and clean business lines in their global equity portfolio. Until the leadership dynamic plays itself out, there is still reason for concern so their focus is company by company.

Mr. Kuhn questioned whether there will be a fiscal cliff recession in 2013 or will the Fed maneuver around it. He asked how leadership changes in Washington, D.C. and tax cuts could affect a recession next year.

David Cooke from Loomis Sayles said that it is hard to believe that there will not be some sanity after the election. We will probably dodge a bullet near year-end with regards to the tax cuts. The economy will muddle along into 2013. People are fearful and they should be.

He referred to 1999 when things were going great. Historically as a value guy they see the glass half full. Employment is getting better but is not robust but; it will probably do okay. He does not think that valuations are out of line. Some large cap stocks are paying higher yields than the ten year S&P and the Russell 2000 yield is also more than the ten-year index. The FICA tax will probably come back which will add a little drag on the economy.

Mr. Kuhn asked the managers if there is need for more stimulus.

Mr. Cooke said that the economy is going okay but will not grow great guns. There is a need for some tax relief at the end of the year along with budget cuts. At worst they will keep kicking the can down the road like they always do. Near term the market will not be the leading indicator and we are seven or eight years out. They are being told that 2013 to 2014 rates will rise and the rates will determine where the market goes.

Dave Desmond from Peritus Asset Management said that it will depend on which Administration comes into play because they have two fundamentally different approaches for the economy: government versus small business. One will keep adding more and more debt.

Both have a herculean task ahead of them. This is the new normal. Putting history to this does not make sense. Fixing it will come with pain. These are global issues and it will take serious cutting and pain to get back to normal.

Because people do not know what to do, they will keep kicking the can down the road. There are so many questions including inflation. He asked what will happen to the pension funds to

keep them sustainable. He does not see rates going up anytime soon. Things that were not suppose to happen did and the models were flawed. The past cannot predict the future. There will be more certainty when we know who will be in political office over the next four years.

Chairman Harrison stated that politically they can keep kicking the can down the road. There is a lot of polarization politically and there are no agreements across the aisle so they will not get anything done. Globally it seems they are leaving the fiat based system with the worthless paper and going to an asset based system. China is already doing it by buying up gold. He asked what the pros and cons are of having something with real value versus manipulated value.

Mr. Cassano said that they are a believer in the value of gold. They hold it as bouillon in their portfolio but would not make it a bet on it. He said that all the gold in the world would fit in two or three Olympic size swimming pools. There is no value added leaning on gold. China is another issue. The firm is using gold as a hedge versus currency in the portfolio. They own it in an equity portfolio (12% weighting) to protect from the market bottoming in a period of market volatility. They view it as a stand-alone asset class.

Chairman Harrison stated that certain people watch the big players in the market. George Soros just sold all his bank stocks and bought gold. This movement sometimes does not trickle down but they set trade patterns.

Dave Desmond from Peritus Asset Management said that regardless of the system the dollar is viewed as a promise to pay. As far as gold is concerned, it has intrinsic value if you own it and is good to use as a hedge for currency. The concern is countries that cannot pay their liabilities. If things go that bad he would rather own guns and bullets than coins. When things do not go well it is a speculative currency but then it becomes an asset. You have to look beyond into making this transition.

Mr. Cassano said that they look at gold as a hard asset and avoid getting into its speculative nature. They use it as an ETF.

Mr. Desmond said there is not enough gold to back the promise to pay globally.

Chairman Harrison asked about the requirements of Basil III and whether banks will fail the stress test.

Mr. Desmond said that banks are still making investments with riskier assets and continue to extend out losses, which is also risky. They need to resolve the losses instead of booking them down the road. Cuts need to be made, by country, or globally.

Mr. Heller said that some of the changes need to be done by regulation. J.P. Morgan stated that bringing about more requirements and changes will increase fees. They are the largest player in the investment banking world. He referred to fraud investigations into investment grade assets.

Ms. Zimmermann stated that there have been a lot of bad actors who had their wrists slapped. Regulations are needed but also some tough leadership. The consequences of blowing up millions of dollars seem woefully inadequate.

