DEPARTMENT OF CITY CLERK

CITY HALL

MAY 29, 2008

The Board of Investment Commissioners meets this day at 12:30 o'clock P.M., in The Conference Room, Third Floor, City Hall.

PRESENT: Mayor David N. Cicilline, Vice-Chairman Bruce Miller, Stephen T. Napolitano, Allan M. Edwards and Myrth York – 5.

ABSENT: Councilman John J. Igliozzi and Craig Baker – 2.

Also present are Olajumoke Akinrolabu, Assistant City Solicitor, Law Department; Jeffrey D. Fabrizio, Wainwright Investment Counsel LLC; Scott Davis, Portfolio Manager, Brandes Investment Partners; John Reynolds, McKinley Capital Investments, Inc.; Gregg Samorajski, McKinley Capital Investments, Inc.; Kenneth D. Hedgebeth, Senior Vice President, Columbia Management; Michael Fulginiti, Director, Columbia Management; Deborah L. Santos-Hudson, First Deputy City Clerk and Sheri A. Petronio, Assistant Clerk.

(Subsequently, Councilman Igliozzi joins the meeting.)

I INVESTMENT PERFORMANCE ANALYSIS

1.) Recent Performance Estimate

2.) Portfolio Structure and Performance Summary: Asset Class

3.) Manager Performance: Benchmark vs. Manager Analysis

A.) US Equity Managers
B.) International Equity Manager
C.) Fixed Income Managers

II DISCUSSION RELATIVE TO THE DEXTER DONATION FUND AND OTHER TRUST ACCOUNTS.

III AN ORDINANCE DIVESTING FROM THE REPUBLIC OF SUDAN.

IV REQUEST OF MATTHEW M. CLARKIN, JR., DEPUTY DIRECTOR, FINANCE DEPARTMENT, TO TRANSFER THE BALANCE IN FUND #802 (FIRE INSURANCE FUND) TO THE CITY'S GENERAL FUND.

VI DISCUSSION RELATIVE TO CONTEXT/TQA ARBITRAGE.

VII DISCUSSION RELATIVE TO PERFORMANCE HISTORY FROM BRANDES, MC KINLEY AND COLUMBIA.

MYRTH YORK: Mayor, are you leaving at 12:30?

MAYOR CICILLINE: Yes.

MYRTH YORK: Are there things we need to vote on?

MAYOR CICILLINE: That's just what I was going to look at.

ALLAN M. EDWARDS: Well, we still have a quorum without you.

MAYOR CICILLINE: Myrth wanted to make sure my voice was heard. Okay let's begin.

JEFFREY D. FABRIZIO: We had a special meeting two days ago to discuss the TQA Arbitrage fund, and I know the Mayor and Myrth were not here for that meeting, so I'm happy to recap the reasons why we have made our recommendation to exit TQA if you would like me to do that. I will be happy to do that.

MYRTH YORK: I'm all set.

MAYOR CICILLINE: I have reviewed the meeting minutes.

JEFFREY D. FABRIZIO: Okay, fine. Then why don't we turn to the flash report that we have dated as of May 20th. As you know, the equity markets are still very volatile right now. The credit crises that started as of last June continues to permeate, but as we told you about it at the last meeting, although still volatile, still starting to settle down. The mechanisms that the Federal Reserve had put in place in addition to the interest rate cuts are staring to take a hold. The market right now, as I'm sure you have all been reading the papers, are very concerned right now with the state of the economy, economic growth and continued fall out from the housing market and most likely we will continue to be nervous about that going forward. The flash report that we have here, as I mentioned is dated May 20th, so it is approximately mid month. Through that time your portfolio for the year was down approximately 1.9%. That compares with the S & P return of negative 3.7%. Again, that is also through May 20th. Just to give you a ballpark as to where the bond market stands through that time was up approximately 2½%. Today we have Columbia or Fleet Value Path here to give you a brief update on their portfolio and performance. We also have an update presentation from a representative from McKinley, as well as Scott Davis from Brandes. However, if we go through the year-to-date and month-to-date returns, you will find that Columbia Value Path for the year is down about 6.3%. Mellon and the State Street Russell Index fund both are, which are large cap growth styles, down 3.3% and down 2.3% respectively. Boston Partners, both your mid value and your small cap value portfolios, are up slightly and the mid cap is up slightly at 0.1%, and you small cap portfolio is up 0.6%. McKinley for the year is down 5½%. As you recall and will hear about today, the way they run their money is a little bit different. It's a quantitative fund focused on earnings acceleration, but again we will hear more about that today. Brandes down 5.9% for the year through May 20th. Loomis your bond manger, doing well up 2.9% for the year so far. Your Israel bonds up 1.8%. Rogge, clearly your best performer so far this year up 7.4%. A high percentage of that performance is due, of course, to the weakening dollar that we've witnessed this year so far. Our private equity mangers we don't have mid month estimates for, which is pretty standard for that asset class. The hedge funds Forest Fulcrum down 0.6%. Quellos down 1.1% year-to-date. Renaissance and TQA down 4.2% and 4.6% respectively and again that brings your total portfolio estimate for year-to-date performance to about negative 1.9% so far.

MAYOR CICILLINE: Any questions?

VICE-CHAIRMAN MILLER: Do you know what the private equity year-to-date is through April?

JEFFREY D. FABRIZIO: We don’t have that as of yet. We have it at the office as year end. I don’t have a return for you here today but I will be happy to get you one. Private equity funds tend to be very slow to report.

MAYOR CICILLINE: Anyone else?

ALLAN M. EDWARDS: No, but I do want to go back a page. Did you get that information that we asked for on Tuesday for TQA?

JEFFREY D. FABRIZIO: Yes. You guys had invested a total of $3 million dollars with TQA on April 1, 2001. As of this most recent flash, that $3 million dollars has grown to $3,881,000.00, so you have made some money there, which we’re happy to report. This fund has liquidity, and as you recall you can get out of this on a quarterly basis, which again for this board the next available time to get out would be June 30th and we must give them 30 days notice. Based on our meeting two days ago I still have seen the signed letter but I know I will and we should be fine with them.

ALLAN M. EDWARDS: Where does that signed letter come from?

VICE-CHAIRMAN MILLER: From me.

JEFFREY D. FABRIZIO: Right now TQA, as I had mentioned has about $60 million dollars in the fund, there is one investor coming out who represents $40 million of that $60 million. So, approximately 2/3 of the fund remains with the investor. Right now they have approximately 30% of the portfolio in cash. Again, the portfolio was being managed to meet this redemption that’s why the cash was so high. In addition, again because it’s being managed for liquidity leverage has come down a lot. Leverage right now is about .6, .7 times. Typically, it’s about 2 times or 2½ times or there about. So again, the whole risk profile of the fund has come down a lot and given the small size of the fund once this investor leaves the expected returns and risk profile in the fund that we have experienced in the past should be very different going forward, and thus we had recommended that you leave. Once nice thing about the convertible market right now, which has sort of been treading water, there has been a lot of new issuance in the past couple of months, mostly in the financial sector and in the month of May. Since this flash report they have bounced back a little bit, a couple of basis points and most of that was due to their closure in Europe. Having said that our recommendation stands as is.

Councilman Igliozzi joins the meeting.

ALLAN M. EDWARDS: So the other question about the $40 million that's coming out. Was there any inside information? Was there any reasons?

JEFFREY D. FABRIZIO: I had asked around and I wasn't able to pull anything from them. As you can imagine, it was very tight lipped. I didn't get the sense that there was any red flags that we needed to know about. My overall sense of the conversation was that he was on the mark.

ALLAN M. EDWARDS: The fund going with twenty million or less or three million so it's seventeen million.

JEFFREY D. FABRIZIO: Correct.

ALLAN M. EDWARDS: They're not going to go after and try to get more money not to build it up or anything?

JEFFREY D. FABRIZIO: I didn't get that sense.

ALLAN M. EDWARDS: So for all intents and purposes they're liquidating.

JEFFREY D. FABRIZIO: That's the sense I got. He didn't come out and say that but keep in mind to Wainwright has, of course all our clients in the vicinity of $10 million dollars in this fund as well on behalf of our clients. You represent almost four and we've got about six in there. So after June 30th that money will be coming out and there should be an additional nine or ten or so that represents Wainwright's clients. So it will actually be more like ten.

ALLAN M. EDWARDS: Okay. We voted on that so there is nothing else for us to do, right?

STEPHEN T. NAPOLITANO: Wait for a check.

ALLAN M. EDWARDS: So we get $3.4 million?

JEFFREY D. FABRIZIO: That's correct.

ALLAN M. EDWARDS: When?

JEFFREY D. FABRIZIO: The first week of July.

ALLAN M. EDWARDS: Then when do we get the other four hundred plus?

JEFFREY D. FABRIZIO: I'm told over the next couple of months. Once they have a chance to finalize their net asset value.

ALLAN M. EDWARDS: There is no risk in that is there?

JEFFREY D. FABRIZIO: No.

ALLAN M. EDWARDS: So in other words, once we liquidate 384 comes to the City of Providence.

JEFFREY D. FABRIZIO: 348.

ALLAN M. EDWARDS: No, 384.

JEFFREY D. FABRIZIO: 384 total, yes that's correct.

ALLAN M. EDWARDS: All right. That was a good pick for us.

JEFFREY D. FABRIZIO: At the last meeting we had also recommend another fund for you as a replacement for TQA. We had discussed Och-Ziff, who is multi-strategy firm out of New York, which does as it's name applies a little bit of everything. This is not a fund to funds. This is a stand alone fund and they make many different types of trades. They will do some long, short trades, they will do some credit trades, they will do some statistical arbitrage trades and they will also do some convertible arbitrage trades much like TQA was doing for you. That's a fund that we feel very strongly for you and I have some more data here that I can pass out. It should give you a sense of the risk and return if you would like to see it or I can wait for another time. Whatever the board's pleasure is, is fine with me.

ALLAN M. EDWARDS: Well, we have thirty days, right?

JEFFREY D. FABRIZIO: Correct.

MAYOR CICILLINE: Why don't you just do that now so we can study it and we can decide at our next meeting.

JEFFREY D. FABRIZIO: I have to take a minute on this one because there is going to be a lot of numbers on this page. This is a computer program that we use called Pro Track, and what Pro Track is, it's a statistical data package that gives us this information, statistical information. Returns, risk, draw downs, data and that sort of thing with many hedge funds. What I have here are three pages and I would just like to alert you attention to these two lines right here that are outlined in light blue, exactly three lines. I would just like to point out these two things. The Context Capital Management, again, is the TQA Fund. If you recall and they went through a merger and this is the one we are getting out of. I would just like to point out to you since the inception of this fund February of 2002, unfortunately this system only has the data through the end of the year but I would just like to make some comparative analysis for you. If you go again under the section that says Annualized Risk Return, you will see for this fund it's been compounding since February of 2002 at a rate of approximately 7%. BM1 as you will see at the top is the S & P 500. So, just to give you an overall broad sense as to what the overall market has done since that time the S & P 500 has been up 6.43%. The other thing I would like to point your attention to is the standard deviation. Again, it's a measure of risk. If it was less risky you would see less numbers here. This particular fund has a volatility of about 4.8%. The benchmark over the same time period has the volatility of about 12%. So, bottom line is you're getting slightly more return for far less risk or I should say you did since you have been in it. On the following page is the Och Ziff Fund over the same time period. Now, the Och Ziff data goes back further than 2002 but just to give the board an apples to apples comparison as to how Och Ziff would have performed for you had you been in it since you have been in TQA verses what the

TQA Fund had done. You will see again over the same time period February of 2002 through year end to 2007 this particular fund would have been up or was up I should say 11½%, far exceeding the S & P at 6.4%. Again, you will see that under BM1. Standard deviation of a little over 4%, 4.1% verses about 12% for the index. So the Och Ziff Fund had you been in it would have actually given you a little bit more return with slightly less risk. At the time that you got in TQA our intension was to just give you very low risk exposure to only a few strategies because it was your first time in the fund. I think TQA has served you well. On the last page you will see the full record for Och Ziff and it goes back past 1997, all the way back to April of 1994. So that's really more for your benefit. I just wanted to make a comparison of Context verses Och Ziff.

