CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMETN SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
FEBRUARY 23, 2010

A special meeting of the Board of Trustees was held on Tuesday, February 23, 2010 at the Marriott Hotel at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 8:41 a.m.

TRUSTEES PRESENT

Shirley Barnett
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Patrice Waterman
Debra Woods

TRUSTEES ABSENT

Mayor, Leon Jukowski *(excused)*
Devin Scott (absent)
Kevin Williams *(excused)*
Andrea Wright *(excused)*

OTHERS PRESENT

Laurance Gray, Gray & Company
Cynthia Billings, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Linda Watson, Retiree
Allen Meyers, AMBS Investment Counsel
Scott Wagasky, AMBS Investment Counsel
Erika Stovall, Atlanta Life
Drake Craig, Atlanta Life
Donald Cobin, Kennedy Capital Mgmt
Kelly Ko, Lombardia Capital Partners
Cindy Lim, Lombardia Capital Partners
Joe Gatz, Loomis Sayles
David Cooke, Loomis Sayles
Tom Mudie, Munder Capital
Peter Cahill, NorthPointe Capital
Sarah Schattner, NorthPointe Capital
Tom Page, OakBrook Investments
Janna Sampson, OakBrook Investments
Clarissa Parker, Piedmont Inv Advisors
Amit Sanyal, Piedmont Inv Advisors
D. Andrew Shipman, PNC Capital
Martin LaPrade, Sawgrass Asset Mgmt.
Chris Heatley, Seizert Capital Partners
Chuck Schmidt, Seizert Capital Partners
Ron Mushock, Systematic Finc'l Mgmt
Jim Wallerius, Systematic Finc'l Mgmt
Derek Batts, Union Heritage

Gray & Company - Fourth Quarter 2009 Performance Review

Mr. Gray said that performance has been flat since the end of the year.

Mr. Gray explained the roundtable format and stated that it is not commonly used by public funds. The roundtable will consist of one hour of macro economic viewpoints. He has put together a list of questions to assist the trustees with their participation during the roundtable. One important topic is what the managers are thinking with regard to global economic conditions and which sectors they would avoid or over weight.

Every month Gray & Company puts together a one page write up on what happened in the market during that period while providing a 30,000 foot view of the marketplace. This performance report also includes a decade in review page.

At the start of the decade the market endured the massive scare of Y2K and then September 11th occurred. The next obstacle affecting the market was the packaging of mortgages and placing a value selling them as securities. These newfangled securities found their way into institutional investor funds and retail mutual funds around the world. This had a huge affect on the European markets that bit off too much which caused the debt crisis in Europe and especially in Greece. In short, these securitized mortgages and the subsequent crisis had far reaching global affects.

As many of you are aware, brokers were making no document and no income loans. The aggressive home market saw a lot of borrowers buying houses with the intention of flipping them based on their rising values. However, the crisis hit and many were upside down in their mortgages when these mortgages reset.

The decade saw the tech and telecom bubble burst on one end and the mortgage crisis on the other like a pair "capital markets challenging bookends" to the decade. This resulted in one of the worst equity market ever. There have been a lot of interesting shakeups over the last ten years.

There has been a change in global leadership with the BRIC nations coming on as the new economic growth leaders.

Chairman Harrison asked if China and India are safe plays in the emerging markets. Mr. Gray said that China has a lot of money and Brazil would be at the bottom of the list, but would hesitate to use the word "safe".

This economy was the worst since the Great Depression and far worse as a global issue. The government stimulus of 20% of GDP helped spur the economy and avert financial collapse. However, since World War II the government has never used a level of stimulus that exceeded 2.9%. The biggest challenge will be how to reverse and wean ourselves off the stimulus. The country will go through a lot of additional pain before this is corrected.

The Fed continued to maintain interest rates of 0.25% during the quarter in order to spur the economy. However, many banks are still reluctant to lend money and help small business owners.

Chairman Harrison asked what will happen with the increase of 25 basis points in the discount rate. Mr. Gray stated that because there was a lot of money pumped into the system by the stimulus plan it is likely that interest rates will increase. The concern with rising interest rates is that it causes bond prices to drop which means fixed income will experience losses. It is important to ask the fixed income managers what sort of tactics they will apply to minimize losses.

In Michigan under Public Act 314 public funds are required to maintain a percentage of assets allocated to fixed income. Currently 30% of the assets in the portfolio are allocated to fixed income.

Performance in 2008 was bad but in 2009 overall performance improved. Total one-year returns for the S&P were 26.45%, Mid Cap at 37.38%, the Russell 2000 Growth at 34.48% and Russell 2000 Value at 20.57%. The System's portfolio was down significantly less than most similar plans across the country.

Technology was the strongest performing sector with one-year returns of 61.96% with materials returning performance of 47.86%.

He encouraged the trustees to ask managers which sectors they will over weight, what additions they will make to their portfolios and why relative to the benchmark. The trustees should also ask about the broader direction of the manager's portfolio for the remainder of 2010 and whether they are expecting to do extremely well and why.

The performance report can also be a guide for the trustees personal investing should they choose to take advantage of the information.

Bonds saved the portfolio when the market was going through its difficult period of 2008—underscoring the notion of portfolio diversification. The move to treasuries was the safest place to be. Investors were willing to accept 0% performance just as long as they could get their money back.

Currently, 480 banks are on the Fed's watch list that are considered failing. He said that Georgia is the poster child for failing banks.

The Barclays High Yield Index posted one-year returns of 58.21%. High yield is a more politically correct name for below investment grade or junk bonds. He explained that bond ratings below Baa are considered below investment grade.

Mr. Gray explained that when credit tightened investors were enticed into buying corporate bonds which were paying them higher rates. Ms. Zimmermann stated that in normal times spreads are 500 basis points. Mr. Gray said that historically when the economy is in a recession credit spreads are 1,000 basis points are common but during this last Great Recession spreads were up to 2,000 basis points. As credit spreads contract bond prices go up. They contracted much faster than expected. Peritus returned more than 75% performance for the one-year period. The credit spreads are now around 600 basis points.

The DALBAR Study states that there is regression to the mean. Simply, the best performers one year are generally the poorest performers the next year. Most investors will buy the highest performing mutual funds after an outstanding performance year and the next quarter the same funds will lose money. You see a lot of institutional funds doing the same thing as Joe Public.

Chairman Harrison asked if the Board should be proactive and have a discussion about investing in another asset class. The Fund is of a conservative nature but in order to find alpha or added value above the benchmark should they look elsewhere to continue the growth of the Fund.

Mr. Gray said that the S&P saw the same level of returns and volatility. In order to add value or alpha you have to try to avoid chasing the hot managers because most deviate back down to normal. The market trades in cycles. It takes incredible courage of institutional fund trustees to buy low based on research.

It looks like commercial real estate is priming for a comeback. Smart investors are buying properties for pennies on the dollar. However, it may take a few years to realize the expected positive performance. There are buildings that cost $60 million to build that are being sold for $20 million. Currently, there are four towers in the Atlanta area that are empty.