Mr. Heller stated that until someone has the determination to do something, regulations need to come down. He used the example of Jon Corzine who still cannot find all the millions of dollars that disappeared from MF Global.

Chairman Harrison referred to the Lehman Brother's bankruptcy and Ernst and Young who looked at their books. Lehman still owes a ton of money to the government.

Ms. Zimmermann asked where the political will comes from.

Trustee Stubblefield questioned why things are not being fixed and why nothing is happening.

Mr. Prost said that there is no incentive to do anything because the money is protected.

Chairman Harrison said that most of the money is controlled by families like the Rothchilds who are fighting against change because they do not want to lose their power. They do not care that the rest of the world is suffering.

Mr. Heller questioned how investors invest money on speculation when the economy is muddling along at 1% to 1.5%. He indicated that the credit markets are seldom wrong.

Trustee Barnett asked what will happen if the Euro goes away.

Chuck Schmidt from Seizert Capital stated that the Euro will not go away. Greece is done and will be taken out of the Euro. They will create their own currency and inflate their way out of their debt.

Trustee Gaffney stated that it was expected that the United Kingdom would join the rest of Europe in adopting the Euro as its currency but they decided to keep their own currency. This made it much harder for the rest of Europe.

Mr. Schmidt stated that the pain will have to go through. The government bailed out Michigan but what about California. We will have to struggle with the pain which will cause more uncertainty. It is either capitalism or socialism and a struggle with job creation. We have to work it out. The U.S. has been here before with the Great Depression. There is a lot of pain to get out and he hopes it will not take another World War to get us out of it.

Meeting Break at 10:40 a.m.

Meeting Resumed at 10:55 a.m.

Newly elected Trustee Lynn Asker introduced herself to the Board. She was formerly a city of Pontiac employee. She has remained in contact with a number of the members.

Chairman Harrison congratulated Trustee Asker and welcomed her to the Board.

Mr. Kuhn indicated that this is a different format for the managers. Their commentary should be limited to performance attribution.

First Eagle Investment Management – Global Equity

Greg Cassano, Vice President

Mr. Cassano indicated that First Eagle is the newest manager in the portfolio. He thanked the Board for the business. This is the first time he has met with the Board since the finalist presentations.

First Eagle is a global equity manager. They manage \$30 million for the System. They are a fairly conservative manager. They are a long-term value oriented investor with sound fundamentals. They stay away from leverage and look for clean revenue streams. There are ninety to one hundred and thirty holdings in their portfolio. They are bottom-up fundamental stock pickers that look for unique aspects and they do their research business by business.

They are not trying to look like the benchmark and do not pay attention to the broad market view or over or under weighting the benchmark.

The City of Pontiac portfolio has a 10% weighting to gold in the portfolio. Their relative out performance over the benchmark was 1.83% as of May 1, 2012. They protect principals in down markets. Their average gold holdings are 5%.

Their focus on U.S. companies and an underweight to financials helped their performance.

He reviewed their top holdings. Their focus staying away from fray companies helped their portfolio. They look for larger global institutions. Their ability to stay away from market inactivity speaks to their understanding of the market sectors and their focus on over and underweight to the sectors. They do not understand how the big banks will play out.

They own companies like Shimano, Inc. that makes bicycle parts and fishing reels because they know where this business is going. If they cannot understand how the business is building their long-term success, they stay away.

He provided an overview of their sector exposure. They focus on regional banks. They were underweight to consumer discretionary, consumer staples and energy and overweight to Japan and under in the United Kingdom and the United States. They focus on business fundamentals.

He indicated that there was not anything specific that made a difference in their performance. They have used the same long-term discipline and philosophy since inception of the company.

Ms. Zimmermann left at 11:05 a.m.

Their number one goal is to protect and preserve capital. They are a more unique manager when it comes to deploying assets. They use a different approach of keeping 10% to 15% in cash on average by design. This is a residual of their business philosophy. They do not want to be a forced buyer.

They have been deploying cash into the investment since June 30, 2012.

Chairman Harrison asked about their strategy and flexibility with regard to financials. Are their investments structured or based on market conditions.

Ms. Zimmermann returned at 11:10 a.m.