ALLAN M. EDWARDS: That's very good, thank you.

JEFFREY D. FABRIZIO: My pleasure. At the last meeting I believe Mr. Edwards had asked for some different alternatives. I'm talking with Eric about those, and I will come back to you with some other suggestions or at least one for the next meeting. If the board would like, I would also be happy to bring in Och Ziff for the June meeting to give you, if nothing else an informational presentation. If you don't want to that's fine. I distributed a monthly book and I'm happy to go through it.

ALLAN M. EDWARDS: Can I make a comment on that.

MAYOR CICILLINE: Yes, of course.

ALLAN M. EDWARDS: It's good to have them, but I think there should be some discussion if we go into another hedge fund before we hire someone. I think there should be discussion if we don't go into a hedge where we might want to put the extra monies in. Don't forget, the hedge fund and the private equity, these are all things that were added over the last five to six years and I would just like to get a little bit more risk profiling even though Och Ziff has done well and TQA has done well. I would like to get a thought process going forward on hedge funds.

There are some very strong legislative measures coming through on hedge funds and a lot of people are going to get hurt. I'm not saying they're doing something illegal. It's just that that government is now coming into this area big time. Now if we had George Sorrows, I would sit down and listen to him any day. Anyway, that's just my recommendation.

STEPHEN T. NAPOLITANO: Do you not want to schedule them for the next time?

ALLAN M. EDWARDS: We have some much on the agenda today with the other three investors. I'm just putting it on the table.

MAYOR CICILLINE: Why don't you do that sort of analysis that Allan's speaking about and do a presentation for our next meeting. Then we will have Och Ziff if we decide at the following meeting.

JEFFREY D. FABRIZIO: I'm happy to comment on that now if the board would like. It would take only a couple of minutes because, as you mentioned, I know the agenda is pretty tight. I fully acknowledge and understand the issues that you're talking about, the legal aspects of it, of hedge funds as opposed to the investment aspect of it.

ALLAN M. EDWARDS: I'm not just talking legal. I'm talking from a financial risk to the City of Providence. We have three very good funds. Now the other thing is we can take the money and split it between the other three. That's another thought process. I'm just saying, I think we're being too quick to make a decision to go into another fund just because we're getting out of one. I would just like to stick it through a little bit. It might be the right decision to make, okay. I'm not fighting that position but I just think that we should be a little bit more caution on how we go about that decision.

MAYOR CICILLINE: Well particularly in light of the proposed changes that we're hearing about.

ALLAN M. EDWARDS: I'm not fighting it.

JEFFREY D. FABRIZIO: No, I understand. You're just raising the issue.

ALLAN M. EDWARDS: I think it's important to raise the issue.

STEPHEN T. NAPOLITANO: So at the next meeting what will we have in addition to what we've got here? What else are we going to have regarding the investment of these funds?

MYRTH YORK: Well, we need another discussion about the overall balancing of the funds.

ALLAN M. EDWARDS: Yeah, that's what I'm talking about. I just think if we're coming out with $3.8 million since it's a large sum of money do we want to go back into another fund that you're suggesting? I'm not saying it's the wrong suggestion. I'm also saying if we don't want to do that we do have Renaissance and Forest Fulcrum and so forth. We might want to split it up with those three or we might want to change the mix a little bit and go into Brandes or something like that where we thing the market is going to benefit better. That's all I'm suggestion here.

JEFFREY D. FABRIZIO: If I may just tackle the strategy question, then we can talk about how we divvy up the proceeds at a later time if you would like. As far as investing in another hedge fund verses bonds or what have you, I strongly think it's in this board's best interest to maintain the allocation that you have now, which implies that our recommendation would be to take the proceeds from TQA and reinvest it into another hedge fund. Now we can have another discussion as to is Och Ziff one, or do we split it up as you had mentioned or what have you.

ALLAN M. EDWARDS: Why do you say that, Jeff?

MAYOR CICILLINE: Why that as opposed to dividing it amongst some of the other existing funds.

ALLAN M. EDWARDS: Well, we're actually not having that discussion. My point is, is I would like to know why they're taking such a shorter position.

JEFFREY D. FABRIZIO: If we could just take a look at this handout again, the last page of this I think would help make my point. There is a secondary reason why I put it in. As we have been telling you for quite some time now it’s very important that we find a way to not just preserve capital in the down market but find a way to make money in a down market. We will just take a look at on this page in the orange over here you will see the S & P 500 total return year by year and I would just like to go back to 2002, 2001 and 2000 where the S & P was down 22% then almost 12% then approximately 9%. During those three years the cumulative return or the cumulative loss I should say on the S & P 500 was 42% over those three years and again that’s just a broad equity market average. However, if you look at what the Och Ziff Fund has done since then or I should say during those times, they’ve performed quite well and that is exactly the protection and the ability to make money in the down market that you need.

ALLAN M. EDWARDS: I would buy it that’s not my point. You’re still missing the point.

MYRTH YORK: The point is we want to revisit this. We want to revisit our allocation among asset class mix.

JEFFREY D. FABRIZIO: Correct.

ALLAN M. EDWARDS: That’s my point.

STEPHEN T. NAPOLITANO: I know that’s your point but his point is he doesn’t want to do that because under the circumstances and we gone over this several times, is that our outflows benefit wise we have to maintain something very close to what we have now.

ALLAN M. EDWARDS: He’s absolutely correct. I’m not fighting that either.

MAYOR CICILLINE: The response that you just gave with respect to that final page is how this performed during those times. I think what Allan is asking is, in light of all the extra conditions is this asset allocation the right on now in light of what's happening.

ALLAN M. EDWARDS: That's question number one. Question number two is we need to take a look at Renaissance, Quellos and Forest Fulcrum with the same type of response that you gave us here because I would like to see the 2000, 2001 and see what their performance is.

JEFFREY D. FABRIZIO: I would be happy to provide that.

ALLAN M. EDWARDS: I mean I just think bringing in one person here that you're strong on, and listen you have made good picks and you have made good recommendations, I'm not making that comment to you Jeff.

JEFFREY D. FABRIZIO: No, I understand.

ALLAN M. EDWARDS: We need to sort of be a little conservative on how we think about this going forward. I think the overall plan of the fund is the right way but I still feel that we should sort of take as step back and say is this the right decision.

JEFFREY D. FABRIZIO: Sure.

MAYOR CICILLINE: You can put together those comparisons for our next meeting and I think make some recommendations about, you know, whether or not the asset allocation that we currently have we believe is still the right one and why in light of sort of what's happening.

JEFFREY D. FABRIZIO: Okay.

ALLAN M. EDWARDS: It's not going to kill us. Let's make a decision. We're in a very volatile market right now and I just think we need to take a look at it. I'm a big believer in protecting the assets of this fund, the outflows and the inflows. I've been fighting for that how many years. Whose suggestion has it been to go to hedge funds and private placements.

STEPHEN T. NAPOLITANO: It was yours.

ALLAN M. EDWARDS: Right. So, my point is I'm sort of thinking and I'm concerned about the future that's all.

STEPHEN T. NAPOLITANO: I agree with you.

ALLAN M. EDWARDS: I'm not saying they're wrong.

STEPHEN T. NAPOLITANO: I understand your point.

ALLAN M. EDWARDS: Jeff, I'm not fighting you.

JEFFREY D. FABRIZIO: I understand where you're coming from.

ALLAN M. EDWARDS: You know how I go at this. I wish we had the POB here, I wish we were able to take some money and make more money and protect the beneficiaries of the fund. I'm just very anxious and I'm really looking forward to talking to Brandes today because I really want to get their insight as to the euro, their investment philosophy and how they see the future strategy of their fund because they've been a real knock out. So I'm very interested in talking to them today. It will help me make a different decision.

JEFFREY D. FABRIZIO: Okay, you got it.

ALLAN M. EDWARDS: Thank you.

JEFFREY D. FABRIZIO: I have the books for the Dexter Donation Trust and I will pass them out and we can go through them it you would like. Okay, under Tab 1 you will see the performance of the Dexter Donation Trust as of May 20th. Year-to-date this portfolio was down 1.2%, and again, just to refresh your memory the S & P is down about 3½%. On the following page, you will see the same trust as of April 30th month end. Again, through that time year-to-date the fund was down 3.2%. So, it has come back nicely in the month of May. These portfolios are approximately 80% equity, 20% bonds. If all the outflows was here, it would be in the Ebenezer Knight Trust or the Board of Investment Commissioners, as you'll find on tab three, Charles Smith and Edward Ely are all approximately the same in terms of return. They will differ a little bit because of the time in which they started, but the funds are the same and the asset mix is the same. So given that I won't go through each and every trust in less of course someone would like me to.

ALLAN M. EDWARDS: Okay. I don't see any changes here that we need to make. You're going to have those ebbs and flows.

JEFFREY D. FABRIZIO: Yes, absolutely.

ALLAN M. EDWARDS: As long as we stay between 1% and 3%, I think we're doing a hell of a job. It's a pretty good mix.

JEFFREY D. FABRIZIO: Okay. We have McKinley here, we have Brandes and Fleet, who is also due to come in. I'm happy to begin the presentations if the board would like me to.

VICE-CHAIRMAN MILLER: I was just wondering if we should take some of these items out of order.

MYRTH YORK: I think we should do the votes first before we get bogged down with the other stuff.

ALLAN M. EDWARDS: I agree.

VICE-CHAIRMAN MILLER: Number three, An Ordinance divesting from the Republic of Sudan. Is anybody familiar with this?

ALLAN M. EDWARDS: Yes, I am but I don't know why we're discussing it again.

MYRTH YORK: I think we went back and forth as to whether we need to approve one investment.

ALLAN M. EDWARDS: Was this my question?

MYRTH YORK: Yes.

ALLAN M. EDWARDS: And the question was?

MYRTH YORK: The question was there is this one fund that has one holding in a company that doesn't meet the standards and it was a question of whether we needed to approve and instruct the portfolio manager to take that specific holding out of the portfolio or whether the portfolio manager and you knowing our standards can do that without the approval of the board.

ALLAN M. EDWARDS: Right, and what did I say?

MYRTH YORK: As I recall, you went back and forth. I honestly think you started out thinking that we didn't have to do it but we were going to take a vote and then you stopped us from taking a vote.

ALLAN M. EDWARDS: Right, because I think they're responsible to do it not us.

MYRTH YORK: Right.

ALLAN M. EDWARDS: That was the point I was making. So where are we today on that?

MYRTH YORK: Well, I think we were revisiting it and I don't see the harm in taking a vote.

ALLAN M. EDWARDS: Was I saying taking a vote or making a decision to divest to that stock or that equity in the portfolio.

MYRTH YORK: You didn't want us to be making that decision. You thought that Wainwright should be making that decision.

ALLAN M. EDWARDS: Do you think we should?

MYRTH YORK: I think we should, yes.

ALLAN M. EDWARDS: Do you think it should be on record?

STEPHEN T. NAPOLITANO: If you might consider this. On this one instance, we can do the actual vote. Instructing him to follow the contents of the ordinance on an ongoing basis so that we don't have to revisit every time but obviously for him to inform us that we've done this that and the other.

JEFFREY D. FABRIZIO: As I recall that's the way we left it at the last meeting. We said that because there was some confusion as to should we vote or should we not vote. We agreed that we would send a letter out this time to eliminate any confusion and, yes, sell this particular security.

ALLAN M. EDWARDS: And we agreed to that.

JEFFREY D. FABRIZIO: That's correct, which happened and is now out of the portfolio. Then as I recall it Wainwright was going to oversee the managers to make sure that the ordinance was being followed. That was my recollection.

MYRTH YORK: So we don't need to do anything?

STEPHEN T. NAPOLITANO: We've already done it.

VICE-CHAIRMAN MILLER: Do we make a motion to that point?

DEBORAH L. SANTOS-HUDSON: That the letter be sent out?

