CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL MEETING
AUGUST 29, 2006

A special meeting of the Board of Trustees was held on Tuesday, August 29, 2006 at the Residence Inn Conference Room at Centerpoint Parkway, Pontiac, Michigan. The meeting was called to order at 9:30 a.m.

TRUSTEES PRESENT
Shirley Barnett
Koné Bowman
Raymond Cochran, Secretary
Charlie Harrison, Chairman
Javier Sauceda, Vice Chair
Andrea Wright

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

OTHERS PRESENT
Larry Gray, Gray & Company
Bob Hubbard, Gray & Company
Geoff Mullen, Oppenheimer Capital
Ben Gustein, Oppenheimer Capital
Joe Gatz, Loomis Sayles
Pam Hopkins, Munder Capital
Paul LaCorsiere, Munder Capital
Tom Mudie, Munder Capital
Robert Kay, World Asset Management
Kevin Yousif, World Asset Management
Randy Kirkland, Kennedy Capital Management
Matthew Jermak, Kennedy Capital Management
Luke Farell, Capital Guardian
Regina Burden, Capital Guardian
James Wallerius, Systematic Financial Management
Tim Ewing, Mesirow
Tracy Shinkle, Mesirow
Douglas Doucette, Julius Baer
Andrew Barker, Julius Baer
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSULTANT

Mr. Gray introduced Bob Hubbard to the Board. Mr. Hubbard said he was excited to be working with the Board and for Gray and Company. He told the Board that he was formally the Plan Administrator for Washtenaw County from January, 2000 until August, 2006 and has been working with Gray and Company for approximately three weeks.

Overview

Mr. Gray noted that this was the first year using the roundtable format for the economic overview. The roundtable will be followed by brief manager performance presentations. It was felt that this format would promote a more engaged process resulting in presentations that were both interesting and more truthful from the managers.

Mr. Gray began with a review of the capital markets. He said that he felt this would get the trustees into the mindset that would assist them with asking questions during the discussions.

He said that the Fed has done a great job of stemming inflation at a rate of 3.8% per year. However, GDP has slowed from 5.6% in the first quarter to 2.8% in the second quarter with consumer spending responsible for two-thirds of the GDP. Consumers have been using their homes as piggybanks refinancing their homes on an average of four times to pay off debt. However, within six months credit card balances are back up and they face record levels of debt. It now looks like consumer spending is decreasing. The question is whether corporate spending will make up the difference with capital spending.

The S&P 500 had sixteen consecutive quarters of double-digit growth which was the longest in history. The index is now at 9.1%. The corporate growth rate is up. The yield curve remains flat with two-year treasury returning 5.15% and the ten-year treasury returning 5.14%.

Mr. Gray discussed the sectors. Energy was up 24.6% for the quarter. With the exception of healthcare, everything is up. Technology was down for the last three months. Growth companies need access to debt. As interest rates increased these were sold off. Emerging companies also were hurt by the interest rate increases as they use borrowing. Lots of these were sold off this quarter as well.

Fixed income was not pretty with long-term yields going up while long-term bond prices went down. Mr. Gray discussed adjustable mortgages and how many are now due for refinancing at a higher interest rate. He told the trustees that this is an opportunity to ask the managers how they feel about the outlook. He said that their outlook could be telling.

Mr. Gray reviewed the international equity market. China's growth was 11.3% for the second quarter alone. He said that they continue to understate their growth rate (which has been in the low teens for the year) to the world economy to avoid a possible trade war. Their trade surplus is now at $38 billion up from $23 billion for the previous year. He said that there has been speculation as to what China will do with the cash now that rules on what can be bought outside of the borders have been relaxed. He said that because China can pay a higher share price, privately held companies are a target. Chairman Harrison asked if they are looking to buy up U.S. companies. Mr. Gray replied that they are and that their long-term plan is to buy a lot of things in the U.S. There is a rumor that China is targeting the defense and aerospace industries and looking to buy companies or divisions in those areas.

Trustee Cochran left at 9:47 a.m.

Japan's economy is starting to recover. Interest rates are at 0.25% up from 0%. Prime Minister Koizumi has guided Japan through this very rough period. He does not follow many of the old Japanese traditions; bail-outs were a cultural phenomenon. They are no longer bailing out failures. Japan is beginning to look more attractive to investors than it has in recent years.

Europe is a mature market and reported steady returns. Current growth is at 2.3%. Emerging markets were hit hard with some down as much as 20% but the quarter ended only down 2.7%. As interest rates increase it is difficult for small companies and companies in emerging countries to raise capital.

Mr. Gray said that he would like to see the managers report year-to-date performance through July as well as the quarter end. He said that he did not have the audited numbers for July. Munder Capital has had a significant management change.

