CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
SEPTEMBER 27, 2018

A special meeting of the Board of Trustees was held on Thursday, September 27, 2018 at the Marriott Auburn Hills Pontiac Hotel on CenterPoint Parkway, Pontiac, Michigan. The meeting was called to order at 8:45 a.m.

TRUSTEES PRESENT

Sheldon Albritton
Jane Arndt
Janice Gaffney
Robert Giddings
Walter Moore, Chairman
Billie Swazer
James Walker

TRUSTEES ABSENT

Deirdre Waterman, Mayor
Patrice Waterman
Kevin Williams, Vice-Chair

OTHERS PRESENT

David Lee, Dahab Associates
Steven Roth, Dahab Associates
Cynthia Billings-Dunn, Sullivan Ward
Deborah Munson, Executive Director
Ademir Zeco, Consequent Capital Mgmt
John Robinson, Consequent Capital Mgmt.
Amanda Baron, First Eagle Inv. Mgmt.
James Kelt, Incore Capital
Andrea Leistra, Incore & Victory Capital
Robert Crosby, Victory Capital
Ross Vaillancourt, Intercontinental Real Estate
Chas Duval, Invesco Private Equity
Laler DeCosta, Invesco Real Estate
Martha Payne, Mesirow Financial
Darren Kleis, Principal Real Estate
James Lange, Principal Real Estate
Greg Prost, Robinson Capital
Rick Plummer, Systematic Financial
Aman Patel, Systematic Financial
Brett Lawrence, WCM Investment Mgmt.

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Dahab Associates – Performance Review

Mr. Roth began the overview of the Fund's 2018 second quarter performance report. For the 2nd quarter, the fund is up 1.8% and 10.1% for the year gross of fees. The System has had a good run due to the heavy equity allocation. The fund is up net-of-fees 7.3% over 10 years.

Mr. Roth noted that the U.S. dollar was stronger in Q2. He highlighted the move into real estate and stated that it is a surrogate for fixed income. He explained that as interest rates rise, the value of bonds declines. This is why they are trying to de-risk the portfolio some by moving into real estate. They believe real estate is going to have better returns going forward. He continued to review portfolio highlights for the quarter.

Mr. Roth said that they still believe that the U.S. economy is strong and that stocks are reasonably priced. There is the expectation that the S&P should make it to 3000 by the end of the year based on fundamentals and expected economic growth. They have confidence that U.S.

growth will start to accelerate and they don't see a lot of excess. This generally happens at the end of a cycle. There are only 5 – 7 stocks that are really expensive (i.e. Amazon, some bank stocks) but the rest seem to be in-line with the averages. He reiterated that they don't see a lot of excess and – as a result – interest rates are slowly increasing and they still feel there is a lot of space in the U.S. for good equity returns and good economic growth in the next.

Mr. Roth continued that growth is slowing internationally and that those markets are about two years behind the U.S. in terms of cycles. They are having a little hiccup now and he expects that to accelerate. The System is just getting into emerging markets now and he feels that it is great timing because emerging markets had a great 2017 but 2018 was an awful year. Currency exchange rates are a very important factor and the dollar strengthened which hurt a lot of the emerging market economies. Given the downward returns for 2018 these markets have suffered this year; it is the cheapest place to invest. Emerging markets having growing economies and demographics which are stronger than our demographics and so they believe there will be a nice reversion to the mean in terms of valuations.

WCM Investment Management – International Equity Growth
Brett Lawrence - Client Portfolio Manager

Mr. Lawrence introduced himself and gave an overview of his firm and their investment process. WCM has managed money for the fund for just over five years. He reviewed the performance since inception. The portfolio has had an 11.1% gross-of-fees return since inception and 10.3% net-of-fees. These compares favorably to the benchmark return of 5.0% over the same period. Year-to-date, the portfolio has outperformed the benchmark by over 710 bps. The portfolio was funded with approximately $37M and that is about where it sits today. However, the System has withdrawn over $18M of appreciation from the portfolio since inception. He reviewed the fees and performance attribution of the portfolio. Mr. Lawrence noted that the cornerstone of their investing is protecting on the downside.

James Walker left at 9:30 a.m.