JEFFREY D. FABRIZIO: The letter was sent out and there was a motion on it.

ALLAN M. EDWARDS: I thought we did make a motion.

STEPHEN T. NAPOLITANO: I did to. Okay, so it's done.

VICE-CHAIRMAN MILLER: So, on record there is a motion saying that we are instructing you guys to monitor that.

JEFFREY D. FABRIZIO: I don't recall there being a motion for that issue. I recall there being a motion to send out the letter.

STEPHEN T. NAPOLITANO: If it's there then we repeated ourselves that's okay.

VICE-CHAIRMAN MILLER: So can you make that motion?

STEPHEN T. NAPOLITANO: I will make that motion.

MYRTH YORK: I will second it.

SHERI A. PETRONIO: Did you want to just repeat the motion so it's on record.

STEPHEN T. NAPOLITANO: Whatever motion we had the last time.

VICE-CHAIRMAN MILLER: Don't worry about the letter. I would just focus on instructing Wainwright to monitor this.

ALLAN M. EDWARDS: So, the motion would be to instruct Wainwright in the future to monitor any securities that are in violation of the city ordinance and that they are to report back to us.

MYRTH YORK: They have the authority to take the appropriate action to make sure we're in compliance with the ordinance and they are to report back to us as to any steps they may have taken.

ALLAN M. EDWARDS: Well said.

On motion of Stephen Napolitano, seconded by Myrth York, it is voted that Wainwright take the appropriate action to make sure there is compliance with the ordinance, to report back as to any steps they may have taken.

VICE-CHAIRMAN MILLER: All those in favor.

COMMITTEE: Aye.

VICE-CHAIRMAN MILLER: All those opposed.

Motion Carries.

VICE-CHAIRMAN MILLER: Okay, item number two, Discussion relative to the Dexter Donation Fund and other Trust Accounts.

STEPHEN T. NAPOLITANO: We just did that.

VICE-CHAIRMAN MILLER: Okay. Number four, request to transfer the balance in Fund #802, Fire Insurance Fund, to the City's General Fund.

MYRTH YORK: We didn't make a motion.

STEPHEN T. NAPOLITANO: I will make that motion.

MYRTH YORK: I will second it.

On motion of Stephen Napolitano, seconded by Myrth York, it is voted to transfer the balance in Fund #802 Fire Insurance Fund to the City's General Fund.

VICE-CHAIRMAN MILLER: All those in favor.

COMMITTEE: Aye.

VICE-CHAIRMAN MILLER: All those opposed.

Motion Carries.

VICE-CHAIRMAN MILLER: We had discussion relative to TQA, and now we will move to item number six, Discussion relative to performance history from Brandes, McKinley and Columbia.

ALLAN M. EDWARDS: Good, so we're done. Way to go. That was well done.

SCOTT DAVIS: I am with Brandes Investment Partners.

ALLAN M. EDWARDS: Nice to meet you Scott.

SCOTT DAVIS: Nice to meet you. Thank you for having me here. It's been a while since we've been able to talk to everyone. So what I would like to do is take just a few minutes and give you a quick update on our firm and then talk about the international equity portfolio that we manage for you. If you have questions along the way jump in and feel free to ask.

ALLAN M. EDWARDS: Before you go any further. What is your position?

SCOTT DAVIS: I'm a portfolio manager with Brandes and at Brandes it's a little different then you might hear at other firms. We use an investment committee approach, so the committee is the decision making body for what goes into the portfolio. They really function as the senior portfolio manager. So as portfolio managers, we're responsible for reviewing the accounts day to day making sure that they're invested appropriately based on any restrictions that you may have on the account and our portfolio construction guidelines, and then communication with our advisors and clients about what's going on in the portfolio and what's happening. So it was a heavy component of client servicing but also understanding of what's happening to the portfolio, decisions we're making and why we're making them.

ALLAN M. EDWARDS: So are you the gentleman that manages our portfolio.

SCOTT DAVIS: Yes, I am.

ALLAN M. EDWARDS: And how many people are on your staff?

SCOTT DAVIS: Well, in our institutional portfolio management group there is about a dozen or so. There are about ten portfolio managers so our accounts are spread out amongst those ten. The bulk of my clients that I work with are in the international and global strategy. With some of our other portfolio mangers, the majority of their clients are small cap or emerging market, so it’s a little bit broken down by account titles as well.

ALLAN M. EDWARDS: So the philosophy, does it come from the committee or do you have input to that philosophy and strategic moves in the portfolio?

SCOTT DAVIS: Actually no, the committee makes those decisions.

ALLAN M. EDWARDS: And then you execute it.

SCOTT DAVIS: Exactly.

ALLAN M. EDWARDS: When that philosophy is imparted to you, do you have a real understanding of it?

SCOTT DAVIS: Yes.

ALLAN M. EDWARDS: You understand the euro, you understand the currency, you understand the why they’re going which way, you understand what the future is, etc.

SCOTT DAVIS: Well, I don’t think any of us understand what the future is.

ALLAN M. EDWARDS: Well, I mean you think about it. You think about how you want to plan going forward.

SCOTT DAVIS: As a firm we really don’t forecast. I can tell you a little bit about our approach and it will kind of help eliminate and maybe answer some of those questions.

ALLAN M. EDWARDS: You've done a great job for us.

SCOTT DAVIS: Actually, if you turn to page four that gives you a little bit of overview of the firm and page five some of our philosophy but it is very much a bottom up value approach. So we're really looking at company by company, looking for opportunities that are attractively priced today that could go into the portfolios. So there are really no long term portfolios. We are a Graham & Dodd value manager looking for opportunity where there is a missed pricing of what we think a conservative valuation is.

VICE-CHAIRMAN MILLER: I would like to interject one moment. I think it would be helpful for me if we could go through the presentation and then ask question.

ALLAN M. EDWARDS: The reason why I did that Bruce was because I want to understand what his philosophy was before I went to the presentation.

VICE-CHAIRMAN MILLER: I understand.

ALLAN M. EDWARDS: I'm trying to get a feel for them.

SCOTT DAVIS: Our philosophy will be part of the presentation, the first page, which is the overview. It was founded in 1974 and we've always been based in San Diego. We've always been a Graham & Dodd bottom-up value manager looking for again opportunities where they may be a missed pricing in the market and I will go into that in a few minutes. There are about 500 employees, eighty investment professionals including portfolio managers, equity and fixed income analysts. Our fixed income analysts are actually based in Milwaukee that's where they were when they came into the firm and decided to stay there. Part and parcel of what we do and how we run our firm and how we run our portfolios is that we are 100% owned by the employees of the firm. There is no bank, there is no larger insurance company that owns our cash flow. It allows us to make long term decisions in how we run our firm and in how we run our portfolio is that we can align our clients' interests. Ideas like closing portfolios, and if you look at the bottom of the page, you can see that a number of our equity portfolios are closed. We began closing our international portfolios. In 2000 we closed our global portfolio and others closed after that in order to control the size of the firm and the assets under management and to make sure that we could continue to implement our investment approach in a way that we think is appropriate for all of the portfolios. On the next page we will go into some other philosophy and really there are two philosophical things to what we do and how we look at the world. First, and this goes back, you know, very pointedly to a lot of the work that Ben Graham & David Dodd did in securing the analysis and Graham followed up with the intelligent investor. The basic ideas is that looking at a company today and looking at how that company has performed over time you can come up with a fairly good estimate of what you think that business is worth today and looking at it very conservatively. So we apply that by doing detailed company research, really trying to understand industry dynamics, a bias for conservative capital structures, really coming up with a conservative business like valuation. If you were a rational business owner what would you pay for that company today? Now they are estimates and that intrinsic value, that business estimate that we come up with is an estimate. In order to mange the risk of making that estimation, we kind of come back to another philosophical under paining, which is that at least in the short run we believe markets are in efficient. There is a lot of psychology, there is a lot of emotion that drives markets and as a result you get situation where a company may be valued at $100.00 but because of the market today it’s trading at $70.00 a share and those are the kinds of opportunities that we try to exploit. Then we do that with a long term perspective in mind with the idea that over the long term the market will begin to price more appropriately to business valuation and that margin of safety that discount will contract and that will create the stronger performance for the portfolio. We do take a long term view and come back three to five years and if you look at our holdings three to five years tends to be the typical holding period for the companies in our portfolio. What I would stress on this page is that we're buying businesses. We're not short term traders, we're not speculators, we're not trying to forecast. We don't have economists at random, we're not trying to predict the direction of the dollar or what the Fed is going to do with interest rates or what the next hot country may be. It all for us comes down to business value. What is the business worth? What's the market pricing at? Is there a substantial enough discount there for us to go in and take the position in that company?

ALLAN M. EDWARDS: Did anybody go up to Graham and Dodd before they started this company in 1974?

SCOTT DAVIS: Charles Brandes worked with Graham and Dodd. Actually, Charles was a broker in San Diego at a small regional firm and he had the opportunity to meet Ben Graham. Ben was retired and living in La Jolla for six months and Paris for six months and he wanted to buy some stock. Charles struck up a friendship and a mentorship with him, went back and read and reread a lot of his work and in 1974 in the midst of a terrific bear market decided that the value approach was how he wanted to pursue what he did. So he founded Brandes Investment Partners as a value company.

ALLAN M. EDWARDS: Next question. You said you don't go around and look at different economies. You still stay with the Graham and Dodd theory.

SCOTT DAVIS: Right.

ALLAN M. EDWARDS: So it doesn't matter to you as long as you see that this is algorithm that makes sense with the value oriented investing that you do.

SCOTT DAVIS: Yes.

ALLAN M. EDWARDS: So you don't pick economies. You go across the board on the international market and you just pick companies that meet the formula that Graham and Dodd set-up many years ago.

SCOTT DAVIS: Yes. In value in the companies there is no one specific formula that we look at.

ALLAN M. EDWARDS: I understand.

SCOTT DAVIS: Your value companies are different based on the dynamics of the industry and different companies.

ALLAN M. EDWARDS: You don't have a guru that sits there and says okay the euro is going to go here.

SCOTT DAVIS: No.

ALLAN M. EDWARD: You just go strictly to what the business is worth.

SCOTT DAVIS: Yes, and where is the marking pricing, value and price, is there discount there.

ALLAN M. EDWARDS: Then you make your judgment on that.

SCOTT DAVIS: Yes. If you go to the next page investment process it runs bottom to top, all equity analysts are assigned to global industries. So we have analysts that focus and specialize in particular industries. So they know the companies and they know the industry. The analyst's job is to value the business not to make a buyer, sell recommendation. So the analyst puts a valuation on the company, brings that report to the investment committee and the analyst says I think it's worth 100, the committee reviews that work and the committee comes up with their valuation decision and says okay the analyst said it's worth 100. We disagree with that a little bit, we think it's worth 95 so that's the value we put on it and then the committee decides how much of a discount is appropriate.

ALLAN M. EDWARDS: They don't take analyst recommendations. The committee just makes a decision based upon the due diligence that the analyst makes.

SCOTT DAVIS: Exactly.

ALLAN M. EDWARDS: I like that to.

SCOTT DAVIS: What it does is it doesn't tie the analysts compensation to how their companies are performing because they really don't have control over when it goes into the portfolio and when it goes out. All they're doing is valuing businesses.

ALLAN M. EDWARDS: Well done.

SCOTT DAVIS: We each have four investment committees. We have are large cap committee, which oversees the international strategy that we run for the city. We have an emerging markets committee and a small cap and a mid cap committee.

ALLAN M. EDWARDS: We're just invested in one, right Jeff?

JEFFREY D. FABRIZIO: That's correct.

SCOTT DAVIS: Yes, the international ones.

ALLAN M. EDWARDS: Have we ever taken a look at the others they've done.

JEFFREY D. FABRIZIO: I don't recall us doing that.

ALLAN M. EDWARDS: It's run on the same principal?

SCOTT DAVIS: All our portfolios are run as value portfolios.

ALLAN M. EDWARDS: I would like to make a suggestion. I would like to take a look at your emerging market.

SCOTT DAVIS: Unfortunately, it's closed to new investors at this point.