He reviewed the international equity markets. It was just a few years ago that the emerging market funds were buying into China. The emerging market index was up 78.5% last year. Chairman Harrison asked if ETF's are for public funds. Mr. Gray said that Exchange Traded Funds are like an index and have become specialized over recent years. ETF's buy companies in the S&P or sectors like index funds.

Ms. Zimmermann confirmed that public funds have to say within the guidelines of Public Act 314. The former consultant felt it was more tactful to invest with a manager.

As of December 31, 2009 Total Plan Value was $390.5 million. Performance net of fees for the quarter was 4.41% versus the policy index at 3.44%.

Trustee Barnett asked why there is such a performance difference between Sawgrass and the Russell 1000 Growth. Mr. Gray said that most of the equity managers underperformed the benchmark. When the market quickly advanced, these managers were defensively positioned and abandoned their philosophies in order to try and catch up. Some managers were caught in this kind of mode. The quality of companies that performed well comprised the lower quality firms. There was no way the Board would want those companies in the managers' portfolios.

Mr. Gray pointed out that emerging manager OakBrook's process is different. They are just being discovered. There are a couple of international funds offering them investment money.

Artio's under performance was questioned versus the benchmark. Mr. Gray said that they utilize a bottom up process. Chairman Harrison confirmed that the Board recently approved Artio's request to increase their emerging market exposure.

Loomis Sayles' one-year performance was 29.40% versus the benchmark at 20.57%.

Kennedy Capital's one-year performance was outstanding at 41.63% versus the benchmark at 27.19%.

Trustee Barnett commented that Oppenheimer's trading paid off. Mr. Gray agreed noting Oppenheimer's performance for the year was 8.13% versus the benchmark at 5.93%.

Peritus Asset Management posted one-year returns of 77.34% versus 57.51% and for the quarter 7.57% versus 6.04%.

He explained that private equity buys into companies that are not publicly traded.

Mr. Gray explained the return versus risk graph as a measurement of the annualized rate of return versus the historical standard deviation of return. It depicted that the Total Plan is taking significantly less risk than the policy index but making money.

Economic Overview/Markets Roundtable

Chairman Harrison welcomed the managers and began the introductions.

Mr. Gray explained the meeting format. The roundtable discussion will last for one hour and will encompass the managers' viewpoint of the macro economic environment.

Trustee Barnett began by asking the managers what type of performance returns they are expecting in 2010 both overall and sector performance.

Tom Mudie from Oppenheimer Capital said that the market has come a long way from the bottom. Valuations are back to average levels and earnings have to remain positive in order to sustain it. He does not expect big gains in the coming year. There will be a big bounce back with interest rate gains. He is looking at modest performance gains of around 10%.

Donald Corbin from Kennedy Capital said that they are looking at marginal positive gains. The Russell 2000 will have double digit gains. If you look at the balance sheets of large cap companies 25% have a lot of cash on hand. Mergers and Acquisitions and small companies will benefit from that. He feels consumers will continue to see tough times in 2010.

Ron Mushock from Systematic said that one year ago there was no stabilization in the market. The market bottomed on March 9, 2009. Small cap rose 70% off the bottom. Valuations are still a bit high. The S&P estimated multiples of 15x earnings at that time. Earnings improved but fell flat during the third quarter. The fourth quarter saw substantial earnings perspectives but with lower price to earning ratios at about 10%. The sovereign credit crisis could cause a double digit recession.

Mr. Gray asked if recent buyouts will benefit Loomis Sayles. Joe Gatz from Loomis Sayles said they just had a buyout of an insurance company last week at a 35% premium to the trading price. They had four buyouts in 2009 which was fairly quiet and all were in technology companies. They look forward to strategic buyers.

The market is baking in higher earnings growth. When the Fed withdraws the stimulus money look for higher interest rates. This will put pressure on companies and they will lose in value what they made in earnings. They are looking for modest economic growth in industrial and financials will improve. They are cautious on consumer discretionary and are looking at more industrials.

Marty LaPrade from Sawgrass Asset Management said that they are forecasting 8% to 10% growth. The surprise would be if there was another run up in the market. They are not expecting returns of 15% to 20%. They feel there is more volatility to come with a lot of big ups and downs. Their sector weighting is tilted toward technology because of the cash in their balance sheets. Companies like Apple, etc. are sitting on a lot of cash and are buying back their own stock. Healthcare has been an overlooked, under loved sector. This is an intriguing sector despite the political side which makes investors nervous.

Mr. Gray asked the managers about the technology sector with regard to their performance returns of 62% and the amount of cash in the balance sheets.

Mr. LaPrade said that the technology valuations are decent. There are more earnings potential and price appreciation in technology.

Chairman Harrison asked what the managers' long-term macro outlook is. Historically from 2000 through 2010 the market is back where it started. Bull and bear runs are normally fifteen to twenty year cycles. If history is repeating itself have we gone through a full cycle of the bear market overall.

Mr. Gatz said that many analysts believe that the recent bear market is 10% into the cycle. He feels it is more like 5% into the cycle.

Mr. Mushock said that he disagrees with the S&P. Mid-cap performance has been up for the past thirty years which is a significant performance record. It goes back to the managers adding performance versus a passive benchmark. The broader markets have done very little. Mid cap has a structural advantage because there are more mid cap companies to invest in and they have more ability to exploit inefficiencies. Currently, mid cap value is trading at a 15% earnings growth.

Mr. Corbin said the S&P has had the worst performance. The largest companies have been the worst performers paying twice the market multiple. The S&P and the Dow Jones have done worse than the overall market. There are a lot of problems in large cap that are masked by the market. Large cap is at a disadvantage because of what is in the index, the number of analysts and the overall coverage. There has been a lot of volatility in the market and unemployment is still high.

He said that the value guys always look at the glass half empty. There are always concerns. General Electric trades at one quarter of a point each day. There is no indication based on performance if the market has been in a bear market cycle for ten years. It is rough for certain managers in the S&P environment. He indicated that three million foreclosures are expected this year. Automobile sales are getting better. The market has a good mechanism and if there is money to invest. He feels the market will perform well for the next six or eight years.

Trustee Barnett asked about the affect of the debt crisis in Europe on the United States.

Mr. Mushock said that it depends on how far it spreads. Greece is currently in a huge debt crisis and there are other countries like Spain, Ireland and the United Kingdom in a similar situation. Fixed income managers are not willing to buy that paper. Long-term rising of interest rates is a concern and will curb growth. Germany is planning to bailout Greece but is trying to convince the Greek government to cut spending and raise taxes. You cannot dismiss the possibility that some of these governments could go bankrupt even though the global economy is better now. The United States current debt is in the high single digits.

Chairman Harrison asked why with so many negatives in the economy including the housing crisis, unemployment and the uncertainty of the healthcare bill did the market perform so well.

Mr. Gatz said that the market had declined so far that the recovery was based on the downturn, the stimulus money, corporate earnings and the incredible ability by investors to curb volatility. These same variables should stoke the economy.

Chairman Harrison asked what caused investors to take the cash out of their balance sheets and put it back into securities.

Mr. Corbin said that with money market yields at .02%, companies trading well below their book values and a lot of cash on company balance sheets brought investors back into the market. This caused the marginal rally in the market in March, 2009.