Robinson Capital – Fixed Income – Intermediate
Greg Prost - CIO

Mr. Prost introduced himself and gave an overview of his firm and their investment process. He reviewed where we are in the market cycle and said that they are here to protect the portfolio from downside risk. The Federal Reserve is raising interest rates in order to slow things down some and everything that you would expect to see late in the cycle is happening today: confidence is really strong and corporations are taking on more debt. We are in a mature economy and, traditionally, the Fed goes a little too far and raises interest rates too high. Mortgage rates are increasing and the housing market has slowed. The portfolio has outperformed the benchmark over the one-year period by 75 bps net-of-fees. Year-to-date, the portfolio is up .21% net of fees. One of the reasons the portfolio did so well this year is because they positioned the portfolio to take advantage of changes in short-term interest rates versus long-term interest rates (i.e. the yield curve). They 'barbell' the portfolio as the yield curve begins to flatten. This is buying on the long and short ends of the curve but not so much in the middle. They also have a lot of municipal bonds in the portfolio, most of which are taxable. The reason they like municipal bonds, especially late in the cycle, is because it is really difficult for a municipality to go out of business. This has helped performance. Last year was a tough year from them but they have been pretty consistent – not big highs and big lows. They view their job as being the steady hand for the portfolio. The reason they underperformed last year is because they started taking risk off early. The System allocated an additional $5M to them in August. Municipal bonds are issued in smaller sizes and it is more difficult to look at thousands of names. Tal has built up a really good reputation in the bond market. They are comfortable with Michigan issuers. The municipal bonds are in lieu of purchasing corporate bonds. Going forward they will continue to take risk off the table and become more risk-adverse.

Since inception they have returned 2.48% net of fees versus the benchmark 2.11%. He reviewed the portfolio attribution and fee schedule with the Trustees.

Incore Capital – Fixed Income - Core
James Kelt - Senior Portfolio Manager
Andrea Leistra - Director – Institutional Markets

Ms. Leistra introduced herself and Mr. Kelt and gave an overview of their firm and their investment process. Mr. Kelt explained that about half to three-quarters of the alpha they expect to generate through allocation. Where we are currently in the investment cycle, the duration and yield curve management will contribute more to the alpha generation because they are taking so little risk in the other part. Early in the cycle you would expect a lot more alpha to come from sector allocation and security selection. But, right now, all of their relative performance versus the benchmark is derived from how they manage duration. They don't care what the ratings companies say about a company, except that it has to be graded at a level to be included in the portfolio. Other than that, they have their own interpretation of credit quality. A big part of their process in the beginning of a cycle is to take credit risk. That is one thing they are not allowed to do in this portfolio because of the minimum average credit rating restriction. That restriction doesn't allow them to take some of the bets that they want. Since inception they have returned 4.96% net of fees versus the benchmark 5.07%. He reviewed the portfolio attribution and fee schedule with the Trustees.

Victory Capital – Domestic Equity, Mid-Cap Growth
Robert Crosby - Senior Portfolio Manager
Andrea Leistra - Director – Institutional Markets

Ms. Leistra introduced herself and Mr. Crosby. Mr. Crosby gave an overview of their team and investment process. They are a growth-at-a-reasonable price (GARP) manager. The philosophy is that you construct a portfolio of reasonably-priced stocks that have a strong business component. It is based on the fundamental analysis of their team and will have characteristics that are very consistent over time. They will always have attractive growth characteristics, attractive balance sheets, strong management teams and reasonable valuations. Reasonable valuations haven't helped them very much. It has been a growth-thy market and the most expensive stocks have been doing the best. They stay disciplined and do not chase expensive stocks. It helps with their risk profile by not having the most expensive stocks. If you break down their index by quintiles, the top 20% have done the best so far. And a lot of stocks that don't have earnings have done well. It has been an aggressive growth market. They will have companies that are growing faster and have higher returns on invested capital. Those companies with the highest levels of debt are going to struggle more as interest rates rise. The year-to-date performance is 200 bps below the index which goes back to what he said before about the most expensive stocks outperforming. Since inception they have returned 8.44% net of fees versus the benchmark 9.03%. He reviewed the portfolio attribution and fee schedule with the Trustees.

Systematic Financial – Domestic Equity, Mid-Cap Value
Aman Patel – Portfolio Manager
Rick Plummer - Senior Equity Analyst

Mr. Plummer introduced himself and gave an overview of his firm and investment process. Aman Patel and Ron Mushock were promoted to Portfolio Manager. Mr. Mushock returned from his short medical leave and stepped down from the management team to focus on portfolio management. Stock prices and earnings have recoupled which provides a tailwind for their strategy and the numbers will bear that out. They are managing the portfolio with tariffs in mind.

