



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12th Street, Suite 600  
Modesto, CA 95354  
**MAIL: P.O. Box 3150 Modesto 95353**

**Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org**

## **AGENDA**

**BOARD OF RETIREMENT**  
832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room**  
Modesto, CA 95354

**July 24, 2012  
2:00 p.m.**

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

**CONSENT ITEMS:** These matters include routine administrative actions and are identified under the Consent Items heading.

**PUBLIC COMMENT:** Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

**BOARD AGENDAS & MINUTES:** Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: [www.stancera.org](http://www.stancera.org)

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

**NOTICE REGARDING NON-ENGLISH SPEAKERS:** Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

**REASONABLE ACCOMMODATIONS:** In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items
  - a. Approval of the July 11, 2012 Administrative Meeting Minutes [View](#)
  - b. StanCERA's Complaint Log of April 1, 2012 through June 30, 2012 [View](#)

6. Closed Session
  - a. Conference with Legal Counsel – Pending Litigation – One Case:  
O’Neal et al v. Stanislaus County Employees’ Retirement Association  
Stanislaus County Superior Court Case No. 648469  
Government Code Section 54956.9(a)
  - b. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224  
Government Code Section 54956.9(b)
7. Educational Presentation – Medley Capital LLC - Opportunity Fund II [View](#)
8. Educational Presentation – White Oak Global Advisors, LLC - Direct Lending Overview [View](#)
9. Strategic Investment Solutions (SIS), Inc.
  - a. Monthly Performance Review for the Month Ending June 30, 2012 [View](#)
  - b. Report on “Top 10 Holdings” by StanCERA Investment Managers [View](#)
10. Members’ Forum (Information and Future Agenda Requests Only)
11. Adjournment



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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

July 11, 2012

**Members Present:** Maria De Anda, Jim DeMartini, Gordon Ford, Darin Gharat, Jeff Grover, Ron Martin, Michael O'Neal and Donna Riley

**Members Absent:** Mike Lynch

**Alternate Member Present:** Joan Clendenin (Alternate Retiree Representative)

**Staff Present:** Rick Santos, Executive Director  
Kelly Cerny, Executive Board Secretary  
Dawn Lea, Benefits Manager  
Kathy Herman, Operations Manager  
Kathy Johnson, Accountant  
Luiana Irizarry, Operations Specialist

**Others Present:** Fred Silva, General Legal Counsel  
Rhonda Biesemeier, RESCO  
Doris Foster, County Chief Executive Office

1. Meeting called to order at 1:59 p.m. by Jim DeMartini, Chair.

2. **Roll Call**

3. **Announcements**

None.

4. **Public Comment**

None.

5. **Consent Items**

Ms. Cerny noted that Consent Item #5b is "Receipt of the 2012 2<sup>nd</sup> Quarter Update of the Executive Director's Goals and Strategic Action Plan" as the actual document reflects.

Motion was made by Maria De Anda and seconded by Darin Gharat to approve the following items as listed and clarified.

Motion carried.

- a. Approval of the June 26, 2012, Investment Meeting Minutes
- b. Receipt of the 2012 2<sup>nd</sup> Quarter Update of the Executive Director's Goals and Strategic Action Plan
- c. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
  1. Donna Brawley, DCSS, Effective 06-19-12
  2. Janet Gauthier, District Attorney, Effective 06-29-12
  3. Raymond Harper, Sheriff, Effective 03-28-12
  4. Donna Kroupa, CSA, Effective 07-06-12
  5. Stephanie Larsen, Parks, Effective 07-07-12
  6. Shirley Miller, Probation, Effective 07-14-12
  7. Dolores Nemanic, District Attorney, Effective 07-14-12
  8. Nancy Overend, CSA, Effective 06-26-12
  9. Michael Toomey, BHRS, Effective 07-27-12
  10. Sondra Rene Weaver, Superior Courts, Effective 07-14-12
  11. Jolynn Young, HSA, Effective 07-02-12
- d. Approval of Deferred Retirement(s) – **Section 31700**
  1. Sunday Balinton, CSA, Effective 05-30-12
  2. Vincent Harris, StanCOG, Effective 06-01-12
  3. Gregory M. Jackson, Public Defender, Effective 06-07-12
  4. Harriet A. Valverde, HSA, Effective 01-06-12
- e. Approval of Death Benefit(s) – **Section 31781**
  1. Elizabeth Rangel, Deceased June 28, 2012, Active Member, Option Pursuant to Government Code Section 31781



6. **Closed Session**

Motion was made by Darin Gharat and seconded by Maria De Anda to commence to Closed Session at 2:02 p.m.

Motion carried.

M. O'Neal and J. Clendenin recused themselves at 2:02 p.m.

Motion was made by Darin Gharat and seconded by Jeff Grover to return to Open Session at 2:10 p.m.

Motion carried.

M. O'Neal and J. Clendenin returned at 2:11 p.m.

Ms. Cerny read the findings of the Closed Session:

- a. Conference with Legal Counsel - Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Government Code Section 54956.9(b); One Matter

Staff confirmed that the \$5,000 retiree burial allowance is a vested benefit.

- b. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 648469  
Government Code Section 54956.9(a)

No report.

- c. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224  
Government Code Section 54956.9(b)

No report.

7. **Executive Director**

- a. Discussion and Action on the Final Draft of the Excess Earnings Policy

Motion was made by Darin Gharat and seconded by Jeff Grover to adopt the excess earnings policy as presented and with the recommended changes.

Motion carried.

8. **Members' Forum (Information and Future Agenda Requests Only)**

Mr. O'Neal shared that former Retirement Board member Wes Hall, wanted to point out a recent article in The Public Retirement Journal to the Board. The article mentions how pension incomes assist communities to profit.

Mr. Santos informed the Board that Kelly Cerny, Executive Board Secretary, will be retiring in December 2012, after 23 years with the County. Luiana Irizarry, Operations Specialist, will be mentored and trained by Ms. Cerny in the duties of Secretary to the Board.

9. **Adjournment**

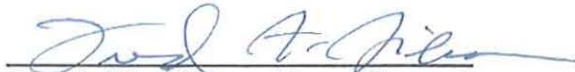
Meeting adjourned at 2:20 p.m.

Respectfully submitted,



Rick Santos, Executive Director

APPROVED AS TO FORM:  
FRED A. SILVA, GENERAL LEGAL COUNSEL



Fred A. Silva, General Legal Counsel



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07/24/12  
Item #5b

July 19, 2012

REPORT

TO: Retirement Board Members  
FROM: Kathy Herman, Operations Manager  
SUBJECT: StanCERA Complaint Log

There were two (2) complaints logged from April 1 through June 30, 2012 in the StanCERA complaint log.

One was insurance related and one was I.R.S. related. Staff continues to refer insurance related calls to BMTI. Staff has been requested to log all complaints, but they do have discretion as to what should be logged. We will continue to update the Board on a quarterly basis providing copies of the complaints received during the previously completed quarter.

07/24/12  
Item #7

# Medley Opportunity Fund II LP

Summer 2012

# Important Notice to Prospective Investors

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IN CONSIDERING THE PRIOR PERFORMANCE INFORMATION CONTAINED HEREIN, PROSPECTIVE INVESTORS SHOULD BEAR IN MIND THAT PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS, AND THERE CAN BE NO ASSURANCE THAT MOF II WILL ACHIEVE COMPARABLE RESULTS. CERTAIN INFORMATION CONTAINED IN THIS DOCUMENT CONSTITUTES "FORWARD-LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "ANTICIPATE," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE" OR OTHER COMPARABLE TERMINOLOGY. DUE TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING THOSE DESCRIBED IN THIS DOCUMENT AND THE CPOM, ACTUAL EVENTS OR RESULTS OR THE ACTUAL PERFORMANCE OF MOF II MAY DIFFER MATERIALLY FROM THOSE REFLECTED OR CONTEMPLATED IN SUCH FORWARD-LOOKING STATEMENTS. IN PARTICULAR, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, TARGET RETURNS, PORTFOLIO COMPOSITION, AND OTHER PROJECTED INVESTMENT CHARACTERISTICS PRESENTED IN THIS DOCUMENT ARE BASED ON THE PRIOR EXPERIENCE OF THE PRINCIPALS OF MOF II'S INVESTMENT MANAGER, MOF II MANAGEMENT LLC, IN MANAGING MEDLEY OPPORTUNITY FUND LP I, AND OTHER FACTORS IT DEEMED RELEVANT, INCLUDING CURRENT AND EXPECTED MARKET CONDITIONS. SUCH TARGETS AND PROJECTIONS ARE NOT INTENDED TO SERVE AS A HURDLE RATE OR OTHER BENCHMARK FOR MOF II'S PERFORMANCE OR PORTFOLIO AND NO ASSURANCE IS GIVEN THAT SUCH TARGETS AND PROJECTIONS WILL IN FACT PROVE ACCURATE. ACCORDINGLY, NO REPRESENTATION OR WARRANTY IS MADE AS TO FUTURE PERFORMANCE OR SUCH FORWARD-LOOKING STATEMENTS.

THE PERFORMANCE DATA SET FORTH IN THIS DOCUMENT HAS BEEN COMPUTED BY MEDLEY AND IS UNAUDITED. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

# Table of Contents

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## Section

1. Summary Presentation – Medley Opportunity Fund II LP
2. Portfolio Update – Medley Opportunity Fund II LP
3. Overview of Medley
4. Market Opportunity
5. Underwriting Process
6. Portfolio Management
7. Medley Biographies

Appendix A – Fraud Prevention Overview

Appendix B – Valuation and Audit Process Overview

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## Summary Presentation - Medley Opportunity Fund II LP

# Overview

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## **Medley Opportunity Fund II LP (“MOF II”)**

- Private debt fund targeting \$1 billion of capital
- Over \$525 million commitments to date

## **Seeking equity-like returns with risk profile of secured debt**

- Investment strategy is to originate \$10-50M senior secured loans
- Target net returns of 13-15%+ to investors
- High current cash pay on loans (10-12%)
- Additional upside participation via warrants and accrued interest (Paid-in-Kind)

## **Successful track record over 10 years investing and managing 4 direct lending portfolios**

- Medley principals have successfully raised and managed 3 private limited partnerships and 1 public vehicle dedicated to the same investment strategy

## **Seasoned 46-person team**

- Deep experience in transaction sourcing, credit analysis and monitoring
- In-depth restructuring, liquidation and bankruptcy experience
- In house accounting, legal and compliance, tax and investor relations supporting MOF II



# The Opportunity

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## **Historically High Returns**

Equity-like returns can be achieved taking secured positions against high-quality assets and enterprises

## **Reduced Competition**

Exit of banks and other lenders has created historically tight liquidity conditions

## **Lower Risk**

Asset values and LTV ratios have declined

## **Predictable Exit**

Returns achievable even if public markets remain challenging

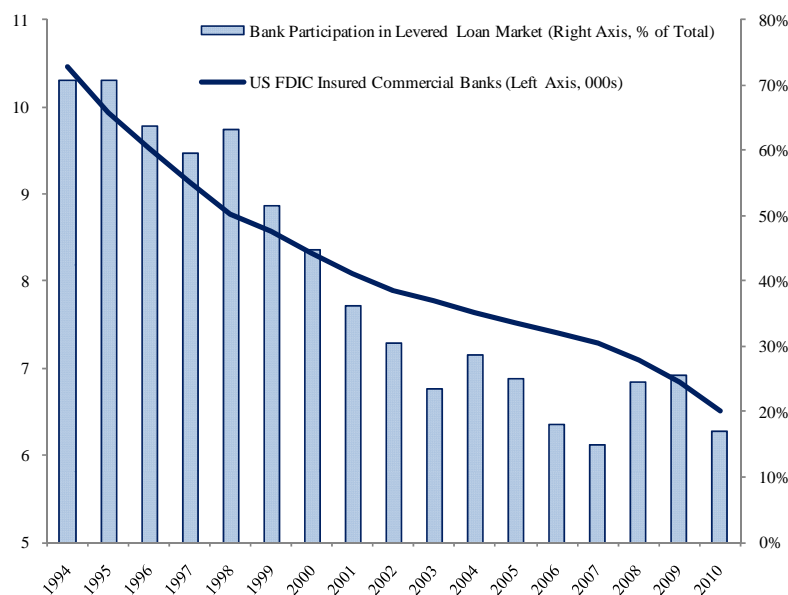
## **Disciplined Approach**

Medley's team and investment process have performed through the challenging environment that began in 2007

# Attractive Market Opportunity in Private Debt

- 15+ years of banks reducing exposure to middle market lending

*Bank Consolidation and Market Share  
in Non-Investment Grade Lending<sup>1</sup>*



**~3,900  
fewer banks  
from 1994-2010**

**Banks now have  
less than 20%  
market share**

1. Source: Federal Deposit Insurance Corporation, represents number of commercial banking institutions insured by the FDIC as of 12/31/10; S&P LCD as of 12/31/10.

# Private Debt

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- Equity-like returns with risk profile of secured debt
- Return OF and return ON capital is not dependent upon M&A or public equity market

Source	Downside Protection			Yield Generation			Return of Capital			
	Senior	Assets	Stock Pledge	Current Yield	PIK	Equity Upside	Amort.	Refi.	IPO	M&A
Banks	✓	✓	✓	✓			✓	✓		
Private Debt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mezzanine				✓	✓	✓		✓	✓	✓
Equity						✓			✓	✓

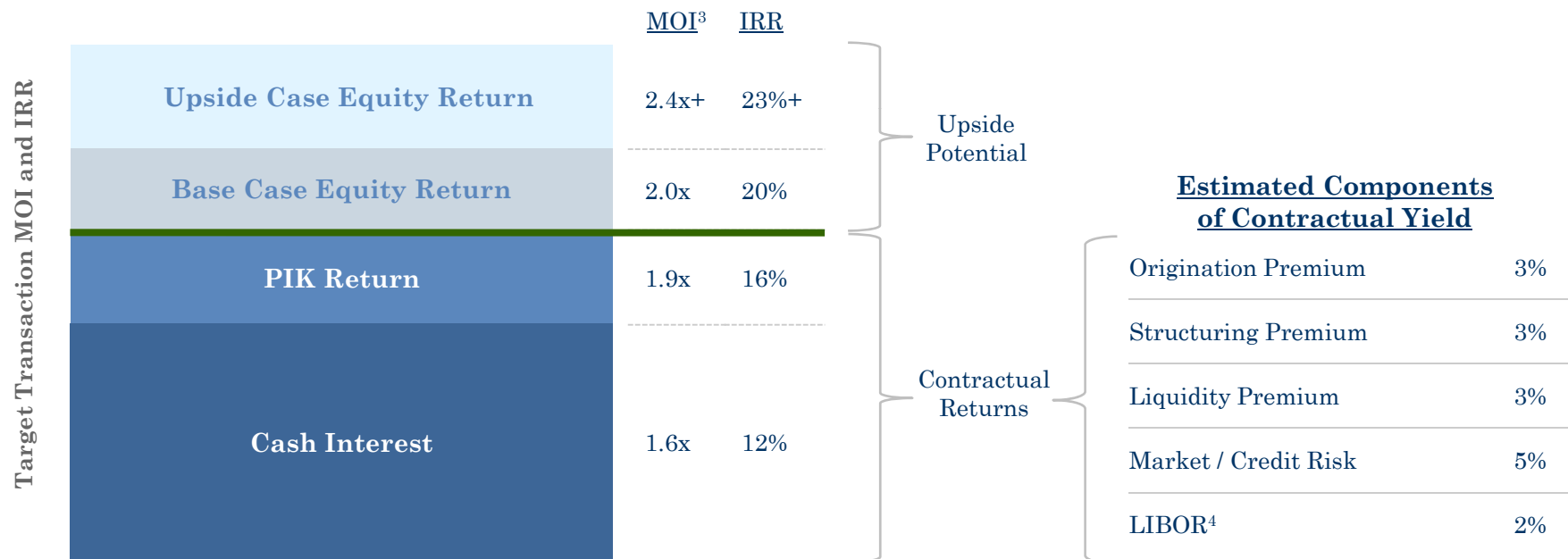
# The Principals and Medley Team

Principals	Experience	Education
<b>Richard Allorto</b> Chief Financial Officer	<ul style="list-style-type: none"> <li>CFO of Medley, CFO of Medley Capital Corporation (NYSE: MCC)</li> <li>CFO of GSC Investment Corp, a publicly listed BDC</li> <li>Managing Director of GSC Group, an alternative asset management firm</li> <li>Audit Supervisor at Arthur Andersen</li> </ul>	BS, Seton Hall University
<b>Rob Comizio</b> Partner	<ul style="list-style-type: none"> <li>Senior Portfolio Manager at Medley Credit Strategies</li> <li>Founder and the Chief Investment Officer of Viathon Capital</li> <li>Managing Director at Marathon Asset Management</li> <li>Senior Corporate Bond Trader at Lehman Brothers</li> </ul>	MBA, University of Chicago BS, University of Pennsylvania
<b>Andrew Fentress</b> Managing Partner	<ul style="list-style-type: none"> <li>Managing Partner at Medley, Director of Medley Capital Corporation (NYSE: MCC)</li> <li>Partner at CN Opportunity Fund</li> <li>Partner and co-portfolio manager for CQ Capital</li> <li>Principal in the Institutional Equity Business at Morgan Stanley</li> </ul>	MBA, University of North Carolina BA, Boston College
<b>Joe Schmuckler</b> Managing Partner	<ul style="list-style-type: none"> <li>Managing Partner at Medley</li> <li>Senior Executive Officer of Mitsubishi UFJ Securities Co.</li> <li>Chief Operating Officer and Director of Nomura Holding America, Inc.</li> <li>Partner at Kidder Peabody &amp; Co. Inc.</li> </ul>	MBA, New York University BS, University of Delaware
<b>Brook Taube</b> Managing Partner	<ul style="list-style-type: none"> <li>Managing Partner at Medley, Chairman/CEO of Medley Capital Corporation (NYSE: MCC)</li> <li>Partner at CN Opportunity Fund</li> <li>Founder of T3 Group and Griphon Real Estate Partners</li> <li>Vice President of Banker's Trust Company</li> </ul>	BA, Harvard College
<b>Seth Taube</b> Managing Partner	<ul style="list-style-type: none"> <li>Managing Partner at Medley, Director of Medley Capital Corporation (NYSE: MCC)</li> <li>Partner at CN Opportunity Fund</li> <li>Founder of T3 Group and Griphon Real Estate Partners</li> <li>Vice President of Tiger Management Real Estate Investments</li> </ul>	MBA, University of Pennsylvania MA, St. Andrews University BA, Harvard College
<b>Jeff Tonkel</b> Partner	<ul style="list-style-type: none"> <li>Partner at Medley</li> <li>Managing Director at JP Morgan, CFO Global Financing and Markets Products</li> <li>Managing Director at Friedman Billings Ramsey, Principal Investments</li> <li>Associate, Summit Partners</li> </ul>	MBA, Harvard BA, Harvard College

# Return Composition<sup>1</sup>

## MOF II is seeking 20%+ gross investment returns<sup>2</sup>

- Contractual returns of ~16% (12% cash plus 4% PIK)
- Equity upside adds 5-10% or more to annual IRR

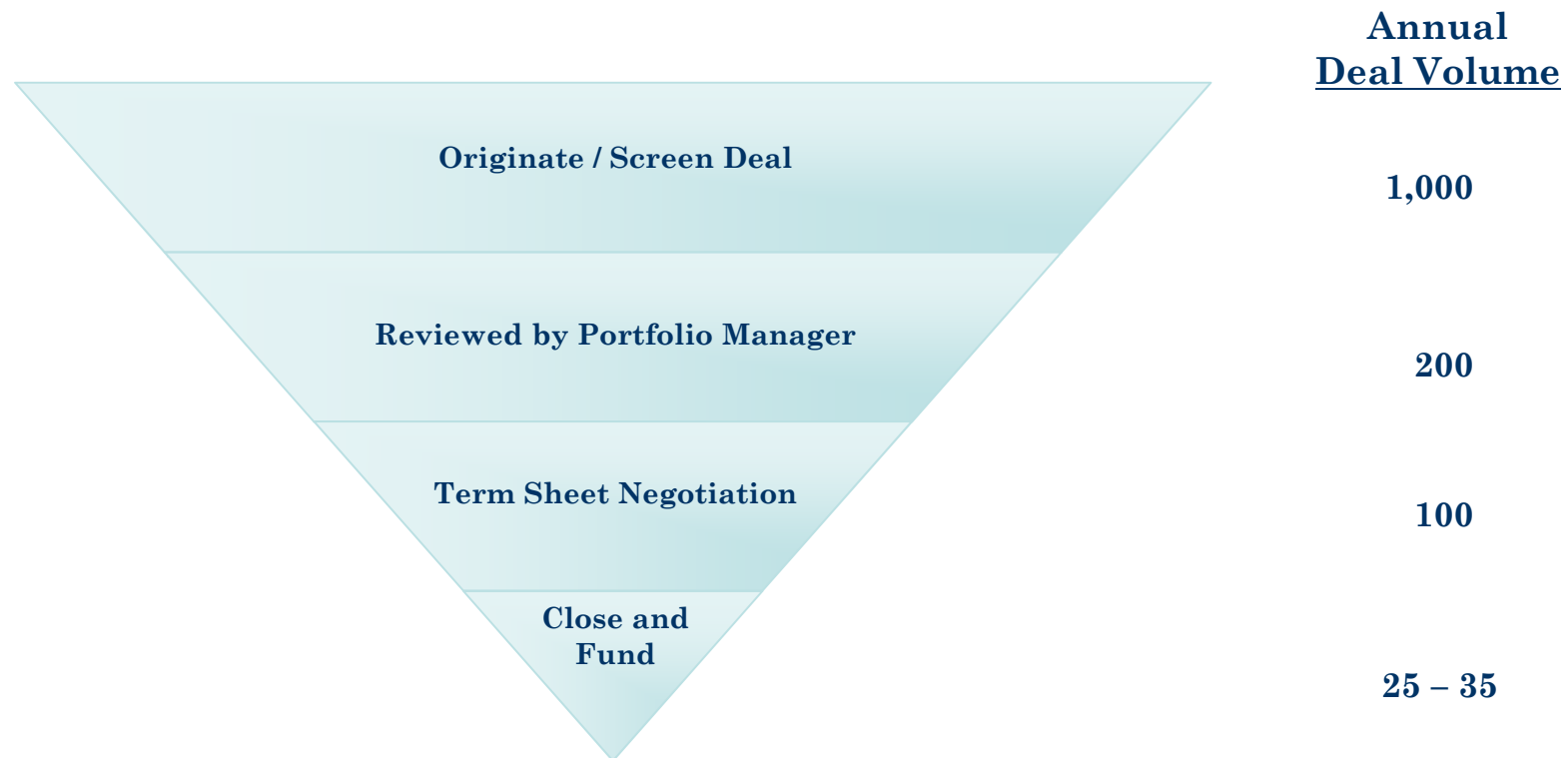


1. This targeted performance information must be read in conjunction with the explanatory notes contained in the Notice on page 2. No assurance can be given that the investment objectives or target investment returns will be achieved.
2. Gross returns before management fees, carried interest, fund expenses and potential loan losses, which will reduce returns to investors.
3. Multiple of investment ("MOI"), assumes average life of 5 years on loans and equity, actual duration may vary significantly.
4. Approximate 4-year swap rate equivalent.