He advised the Board that newly appointed Systematic the mid-cap value manager and Munder the mid-cap growth manager have not been on board long enough and it's too early to judge their performance. He said that it has been a tough quarter and a rough and tumble year. The total plan is down 1.6% for the quarter but performance is up 2.3% year-to-date.

He stated that the money from GE Asset Management is ready to be transitioned to the index fund.

Kennedy Capital beat the benchmark for the quarter by eighty basis points and that their one-year performance was up 2.1%.

Loomis is not very exciting, but they are doing what they said they would do by continuing to return steady performance numbers. They are a good solid manager that will protect when the market is down, but they won't hit the home run. They have had a great run. They are consistently beating the benchmark for the quarter at -4.2%, year-to-date at 8.4%, one-year at 14.6% and three-year at 18.7%.

Julius Baer had good early numbers despite being down for the quarter. They were hurt by emerging markets. There was a flight to larger economies like the U.K. They have been a good solid manager since coming on board in March, 2004.

Chairman Harrison asked about Julius Baer's rationale for the quarter inquiring if a trend was developing. Did they correctly research the emerging markets? He is concerned about their flight toward quality and larger economies and their underweight in the U.K.

versus emerging markets. Mr. Gray replied that they had one bad quarter but that they have been a steady performer for the system.

Fixed income managers have done well to protect principle and soften volatility from the rest of the market. There is currently $132 million invested in fixed income and it has done what it is supposed to do by providing benefit and other payments.

Seix Advisors showed weak performance against the benchmark. It is difficult to correlate them with the benchmark since they are not a true high yield manager.

Capital Guardian's numbers and performance were weak for the quarter, year-to-date and one-year periods.

ChrisKen is in the wind down phase. Distribution payments were adjusted into the total plan so the numbers would not be skewed.

He said that he had talked with Stuart Tompkins and that the CAPROC update will be done by Sullivan Ward at the regular business meeting.

Peritus has asked to be allowed to handle their own transition and not use a transition manager. They would like to liquidate out of Seix Advisors and buy up on their own timeframe.

Mr. Gray asked if there were any questions. Trustee Wright asked how the roundtable would work. He replied that he will act as a moderator. He encouraged the trustees to be involved and ask questions. He added that Bill McDaniel from Oppenheimer Capital will be retiring at the end of the year.

Meeting break at 10:07 a.m.

Meeting resumed at 10:15 a.m.

<u>Economic Roundtable</u>

Chairman Harrison welcomed the managers to the annual review session and said that everyone feels the new format will be more appealing and informative.

Mr. Gray welcomed the managers and introduced his new associate Bob Hubbard who recently left Washtenaw County where he was the Plan Administrator. He told the managers that they changed the format of the meeting to encourage a broad review with open opinions and feedback. He said that the managers will be allowed fifteen minutes to go over their performance reviews in the afternoon. He asked that the managers stay for all the manager presentations throughout the afternoon. Introductions were conducted around the table.

Mr. Gray asked how nominal GDP growth at 6.7% is affecting the economy. Luke Farrell from Capital Guardian said that the thesis is that growth should slow as interest rates increase. Currently, consumers are healthy, corporate balance sheets are strong. Deflation fears are gone. Inflation pressures are relatively modest and will remain so globally. Growth has been strong with energy prices high. So why isn't inflation higher? They believe that world globalization is the reason. China and India are producing more goods and using cheap human capital and importing goods that keep our costs competitively down. China is currently supplying manufactured goods while India is supplying services.

Mr. Gray asked how China's trade surplus at $38 billion and their ability to invest outside of China will affect the U.S.

Mr. Gatz from Loomis Sayles said that demand in China will be okay but China will remain a net exporter. The economies in China, Russia and Brazil will lift up economies elsewhere.

Mr. Gray said that consumer spending has dropped. It represents two-thirds of the GDP. He asked whether companies can pick up the difference.

Mr. Gatz replied that corporate balance sheets are strong as are profits and cash flow. There will be an impact. They are seeing a slow-down in orders for domestic companies but not a recession in the U.S.; primarily in consumers and secondarily in companies. There will be a move from late-cycle to early-cycle companies in the next eighteen months.

Mr. Kirkland of Kennedy Capital said that small cap macro had a reasonably strong earnings season although there are mixed signals on the economy. We would normally be entering a boom period for trucking with back logs however, trucking looks even. There are signs of demand weakness. Cash flow and return on investment is robust in the firms they watch illustrated by capital expenditures and stock buy-backs. He is concerned about consumer weakness, the housing market and consumer debt.