Mr. Patel said that from 2011 – 2014 the mid-cap value index had a 35% exposure to yield so active managers were hit particularly hard during that time. And not focusing on dividends hurt them a lot. Now we are seeing the opposite of that and they are benefiting the most. Their intermediate-term performance numbers will start to look better when 2014 drops off. Since interest rates bottomed, they are up 4% annualized net-of-fees. He believes that we are early in this rebound. One way that they can win going forward is if earnings and stocks continue to show strong correlation as they have been. Another way is as interest rates start to run higher, you see global banks starting to tighten and more signs of inflation globally which is a great indicator of the 10-year interest rate. Another is the return environment. Their sell discipline has produced tremendous alpha over time but they have not been able to use their sell discipline over the past five years because the market has been straight up. It is very challenging for active managers to outperform in a high return market particularly when it is driven by dividends. They have done very well in moderate return environments and negative return environments where they really execute their sell discipline. This opportunity is really starting to emerge now. The portfolio has been highly correlated with interest rates. When interest rates were down, they underperformed and when interest rates were up, they outperformed. He believes interest rates will stay at current levels or grind higher and he doesn't think the market is going to keep going up as it has for the last five years. He believes we are heading into a lower return environment – perhaps even at recession level. They should do well relatively in those environments based on a historical perspective. The majority of their alpha will come from selection; they don't make big sector bets. Since inception they have returned 8.60% net of fees versus the benchmark 9.10%. He reviewed the portfolio attribution and fee schedule with the Trustees.

Mr. Plummer confirmed that their fiduciary duty is to the preservation of the principal of the portfolio. They have excellent risk controls and are not looking to take crazy bets on any one risk. They are very nicely diversified and have a very good process designed to preserve the capital.

First Eagle – International Equity Value
Amanda Baron – Relationship Manager/Product Specialist

Ms. Baron introduced herself and gave an overview of her firm and investment process. She reported that First Eagle acquired NewStar Financial in December 2017. First Eagle has added two investment analysts over the last year. The portfolio is structured to provide strong absolute return over full market cycle. The strategy is flexible with ability to hold cash. They hold approximately 10% of the portfolio in gold. Gold is down year-to-date because of the strength of the dollars. Stocks have become very expensive and they have not had a lot of opportunities to make purchases. That has changed a little recently due to the volatility in the market. Year-to-date they have purchased 10 names that were on their 'wish list'. But some stocks that they held for a while have traded up significantly in value and became very expensive. They sold out of those. Cash is approximately 17% of the fund and was a drag on performance in 2017. They are very disciplined in their sell strategy where once a stock hits what they believe to be it intrinsic value, they will sell it. They tend to lag the market when things are going well and protect very well on the downside. There has been very little downside in the past few years to protect against. They restructured their energy holdings beginning in 2015 but they were a little ahead of the market. The energy names of page 15 have been positive contributors to performance. Their strategy often creates value for their clients by what they do not invest in. She reviewed examples including General Electric which was down 40% in the last year where they added value by not holding it. First Eagle does not like to invest in companies that have a lot of leverage but have strong balance sheets. Not holding companies such as Amazon detracted from their performance. But they believe it is trading at a price that is higher than its intrinsic value. They don't factor in growth into their models and they don't pay for it as a value manager. She noted that the System's investment was converted from First Eagle's Global Value strategy to the International Value strategy. The returns for both portfolios were combined and may not reflect the actual returns of the individual portfolios.

Since inception the investment has returned 6.50% net of fees versus a custom benchmark of 9.38%. She reviewed the portfolio attribution and fee schedule with the Trustees.

When asked to rate First Eagle's performance, Ms. Baron stated that the returns are what they are expected to be at the peak of a market. She is pleased with the downside protection and this is what she would describe as the 'sleep well at night portfolio'. She would rate it a B+ in that the portfolio has performed according to expectations and there are no surprises. She noted that the fund fees had recently been reduced by 10 bps.

Meeting Break from 11:45 a.m. to 12:45 p.m.

<u>Manager Review – Roundtable 12:45 p.m. – 1:45 p.m.</u>

All managers and Trustees participated in this open discussion about investments, markets, politics and the global economic outlook.