Mr. Cassano said that it is a little of both. If they do not understand a company they will not make an investment in it. There has been a lot of uncertainty in financials so they focus on regional banks and globally ones that operate well. They look at the underlying business. They will not look a lot like the benchmark.

Trustee Bowman asked what made them invest in the Japanese company Schimano, Inc. He also questioned what made them stand out in the market.

Mr. Cassano said that they are an industry leader and they have always owned niche market companies. Schimano makes bicycle parts and fishing reels. There is no rhyme or reason, sector or industry. They make investments based on business fundamentals.

Trustee Naglick returned at 11:15 a.m

Herndon Capital Management – Large Cap Growth

Drake J. Craig, President & Portfolio Manager

James H. Nelson, III, CFA & Associate Portfolio Manager

Antoinette Bing Scroggins, Vice President, Client Services

Ms. Scroggins introduced Mr. Drake and Mr. Nelson to the Board. She indicated that she is the client service manager and that they have been a manager for the System for the past several years.

Mr. Craig told the board that Mr. Nelson joined the team approximately one year ago.

Mr. Nelson commented on their underperformance. He stated that it has been a difficult year and a challenge for large cap growth. Their year-to-date performance is in line with the benchmark. Their performance was impacted by their sector allocation due to a lack of balance. During the last half of 2011 they moved to a more balanced sector allocation.

Trustee Stubblefield left at 11:19 a.m.

Their alpha came from stock selection. Sector allocation will be an under performer for them. They are not paid to take risk. Their stock selection was solid but a handful of names hurt them.

He used Herbalife as an example of when a company misses their market expectations. They have a competitive advantage in the marketplace with 20% growth per quarter. However, their stock experienced a downturn because they did not meet expectations.

In their strategy you have to take risk. Valuations are becoming more prominent. They have already begun to reposition their portfolio to increase alpha.

There will be plenty of issues during the year ahead including the results of the election; whether the economy falls off a fiscal cliff, whether the Euro collapses, or if China's growth slows. They have quality names in their portfolio and feel positive about how they are positioned going forward.

Mr. Drake expressed what they would do differently. The biggest difference is that they added Mr. Nelson to the team. They have generally profiled a wider macro economic spectrum. They are not afraid to take risk. They have taken a more balanced view for the portfolio. Their biggest concern is to protect the System's assets with minimum downside. Their process will not change and they will continue to look at opportunities. They can structure the portfolio with risk or with protection. They have an optimistic view of equities long-term. During certain investment cycles they take their foot off the gas pedal.

James Nelson has been making positive changes based on the outlook and has added value to the team.

Peritus Asset Management – High Yield

Ron Heller, Chief Executive Officer

David Desmond, Chief Operations Officer

Mr. Heller stated that high yield is a dichotomy in the market. They can buy ishares, eshares and ETF's. Managers like Seizert and Loomis Sayles can only buy liquidity and big names when there is a bubble in the market. What is left is a sweet spot for high yield. They buy companies with less outstanding debt. Their current duration is three years and the yield is over 10% with a yield to maturity of 11.3%. Their portfolio has not changed and earnings have peaked.

Currently they have 20% to 25% invested in healthcare and technology. They go where the value is. They look for companies that are creating cash flow. They are looking at companies from their cash flow statement back to their balance sheet. Literally, cash flow gives a real margin of safety in the event that a bond is called away or matures.

They will not do anything different. They look at the economy and where consumers are spending money. We have a consumer driven economy and they look at how consumers are earning their money. There are growth and debt problems. Wages have been down during the last decade and the cost of debt is high. The equity of the consumer has been decimated including IRA's. The consumer is behind the eight ball regarding their retirement. Californians thought they had equity and assets in their homes. Now they are saddled with debt and no new revenue.

Mr. Desmond said that bonds are bonds and there are lots of different kinds. Rising interest rates and inflation will kick out the debt. High yield is not junk, it is higher yielding asset classes. It is not impacted by rising rates and inflation as other asset classes. High yield is a \$2.5 - \$3 trillion market and is growing.

Mr. Heller said that they are staying in the senior secured debt which is high in the capital structure so they will always get paid. The rating agencies create opportunities. It is either AAA or D. There is a lot of stuff rated BB+ that will fail. Opportunities are always there.