# Selective Underwriting Process

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- Historically, Medley invests in 2%-4% of opportunities screened annually



# Medley Focus

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## **Financial Assets**

Leasing; Receivables; Insurance; NPLs; ABL; Factoring

## **Real Assets**

Real Estate; Resources; Energy; Logistics; Infrastructure

## **Corporate**

Industrials; Healthcare; Media & Telecom; Energy & Natural Resources; Aerospace & Defense; Transportation

# Investment Process

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- **Consistent and diligent approach to all investment and portfolio management processes**

## Sourcing

- 25 investment professionals
- Significant repeat and referral deal flow
- Avoid broadly marketed and syndicated transactions
- Over 60 deals closed in last 7 years

## Due Diligence and Structuring

- Rigorous in-house financial, industry, legal and business diligence
- Third-party appraisal, audit and industry specific analysis
- Background and tax compliance checks
- Engage outside legal counsel with industry specific expertise

## Monitoring and Exit

- Weekly contact and quarterly visits with borrowers
- Proprietary reporting and monitoring as well as independent valuation
- Rigorous collateral valuation, cash monitoring and anti-fraud protection
- 15 investment professionals with deep workout experience



# Risk Management

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## Portfolio Construction

### **Broad diversification**

- Sector / industry
- Collateral
- Position size

### **Careful structuring**

- UCC (lien) filings
- Cash control agreements
- Covenants
- Insurance

### **Rigorous due diligence**

- Systematic underwriting process
- Multiple stages of approval
- Third-party financial review
- Independent appraisals

## Asset Management

### **Rigorous oversight**

- Weekly borrower calls
- Monthly financials, cash reconciliation
- Quarterly onsite visits
- Active covenant monitoring

### **External checks and balances**

- Independent valuation and collateral analysis
- Loan servicing – Deutsche Bank
- Fund administration – SEI
- External forensic accounting team
- Outside legal counsel

# Summary of Terms

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<b>Fund:</b>	Medley Opportunity Fund II LP
<b>Target Offering Size:</b>	\$1 billion
<b>Investment Period:</b>	2 years from Final Closing
<b>Fund Term:</b>	7 years, with 2 one-year extensions
<b>GP Commitment:</b>	1% of Committed Capital
<b>Carried Interest:</b>	20%
<b>Preferred Return:</b>	8%
<b>Management Fee:</b>	1.5%
<b>Minimum Commitment:</b>	\$10M

These preliminary materials outline certain characteristics of MOF II. All information in these materials is for illustrative purposes only. These materials are presented solely for purposes of discussion to assist prospective investors in determining whether they have a preliminary interest in investing in the Fund with the general characteristics described herein. The Fund is in a structuring phase and there may be material changes to the structure, terms and target assets prior to any interests in the fund being offered.

# Summary

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## **Compelling market opportunity**

- Secured positions against high-quality assets and enterprises
- Less competition due to exit of traditional lending sources
- Contractual payments that are not dependent upon M&A or public equity market

## **Attractive return/risk profile**

- Lower asset values and conservative LTV ratios = lower risk
- Greater upside via increased warrants and other “kickers” = higher expected return

## **Qualified team with proven track record**

- Principals have worked together for 10 years executing a consistent investment strategy:
  - Fund 1 - Delivered high teens returns during a post recession, favorable credit environment<sup>1</sup>
  - Fund 2 - Delivering positive returns during the challenging market that began in 2007<sup>2</sup>
  - Fund 3 - Investing and delivering high teens returns<sup>3</sup>

1. Medley principals managed the CN Opportunity Fund LP (Fund 1) from March 2003 through December 2005
2. Medley Opportunity Fund LP (Fund 2) began investing in November 2006 and is currently returning capital to investors
3. Medley Opportunity Fund II LP (Fund 3) began investing in January 2011

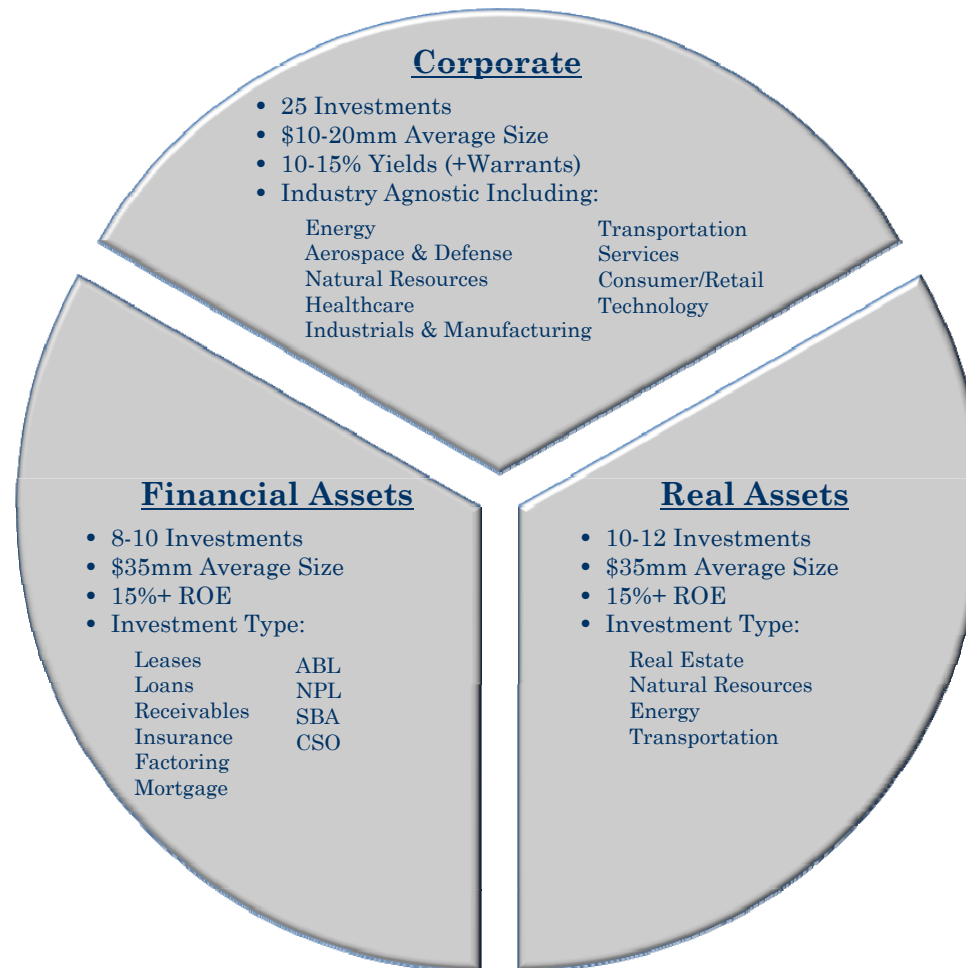
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## Portfolio Update - Medley Opportunity Fund II LP

# Origination Overview

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MOF II portfolio is diversified by asset type (assumes \$1B fund size)



# Favorable Liquidity Profile

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## **Existing Portfolio and Strong Pipeline:**

- Immediate investment in existing portfolio
- 57% of existing capital commitments are invested or committed
- Current pipeline of 18 deals and \$401 million

## **Predictable Liquidity:**

- 2-year investment period followed by quarterly distributions of principal and interest
- Weighted average remaining life of current portfolio is 4.2 years

# Origination Summary & Pipeline

The following two pages show closed, closing, approved and pipeline investments with pricing and returns

(\$ millions)	Sector	Structure		Pricing		Gross Contractual Return		Gross Return w/ Equity	
		Size	Security	Cash Yield	PIK	IRR <sup>1</sup>	MOI	IRR <sup>1</sup>	MOI
1	Cenegenics	\$21.0	Senior - 1st Lien	10.0%	2.5%	14.4%	1.56x	14.9%	1.59x
2	Javlin Financial	20.0	Senior - 1st Lien	12.0%	5.0%	18.7%	1.89x	24.6%	2.60x
3	Fifth Season	20.0	Senior - 1st Lien	10.0%	4.0%	15.1%	1.77x	17.3%	1.94x
4	GJS	19.0	Senior - 1st Lien	L+9.0% <sup>2</sup>	3.0%	15.1%	1.57x	15.1%	1.57x
5	Plews & Edelmann	4.0	Senior - 2nd Lien	12.0%	3.0%	16.7%	1.56x	32.9%	2.72x
6	Astral Health & Beauty	18.6	Senior - 1st Lien	L+11.0%	2.0%	16.9%	1.73x	16.9%	1.73x
7	The Legacy Companies	30.0	Senior - 2nd Lien	12.0%	3.0%	17.4%	1.89x	17.9%	1.93x
8	Gemcap	21.0	Senior - 2nd Lien	L+10.0%	0.0%	12.6%	1.60x	25.3%	2.44x
9	Home Market Foods	15.0	Senior - 2nd Lien	L+10.0% <sup>4</sup>	2.0%	16.2%	1.88x	16.2%	1.88x
10	Coyne Textile Services	18.0	Senior - 2nd Lien	L+12.0%	3.0%	18.2%	2.01x	18.2%	2.01x
11	Online Consumer Finance Platform <sup>6</sup>	22.9	Senior - 1st Lien	15.0%	0.0%	25.6%	1.61x	25.6%	1.61x
12	Memorial MRI & Diagnostic	22.0	Senior - 1st Lien	12.0% <sup>3</sup>	2.0%	15.2%	1.69x	26.4%	2.56x
13	AUL Corporation	16.4	Senior - 2nd Lien	L+10.0%	2.5%	15.9%	1.88x	16.6%	1.93x
14	Santa Cruz Nutritionals	10.0	Senior - 1st Lien	11.5%	3.5%	16.3%	1.49x	16.3%	1.49x
15	Gulf Coast Asphalt Company	25.0	Senior - 2nd Lien	L+11.0% <sup>2</sup>	4.0%	17.0%	1.78x	17.0%	1.78x
Weighted Average		18.9		12.6% <sup>5</sup>	3.7%	16.7%	1.72x	20.2%	2.01x
Sub Total		\$282.9							

Senior - 1st Lien	54%
Senior - 2nd Lien	46%

1. The gross projected IRR does not take into consideration the effect of base management fees, incentive fees or general fund related expenses. There can be no assurance that these returns will be achieved and actual results may differ significantly. Total represents weighted average and includes the benefit of loan origination and administration fees paid by the borrower.

2,3,4. Subject to a LIBOR floor of 1.00%, 1.50% and 2.00%, respectively.

5. Represents weighted average and includes the impact of LIBOR floors and forward LIBOR curve assumptions according to industry standards.

6. Contractual return includes 4.0% upfront fee and an original issue discount of 12.6%.

# Origination Summary & Pipeline (cont'd)

		Structure		Pricing		Gross Contractual Return		Gross Return w/ Equity	
(\$ millions) Sector		Size	Security	Cash Yield	PIK	IRR <sup>1</sup>	MOI	IRR <sup>1</sup>	MOI
1	Specialty Finance	25.0	Senior - 1st Lien	15.0%	0.0%	15.6%	1.69x	25.1%	2.91x
2	Healthcare	20.0	Senior - 1st Lien	15.0%	0.0%	17.1%	1.43x	21.0%	1.55x
3	Healthcare	10.0	Senior - 1st Lien	10.0%	4.0%	16.3%	1.47x	16.3%	1.47x
4	Software	30.0	Senior - 1st Lien	L+11.0% <sup>2</sup>	2.0%	16.1%	1.54x	16.1%	1.54x
5	Equipment Leasing	4.2	Senior - 1st Lien	L+9.5% <sup>3</sup>	3.0%	15.7%	1.70x	15.7%	1.70x
6	Business Services	35.0	Senior - 1st Lien	L+11.0% <sup>3</sup>	2.0%	16.4%	1.71x	16.4%	1.71x
7	Industrial	18.5	Senior - 1st Lien	L+13.0% <sup>2</sup>	0.0%	15.6%	1.66x	15.6%	1.66x
8	Automotive	10.0	Senior - 2nd Lien	L+10.5% <sup>2</sup>	2.0%	15.9%	1.85x	15.9%	1.85x
9	Aerospace & Defense	15.0	Senior - 1st Lien	L+12.0% <sup>3</sup>	3.0%	17.3%	1.65x	17.3%	1.65x
10	Oil & Gas	20.0	Senior - 1st Lien	12.0%	3.0%	18.9%	1.67x	27.0%	2.10x
11	Healthcare	32.5	Senior - 2nd Lien	12.0%	3.0%	16.9%	1.93x	16.9%	1.93x
12	Equipment Leasing	35.0	Senior - 2nd Lien	12.0%	4.0%	17.8%	2.01x	17.8%	2.01x
13	Aerospace & Defense	26.0	Senior - 1st Lien	10.0%	2.0%	13.2%	1.65x	13.2%	1.65x
14	Health & Wellness	25.0	Senior - 2nd Lien	12.0%	2.0%	15.4%	1.84x	15.4%	1.84x
15	Municipal Service	19.6	Senior - 1st Lien	L+11.0% <sup>3</sup>	0.0%	13.5%	1.63x	13.5%	1.63x
16	Aerospace & Defense	35.0	Senior - 2nd Lien	12.0%	2.0%	15.6%	1.84x	15.6%	1.84x
17	Business Services	20.0	Senior - 2nd Lien	16.1% <sup>4</sup>	0.0%	17.4%	1.80x	17.4%	1.80x
18	Business Services	20.0	Senior - 2nd Lien	12.0%	2.0%	15.7%	1.85x	15.7%	1.85x
Weighted Average		22.3		13.7% <sup>5</sup>	2.0%	16.1%	1.74x	17.4%	1.82x
Sub Total		\$400.8							

Senior - 1st Lien	56%
Senior - 2nd Lien	44%

		Weighted Averages						
Total	Total	Deal Size	Cash Yield	PIK	IRR	MOI	IRR	MOI
33	\$683.7	\$20.7	13.2%	2.7%	16.4%	1.73x	18.5%	1.91x

1. The gross projected IRR does not take into consideration the effect of base management fees, incentive fees or general fund related expenses. There can be no assurance that these returns will be achieved and actual results may differ significantly. Total represents weighted average and includes the benefit of loan origination and administration fees paid by the borrower.
- 2,3. Subject to a LIBOR floor of 1.00% and 1.50%, respectively.
4. Reflects the last out portion of a senior secured unitranche facility.
5. Represents weighted average and includes the impact of LIBOR floors and forward LIBOR curve assumptions according to industry standards.



# Portfolio Summary – Closed & Committed

## ASSETS

Investments (Closed and Committed)	\$282.9M
Cash	\$212.3M
Total Assets	\$495.2M
Total Liquidity	\$212.3M
Average Transaction Commitment	\$18.9M
Closed and Committed % of Total Assets	57.1%
# of Borrowers	15
Avg. Remaining Life (Years)	4.2

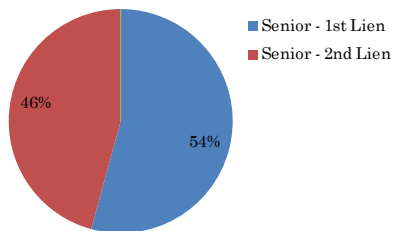
## PORTFOLIO INCOME OVERVIEW <sup>1</sup>

Fees	0.4%
Cash Interest	12.6%
PIK	3.7%
Weighted Avg. Contractual Yield	16.7%
Equity Upside	3.5%
Portfolio Underwriting Yield	20.2%
MOI (contractual)	1.7x
MOI (w/ equity)	2.0x

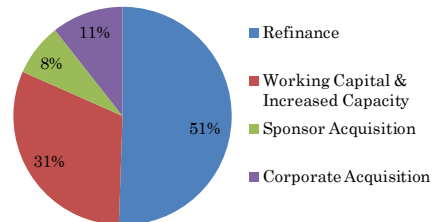
## CREDIT

Leverage through MOF Debt	3.3x
Total Leverage	3.7x
LTV through MOF Debt	61.7%
Floating Rate	46.3%
Fixed Rate	53.7%

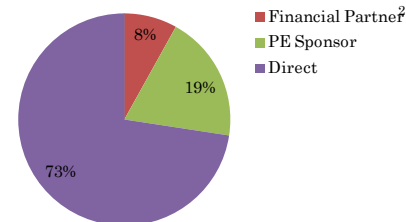
## Security



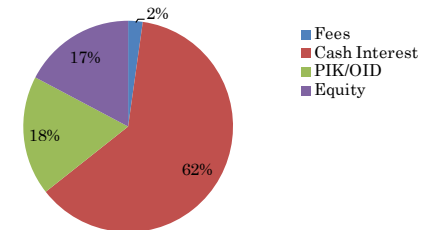
## Use of Capital



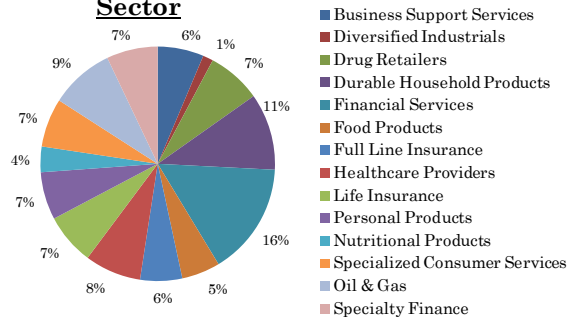
## Source



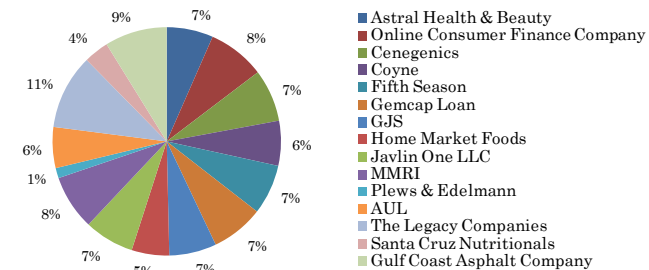
## Yield Components



## Sector



## Concentration by Borrower



1. Yield/MOI and Yield/MOI component calculations assume all positions are held to maturity and all payments are made when scheduled. Further, calculations contain industry standard assumptions on future trends with respect to LIBOR rates.