Mr. Mudie attributed this to Citigroup announcing that the banking system and Citigroup would not collapse. Investors came back when they audited risk and realized that businesses had strong balance sheets along with the stability of the banking system. This shifted the psychological affect 180 degrees.

Trustee Sauceda asked if the new credit card regulations will have an impact.

Mr. LaPrade said this is the beginning of changes in the banking system. There has been a lot of public backlash which is an indication of how severe things have gotten. This is just the beginning of banking reform and you will see some dramatic changes.

Jim Wallerius from Systematic said that it took the banking system twenty years to screw things up and now they are trying to apply corrections.

Mr. Mushock said that regulations new keep up. Companies like Capital One, Discover and American Express raised fees with no disclosure. This will add some transparency. These companies closed millions of accounts to reduce losses on their balance sheets. There has been a lot of negative impact with less credit available.

Ms. Zimmermann said that the companies will find a way around the regulations. Mr. Mushock said that he read an article that said credit card fees will come back.

Trustee Waterman said she heard that cardholders will be charged a fee for not using their cards.

Mr. Gray asked what the managers' expectations are with regard to the market, growth, sector weightings and how this will affect the positioning of their portfolios. He asked them to describe four takeouts from last year's performance.

Mr. LaPrade said that they were underweight to energy and materials. Small and mid cap have done well. Perhaps it is large cap's time. Large cap growth led the charge and there are a lot of good opportunities. They have low expectations based on last year's growth. They are cautiously optimistic that this is a

Mr. Corbin said that they are looking for sectors that do well in the global economy. With the U.S. deficits and debt taxes will increase. The domestic economy will see some tough times. Consumer discretionary and financial sectors cannot take advantage of global strengths. They are looking at sectors that can take advantage of the recovery like energy, industrials and materials and those with export potential.

Mr. Mudie said that they are sector neutral. They do not look at sectors. They pick individual stocks with a growth bias.

Mr. Wallerius asked the consultant's view on positioning domestic equity between managers and their rebalancing trends.

Mr. Gray said that it depends on the client. Public plans are guided by and have to stay within the guidelines of Public Act 314. Taft Hartley plans tend to be more aggressive. In the broader sense it depends on the client with a lot looking to allocate their large cap allocation to index funds. Public funds look at numbers each quarter for transparency which reported severe underperformance because the manager did not buy garbage in the portfolio.

Mr. Mushock said that it is not as much about sectors as it is about the character of the stocks. There are a lot of low quality stocks with a lot of debt that were involved in the rally that were able to hide their volatility. Beginning in the second quarter of 2009 junk rallied. The market saw companies with big earnings losses doing better than companies with big increases in earnings. The swing is back to a quality market.

Mr. Gray explained that the average public plan is 58% funded. Many are looking for Hail Mary's and reaching for performance. A lot of public funds and Taft Hartley Plans hear about investments at conferences and show up late. Some Boards are head strong and insist on chasing ideas on the fringe.

Meeting Break at 10:43 a.m.
Meeting Resumed at 11:01 a.m.

Manager Presentations

Loomis Sayles (Small Cap Value)
Mr. Cooke said that 2009 was a great year for Loomis Sayles. He stated that they are compliant with the investment guidelines of the Fund.

Mr. Gatz said that the market had its ups and downs in 2009. After declining by over 30% through March 9, 2009, small cap stocks rallied over 80% off the market bottom through the end of the year. They finished the year with 27.2% returns slightly ahead of the S&P. Small cap growth did better than small cap value due to the poor performance of financial services stocks.

In 2009 the System's portfolio advanced by over 29.4% which far exceeded the Russell 2000 benchmark at 26%. Their cautious stance toward credit sensitive financials and their higher quality orientation were two key factors that accounted for their solid performance. Another factor was that low quality stocks were the best performers during the 80% rally. Their portfolio did a good job of keeping up without having low quality issues. They learned a lot from the last low quality rally.

There have been no changes in their team or their portfolio strategy. Their bottom-up research drives their process. They look for inefficiently priced stocks that are misunderstood, undiscovered and special situations.

Their performance numbers are ahead of the value benchmark and represent a consistent application of their method and process. They have consistently outperformed the benchmark since inception.

He referred to their annual returns since inception in 1994.

They entered the year with a 10.3% sector weighting in financial services versus the benchmark at 17.9%. They only go over or under weight based on an individual company. Small cap bank stocks were down 14.9% versus the Russell 2000 Value at 20.6%. In April and May, 2009 there were incredible values in financials like Fifth Third Bank at 40.8% and First Horizon National Corporation at 36.3%. Their emphasis was on non-credit sensitive transaction processors.

Their portfolio additions were on the low end of the market cap range yet they maintained a high quality focus. They stay in the hunt in all market environments. They added Team, Inc. and Ferro just before the $500 million small market cap.

He reviewed the best and worst performers for 2009. He indicated that the winners exceeded the losers.

In 2009 they were overweight in technology because those companies had little leverage and a lot of cash on their balance sheets. In 2010 technology companies are downsizing their balance sheets so they will be trimming back their weighting. They will continue to be cautious in financial services and utilities. They believe there are opportunities in emerging small cap industrials. Their portfolio is fully invested with a quality theme.

He reviewed the System's portfolio's sector distribution. Their biggest underweight versus the benchmark was financial services. They are still cautious in this sector but are still adding a few small, strong regional banks. The FDIC continues to close underperforming banks on Friday afternoons. Then they sell these assets to other banks. They were overweight in producer durables versus the benchmark. They added utilities because they are like dividend driven stocks and rising interest rates could increase dividend yields.

He discussed the characteristics of the portfolio with relation to discount values and dividend yields.

He reviewed the risk return profile or the portfolio. The three, five and ten-year standard deviation is a new quadrant for them.

He explained the yield spread by credit quality depicting the difference between treasuries and junk bonds. The credit spread in March, 2009 was the widest since 1987. The same thing occurred in 2003.

He described some of the holdings in the portfolio. Darling is a green tech company that is under followed. They clean up animal renderings at butcher shops and recycle them. They are also creating a number of environmentally friendly products. They are making their way through the process for bio fuels.

Sally Beauty is a niche spin off of Alberto Culver that does well and is it not a deeply economic retailer.

Chairman Harrison asked how long Darling has been in the portfolio. Mr. Gatz said they have been in the portfolio for nine to twelve months.

Kennedy Capital Management (Small Cap Core)
Mr. Corbin referred to the compliance certificate included with their report. They are in full compliance with the Investment Policy Statement guidelines of the Fund.

Kennedy Capital is a small cap core manager that invests in companies from $10 million to $4.8 billion, centering on value and largely U.S. companies. They have been making the same presentation for the past ten years.

They have consistently delivered out performance. Their ten-year performance gross of fees is 11.6% versus the benchmark at 3.5% with one-year performance of 41.6% versus 27.2%. This is proof that their process works.

They were underweight to financials 14% versus 20%. Their allocation added less than 1%. They are fundamental stock pickers focused on undervalued and under followed stocks. Exports led the recovery which was expected. They were looking for stocks that fit their process with an underweight to industrials at that time.

The market experienced a low quality rally in 2009. A local company VCI did well because of their fundamentals. They restore radiant and restaurant systems to make them more productive. The stock price was low and they are a high cash flow company.