Chairman Harrison asked what funding value they bring in most and how low in the bond ratings will they go.

Mr. Heller said that they will go as low as B BB rated to CCC rated but most of their bonds are B+ rated.

Mr. Desmond said that there was a significant run in BB paper but you have to stay ahead of interest rates and inflation. You have to be careful; some of these can be down rated to DD. You have to find an exit strategy with bonds. You have to be more careful with equities. High yield is indifferent to the price of bonds whether it is up or down. High yield is guaranteed and is a contractual obligation to pay a dividend. Secured senior structured bonds have a claim on the assets. He indicated that the System's portfolio needs a rate of return of 7.5%.

He provided an example of CALPERS which is currently looking at performance returns of 1%. He indicated that PIMCO recently lowered their returns going forward.

Mr. Heller told the Board that lower interest rate expectations are being broadcast going forward. Why think out of the box with international equity, private equity and hedge funds. This year performance on investment grade bonds should peak. Coupon income should provide 2% returns. The Board could increase their allocation to high yield and reduce liability.

Mr. Desmond said that the Board has the ability to move the dial off normal and have more flexibility, however, you have to know the covenant of the paper that protects you.

Mr. Heller indicated that they also have an ETF product offering. He also told the Board that they do a lot of writing on their website, blog and on twitter. Their ETF product mirrors the City of Pontiac. They are also FINRA compliant.

Ativo Capital Management, LLC – Large Cap Core
Richardo Bekin, Chief Investment Officer

Mr. Bekin thanked the Board for their business. They have been managing the System's assets since February of this year. This is the third State of Michigan client in their portfolio which includes the City of Detroit Police & Fire Retirement System.

They are a large cap core manager and can go anywhere in large cap. They have a small growth tilt. They look for the better value in value or in growth.

When they shaped the portfolio they used a scoring system that is fairly close to the S&P Index and the Russell 1000 Index. They are not imposing a top down discipline. Apple is their largest holding. They also hold Mastercard which is technically overweight but they do not hold any banks and only some financials.

Their portfolio is fairly concentrated with twenty-five holdings which track well with the benchmark. This is a small number of names but they are so big that there is little tracking error. These are well diversified companies and comprise 25% of their aggregate score.

Their operating momentum was a detriment to performance. A few months ago they began using a low volatility factor. They wish they would have started employing it sooner. Investments in low volatility stocks have lower risk but when the market takes off they under perform. At the same time they are keeping close to the benchmark. They do not employ a market timing method.

Their longer term rolling period numbers are good and they are comfortable they are on an out growth path. You need to have patience these days. They are up 8.8% since they began managing money for the System versus the S&P at 6.6%.

The Board can help by giving them the right amount of flexibility. Their allocation is \$8 million which was bumped up 50%.

Mesirow Financial – Private Equity

Ryan Fedronich, Vice President

Tracey Savage, Vice President, Institutional Sales & Marketing

Ms. Savage thanked the Board for the additional allocation this year.

Mr. Fedronich said that this is the fifth private equity fund raised by Mesirow.

Fund IV was November, 2006 and they just made their two final commitments.

In March the internal rate of return was 9.1% versus 7.3% for the benchmark. It went from break even to a 4.3% IRR.

They are working with world class managers. Some of the managers have been able to access MAA and have the same access to the Facebook IPO.

One of the drivers of their performance is working with Thomas Bravo, MAA and other world class managers this year. There have been a lot of attractive returns and low interest rate deals which have been favorable in the private equity environment.

Exposure to 2006 and 2007 buyouts with peak leverage was a detractor from their performance. They did not see all the defaults and bankruptcies coming during the down market period. This could be an issue for non-disciplined managers.

Their investment philosophy has not changed. They have made some small tweaks with no investments to mega-cap buyout funds. They moved out of bulk rate into smaller more operationally focused managers. They shifted their venture capital out of healthcare to more capital intensive investments which take a longer time to develop.