ALLAN M. EDWARDS: Okay, then we will have to take that out of the equation. Is there anything open?

SCOTT DAVIS: Our small cap portfolios are open.

ALLAN M. EDWARDS: I would like to take a look at that.

SCOTT DAVIS: I know we're a little time constrained on the agenda so that's kind of a quick review of our kind of philosophy. If you will go to tab two, we can talk specifically about the portfolio and take a quick look at performance which in the short run has not been good for '07 and early '08. It's consistent with some decisions we've made over the last few years about the portfolio and decisions that we've made recently about opportunities for the portfolio. Again, with a three to five year time horizon we're not looking for strong performance necessarily out of one quarter. We don't get real hung up in what's happened over a couple of quarters or even one year. We're looking to add value through the five years and when you drop down on the table and you look at annualized performance from inception over a five, seven or ten year period it's still very strong in the portfolio. We're still very comfortable with where the portfolio is positioned and where we think performance will come from longer term.

ALLAN M. EDWARDS: When you were asked to come here what did they tell you? Did you think you were coming here because we were going to give you a hard time?

SCOTT DAVIS: No.

MYRTH YORK: Just you, Allan.

ALLAN M. EDWARDS: Just me. We're not going to give you a hard time. The reason why you were asked to come here is because we are very interested in how you performed over the many years and we're very pleased with this performance and anything that you can teach and help us learn to make us better will be helpful.

SCOTT DAVIS: Well, I think when you look at the performance, you know, you're going to see periods like, you know, the one and three year period right now where we're down. I think one of the things that has enabled us to generate the kind of long term returns is that even in these down periods we're very consistent in the approach. We don't waiver from what value is and how the value discipline is implemented at all times. Being willing to be different, if you look at the next page key performance factors, you will see some of the things that have influenced performance this year, '07, and really have influenced performance over the last three years or so. There are things that we have done and decisions we've made about the portfolio and investments we've that really run counter to what the market is doing but again we think that's where long term out performance is generated is by being different then the market. If you look at the negative factors performance has been down so obviously the negative factors have really sort of overshadowed the positive factors. When you look at things like being out of oil, gas, metals and mining especially over the last three to four years we've all seen what oil prices and gas prices have been doing. When we value those businesses, when we look at the oil companies, when we look at the energy companies all of the kind of resource commodities oriented companies we're looking at them generating returns; Returns on invested capital of 30% or 35%; Returns on equity of 25% or 30%. And when you look at long term norms and long term averages for those companies, that's substantially higher then they've ever earned historically. We don't think that's sustainable going forward. So that kind of discount that we're looking for in terms of business valuation just isn't there in those companies. So we haven't had exposure there and it's had an impact on the relative performance. If you look at the oil and gas industry in the Morgan Stanley Europe Australia Far East Index that we're measured against, you know it's had over a 7% weight of oil and gas and it was up 9% last year but we didn't capture any of that, metals and mining a 6% weight. It was up 24% because of valuation, because of a lack of discount margin of safety between value and pricing. We haven't had exposure to there. When you look at the three year performance, the one and three year performance, the relative under performance that's been the deciding factor.

ALLAN M. EDWARDS: I don't see that as a negative. I see that as a positive. The two things that you look at, which is the oil and gas and the metals, those are all speculative. So if you're not in the speculative market and you're not value oriented and if you stay with that you have to stay with what you do and what you do best. So we're not worrying about that.

SCOTT DAVIS: I'm just kind of using that as an example of how we stick to the discipline even when there is a time like that when the market is piling into something and there is a lot of growth and there is a lot of optimism about an area if we're not finding opportunities there. We've been finding opportunities in financials, the area that is tremendously beat up, you know, the banks and the consumer finance companies, the areas that are very beat up and unloved right now are where we're findings big discounts. So, even putting a conservative valuation on these businesses with sub prime exposure, the lack of liquidity and the right downs and the recapitalizations, factoring all of those things in very conservatively we're still finding tremendous discounts. You know, typically I think you look at our portfolio historically, we like to buy a dollars worth of assets for seventy cents. We're finding a dollar today you know we're buying it at sixty cents or fifty cents. So, in some of these areas the discounts and the margins of safety are very substantial. So, commercial banks in Japan like Mizuho Financial or Mitsubishi Tokyo and Royal Bank of Scotland, that's where we're going to find opportunities because you get a lot of that market emotion that's going to create that missed pricing but it hasn't influenced on the performance. We realize that three to five years the market is going to become more rational, it's going to price the business more appropriately to value and that's where we would expect long term returns from the portfolio.

ALLAN M. EDWARDS: Good.

JEFFREY D. FABRIZIO: Is there any exposure to emerging markets?

SCOTT DAVIS: No, there is a mandate from the board to not have emerging markets exposure in the portfolio.

JEFFREY D. FABRIZIO: Do you have it in your other portfolios?

SCOTT DAVIS: In our unconstrained international portfolios we do. We have about 11% emerging markets exposure. Now those aren't new purchases. I would say for the last three years or so we really haven't added any emerging markets to our portfolio because the emerging markets tend to be very resource oriented and a lot of the businesses from there are those kinds of businesses so we haven't. Just emerging markets in general have really been on a tear for the last few years. So kind of consistent again with finding opportunities, pharmaceuticals, another area beat up and unloved, Astra Zeneca down 28% last year, Glaxo Smith Kline down 20%. Good cash flow generation, stable balance sheets, good long term track record with their research and development and again the pharmaceutical companies that we've purchased we're taking a real close look at them. We're not looking for any of these companies to have the next big block buster drug out on the market. They have exposure to a number of therapeutic areas and that's what we like to see, see stability in the product portfolio as well. The Japanese pharmaceuticals really have very limited generic competition. North America and Europe generic competition is 40% to 50% of the market and it's about 8% in Japan because the government controls pricing so much more significantly. So they're getting painted with the same brush that the U.S. farmers are and some of the European farmers are so it creates an opportunity there for companies. Positive areas, the food and staples retailers, and what's interesting is you know markets can be so volatile. Pharmaceuticals, when you look at from March of '07 through March of '08, pharmaceuticals were a negative. They were very strong, one of the top performing industry groups in the portfolio in April and May. Same is true with communications of different providers. On the other hand the food product companies did very well over the last year, which were weak in April and May. The market has been very volatile and we would expect that that volatility would probably continue but to us it's not necessarily a bad thing because it can create some significant opportunities. The next page gives you country exposure, and, again, I would just stress this is a byproduct. This is a result of where we can find the individual companies, the bottom up search for value.

ALLAN M. EDWARDS: What is MSCI EAFE?

SCOTT DAVIS: MSCI is the Morgan Stanley Capital Index; Europe, Australia, Far East Index. As an international manager, that's kind of a standard by the benchmark that you're measured against.

ALLAN M. EDWARDS: Why is the United Kingdom, Japan, Netherlands and France your biggest European markets? Is it more value?

SCOTT DAVIS: More value, especially with the United Kingdom. I don't think in the United Kingdom we have found a lot recently but if you go back three to four years and you look at some of the Food and Staples Retailers very attractive. Some of the multi-line retailers like the Marks and Spencer, very attractive so us.

ALLAN M. EDWARDS: Were you in Tesco?

SCOTT DAVIS: We weren't in Tesco. We had Sainsbury and Morrison.

ALLAN M. EDWARDS: What about Segway?

SCOTT DAVIS: Then we had Carrefour from France including Staples Retailers and Armro Holdings from the Netherlands, so retailers sort of in general were attracted to us.

ALLAN M. EDWARDS: So you still have Armro?

SCOTT DAVIS: We still have Armro in the portfolio. Actually, it's been a strong performer for us over the last twelve to eighteen months.

ALLAN M. EDWARDS: Even with the litigation?

SCOTT DAVIS: Even with the litigation. We bought when they had that blow-up with the accounting scandals and management turnover. That's the kind of scenario that really attracts our attention. They've gotten through a lot of that and management is much more stable and the balance sheet is much more stable. We've done a little bit a peering back actually.

ALLAN M. EDWARDS: Are you seeing any changes in the European economy with the tax changes that the EU are putting in and also England that is somewhat taking away from capitalism and making it more socialism.

SCOTT DAVIS: That's not something that would guide our decision.

ALLAN M. EDWARDS: It takes away from profitability.

SCOTT DAVIS: It takes away from profitability but you know the companies that we've bought were already pretty beat up, and again that discount was there so we've been taking some gains out of some of them. What's happening long term in terms of tax regime it could have some impact going forward. It wouldn't guide our long term approach but any kind of change like that the analyst would factor that into the business value. They would take that into account in looking at the particular business and you would see it factor into the valuation. Currency exposure is another. We don't hedge currency in the portfolio but currency exposure at the company level would be factored in.

ALLAN M. EDWARDS: We hedge currencies but I lock in the prices. If I'm doing euro and they want to pay me in euro, I'll lock in the euro price.

SCOTT DAVIS: I mean you will see foreign currency changes when you look at your detailed transaction. You will see foreign currency trades but that's to settle the trade. It's not a hedging strategy.

ALLAN M. EDWARDS: That's a difference market all together. Graham & Dodd wouldn't be in it.

SCOTT DAVIS: No, because currency doesn't create value and that's what we're looking for. What's going to create value going forward? Industry exposure on the next page is the same king of a layout. It shows you where we are well in excess of the benchmarking areas like pharmaceuticals and Diversified Telecom Services. Commercial banks, even though we've had you know a 4½ point increase in our commercial bank exposure, we're about evenly weighted with the index and other areas like chemicals where we are underweighted to the index. On the next page sector exposure, and again industry and sector exposure is a byproduct of the bottom-up search for value but you get a sense especially when you look at this sector exposure page. No exposure to utilities and energy, very underweight to industrials and materials, and that's very consistent with our three year average exposure to those areas. We've been underweight, they've been strong performing areas but you can see that when you look at the table at the bottom financials is an area where our exposure has increased significantly over the last year. Telecommunication services has increased slightly but that's really a result of price appreciation more then anything else and areas in the portfolio like Consumer Staples that have done we've paired back. So Unilever and Nestle and the food and staples retailers we've paired back exposure to those areas and you've seen a decline in that sector exposure in the portfolio. From there it goes into much more detail in the portfolio. It shows you brand new positions over the last year as of quarter end, and again I will just say when you see a lot of commercial bank and financial exposure, there are fifteen new positions and eight of them came from the financial sector. We will average down as well. So we don't just buy once and hold it in the portfolio. There may be a number of times when we will go back in an average down and buy more of a position. So if you look at the detailed trading history for a company like Sainsbury, you may have seen us buy it four or five different times for the portfolio. So we're very good with averaging down when the price continues to remain week and our investment thesis is still stable we will buy more of the company.

ALLAN M. EDWARDS: Do you stay away from defense?

SCOTT DAVIS: No, we don't stay away from any area. We just haven't had a lot of exposure. We have more defense exposure when you go back to mid to late 90s when the internet bubble was in full bloom. We were buying a lot of old companies so we had more defense contractors in the portfolio, all the companies that the internet was going to put out of business supposedly. Just as a matter of course, we don't limit ourselves to staying out of any industry or country. When you see areas where we don't have exposure it's because we're not finding value. When you see areas increasing in exposure whether it's countries like Japan or industries like commercial banks it's because we're finding more values there. We will manage our country in industry exposure to certain limits to make sure that the portfolio remains. We don't want to suddenly wide up with a portfolio that has 70% in Germany or something like that. So we will limit our country in industry exposure but we won't limit ourselves to looking in any area just as a matter of course. The rest of the section is just much more detailing and it ends with just a listing of all the companies in the portfolio, and I won't go through all of them. Any other questions about Brandes, our approach or what's going on in the portfolio?

JEFFREY D. FABRIZIO: How much money in the strategy?

SCOTT DAVIS: In the international strategy right now I want to say we probably have roughly, and this is an estimate, I can get you the exact number, probably about thirty billion. So it's probably about 30% or so of our total assets.

JEFFREY D. FABRIZIO: Does that include the mutual funds?