Mr. Ewing from Mesirow agreed with Mr. Kirkland's opinion and is surprised by the strength of the economy. He foresees problems in the housing market and consumer debt.

Mr. Yousif from World Asset Management commented on the boom in the Far East and China. He said that yuan has been held artificially low: it is pegged to the U.S. dollar. There has been pressure from the U.S. Government for them to free float the yuan. This will increase exports from the U.S. which will impact large cap and bring down the capital expenditure deficit.

Mr. LaCorsiere from Munder said that from the fixed income perspective he does not feel the Fed overshot; they are on the high side of neutral. He also didn't think they would continue to raise rates. The GDP is to be revised up to 3%. Larry Gray asked him about the recession and if the Fed had considered the usual twelve to eighteen month lag. Mr.

LaCoursiere thought the Fed is familiar with the lag and will stay where they are for now. He also said that the market expects to see interest rates go back down in the 4% range.

Mr. Gray asked the managers about oil futures holding steady and how that could affect bond prices.

Mr. Gustein from Oppenheimer Capital said that he feels the hype about ethanol is just hype. He felt there are a lot of supply issues. The price of oil went down after the terror scare two weeks ago. The price of oil will range from $65 to $85 per barrel and will not be looked at as inflationary. Consumers will adapt to oil prices.

Trustee Barnett asked about the inflated oil prices and how companies can get away with raising prices while making record profits. Geoff Mullen from Oppenheimer Capital said that the world market sets the price of oil. The profit margin is not as high as perceived. As the price of oil has increased the market cap expands. Over the long term, companies are making an average profit of 10% to 11% which is reasonable.

Chairman Harrison said consumer refinancing has been high in recent years; consumers have spent the money they have taken out. He asked the managers to elaborate on corporate side of GDP.

Mr. Gatz said that a little of the impact has been seen. Casual dining and same store retail sales are down. The number of mortgage refinances was massive. Home inventories are up, prices and building are down. That translates to a slowing of the GDP to 2.5% versus 3.0% or higher.

Mr. Farrell discussed that consumer spending has been responsible for the stability and support of the GDP even with high energy prices. Corporations will have to spread capital by increasing capital projects which will decrease or compress cost. With energy, materials and labor costs higher the market will be pressured to expand market share in those areas.

Mr. Ewing said that housing is coming to a peak in expenditures.

Chairman Harrison asked how consumers investing and moving toward blue chip stocks would affect small cap value. Does that change the scope or method of investing?

Mr. Kirkland from Kennedy said that investing in ETFs has created a turmoil in the market. He said that ETFs have become a surrogate for small cap stocks by creating ishares. The rebalancing of the Russell Index causes enormous flows. Companies moving into the Russell 2000 underperformed. This is opposite of what was expected. The noise in the technology sector also created issues for small cap.

Mr. Wallerius from Systematic said that the Russell 2000 is rebalanced annually. ETF's and hedge funds have changed things. You expect those joining the index to rise and those leaving to decrease: hedge funds have disrupted that. Small cap lost 70 basis points due to the over-arbitrage in hedge funds. The number of companies leaving the index has risen 6% over the past ten months. More turbulence is created when money is going in then when it is coming out.

Mr. Gatz said that the market did not see the snap-back after the rebalance. The noise in small cap is what they live on to add value. The more difficult question is what the asset category will do. There will be a transition from small cap to large cap. Large cap is close to peak historical margins. A shift may occur in the market cycle at some economical inflection point.

Mr. Yousif said there has been a bull market outside of Michigan, despite what the Detroit press reports, for the past three years. Small cap and mid cap have had great double digit growth and large cap looked good as well. The market may be at the peak of the bubble. He added that compression in the P/E ratios looks good going forward.

Larry Gray asked the managers to give their economic forecast pertaining to small cap, large cap and interest rates.

Mr. Farrell said that the Federal Reserve is probably done raising rates for the next six to twelve months with interest rates restricted to 4.25% to 5%. The GDP economic growth will be approximately 2.5%. He is concerned that the value of the dollar against other currencies could continue to slide. The current account deficit is 6% to 7% of the GDP assuming no escalation in political risk. Housing and refinances will affect consumer spending with $450 billion in three-year ARM's that will be refinanced at a higher interest rate. If housing prices continue to fall, many consumers may not be able to refinance. The high energy prices will continue to slow the economy.

Mr. Gustein from Oppenheimer said that he thinks the Feds have gone too far on interest rates and will have to lower them. He feels the short rates will decline. There is a lot of money out there that needs to be put to work. Foreign investors are still buying bonds. They will go into higher quality corporate bonds with an overweight in AA and AAA. He opined that increases filter through faster than they used to.