Intercontinental – Real Estate Core-Plus
Ross Vaillancourt - Consultant Relations Officer

Mr. Vaillancourt introduced himself and gave an overview of his firm and investment process. The firm started in 1959 as a general contractor and went into private equity in the 1990s. They are a SEC Registered Investment Adviser. They have 100 employees and ~$7.6B in assets under management. The objective of this fund is to preserve and protect the capital while at the same time create the potential for capital appreciation. In order for them to do that, they try to maintain a balanced portfolio of yield-driven assets which are diversified by both property type and geography. With 80% of the capital that they raise, they look to invest in high-quality income-producing properties mainly in primary markets and some secondary markets. That should provide a stable and predictable cash flow. With 20% of the capital that they raise, they are looking to invest in value-add type properties which should provide greater potential for capital appreciation. For them, value-add means anything from ground/up construction to - properties with higher operating costs such as hotels or senior living facilities. The goal of the fund is to get a total income return of 5% annually and a total fund return of 10%. Their investment documents allow them to invest in Canada, although they haven't so far. This is an open-ended fund which offers quarterly liquidity. The goal of leverage is not to exceed 40% and it is currently just over 30%. All of their assets and debt are appraised quarterly. He reviewed characteristics of the fund's debt and occupancy.

Since inception in January 2018 they have returned 5.15% net of fees versus the benchmark 3.82%. He reviewed the portfolio characteristics and fee schedule with the Trustees. The fee is based on the amount of the commitment – not the net asset value.

Principal – Real Estate Core
Darren Kleis - Managing Director
James Lange – Relationship Manager

Mr. Lange introduced himself and Mr. Kleis and gave an overview of his firm and investment process. Principal Global Investors is the asset manager of Principal Financial Group. Principal Real Estate Investors is a top 10 manager of real estate with ~ $83B in assets under management.

Mr. Kleis noted that they are beating their benchmark across all time periods and have consistent performance. One of the reasons for the outperformance is the income return of the fund. There are two components of return for core real estate – appreciation and income. They believe that as we enter this period of more normalized returns for core real estate, their excess income return will continue. They have some built-in earnings generators in the fund including the leasing that they have done but the tenant has not started to pay rent yet. The fund has a gross asset value of ~$10B and the 140 properties are all over the country. They are in the business of owning real estate – they are not buying the stocks of real estate companies or loaning people money to buy properties. It is a good time to be a landlord; interest rates are relatively low, the economy is strong, people are paying their rents and leasing more space. He reviewed the occupancy of the fund and indicated that it should increase by the end of Q4. They are focused on growing income by leasing more space, increasing rents on existing tenants and watching their expenses. They are also focused on reducing risk. They are not sure where we are in the cycle but they believe it is an appropriate time to reduce risk on the margin by decreasing their leverage and reducing their office allocation and putting that money in multi-family or apartment assets. The other thing they are doing is executing on their non-core allocation. They are reducing the amount that they are doing as well as the length of the time period to which they are exposed to it. They are also pruning the portfolio and could sell approximately 15% of it this year. It is a good time to be a seller. They are seeing very strong pricing. This is a very high quality portfolio. Retail is facing a lot of headwinds. Most of their retail portfolio is grocery-anchored centers. They are overweight to industrials which has contributed to their outperformance.

Since the December 2017 inception, they have returned 4.53% net of fees. He reviewed the portfolio characteristics and fee schedule with the Trustees

Invesco – Real Estate Core
Laler DeCosta – Managing Director, Client Portfolio Manager
Chas Duvall – Relationship Manager

Mr. Duvall introduced himself and Mr. DeCosta and they gave an overview of his firm and investment process. Mr. DaCosta said they believe that you have to have people in local markets. They leverage their platform which is a competitive advantage. There are some important things to focus on in core real estate investing. The first is having an income-focused strategy. That is not necessarily the highest returns because that could entail using high amounts of leverage or buying lower quality assets and getting higher capitalization rates. They want to have durable income and income that can grow over time. They seek to provide a diversified portfolio of differentiated real estate assets which are diversified by sector and geography. Differentiated means properties that have some competitive advantage versus those in their peer set. They want to be financially flexible; the want to have a strong balance sheet which means a low loan-to-value and long duration fixed-term debt. Finally, they want to focus on long-term performance that outperforms the ODCE index. This means focusing on property type allocation, market selection, property specific selection, execution of property business plan. They have a very specific process which seeks to weed out very early in the process properties that are incompatible with the portfolio. The manage-to-core portion of the portfolio has contributed a lot to their total return. They do not own the types of retail that are most prone to economic downturns. The fund is ~$13B and has 96 properties. They have a conservative risk posture; the loan-to-value ratio is 24.5% and their average debt duration at 8.5 years is longer than any fund in the index. There is quarterly liquidity in the fund. The manage-to-core portfolio is 7.8% of the total. They call it ‘manage-to-core’ instead of ‘value-add’ because they are trying to create an asset that they will keep for a long time as opposed selling it to make a quick profit. If they commit $100M to a property they count $100M. Some managers only count the amount that they have invested.