He reviewed the cash flow return on investments which measures the cash earnings on each dollar invested. Their trailing three-year median CFROI is 10.8% versus the Russell 2000 at 8.9% and the current fiscal year is 12.8% versus 8.2%. Based on the price of stocks in the portfolio they assume prices will fall 400% over the next few years.

The portfolio is well positioned. For the period ending December 31, 2009 the forecasted price to earnings was 13.4X versus the benchmark at 18.5X and the price to book ratio was 1.9X compared to the benchmark at 2.2X.

He reviewed the portfolio's sector weighting as of December 31, 2009. They have sixteen analysts with two dedicated to banks. There have been a lot of bank takeovers by the FDIC. They guarantee the first 80% losses on banks that fail. They feel that financials are played out and are underweight compared to the benchmark. The market has overreacted to healthcare. They are overweight to this sector 16.4% versus the benchmark at 14.3%. There are a lot of good opportunities in this sector. They are underweight to consumer discretionary at 9.8% versus 13.7% because it is hard to find companies that are not export driven. They were overweight to industrials until last quarter.

In 2009 investors saw a dip in the economy coming to an end which was a big driver in the market including low money market yields.

They are not making any major changes to the portfolio and will continue to focus on companies with good cash flows, strong management teams and earnings outlooks.

Systematic (Mid Cap Value)

Mr. Wallerius thanked the Board for their business and stated that this is their fourth anniversary as a Mid Cap Value manager for the System. They are in full compliance with the System's Investment Policy Statement and do not have any affiliation with the Board or staff. They are awaiting resolution on the Sudan-related investments issue. They achieved their stated goal in 2009 regarding brokerage directions.

Their founder and CFO Joe Joshi announced his plans to retire. He has been selling his partnership through ongoing transactions to their parent company Affiliated Management Group. The existing five partners plan to repurchase the equity overtime. They recently added their first woman to the investment team. Their structure will not change during this transition.

Systematic has $8 billion in assets under management with170 clients. They began in 1982 as a registered investment advisor and started their mid cap value strategy in 2000. Currently, there is $1.7 billion in that strategy and they will close the strategy at $3 billion. They have had no client departures.

Mr. Mushock said that their returns were 14% higher in 2009 versus 2000. They outperformed the benchmark 230 basis points during the fourth quarter of 2009 7.5% versus 5.2%. They added 190 basis points year-to-date at 35.2% versus 34.2%. Their three-year trailing returns are strong representing a strong down capture performance. It is important that returns are not symmetrical. He discussed how managers who only perform in an up market need to provide 150% performance in order to make money back in a down market. It is more important to focus on managers who lose less on the downside. Since inception their performance has been strong at 1.8% versus the Russell Midcap Value at -2.4% and the Russell Midcap at -1.7%.

He discussed the valuation spreads in the market environment. He referred to the earnings revisions graph displaying the best versus worst quintile monthly relative returns from 1989 through January, 2010. Over this twenty year period the key attribute of value investors are companies with rising earning dynamics expectations shown above the line. From this graph you can see that the companies with the worst earnings dynamics had the best returns. This was a significant relative to other market cycles.

They invest in professional companies with high cash flows, which are self funding and sustainable earnings. Those companies had spectacular performance during the third and fourth quarters in 2009.

It is not valuations that drive stocks prices. The estimate revisions will turn normal. In 2007 they were 15% ahead of the benchmark with prices mirroring earnings not valuations.

The graph representing valuation spreads from 1952 through January 2010 represents a relative cheapness of companies. In the past three quarters companies were trading at similar valuations. Valuation opportunities are being exploited. They invest in companies delivering the best earning dynamics.

They have a broadly diversified portfolio. Their portfolio characteristics are the same as they were ten years ago. Since inception their gross annualized returns are 12.4% versus the benchmark at 7.7%. . Their weighting is not much different from the index but they buy company attributes.

Mr. Wallerius said that from a risk perspective they have achieved higher returns than the index with less risk. Their downside capture since inception in April 2000 is 82% which preserves your capital. You need balance in the portfolio. Their upside capture is 107% since inception.

Mr. Mushock said that they build their portfolio differently. On a rolling basis they have consistently achieved their performance goals in the 5% to 15% range versus the index.

Trustee Barnett asked if they can explain their weighting to financials with most managers shying away. Mr. Mushock said that their weighting is under the benchmark at 26% versus 28%. However, their returns are up 24.3% versus 14.9%. The financials they had in the

portfolio were better than those in the financial index. They chose financial sub sectors like insurance and savings and loans and those whose business is plain vanilla insurance underwriting. Banks are starting to stabilize their balance sheets. They will have to release reserves because earnings will be better than expected. The information available in financials is improving especially in loan losses reporting. There is also a great selection of stocks in REITs.

Ms. Zimmermann asked about their weighting to materials. He said that they look for companies that are levered to China like iron ore and steel manufacturing. Their performance to energy was up 300 basis points. Their timing was good. They did not do a good job in consumer discretionary at 47.4% versus the index at 71.3%.

Munder Capital (Mid Cap Core Growth)

Mr. Mudie said that they are in compliance with the Investment Policy Statement and direct brokerage policy. There was recently a management change with Tony Dong being promoted to CIO of the firm. He will not receive any additionally compensation in this position. Traditionally, the CIO position does not get involved with the portfolio management. However, Tony Dong is committed and will remain focused on the Mid Cap portfolio and he is also the largest investor in the fund. Jeff Wilson the co-CIO will be performing most of the duties related to the CIO position with Tony providing oversight.

He reviewed the returns of each economic sector in the index during the last four quarters. He said that this chart illustrates the difficulty in forecasting sector performance which is why they rely on stock selection. Their sector weighting is plus or minus 3% compared to the benchmark.

Their performance lagged the benchmark 34.2% versus 46.29% due to the low quality rally. Growth was out of favor during that period. He never thought he would apologize for 34% performance returns.

He described the portfolio performance summary based on the Lehman Brothers collapse from September 15, 2008 through March 9, 2009 at -42.99% versus the benchmark at -45.75%; the market rally from March 9, 2009 through December 31, 2009 at 69.48% versus 82.04% and the market correction and rally from September 15, 2008 through December 31, 2009 at -3.37% versus -1.25%. Since September, 2009 they are ahead of the market 2%.

He explained that their risk constraints kept them from overweighting certain sectors. They added performance on a conservative sector basis. They were underweight to financials 2.7%. They also under performed in materials, consumer discretionary and healthcare. Some of the best performance in healthcare was hospitals. However, the government does not pay as well and the single payer system could impact this sector.

He described some of their best and worst performance contributors. One of their best performers, Cree, Inc. manufacturers LED lighting products. They were awarded a $5 billion contract to retrofit lighting in Federal buildings.

He indicated that the earnings growth and financial productivity of the portfolio is ahead of the benchmark. On a valuation and stability basis it is in line with the market.

He reviewed the sector weighting and specified that the market capitalization of the portfolio is slightly larger than the benchmark.

The top ten equity holdings in the portfolio are very diversified with only four stocks with a 2% or greater weighting.

He referred to the list of stocks with a description by sector in the portfolio.