SCOTT DAVIS: That would include the mutual funds. Now what it doesn't include is the international portion of our global portfolio and those things.

JEFFREY D. FABRIZIO: Okay, thank you.

SCOTT DAVIS: I will send you the asset breakdown.

JEFFREY D. FABRIZIO: Thank you very much.

ALLAN M. EDWARDS: So Scott do you report to Jeff?

SCOTT DAVIS: I report to Jeff Myer. Do you know Jeff? Or Jeff Busby?

ALLAN M. EDWARDS: Busby.

SCOTT DAVIS: Jeff Busby is one of our managing directors. Actually, I report to Jeff Myer, who is the Director of our institutional portfolio management group. Then Jeff Myer reports to Glen Carlson our CEO.

ALLAN M. EDWARDS: Okay.

SCOTT DAVIS: Any other questions?

ALLAN M. EDWARDS: Not really. I was hoping to get a little bit more information from you but it doesn't seem like you go that way.

SCOTT DAVIS: If you would like to have a follow-up conversation, I would be happy to spend some time talking to you a little bit more.

ALLAN M. EDWARDS: Since your international fund you make a decision that you want to be international.

SCOTT DAVIS: Right.

ALLAN M. EDWARDS: I think besides doing a Graham & Dodd valuation analysis there are other decisions that need to come in before you make a decision. Whether our economy is stable, what's happening and so forth, I mean you can buy a company across the boarder and it could be a great company, but that government can hurt you and you can have a big loss. So I would be interested to know that you have some check and balance system at the senior level that sort of helps you make that decision of what that theory or what that thought process is going forward.

SCOTT DAVIS: Well, you know, I think the investment committee certainly talks about issues like that. I mean we're not ignorant at what's happening in Brazil or in England or Japan in terms of corporate tax rates or interest rates. We don't base how we put the portfolio together on those factors. It would be up to the analyst to get a sense for how might this issue, if it's an accounting issue in Japan the analyst would look at how might that impact the value of this business. It all comes back to valuation of the business. Those sort of macro, political, social-economic issues, if you let them influence your thinking to a great degree, they can keep you out of areas where there are tremendous opportunities. I will give you an example. Five or six years ago there is an election going on in Brazil and the candidate who was going to be elected most popular was Lula, and his rhetoric at the time he was running was very populous. There was a lot of concern in markets about, you know, are they going to default on their debt, what’s going to happen with interest rates, how is he going to change economic policies? I’m probably not telling you anything new. Politicians will say one thing to get elected and do anything when in office. When he got elected and was in office he really backed away from a lot of those clients and if you look over the last few years, I think last year Brazil was one of the best performing equity markets in the world. The interest rates have come down. They haven’t defaulted on any debt. They’ve paid down a lot of debt and the Brazilian market has done tremendously. Had you focused on the negative scenario and stayed out of Brazil you would have missed some very attractive investment opportunities. So we’re aware of those things but we don’t say gosh we really don’t like that, we’re not going to invest there. It’s something to keep in the back of your mind as your valuing the business.

ALLAN M. EDWARDS: Do you have an investment letter?

SCOTT DAVIS: We have a quarterly commentary that goes out in our quarter reports and the Brandes Institute does a number of research pieces.

ALLAN M. EDWARDS: Does that go to Jeff?

SCOTT DAVIS: Yes.

ALLAN M. EDWARDS: Jeff, can we get that?

JEFFREY D. FABRIZIO: Sure.

ALLAN M. EDWARDS: I’m serious about that.

STEPHEN T. NAPOLITANO: I know you are.

ALLAN M. EDWARDS: What they do is very clinical and it’s very unemotional and there is a lot of variables today. So how you put yourself through that path it takes some real good input but they get the information from the analysts.

STEPHEN T. NAPOLITANO: I do recall Brazil and the market fifteen years ago. At the time it was Fleet National and it got buried with what we call now sub-prime mortgages. Does it sound familiar? I'm sure you've taken it into consideration. Your performance has been good.

ALLAN M. EDWARDS: Yes, very good. From my point of view you've been outstanding.

SCOTT DAVIS: We continue to stay focused on that longer term. Recognizing that in the short run difficulties that we see with our performance we're still sticking to that very specific philosophy with a long term perspective.

ALLAN M. EDWARDS: 14.6% since the inception well done.

SCOTT DAVIS: Thank you, we appreciate that.

ALLAN M. EDWARDS: Keep up the good work.

SCOTT DAVIS: Thank you. Any other questions? Okay, I appreciate your time.

JOHN REYNOLDS: I have Gregg Samorajski from McKinley Capital. He is calling from Alaska. Sorry he can't be here with you today. As I understand we have about twenty minutes to do the account review. What I thought I would do first is sort of give you an update on the firm and then drop right into maybe a quick overview of the process or we can go into greater detail if you want and then specific details on the actual account. Gregg can you hear us okay?

GREGG SAMORAJSKI: Pretty much. I hear you John. Some of the other people I'm having difficulty with in the background but I think we're good.

ALLAN M. EDWARDS: If we have questions we will announce our name and we will ask the question a little bit louder. Can you hear my voice?

GREGG SAMORAJSKI: Yes, you sound very good now I can hear you.

JOHN REYNOLDS: Again, I am with McKinley Capital and we have an office based in Connecticut, so we're not that far away. We have several staff members there. We do a lot of client support work, etc. Page one, section one, nothing has changed since the last time we met. We continue to be a global growth specialist. Everything is driven by a single investment process at McKinley, which is predominately quantitative. Again, if you understand our U.S. SMID cap which is what you're invested in you will certainly understand all of our other products. We continue to reinvest back into the process. To give you an example we just recently added about three additional research analysts. These analysts are a little bit different. They're not actually going out visiting companies but their role is to actually evaluate the analyst community itself and rank order them. We're a firm of about 100 employees and managing about 18 billion U.S. dollars in a variety of different assets. You can see on page four the breakdown of all the various different assets here. The product that you're involved in is higher then that now because the market has recovered a little bit but just a little under a hundred million dollars. You can see where the rest of our assets lie as well. I will just mention that there are importantly maximum capacities on every single product that we manage at McKinley. You have probably seen this before. We're certainly a long way from closing the SMID but we have, can and will close products. For instance, we've closed our non U.S. growth product for example. In the past we have closed our U.S. small cap only and actually recently reopened it. It had been closed for about 2½ years. So there is some additional capacity there. The equity incentive plan that we started in 1998 whereby 31 of our 100 or so employees participate in continues to be successful. A lot of people ask can you continue to attract people in the great white north. We've brought our Director of Quantitative Research up not that long ago, about 2½ years ago from New Jersey so we continue to add top talent to the firm. All of the investment professionals for the most part are all based in Anchorage. Just as a reminder, again it is a predominantly quantitative process but does have a fundamental overlay. By the way, those 31 individuals I mentioned are what we call sort of key employees. They have a call on 27% of the outstanding shares in the form of stock options at the firm. These are ten year options and as we stated this in 1998, theoretically that first touch if you will is coming to its first conclusion. It's impossible to know what each individual is going to do but just so you know there may be technically a change in the ownership as people execute those options. We would think that's a positive thing but just so you are aware if you see something that pops up and says hey there has been ownership change it's only because those 27 people have opted to exercise their options. So that's a very quick update on the firm. There haven't been any compliance related issues. We've had very low turnout historically by industry standards of the firm. We have not lost any portfolio managers in the last five years. We've continued to add staff where we fell we need to. So I don't know if there are any questions on the firm side. Otherwise we will get right into Gregg's review of the process and then into the account review. Gregg, do you want to continue?

GREGG SAMORAJSKI: Sure. Good afternoon, everybody. Thank you for giving us the chance to review you account. I'm going to spend five minutes giving you an overview of our investment process and then five to ten minutes on the performance over the last couple of time periods. Our process explanation begins on page six. I'm going to focus just on page six and the overview page, page seven. To begin with our investment block at McKinley is we're a concentrated manager. We hold no more then 95 stocks in your portfolio. While we're concentrated, we are diversified and use risk control techniques to make sure that we're not concentrating in one sector, a particular market cap range or one or two particular securities. Philosophically, McKinley is about earnings. We believe that over time earnings stagger and are a significant driver of value and performance in the growths universe. Specifically, we use both a quantitative and qualitative process to identify securities whose earnings growth rates will accelerate beyond market expectation. So we're not necessarily looking for just the high growing stocks. The stock that's growing at 20% a year that everybody believes is going to grow at 20%. In fact that's what happens. While that may be a good company, it's not necessarily the stock we focus on because the good news is that company is probably fully incorporated in the price of the stock. Instead we're looking for stocks where there might be unexpected acceleration. So, for example, if the stock is expected to grow 10% this year by the market and by the analysts that cover the stock but we believe through our process if the stock can grow it's earnings at 12% or 15% and in fact that's what happens those stocks will on average overtime experience excess returns relative to the benchmark. Philosophically that's what we believe. We measure our performance in that philosophy by earnings and typically about 90% of our companies when they announce their earnings net or beat the market expectation or the analyst expectation. Usually at least 50% of our companies across the board are now higher then the most optimistic analyst who covers the stocks and that would certainly be true for the SMID portfolio as well across the board. So philosophically, that's what we're about. In terms of our style that clearly leads us to a growth focus. We're normally exposed to three factors and usually not much else, momentum, which we define on a relative risk adjusted basis. We buy stocks which have been doing well and continue to do well. We're exposed to growth clearly as a growth manager and selection. We do have a lot of specific stock exposure because we are a relatively concentrated manager. We're 100% bottom-up. All our sections are made at the fundamental level of the company rather than pass down market calls, etc. We're quantitative and qualitative. About 80% of the alpha we generate is attributable to the quantitative model. About 20% to the qualitative are fundamental overview performed by the portfolio managers. On page 7 is a brief overview of our process as it works day by day and let me start at the bottom. Because we are a concentrated manager typically the reason we would buy a stock is because we sell a stock first based on our self discipline. We resell a stock that creates an opening in the portfolio. We begin by screening thousands and thousands of candidates on a weekly basis. In each stock that we can find data on becomes a stock that we will analyze in the quantitative model. Our quantitative group performs a quantitative process weekly, by which they identify stocks from those thousands of companies that have three characteristics. One is positive risk adjusted relative returns. Over the last seven months the stock would have had to of outperformed the market on a relative risk adjusted basis. Two is earnings growth. A stock that we will consider after it's had the positive earnings surprise the last time it was announced and also has to have positive analyst revisions on the part of analysts who cover that particular stock and finally there needs to be adequate liquidity. Each of those three factors we found statically are associated with excess returns and will generate excess returns as long as earnings do matter, which they do on balance overtime in the growth universe. Applying those screens produces a nomination list of several hundred stocks in which we will substitute for the stock we sold. We then apply portfolio construction and risk management techniques to assure that we remain balanced, by sector, by market cap range and SMID market cap, also that we roughly in the portfolio reflect the nomination list. That process typically identifies five to six stocks. Those five to six stocks will then be subject to a quality or a qualitative overview on the part of the portfolio manager to let that be the final stock that goes into the portfolio. Our qualitative overview relies on an analyst of analysts approach. We don't go and visit companies ourselves. We believe that we would be better off, and any firm really would be better off, identifying the best analyst on the street regardless of where they work and use their earnings forecast to help us pick the stock that we feel would best fit into the portfolio. The self discipline very simply states that no longer we pass our quantitative screens. It becomes an automatic sell. We don't have a qualitative overview in the sell process that prevents us from falling in love with the stock which seems to be a typical temptation many portfolio managers have. Very briefly, we work the best as a growth manger in stronger growth markets. We do well when leadership tends to persist. We don't do as well when there is very rapid rotation, when the leading stocks become the trailing stocks, etc.

That tends to describe when we do well and not do so well. Okay, let me just stop for a minute and ask if you have any questions on our process.

ALLAN M. EDWARDS: I have none.

GREGG SAMORAJSKI: Okay, hearing none let's go right to performance which will be on page fourteen.