Since the July 2017 inception, they have returned 7.06% net of fees. He reviewed the portfolio attribution and fee schedule with the Trustees. Mr. Duvall noted the reduced fee that resulted from the additional $7.5M allocation.

Invesco – Private Equity
Chas Duval – Relationship Manager

Mr. Duval discussed the private equity investment. He noted that Theresa Boyd could not be here due to the impending birth of her child. The System's original commitment to this fund was made in 2007. This fund is in the distribution phase so he will focus on the changes to team and the performance instead of the philosophy and process. A year ago, Invesco Private Capital was led by Bill Shaw, Managing Partner. He announced his intent to retire in Q4 2017. They laid out a transition plan and – as of March 1, 2018 – Evan Darr and Amit Tiwari were named co-Managing Partners. In August, Mr. Tiwari decided to leave Invesco for personal reasons. At that time, Evan Darr was named the sole Managing Partner. Tiffany Lee was hired this year as a Vice-President of Invesco Venture Capital Partners. They are in the process of replacing Mr. Tiwari as a senior level partner and hope to have one in place by the end of the year. The System committed $2.5M to Invesco Fund V in 2007. Invesco Private Equity Fund V is a fund-of-funds was diversified into three silos: a 30% allocation to venture capital; 40% allocation to U.S. buyout and private equity and 30% allocation to international. Those investments were made across 19 different funds. Through Q2 2018, the System has contributed ~$1.6M and Invesco has returned ~$1.8M back to the System. The net asset value of the investment is $1.9M for a total value of $3.7M. This fund had a life cycle of 12 years plus the option of two one-year extensions. They anticipate the fund to end between the end of 2019 and mid-year 2021 depending on how the distributions from the remaining funds proceed.

Since inception, the fund has had an IRR of 12.7% net fees versus the benchmark 12.0%. He reviewed the fee schedule and year-over-year cost versus total asset value with the Trustees

Mesirow Financial – Private Equity
Martha Payne – Senior Vice-President

Ms. Payne introduced herself and gave an overview of her firm and investment process. There have been no changes to the team which differentiates them from their peers. They have added an investment professional in the last year. The System committed $5M to Mesirow Private Equity Fund IV in 2007. The fund is fully committed and has drawn 95% of committed capital. Mesirow Private Equity Fund VI is a 2013 vintage fund and made its last commitment in 2017. The System committed $3M to this fund in 2013. They have called 65% of committed capital. This fund is in the early stage and - as the fund develops - they expect the return spread to compress.

Since inception, the System's rate return for Fund IV is 10.3% net of fees and 12.6% for Fund VI. She reviewed the underlying funds, attribution and fee schedule with the Trustees

Consequent Capital Management – Private Equity
John Robinson - CEO
Ademir Zeco - Portfolio Manager

Mr. Robinson introduced himself as the new CEO of Consequent Capital. He confirmed that there is no relationship between him and the former CEO, Earl Robinson. He would like to discuss the portfolio as well as the fund. They have also made changes to the Board. He is on the Board along with Liberty Bank, the Koh family and Jeff Amaling. He wants to make sure that they have support from the Board for what they want to do and understand his vision for the firm. Consequent has turned the corner and he sees the progress. This won't be the last time that the Board sees him.

Chairman Moore solicited questions for Mr. Robinson.

Trustee Albritton asked what is Mr. Robinson's vision for moving forward.

Mr. Robinson responded that they want to be a firm that is known for what they do from a consulting standpoint; be transparent and add value. They want to be a pillar in the community. He has worked on the private side and the government side and also sits on the Boards of a couple of non-profits. He wants to grow the business bigger and better than what is was before.
Chairman Moore asked what Mr. Robinson saw coming in as strengths and weaknesses of Consequent.