Sawgrass Asset Management (Large Cap Growth)
Mr. LaPrade stated that they are in compliance with the Investment Policy Statement and direct brokerage policy. There have not been any organizational changes to date.

He indicated that the good news is the portfolio is up 28.4% year-to-date and the bad news is that the portfolio is up 28.4% versus the Russell 1000 at 37.2%. This was the worst year they have had in ten years. They were down less in the down market but they had a hard time keeping up and they struggled in the low quality market. They also lagged coming out of the bear market in 2003.

He explained that normally large cap markets are more efficient than the index. In 2008 the market experienced the highest correlation in twenty-five years. At that point there was not a lot of difference between the top and the bottom of the market. Most of the decline happened in the fourth quarter of 2008 and when the market bounced back they were ahead by 200 basis points. Everything correlated in the fourth quarter of 2008. In a normal correlation the stock pickers have better opportunities for out performance.

He reviewed the portfolio's sector breakdown. They were relatively neutral to the benchmark. They look for the best stock within the sector. They were a little underweight in technology and a little overweight in healthcare. Most of their top ten holdings are recognizable names that do business globally. These are multi-national growth companies with a lot of their business overseas. The market rotates to these companies and they feel they are in a good position to regain alpha.

Chairman Harrison confirmed that they did not change their strategy during the rally and they believe that the market will come back to them. Mr. LaPrade said that they were clearly out of favor with last year's market.

Trustee Woods questioned why Exxon Mobile was a bottom ten performer. Mr. LaPrade said that last year when gas prices rose Exxon did not have the leverage of some smaller producers and investors felt that their best days were behind them with regard to profitability even though they have huge earnings.

Meeting Break at 12:25 p.m.
Meeting Resumed at 1:20 p.m.

Economic Overview/Markets Roundtable (Afternoon Session)
Chairman Harrison welcomed the managers. This is the first time for many of these managers. Mr. Gray explained the meeting's format.

Chairman Harrison asked the managers that after looking back on 2009 what factors caused the markets to move in the opposite direction and what impact did unemployment and the housing market play. He also asked what the market will look like in 2010.

Derek Batts from Union Heritage said that back in 2008 there was massive deleveraging among some high beta high volume names. In 2009 the S&P index companies and their earnings did not grow. Lower quality stocks drove the market rally in 2009. High quality did not participate. Right now high quality dominant names are the best in the market globally. Valuations have built up in these names.

Allan Meyers from AMBS said that in 2008 the stock market bottomed out and George Bush did whatever he could to get it under control. He threw money at the problem instead of looking toward fiscal and monetary policies.

Mr. Gray asked if they anticipate a pull back.

Drake Craig from Atlanta life said that there is still a high level of volatility within the markets. In March, 2009 the markets surged off the bottom and many investors got ahead too quickly. There is speculation whether the resurgence was irrational like a dead cat bounce or whether it would be sustained.

The stimulus injected into the economy by the Fed is unprecedented and is a new environment for all the managers. The recovery should not have surprised any of us with low quality companies performing well off the lows. More mature higher quality companies are making progress now.

This year should be a fairly decent year but there will still be some volatility and declines. From a cyclical perspective, stimulus is driving the recovery. The regulatory environment will tighten standards for banks and healthcare. Inflation will pick up and discount rates will increase which will not bode well. The recovery needs to be driven by profits and profits will drive returns. Top line performance will be 4% to 5% with a high level of sustainability.

Chairman Harrison asked if he thinks inflation will be an issue this year. Mr. Craig said that you could see an increase in inflation during the second half of the year. Companies are reducing costs by enhancing technology to reduce labor costs which are relatively low. You will not see inflation based on a labor cost perspective. Commodity prices are up and China is even putting on the brakes. The question is whether the Fed to will get ahead of the economic issues or will they be too slow. It is a timing issue but he does not feel that inflation will be a problem in 2010.

Mr. Gray asked Chuck Schmidt from Seizert Capital was his performance expectations are for 2010.

Mr. Schmidt said that they spend very little time determining how the market will perform overall. In 2009 the housing bubble collapsed and the financial system was near collapse. When the financial system collapse did not occur it caused a bounce back in the market. The robust market at the end of the year was more than anticipated. He thinks that returns on stocks will be a modest 6% to 7% in 2010. The market is living off the back of the stimulus and it will adjust on its own when the stimulus is taken out. Unemployment will be tougher to fix.

Peter Cahill from NorthPointe Capital said that the mid-term elections will have an impact because Washington, D.C. is trying to dictate the lives of investment managers. The House is in play but many do not feel the Senate is. He is not sure what that means for the markets. Jobs and housing are the real issues and the Senate just approved more money for jobs and housing. Corporate earnings are strong. Companies cut too far to drive efficiencies and leverage is built into corporate earnings. He thinks the market will see returns north or 7%. Not sure which way after election. If you go back in time this is the worst financial crisis in 800 years. If the stimulus stays in the economy debt will continue going up.

Chairman Harrison asked what the effect of the mid-term elections will have on market growth.

Mr. Cahill said that it does not depend on who wins or losses. The real question is how the government will get people back to work. Once the system stabilizes it will drive the stock market through fundamentals. Technology went through the same issues ten years ago and now there is no debt on their balance sheets.

Chairman Harrison asked what the consequences could be if there is a new House or Senate and the stimulus is pulled back too quickly.

Mr. Cahill said that speaking to the Holy Grail of Economics companies are getting their balance sheets back in shape and are reluctant to take on new business. The GDP will fall off a cliff without the stimulus. There are a lot of people out there that are underwater on their mortgages, have lost their jobs along with college loan debt. Winston Churchill once said that Americans do the right thing after they have tried everything else.

Janna Sampson from Oakbrook Investments said that volatility will continue and market performance will be choppy and the S&P will be close to flat. Inflation will increase because it is hard to believe that the rates will stay as low as they are. With the current economical indicators it is hard to imagine that the rates will go up too far. Mortgage rates are up somewhat. Interest rates are not as problematic as leverage in the economy. It is difficult for large companies to find access to secure credit and commercial paper.

Mr. Gray asked which sectors the managers will overweight and underweight for the balance of the year.

Mr. Sanyal said that earnings come first, then employment and then preliminary signs of an economic recovery. There is a wall of worry. Employment is structurally weak with companies taking producing factories away from the United States. Emerging economies are providing growth with U.S. growth

Kelly Ko from Lombardia said that they do not make forecasts and rely on stock selection. They utilize a bottom up value strategy. It was a bifurcated market from 2008 moving into 2009 with normalization returning in 2009. Our greatest fears did not come to pass. There was cyclical leverage to the economy and large companies with high leverage did well. In 2010 it will be a stock pickers market. Many companies grew in a sub par market because in 2009 it was cost related not earnings related. There is a lot of abnormal risk in light of interest rates, huge government spending, housing issues and consumer spending issues.

They believe that the best opportunities will be mega capital high quality companies. The most value recently was in diversified healthcare. The least value was in deep consumer cyclicals and retailers that are tied to the economy and HMO's due to regulatory issues. They are looking to stay even on bank credit and keep to high quality.