Mr. Gatz said that long-term equities are opportunistic. The next six to nine months will be uncertain until we see the extent of the slow down. They will look at absolute versus relative performance for a while. The current small cap strategy is to focus on a quality theme. Those with high quality now seem undervalued. They expect modest performance in the near term.

Mr. Mudie from Munder Capital said large cap stocks have been going up for the past three to four years. Earnings have been going up faster then prices with the P/E ratios going down. The same can be said for mid cap. The stock market has been bullish despite concerns.

Mr. Ewing from Mesirow said that they feel the Fed has overshot and the market will be in a bind. Risk management will be increasingly important. Hedge funds and ETF's changed the risk model. Deep cyclicals look expensive.

Mr. Kirkland from Kennedy Capital said you need to manage risk by diversifying. You can't have a highly concentrated small cap portfolio or make sector bets. Typically, small cap descends at a higher rate then large cap but that reversed itself this year. You will see some weakness in the market for a while and things will be rocky due to geo-political risk, housing and oil.

Mr. Wallerius from Systematic said interest rate increases from 3.0% to 4.8% is still a relatively low rate for the market cycle. The economy can be viewed as two-part: consumer and corporate. On the consumer side, he is bearish on discretionary spending due to rising energy prices and the housing market. Consumers are not making large appliance purchases and casual dining is down. Staple goods are the strength of consumer discretionary spending. On the other side, there is good capital expenditure, mergers and acquisitions are strong, balance sheets and cash flows are strong. Corporate earnings are slowing from 20% to 10% but they are not negative just less positive. Companies are still making profits.

Mr. Yousif said that he also has concerns regarding consumer spending due to the falling housing market. Iran and the Middle East are still global concerns that have caused a rise in oil prices. Terrorism is another concern, even though there has not been an attack in the U.S. for five years. A terrorist plot where twelve men were recently arrested in the United Kingdom did not seem to affect the market. That risk seems to be priced into the market.

Mr. LaCorsiere from Munder Capital discussed the spreads in income over treasury securities. He said the difference between short-term and long-term rates has collapsed. People are buying more risky securities to gain yields. Once refinancing begins, there will be a lot of volatility, especially in the mortgage sector.

Meeting Break 11:23 a.m.

Meeting Resumed 11:45 a.m.

Manager Performance

Munder Capital – Fixed Income
Mr. LaCorsiere said that Munder's fixed income philosophy is that they are duration neutral. They do not make interest rate bets versus the benchmark. Purchase decisions are based on maturity structure, security selection and sector selection.

The portfolio has returned negative results for the last twelve months with the benchmark at -0.81% versus Munder at -0.58%. The portfolio added 15 basis points for the second quarter, 16 basis points year-to-date and 23 basis points for the one-year. They added 29 basis points for the three-year period.

He reviewed the portfolio characteristics. He said that the yield curve collapsed and conservative mortgage backed holdings added value in the first quarter.

The strategy of the portfolio will be to reduce BBB rated bonds in favor of higher quality bonds to reduce risk. The maturity structure now has more short-term and long-term issues to reduce risk; in the future they will reduce exposure from the ends to the middle.

He said that Munder Capital is in compliance with the investment policy. He did state that there was an organizational change brought about by a management-led buyout.

Pam Hopkins referred to a letter and press release regarding the buyout. She told the Board that the buyout is good for them and for their clients. It allows Munder to have a greater ownership stake in the company. Trustee Barnett asked when the buyout will be effective. Ms. Hopkins replied that it should be effective before the end of the year. Chairman Harrison asked how this has affected their relationship with Comerica. Ms. Hopkins answered that the structure was not working for either Comerica or Munder, but Comerica remains their largest client comprising 20%.

Ms. Hopkins completed the presentation disclosing her relationship and ties to the City of Pontiac Retirement System and her position as the retiree representative on the VEBA board. She also referred to the biographies of the fixed income team.

Mr. Gray added that Munder has been a valued manager since April, 1987.

Oppenheimer Capital
Mr. Mullen announced that Bill McDaniel would be retiring at the end of 2006. He has been with Oppenheimer for twenty-eight years. He started as a portfolio manager and is now team leader and CIO for fixed income. He is leaving a good team in place upon his departure. The average experience of the team is seventeen years. They are actively searching for a new manager.

Mr. Gutstein reviewed the portfolio stating that it is currently trailing the benchmark by 10 basis points and 20 basis points year-to-date. The current quality is AAA with duration up at 4.25 years versus the benchmark at 4.8 years. With the economy showing signs of slowing the extended duration is to stay neutral to the index at 5% versus 4.93%.