He sees hurdles going forward including the lack of liquidity across the private equity industry; economic growth and competitive valuations going up and the financial instability issue in Europe will all create challenges. He also noted that there is the possibility that Fund V holds a lot of distressed debt in Europe.

Gray & Company Alternative Fund of Funds

Christopher Kuhn, Senior Consultant

Mr. Kuhn told the Board that this is a multi alternative investment vehicle. The System made their first investment in this fund on March 30, 2012. This fund of funds has allocations to hedge funds, real estate and private equity. This type of fund with all three asset classes and access to great managers is unique in the marketplace. It also gives investors a tilt toward the best opportunities. In addition, it has an opportunistic sleeve and some direct lending strategies in an SBIC Program.

The System's total commitment is \$6 million with total invested capital of \$2.5 million to date. There is still \$3.5 million in uncalled capital left to invest.

Their target asset allocation strategy was to overweight private equity and underweight real estate.

He reviewed their portfolio holdings. He indicated that hedge funds can deploy capital more quickly than private equity. Energy Mineral Group is making their first call for capital on August 30, 2012. The portfolio is tilted toward hedge funds. There have been some modest gains in the hedge fund portfolios.

Chairman Harrison indicated that these managers normally work with family investors; this adds to the unique quality of this fund of funds.

Mr. Kuhn said that Third Point was closed but allowed Gray & Company to invest more money in the fund as did EdgeWater. These types of funds are very hard to find.

Chairman Harrison confirmed that these types of managers typically do not market to public funds.

Mr. Kuhn stated that these types of managers do not show up at MAPERS. They are used to walking in to a meeting and walking out with a check. Public funds are considered too slow as investors.

Trustee Asker asked about the reporting timeframe for these managers.

Mr. Kuhn said that performance reports for most managers are usually available sixty days after the end of the quarter. These companies are not the same as the System's other managers. They have outside audit firms look at their financials and make valuation reports.

Meeting Break at 12:05 p.m.

Meeting Resumed at 1:08 p.m.

Ambassador Capital Management – Intermediate Fixed Income

Talmadge Gunn, Sr. Vice President & Sr. Portfolio Manager

Gregory Prost, CFA & Chief Investment Officer

Mr. Gunn told the Board that he was glad to hear that pitch books were being discouraged at today's meeting.

He reviewed their performance for the past year. Their second quarter performance net of fees was 1.74% versus the benchmark at 1.32%; one-year performance was 6.74% versus 5.28% and since inception 5.10% versus 4.47%.

It has been a fairly good fixed income market and they are glad that they have been able to add value. They are a little concerned and have been pulling in risk. They are focused on interest rates and downside risk.

He reviewed their performance attribution. He said that there are three areas that generate excess returns. He indicated that a fourth area that adds value is interest rate movement. They do not position their portfolio on interest rates.

Their sector attribution at 0.60% provided 60 basis points of excess returns. The yield curve was relatively flat with some movement at 0.10% and concentrated at the short end with a three-year duration. They took a defensive strategy with most of their exposure having a duration of six years to twelve years. Their issue selection was at 0.99% and was fairly defensive in utility bonds and asset backed securities.

He reviewed their portfolio statistics versus the benchmark. They tried to avoid financials. The Fed is holding rates, so it is an artificial structure. They had a lot of success in the right broad sectors.

They are well within the compliance guidelines.

He addressed how the Board can help them add value to the portfolio. There is nothing they would add. Recently some of the bond ratings in their portfolio were downgraded which brought

down the credit quality of their portfolio. They could separate government and agencies out of the quality portfolio. Or, the Board could help by changing the credit quality of the portfolio.

They are currently utilizing firms off the suggested brokerage list for 22% of their trades.

They are continuing to wrestle with the Fed's artificial control of the market. The highs and lows are a concern. There is no trickle down to the consumer. They are working to keep liquidity for the Plan.

The portfolio is currently earning 2.2%. They are looking to move out of issuers yielding 2% performance. It is not a given moving out of these assets.

Chairman Harrison confirmed that they are paying attention to financials.

Munder Capital – Mid Cap Core/Growth

Geoffrey Wilson, Co-Chief Investment Officer & Sr. Portfolio Manager

Mr. Wilson told the Board that their strategy is fundamentally driven by stock selection. They use robust risk controls based on capitalization size, sector weighting and beta. The stock selection in their portfolio is historically based on free cash flow and growth.