Mr. Robinson responded that the strengths were the people, knowing the people and knowing what they were trying to accomplish. And, also, the philosophy of how they approach client service and also honor and integrity. If you are on the same page from that standpoint, you can grow the company morally. As far as changes, we are making changes to infrastructure. We need to make sure that we offer a high level of customer service and transparency. His job is to always be a trusted advisor. That is important. It is important to be a protector of the funds. It is important to add value and also have a level of trust so that you can build long-term relationships with the clients.

Chairman Moore asked that Mr. Robinson discuss the Southeastern Global Partners (SEG) investment.

Mr. Robinson responded that he has been looking through the portfolios to understand what is in the portfolios and what are the trouble areas in the portfolios or concern for them. Looking through, SEG was a concern and he has been taking additional steps to start getting more information from SEG. He has personally met with every one of the managers. He has also sought advice from their legal team with respect to demanding more information and books and records. Getting that information is necessary to make a proper evaluation of what is going on with each investment.

Mr. Robinson has spent time in Houston with CVG Group twice and they talked about the information that Consequent needs. And they also sent a formal demand for books and records and they have seen more cooperation from CVG Group. He is having monthly calls with them now. He doesn't know if the previous CEO reached out but – for him – it was something he had to do. It is the same thing with Partners Select. He has met with them a couple of times. Consequent has filed a complaint against them and their deadline to respond is September 28, 2018. They are working on restructuring the agreement with ClearRock. They are looking at Ebony Holdings and asking what are they doing internally to cut costs to make it profitable down the road. But sitting down and saying here is what we need to do; we have a fiduciary obligation to our clients and we need to press hard to make sure we are doing the right thing. And also try to provide the managers with some different solutions; how can we help you resolve this situation. We have a responsibility to do that.

Chairman Moore asked at what point do we - as investors - have the benefit of Consequent's knowledge and discussions with the managers. When will we know what is going on. There have been issues in the past with Consequent not providing information to the Board.

Mr. Robinson responded that he believes that – having talked to the managers - they are on the right track to get some performance out of them.

Mr. Zeco added that – for instance – they knew all along that CVG Group was not worthless. Consequent knew they had underlying companies and underlying loans. However, CVG Group was not providing information and Consequent could not assign a value to it. So, the investment was written down to be conservative. It finally came to the point where Consequent needed to take legal action. Their attorney advised them that – under Texas law they could make a formal request for books and records which would force CVG Group to provide the information. Consequent set up a drop box but what really helped is that Mr. Robinson met with them. CVG Group is complying. Mr. Zeco believes that within a month or so, Consequent will have the information necessary to assign a value to this investment. At the end of the 4th quarter, Consequent will engage an independent valuation firm to conduct a valuation and they will have the financial information on the underlying companies to do so. Some of the underlying firms of CVG Group are not very profitable so he cannot say what the valuation will but it will be more than the current carrying value. The CEOs of CVG Group are participating in the monthly calls with Consequent.

Chairman Moore asked at what point will Consequent divulge to the Board where we stand.

Mr. Zeco responded that it will be a part of the GrayCo Alternatives I Q4 report and audited financial statements. He reiterated that Consequent has not formally assessed the value of the underlying companies. They have more information on the loans and they will have enough information over the next few months to make an evaluation.

Mr. Zeco confirmed that Mr. Gray is not involved with any of the underlying companies of CVG Group. Mr. Zeco explained that SEG made an investment in Ebony Media Holdings preferred shares. CVG Group invested in the common shares of Ebony Media Holdings as well and that investment is higher in Ebony's capital structure than the preferred shares purchased by SEG. CVG Group invested in the common shares of Ebony Media Holdings. Last year, Consequent engaged Duffs & Phelps to perform and independent valuation of Ebony Media Holdings for the purpose of the SEG preferred shares. At that point, the common shares were valued at $0.00 as well as the preferred. However, things are changing. Ebony is making good efforts to change the firm's profitability structure. Ebony is well aware that the print business is not going to do well but they are making good strides in increasing the revenues on the digital side. The increase in unique visitors per day on their website is very significant for both Ebony and Jet magazines. They have a new COO who has a good background in media. Mr. Zeco confirmed that Ebony is one of the holdings in CVG Group and the only value Consequent could assign to it was the valuation done by Duff & Phelps. Ebony recognizes that they have to change their approach and can't rely so much on the print business.