They were over in agencies and under-weight in pass-through securities. With volatility increasing mortgage exposures are being reduced and replaced with higher quality corporate securities. They are increasing their position in auto asset-backed securities with short-term maturities at 1½ to 2 years. AAA-rated over collateralized securities are 40 basis points to 60 basis points over treasuries with a short-term average life. He believes that the yield curve will increase 3% to 4%. He said he has done a lot of research and is comfortable with them going to 6% to 7%.

He described the current flat yield curve: in January, 2005 the yield curve was 60 basis points and now it is basically zero. He believes it will widen throughout the year and would rather be there early and take short-term under performance.
He discussed the trend from mortgage-backed to auto asset-backed securities. He said that tighter the spread, the more expensive the bond is.

Mr. Gray told the Board that Oppenheimer has been a manager since April, 1986.

<u>Capital Guardian</u>
Regina Burden said that Capital Guardian has been the global fixed income manager for the fund since January, 2002. They are a commingled fund with a broad-view portfolio and there have been no changes. They are employee-owned and privately held. Their investment team has an average of sixteen years of experience managing global assets.

Their approach is a very diverse team with generalists and specialists in regions utilizing their four-step process. They have made no changes to their process.

Mr. Farrell said that since Capital Guardian has been a manager for the fund their lifetime performance has been 8.94% versus the benchmark at 8.13% beating the benchmark by 81 basis points. Their three-year performance was 116 basis points in excess of the benchmark. Year-to-date performance was down. It has been a tough year.

He discussed the dollar against the ten-year treasury bond yields. He said that the dollar has been weakening against the euro and yen for the first half of the year reversing the trend in 2005 when it was strengthening.

He said that in global fixed income, currency, country, duration, sector and security selection are the five features they consider. He said that their country, duration and security selection did well last year, however, currency hurt them. He said that the dollar had rallied in 2005 and that is when investors began putting money into the dollar. Weakening happened earlier then they expected. Overexposure in the dollar early in the year hurt their year-to-date performance. They did not get out early enough.

He reviewed the composition of their portfolio. They have no strong conviction about rates globally now which is different than in the past. There is less correlation between the U.S., Euro-zone and Japan. Trustee Barnett asked if they had any investments in China. Mr. Farrell said no that they consider them emerging market debt and yields are low. He said that they own 10% in U.S. mortgages and asset backed because they are stable and pay a lot of money.

He discussed their top twenty portfolio holdings including the U.S., Germany, Japan, United Kingdom and Fannie Mae. He said that most are sovereign debt except for British Telecom which is a quasi-governmental agency

Lunch break at 12:30 p.m.

Trustee Bowman left at 1:15 p.m.

Trustee Cochran returned at 1:15 p.m.

World Asset Management

Mr. Kay introduced himself and Mr. Yousif to the Board. He said they have fifteen investment professionals on their team with $16 billion in assets under management. World Asset Management is a division of Munder and will be a wholly-owned subsidiary of Comerica. They are excited about being under Comerica. They have always been under Comerica, but they relied on Munder for their compliance and human resource function. They will now hire six to eight people to provide those services. They also received a letter stating that the transition will occur on November 30, 2006. He added that they have some new domestic and international products coming.

He said they manage separate accounts, mutual funds and collective funds. The GERS is in the collective funds that is the Large Cap S&P Index.

Mr. Yousif reviewed the performance of the fund's investment. He said that they use an S&P methodology. They became a manager for the City of Pontiac on May 31, 2003, managing $29.5 million with current investments on June 30, 2006 totaling $36.8 million including two withdrawals: $1,110,000 on January 21, 2004 and $3,000,000 on April 21, 2004.

He said that they are an index manager and very basic, not taking unnecessary risk. Their average commission cost is 1¢ per share. Since inception, they have provided 12.89% in annualized returns versus the benchmark at 12.86%. They have costs the index does not but they add value by trading efficiently.

He discussed the S&P index. It is a large cap benchmark created by Standard & Poors. It begins with the U.S. economy being broken into sectors to create a portfolio that looks like the U.S. economy. It is comprised of large cap companies with assets of $4 billion or greater. They reduce the universe by profit and costs screens. A committee votes to determine which securities are added to the S&P to maintain a diverse portfolio. The S&P is reviewed and re-voted daily and the annual turnover is 5%. That keeps costs and turnover low.

Trustee Cochran asked about the rebalancing of the daily portfolio. Mr. Yousif said that the S&P is a market-weighted index. It re-weights automatically. They replicate fully, except that they exclude Comerica, so it is 499 holdings. Chairman Harrison asked about the top ten holdings and what causes it to change. Mr. Yousif said that it is a pretty stagnant listing and that most have been in there for a long time.