JOHN REYNOLDS: Gregg, just so you know they also have the handout for the end of April as well.

GREGG SAMORAJSKI: Great. Let me just review it. Over the last seven years and since inception, we've basically been pretty flat for the benchmark. Unfortunately, there has been a period of time it's been characterized by those rapid rotational periods especially in the small SMID space. Now the good news is, is it has been a fairly strong sector of the market. So, for example, in the last five years we have had a very good absolute return. In any event, for example, over the last seven years the value of the Russell 2500 Index has outperformed the growth version of the index by almost 500 basis points. So it has not been a very good environment for our process. Nevertheless, we have managed to stay relatively even with the benchmark and we think that is should probably run its course. One of the things we have done to enhance the process several years ago is we increased there name count from a maximum of fifty to a maximum of 95. What we think that will do and has done is reduce the volatility of the alpha, reduce what we often refer to as stacking error without reducing our ability to earn excess returns in those market environments. In fact that increased the name count and has been one of the explanations for why we have been able to remain fairly flat for the benchmark. Now last year was a good example of what happens when our process is really in favor and if you know last year it was a pretty strong growth year when leadership tended to persist and we actually are 500 basis points above the benchmark from last year. Again, it shows that going to more names doesn't hurt us in the good year, rather is helps us to keep things under control in the weaker years. Now this first quarter has clearly been a very negative quarter for the market in general, for the SMID part of the market and for us as excess return managers. Had we been doing this call at the end of last year, since inception we would be about 150 basis points over annualized. Unfortunately, this last quarter has been a negative quarter. Primarily because value stocks have outperformed in a very poor market and it has been a very rapid rotational market. We will do this in a minute but last year from our five best performers, all year two off the worst performers were in the first quarter. Now April has been a month where we've come back quite a bit as you can see. We've picked up both absolutely and relatively and it certainly seems looking at May – we don't have May results yet – relatively but it certainly looks like it is based on an absolute basis. The market has recovered a lot of the loss from the first quarter. Okay, let me now turn to page fifteen.

JOHN REYNOLDS: Hey, Gregg, hold on a second.

ALLAN M. EDWARDS: I have a whole bunch of questions and I don't want to stop the presentation because I don't want anybody else to miss what he has to say. I sort of want to get into something that's a little bit more specific.

JOHN REYNOLDS: If it's all right we will just continue and then we will go through the list.

ALLAN M. EDWARDS: Yeah.

JOHN REYNOLDS: Okay, continue Gregg.

GREGG SAMORAJSKI: Okay, page fifteen, we show our best and worst performers for the quarter. The best performing stocks are Netflix, Tupperware Brands, Watson Wyatt Worldwide, Perrigo, the generic drug manufacturer for classical Walmart and others, Olin, who produces primarily chlorine based chemicals. Our five worst positions for the quarter are Huron Consulting Group, Vasco Date Security International, Inverness Medical Innovations, BE Aerospace and Synchronoss Technologies. Two of those stocks, BE Aerospace and Vasco, were actually some of our best performers last year illustrating that rotational character of the market in the first quarter. BE Aerospace we still hold. The others we sold. BE Aerospace has actually been one of our strongest performers over the last several years. Page sixteen, really is just a statement of assets in the account. Page seventeen, the portfolio characteristics page market capitalization, the weighted average market cap is 3.62 billion compared to the Russell 2500, which is .12 billion. So, we actually are a slightly larger market cap in the benchmark itself, which is really reflecting that but right now the larger stocks have been the best performers over the last period of time. A number of reasons for that including some of the sub-prime problems where the larger companies seem to be the companies with earnings acceleration and the ability to maintain pricing power, cut costs and certainly to better finance their businesses. It goes to the larger companies and that's clearly what we've been finding in terms of stocks that best meet our discipline. Okay, I do need to say that when we do the Russell rebalance there will be a lot of large companies like First Solar, which has been a very good performer, which probably will need to be rolled out into the index and reconstructed as some of the larger and SMID stocks move into the large cap portfolio. There is likely to be a handful of stocks in the portfolio that will be sold for that reason and that may take that number down some as we get through the rebalance. Page eighteen, is the top ten stocks in the portfolio. I can certainly give you descriptions of those if you want during the question period but basically those have been in many cases fairly consistent. Page nineteen is how we're set-up right now with sector distribution. The main thing to know about this page is because of our risk control system, we purposely don't make large sector bets or take large sector risks. Bottom-up, naturally we do find more stocks in some sectors than others relative to the benchmark and we will overweight and underweight those but there will be a reflection of our bottom-up process rather than top-down forecasting. Two illustrations would be Financial Services, which is underweight by about 4% now. The financials has been a significant underperforming sector. The fact that we're underweight isn't because we've made a forecast on financials but simply that we're finding very few financials at this point in time which meet our discipline and certainly those who are involved in sub-prime lending had been offered a nomination list or a candidate list for many months now. Consumer discretionary pretty much the same story, you know, the fact that we're finding fewer names reflects the housing and household materials tend to be in that sector and of course most of those names don't pass the kind of process that we use. Our most overweight sector is materials and processing. Again, not a natural forecast in our view of energy or material prices but simply we're finding many companies in the material sector which do pass our quantitative and qualitative review at this point. Page twenty and on is just is just the current portfolio and I don't think there is anything I need to say about that. So, why don't I end there and I will certainly answers any questions that you might have for us.

JOHN REYNOLDS: Okay, thanks Gregg. I know there are a number of questions. We're just trying to clarify I think the asset start amount, which I'm just having someone check for me right now.

ALLAN M. EDWARDS: I just have a few questions. I noticed in your portfolio you have Global Growth, Non-U.S. Growth, Non-U.S. Developed Growth and of all you funds this seems to not perform the best since inception. Since inception on a relative basis this has been your lowest performing fund. It also has the least amount of money in it.

JOHN REYNOLDS: Actually large cap up until just recently had that unfortunate designation, but last year in particular it was a very strong year for all of the U.S. based products. It was sort of the first time and I think just echoing what Gregg said the first time that factors like growth and momentum were actually engaged. So you saw large cap was up about 1,000 basis points or something like that over the index. Small was up 1,000. I think SMID was up something like 700. So yes, unfortunately, I would say categorically the domestic side of McKinley has been a more difficult place but again relative to the Non-U.S. space growth and momentum factors have not been nearly has hard.

ALLAN M. EDWARDS: We have this in our portfolio. When take a look at it you have $80 million, you said $100 million, whatever it is. Is that a fund that has been growing with you or has that been since the nine years or the eight plus years that we've had the money with you? Has that fund grown or is it a closed fund, do people keep putting money into it?

JOHN REYNOLDS: People keep putting money into it. The only thing I would say is a lot of our clients have opted for the small cap product against the 2000 growth and again, every client is a little bit different. They have a little bit different angle on things so basically we accommodate whatever clients are interested. I will tell you because the single investment process drives everything we do at McKinley. It's not as if the SMID somehow gets less resources.

ALLAN M. EDWARDS: I'm not going there. It seems like you have a different philosophy quantitative, qualitative. It's fine with me. I listened to Gregg on the phone. What I'm trying to understand is, I don't feel from my point of view, I wish we could have done better and I'm trying to sort of make a rational as to why we haven't done better and why this is the lowest returning fund in your portfolio. I asked Jeff, should we analyze this because they seem to be doing pretty well in other pieces. You've liked McKinley. I'm not here trying to kick them out. I'm just trying to see how do we get better. I mean how do we go from good to great. I sort of want to understand that.

JOHN REYNOLDS: I would just maybe just add a couple of things. At McKinley 2½ years ago we actually made some changes to the small cap and the SMID product by upping the number count from fifty names to a maximum of 95 names. We had actually seen quite a bit of what we call sort of volatility of excess return that was in our minds unacceptable. When we did a lot of research with our quantitative group, in which there is seven people, one of the things that came up was the number count was to low. We could not quite get enough diversification. Honestly since we've made that change 2½ years ago the information ratios, all the risk adjusted relative returns, etc. have improved dramatically. So we're pleased with what's been happening but certainly if you take that adjustment in addition to the domestic market, which has been a challenge for our style for sure. I don't know if that's still acceptable to you.

MYRTH YORK: If you look at either the three year or the one year they're still if not the worse performing.

ALLAN M. EDWARDS: That's my point and what I don't want to do is criticize. What I want to do is find a solution to it, and is the solution that as a committee, do we look just to go to the small cap growth. I don't know. I mean we have to think about this. Listen, this is nothing directed towards you, John, or Gregg. I have not been happy with McKinley every since we went in here but because I'm not happy doesn't mean we have to kick you out. We're not doing that. I want some real good feedback on how this becomes better for us. Interesting that you've made a change from forty stocks to ninety stocks, so what other things can you do or you think you can do to make the mid cap perform a lot better. I don't look at the benchmark or the Russell because the Russell is all over the place. You need to tell us how you can improve our list for us or we make a change. Not make a change outside of your company but make a change to another thought process here. I just don't feel we're making enough. Sixty million goes out of this portfolio every year to the pensioners. We have to perform better than 2.9% over the last eight years.

JOHN REYNOLDS: I agree with you. One other change we made 2½ years ago, just so you know, it wasn't just the number count. We also made some adjustments. In the past we always said we would be no more than 120% of the average weighted cap of the benchmark and that we felt was a little bit constraining because we wanted to have a little more latitude. Like, for instance, right now when larger is better just categorically we want to be able to have a little more flexibility so we did make that change as well. I will tell you from McKinley's viewpoint, we don't feel like the product is compromised. We put a lot of time and energy into making sure this thing should work and we were extremely pleased with last year's performance. I think, again, if we had come to see you on January 1st of this year these numbers would be substantially different. You would see us about 150 over.

ALLAN M. EDWARDS: I'm not a quarter to quarter person. I'm a year to year person. We've been here 8½ years and I'm more interested in what we see in the future and what you're going to do to make it better. It's not like it's my personal portfolio. We have people's pension money that we have to keep replenishing here in this city. I have to tell you that looking at all our portfolio managers they do have ups and they do have downs but we are considerably much higher in greater return over the inception of the money. I'm not asking for 14 % but your lowest one here is 6%. So, even if I had 6.36% I would happy. This 2.9% is scary, unless I'm reading this wrong. Since inception we've had a return of 2.9%.

JOHN REYNOLDS: The April results are a little bit higher.

ALLAN M. EDWARDS: I don't want to count you on a month-to-month basis. I'm glad that it's performing better, that's not my point. My point is you've told me that you made some changes. What do you see the future to be? Do you think these changes that you're making that will considerably show a high rate of growth for you in that fund? I don't see how anybody can be happy with 3.3% as an overall basis.

JOHN REYNOLDS: I'm not disagreeing with you at all. I guess I just want to be clear. Are you talking about absolute returns or are you talking about relative returns. We have little control unfortunately over the absolute return to some degree. There are some periods here where you can take different snapshots on a one year basis and they are absolutely negative and there is not much we can do about that.

ALLAN M. EDWARDS: We've been living with McKinley for eight years. What I'm more concerned about now is the changes you're going to make to improve. I mean I look at this overall performance here. It's not a performance that I would like to stay with for another eight years. We need to see some changes. I mean we would like to see some changes or do we make a decision, Jeff, collectively. I know we're in U.S. small to mid cap growth so we go to the small cap growth. We have to decide here what we're doing with this money. That's my view.

GREGG SAMORAJSKI: John, would you like me to make some comments.

JOHN REYNOLDS: Sure, Gregg, go right ahead.