Their sector weighting is not driving performance. Healthcare saw some takeovers, materials were a consistent earner. Consumer staples out-performed peers with more volume and out-the-door due to consumer earnings growth and the economic environment.

This has been a challenging environment and they have less exposure to commodities.

Industrials at 0.69% and energy at 0.51% were detractors from their relative performance. Industrials saw a downturn in growth due to capital equipment and European exposure. Energy underperformed due to weak pricing. They sold Northern Oil & Gas and industrial stocks to reduce cyclical exposure in the portfolio to these sectors.

To improve performance going forward, when looking at European cyclical policies they found that these have more of an effect on the companies they own than they use to. They would be more positive on housing and feel that it may have bottomed and that there will be more opportunities. They will also focus more on dividends and growth in dividend yields.

The headwinds for the coming year will be determined by the macro economic environment. They are bottom up stock pickers. Due to macroeconomic fears, the market will continue going up and down.

He said the trustees can help by providing a clear understanding of what they need to do.

Chairman Harrison asked about their strategy is impacted by the European market.

Mr. Wilson stated that 30% of their earnings are from overseas. The trend in Europe can affect companies they own. The economy and psychology of Europe is what they will be looking at and the effects.

Seizert Capital Partners – Large Cap Value

Charles Schmidt, Chief Operating Officer

John VanGorder, Client Service & Marketing Manager

Mr. VanGorder reviewed their performance: year-to-date performance was 6.98% versus the Russell 1000 Index at 8.68%; two-year performance was 14.07% versus 15.25% and since inception 13.60% versus 13.69%.

Mr. Schmidt described their portfolio characteristics. Their lack of weighting to utilities did not have an impact on their portfolio. The top holding in their portfolio was Pfizer, Inc. They were overweight to healthcare. Their holdings are based on where there are opportunities. They have a fair amount of exposure to financials.

They are disappointed in their portfolio performance and are looking at some other options going forward. Their debt-to-capital rating for the portfolio was lower which hurt them because lower priced companies will perform better when the market rewinds. He pointed out that their price to earnings and price to book numbers are at a good discount. They reported good return on equity numbers at 17.27% versus 13.57. Their dividend yield was 2.01% versus the benchmark at 2.45%.

Information technology had the most negative impact on the portfolio. It was a confusing space because it had the best balance sheets, global exposure and was well capitalized but it dramatically underperformed. Dell was the worst performer based on their tablet, smart phone and other product offerings. They need to move more inline with IBM and Hewlett Packard in providing IT solutions versus products.

He described the portfolio's trailing one-year attribution. If the quarter ended today their worst performers would be their best performers.

They are in compliance with the System's investment guidelines.

He stated that the Board could help by giving more leeway with cash which some System's are currently doing. Gray & Company can also assist them. However, they are comfortable with the 5% cash guideline.

Chairman Harrison asked if they are concerned about the number of financials in their portfolio which include Bank of America, Citigroup and J.P. Morgan due to the issues with Basil III. He questioned their philosophy regarding the benchmark. He also asked if they feel these are the banks that are too big to fail.

Mr. Schmidt said that the portfolio has plenty of leeway with a policy of plus or minus 10% to the benchmark. They could be as low as a 15% weighting up to a 35% weighting. These banks

could be classified as too big to fail. These companies have the incentive to loan money. However, there are not enough people to take advantage based on the new lending guidelines.

He indicated that internally they have had discussions on the effect the new regulations will have on banks. This is making them look more like utilities. He noted that J.P. Morgan's trading activity got them in trouble. They could breakup and have to reassess their business. As they are constrained now they will make bad loans.

Chairman Harrison stated that he is still concerned with the Basil III compliance issues.

Loomis Sayles – Small Cap Value

David Cooke, Vice President

Mr. Cooke told the Board that they employ an alpha thesis which is how they make their money. They look at three buckets: misunderstood; undiscovered and special situation companies.