Mesirow Financial

Tim Ewing said that Mesirow is the complete opposite of an indexer. They do not focus on the benchmark. They are a large cap value manager with a narrowly focused market. They were underweight to cyclicals and undervalued some of the strengthening stocks. Free cash flow was a driver for energy and in cyclicals. They feel the market will broaden.

He discussed higher quality issues stating that they all have good free cash flow. He believes management should use it to benefit shareholders. He reviewed the additions and sales with the Board, stating that all investment horizons are two to five years out. They think quality seems cheap and low quality seems expensive right now. Performance is improving over last year.

He reviewed the portfolio characteristics stating that the market is narrow and looks a lot like the Russell Value Index. He described the sector weights for the portfolio with a narrow focus on the benchmark. Sector weights are due to bottom up stock picks.

Performance is down this quarter but should be reversing. It has been a frustrating year with a drop in performance of 250 basis points versus the Russell 1000 Value Index.

Mr. Gray asked about their consumer discretionary stock selection. Mr. Ewing said that they were a little early on media stocks and that they were underweight in energy. He said that they won't violate their process. Performance in the markets is tight and they prefer to buy a diverse high quality portfolio.

Trustee Barnett asked about their second quarter performance and whether it was due to not owning many cyclicals, commodities or industrials. Mr. Ewing replied that performance will pick up as the market broadens and that he didn't think the economy would be as strong as it was. He added that they are rarely close to the benchmark. They hold fifty stocks at 2% each.

<u>Systematic Financial Management</u>
Mr. Wallerius said that Systematic has been a manager for the fund since March 22, 2006. He stated that at the start of the Russell indexes in 1979 mid cap value has performed best in R1000 Value index. He added that in the last four months they have added two Michigan clients, Washtenaw County and the City of Birmingham.

He said that Systematic has been a mid cap value boutique since 1992 with $8 billion in assets under management. He said that they have been successful by buying value at the right time when companies are down but a turnaround is taking place. They use a bottom up strategy with a diverse portfolio of seventy-five names. The portfolio is never weighted more then 5% in one company or sector.

Systematic manages $43 million in the mid cap value portfolio for the City of Pontiac. Their current performance is down 2% versus the benchmark that is down 1%. Their long-term emphasis is to capitalize on the side of the economy in consumer staples, healthcare, IT and neutral holdings in energy. There is never more than a 5% sector variance. There are pockets of strength. They are holding fewer consumer discretionary securities, less restaurants and casinos, more grocery stores. There is a decline in profit growth but you can still add value by buying right stock.

<u>Munder Capital (Mid Cap Growth)</u>
Ms. Hopkins introduced Mr. Mundie to the Board. She said that Mr. Dong had a conflict and that Mr. Mundie is the Senior Investment Manager with the firm adding that Mr. Dong and the team are still running the portfolio.

Mr. Mundie said that their quantitative investment process will screen three hundred high quality companies at reasonable prices. They look for great companies that don't cost too much.

First quarter performance was 4.15% for the total fund and 4.22% equities alone. The Russell 400 Mid-cap index was at 3.15%.

They were underweight in utilities which detracted from performance. Tech, healthcare and individual names did well. Their growth exposure hurt them.

Portfolio characteristics include above average earnings growth, high return on invested capital, P/E ratios in line with the index and debt below the index.

They have a slightly higher market cap at $5 billion versus $4 billion for the benchmark. The portfolio was over weight in smallest and largest companies held. This can change as they are stock pickers. They believe in a diverse sector philosophy which adds risk control. Current sector weights were within 3% of S&P 400. Their emphasis is on stock selection versus sector selection. They don't make market or sector bets.

He said that they are compliant with the Investment Policy Statement of the fund.

They have made directed trades but none in most recent quarter. They have done some since.

Ms. Hopkins said that there have been organizational changes. She also disclosed her relationship to Board.

She referred to the employee biographies in the back of the presentation book.

Meeting Break 2:00 p.m.

Meeting Resumed at 2:10 p.m.

<u>Loomis Sayles – Small Cap Value</u>
Mr. Gatz said that small cap started well in 2006. Small cap has been the leader for the past six years in the domestic stock market. Relative earnings growth was good versus large cap. All values are narrow with high quality undervalued in the market and they

stick to their discipline. There was a decline in May and a rebound in mid-June. Now the returns are 11.9% versus 8.2% for the Russell 2000 index and 2.7% for the S&P 500. As of today they are down a bit, but are up 7% year-to-date.

Mr. Gatz said that since inception in April, 1994 performance has been solid versus the Russell 2000 Small Cap and Small Cap Value. He said that the key factor to their performance has been good stock selection. Two thirds of outperformance is attributable to stock selection.