GREGG SAMORAJSKI: I think first of all you have served the distinction between absolute and relative returns. When the account started at the end of 1999 it was right at the beginning of one of the most significant bear markets. That sort of reflects why we have from the end of 1999 a low level of return relative to some of our other products, which since inception has varied at different times. Our Non-U.S. Growth product for example started at the end of 1995 and then caught the boom years of the late 1990s. Over the last five years actually domestically the SMID product has been our best performing absolute return at 14.2%, which beats any of our other domestic products. Well, of course, not our Non-U.S. products with the exchange rate. So, as the market has gotten out of its literally decade doldrums and start to experience growth again, this product in this area absolutely has done the best of any of our products. On a relative basis, they're what's important is do earnings matter and does leadership persist and how does growth do relative to value? Unfortunately, for many years value has been the out performer in the SMID area and we have had very rapid rotation of leadership. Simply said, earnings have not mattered as much in the SMID market as in some of the other markets, particularly the None-U.S markets. Now, that's changed a little bit. If you look at our None-U.S Growth product over the last year, which is now our largest assets under management, it underperformed last year several hundred basis points while both the small and SMID products materially outperformed. So we do find over time some products become more in favor relative to our discipline yet some become less in favor and it seems like there is some movement now toward domestic in particular within domestic. So we can't forecast exactly what the future will do but it certainly seems like some of the types of environments that we look at for our process to work are beginning to grow domestically. Now, the reason we went to more stocks is to try to kind of take some of the volatility out of that alpha. It's not so much like last year earning a very large excess return. Part of the reason to go to more names is so that in the poor years we can try to keep risk under control and losses under control, which to some degree we have been able to do this year with more names in the portfolio. So we think overall that will be important in terms of smoothing out the alpha and, again, no one to predict the future exactly, but it does seem like now we're seeing more of the alpha and excess returns in domestic portfolios.

ALLAN M. EDWARDS: Gregg, how long did it take you to roll in the other forty or fifty stocks?

GREGG SAMORAJSKI: We did them within several months and 95 is the maximum. Right now we have 76 stocks in the portfolio. I don't know that we're going to increase beyond that but we went basically from fifty to where we are now. Again, the way we did it when we sold the stock was we figured it a 2% rate and we typically bought two stocks at 1% each.

JOHN REYNOLDS: I don't know if that helps.

JEFFREY D. FABRIZIO: Could you tell us how many investors there are in the strategy?

JOHN REYNOLDS: There are three main investors in the composite that you see right here.

ALLAN M. EDWARDS: How long have they been there?

JOHN REYNOLDS: Almost as long as you have. Actually one year longer.

ALLAN M. EDWARDS: Do they love you?

JOHN REYNOLDS: They're still with us, yes. We actually have multiple relationships with a few of the clients that are in there.

ALLAN M. EDWARDS: So, in other words, they're investing in other things as well.

JOHN REYNOLDS: Yes.

ALLAN M. EDWARDS: I figured. So, they have faith in what you're doing?

JOHN REYNOLDS: They do.

ALLAN M. EDWARDS: Who is the largest investor? Are we? Are we one, two or three? Where are we?

JOHN REYNOLDS: You are two and the larges is SEI.

ALLAN M. EDWARDS: So we're the second largest?

JOHN REYNOLDS: The second largest, yes.

ALLAN M. EDWARDS: Well, that's interesting. When we went in how big were we? Were we number one, two or three?

JOHN REYNOLDS: You guys actually I think have stayed number two the whole way.

ALLAN M. EDWARDS: When we first started in September of 1999, were there only two?

JOHN REYNOLDS: There were only two, yes.

ALLAN M. EDWARDS: Okay, so we were always number two. So now we're still number two and there is three.

JOHN REYNOLDS: Correct. I'm talking about large institutional relationships. I mean we have other smaller relationships that are in there.

ALLAN M. EDWARDS: Do you push that fund to get more money in there to give you more exposure. Why do you want to stay at eighty million?

JOHN REYNOLDS: Well, we don't. It's difficult for us to control. We don't have large distribution. People say, well, why do you even bother with domestic. You have thirteen billion in the Non-U.S. but five years ago we had four billion in domestic and a half a billion in Non-U.S. So we can't predict where clients are going to want to move their assets.

ALLAN M. EDWARDS: How long has Gregg been on this account?

JOHN REYNOLDS: Gregg has been with us for eleven years.

ALLAN M. EDWARDS: So he's been with the U.S. Small Mid Cap Growth since the beginning?

JOHN REYNOLDS: Yes. We have a person PM Team and they all are involved in every single account and Gregg has been with us for eleven years.

GREGG SAMORAJSKI: We all manage each portfolio as a team. So any of the eight portfolio managers can select a stock for any of the portfolios and we all have to be unanimous in consent for any stock to go into any portfolio.

JOHN REYNOLDS: Let me just say this. McKinley is opened minded to whatever best fits you. I mean we're not here to tell you what to invest in.

ALLAN M. EDWARDS: I just want to do better for us. I've always been frustrated with McKinley from day one. Maybe it went into a bear market, whatever it was. I always thought that when they could come out of the curve and went into the bear market that coming out of the bear market we would be doing well but we haven't done that well. Even though you say that at five years we're at 14%, well that's pretty good I would say.

JOHN REYNOLDS: I mean I can tell you, as Gregg said, this has been one of the most difficult time periods. I don’t have to tell you. You came in almost at the top of the market if I look at the growth. Then we went through an enormously difficult period and it’s only now things are staring to creep back up and then or course we get another downdraft so I understand your frustration. We have a high degree of confidence in our model. We check it on a regular basis. We have, as I mentioned, a quantitative team that spends their entire time doing nothing but maintaining and enhancing the investment process. If we thought there were some changes that needed to be made, we would do it and we have in the past.

ALLAN M. EDWARDS: How long have you been in the business?

JOHN REYNOLDS: I’ve been in the business for a about twelve years.

ALLAN M. EDWARDS: How long have you been with McKinley?

JOHN REYNOLDS: For about eleven years.

ALLAN M. EDWARDS: Well, it’s nice that you came down and took the time to help us out.

JOHN REYNOLDS: My pleasure. I’m sorry Gregg couldn’t be here face to face with you but he would be happy to come here next time.

ALLAN M. EDWARDS: Why would you like to leave Alaska?

JOHN REYNOLDS: There is good fishing there right now. We would certainly invite any of you to come see us. Now is a good time but if you come in January we know you’re serious. Just kidding.

JEFFREY D. FABRIZIO: John, what is the average market cap on a small growth portfolio.

JOHN REYNOLDS: There are some stats here on page seventeen. It’s 3.62 billion.

JEFFREY D. FABRIZIO: That’s for the SMID, right?

JOHN REYNOLDS: Oh, I sorry the small?

JEFFREY D. FABRIZIO: Approximately.

JOHN REYNOLDS: Gregg, would you happen to know?

GREGG SAMORAJSKI: I don’t have it right at my fingertips here but it would be about 1.7, 1.8 I believe.

ALLAN M. EDWARDS: So your office is where? In Connecticut?

JOHN REYNOLDS: Yes. I’m sorry I don’t have these numbers handy for you.

ALLAN M. EDWARDS: You can e-mail them to me. I was just interested. I was calculating in my head the rate of return.

JOHN REYNOLDS: There were two deposits initially that came in. I remember one was staggered by about two weeks. So it was just lying in our system and then I think there was another million and a half dollar deposit and since then there has been withdrawals.

ALLAN M. EDWARDS: For some reason I think we gave you somewhere between 26 and thirty million. I can’t remember.

JOHN REYNOLDS: It was right around there. I want to say 26 or 27 but yes, there has been a series of withdrawals. We really appreciate your time and please let us know if we can try to make you more comfortable somehow or someway.

KENNETH D. HEDGEBETH: I am with Columbia Management and I am out of Boston and Michael Fulginiti, who is on the PM side, is out of Charlotte. So he is going to run through the performance and answer any questions that you may have and we will try to get you out of here in twenty to thirty minutes at the most.

DEBORAH L. SANTOS-HUDSON: May I ask, do you have a business card?

KENNETH D. HEDGEBETH: Yes.

DEBORAH L. SANTOS-HUDSON: Thank you.

KENNETH D. HEDGEBETH: Ed Lynch is he still here? Wasn’t he on the account a while ago?

STEPHEN T. NAPOLITANO: He passed away.

KENNETH D. HEDGEBETH: Okay, Michael.

MICHAEL FULGINITI: I thought I would just spend a few minutes trying to share with you who we are, where we're going and what we do. We are the quantitative strategies group, which I am associated with, which is part of Columbia Management, who does the investing for Bank of America. We use a quantitative approach and we're trying to buy good companies and we're trying not to pay a lot for them. We're doing it within each sector of the benchmark. We're sector neutral. We don't take sector beats, we just try to pick the very best companies we can.

ALLAN M. EDWARDS: How many people do you have doing that?

MICHAEL FULGINITI: There are thirty.

ALLAN M. EDWARDS: So they do all the analytical work basically. Then they come to you and you make a decision?

MICHAEL FULGINITI: It's a process that's set-up. So what we do is we're unlike other, let's call it fundamental mangers. Where they go out and they meet with a company, we take a different view. We view that there is human tendencies of people collectively who make a lot of mistakes because they are human beings. An example of that is people tend to extrapolate what's happened most recently going into the future. People get emotional, they don't act rationally all the time. In fact some of the best traders in the world there is a psychological test done with some prisoners, psychopaths and they made very excellent traders because their emotion is detached from the processing ability.

ALLAN M. EDWARDS: So let me ask you something. I just want to know, have you done a criminal check on all your people?

MICHAEL FULGINITI: Yes, the all get fingerprinted. The point is, we try to remove as much emotion from the decision making as we can. We attempt to look at companies in a uniform consistent manner and most of the time that give us great results. The last ten months have been very difficult. We manage about $30 billion dollars and we have thirty people as I said mostly in New York.

ALLAN M. EDWARDS: You have how much?

MICHAEL FULGINITI: Thirty billion from the Quantitative Strategies Group. Let’s look at performance because it has been difficult in the last ten months. We actually had a really decent first half of 2007 but in June we started to see a shift from growth to value within the broader benchmarks. That kind of triggered a head wind against quantitative strategies because there was a shift in leadership. What was behind that in the middle part of the summer of 2007 was, of course, the liquidity crisis and the hedge fund crisis. The hedge fund crisis and the illiquidity in the markets for those securities caused those types of strategies to unwind, caused them to step away from risk and they’re called multi-strategy hedge funds so they have multi strategies. So when the sub-prime stuff locked up they had to raise liquidity. So they went down the lines and typically what they did was they got up the stocks and they found that stocks could be sold easily and quickly. So what they wound up doing like everybody, any investor out there buys good companies, right and they stay away from bad companies but in order to unwind those positions they had to do the opposite. So they bought thirty companies and they sold good companies. The models and the things that we looked at didn’t work in the third quarter so we had a negative third quarter of 2007. Fourth quarter was a little better but what happened from the sub-prime crisis is that fear spread through the market and what you had as a result of the sub-prime crisis was a narrowing of the market. Over the entire year for 2007 the market was up somewhere around 5.5%. Fifty stocks were up 8.3% and 450 stocks were down the difference between 8.3% and 5.5%. So you had a very narrowing market and you say what caused that. Well, the largest sector in the S & P 500 is financials. So, money was fleeing out of the largest sector and it was jumping into smaller sectors; utilities, consumer staples and high quality technology companies.