Misunderstood companies are those that have experienced a hiccup. Undiscovered are those that are not on the radar screen. Special situations or corporate spinoffs like Sally Beauty have added the most value. Most are acquired within two to three years.

He told the board that the R2000 has the most stocks and are covered by six analysts. The other stocks are assigned to two analysts.

He reviewed their investment team. Jeffrey Schwartz is the newest member to join the investment team. He came back in March, 2012 and joined Joe Gatz as portfolio manager when Don Thelen left the team. He attended graduate school at the University of Michigan.

Their investment performance as of June 30, 2012 was -5.21% versus the benchmark at -3.01% for the quarter, year-to-date 6.41% versus 8.23%, three-year performance is 18.21% versus 17.43% and since inception 11.95% versus 9.46%.

The economy did well during the first quarter but during the second quarter low-risk stocks outperformed. An overweight to financial services was the best performing sector in small cap. They did hold some REITs and underwriting in financials hurt portfolio performance.

He thanked the Board for the eighteen year relationship.

He said that the thing they would do differently would be to change the characteristics of the portfolio. Stock selection hurt their performance. It is never what you know, but what you do not know. He said that a potential flare up in the Middle East worries them.

They see macroeconomic earnings (large cap out performing small cap) as a hurdle. Investors are looking at the S&P (high-paying, liquid strategies which is justified versus small cap) exposure. This will resolve itself over time. Their concern is that investors will stay in more liquid names. This makes small cap seem relatively cheap and may cause them to underperform in the short-term. Their strategy has worked well.

They are in compliance with the investment guidelines of the Fund.

Chairman Harrison confirmed that small cap financials are not the same as large cap financials. It is a different scenario for the larger banks.

Northpointe Capital – Large Cap Value

Peter Cahill, Chief Investment Officer

Mr. Cahill said that it has been a sobering morning. The world is unpredictable. The Fed is printing money, micro economics is a good hedge. This business is not affected by the economy.

They need to stick to their process. That does not mean they will not try to get performance. They want to take a fresh look at the inside.

It has been a tale of two halves. During 2011 it was a difficult back half but they outperformed during the first and second quarter. They are currently outperforming this quarter. They are a value manager and they are seeing the market pay for earnings growth based on relative expectations.

Their headwinds are winning or losing through stock selection. They are benchmark aware but there are multiple factors that are still being cheap.

They are in compliance with the investment guidelines of the Fund.

He also indicated that they verified their performance numbers with those of Gray & Company and they are in line with the reported performance.

Mr. Kuhn asked if managers should be scared that the highs in the market are beginning to be tested on very low volumes. He asked if that is still in their model.

Mr. Cahill said that on Friday, August 17, 2012 the market went from highs to lows throughout the day and they saw the smallest volume in 7.5 years. Volume is anemic and people are scared. The small cap space creates trap doors and opportunities. That shows you how difficult it is to have an investment opinion. It is unclear what will work if the economy goes into a recession. Their trading desk is now much more entwined with the managers.

The managers left at 2:18 p.m.

Gray & Company Wrap-up

Mr. Kuhn questioned whether the Board liked the new format and whether there was anything they missed that the trustees would like to see.

Chairman Harrison said that he likes the new way versus the old format.

Trustee Gaffney said that the new format seems to move better without repetition.

Trustee Naglick asked if the managers are uncomfortable having the other managers hear what they have to say.

Mr. Kuhn said that they are not looking to haul a manager on the carpet. This was different from the Police & Fire Manager Review Meeting where each manager went one by one.

Trustee Gaffney said that by hearing the other manager's presentation they will be less likely to repeat the same information.

Trustee Stubblefield said that she liked the roundtable format.

Trustee Giddings asked how he could obtain a list of the questions given to the managers.

Trustee Asker said that by providing the questions, the managers can focus on what the Board wants to hear.

Chairman Harrison asked if there was any feedback from the managers.

Mr. Kuhn said that they would like to see the table layout in a square.

Trustee Stubblefield said that it would be helpful to the trustees if the managers indicated who they are and from what firm for the new trustees.

Trustee Gaffney recommended using place cards.

Ms. Billings indicated that some of her other clients use place cards.

The meeting adjourned at 2:34 p.m.