Loomis uses a bottom up sector process versus good marketing timing. Their sector position has been an overweight in industrials and basic materials with an emphasis in late cycle companies like recycling and transportation. They have been underweight in consumer discretionary, healthcare and financials.

He said that the quality focus has yet to make strong contribution. The market is still risk tolerant. Earnings growth has remained strong. Long-term interest rates have just recently moved higher.

Their long-term performance drivers have been consistent application of their investment strategy, their valuation discipline and their attractive risk profile.

As of June 30, 2006, the contribution from their stock selection is 3.84% and 1.64% from sector allocation. Their net out-performance is 5.48%.

Mr. Gatz reviewed the portfolio positioning stating that they were overweight in late-cycle industrials. He said that they are looking for good corporate balance sheets with global economic growth prospects. He said that the portfolio was underweight in consumer discretionary and healthcare. He said that their position is to be fully invested and maintain good value. He said that the portfolio has a good P/E ratio versus price to book. Their focus is on stocks with low debt and that can be leveraged to an improving economy.

The portfolio characteristics display that they are not overpaying and are still able to add quality stocks. He said that they continued to deliver performance because of their bottom-up process and because they do not make sector bets although they will go over or under the benchmark. He said that their stock selection process is strong and that they had not major sector themes. He reviewed their top ten holdings.

He said that their out performance is attributed to buying good companies at good prices. They find value in misunderstood, under-followed companies. He also said that special situation companies such as corporate spin offs, changes in management or new products can be a vehicle for performance.

He went over the small cap stock market balance sheet and the impact of the current environment. Assets are superior profit growth, access to capital remains high and market diversification. The liabilities are the depreciation of the U.S. dollar favoring large cap, high interest rates and a flatter yield curve that impacts low quality small cap stocks. Relative valuations are near long-term averages having a neutral impact.

Loomis is in compliance with the investment policy of the fund. He also said that they are doing exactly what they said they would do for the fund.

Kennedy Capital

Mr. Kirkland told the Board that Kennedy Capital was established in 1980. He said that he joined the firm ten months ago.

He said that this is a core portfolio and the firm is a boutique small cap shop. They currently have $4.2 billion in assets under management. They remain closed to new institutional investors for small cap products. He said that they are adding two more tech analysts to the staff for a total of fourteen.

In March, 2006 they took the ownership of the firm internal. He said that in 1990 Mr. Kennedy died and employee ownership went from 20% to 40%. On March 31, 2006 employee ownership went up to 85%.

He confirmed that Kennedy Capital is in compliance with the Investment Policy Statement guidelines. He added that they are working hard to maintain the directed brokerage goals.

Mr. Jermak discussed Kennedy's investment philosophy. He said that they utilize a bottom-up stock selection strategy. They look for attractive small cap companies that can produce revenue earnings representative of the Russell 2000. These companies are also under-followed and have low institutional ownership.

Their investment process is an intensive process of research and trading. They currently have thirteen analysts and are adding one or two more analysts soon.

This is a core portfolio which is a blend of growth and value stocks. They add value by looking for restructuring or turnaround companies; companies that are in the process of re-evaluation of prior holdings or IPO orphans. Growth is found in unrecognized small cap companies that have added a new product or service or have low institutional ownership.

He reviewed the current performance of the fund.

	City of Pontiac	Russell 2000
Year-to-date	8.4%	8.2%
One Year	16.3%	14.6%
Three Year	23.9%	18.7%
Five Year	17.3%	8.5%
Ten Year	18.1%	9.1%

He said that rebalancing has been a smart move by the Board. Kennedy current has $24.3 million invested for the City of Pontiac in one hundred six stocks. Their portfolio suggests an investment approach that has different characteristics than the small cap market. They have no concentrated positions with the largest position being 2.4%. It is well diversified with a price to book ratio and a price to sales ratio less then the benchmark. He also said that the debt to capital ratio is less then the benchmark.

He described the sector weightings of the portfolio as of June 30, 2006. He said that they are over in healthcare, consumer discretionary, auto transport and materials and processing. He said that they are under in financial services and consumer stocks. He said that there will be a change in the top ten positions in the next six to twelve months.

In the last six months the largest stock sector was healthcare which was their best performer. During the past twelve months they had an underweight in the financials sector. He said it is hard to find ideas there now.

Trustee Barnett asked if there is an overlap in small cap between Kennedy and Loomis. Mr. Gatz said there could be a couple of names. Mr. Gray said that the overlap would never be more than four names.