2. Includes commercial banks, BDCs and other financial partners.

# Origination Statistics

(\$ millions)

Medley has a strong pipeline and a disciplined filtering process

## Evaluated Deals - Distribution by Status

Category <sup>1</sup>	Deals		
	#	\$	% of Total
Closed	15	\$283	2.4%
Closing/Funded	0	0	0.0%
Pipeline	18	401	3.4%
Killed - Desk	737	9,065	76.2%
Killed - At ERM	101	1,450	12.2%
Killed - Post ERM	42	603	5.1%
Killed - Post GLM/ICM	8	98	0.8%
<b>Total</b>	<b>921</b>	<b>\$11,900</b>	<b>100.0%</b>
<b>Total Killed</b>	<b>888</b>	<b>\$11,216</b>	<b>94.3%</b>

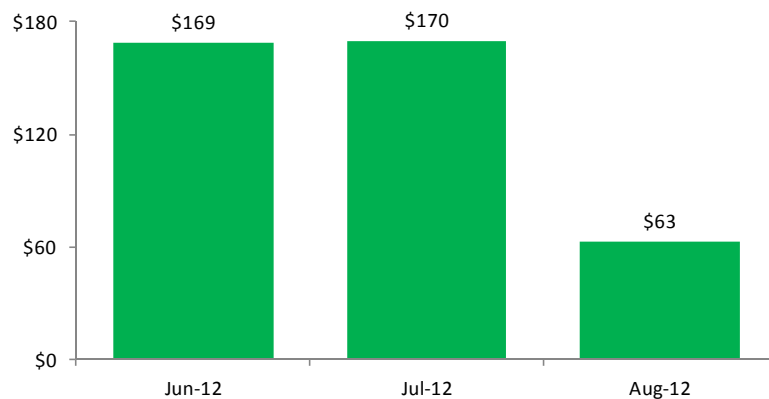
## Distribution by Security Type

Category	Deals		
	#	\$	% of Total
Senior - 1st Lien	19	\$377	55.1%
Senior - 2nd Lien	14	307	44.9%
<b>Total</b>	<b>33</b>	<b>\$684</b>	<b>100.0%</b>

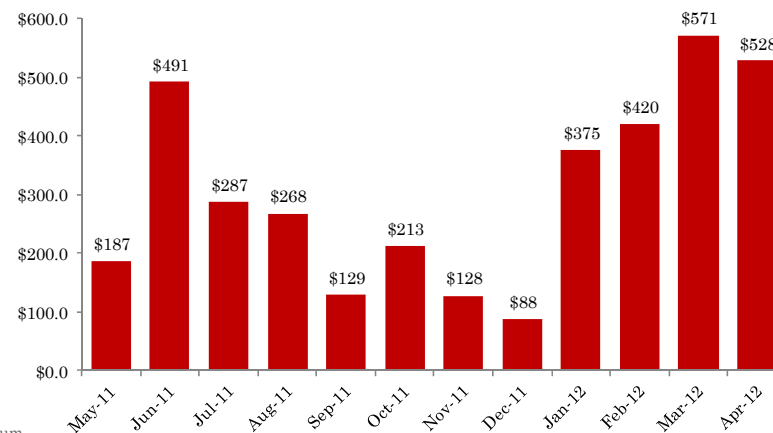
## Distribution by Source

Category	Deals		
	#	\$	% of Total
Repeat & Referral / Network	16	\$346	50.5%
Intermediary	7	141	20.7%
Financial Sponsor	10	197	28.8%
<b>Total</b>	<b>33</b>	<b>\$684</b>	<b>100.0%</b>

## Expected Deal Volume (Live Deals)



## Killed Volume by Origination Date



1. ERM = Early Read Memorandum, GLM = Green Light Memorandum, ICM = Investment Committee Memorandum.

# Closed & Committed Transactions

# Closed & Committed Transactions



## Gulf Coast Asphalt Company

Sector: Oil & Gas

\$25,000,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

June 2012



## Santa Cruz Nutritionals

Sector: Nutritional Products

\$10,000,000  
Senior Secured 1<sup>st</sup> Lien  
Credit Facility

May 2012



## AUL Corporation

Sector: Full Line Insurance

\$16,400,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

March 2012

## Memorial MRI & Diagnostic

## Memorial MRI & Diagnostic

Sector: Healthcare Providers

\$27,000,000  
Senior Secured 1<sup>st</sup> Lien  
Credit Facility

February 2012



## Coyne Textile Services

Sector: Business Services

\$18,000,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

December 2011



## The Legacy Companies

Sector: Consumer Products

\$30,000,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

September 2011



## Plews, Inc.

Sector: Industrial Components

\$4,700,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

April 2011

## HOME MARKET FOODS

## Home Market Foods

Sector: Food Manufacturing & Distribution

\$15,000,000  
Senior Secured 2<sup>nd</sup> Lien  
Credit Facility

October 2011

# Closed & Committed Transactions

 <p><b>Javlin Specialty Finance</b> Sector: Specialty Finance</p> <hr/> <p>\$20,000,000 Senior Secured 1<sup>st</sup> Lien Asset-Based Credit Facility</p> <p>April 2011</p>	 <p><b>Cenegenics LLC</b> Sector: Healthcare &amp; Wellness</p> <hr/> <p>\$21,000,000 Senior Secured 1<sup>st</sup> Lien Credit Facility</p> <p>July 2011</p>	 <p><b>Astral Brands, Inc.</b> Sector: Consumer Products</p> <hr/> <p>\$18,600,000 Senior Secured 1<sup>st</sup> Lien Credit Facility</p> <p>August 2011</p>	<p><b>Online Consumer Finance Platform</b></p> <p><b>Online Consumer Finance Platform</b> Sector: Consumer Finance</p> <hr/> <p>\$22,900,000 Senior Secured 1<sup>st</sup> Lien Asset-Based Credit Facility</p> <p>December 2011</p>
 <p><b>Fifth Season Financial, Inc.</b> Sector: Insurance</p> <hr/> <p>\$20,000,000 Senior Secured 1<sup>st</sup> Lien Asset-Based Credit Facility</p> <p>February 2011</p>	<p><b>GENE JUAREZ</b></p> <p><b>GJS LLC</b> Sector: Consumer Services</p> <hr/> <p>\$19,000,000 Senior Secured 1<sup>st</sup> Lien Credit Facility</p> <p>June 2011</p>	 <p><b>Gemcap Solutions</b> Sector: Financial Services</p> <hr/> <p>\$21,000,000 Senior Secured 2<sup>nd</sup> Lien Asset-Based Credit Facility</p> <p>September 2011</p>	

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## Overview of Medley

# Overview of Medley

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## Medley

Medley is an investment management firm with approximately \$1.6 billion in assets under management. Medley's private debt strategy focuses primarily on secured direct lending to middle market companies in the United States. Secured direct lending protects capital in times of volatility, achieves predictable returns with low market correlation to broader equity and fixed income markets, and rewards investors with upside via warrants in times of growth.

## Firm Objectives

- Deliver attractive and consistent returns to investors
- Give sound advice to borrowers throughout the life of a transaction
- Provide transparency to investors with timely, accurate and consistent reporting
- Maintain a durable firm culture that attracts and retains outstanding professionals

## Private Debt Strategy

We invest in private debt transactions in amounts of \$10-50M with growing middle market firms in the United States. These transactions combine attractive elements of both equity and fixed-income investments. A typical transaction yields 12% in cash, 4% in PIK and 4% in additional equity upside in the form of options, warrants, cash flow sharing, co-investment rights or other participation features. With a total return of 20% or greater, a well constructed private debt portfolio offers upside potential similar to mezzanine investments and downside protection similar to bank loans.

# Overview of Medley

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## Why Invest with Medley

### Qualified team with successful track record

- Principals have worked together for 10 years executing a consistent strategy
- No turnover among the partner and managing director level on the investment and asset management teams
- Medley delivered positive returns during the challenging market that began in 2007

### Full transparency with timely and consistent reporting

- Investment team has 24/7 access to asset management system
- Monthly performance summaries, portfolio snapshots and cash flow forecasts
- Annual fund audits and quarterly valuations

### Third party oversight

- Auditor (Rothstein Kass) will conduct an annual audit of the fund
- Independent third-party valuation experts will perform quarterly valuations of the portfolio investments on a rotating basis such that every investment will be reviewed at least twice annually
- Fund administrator (SEI) calculate quarterly NAV and capital account balance
- Loan servicer (Deutsche Bank) manages all cash flows associated with each investment



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## Market Opportunity

# Market Opportunity Overview

Medley believes the credit crises that began in 2007 and the subsequent exit of traditional lending sources have created a compelling opportunity for skilled private debt providers in the middle-market. Medley expects to take advantage of the following favorable trends in private lending:

## Reduced Competition Leads to Higher Quality Deal Flow

- Commercial banks and other leveraged financial institutions have curtailed their lending activities in the current environment.
- The relative absence of competition will facilitate higher quality deal flow and allow for greater selectivity throughout the investment process.

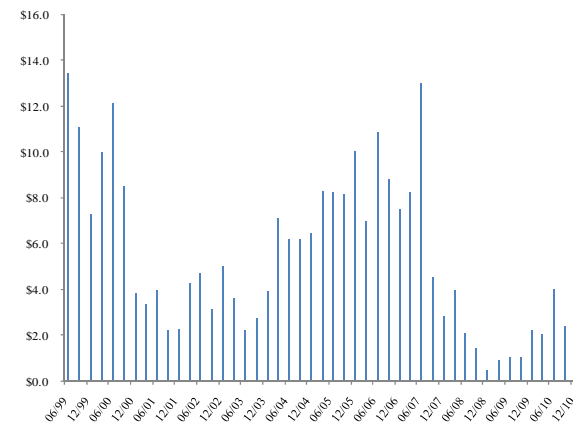
## Lack of Liquidity Creates Attractive Pricing

- A meaningful gap exists between public and private market debt spreads, primarily due to the fact that liquidity has not been returning to the private lending markets in the same way it has been returning to the public debt markets.
- Medley believes gross internal rates of return of up to 20% are available for private debt investments in the current market via cash interest, PIK interest and equity participations.

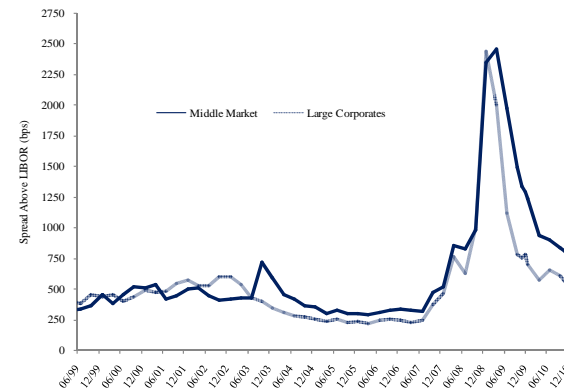
1. Source: S&P LCD, as of 12/31/10. Includes issuers with \$50M or less of EBITDA.

2. Source: S&P LCD, as of 12/31/10. Represents spreads over three month LIBOR.

**Leveraged Loan Issuance Volume<sup>1</sup>**



**Leveraged Loan Spreads<sup>2</sup>**



# Market Opportunity Overview

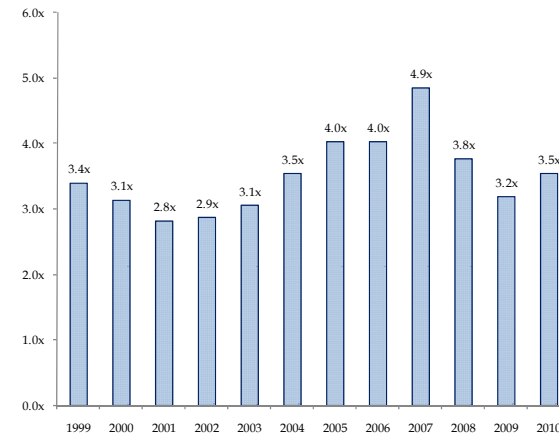
## Lower Leverage and Lower LTV Ratios Result in More Conservative Transaction Structures.

- Lenders in the current environment are requiring lower leverage, increased equity commitments and stricter covenant packages. Reduced leverage and reduced purchase price multiples provide further cushion for borrowers to meet debt service obligations.
- Accompanying the decline in leverage are lower LTV ratios which result in additional asset coverage and more favorable liquidation outcomes, further mitigating downside risk.

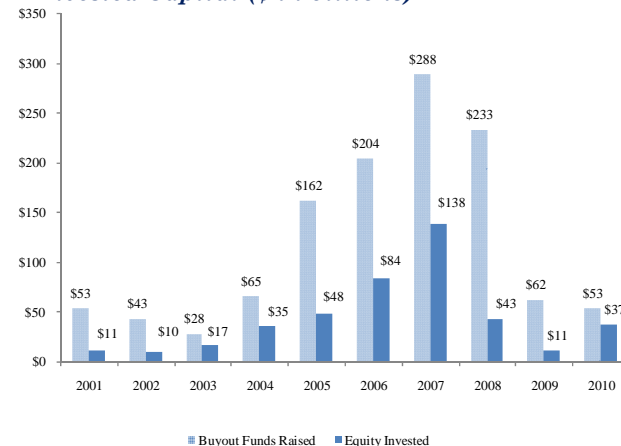
## Specialized Lending Needs and Unfunded Private Equity Commitments Drive Demand for Debt Capital.

- Lending to private middle-market companies requires in-depth diligence, credit expertise, restructuring experience and active portfolio management. As such, of the U.S. financial institutions that are not liquidity constrained, few are capable of pursuing a private lending strategy successfully.
- We believe this creates a significant supply/demand imbalance for private credit. Adding to this imbalance is the vast sum of unused private equity capital raised from 2006-2010, which will require debt financing in the coming years.

**Middle Market Leverage Multiples of LBO Loans<sup>1</sup>**



**Private Equity Commitments and Invested Capital (\$ in billions)<sup>2</sup>**



1. S&P LCD, as of 12/31/10. Includes issuers with less than \$50M in EBITDA.

2. Source: Buyouts Magazine (U.S. Buyout Fund Commitments) / Standard & Poor's Leveraged Commentary Data (Equity Invested in U.S. Sponsored Transactions), as of 12/31/10.

# Application of Market Data

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## Transaction Leadership

Medley is typically the sole senior secured debt provider, or maintains the control position in a larger debt tranche. Maintaining the control position reduces structural and deal risk and accelerates time to resolution when a portfolio company requires any form of modification or workout. As a result, Medley is in a proactive position in setting initial terms and structure rather than a reactive position responding to syndicated deal terms that are widely shopped and more difficult to modify.

## Data Driven Execution

In addition to company metrics and deal risk, Medley uses private and public market data to drive pricing decisions. Medley closely observes capital market activity and disseminates an internal data summary each week. Public data includes current spreads (LIBOR, UST), levered loan market spreads and new issuance activity in various tranches: senior bank, 1<sup>st</sup> lien, 2<sup>nd</sup> lien, mezzanine loans and unitranche. Capital market data is sourced from various major banks as well as third party specialty data providers, such as S&P Leveraged Commentary and Data.

In the private market, Medley compiles and discusses weekly terms from recent private syndicated transactions, competitive debt transactions that were completed away from Medley, and refinancing terms obtained at all tranche levels for our existing portfolio companies and potential future borrowers.

This private and public information aids significantly in establishing appropriate terms for new transactions and gathering pricing data used in the valuation process. Market awareness at all tranche levels aids portfolio companies in refinancing Medley loans (an exit for Medley), obtaining additional equity or mezzanine debt that improves our credit position or facilitating a small working capital line with a senior bank lender at competitive pricing.

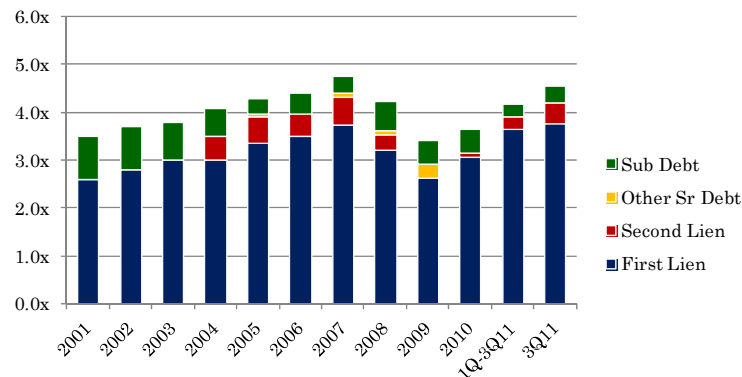
# Private Loan Market Data: Leverage and Pricing

## • Market Pricing Matrix: YTD Transactions<sup>1</sup>

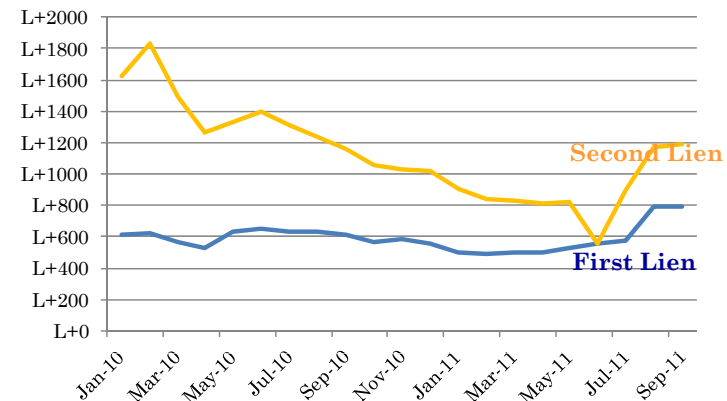
Company Size (Annual EBITDA)	Description	Structure	
		Senior	Second-Lien
Large Cap >\$51M	Leverage	2.5 - 3.7x	3.7 - 5.4x
	Pricing	L + 375 - 500	L + 780 - 890
	Median Deal Size (\$M)	\$250	\$140
	Number of Deals	154	16
Middle Market \$25-75M	Leverage	3.1-3.9	4.2-6.1
	Pricing	L + 450 - 550	L + 775 - 875
	Median Deal Size (\$M)	\$150	\$80
	Number of Deals	88	18
Lower Middle Market \$0-25M	Leverage	3.3 - 3.8x	NA
	Pricing	L + 475 - 550	NA
	Median Deal Size (\$M)	\$90	NA
	Number of Deals	18	NA

- As expected, the market continues to provide more favorable terms to larger companies as they stabilize and demonstrate maturity
- Deal volume continues to be heavily weighted to the large cap and middle market investment spaces
- Q3' 2011 average total leverage at 4.6x is a 24% increase from 2010 levels and a 4.4% drop from the top of the market in 2007
- Although the average yield differential between first lien and second lien paper is significant at 420bps, it has narrowed from 933bps in March 2010

## Historical Middle Market Leverage<sup>2</sup>



## Historical Spreads – 15 Largest Issuers<sup>3</sup>



1. Source: Churchill Financial selected transactions. Excludes deals without EBITDA and leverage ratios.

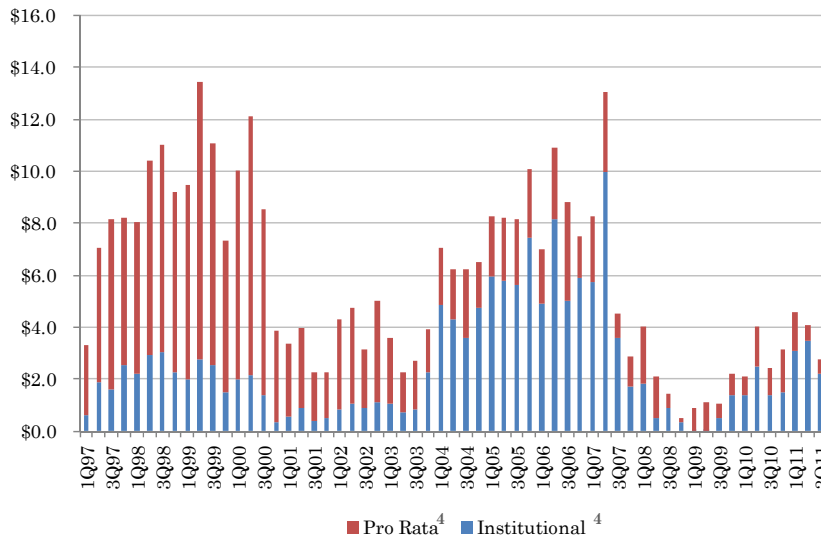
2. Source: S&P LCD, as of 9/30/11. Includes average debt multiples of middle-market leveraged loans of issuers with EBITDA of \$50M or less.