So, you had a very narrowing of the market and that narrowing has actually continued into this year. That was principally disrupted in four strategies. So you had a lot of this flight, this cross current in the core strategies but not so much in the value strategy that we employ because our benchmark is the Russell 1000 Value. So what we had was a period in the third quarter that was caused by the hedge funds disrupting, selling good stocks, buying bad stocks. In the fourth quarter, things kind of settled down from our perspective, the market started to narrow and then in the first quarter it continued to narrow. Why was it narrowing? Why was it staying there? It's because people were scared. They don't believe valuation. That's why you look at any manager that uses valuation as a strong component of the process and they're having difficulty right now keeping up with the benchmark because nobody believes valuation. So that brings us today and we've had improving performance in April and May. So the question becomes how long will this go on and I'm going to share with you that the market today is a mirror opposite image of what was happening in 1999 and 2000. In 1999 and 2000, the value was underperforming grossly as growth took off. If you look at Yale Endowment Fund report for the year 2000 they underperformed by 13 percentage points in 1999 and 2000 and they outperformed by 25 percentage points over the subsequent period. They are strong believers in valuation so they stuck with it and we think we're the exact opposite image. When the market was being driven in 1999 and 2000 everybody was happy and everybody was buying stocks because they were going to go up tomorrow and someone was going to buy them at a higher price. Today is the opposite. The gap in value and growth is dramatic but for opposite reasons and that reason is they're fearful. At this point, they're excessively fearful and don't believe valuations at all. So the gap has created enormous opportunities. The opportunity is now because things probably aren't as bad as it appears. I'm going to give you a couple of data points. The liquidity aspects of the market, the fixed income market, which affects everything. Unsold leverage loan inventory declined 40% from 157 billion to 91 billion. So that lock-up in the fixed income market was melting away gradually. U.S GDP went slightly upward in the first quarter, it was expected to be down. The FEDS taking assets back securities in as collateral, that's another source of liquidity for the market. Non-financial properties up 10%, value relative to growth is a cheap as it was in March of 2000 and value measured by divided yield is at a fifteen year low. So nobody believes value. If you recall what I shared, one of the mistakes that people make is they extrapolate what's happening currently going into the future and they miss the turn. You have a tremendous gap right now between where prices are and the intrinsic values of the company based mostly on emotion and mostly in this case fear. So there is a great opportunity out there right now.

ALLAN M. EDWARDS: So what are you doing about that?

MICHAEL FULGINITI: Actually we're not changing the basis of what we've done, which our approach is to buy good companies and not pay to much for them. We're focusing on quality. Quality in our world is how much cash a company generates and whether we believe that the company is capable of sustaining that level of cash generation. That's a high quality company. So it's Ford verses GM, Coke verses Pepsi, Microsoft verses Oracle. So we're trying to buy the very best companies we can across all the sectors.

ALLAN M. EDWARDS: So you're staying with the portfolio that it is today, which is around 28 million. When I look at this one it say's 27 million so we gained a little bit here from this one. So you're staying with the investments that you have listed in here. You're not going to change the strategy, I'm not asking for that but what I'm saying is that you believe that there is going to be a point where you going to see the bell curve go this way instead of this way.

MICHAEL FULGINITI: Yes. When we look at our returns on a day-to-day basis, it gives us a sense of what's happening. In the first quarter we would loose thirty basis points in a day and make up five the next day. Then we would loose twenty and we make up ten, and that's not what you want. In April that kind of went flat. In May it was the other way around. We're seeing plus thirty relative to the benchmark so we're gradually stepping up. As people start to get the feeling that things maybe aren't as bad as what they think, confidence is coming back into the market and that market, instead of being so focused so narrowly is beginning to spread. The dollars are beginning to be mediated back into other sectors.

ALLAN M. EDWARDS: So let's just say that your theory might work or you think it's the right time to do this. What happens if that theory in your portfolio and in your strategy continues the longevity of this downturn?

MICHAEL FULGINITI: We should do better. When I say we've done better relative, we've gone down less then the market has in the last several months and why is that? That's because we're buying good companies and we're not paying too much for them. They got the cash to run the business, they got the ability to sustain it and that's what you want.

ALLAN M. EDWARDS: So, what's you view on the market?

MICHAEL FULGINITI: Our view on the market is the worst is over. We're not going to see a jump back. It's not going to happen quickly, but we do see things gradually improving because there was great dislocation to the financial structure of the country.

ALLAN M. EDWARDS: What happens if it gets worse in that scenario? That's the point I want to ask and let's say there is something hidden behind the corner that we don't see and hits us even worse. What does your strategy do here? Does it mark time? Does it stay level? What does it do? The way you're buying your stocks, you're comfortable about your strategy.

MICHAEL FULGINITI: I'm comfortable because I'm buying good companies. I'm not buying companies on a whim. I'm not buying the next great gadget that somebody is going to come up with. I'm buying good companies that make money, that continue to make money relative to their peers and we're not paying much for them. So I can't tell you that the overall landscape that the economy is going to recover. I don't think it's going to recover quickly, it's going to be a workout. I can tell you, and I've been in business for a long time and so have you, is if you buy good companies and you have a long horizon and you don't pay too much for them, if you don't win that scenario then there is something wrong.

ALLAN M. EDWARDS: So you said that our money is part of the thirty billion?

MICHAEL FULGINITI: Yes.

ALLAN M. EDWARDS: So we recovered a couple of million from March 31st.

MICHAEL FULGINITI: If you want to go through all these pages we can. I wrote a paper and it just kind of goes through the history of what's happed up until February.

ALLAN M. EDWARDS: You wrote this?

MICHAEL FULGINITI: Yes, along with my marketing people.

ALLAN M. EDWARDS: Where did you go to school?

MICHAEL FULGINITI: I went to the University of Tennessee for an undergrad in Engineering and then I got my MBA at George State.

ALLAN M. EDWARDS: So why did you leave engineering?

MICHAEL FULGINITI: The only guys who could make money there were the guys who owned the firm and the business was changing at the time. When I was in it the government had a lot of funds and budget cut backs took those funds away so the businesses was going to change a lot and it did.

ALLAN M. EDWARDS: So you're a southern boy?

MICHAEL FULGINITI: I grew up in Hershey, Pennsylvania.

ALLAN M. EDWARDS: You left the Hershey Park family and you went back down to the South. I have no more questions. Again, I have an understanding of what you're doing. Since the inception you've done very well with us.

MICHAEL FULGINITI: We've had some erosion but I will say this, that we had similar dislocations in 1999 and 2000. We had a very good run up until then.

ALLAN M. EDWARDS: We are going to see change in the market.

MICHAEL FULGINITI: It happens around every six or seven years and if we can get through these periods that are relatively brief but violent you're going to continue to be served well over the long run. It's no secret. We're trying to buy good companies and we don't want to pay too much for them.

JEFFREY D. FABRIZIO: I have a question.

MICHAEL FULGINITI: Yes, sir.

JEFFREY D. FABRIZIO: On page nine, you're footnote number one indicates that the inception date is January 1, 2003? We've been with Columbia and Fleet for much longer than that.

KENNETH D. HEDGEBETH: It had to due with computers and the history that they carried forward. You're right, this is not correct.

ALLAN M. EDWARDS: We started in 1996.

KENNETH D. HEDGEBETH: A long time ago, back in Shawmut days. I was around at that time.

JEFFREY D. FABRIZIO: It all had to do with a name change.

KENNETH D. HEDGEBETH: No, it had to do with computers.

ALLAN M. EDWARDS: Can you put it back to the inception?

KENNETH D. HEDGEBETH: We don't have that history.

ALLAN M. EDWARDS: That history is gone? It's been erased?

KENNETH D. HEDGEBETH: Unfortunately, because it went through three or four different systems. We will try but I doubt if it exists.

MYRTH YORK: We don't ever seem to beat the benchmark.

MICHAEL FULGINITI: Up until June we would have had a very different picture of last year.

KENNETH D. HEDGEBETH: If you were to look at the book from last June of 2007, it was brought down.

MYRTH YORK: But then it didn't bring down the benchmark.

ALLAN M. EDWARDS: You mean the benchmark didn't drop as much as last year. It would be interesting to see if you didn't have that jump how would that number be. I would like to compare it. That's a good question Myrth.

MICHAEL FULGINITI: What was the question again?

MYRTH YORK: So if you did it through June of 2007, compare the benchmark to performance.

ALLAN M. EDWARDS: And I would also like to see if they didn't have that loss where they would be because he's saying it's been these last six or seven months that's killed us. It's been since August of last year.

MYRTH YORK: I mean in all of this, this fund is doing less. There is such a dramatic impact but even with that dramatic impact it didn't impact as negatively on the benchmark. We dropped more than the benchmark.

MICHAEL FULGINITI: Relative to the benchmark the past year has hurt.

MYRTH YORK: Even the benchmark didn't go down as much.

MICHAEL FULGINITI: Our perspective is always relative to the benchmark. So when I say we're down, I mean we're down relative to the benchmark. If the market is up that means we went up less then the benchmark and if the market is down that means we went down more. So I'm only looking at the relative and you're exactly right. In absolute terms, the benchmark goes down less then this portfolio. Principally that's confined to this year and because of the magnitude of it it's 500 basis points. That's a hundred under for the last five years so it really erodes the good stuff that we had done prior.

KENNETH D. HEDGEBETH: The book from June of 2007 who would I send it to?

ALLAN M. EDWARDS: Send it to Jeff.

VICE-CHAIRMAN MILLER: Or me.

KENNETH D. HEDGEBETH: I will send it to both of you.

MYRTH YORK: Isn’t our goal to beat the benchmark?

KENNETH D. HEDGEBETH: Yes.

ALLAN M. EDWARDS: That’s what I’m not seeing here. I just want to make sure of that because in the five year you haven’t beat the benchmark and in the three year you haven’t beat the benchmark and since inception you haven’t beat the benchmark. So that’s the question Myrth is asking you, isn’t it our job to beat the benchmark. We would like to beat the benchmark.

KENNETH D. HEDGEBETH: We agree with you.

ALLAN M. EDWARDS: So, what are we doing?

KENNETH D. HEDGEBETH: Your job is to beat the benchmark.

ALLAN M. EDWARDS: You just eradicated yourself from that issue.

VICE-CHAIRMAN MILLER: I’m looking at page twelve, the sector performance, with a few exceptions you seem to be short.

MICHAEL FULGINITI: Absolutely. The market narrowed dramatically and people fled a lot of the companies because basically they weren’t interested in valuation, they were only interested in earnings. The fact that they had to pay for them didn’t matter because they were scared of valuation.

ALLAN M. EDWARDS: I see it differently. I don’t think they’re interested in earnings either. I think they’re interested in liquidity and the people are looking to get cash in their pocket because they were having a real difficult time. I mean the losses were just massive.

MICHAEL FULGINITI: The only thing that you can sell is typically higher quality companies.

ALLAN M. EDWARDS: Correct so there are more sellers coming out of the market.

MICHAEL FULGINITI: Right.

ALLAN M. EDWARDS: So you think this is an apparition or you say every seven years you have the apparition?

MICHAEL FULGINITI: I wish I could predict it then I could tell you. If I knew that then we would neutralize and we would take that risk off every seven years. The market changed very dramatically. Business fundamentals changed very dramatically, specifically in the financial sector, which is the largest sector in the Russell 1000, almost 30% of the benchmark. Those changes, if the fundamentals of a business deteriorates dramatically, then we have to sell it because our quality of it is out the window so we would sell it. As long as the fundamental business position continues and is in place and a stock is not over priced then we will continue to hold it unless it changes and we have had a tremendous change in the last nine months and then we will sell it. We don't give a rat's tail about how long we've held it or how short a time we held it. If the fundamentals deteriorate, it's gone and that's part of that less emotional part. I'm not attached to the company, I'm not personally attached to any one chairman in the company, I don't play golf with them and they don't feed me.

ALLAN M. EDWARDS: Do they pay you?

MICHAEL FULGINITI: They don't pay us.

ALLAN M. EDWARDS: They don't pay you? I'm talking about the company you're invested in, not the company you work for?

MICHAEL FULGINITI: The company I work for pays me. I'm sorry I misunderstood.

VICE-CHAIRMAN MILLER: Okay, any other questions?

MICHAEL FULGINITI: I'm very appreciative of the opportunity to come up and meet with you and I hope that we can do it more regularly.

KENNETH D. HEDGEBETH: It's been a long time since we've been down to see you guys.

ALLAN M. EDWARDS: I don't think I've ever seen you. I don't remember.

STEPHEN T. NAPOLITANO: We've never seen them.

ALLAN M. EDWARDS: I've never seen them. I have been here how many years? That's a good idea.

MICHAEL FULGINITI: We don't have a problem coming. If you can work it into your schedule we will make every effort to be here.

ALLAN M. EDWARDS: Thank you for taking the time.

VICE-CHAIRMAN MILLER: Okay, any other business. Motion to adjourn.

ADJOURNMENT: On motion of Myrth York, seconded by Stephen Napolitano, it is voted to adjourn the meeting at 2:40 o'clock P.M.

First Deputy City Clerk

Assistant Clerk