Julius Baer – International Equity

Mr. Doucette said that Julius Baer is one of the oldest Swiss asset management firms. He said that the institutional market is their focus in the U.S. This product is their flagship and has been closed since March, 2005. Any new products will not be small cap.

He reviewed their strategy saying that they are a core international equity manager that can have a slight growth or value tilt. The key to their performance is a well diversified core portfolio. There are three hundred eighty securities in the portfolio. They make no big sector bets. They employ a bottom up approach in developed markets and a top down approach in emerging markets.

He said that they underperformed a bit due to the May 10, 2006 downturn in emerging markets. Year-to-date performance was above the benchmark 13.3% versus 11.25%. They have delivered 330 basis points of performance 20.82% versus 17.45% over the benchmark since inception. They don't hug the benchmark and go as high as 25% in emerging markets. Their current allocation in emerging markets is 19%.

Mr. Barker said that the emerging markets are the most interesting and extraordinary markets. They led the way with investors seeking high returns. He said that they were substantially overweight at 21.65%. He said that emerging markets are not part of the index and have a different focus. They focus on Eastern and Central Europe. Emerging markets comprised more than half the incremental growth.

They are experiencing the process of integration in Western Europe. Asian markets, being export reliant, are relatively riskier. Emerging markets returns for the year ended June 30, 2006 were 46.67%. They were more expensive but had good fundamentals.

In Western Europe the economy is sluggish and there is an urgent need for government and labor reforms. They find interesting companies restructuring and are moving away from large names and moving into small names (Italian banks). They are attracted to the transportation infrastructure and hauling operating companies. They are also looking at port operating companies and airports that can generate revenue and were once owned by governments in Europe.

Germany is a lagging area with sub par growth but may be turning the corner. They were overweight in German stocks. They are moving toward food service and manufacturing companies.

They do not like Japan and have not jumped on the bandwagon. Things are changing but the market is too expensive. Japan hurt them the last six months of the year. It has historically been an expensive marketing and they are staying out. They have gone from a 13% to 9% exposure.

He also said that they do not like the United Kingdom. Companies are pretty productive and there has been a lot of restructuring and cost efficiencies. It's hard to see where the growth is going to come from. It is difficult to see consumers ramping up demand as in the U.S. There is more debt and a sluggish economy.

He discussed the sector weighting and said that they were slightly under in energy. He feels that energy companies are riskier. Oil prices will continue to rise. The right price should be below current levels. There could be possible spikes. He said it is one of the places where reserves could be revised upward. Financials are a large bet in emerging markets with a large part allocated to emerging market banks. These are not cheap but are attractive. They like tech companies, but not those they can buy internationally.

Mr. Gray reminded the managers of the directed brokerage policy regarding women and minority-owned companies. An updated listing will be provided shortly.

Chairman Harrison thanked the managers for their participation and their presence.

Mr. Gray recapped the earlier presentations. He said that he hoped that the Board was happy with the format and asked for comments. The consensus was that the format worked well.

Turks & Caicos Update

Mr. Gray said that the due diligence is ongoing. They spent long days at the North Island reviewing not only the current development, St. Charles, but also other future developments. He said this due diligence process is not an issue that should be hurried. They are working to be very thorough on this review. He and Mr. Kelsen had a good meeting with the construction company, Johnston International Group. They are a British firm and are a good quality builder with experience throughout the Caribbean.

He said that progress on the project seems good. St. Charles is virtually completed: they have almost completed the pool area, along with the building one.

Innerscope, the underlying company, has between $35 and $50 million in land assets. Mr. Gray suggested the investment may be collateralized or considered as a portion of larger alternatives piece. It is a private investment company.

He said that he has never been involved with a deal that involved this level of due diligence and scrutiny. He has spoken with lawyers, developers and investigators in the initial assessment. This is an offshore investment and required a much greater level of review and attention. He also met with the Prime Minister of the island. The Prime Minister said he offer all the support that he possibly could to ensure the success of the developments of North Caicos.

There was discussion regarding the publicity Turks and Caicos is receiving. Mr. Gray said that it is an easy sell and a beautiful place to visit. There is money to be made there by someone. At the same time some people will lose money on these developments jus as any other. We would like to see a high probability of making money for the City of Pontiac before investing.

There is no write-up yet. On the due diligence cost, if the decision is neutral-to-thumbs-down, then the Board would not have spent a great deal, especially when compared to the full investment. Before they go beyond spending what has already been allocated for due diligence, they will get input and approval from the Board.

Trustee Barnett mentioned that she received a lot of negative feedback from the MAPERS Board especially since the fund is just recently getting out of the CAPROC deal. Mr. Gray replied that if anything makes you feel uncomfortable you have to vote your conscience.

The meeting adjourned at 3:20 p.m.