3. Source: S&P LCD, as of 9/30/11. Includes transactions with both 1<sup>st</sup> and 2<sup>nd</sup> lien tranches.

# Private Loan Market Data: Issuance Volume

- Middle Market Leverage Loan Issuance Volume (\$B)

Quarterly Leveraged Loan Issuance Volume<sup>1</sup>



Quarterly Comparison<sup>2,3</sup>

Monthly Volume	4Q 2010	1Q 2011	2Q 2011	MoM Increase
Pro Rata	\$1.66	\$1.48	\$0.61	-59%
Institutional	\$1.50	\$3.08	\$3.45	12%
Total	\$3.16	\$4.56	\$4.06	-11%

HY Loan Issuance Volume	# of Issues	\$ Value
Week Ending 6/30/11	30	\$14.70
Prior 4 Week Average	38	\$13.80

- Institutional issuance has increased over 12% on a quarter over quarter basis from Q1 2011 to Q2 2011
  - As the market continues to recover, institutional investors are more willing to put cash to work in untraditional asset classes such as levered loans to generate higher returns
- Q2 2011 issuance volume of \$4.06B has increased 8.3x from the quarterly low at the end of 2008
- However, issuance volume is still off 38% from the pre-2009 quarterly average of \$6.55B (3/97 – 12/08)
- High Yield issuance volume has decreased in the number of deals but increased in average dollar amount over the prior four week average

1. Source: S&P LCD, as of 9/30/11. Includes issuers with \$50M or less of EBITDA.

2. Source: S&P LCD, as of 9/30/11.

3. Source: Bloomberg league tables.

4. Pro rata represents debt held at banks from syndicated deals; institutional represents debt held by other investors.

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## Underwriting Process

# Underwriting Process: *Originate*

	Investment Team	FA&O <sup>1</sup>	Investment Committee
Action Items	<ul style="list-style-type: none"> <li>• Preliminary review business of plan</li> <li>• Preliminary financial, industry, legal, credit and regulatory analysis</li> <li>• Initial pricing and structuring discussions</li> <li>• Prepare early read memo</li> </ul>	<ul style="list-style-type: none"> <li>• Review key tax issues</li> <li>• Identify ideal structure from a tax, legal and investment perspective</li> <li>• Identify regulatory and compliance checklist items</li> </ul>	<ul style="list-style-type: none"> <li>• Review of early read memo</li> <li>• Identification of additional key and diligence points</li> <li>• Use of Medley network to identify potential consultants or management</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>✓ Early read memo</li> <li>✓ Initial preparation of comprehensive due diligence request list</li> <li>✓ Execute NDA</li> <li>✓ Create internal deal model, cap table and seniority waterfall</li> </ul>	<ul style="list-style-type: none"> <li>✓ Legal structure</li> <li>✓ Tax diagrams</li> <li>✓ Key regulatory and compliance diligence</li> </ul>	<ul style="list-style-type: none"> <li>✓ Identification of additional key and diligence points</li> <li>✓ Approval for investment team to proceed to full diligence and term sheet</li> </ul>
Team	<ul style="list-style-type: none"> <li>• Investment Committee member</li> <li>• Senior investment professional (Sr. VP/Principal)</li> <li>• Junior investment professional (VP/Associate)</li> </ul>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• Controller</li> <li>• Compliance Officer</li> <li>• Fund Counsel (Seward &amp; Kissel)</li> </ul>	<ul style="list-style-type: none"> <li>• Andrew Fentress</li> <li>• Brook Taube</li> <li>• Seth Taube</li> </ul>

1. Financial, Accounting & Operations team.



# Underwriting Process: *Structure*

	Investment Team	FA&O <sup>1</sup>	Investment Committee
Action Items	<ul style="list-style-type: none"> <li>• Issue comprehensive DD list</li> <li>• Initiate third party reports (background checks, earnings quality, market reports)</li> <li>• Negotiate term sheet and engage counsel</li> <li>• Financial/credit analysis, site visit, customer/supplier calls, tax/legal structure analysis</li> <li>• Prepare detailed summary of all diligence findings for investment committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Draft internal fund documents (participation agreements, formation docs)</li> <li>• Finalize tax and legal structure</li> <li>• Analyze effect on fund liquidity</li> <li>• Oversee and execute funding</li> </ul>	<ul style="list-style-type: none"> <li>• Assist in diligence process</li> <li>• Confirm tax and legal structure given fund affiliates</li> <li>• Approve final legal docs and terms not covered in the initial term sheet (eg covenants)</li> <li>• Provide follow-up DD requests after investment committee meeting and subsequent funding approval</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>✓ Detailed sensitivity analysis</li> <li>✓ Executed term sheet/commitment letter</li> <li>✓ Satisfactory completion of DD list and background checks</li> <li>✓ Third party reports, customer checks</li> <li>✓ Preliminary legal documents and structural check</li> <li>✓ Investment committee memo, closing memo and funds flow memo</li> </ul>	<ul style="list-style-type: none"> <li>✓ Internal fund documents</li> <li>✓ Approval of final legal and tax structure</li> <li>✓ Investment funding</li> <li>✓ Funds flow</li> </ul>	<ul style="list-style-type: none"> <li>✓ Participation in site visits, meetings with management, financial analysis</li> <li>✓ Review of results of final DD and lead investment committee discussion</li> <li>✓ Execution of final legal documents</li> <li>✓ Execution of funding request and closing memo</li> </ul>
Team	<ul style="list-style-type: none"> <li>• Investment Committee member, senior investment professional (Sr. VP/Principal), junior investment professional (VP/Associate)</li> <li>• Outside counsel and consultants (valuation and background check firm)</li> </ul>	<ul style="list-style-type: none"> <li>• CFO, Controller, Compliance Officer</li> <li>• Fund Counsel (Seward &amp; Kissel)</li> </ul>	<ul style="list-style-type: none"> <li>• Andrew Fentress</li> <li>• Brook Taube</li> <li>• Seth Taube</li> </ul>

1. Financial, Accounting & Operations team.

# Underwriting Process: *Manage*

	Investment Team	FA&O <sup>1</sup>	Investment Committee
Action Items	<ul style="list-style-type: none"> <li>• Monitor borrower financial reporting and maintain records in Medley AMS system</li> <li>• Monitor relevant market and industry macro trends</li> <li>• Identify and pursue potential exit scenarios</li> <li>• Orchestrate any necessary restructurings</li> <li>• Assist in semi-annual valuation process</li> </ul>	<ul style="list-style-type: none"> <li>• Coordinate notification and receipt of principal and interest payments</li> <li>• Manage valuation and audit process</li> <li>• Oversee internal financial record keeping for each investment</li> <li>• Monitor adherence to compliance procedures and various regulatory checks</li> </ul>	<ul style="list-style-type: none"> <li>• Lead restructurings and investment decisions concerning follow-on investments, asset sales or potential exits</li> <li>• Provide assistance in monitoring macro factors</li> <li>• Manage investment liquidity given overall fund liquidity</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>✓ AMS reporting (financials, industry, covenants, fraud prevention, qualitative business updates, etc.)</li> <li>✓ Receipt of borrower financials, covenant compliance reports</li> <li>✓ Backup for valuation materials</li> <li>✓ Management reports/calls</li> <li>✓ Business/customer checks</li> </ul>	<ul style="list-style-type: none"> <li>✓ Quarterly valuations and financial statements</li> <li>✓ Quarterly portfolio summaries for investor reporting</li> <li>✓ Compliance review reports</li> <li>✓ Annual fund audits</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investor reporting including portfolio summaries and fund liquidity reports</li> <li>✓ Active participation in account management</li> </ul>
Team	<ul style="list-style-type: none"> <li>• Investment Committee member, senior investment professional (Sr. VP/Principal), junior investment professional (VP/Associate)</li> <li>• Outside counsel, consultants and valuation experts, auditors</li> </ul>	<ul style="list-style-type: none"> <li>• CFO, Controller, Compliance Officer</li> <li>• Fund Administrator (SEI)</li> <li>• Loan Servicer (Deutsche Bank)</li> </ul>	<ul style="list-style-type: none"> <li>• Andrew Fentress</li> <li>• Brook Taube</li> <li>• Seth Taube</li> </ul>

1. Financial, Accounting & Operations team.

# Target Portfolio Characteristics

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## Initial Underwriting Criteria

- Growing middle market company
- Experience and quality of management team
- Strength/predictability of company cash flows
- Position in company capitalization structure and strength of collateral position
- Sufficient cash invested by sponsor and company principals
- Ability of equity sponsor to contribute capital in the future
- Degree of downstream financing risk
- Degree of operating or execution risk
- Attractiveness of market
- Amount of capital returned in worst-case scenario
- Sensitivity testing of legal, operational and regulatory frameworks

## Representative Sectors

Medley is active in the following sectors: energy, natural resources, financial services, IT services, manufacturing, industrials, healthcare, infrastructure, transportation and real estate.

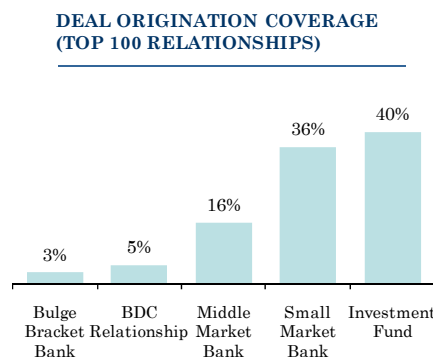
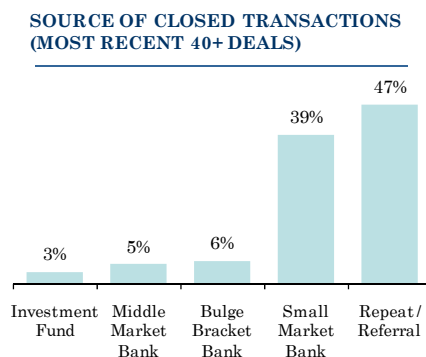
## What We Avoid

Medley avoids IT risk, new product development, customer concentration, thin margins, lack of history, unproven management and turnaround situations.

# Underwriting Key Strengths

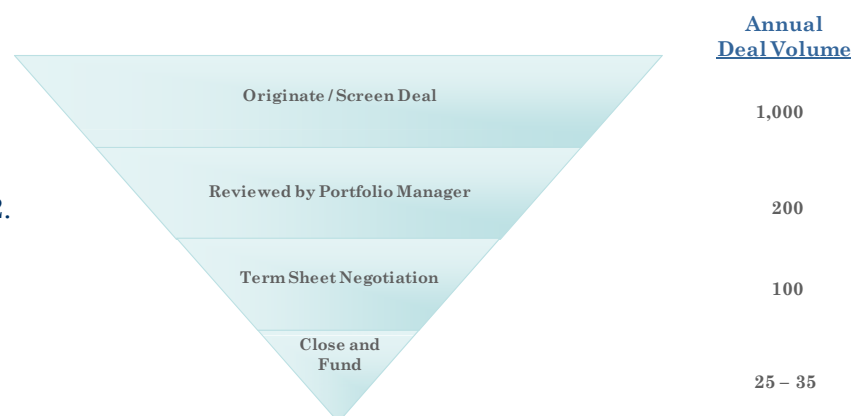
## Direct Origination

Medley employs a highly selective origination and underwriting process. Medley's investment team views over 1,000 transactions per year and of these has historically executed 2-4%. Nearly half of Medley's origination comes from repeat and referral dealflow. Although a majority of deals have sponsors, companies typically approach Medley directly which results in the avoidance of widely syndicated transactions which typically have lower spreads.



## Selective Underwriting

Historically, Medley invests in 2%-4% of opportunities screened annually. Medley's current pipeline for MOF II consists of \$525M of potential investments as of March 2012.



# Sample Early Read Memo

ERMs are reviewed weekly with the entire investment team. Preliminary diligence, capital structure, financial analysis, market analysis and deal pricing are reviewed. Acceptable transactions are approved for further diligence.

Discussion Date: 1/18/11

Type: Deal – Senior Term Loan

Anticipated Close: 2/15/11

Auto Parts Manufacturing

Deal Team: Boches, Cupido, Patil

Source: MC Advisors LLC

I. Deal Overview

Region: North America

Deal size, term: \$7.7M, 5 years

Security: Senior Term Loan

IRR: 37.4% (see following page)

II. Borrower Overview

• **Business description:** the Company manufactures light automotive and industrial parts such as power steering hose assemblies, brass fittings, air accessories and lubrication equipment. The Company is a 100+ year-old company with portfolio of strong, reputable brands and employs 191 non-Union employees in Illinois and California.

• For 2010, the Company generated \$4.8M of standalone adjusted EBITDA on \$73.5M of revenue. The Company's top ten customers comprise 49% of revenues with the largest (Home Depot) comprising 13%.

• **Industry overview:** Consumers' reticence to purchase new cars due to the recession has translated into increased repair activity and accelerated sales and earnings growth.

• The retail auto parts industry is highly fragmented, despite the rapid growth of the three principal providers (CarQuest, NAPA, O'Reilly) – the AAIA estimates that the top ten retailers command just 15% of the market, leaving room for additional consolidation.

III. Transaction Overview

• Eigen, a fundless sponsor created by ex-Platinum partners, is seeking financing for a \$23.8M acquisition of the Company. Eigen intends to grow the business by product acquisitions.

• The purchase price will be financed by a \$15.3M senior working capital line and an \$7.7M senior TL/equity investment from MOF II LP with 12% current cash pay, 3% PIK, and a 60% equity interest.

• Eigen will retain a 40% interest.

• New CEO candidates have been identified and an executive option pool will be created.

• **Strengths:** Low leverage through equity tranche, broad customer base, strong cash flow generation (little capex), experienced management team and healthy asset coverage (\$13M eligible inventory, \$15M eligible A/R and \$2M of real estate - \$30M total vs \$23.8M price).

• **Weaknesses & risks:** Minimal equity contribution from Eigen, working capital facility limitations and lack of real equity sponsor.

• **Key diligence items:** Working capital cycle, borrowing base, customer list, growth objectives.

IV. Capital Structure Participants

• **Debt:** A TBD working capital provider is expected to fund a \$15M working capital line (70% on eligible A/R, 35% on eligible inventory).

• **Snr. TL/Equity:** MOF II LP will hold the senior TL and equity tranche as one security (12% current pay, 3% PIK with 60% equity interest). Eigen will be granted a 40% equity interest and will play a significant day to day role in operations of the Company.

V. Financial Overview

Pro Forma Capital Structure					
Facility	Commit.	O/S	Mult.	of cap.	LTV <sup>1</sup>
Senior ABL Line	\$15.3	\$15.3	3.22x	65.2%	510%
Medley Senior Term Loan	\$7.7	\$7.7	4.83x	97.9%	76.5%
Common Equity	\$0.5	\$0.5	NA	100.0%	NA
<b>Total Cap:</b>	<b>\$23.5</b>	<b>\$23.5</b>	<b>2010 EBITDA</b>	<b>\$4.8</b>	

Sources:		Uses:	
Senior ABL Line	\$15.3	Purchase Equity	\$23.8
Medley Senior Term Loan	\$7.7	Fees and Expenses	\$0.9
Real Estate Sale	\$12		
Common Equity	\$0.5		
<b>Total</b>	<b>\$24.7</b>	<b>Total</b>	<b>\$24.7</b>

1. LTV based on \$30.0M of total assets.

Summary Income Statement									
Historical				Pro Forma Projected					
2007	2008	2009	2010	2011	2012	2013	2014	2015	
Total Revenue	\$88.5	\$81.1	\$67.7	\$73.5	\$74.7	\$78.8	\$80.2	\$82.0	\$84.3
Rev Growth	-8.4%	-16.5%	8.6%	1.6%	5.5%	1.8%	2.2%	2.9%	
COGS	61.6	55.6	44.3	49.5	50.3	53.1	54.0	55.2	56.8
Gross Profit	26.9	25.5	23.4	24.0	24.4	25.7	26.2	26.8	27.5
Gross Margin	30.4%	31.5%	34.5%	32.7%	32.7%	32.7%	32.7%	32.7%	32.7%
SG&A	24.9	20.8	19.0	19.1	19.4	20.5	20.8	21.3	21.9
EBIT	\$1.9	\$4.7	\$4.4	\$4.9	\$5.0	\$5.3	\$5.3	\$5.5	\$5.6
Interest Expense					(1.8)	(1.6)	(1.4)	(1.2)	(0.9)
Other				(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Taxes	\$0.0	(\$0.0)	(\$0.7)	(\$1.0)	(\$1.1)	(\$1.3)	(\$1.4)	(\$1.5)	(\$1.6)
Net Income	\$1.2	\$4.4	\$3.5	\$3.8	\$2.0	\$2.3	\$2.5	\$2.8	\$3.1
Depreciation	\$1.1	\$0.8	\$0.7	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.7
EBITDA	\$3.1	\$5.6	\$5.1	\$5.5	\$5.6	\$5.9	\$6.0	\$6.2	\$6.3
Standalone Adj.*				\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8
<b>Standalone EBITDA</b>				<b>\$4.8</b>	<b>\$4.9</b>	<b>\$5.2</b>	<b>\$5.3</b>	<b>\$5.4</b>	<b>\$5.6</b>
EBITDA Margin	3.5%	6.9%	7.5%	6.3%	6.5%	6.6%	6.6%	6.6%	6.6%
Maintenance Capex				\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Pre-tax FCF (EBITDA-Capex)				\$4.5	\$4.6	\$4.9	\$5.0	\$5.2	\$5.3
Post-tax FCF (EBITDA-Capex-Cash Taxes)				\$3.5	\$3.5	\$3.6	\$3.6	\$3.7	\$3.7
<b>Credit Statistics</b>									
<b>PF 2010</b>									
Total Leverage				4.2x	4.0x	3.6x	3.3x	3.0x	2.6x
Fixed Charge Coverage Pre-tax**					1.6x	1.7x	1.8x	2.0x	1.7x
Fixed Charge Coverage Post-tax**					1.2x	1.3x	1.3x	1.4x	1.2x
Cash Balance (assumes no change in NWC)				\$3.0	\$3.5	\$4.3	\$5.2	\$6.2	\$6.8
Medley Loan Outstanding				\$7.7	\$6.5	\$5.1	\$3.7	\$2.3	\$0.0
Total Debt Outstanding				\$23.0	\$21.8	\$20.4	\$19.0	\$17.6	\$15.3

\*Standalone adjustments include insurance, healthcare and revised freight costs.  
\*\*Assumes 30.0% amortization using FCF.

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## Portfolio Management

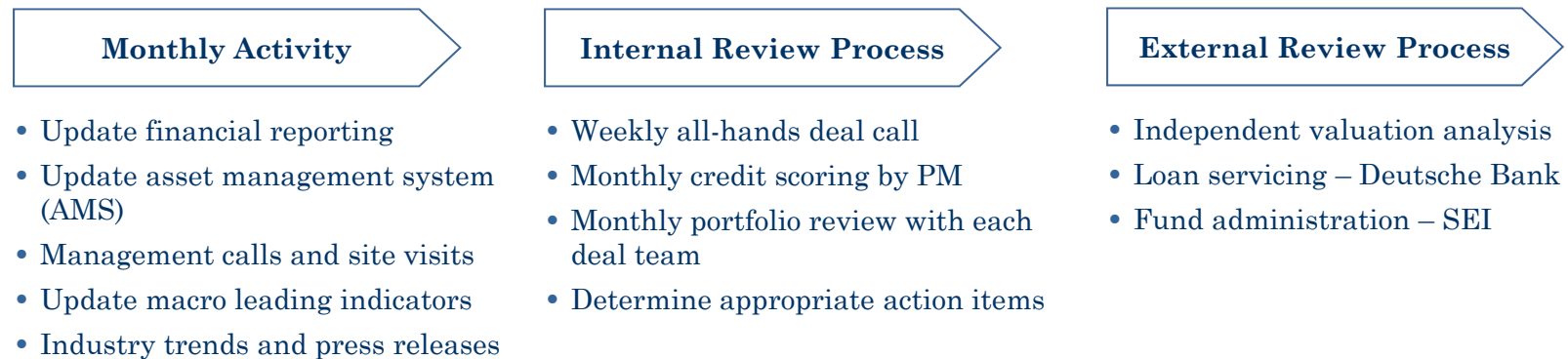
# Account Management Process

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## Account Management Overview

Medley's monitoring process includes frequent interaction with management, attending board of directors' meetings, consulting with industry experts, working with third-party consultants and developing portfolio company strategy with equity investors. Each investment team evaluates monthly financial reporting packages from portfolio companies that detail operational and financial performance. Monthly data is entered into a proprietary, centralized, electronic database.