Union Heritage

Mr. Batts thanked the Board for their business. They are a local Detroit manager that is invested in the community. They partners with other business with a percentage of their revenue going back to the community in the form of a four-year collage scholarship for graduates of the Detroit Public Schools. To date, ten scholarships have been awarded.

He provided a 50,000 foot view. They are a bottom up manager looking for companies selling below expected growth rates. They start with a universe of 6,000 companies that are sifted down to 200 companies that they follow daily. The portfolio contains an average of 30 to 50 stocks dependent on the relative value and growth analysis.

He explained their stock screening criteria. They look at risk, valuation, earnings momentum, growth rate and timeliness. They take a high quality, low valuation, low turnover approach. As Winston Churchill once said, "However, beautiful the strategy you should occasionally look at the results."

He reviewed their performance. The high quality names in their portfolio did not rebound with low quality companies in the market rally trailing the benchmark 500 basis points at 21.16% versus 26.46% in 2009. They put together a risk adjusted portfolio. They outperformed the benchmark on an annualized and growth basis for the two-year period -4.77% versus 10.74%. For the month, they are 10 basis points ahead of the index.

He reviewed the high quality names in the portfolio. There have been studies of the S&P and what drove the performance in 2009 when the price of companies and the price to earnings went down but their earnings increased compared to the S&P. They are a bottom up stock picker relative to the market. Going forward they see good performance in high quality

names. There are significant values in healthcare like Novartis AG who has a broad portfolio of drugs and is the largest generic drug company. They purchased Novartis AG at a 40% discount. They are long-term investors and feel there will be many opportunities in high quality healthcare.

Lombardia Partners

Cindy Lim described the logistics of their company. They currently have $2 billion in assets under management. They recently added four new accounts but lost two accounts. In New York City they manage assets for four out of the five retirement systems.

Trustee Barnett asked about the accounts they lost. Ms. Lim said that one was a legacy cost with $1.2 million that was closed and the other was a $9 million account where the client felt they had too many managers, so being the last in they were the first out.

They manage large cap value, small cap value, mid cap value and all cap value. The all cap strategy is managed by all the teams. They have twenty-one employees with fourteen investment professionals and six client service/administrative professionals. There are four analysts in Chicago with the balance of the employees in Pasadena, California. They recently added four employees. The large cap value team is comprised of nine senior staff members.

They are 97% employee owned by its principals with a 3% outside interest by Asset Management Investment Company. Kelly Ko is the mid cap portfolio manager and will gain equity ownership.

Most of their clients are institutional clients with a few corporate clients that are fund of funds. They were recently hired by the U.S. Treasury to advise twenty-five companies on TARP assets.

She reviewed their organization chart. A few years ago they gained a lot of accounts and added a number of employees versus outsourcing. Their business model changed and they decided to concentrate on their commingled product and outsource the back office functions over a two year period.

These providers oversee many functions including CPA, human resources, accounting and technology. They have written a number of macros for their reporting functions, update the systems and provide disaster recovery support. In 2009 their Compliance Auditor performed mock SEC audits.

Trustee Barnett asked who oversees their data. Ms. Lim said that all data functions are handled offsite and are working well.

Mr. Ko said that they are sector neutral and utilize a bottom up process. They consistently generate alpha through their stock selection. They evaluate stocks looking for those trading below their estimated intrinsic value, have strong balance sheets, a favorable risk/reward

ratio and have catalysts that will unlock this value. They look at the potential downside not just at upside performance.

She reviewed their performance since inception December, 2007. Their one-year performance trailed the benchmark 3% at 16.64% versus 19.69%. Since inception their excess returns are 4.74%.

The market rally in 2009 was due to a run of low quality, highly leveraged companies. They did not participate in this market rally. She explained that the Russell 1000 Value indexes companies by quality and size. In 2009 C-rated companies valued at $600 million or less were up 100% for the year, A-rated companies valued at $5 billion or greater were up 17.6% and B-rated were up 50%. Their whole portfolio has a rating of A- and is consistent with the S&P.

She reviewed their top ten holdings. These companies represent 35% to 40% of the total portfolio.

Chairman Harrison asked where they are overweight and underweight to the index. Mr. Ko stated that they are sector weight neutral to the benchmark relative to the Russell 1000 Value. They are a bit overweight in energy with an international presence. They stay within their position. They are underweight to healthcare and have no exposure to HMO's.

Atlanta Life Investment Advisors

Ms. Stovall said their legacy started as an insurance company Atlanta Life Financial Group a 103 year old financial services firm that started as an insurance company They invested a large portion of the business in the investment firm. They are a separate entity and are not an investment arm of the insurance company. Atlanta Life Investment Advisors was founded and registered with the SEC in 2001. As of December 31, 2009 they had $1.57 billion in assets under management.

They have three portfolio managers who run the day to day operations and all have an equity position in the firm. Kenneth Holley runs the international equity portfolio; Drake Craig runs the large cap growth portfolio and Randell Cain, Jr. runs the large cap value portfolio.

She described the organization's stability and ability to gain assets since inception. In 2009 they added $340 million in assets and with a total of eighty-six accounts.

Their public funds clients account for 73% of the assets under management. Large cap value represents 62% of their market value. They are also a co-manager of a mutual fund out of Chicago.

She reviewed their representative client list including manager of managers programs, direct accounts and sub-advisory accounts.

They have eighteen employees and recently added a client coordinator and a trader. An overview of their bios is included in the back of the presentation book.

Mr. Craig reviewed the list of portfolio managers and analysts. They have been bringing people in with similar philosophies and fundamentals. There are three portfolio managers who all started as analysts. They are bottom up stock pickers. The four analysts are generalists that are assigned by sector. They have been assembling the team over the past three years toward that effort.

Their large cap growth equity investment process utilizes a five part multi-factor quantitative model. The equally-weighted factors include quality, growth, profitability, momentum and valuation.

By equally weighting the multi-factor model a factor like valuation cannot be the determining factor. The quality factor can be different between managers. They look at earnings purity and the percentage of the company's three-year write off. In a recession it was okay to keep some companies in the universe because they were competing against low quality companies.

As part of their validation effort, their stock selection analyzes and ranks companies on four dimensions: strategy; operation; finance and management. Sector allocation accounts for 15% to 20% of performance.

They have been pro cyclical lately with regard to sector allocation increasing their sector weighting in technology and materials.

Their year-to-date performance is behind the benchmark 80 basis points. Since the three quarter of 2009 they have picked up 700 basis points of performance and are ranked in the 1st percentile.

Piedmont Investment Advisors, LLC

Clarissa Parker thanked the Board for their business. She provided a brief overview of the firm. Piedmont was founded in 2000 in Michigan by former Loomis Sayles employees with their own assets. Today they are located in Durham, North Carolina and have $2.9 billion in assets under management with 156 accounts.

They are one of three firms hired by the Treasury Department to provide analysis and valuation of TARP assets from over 200 applicants.

During the last quarter, the Chicago Transit Authority invested in their large cap core strategy. They also received additional funding from two current accounts. They have recently graduated from an emerging manager fund as a New York mainstream manager.

She reviewed a representative list of their clients.