Trustee Swazer asked what happens if Partner Select does not respond to the complaint by the deadline.

Mr. Zeco responded that it could result in a lawsuit. Consequent has made a claim for a return of the money because Partners Select defaulted on their loan. If they do not return the money, the partners can be sued personally as well.

Chairman Moore confirmed that the investment in CVG Group was $4.5M and the total invested in SEG was $8.1M. The System's portion of the total is approximately 23%.

Trustee Swazer confirmed that the $125,000 investment in Legacy Partners was written off

Mr. Zeco said that a couple of years ago an attorney for Gray & Company reviewed the documents and determined that there was no chance of collecting that money because the agreement was poorly constructed.

Miss Munson asked about ClearRock and what went wrong with the loan that was made for this firm to the former Gray & Co CEO Yolanda Wagoner.

Mr. Robinson asked how do we get money back. The principal did not change. His job is to find solutions to the problem. He doesn't treat the loan to Ms. Wagoner any differently than the other investments. What he is saying is what are some of the ways that they can negotiate to get Consequent to the point where they can return the money to the LPs. That is the goal of those restructurings.

Mr. Zeco noted that Ms. Foreman has already paid back approximately half of the original loan. So, the amount outstanding is something that she can pay and she will be paying that back. The problem with Partners Select is that they don't want to pay, they don't want to restructure and they don't want to return Consequent's telephone calls.

Mr. Robinson confirmed that he worked briefly with Ms. Foreman while the two were employed with Gray & Company. He is familiar with some of these parties but that does not cloud his judgment when it comes to running this firm now and moving us in the right direction.

Chairman Moore said that there is a lot that we do not know about this investment which is why we are trying to get answers.

Mr. Robinson responded that this is why they added a second page to the summary to describe the actions that have been taken with respect to this investment.

Trustee Swazer confirmed that $4.55M was invested in CVG Group; $2M in Partners Select; $200K in ClearRock; $1M in Ebony Media: $200K in Algodon Wines; $125K in Legacy Partners.

Mr. Zeco confirmed for Trustee Swazer that based on legal review of the loan documents, the investment in Legacy Partners is uncollectible. The legal costs of pursuing the individual would likely exceed the amount of the recovery. Mr. Zeco also confirmed for her that Algodon Wine stock is currently trading at $.16/share. Consequent has been looking for a way to sell it but it is a very small float stock. If they attempted to sell the shares it would make the shares essentially worthless. Algodon Wines plans to have an IPO next year on an exchange which may create liquidity for our shares.

Miss Munson asked Mr. Robinson to clarify what he meant about his vision for growing the firm.

Mr. Robinson would like to grow the consulting, manager-of-manager and CIO business segments. If there are opportunities for them to grow in the private equity marketplace, he would take advantage of those opportunities.

Miss Munson reminded the Trustees that Consequent Capital amended the GrayCo Alternatives I Limited Partnership Agreement on May 10, 2018 and did not notify the Board. She asked whether it was a compliance issue that it was not delivered to the LPs until requested

Mr. Robinson said he was not with the firm when it happened so he cannot speak to it. But one of things he wants to do is really help their infrastructure to make sure that they are identifying and putting out information to all of their clients in a timely manner. When he talks about infrastructure, he is talking about total infrastructure of the firm. That is improving their day-to-day, how they handle their clients from a compliance standpoint all of those things put together. All those things are being built up to provide a stronger foundation for the firm. And coming here today and telling the Board all of those are parts of the ways to increase their infrastructure and make them a better firm. His mission is transparency and to be a trusted advisor.

Mr. Zeco said that the Board can safely assume that additional $746K commitment will not be called. He said it is a mature fund and the underlying funds are in the distribution stage. He reviewed the overall fund performance. The next time we meet there will likely no longer be a real estate component because Parmenter has sold another two properties and one about to be sold. There will only be one property left after that which they will sell within the next few months. The private equity firms are also going through the wind-down phase. Freeport makes 2- to 3-year term loans to private-equity backed businesses. They will complete their investment period in March 2019 and will go into the distribution phase over the next few years. He can see the GrayCo Alternatives I fund being fully liquidated and the cash returned to investors by 2022.

Since inception, the System has an IRR of 2.0%.

Dahab Wrap-up

Mr. Lee and the Trustees held a discussion recapping the meeting.

The meeting adjourned at 4:45 p.m.