Additionally, each investment team continually monitors future liquidity and covenant compliance. Medley believes this hands-on approach helps in the early identification of any potential problems.



# Asset Monitoring System

## Medley's Proprietary Asset Monitoring System

Medley's proprietary asset monitoring system ("AMS") creates a centralized, dynamic, electronic reporting system which houses, organizes and archives all portfolio data by investment.

- Generates comprehensive, standardized reports which aggregate operational updates, portfolio company financial performance, asset valuations, macro trends, management call notes, restructuring activities and account history.
- Both paper and electronic copies of portfolio company financials, industry reports, consulting reports and covenant compliance certificates are readily available and updated frequently.
- AMS provides Medley's investment team with real-time access to the most recent information regarding the investment portfolio, thus promoting well-informed business decisions.

## Exemplary AMS Output

Medley Capital Monthly Account Summary				Date: 3/31/2010		Allied Cash Advance		
Deal Overview								
Borrower:	Allied Cash Advance		Class Date:	9/15/2009		Credit Score:	1	
Region:	United States		Total Commitment:	\$42.55		DEB to MCF (Debt Only):	19.9%	
State:	Illinois		Total Book Value:	\$43.37		Market Value (FMV) or EV:	\$36.00	
Deal Description/Security:	Tranche A Senior Secured First Lien		Rate:	1%		Ordinary Liquidation Value (OLV):	\$40.00	
Deal Type:	Corporate Loan		Yield:	0.0%		Discounted Value (DV):	\$35.00	
Referral Source:	David Truitt		Fee Note:	\$0.00		Loan FMV:	75.1%	
Investment Officer:	Tom Quinby		Term (Years):	3		Loan OLV:	108.9%	
Account Manager:	Frank Caputo		Maturity:	6/30/2013		Loan DV:	124.5%	
Legal Counsel:	Rob Finley, King & Spalding							
Accounting Information								
Book Value:		Capital Amount:		Equity:				
Book Value of Loan:	\$43.37	Loan Amount:	\$41.46	Warrant Value:	\$0.00			
Book Value of Fee Note:	\$0.00	Fee Note:	\$0.00	Equity Value:	\$12.17			
Prepaid Assets:	\$0.00	Make Whole Premium:	\$0.00	Other:	\$0.00			
Accruals:	\$0.00	Reservables:	\$0.00	Total:	\$12.17			
Reservables:	\$0.00	Prepayment Penalty:	\$0.97					
Total Book Value:	\$43.37	Total Payoff Amount:	\$42.53					
Background/Transaction Summary								
Medley provided a \$20.0M term loan and a \$15.0M revolving facility each due in June 2009 priced at L+1080 in November 2006. The facilities are secured by a first lien on all assets as well as stock pledges at the subsidiary level and from the Company's founders. In September 2009, the Company completed a recap transaction in which the founders of the business stepped down. Fourth Third converted \$1.0M of debt to exchange for full voting control and Fourth Third was granted 50% of the fully diluted common equity in Allied. Fourth Third currently holds a \$20M term loan A (1.0% cash pay), a \$10M term loan B (1.0% cash pay), \$12.55M term loan C (non-accounting) and a \$10M revolving currently unfunded. The remaining 40% of common equity is owned by previous subordinated debt investors (37%) and equity investors (3%).								
Business Description/Unit Economics								
Allied Cash Advance provides consumers with credit alternatives from traditional banking services. With 215 stores in 11 states, Allied's product allows consumers to receive needed liquidity while avoiding potentially higher costs and negative credit consequences from other alternatives such as payday advances or payday loans. Allied has grown considerably in the past three years from both a store and revenue perspective. To date in 2009, the Company closed 20 underperforming stores (13 in OH, 10 in TX, 5 in WA) and is pursuing cost cutting initiatives through payroll reductions.								
Account Manager Credit & Upside Assessment								
Allied is a rated "1". The Company has generated 1M EBITDA of nearly \$12M as of 3/31/10 which is on par relative to projections. Management is pursuing new store openings in Texas which will utilize the CDO platform and provide initial feedback on the system in advance of the Arizona implementation. In Q1/10, the Company decided to close all 22 stores in Washington due to regulatory changes. WA made up approximately 30% of branch cash flow in 2009 but management is confident that this amount will be more than offset by the new Texas stores which operate in a much more friendly regulatory environment. The Company expects to make a \$2M amortization payment once liquidity forecasts are finalized.								
Capital Structure								
INSTRUMENT	Total Outstanding	Yield to Maturity	Total Commitment	Yield to Maturity	Notes			
Revolving	\$0.00	0.00%	\$10.00	0.83%	\$10.00	8	6/30/2013	80% advance rate on eligible A/R
Term Loan A	\$20.00	1.67%	\$20.00	2.50%	\$20.00	15	6/30/2013	15% cash pay
Term Loan B	\$9.00	2.42%	\$10.00	3.33%	\$10.00	15	6/30/2013	15% cash pay
Secured Loan C	\$12.45	3.45%	\$12.45	4.37%	\$12.45	0	6/30/2013	Non-accounting, also called Term Loan C
Common Equity	\$20.28	N/A	\$20.28	N/A	\$0.00			4-3 Payday LLC owns 60% of common equity and 100% voting control
Total Capital Structure:	\$61.73	3.45%	\$72.73	4.37%	\$52.45			
Account Action Items								
Account Manager Action Items	Est. Completion Date		Status					
TS asset roll out	6/30/2010		4 stores currently operating, 18 left					
AZ CDO product launch	6/30/2010		Pending					
Facility debt repayment	5/15/2010		Pending					
Macro Leading Indicators								
Indicator	Trend		Status	Source				
Public comp performance	5% underperf. of S&P by AAA and QCCO		Minor - AAA -0.2% in last month, S&P 5.4%, QCCO -11.8%	Bloomberg				
Regulatory changes	Major positive lending regulatory changes		Minor - AZ, WA new product/revenue to law change	Various press				



# Investor Reporting

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## **Reporting Deliverables**

Medley provides full transparency and timely reporting to its investors. Each quarter, investors receive a package of reporting materials including the following:

- Summary of fund performance
- Detailed portfolio summary with investment data by position, including the following information:
  - Position valuation
  - Investment terms
  - Diversification reports by industry, sector and collateral
  - Watch list summary of investments, if applicable
- Fund financial statements, including balance sheet, income statement and schedule of investments
- Individual capital account balance statement

## **Access to Portfolio Information**

In addition to the above, Medley will grant investors access to all portfolio information in both hard copy and soft copy from the Asset Monitoring System (AMS).

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## Medley Biographies

# Medley Team

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## **Andrew Fentress**

Mr. Fentress is a Managing Partner of Medley, a Senior Portfolio Manager for the Medley Opportunity Funds and a member of the Board of Directors of Medley Capital Corporation. Prior to forming Medley, Mr. Fentress was a Partner with CN Opportunity Fund. Prior to CN Opportunity Fund, Mr. Fentress was a Partner and Portfolio Manager at CQ Partners, a global investment fund. Mr. Fentress began his investment career with Morgan Stanley & Co. where his last role was Principal in the Institutional Equity Division, where he managed a global trading business. Mr. Fentress received a B.A. from Boston College and an M.B.A. from the Kenan-Flagler School of Business at the University of North Carolina, Chapel Hill. Mr. Fentress currently serves as a Board Member for Estrella International Energy Services, and the Portledge School.

## **Brook Taube, CFA**

Mr. Taube is a Managing Partner and Chief Investment Officer of Medley and the Chief Executive Officer and Chairman of the Board of Directors of Medley Capital Corporation. Prior to forming Medley, Mr. Taube was a Partner with CN Opportunity Fund. Prior to CN Opportunity Fund, Mr. Taube founded T3 Group, a principal and advisory firm focused on distressed asset and credit investments. Before T3, Mr. Taube was a Partner with Griphon Capital Management. Mr. Taube began his career at Bankers Trust in 1992, where his last role was Vice President in Structured Finance and Capital Markets. Mr. Taube received a B.A. from Harvard University and currently serves as a Board member of the New Amsterdam Symphony Orchestra.

## **Seth Taube, CFA**

Mr. Taube is a Managing Partner of Medley, a Senior Portfolio Manager of the Medley Opportunity Funds and a member of the Board of Directors of Medley Capital Corporation. Prior to forming Medley, Mr. Taube was a Partner with CN Opportunity Fund. Before CN Opportunity Fund, Mr. Taube co-founded T3 Group, a principal and advisory firm focused on distressed asset and credit investments. Prior to T3, Mr. Taube worked with Griphon Capital Management, serving as Managing Director of the firm's private investment activities. Before Griphon, Mr. Taube was a Vice President with Tiger Management, and held positions with Morgan Stanley & Co. in the Investment Banking and Institutional Equity Divisions. Mr. Taube received a B.A. from Harvard University, an M.Litt. in Economics from St. Andrew's University in Great Britain, where he was a Rotary Foundation Fellow, and an M.B.A. from the Wharton School at the University of Pennsylvania.

# Medley Team

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## **Joseph Schmuckler**

Mr. Schmuckler is a Managing Partner with Medley. Prior to joining Medley, he was a Senior Executive Officer of Mitsubishi UFJ Securities Co., Ltd., the Tokyo based global investment banking and securities subsidiary of the Mitsubishi Financial Group (NYSE: MTU), where he was responsible for the Global Markets Division in Tokyo and oversaw the firm's business activities outside of Japan. Prior to joining MTU, he was the Chief Operating Officer and member of the Board of Directors of Nomura Holding America, Inc., the U.S. based holding company for The Nomura Group (NYSE: NMR) where he was responsible for the firm's institutional securities business in the Americas. He started his career and was a partner at Kidder Peabody & Co. Inc., working in the firm's institutional equity derivatives business. Mr. Schmuckler earned a B.S. in Finance from the University of Delaware and an MBA in Finance from New York University.

## **Robert Comizio**

Mr. Comizio is a Partner of Medley Capital and Senior Portfolio Manager for Medley's Credit Strategies Group. Prior to Medley Capital, Mr. Comizio was the Founder and the Chief Investment Officer of Viathon Capital, LP and its predecessor, Viathon Capital Management LLC. Prior to VCM, he was a Managing Director at Marathon Asset Management. At Marathon, Mr. Comizio was a Senior Portfolio Manager in the \$2.5 billion Special Opportunity Fund. Mr. Comizio joined Marathon from Lehman Brothers where he was a Senior Corporate Bond Trader in their fixed income division. Prior to working at Lehman Brothers, Mr. Comizio was employed at Merrill Lynch where he was an Emerging Markets and High Yield Bond Trader. Mr. Comizio also worked at Goldman Sachs as a Mortgage Bond Trader and as an Analyst at Alliance Capital. Mr. Comizio is a graduate of the Wharton School of Business at the University of Pennsylvania, and earned his M.B.A. from the University of Chicago.

## **Jeff Tonkel**

Mr. Tonkel is a Partner of Medley. Prior to Medley, Mr. Tonkel was a Managing Director with JP Morgan where he was CFO of a large global financing and markets business. Prior to JP Morgan, Mr. Tonkel was a Managing Director, Principal Investments with Friedman Billings Ramsey where he oversaw Merchant Banking and Corporate Development investments in the real estate, specialty finance, mortgage and diversified industrial sectors. Mr. Tonkel began his investment career with Summit Partners, a leading equity and subordinated debt investor in privately held growth companies. Mr. Tonkel received a B.A. from Harvard University and an M.B.A. from Harvard Business School.

# Medley Team

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## **Richard Allorto, CPA**

Mr. Allorto is Chief Financial Officer of Medley and is responsible for the accounting and financial operations of the various investment vehicles managed by Medley. Prior to joining Medley, Mr. Allorto held various positions at GSC Group, Inc., a registered investment advisor, including, most recently as Chief Financial Officer of GSC Investment Corp, a business development company that was externally managed by GSC Group. Prior to GSC Group, Mr. Allorto was an Audit Supervisor at Schering-Plough Corporation and was also an Audit Supervisor with Arthur Andersen. Mr. Allorto is a licensed C.P.A. and received a B.S. in Accounting from Seton Hall University.

## **Dean Crowe**

Mr. Crowe is a Managing Director and Portfolio Manager for Medley's Credit Strategies Group. Mr. Crowe's prior experience includes serving as a Portfolio Manager for UBS O'Connor, the Alternative Investment subsidiary of UBS Asset Management. Before joining UBS, Mr. Crowe served as a Special Situations analyst in the leveraged finance group of RBC-Dominion, and has held positions at Merrill Lynch in New York, where he traded investment grade, high yield and emerging market debt. Mr. Crowe began his career with Salomon Brothers in New York, where he traded corporate debt and first generation credit derivatives. Mr. Crowe received a B.S. in Accounting from the James Madison University.

## **David DeSantis**

Mr. DeSantis is a Managing Director with Medley and is responsible for transaction origination and execution for the Medley Opportunity Funds. Prior to joining Medley, Mr. DeSantis was a Vice President at General Electric Capital Corporation in the Global Sponsor Finance Group, originating and underwriting hundreds of LBO transactions for private equity sponsors in a wide variety of industries including industrial, financial services, healthcare, energy, media and business services. Transactions ranged in size from \$20 million to \$10 billion. Mr. DeSantis is a graduate of the Financial Management Program at GE Capital. Mr. DeSantis received a B.S. Magna Cum Laude from the Carroll School of Management at Boston College and an M.B.A. from the Kellogg School of Management at Northwestern University.

## **Tom Quimby**

Mr. Quimby is a Managing Director with Medley and is responsible for transaction origination and execution for the Medley Opportunity Funds. Prior to joining Medley, Mr. Quimby was a founding team member and Vice President of COVA Capital, leading the sourcing, underwriting and account management of mezzanine transactions in a variety of industries. Prior to COVA Capital, Mr. Quimby was a Vice President at General Electric Capital Corporation in the Global Sponsor Finance Group. Mr. Quimby is a graduate of the Financial Management Program at GE Capital, and received a B.S. in Business Administration from the Whittemore School of Business at the University of New Hampshire.

# Medley Team

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## **Brian Dohmen**

Mr. Dohmen is a Principal with Medley and is responsible for transaction origination and execution for the Medley Opportunity Funds. Prior to Joining Medley, Mr. Dohmen was Managing Director with Ablum Brown and Company and responsible for overseeing capital raising efforts.. Prior to Joining Ablum Brown and Company, Mr. Dohmen was responsible for overseeing the business development for Newport Realty, LLC. Prior to Newport Realty, LLC, Mr. Dohmen was a Managing Director at Freeport Financial. Prior to Freeport Financial, Mr. Dohmen was with Heller Financial and GE Capital. Mr. Dohmen started his career with LaSalle National Bank. Mr. Dohmen has a bachelors of Business Administration in Finance and Risk Management from the University of Wisconsin – Madison.

## **Joseph Princiotta**

Mr. Princiotta is a Principal with Medley Capital and Senior Analyst for Medley Credit Strategies Group. Mr. Princiotta's combined experience as a buy-side, sell-side and rating agency analyst spans 25 years. Before joining Medley, Mr. Princiotta held senior analyst positions at Deutsche Bank and Barclays Capital proprietary trading desks. Prior to this, Mr. Princiotta was a sell-side publishing analyst with Deutsche Bank and Bear Stearns, and ranked as a top analyst by Institutional Investor Magazine for 6 years with a primary focus on basic industries. Prior to the sell-side, Mr. Princiotta was a senior vice president covering chemicals and basic industries for Moody's Investors Service. Mr. Princiotta has a B.S. in Chemical Engineering from Lafayette College and an M.B.A in finance and economics from Stern School of Business.

## **Jon Schroeder**

Mr. Schroeder is a Principal with Medley and is responsible for transaction origination and execution for the Medley Opportunity Funds. Prior to joining Medley, Mr. Schroeder worked in several positions at General Electric Capital Corporation, most recently as an Assistant Vice President in the Global Sponsor Finance Group, underwriting hundreds of LBO transactions in a wide variety of industries, in transactions ranging from \$30 million to \$500 million. Mr. Schroeder is a graduate of the Financial Management Program at GE Capital. Mr. Schroeder received a B.S. in Business Administration from the Grainger School of Business at the University of Wisconsin and is receiving an M.B.A at the Wharton School at the University of Pennsylvania.

## **Michelle Soltys**

Ms. Soltys is a Principal with Medley and is responsible for coordinating the asset management function for the Medley Opportunity Funds and Medley Capital Corporation. Prior to joining Medley, Ms. Soltys was the Chief Financial Officer of Velum Global Credit Management, LLC, an international firm that manages distressed consumer assets (NPL's) in the United States and Brazil. Prior to joining Velum, Ms. Soltys was a Vice President and Controller of Sallie Mae's Asset Performance Group, where she managed the accounting and finance group responsible for the division's global accounting and financial operations including revenue recognition of over \$16 billion in distressed consumer assets. Ms. Soltys has over eight years of experience in the NPL industry and over 11 years of experience in international accounting and compliance. Ms. Soltys is a CPA, has received an M.B.A. from DePaul University, and holds a B.S. in Accounting from Trinity Christian College.

# Medley Team

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## **Scott von Stein**

Mr. von Stein is a Principal with Medley and manages investor relations for Medley. Prior to joining Medley, Mr. von Stein was with Bank of America, with a focus on international banking assignments in Beirut, London, Frankfurt and Paris. He joined Clorox International as Vice President of Corporate Development, and has held senior level positions at Price Waterhouse, Kroll Associates, and Secura Burnett. Prior to joining Medley, Mr. von Stein was in charge of the Western Region for Potomac Investments. He holds a BA in International Relations from the University of Colorado, and an MBA from the Thunderbird Graduate School of Management in Arizona. Mr. von Stein was publicly elected to a third term as Director of the Southern Marin Fire District of Marin County.

## **Jennie Chen**

Ms. Chen is a Vice President with Medley and supports the firm's transaction origination and execution efforts. Prior to joining Medley, Ms. Chen held various roles within GE Capital, most recently as an Assistant Vice President of GE Capital's Cash Flow Lending Group, executing both sponsor and non-sponsored deals across a variety of industries. Ms. Chen is also a graduate of GE Capital's Financial Management Program. Ms. Chen holds a Bachelors Degree in Finance from the University of Illinois at Urbana-Champaign.

## **Richard Craybas**

Mr. Craybas is a Vice President with Medley and supports transaction origination and execution for the Medley Opportunity Funds and Medley Capital Corporation. Prior to joining Medley, Mr. Craybas was a Vice President with PanAmerican Capital Partners, where he worked on a variety of private equity investments in companies in the infrastructure, manufacturing, alternative energy and consumer products sectors. Previously, Mr. Craybas was with GE Capital in the Sponsor Finance Group, underwriting and executing leveraged finance transactions for private equity sponsors in a wide variety of industries. Mr. Craybas is a graduate of the Financial Management Program at GE Capital. Mr. Craybas received a B.S. from Pennsylvania State University and an M.B.A from Columbia Business School.

## **Frank Cupido, CFA**

Mr. Cupido is a Vice President with Medley and supports transaction origination and execution for the Medley Opportunity Fund. Prior to joining Medley, Mr. Cupido was an analyst in the Investment Banking Group at Merriman Curhan Ford & Co. where he worked on a variety of public and private financings as well as M&A advisory assignments for companies in the technology, healthcare and alternative energy sectors. Mr. Cupido received a B.S.E. in Mechanical Engineering and Applied Mechanics with Minors in Economics and Math from the University of Pennsylvania.

# Medley Team

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## **Kevin Hah, CPA**

Mr. Hah is a Vice President and Controller with Medley and is responsible for accounting, financial reporting, and operations of Medley Opportunity Fund II and Medley Capital Corporation. Prior to joining Medley, Mr. Hah was Chief Financial Officer at Vantium Management, LP, investing in distressed RMBS and whole loans. Prior to Vantium Management, LP, Mr. Hah was a controller at GSC Group, Inc., responsible for fund accounting & corporate accounting, financial reporting, and operations of a business development company and a CLO fund, investing in middle market loans, high yield bonds, and equity investments. Mr. Hah received a BBA in Accounting from University of Oklahoma and an MBA from Oklahoma City University. Mr. Hah is a licensed CPA.

## **Brian O'Reilly**

Mr. O'Reilly is a Vice President with Medley and supports transaction origination and execution for the Medley Opportunity Funds. Prior to joining Medley, Mr. O'Reilly served as an associate with Brown Gibbons Lang & Company (BGL), a boutique investment bank where he worked on mergers and acquisitions, restructurings and capital raises for middle-market businesses. Previously, Mr. O'Reilly held several positions at General Electric Capital Corporation, including analyst and associate positions in the Global Sponsor Finance Group, where he performed extensive due diligence, valuation analyses and portfolio company monitoring for senior investments. Mr. O'Reilly received a B.A. in Economics from Boston College, an M.B.A. from the Fuqua School of Business at Duke University and graduated from the Financial Management Program at GE Capital.