They have thirty employees and recently hired a fixed income portfolio manager, two marketing directors for the southeast region and a product portfolio manager. They manage six products with four equity products and two fixed income products. Large cap core is

their flagship product with $1.7 billion in assets under management, $582 million in the market plus enhanced index and $142 million in small cap.

They upgraded their portfolio accounting systems to a SQL-based multi-user system providing risk characteristics and customized reporting.

They are going through a SAS 70 Type II Compliance Audit of their internal controls for the Treasury Department. The report will be available in April, 2010 and they will forward the results.

She reviewed the performance of the portfolio. They were caught out of position during the second quarter of 2009, 400 basis points out of performance versus the benchmark. They came back during the third quarter and out performed the benchmark during the fourth quarter. In 2009 they under performed the benchmark 71 basis points. Since inception they have out performed the benchmark 62 basis points -9.52% versus -10.14%.

Mr. Sanyal said that 2009 was a challenge and as risk managers they focused on downside risk. They strive for consistent returns. Diversification is an important component of their analysis. During the fourth quarter of 2009 they beat the benchmark by applying a supertanker cycle bias.

Their position is in cyclical names with strong balance sheets and cash flow characteristics. Technology was the best performer with Google being their best performer. They were also invested in technology companies involved in online advertising, semiconductor and NVIDIA a producer of graphic chips.

Materials and industrials performed well. Copper was a good performer with help from the Chinese and emerging markets.

Three drivers of growth are business spending, improving consumer durables and sustainability. He described China's economy and how fourteen million cars were sold in there with only ten million cars being sold in the United States. Housing is the wild card but it still has some issues. There are some promising signs.

They position the portfolio to take advantage of cyclical improvement with downside protection. He feels the affect of the Central Bank on interest rates will have an effect in a few years. Information technology, industrials, materials and energy should have a positive affect with telecom and utilities weak. They are skimming down and feel there is still some bearishness in the market. They have done quite well year-to-date by focusing on security selection.

They found themselves flat-footed during the second quarter of 2009. They did not believe in the consumer. They steered the ship nicely in the third and fourth quarter investing in defensive, high quality names.

Chairman Harrison remarked that they rallied from early in 2009 and asked what changes they made to gain their position.

Mr. Sanyal said that their process was to buy positions in cyclical names with information technology having all the required attributes. They did well overall within their sector positions utilizing a defensive strategy with their cyclical positions.

Chairman Harrison asked what kind of growth he sees in the market overall during 2010. Mr. Sanyal said that they are bottom up stock pickers and they put the pieces together by creating earnings in an upside down market. They see an upside in large banks. They are cautiously optimistic that growth will be in the 8% to 9% range at approximately 8.25%.

He discussed how Piedmont intently follows the business cycle to determine where these positions are in the cycle and to better understand the current macro environment. Their research platform includes macro, quantitative, fundamental and strategic analysis and all three teams are involved in the process.

Trustee Barnett questioned why Mr. Sanyal has a degree in mechanical engineering yet he is an investment advisor. Mr. Sanyal said that he became interested in the field and began working in this area four years ago. His degree in mechanical manufacturing helped him hone his skills for this industry.

<u>AMBS Investment Council, LLC</u>
Scott Wagasky told the Board that AMBS is a Grand Rapids based independent boutique investment firm. They were founded in 1982 with their process going back to their inception. They have grown from serving local businesses from foundations to institutional investors. In 2009 they had $500 million in asset under management. They recently received a $25 million mandate from the State of Michigan Retirement System.

They utilize a traditional large cap value equity bottom-up strategy. Their goal is to build a diverse portfolio of thirty to forty stocks that will out perform the Russell 1000 Value Index and the S&P 500 Index over a full market cycle. They are not afraid to deviate from the benchmark. They have a five-member investment committee that is responsible for the portfolio design.

Alan Meyers explained their valuation process. They look for cheap stocks that are trading below their market and historical valuations, whose EPS growth is faster than the market, have strong balance sheets with no debt restructuring and management is aligned with the shareholders. The catalyst is to have a debtor valuation to shareholders within an eighteen to twenty-four month timeframe.

From May 11, 2009 through December 31, 2009 returns trailed the benchmark at the end of the year by a few basis points. For the complete year they exceeded the benchmark in the first quarter by 900 basis points, in the second quarter by 300 basis points with returns of 1.4% versus -0.62% and during the third quarter returns were 13.38% versus 18.24% for the

Russell 1000 Value Index. The market was flat from mid May through the end of June. High quality names in September out performed so far they are continuing to perform.

They maintain a cash position of 1% to 5% and are fully invested.

He described the portfolio's market capitalization. During the past few years, they are finding that the best value stocks are in the largest companies with international exposure. There has been some shift to mid cap.

Fundamentally they are looking for companies with a price to earnings ratio lower than the market. Their earnings per share (EPS) did not do as well as expected at -25% versus the S&P at -15%. They were overweight to consumer stapes and healthcare but saw consistent earnings growth at 7% to 10% with the top cyclical stocks doing well. They were underweight to financials which had the best earnings prior to that their earnings were poor. In 2010 they expected there performance to be up 47%.

He discussed their holdings in General Mills and Coca Cola. They were overweight to technology with a number of stocks like Oracle doing well for them in the space. They were over in consumer discretionary but are now slightly underweight. In the fourth quarter they sold Time Warner and allocated those holdings to Advance Auto Parts. They also bought Aecom Technology an engineering company. They were underweight in financials and increased their allocation slightly by adding a small percentage of Bank of America in August, 2009. With the banks paying back their TARP money and increased regulations they are increasing their exposure to financials.

He reviewed their best and worst performers for 2009.

<u>PNC Institutional Investments</u>
Andrew Shipman told the Board that they recently merged with National City. During the merger they picked up two portfolio managers and three analysts.

They look at three basic elements interest rates, market sentiment and cash flow. There have been some violent swings in the market but long-term the market is efficient. They look at attractive valuations with dynamic characteristics that out perform over the market cycle. Their fundamentals indicate that companies with more than $3 billion in stocks with good valuations traditionally perform at a 25% upside on their intrinsic value.

Beginning in 2009 the high quality large cap portfolio had an overweight to consumers staples, energy and healthcare. They were underweight to materials, industrials and financials. The strategy worked through June, 2009 and they did not see the turn in the market. They traditionally have low turnover and did not make the shift in time. In July they under performed the benchmark 3 to 4 basis points. They have added larger and more quality positions of $65 billion to $70 billion to the portfolio with many being closer to $92 billion. This strategy worked in September and October 2009 ranking them in the top 200 versus the Russell 1000. There are more opportunities and they have moved up the portfolio with more high quality.

The macro and political pressures have driven the market and are causing significant cracks in companies. They have stuck to their discipline and if this outlook continues it will be harder to justify chasing the market and putting some positions into the portfolio.

Chairman Harrison asked what the performance difference is since the portfolio was fully invested. Mr. Shipman said that the difference is 30 basis points.

Chairman Harrison asked what the mainstay of their stability is. Mr. Shipman said that their mainstay was moving toward larger names. They found unique plays in companies like McDermott International, an engineering company moving into the nuclear power arena. They feel there is long-term benefit in that business. They are looking for companies that are creating the right valuation opportunities.