## **Greg Richards**

Mr. Richards is a Vice President with Medley and supports transaction origination and execution for the Medley Opportunity Funds. Prior to joining Medley, Mr. Richards was a Manager in the Structured Finance and Capital Markets Group at Mubadala, an investment and development company established by the Government of Abu Dhabi as the vehicle for economic diversification in the Emirate. Prior to Mubadala, Mr. Richards was a Vice President in the Global Energy Investment Banking Group at Credit Suisse in New York. Mr. Richards was formerly part of the Corporate Banking Group at Credit Suisse focused on executing leveraged finance transactions across sectors. Prior to joining Credit Suisse, Mr. Richards was an Associate in the Utilities and Project Finance Global Corporate and Investment Banking Group at Bank of America in San Francisco. Mr. Richards began his career as a Retail Analyst with Management Ventures, Inc., a market research and consulting firm based in Cambridge, Massachusetts. Mr. Richards received a B.B.A. in Finance from the College of William & Mary and an M.B.A. from Columbia Business School.

## **Luba Romankevich**

Ms. Romankevich is a Vice President of Investor Relations with Medley and supports the firm's marketing and investor relations efforts. Prior to joining Medley, Ms. Romankevich was a Marketing Manager at Falcon Point Capital, LLC, where she spearheaded the firm's marketing and investor relations. Ms. Romankevich received a B.A. in Psychology from San Francisco State University.



# Medley Team

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## **Frank Wang, CFA**

Mr. Wang is a Vice President with Medley Capital and a Research Analyst for Medley's Credit Strategies Group. Prior to Medley, Mr. Wang was the head of operations and a Research Analyst at Viathon Capital, LP. Prior to joining Viathon, he was an Operations Analyst in the Global Trade Support group at Marathon Asset Management, LLC. Mr. Wang graduated from New York University Stern School of Business with a B.S. in Business Administration.

## **Jason Wong, CPA**

Mr. Wong is a Vice President with Medley and is responsible for the financial operations and reporting for the Medley Opportunity Funds, including accounting budgeting and tax planning. Prior to joining Medley, Mr. Wong was a Tax Manager at Deloitte Touche Tohmatsu. Mr. Wong has a B.S. degree in accounting from St. John's University and M.S. degree in Taxation from Long Island University.

## **Rob Gange**

Mr. Gange is an Associate with Medley and supports transaction origination and execution for the Medley Opportunity Fund. Prior to joining Medley, Mr. Gange was an Analyst in the Technology Investment Banking Group at Morgan Keegan, where he worked on M&A advisory assignments as well as private placements for companies in a variety of technology-related sub-sectors. Mr. Gange received a B.A. in Applied Mathematics in Economics from UC Berkeley, as well as a B.S. in Business Administration from the Haas School of Business.

# Medley Team

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## **Burke Loeffler, CFA**

Mr. Loeffler is an Associate with Medley and supports transaction origination and execution. Prior to joining Medley, Mr. Loeffler was a Vice President at the D. E. Shaw Group, where he worked on private debt and equity deal modeling, valuation, and hedging across sectors and strategies for the private business units. Mr. Loeffler graduated with a Bachelor of Business Administration from the Goizueta Business School at Emory University.

## **Oliver Ong**

Mr. Ong is an Associate with Medley and supports transaction origination and execution. Prior to joining Medley, Mr. Ong was an analyst in the Leveraged Finance Group at RBC Capital Markets focusing on the structuring and distribution of debt financing transactions including leveraged buyouts and acquisition finance for corporations and financial sponsors. Mr. Ong graduated with a Bachelor of Business Administration from the Goizueta Business School at Emory University.

## **Alex Patil**

Mr. Patil is an Associate with Medley and supports transaction origination and execution for the Medley. Prior to joining Medley, Mr. Patil was an analyst in the Global Investment Banking Group at Bank of America Merrill Lynch where he worked on numerous public financings as well as leveraged buyout and M&A advisory assignments for companies in the technology industry. Mr. Patil graduated cum laude with a Bachelor of Science in Business Administration from the University of Southern California.

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## Appendix A: Fraud Prevention Overview

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## Fraud Mitigation and Management Policies

# Fraud Mitigation and Management Policies

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## Table of Contents

1. Key Considerations for Fraud Prevention
2. Mitigation Techniques for Fraud Committed by a Borrower
3. Mitigation Techniques for Fraud Committed by an Investment Advisor

# Fraud Mitigation and Management Policies

## Key Considerations for Fraud Prevention

### 1. Identifying Fraudulent Activity

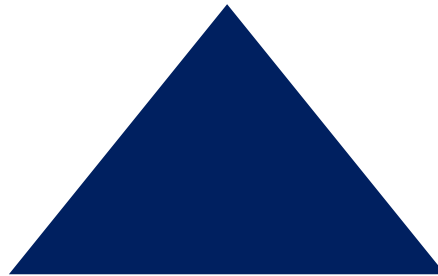
The *Statement on Auditing Standards No. 99: Consideration of Fraud in a Financial Statement Audit* defines fraud as “an intentional act that results in a material misstatement in financial statements”. Fraud can be broken down into two components:

- Fraudulent financial reporting (due to falsifying accounting records)
- Misstatements arising from misappropriation of assets (due to theft or fraudulent expenditures)

Together these two situations are a result of the “fraud triangle”, which displays the three required conditions for fraudulent activity to occur.

#### ***Incentive***

An incentive exists to commit fraud due to short term cash flow issues. Borrowers may seek to solve liquidity issues by leveraging assets to attract working capital.



#### ***Opportunity***

An opportunity exists to commit fraud due absence of controls, ineffective controls or poor management oversight. Without proper reporting requirements, frequent contact and various third party checks, opportunity will exist for fraud.

#### ***Attitude***

Individuals committing fraud possess an attitude that allows them to rationalize their actions. Borrowers believe they are helping grow their business despite the fraudulent nature of the activity.

# Fraud Mitigation and Management Policies

## 2. Environments and Circumstance that Lead to Fraudulent Activity

Certain situations involving a lack of awareness and/or inadequate practices may facilitate fraudulent activities within a company or organization:

- Lack of awareness of fraud risk factors
- Inadequate control activities for identified fraud risks
- Insufficient knowledge of the warning signs of fraud
- Inadequate screening practices
- Insufficient understanding of ethical duties at all levels
- Ineffective mechanisms for reporting and investigating fraud
- Ineffective board and audit committee oversight

## 3. Medley Commitment to Fraud Prevention

Through strict adherence to its fraud prevention guidelines outlined herein, Medley seeks to avoid investments in companies with characteristics included in the fraud triangle and proactively monitors existing investments to ensure the appropriate level of preventative controls are in place as circumstances change through the life of an investment

# Fraud Mitigation and Management Policies

## Mitigation Techniques for Fraud Committed by a Borrower

Fraud prevention and detection is a key element to Medley's underwriting and portfolio management process.

### 1. Fraud Detection and Prevention During the Underwriting Process.

Medley's initial fraud prevention efforts occur during the diligence process of a prospective investment in the follow categories: financial reporting, employees/managers and assets.

#### *Financial Reporting Fraud Prevention*

When underwriting a new transaction, Medley investment professionals will consider the following criteria in an effort to detect any fraudulent activity concerning a prospective borrower's financial statements:

- Receipt of audited financial statements. Review of audit opinion to determine if report is qualified and if so, why. Interact directly with auditors to gain additional insight into any potential audit issues.
- Review of historical financial statements and relation to historical cash balances from bank statements, tax returns.
- Detailed understanding of company corporate structure to determine any off-balance sheet arrangements.
- Quality of earnings reports conducted by third party experts such as Deloitte.
- Fundamental cash flow analysis (eg degree to which cash is generated from operations).
- Physical inventory counts and careful examination of AR/AP aging reports.
- Verification of revenue backlog and reported expenses via calls to key customers and suppliers, site visits and records.

#### *Employee and Management Fraud Prevention*

Key considerations in identifying fraudulent issues with management or firm employees include:

- Detailed background checks conducted on management for education, work history, criminal history, bankruptcy history, liens outstanding and other litigation.
- Tax compliance checks for the last 5 years on management and sponsor.
- Professional and personal reference requests.
- Calls with key customers and suppliers to determine strength of relationship with management and any key employees.
- Conversations with employees of various seniorities to determine management style.



# Fraud Mitigation and Management Policies

## *Asset Fraud Prevention*

Key considerations in identifying fraudulent issues concerning assets or collateral are:

- Confirmation of lien status of collateral and titles held by borrower.
- Site visits, physical identification of collateral.
- Discussions with liquidation experts or independent valuation firms to determine expected values of assets under various scenarios (orderly liquidation, fire-sale, etc.).
- Proper storage and care for collateral. Maintenance required for collateral to retain value.
- Verification of adequate insurance policies (Business Interruption, Property Damage, Title Insurance, etc)

## 2. Fraud Mitigation During the Portfolio Management Process

During the portfolio management process, Medley's investment professionals seek to mitigate and detect fraud using the metrics below. These techniques ensure that if fraud materialized after an investment is made, it is detected and eliminated early in the investment's life.

- Monthly (and in some cases, weekly) monitoring of borrower reporting requirements, including:
  - Financial statements
  - Signed covenant compliance certificates
  - Bank statements that match cash balances on balance sheets. Detailed explanation and reconciliation process if necessary
  - Financial projections
  - Business plans
  - Statements of personal net worth

# Fraud Mitigation and Management Policies

- Semi-annual valuations conducted by third party experts, such as Valuation Research Corp., which investigate and validate the following related to the Company:
  - Current financial statements
  - Validity of financial projections
  - Industry valuation metrics
  - Onsite inspection and physical evaluation of assets and inventory
- Validation of the semi-annual valuations by an independent auditing firm.
- Frequent calls with management, site visits and conversations with industry experts relating to the value of the collateral and underlying fundamentals of the business.
- Engagement of forensic accountants from time to time to validate working capital reporting and identify any other discrepancies on the reported financial statements.
- Monthly internal review of company deliverables and compliance.

# Fraud Mitigation and Management Policies

## Mitigation Techniques for Fraud Committed by an Investment Advisor

Medley recognizes that adherence to the highest ethical standards is critical to the success of any investment management firm. In addition to striving to eliminate the potential for fraud at the borrower level, Medley ensures that fraud is avoided entirely at the investment manager level as well by employing the expertise of third party service providers:

- Audit – Rothstein Kass
- Onshore legal counsel – Seward & Kissel LLP
- Offshore legal counsel – Ogier
- Prime brokerage – Deutsche Bank Global Loan Servicing
- Fund administration – SEI Global Services, Inc.
- Valuation reporting: Valuation Research Corp., Xroads Consulting, Navigant Consulting

Fraud mitigation procedures provided by auditor

- Validate third-party valuation reports, examine company financials and corroborate investment valuations.
- Generate an independent opinion regarding the financial statements of the funds managed by Medley.

Fraud mitigation procedures provided by legal counsel

- Confirm that funds are being managed pursuant to regulatory guidelines. Provide guidance and advice as to fund management best practices from a legal perspective.
- Ensure proper documentation of all investor and investment level activity.

Fraud mitigation procedures provided by prime broker

- Work directly with borrower to confirm funding instructions to ensure proper movement of cash.

# Fraud Mitigation and Management Policies

- Control borrower invoicing for interest or other contractual payments per stated terms in loan documents.
- Manage all collections of principal, interest and other cash proceeds involved in an investment. Maintain detailed and accessible records of such transactions.

## Fraud mitigation procedures provided by fund administrator

- Confirm and check monthly NAV calculations for accuracy. Maintain easily obtainable records of all calculations.
- Control dissemination of investor reporting data, including capital account balances and performance information.
- Obtain directly from valuation firms copies of valuation reports for each investment as well as copies of legal documents to substantiate the value and cost of all securities held.

## Fraud mitigation procedures provided by valuation firms

- Independently determine fair value of investments by directly interfacing with borrowers, discussing financial performance, interviewing management and speaking to industry experts. Construct valuation models based on expected financial performance and market data obtained in independent research.
- Provide real-time feedback that affect investment valuation regarding industry dynamics, regulatory changes and other important market factors. Please see valuation policy for more detail.

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## Appendix B: Valuation and Audit Process Overview

# Valuation Policy - Medley Opportunity Fund

## *Intent*

The intent of the Medley's Valuation Policy is to apply a consistent and transparent approach to the valuation of fund investments in a manner consistent with Generally Accepted Accounting Principles in the United States of America ("US GAAP"). This policy has been revised, effective December 21, 2008, in conjunction with the effectiveness, and in accordance with the requirements, of Statement of Financial Accounting Standard 157 ("SFAS 157"), which requires that investments be valued at *fair value* for purposes of computing the fund's Net Asset Value ("NAV"). SFAS 157 is effective for any fiscal year beginning after November 15, 2007.

## *Definitions*

*Fair value* is defined under SFAS 157 as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." It is an "exit price" approach.

SFAS 157 requires that investments be categorized according to the nature of secondary market activity and observable inputs associated with the investment: *Level I* investments are traded on exchanges where prices are publicly available; *Level II* investments are generally traded over-the-counter and, thus, have observable, if not publicly listed, prices; and *Level III* investments are those for which no secondary market exists of any sort, where the use of directly-attributable observable inputs is not possible, but where independent, indirectly-attributable inputs from comparable investments may be observable and can be used in conjunction with other factors in determining the fair value of the Level III investment in question. *Directly attributable inputs* are defined as inputs that are observable for exactly the same security as that being valued. *Indirectly attributable inputs* are defined as inputs that are observable for a sufficiently similar, but not identical, security as that being valued.

## *Purpose*

Substantially all of the assets of the Medley Opportunity Fund series of funds (collectively, "MOF Funds") are Level III investments. Medley, as the Investment Manager of the Funds within the "MOF" series, has established, and now revised, this valuation policy to be in accordance with the offering memoranda of the MOF Funds and US GAAP, for the benefit of the investors in each Fund, the Administrator of each Fund, for the purposes of accurately calculating an NAV, and the auditor of each Fund, for the purposes of conducting its audit.

# Valuation Policy

## Nature of Investments

The MOF Funds are designed to earn substantial current income and capital appreciation by investing in a diversified portfolio of corporate credit and asset-based debt and equity instruments issued by privately-held companies located primarily in North America. The loans generally will be senior loans secured by first liens on the assets of the borrower, but may be second lien secured loans or unsecured loans relying on the cash flow generated by the borrower. As part of the investment strategy noted above, the MOF Funds may also invest in a variety of instruments to reduce or gain risk exposure to the investments listed above or other related market factors. These other instruments might include derivative contracts (options, warrants, swaps, and futures), trade debt, mortgages, foreign currency contracts and commodity contracts.

## Valuation Policy

### *Liquid Investments for Which a Ready Market Exists*

Although the investment focus of MOF is not on liquid financial instruments, MOF may use liquid financial instruments for either opportunistic investing or for the hedging of other investments. In such cases, Medley will use directly attributable inputs to value such investments. If these investments are encumbered by selling restrictions or other liquidity constraints not applicable to the directly attributable inputs used, valuation adjustments are also considered in order to determine the *fair value* of these investments.

### *Exchange-Traded Securities, Futures Contracts and Option Contracts*

The *fair value* of a security, futures contract or option contract traded on a nationally recognized exchange, such as the NASDAQ, Chicago Mercantile Exchange (“CME”) or Chicago Board Options Exchange (“CBOE”), respectively, is the closing market price of that security or futures contract on the valuation date. These are generally considered Level I investments.

### *Over-the-Counter Securities*

The *fair value* of a security (e.g., bond, note), financial instrument (e.g., loan, trade claim) or financial contract (e.g., swap contract, currency forward) not listed or traded on national exchanges are valued based upon middle-market quotes provided by a reliable pricing service. If MOF deems such valuation of a particular position to be inaccurate, the valuation is determined based upon the arithmetic average of the mean “bid” and “asked” prices received generally from two or more broker dealers. These are generally considered Level II investments.

# Valuation Policy

## *Illiquid Investments for Which no Ready Market Exists*

The *fair value* of illiquid securities, financial instruments or financial contracts for which no ready market exists – and, thus, for which no directly attributable inputs are available -- is determined based upon, to the extent they exist, transactions in the same securities that are timely, independent and material, and/or observable valuation factors – indirectly attributable inputs -- such as those discussed below, that Medley believes provide an independent, unbiased basis for valuation consistent with SFAS 157. Where there are no transactions in the same securities, the *fair value* of illiquid securities are determined as described below.

### *Loans*

In determining the *fair value* of loans, Medley considers factors such as, without limitation, cost, principal balance, rates of interest, remaining term, any call protection, other fixed or contingent payments due on an investment, accrued interest or other charges, changes in relevant interest or foreign exchange rates, issuer compliance with covenants and payment schedules on its debt, credit risk metrics such as leverage or coverage ratios, the value of the assets or the enterprise supporting the securities, reports of historical and projected financial results of operations of the issuer, including such metrics as revenue, EBITDA, or cash flow, observable market yields, credit risk metrics, financial results and valuation multiples for sufficiently comparable securities issued by sufficiently comparable companies and market events determined to be relevant to the valuation of the particular security. In addition, for companies that are in distress or insolvent, Medley considers the present value of the probabilistic recovery value, based upon appraisals of loan collateral and/or other company assets and expectations regarding the timing and likelihood of ultimate outcomes, to be the *fair value* of the loan.

### *Equity Participations*

In determining the *fair value* of equities or equity participations of any sort, Medley considers factors such as, without limitation, the borrower's enterprise value, the value of its liabilities and the value of its non-operating assets and any cash in excess of that required to support projected operations. The determination of enterprise value considers such factors as the historical and projected financial performance, capital structure and capital costs of the company and any observable historical and projected financial performance, market multiples, capital structures, borrowing costs and equity costs of capital for comparable companies, among other indications of value, such as transactions for control of such comparable companies.

The value of warrants and options on equity securities will be determined considering both the intrinsic value and time value of the instrument. The time value will be determined using an option valuation model(s) that considers, among other variables, the likely term of the instrument, the implied volatility of comparable public market options, adjusted downward for the illiquid nature of our instruments, the strike price, the current market value or *fair value* of the underlying equity and interest rates. Warrants and options, such as “penny warrants,” deemed to be “deep-in-the-money” are generally carried at a value that reflects only the intrinsic value of the option.



07/24/12  
Item #8



## Direct Lending Overview



## Agenda: Presentation to Stanislaus County

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- I. Introduction to White Oak**
- II. Introduction to Direct Lending**
- III. Types of Loans and Structures**
- IV. Manager Differentiation**
- V. Deal Example**



## I. Introduction to White Oak

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**Introduction** Casey Jones, Managing Director  
Telephone: 415-644-4115  
Email: [cjones@whiteoaksf.com](mailto:cjones@whiteoaksf.com)

**Presenters** Andre Hakkak, Co-founder and Managing Partner  
Telephone: 415-644-4111  
Email: [andre@whiteoaksf.com](mailto:andre@whiteoaksf.com)

Barbara McKee, Co-founder and Managing Partner  
Telephone: 415-644-4101  
Email: [barbara@whiteoaksf.com](mailto:barbara@whiteoaksf.com)



## II. Introduction to Direct Lending

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### **1. What is it?**

- Background information and history

### **2. Size of the market place.**

- Lenders & companies, and
- Types of borrowers

### **3. Regulatory changes and sustainability of strategy.**

- Basel II and III / Risk-based capital charges
- State of the union: Banks and finance companies

### **4. Return expectation.**

- Direct lending vs. high yield or syndicated bank loans



### III. Types of Loans and Structures

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#### **1. Types of Loans:**

- First Lien / Senior Secured
- Second Lien
- Mezzanine with Warrants

#### **2. Self Originated, Club or Broadly Syndicated.**

#### **3. Credit Underwriting.**

#### **4. Covenants.**

#### **5. Risks:**

- Asset Coverage or Loan to Value (LTV)
- Turn of Leverage
- Other



## IV. Manager Differentiation

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### 1. Things to look for:

- Track Record and “Delivering the Promise” in an unbiased way...
- Self-originated Loans vs. Syndicated Loans
- Seniority of the Loans: First or Second Lien
- Covenants and Structure
- Credit Underwriting and Workouts
- Leverage and Tax Implications
- Risk Management:
  - Asset-liability Management and Portfolio Management
  - Role as a Fiduciary



## V. Deal Example

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### Project SAIL

- The largest manufacturer and supplier of high quality glass systems and aftermarket accessories to the global recreational boating industry :
  - 85% domestic market share and 30% global market share in the primary and secondary boat windows, windshields and glass systems
  - Leading supplier for boat accessories: boat covers and cover tops, buoys, dock and safety products and other marine accessories.
- Leading supplier of fabricated glass systems for land-based recreational vehicles and industrial applications
- Company serves blue chip customer base with over 25 years of operating history



World's largest vertical glass furnace



CNC glass grinder



Factory floor



## V. Deal Example: Project Sail

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Deal Terms	
Priority	Senior Secured Term Loan
Amount	\$34,800,000
Tenor	3.5 years
Yield	15.00%
Origination	Sole lender
Loan to Value	48%
Turn of Leverage	3.5x
Covenants	Tight (revenue, bottom-line, both affirmative and negative)
Collateral	All assets (receivables, manufacturing plants, inventory, 60+ patents and trademarks)
Sector/Sub-sector	Industrials/Marine
Use of Proceeds	Refinance bank debt and working capital







## Direct Lending Market Information

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# Introduction

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## WHO WE ARE

White Oak Global Advisors, LLC (“White Oak”), an SEC registered investment advisor established in 2007, is the investment manager to various investment funds and separately managed accounts. White Oak’s primary investment strategies are direct-lending, liquid credit, and cash management. Through the direct-lending strategy, White Oak supports middle-market businesses with finance and advisory needs. With the liquid credit strategy, White Oak manages a portfolio of event long/short credit and long-only high yield credit. Through the cash management strategy, White Oak provides short-term, high-credit quality portfolios for institutional clients. White Oak and its affiliates have over 35 professionals headquartered in San Francisco, with offices in New York and Dallas. White Oak’s partners are supported by an experienced administrative team and corporate infrastructure that integrates a dynamic risk mitigation process with strong financial controls, asset and liability management, and a comprehensive reporting system.



# Macro Trend

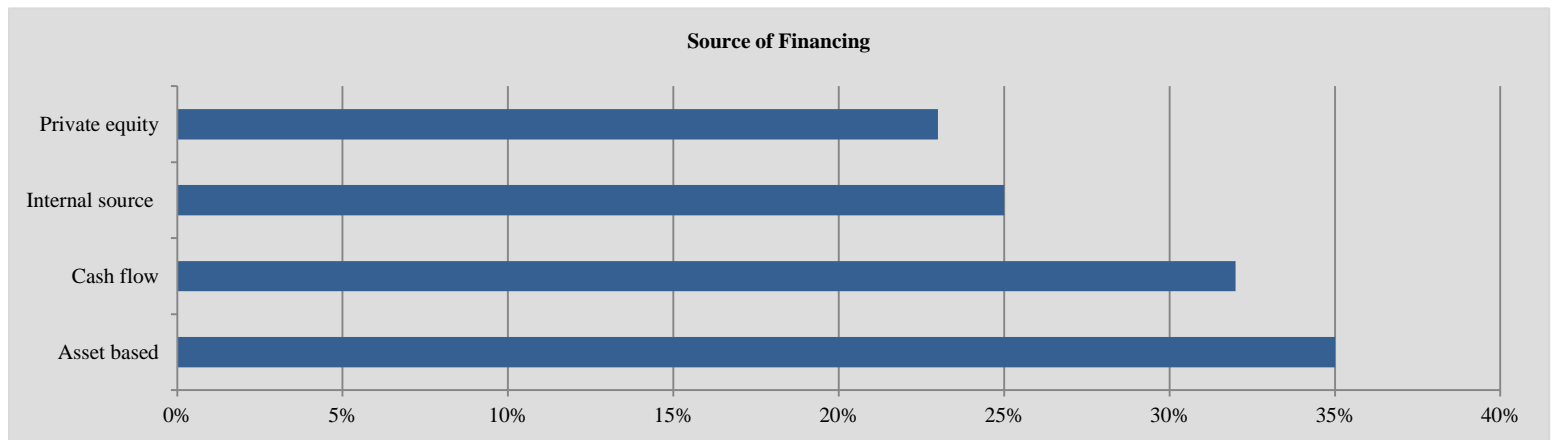
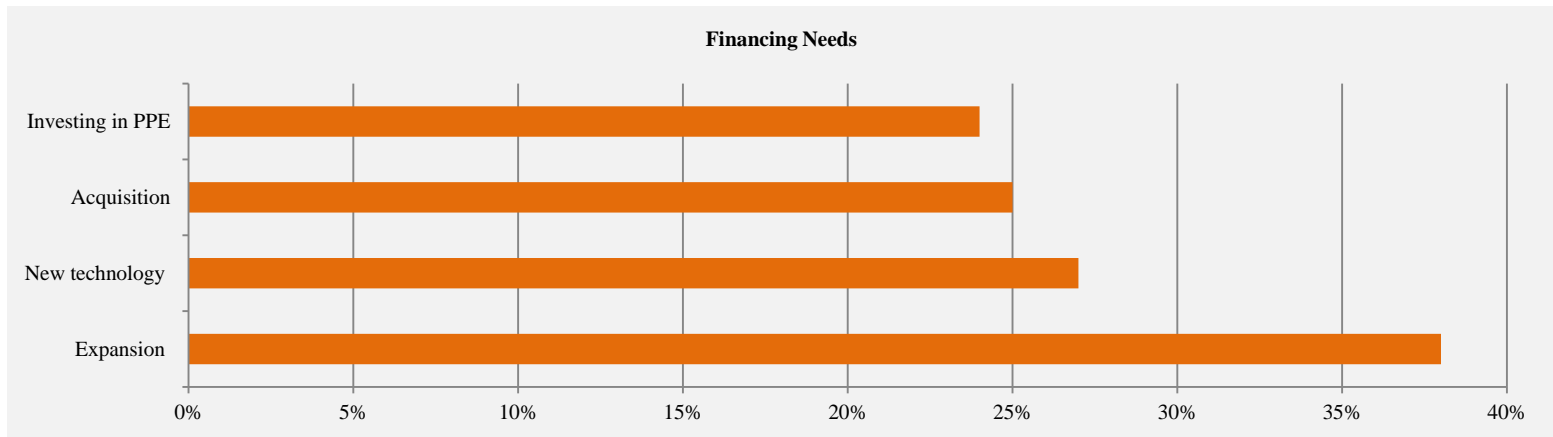
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## CREDIT OPPORTUNITY

- **Large and Important Market.** Small- to mid-size enterprises in the U.S. are a large, dynamic and highly fragmented component of the U.S. economy. These companies have historically been too small to access the capital markets directly and have historically been served by regional banks and specialty finance companies with limited capabilities and capital.
- **Banks are Structurally Disadvantaged.** Risk-based capital rules encouraged banks to move away from lending to smaller companies starting in the early 1990's. This tendency has only deepened as banks have focused predominantly on underwriting and "packaging to sell" commercial and residential loans. Furthermore, banks have used their branch networks as a means to gather retail assets and serve those customers with retail products and services rather than focusing on corporate clients.
- **The Era of Securitization.** Banks and other middle-market specialty finance companies (*i.e.* CIT, GE Capital and others) concentrated their corporate lending activities in syndicated, highly levered and covenant-light loans that were rated and packaged into structured investment products. Banks packaged and sold these off-balance-sheet investments earning fees while specialty finance lenders predominantly held them in their accounts after securing financing from the banks to provide portfolio leverage. This phenomenon de-emphasized loan origination, fundamental credit underwriting and servicing.
- **De-levering.** The 2007-2009 financial trauma caused banks and other specialty lenders that survived bankruptcy to grossly de-lever their balance sheets, focus a great deal of attention on portfolio stress and re-establish credibility with their stakeholders, customers and employees. This tightened liquidity in the corporate loan market, putting downward pressure on further lending activities.



## Macro Trend<sup>1</sup>



<sup>1</sup> Source: Deloitte – Mid-market perspectives: 2011 report on America's economic engine



## Product Comparison

As of December 2011	Investment Grade <sup>1</sup>	High Yield <sup>2</sup>	Leveraged Loan <sup>3</sup>	Mezzanine Funds <sup>4</sup>	BDC <sup>5</sup>	Direct Lending <sup>6</sup>
Yield	0.8%	7.0%	5.0%	8.0%	10.7%	16%
Covenant Structure	High	Light	Light	Light	Medium/Light	High
Average Duration (yrs.)	2.7	4.4	N/A	4.5	N/A	2.6
Average Maturity (yrs.)	2.8	6.8	5.0	5.6	3.1	N/A
Average S&P rating	AA+	B	BB	N/A	N/A	N/A

### Approximate Structural Composition

First Lien	—	—	90%	—	40%	100.0%
Second Lien	—	50%	10%	45%	44%	—
Mezzanine / Unsecured	100%	50%	—	39%	2%	—
Equity	—	—	—	16%	14%	—

- (1) Barclays Capital U.S. 1–5 Year Government/Credit Float Adjusted Index or tracking weighted security  
(2) Barclays Capital High Yield Very Liquid Index or tracking weighted security  
(3) S&P/LSTA U.S. Leveraged Loan 100 Index or tracking weighted security  
(4) Source: Prequin (data as of 01/31/12 – median of all mezzanine funds)  
(5) Per public filings of sample BDC firms  
(6) Per White Oak Global Advisors, LLC



## Unique Position within Middle Market Lending

		White Oak*			
	Small Businesses Sub \$50m	Small/Mid-size \$50-500m Enterprise Value (ABL)	Small/Mid-size \$50-500m Enterprise Value (Cash Flow)	Mid-size Companies \$500m-1.0bn Enterprise Value	Mid-size Companies \$1.0bn + Enterprise Value
<b>Loan Size:</b>	<b>\$1-5m</b>	<b>\$5-40m</b>	<b>\$10-40m</b>	<b>\$50-200m</b>	<b>\$300-1.0bn</b>
<b>Pricing:</b>	<b>Various</b>	<b>12-20%</b>	<b>10-15% + Warrants</b>	<b>L+400 - 700</b>	<b>L+300 - 500</b>
<b>Tenor:</b>	<b>Short-term</b>	<b>1-5 Years</b>	<b>4-7 Years</b>	<b>5-10 Years</b>	<b>8-30 Years</b>
<b>Covenant:</b>	<b>Medium</b>	<b>High</b>	<b>Light/Medium</b>	<b>Light</b>	<b>Light</b>
<b>Structure:</b>	<b>Standard</b>	<b>Customized</b>	<b>Customized</b>	<b>Standard</b>	<b>Standard</b>
Type of Lenders	<ul style="list-style-type: none"> <li>•SBIC</li> <li>•Accounts Receivables</li> <li>•Vendor Financing</li> <li>•Government Stimulus</li> <li>•Community Banks</li> </ul>	<ul style="list-style-type: none"> <li>• Small and Regional Banks</li> <li>• White Oak</li> </ul>	<ul style="list-style-type: none"> <li>•Mezzanine Funds</li> <li>•Specialty Lenders</li> <li>•Publicly traded specialty finance companies</li> </ul>	<ul style="list-style-type: none"> <li>•CIT/GE Capital</li> <li>•Large Banks</li> <li>•Mid-size banks: Comerica/PNC Bank</li> </ul>	<ul style="list-style-type: none"> <li>•Large Banks</li> <li>•CIT/GE Capital</li> <li>•Syndicated / publicly traded bonds and loans</li> </ul>
Risks	<ul style="list-style-type: none"> <li>•Consumer Protection</li> <li>•Inefficient Workouts</li> <li>•Standardized Approach</li> <li>•No Pure-Play Access</li> </ul>	<ul style="list-style-type: none"> <li>•Low Liquidity</li> <li>•Possible delay in realization if subject to workout or bankruptcy</li> </ul>	<ul style="list-style-type: none"> <li>•Low Liquidity</li> <li>•Consensus in Distress</li> <li>•Being a lender and having equity upside</li> <li>•Underwriting Control</li> <li>•Covenant Enforcement</li> </ul>	<ul style="list-style-type: none"> <li>•Technical Pricing</li> <li>•Borrower Visibility</li> <li>•Inefficient Workouts</li> <li>•Light Covenants</li> <li>•Difficult to Differentiate</li> <li>•Long Duration</li> </ul>	<ul style="list-style-type: none"> <li>•Technical Pricing</li> <li>•Borrower Visibility</li> <li>•Inefficient Workouts</li> <li>•Light Covenants</li> <li>•Difficult to Differentiate</li> <li>•Long Duration</li> </ul>

\* White Oak investment strategies. This column represents a guideline, investors must read the specific fund offering documents to understand the market positioning for each strategy.



White Oak

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## Headquarters

88 Kearny Street, Fourth Floor, San Francisco, California 94108

Telephone (415) 644-4111; Facsimile (415) 276-1715

San Francisco      New York      Dallas

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# MARKET UPDATE

FOR JUNE 2012

## U.S. EQUITY

June was a better month for equities as Non-U.S. stocks outperformed U.S. stocks. Within the U.S. markets, Value for the month outperformed growth and small caps outperformed large caps. The Russell 1000 Growth Index was up +2.7% for the month and the Russell 1000 Value Index was up +5.0%. The Russell 2000 Growth Index was up +5.2% and the Russell 2000 Value was up +4.8%. The S&P 500 Index ended the month up +4.1%.

The S&P 500 Index has a trailing 12-month P/E ratio of 15.2 (estimated P/E ratio of 12.9 on forward looking twelve-month operating earnings) and a dividend yield of 2.1%.

Analysts have lowered their 2<sup>nd</sup> quarter revenue and profit estimates for large U.S. companies. Collectively, they look for members of the S&P 500 to report 1.5% revenue growth, down from the 4.7% they had previously expected in early April.

Corporate merger highlights for the month included: Thomas H. Lee Partners is in final discussions to buy Party City for \$2.7 billion; Salesforce.com will buy Buddy Media, a social media marketing company, for \$745 million; Chesapeake Energy will sell its pipeline and related assets to Global Infrastructure Partners for over \$4 billion; Apax Partners and JMI Equity will pay \$1 billion to buy Paradigm, a private software vendor specializing in oil and gas exploration; EQT, the private equity vehicle of Sweden's Investor AB, will buy medical supplies manufacturer BSN Medical for \$2.3 billion; J Sainsbury, Britain's 3<sup>rd</sup> largest supermarket group, acquired HMV Group's 64% stake in online e-book retailer Anobii for \$1.55 billion; The Hong Kong stock exchange will pay \$2.2 billion to buy the London Metal Exchange, the world's largest marketplace for industrial metals; Microsoft reportedly signed a deal to acquire Yammer, a social network for businesses, for \$1.2 billion; Walgreen will buy a 45% stake in Alliance Boots for \$6.7 billion, a deal that will bring together the 2<sup>nd</sup> largest pharmacy chains in the U.S. and Europe; Julius Baer Group, a Swiss wealth manager, is in talks with Bank of America about acquiring its Merrill Lynch wealth management business; Chemical and specialty products maker Cabot is buying Dutch company Norit NV for \$1.1 billion to strengthen its specialty chemicals portfolio; Quest Software received an improved bid from Dell of about \$2.32 billion; SBA Communications will

acquire the 3,252 tower sites for wireless communications from TowerCo in a deal valued at \$1.45 billion; Malaysia's state-owned oil and gas company Petrolia National will buy Canada's Progress Energy Resources for about \$5.4 billion; and, Anheuser-Busch InBev will buy the half of Corona it doesn't already own for \$20.1 billion.

## FIXED INCOME

The Labor Dept. reported that the unemployment rate rose slightly to 8.2% in May from 8.1% in April.

The Commerce Dept. reported that the economy grew at a revised 1.9% annual pace in the first quarter. Consumer spending, which accounts for about 70% of U.S. economic activity, rose at a 2.5% rate in the 1<sup>st</sup> quarter. The Federal Reserve's Beige Book report suggested that overall economic activity expanded at a moderate pace from early April to late May. The Federal Reserve sharply lowered its outlook for U.S. growth this year to 2.4%, down from an April forecast that projected growth as fast as 2.9%.

The Federal Reserve left the federal funds target unchanged in June at 0-25 basis points and maintained the forward guidance that conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."

The Federal Reserve reported that the median U.S. household lost nearly 39% of its wealth from 2007 to 2010 as net worth fell to \$77,300 from \$126,400.

Long-term interest rates rose in the month of June. The bellwether 10-year Treasury note ended the month yielding 1.67% up from 1.57% at the close of May. At month-end, the 30-year bond yield was 2.76% with the 3-month T-bill at 0.09%. The Barclays Capital US Aggregate Index was unchanged (+0.04%) in June with high yield corporate bonds, the strongest sector, up +2.0% as measured by the BofA Merrill Lynch US High Yield Master II Index.

On the economic front, the following key data was released in June:

## THE GOOD

\*The Institute for Supply Management's index of non-manufacturing activity edged up to 53.7 in May, marking the 29<sup>th</sup> consecutive straight month of expansion.

\*U.S. household debt fell by a seasonally adjusted 0.4% in the 1<sup>st</sup> quarter to mark the 15<sup>th</sup> straight decline.

\*Household net worth climbed by \$2.8 trillion in the 1<sup>st</sup> quarter to \$62.9 trillion.

\*The Commerce Dept. reported that the U.S. trade deficit shrank 4.9% to \$50.1 billion, as imports of goods and services dropped 1.7% to \$233.0 billion.

\*The producer price index declined 1.0% in May, the largest since a 1.2% drop in July 2009.

\*The Bureau of Labor Statistics reported that the Consumer Price Index declined 0.3% in May after being unchanged in April.

\*The NAHB/Wells Fargo Housing Market index inched one point higher to 29 in June, a sign that the housing market may be slowly heading into recovery.

\*New construction of single-family homes, which account for three-quarters of the housing market, climbed 3.2% in May to an annual rate of 494,000, the highest level in over two years.

\*The Commerce Dept. reported that new single family home sales jumped 7.6% to a seasonally adjusted 369,000 unit annual rate, the fastest pace since April 2010.

\*The index of leading economic indicators continues to trend modestly higher. The index rebounded +0.3% in May, following a -0.1% drop in April.

\*The Commerce Dept. reported that durable goods orders increased a greater-than-expected 1.1% in May.

## THE NOT SO GOOD

\*Automakers' annual selling rate in May finished at 13.8 million vehicles, the first month this year under the 14 million pace and far short of estimates.

\*The personal savings rate continued a recent downward trajectory, dipping to 3.4% in April.

\*Orders for manufactured goods fell 0.6% in April following a 2.0% decline in March, the first consecutive decrease in factory orders in more than three years.

\*The Congressional Budget office reported that the U.S. federal debt will exceed 70% of gross domestic product by the end of 2012, the highest percentage since shortly after World War II.

\*Productivity slipped at a 0.9% annual rate in the 1<sup>st</sup> quarter.

\*The U.S. posted a deficit of \$125 billion in May to bring the total federal shortfall to \$845 billion through the first eight months of fiscal 2012.

\*The Federal Reserve reported that consumer credit rose \$6.5 billion in April following a \$12.4 billion gain in March.

\*The Federal Reserve reported that industrial production slipped a seasonally adjusted 0.1% in May after gaining 1% in April.

\*The Commerce Dept. reported that retail sales dipped 0.2% in May following a revised 0.2% decline in April and the first back-to-back declines in two years.

\*The Philadelphia Federal Reserve Bank said its business activity index dropped to minus 16.6 from minus 5.8 in May, far below economists' expectations for a reading of zero and more evidence of a faltering economy.

\*Sales of previously occupied homes fell 1.5% in May from April.

\*Consumer spending was unchanged in May, failing to rise for the first time since November.

Consumer confidence eroded in June. The Conference Board index fell 2.4 points to 62.0, the fourth consecutive decline. As recently as February the index was almost 10.0 points higher and closing in on its best level in this recovery. Meanwhile, the Univ. of Michigan index fell 6.1 points to 73.2, the lowest since December.

The U.S. economy has clearly slowed down these past couple of months and the Fed is at the end of their latest monetary stimulation. The U.S. financial system's ability to produce a sustainable economic expansion supported by private sector credit creation is now being tested. The Fed reacted to this slowdown by continuing to stimulate - extending Operation Twist to year-end 2012.

## NON-U.S. MARKETS

Lenders of Germany, Italy, France and Spain agreed on a \$156 billion package to revive growth in Europe. Independent auditors report that up to \$78 billion dollars are needed to bail out Spain's crippled banks. Cyprus became the latest victim of Europe's debt crisis by requesting aid from its euro-zone partners.