NorthPointe Capital
Sarah Schattner told the Board that their company is located in Troy, Michigan and that they were hired in May 2009. They recently celebrated their tenth birthday since they were founded. They have twenty-four employees in the company pointing out that Pete Cahill is one of the partners of the firm. They are 100% employee owned with eleven owners. They manage a micro to large cap and a value to core growth portfolio and have beat the benchmark 75% of the time across all styles.

Mr. Cahill said that their large cap value strategy is the essence of who they are. They believe that they can deliver consistent returns by a consistent application of their investment discipline. The markets have different preferences and they tilt the portfolio to earnings versus performance versus price to book.

He reviewed their rolling three year returns which provided excess returns versus the Russell 1000 Value Index. These results show that they can deliver returns across a lot of different timeframes. They manage the portfolio not timing by looking for the best stocks. Their sector weighting is representative of the benchmark. In the capital markets group Goldman Sachs was up 70% in 2009, REITs and Core Real Estate were undervalued and have become ultra depressed. Industrials out performed in the second half of the year but their out performance on earnings was complimented by their mining business stock selection. They struggled within the consumer discretionary sector and had some real concerns. It did not look good but they were up 24.4% versus the benchmark at 18.81% annualized. Their fourth quarter performance was 5.77% versus the index at 4.22%.

They have an established a consistent pattern of performance that has beat the benchmark every year except in 2007. Even disciplined managers have problems. In 2007 because of leverage based on the sub prime issue they took a hit. The leverage came off. He referenced the distorted market in 2008.

They are sector neutral and win at the edges. They look at positions with seven times the multiple compared to the benchmark. They are not as leveraged as the benchmark. He thanked the Board for their business.

Chairman Harrison asked about their sector composite against the Russell 1000 Value. Mr. Cahill said they are close to the benchmark in sectors and are allocated well below to the benchmark in utilities by design. They stick to what they do well. Financials doubled from March 2009 through the end of the year.

Chairman Harrison asked about their allocation to financials. Mr. Cahill stated that it is easy to hate financials but as a value manager they go against the consensus. Their largest holding is Goldman Sachs. The Volcker rule will prohibit deposit-taking banks from engaging in proprietary trading. Stimulus or not there will probably be a gridlock in the Senate after the Brown win in Massachusetts. Their best stocks are technology, financials and utilities.

Seizert Capital Partners

Chris Heatley said that Seizert is located in Birmingham, Michigan and was founded in 2000 by Gerald Seizert, Chuck Schmidt and Ed Eberle. They have had not had any personnel changes but they did make one strategic hire.

They currently have $1.5 billion in assets under management in large cap value, mid cap core and all cap strategies. Their investors are 80% institutional split evenly between public and Taft Hartley plans and the remaining 20% is with high net worth clients.

Their returns were 22.71% versus the benchmark at 18.81%.

Chuck Schmidt reviewed a snapshot of the portfolio as of December 31, 2009. Their historical five-year growth rate was 10% versus the index at -8%. Their long-term future growth rate is 7% which is inline with the market. They had a lower price to earnings than the benchmark. They are trading two times the multiple. Their market capitalization is larger than the benchmark at $87 billion versus $76 billion. Their return on capital is below the benchmark at 15.2% versus 20.3%. Their debt to capital was 35% versus the benchmark at 39%.

They are keeping their heads down and looking at individual companies. They have a more concentrated portfolio than most with forty-six stocks in the portfolio and are looking at companies that pay large dividends like Proctor & Gamble and Kraft. Value managers get good growth rates by looking at companies with pristine balance sheets like Harris, IBM and Microsoft.

They were underweight to utilities and companies constrained by regulations like financials.

They look for large, high quality companies with the best cash flow paying good dividends. They were overweight to healthcare with names like Johnson & Johnson, Pfizer and Eli Lilly.

Chairman Harrison asked if their stock growth is based on dividends versus earnings. Mr. Schmidt said that the average dividend is over 2%. If returns are 6% to 7%, 30% of the returns in the portfolio are in dividends. They also see returns of 80% in utility premium yields.

OakBrook Investments, LLC

Tom Page stated that Janna Sampson is co-CIO and majority owner of OakBrook Investments. He is the Director of Marketing and has been in the business for twenty-eight years. This is their twelfth anniversary. They have three principal owners and are 100% employee owned. They currently have a number of pending prospects and a lot of interest in their firm.

In 2009 they had $1.8 billion in assets under management. They recently received a commitment from overseas for approximately $600 million.

Trustee Barnett asked about their two lost accounts in 2009. Ms. Sampson said that these were small accounts that needed cash flow.

Mr. Page stated that they are certified as a Financial Business Enterprise by the State of Illinois.

Ms. Sampson thanked the Board for trusting them to manage a portion of the assets of the Fund. They do not do fund analysis. They utilize a quantitative enhanced indexing strategy by looking at quantitative investor sentiment. The large cap domestic market is generally efficient in terms of the distribution of market information. However, inefficiencies exist with regard to how investors react and process that information.

They look at the market a different way being economists by trade. They think in terms of the auction market which is not the consensus view of the way the world looks at the market. The buyer is setting the price and the auctions person is paying the most and has the highest expectations for the stock. As the range of opinion broadens the price fluctuates overtime and the research says that the stocks will outperform their peers.

It is equally important to look at style versus sector, size, value versus growth and volatility. It is important to control the volatility in the portfolio as they consider it a style. Most volatile performance is distinctly different than stable stocks. They pick stocks with momentum which will out perform 75% of the time. This method enabled them to out perform during the third month of the calendar quarter when there was a lot less information heating the market. They fall back on what works with new information which equals momentum.

Underperforming is the kiss of death especially when you take information out of the quantitative model. They build the portfolio using a distinctive construction process. They take the top one thousand capitalization stocks in the universe. They group these stocks by style and rank them by range of opinion. They employ their momentum factor, overlay their target benchmark, apply their risk controls and model the portfolio. They feel the risk controls are just as important as the stock selection. They overweight those stocks they feel will be the best performers and underweight those less likely to perform.

She said they are very happy that the System funded this investment in June, 2009. Since inception on June 12, 2009 they have outperformed the benchmark by 139 basis points at 21.55% gross of fees versus 20.16% because they under performed in the first quarter of 2009.

They look at the collective weight of opinion driven stocks. They do not make bets on utility stocks. They do not believe that they can time the market.

Chairman Harrison asked how many financial stocks are in the portfolio versus the sector. Ms. Sampson said they do not have a large representation of financial stocks in the portfolio.

Chairman Harrison also asked how many stocks are in the portfolio. Ms. Sampson said that currently there are 346 stocks in the portfolio with an average holding per stock of nine months.

The managers left at 4:45 p.m.

Meeting Wrap-up

Mr. Gray provided a few closing remarks at the conclusion of the meeting. He said that the System has some of the brightest managers in the Fund. AMBS is a great firm and OakBrook may double in size based on overseas interest.

His firm performed a lot of research early on emerging managers.

He spoke about Piedmont adding $1 billion in investment excluding the Treasury Department Contract and that Atlanta Life is a 103 year old financial services firm.

The meeting concluded at 5:52 p.m.