The Bank of England left monetary policy unchanged in June with the bank rate held at 0.50%. The services PMI

was unchanged at 53.3 in May, signaling that moderate growth is being sustained in that key segment of the economy. Inflation pressures eased as the PPI fell 0.2% in May. Retail sales continue to trend higher up 0.9% in May.

The ECB kept policy rates unchanged in June keeping the key minimum bid rate at 1.00% and the deposit rate at 0.25%. Overall euro zone GDP was unchanged in the first quarter of 2012 and fell -0.1% over the past twelve months. Manufacturing data continues to deteriorate with the purchasing managers' indexes falling 0.3 point to 44.8.

German factory orders fell 1.9% in April. However, the weakness was concentrated in the volatile "other vehicles" component. Abstracting from that, orders slipped 0.1%. German investor confidence is collapsing as the headline expectations of the Zew index plunged 27.7 points in June, bringing the cumulative decline over the last two months to more than 40 points. Italian industrial production is trending lower as output fell 1.9% in May.

Japanese GDP jumped 1.2% (4.7% annualized) in the first quarter of 2012. Consumer spending contributed 0.7 percentage point to growth, government 0.3, net exports 0.1 and inventories 0.3, while business investment subtracted 0.3. GDP has risen 2.8% over the past twelve months.

The Reserve Bank of Australia continued to ease, cutting its policy rate a quarter of a point. The Bank has now cut a cumulative 125 points since November, lowering the cash rate target to 3.5%. The first quarter GDP was a positive surprise as the economy expanded 1.3% quarter-to-quarter.

Non-U.S. equities were up for the month of June. The MSCI ACWI Ex-U.S. was up +5.9% (US dollars) in June. Developed stocks (EAFE) were up +7.0% while Emerging Markets gained +3.4% for the month.

## CONCLUSION

When countries become too deeply indebted, they are headed for trouble.

The European Central Bank (ECB) is governed by a board and is somewhat like the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve. The

ECB meets and sets policy, and then policy is acted upon by the various central banks of the member nations. So, when the ECB decides to authorize euros to be made available to banks in Europe, such as the recent long-term refinancing operation (LTRO), it is the various national central banks that perform the transactions for their country banks. The ECB takes the risk of any loan that it authorizes rather than the national central banks. The recent LTRO interest rate was set very low, and the recipient banks could turn around and lend money to customers or buy government bonds.

Spain was by far the country whose banks took the greatest advantage of this cheap money with Italy coming in second. The banks of Spain and Italy borrowed at 1% and bought their own government bonds. The ECB thus utilized this LTRO as a way of injecting necessary liquidity into the system. Spain formally requested in mid-June a 100 billion euro aid package for its banking system.

Confidence, especially when large short-term debts need to be rolled over continuously, can quickly erode as has been the case in Europe. As soon as confidence collapses, lenders disappear and a crisis hits or worsens. We have recently seen money flying out of Greece and the periphery countries to Germany, and funds are also beginning to leave the euro zone. Each country in Europe is responsible for regulating and guaranteeing its own banks.

Government officials in Europe created the Emergency Lending Assistance (ELA) to prevent a "bank run" at the country level. The ELA funds appear on the ECB balance sheet. *The Financial Times* recently reported that over 200 billion euros has been lent as the debt crisis deepens. The various national governments are authorized to create euro loans to their banks in times of emergency. The irony is that Greece's ELA cash will end up going abroad and the collateral turning out to be pretty much worthless. ELA loans are guaranteed by the Greek central bank which is in turn guaranteed by the Greek government which already can't pay its debts without the help of the rest of Europe. The inability to date on how to resolve the inevitable losses of the debt bubble within Europe contributes to confidence eroding.

Greece is going to need additional massive amounts of aid, bailouts and loan forgiveness. Spain, Portugal, and Italy may not be that far behind. Europe is down to two choices. The first choice is to allow the Eurozone to

break up and the second choice is to go for a full fiscal union with central budget controls. The second option equates to the issuance of Eurobonds and a central taxing authority.

The European Union summit at the end of June seemed to temporarily calm the financial markets. Leaders of the 17 countries that use the euro agreed to:

- Allow two European bailout funds to inject money directly into troubled European banks, rather than make loans to governments to bail out the banks. The move attempts to rescue banks without placing strapped countries deeper into debt.
- Use bailout money “in a flexible and efficient manner to stabilize” European government bond markets.
- Let countries that have made economic reforms as required by EU authorities to tap the European rescue funds without submitting to stringent (austerity) bailout programs.
- Tie their budgets, currency and governments even tighter in a vast new economic union down the line.

Global stock markets and the euro rallied following these announcements but concerns still remain. The 500 billion euro permanent bailout fund may not be enough. On July 9<sup>th</sup>, euro zone countries will agree to give Spanish banks rescue loans and allow the temporary European bailout fund to directly purchase Spanish government bonds.

This decision is seen as helpful to Spain and Italy, whose borrowing costs have risen to near unsustainable levels. In Germany, Chancellor Angela Merkel is likely to face skepticism from her country regarding bailing out the periphery countries without changing their behavior. It appears that leaders are moving towards the second option listed above.



## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Jun-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	3.92	-3.15	9.32	3.84	17.24	16.73	0.39	4.29	5.81
Russell TOP 200 Index	4.24	-2.60	9.95	7.04	17.61	15.58	0.15	3.82	4.72
Russell TOP 200 Growth Index	3.04	-3.39	10.87	9.70	20.28	17.07	3.37	5.47	5.38
Russell TOP 200 Value Index	5.49	-1.77	9.03	4.46	14.96	14.10	-3.01	2.17	4.05
S&P 500 Index	4.12	-2.75	9.49	5.45	17.39	16.40	0.22	4.09	5.33
Russell 1000 Index	3.83	-3.12	9.38	4.37	17.35	16.64	0.39	4.26	5.72
Russell 1000 Growth Index	2.72	-4.02	10.08	5.76	19.49	17.50	2.87	5.50	6.03
Russell 1000 Value Index	4.96	-2.20	8.68	3.01	15.25	15.80	-2.19	2.92	5.28
Russell Mid-Cap Index	2.81	-4.40	7.97	-1.65	16.70	19.44	1.06	5.42	8.45
Russell Mid-Cap Growth Index	1.90	-5.60	8.10	-2.99	17.89	19.01	1.91	5.84	8.47
Russell Mid-Cap Value Index	3.65	-3.26	7.78	-0.37	15.66	19.92	-0.13	4.77	8.17
Russell 2000 Index	4.99	-3.47	8.53	-2.08	16.00	17.80	0.54	4.60	7.00
Russell 2000 Growth Index	5.16	-3.94	8.81	-2.71	18.16	18.09	1.99	5.73	7.39
Russell 2000 Value Index	4.82	-3.01	8.23	-1.44	13.78	17.43	-1.05	3.38	6.50
DJ US REIT Index	5.53	3.75	14.91	13.29	23.65	33.52	1.97	5.98	10.27
DJ-UBS US Commodity Index TR	5.49	-4.55	-3.70	-14.32	3.86	3.49	-3.65	0.13	4.96
DJ-UBS US Gold Index TR	2.56	-4.17	1.94	6.01	12.68	19.21	18.62	19.27	16.77

June!  
better!  
although  
it didn't  
feel like  
it.

fiscal year  
2012

US > Non-US Equities  
Bonds > Equities

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jun-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	5.94	-7.38	3.13	-14.15	5.75	7.43	-4.18	4.38	7.20
MSCI AC World Index	4.99	-5.36	6.01	-5.96	10.90	11.36	-2.17	4.24	6.27
MSCI EAFE Index	7.05	-6.85	3.38	-13.38	6.49	6.45	-5.63	2.79	5.62
MSCI Emerging Markets index	3.91	-8.78	4.12	-15.67	3.96	10.10	0.21	10.39	14.42
ML Global Government Bond Ex. U.S. Index	-0.75	1.96	-0.73	3.47	8.03	7.31	9.31	6.43	7.32
Euro	2.64	-4.70	-2.24	-12.47	1.79	-3.28	-1.24	0.68	2.54
Japanese Yen	-1.72	3.14	-3.57	1.22	5.31	6.54	9.13	4.80	4.15
UK Pound Sterling	1.90	-1.83	0.92	-2.30	2.39	-1.61	-4.81	-1.89	0.29

non-US  
stronger

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Jun-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.01	0.03	0.04	0.06	0.11	0.12	0.98	2.00	1.87
BarCap Aggregate Bond Index	0.04	2.06	2.37	7.47	5.67	6.93	6.79	5.58	5.63
ML U.S. Corp/Govt Master Index	0.00	2.62	2.79	8.73	6.27	7.45	6.87	5.52	5.79
ML U.S. Corporate Master Index	0.50	2.37	4.87	9.15	7.88	10.63	7.42	5.93	6.59
BarCap Mortgage Backed Securities Index	0.12	1.08	1.66	4.97	4.37	5.40	6.67	5.71	5.40
ML U.S. High Yield Master Index	2.02	1.88	7.02	6.62	10.88	16.01	8.07	8.07	9.76
JPM EMBI Global	3.57	2.47	7.45	10.90	11.32	13.47	9.44	9.05	11.74

spread  
products

good  
in June

A

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING JUNE 30, 2012**  
**PRELIMINARY BASIS**

**SUMMARY OF INVESTMENTS**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES	587,017,581	42.5% ✓	40.9%	35.9% - 45.9%
INTERNATIONAL EQUITIES	225,582,189	16.3% ✓	19.0%	16.0% - 22.0%
FIXED INCOME	527,666,263	38.2% ✓	37.1%	33.4% - 40.8%
SPECIAL SITUATIONS	30,308,983	2.2%	3.0%	2.0% - 4.0%
SECURITY LENDING	(2,533,570)	-0.2%	0.0%	0.0% - 0.0%
CASH (equity managers only)	14,391,207	1.0%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,382,432,653	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX LARGE CAP VALUE	9.7%	9.8%
BGI R1000 VALUE INDEX	6.5%	6.0%
DELAWARE - LARGE CAP GROWTH	8.3%	6.8%
BGI R1000 GROWTH INDEX	5.4%	5.0%
CAPITAL PROSPECTS	4.5%	4.5%
LEGATO CAPITAL	4.3%	4.0%
BNY S&P 500 INDEX	4.6%	4.8%
LSV ASSET MGMT INTL EQ	8.1%	9.5%
PYRAMIS INTL EQ	8.5%	9.5%
DODGE & COX FIXED INCOME	30.3%	29.6%
PIMCO	7.9%	7.5%
INVESCO GLOBAL REIT	1.4%	1.5%
RAFI LONG SHORT	0.8%	1.5%
SECURITY LENDING	-0.2%	0.0%
TOTALS	100.0%	100.0%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING JUNE 30, 2012**  
PRELIMINARY BASIS

**GROWTH OF ASSETS AND CHANGES IN ALLOCATION**

ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
<b>MARKET VALUE</b>					
DOMESTIC EQUITIES	587,017,581	565,068,938	3.88%	584,137,001	0.49%
INTERNATIONAL EQUITIES	225,582,189	213,417,635	5.70%	265,815,670	-15.14%
FIXED INCOME	527,666,263	528,166,071	-0.09%	517,225,255	2.02%
SPECIAL SITUATIONS	30,308,983	30,384,738	-0.25%	39,847,816	-23.94%
SECURITIES LENDING	(2,533,570)	(2,521,195)	-0.49%	(2,598,890)	2.51%
CASH (equity managers only)	14,391,207	13,558,998	6.14%	8,088,094	77.93%
TOTAL PORTFOLIO	1,382,432,653	1,348,075,185	2.55%	1,412,514,947	-2.13%
<b>ASSET ALLOCATION (ACTUAL)</b>					
DOMESTIC EQUITIES	42.46%	41.92%	0.5%	41.35%	1.1%
INTERNATIONAL EQUITIES	16.32%	15.83%	0.5%	18.82%	-2.5%
FIXED INCOME	38.17%	39.18%	-1.0%	36.62%	1.6%
SPECIAL SITUATIONS	2.19%	2.25%	-0.1%	2.82%	-0.6%
SECURITY LENDING	-0.18%	-0.19%	0.0%	-0.18%	0.0%
CASH (equity managers only)	1.04%	1.01%	0.0%	0.57%	0.5%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

\* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

Page 2

2

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING JUNE 30, 2012**  
PRELIMINARY BASIS

**MANAGER ALLOCATION**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	RANGE
<b>DOMESTIC EQUITIES</b>				
DODGE & COX LARGE CAP VALUE	134,257,000	9.7%	✓ 9.8%	7.8% - 11.8%
BLACKROCK R1000 VALUE INDEX	89,190,860	6.5%	✓ 6.0%	5.0% - 7.0%
DELAWARE - LARGE CAP GROWTH	114,359,743	8.3%	➤ 6.8%	5.3% - 8.3%
BLACKROCK R1000 GROWTH INDEX	74,700,350	5.4%	✓ 5.0%	4.0% - 6.0%
CAPITAL PROSPECTS SMALL CAP VALUE	62,889,483	4.5%	✓ 4.5%	3.5% - 5.5%
LEGATO CAPITAL SMALL CAP GROWTH	59,186,981	4.3%	✓ 4.0%	3.0% - 5.0%
BNY - S&P 500 INDEX	62,908,914	4.6%	✓ 4.8%	3.8% - 5.8%
<b>TOTAL DOMESTIC EQUITIES</b>	<b>597,493,330</b>	<b>43.2%</b>	<b>40.9%</b>	
<b>FIXED INCOME</b>				
DODGE & COX	418,633,626	30.3%	✓ 29.6%	27.1% - 32.1%
PIMCO	109,032,637	7.9%	✓ 7.5%	6.0% - 9.0%
<b>TOTAL FIXED INCOME</b>	<b>527,666,263</b>	<b>38.2%</b>	<b>37.1%</b>	
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT.	111,975,664	8.1%	✓ 9.5%	8.0% - 11.0%
PYRAMIS	117,521,983	8.5%	✓ 9.5%	8.0% - 11.0%
<b>TOTAL INTERNATIONAL EQUITIES</b>	<b>229,497,647</b>	<b>16.6%</b>	<b>19.0%</b>	
<b>SPECIAL SITUATIONS</b>				
INVESCO (Global REITs)	19,736,261	1.4%	✓ 1.5%	0.0% - 3.0%
RAFI (Global Long/Short Equity)	10,572,722	0.8%	1.5%	0.0% - 3.0%
<b>TOTAL SPECIAL SITUATIONS</b>	<b>30,308,983</b>	<b>2.2%</b>	<b>3.0%</b>	<b>0.0% - 3.0%</b>
<b>SECURITIES LENDING</b>	<b>(2,533,570)</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>0.0% - 0.0%</b>
<b>TOTAL STANCERA PORTFOLIO</b>	<b>1,382,432,653</b>	<b>100.0%</b>	<b>100.0%</b>	

*RAFI liquidated  
all cash*



**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING JUNE 30, 2012**  
**PRELIMINARY**

	TOTAL FUND			
	CASH	BONDS	EQUITIES	TOTAL
<b>DOMESTIC EQUITIES</b>				
DODGE & COX - LARGE CAP VALUE	5,660,831		128,596,169	134,257,000
BLACKROCK R1000 VALUE INDEX	6,244		89,184,616	89,190,860
DELAWARE LARGE CAP GROWTH	1,621,045		112,738,698	114,359,743
BLACKROCK - R1000 GROWTH INDEX	0		74,700,350	74,700,350
CAPITAL PROSPECTS - SMALL CAP VALUE	1,489,017		61,400,465	62,889,483
LEGATO CAPITAL - SMALL CAP GROWTH	1,698,397		57,488,584	59,186,981
BNY - S&P 500 INDEX	215		62,908,699	62,908,914
TOTAL DOMESTIC EQUITIES	10,475,749		587,017,581	597,493,330
<b>FIXED INCOME</b>				
DODGE & COX	8,713,616	409,920,009		418,633,626
PIMCO	8,941,458	100,091,179		109,032,637
TOTAL FIXED INCOME	17,655,074	510,011,188		527,666,263
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT.	2,266,015		109,709,649	111,975,664
PYRAMIS	1,649,442		115,872,541	117,521,983
TOTAL INTERNATIONAL EQUITIES	3,915,457		225,582,189	229,497,647
<b>SPECIAL SITUATIONS</b>				
INVESCO (Global REITs)	0		19,736,261	19,736,261
RAFI (Global Long/Short Equity)	10,572,722		0	10,572,722
TOTAL SPECIAL SITUATIONS	10,572,722		19,736,261	30,308,983
<b>SECURITIES LENDING</b>				
	(2,533,570)			(2,533,570)
<b>TOTAL STANCERA PORTFOLIO</b>	<b>40,085,433</b>	<b>510,011,188</b>	<b>832,336,031</b>	<b>1,382,432,653</b>

*RAFI Cash*  
*\*1 million out to cash*  
*\*9.57 million to S&P 500*

**STANCERA**  
MONTHLY PERFORMANCE REVIEW  
PERIOD ENDING JUN 30, 2012  
PRELIMINARY BASIS

CURRENT PERFORMANCE

	MARKET VALUE	JUNE	ALPHA	MAY	ALPHA	FISCAL YTD	ALPHA
<b>DOMESTIC EQUITIES</b>							
DODGE & COX - LARGE CAP VALUE	128,596,169	5.51%	0.55%	-6.61%	-0.75%	-0.04%	-3.05%
RUSSELL 1000 VALUE		4.96%		-5.86%		3.01%	
BLACKROCK - R1000 VALUE INDEX	89,184,616	4.95%	-0.01%	-5.86%	0.00%	3.08%	0.07%
RUSSELL 1000 VALUE		4.96%		-5.86%		3.01%	
DELAWARE - LARGE CAP GROWTH	112,738,698	2.40%	-0.32%	-6.42%	-0.01%	10.98%	5.22%
RUSSELL 1000 GROWTH		2.72%		-6.41%		5.76%	
BLACKROCK R1000 GROWTH INDEX	74,700,350	2.73%	0.01%	-6.40%	0.01%	5.89%	0.13%
RUSSELL 1000 GROWTH		2.72%		-6.41%		5.76%	
CAPITAL PROSPECTS	61,400,465	3.92%	-0.90%	-6.15%	-0.04%	-1.27%	0.17%
RUSSELL 2000 VALUE		4.82%		-6.11%		-1.44%	
LEGATO CAPITAL	57,488,584	5.62%	0.46%	-5.78%	0.35%	-0.72%	1.99%
RUSSELL 2000 GROWTH		5.16%		-7.13%		-2.71%	
BNY S&P 500 INDEX	62,908,699	4.15%	0.03%	-6.01%	0.00%	5.47%	0.02%
S&P 500		4.12%		-6.01%		5.45%	
TOTAL DOMESTIC EQUITY	587,017,581	4.17%	0.25%	-6.25%	-0.07%	3.33%	-0.51%
Russell 3000 Index		3.92%		-6.18%		3.84%	
<b>FIXED INCOME</b>							
DODGE & COX	418,633,626	0.45%	0.41%	0.17%	-0.73%	6.69%	-0.78%
BARCLAYS US AGGREGATE BOND		0.04%		0.90%		7.47%	
PIMCO	109,032,637	0.13%	0.09%	1.11%	0.21%	8.77%	1.30%
BARCLAYS US AGGREGATE BOND		0.04%		0.90%		7.47%	
TOTAL FIXED INCOME	527,666,263	0.36%	0.32%	0.36%	-0.54%	6.96%	-0.51%
BARCLAYS US AGGREGATE BOND		0.04%		0.90%		7.47%	
<b>INTERNATIONAL INVESTMENTS</b>							
LSV ASSET MGMT	109,709,649	5.33%	-0.61%	-11.16%	0.09%	-15.70%	-1.55%
MSCI ACWI Free ex-US		5.94%		-11.25%		-14.15%	
PYRAMIS	115,872,541	5.25%	-0.69%	-11.12%	0.13%	-12.98%	1.17%
MSCI ACWI Free ex-US		5.94%		-11.25%		-14.15%	
TOTAL INTERNATIONAL EQUITY	225,582,189	5.29%	-0.65%	-11.14%	0.11%	-14.30%	-0.15%
MSCI ACWI Free ex-US		5.94%		-11.25%		-14.15%	
<b>SPECIAL SITUATIONS</b>							
INVESCO	19,736,261	6.59%	0.07%	-6.11%	0.23%	1.98%	-0.37%
FTSE EPRA/NAREIT Global REIT		6.52%		-6.34%		2.34%	
RAFI LS	0	0.00%	-0.01%	-8.25%	-8.25%	-40.65%	-40.70%
US 1- month LIBOR		0.01%		0.00%		0.05%	
<b>SECURITIES LENDING</b>							
BNY MELLON	(2,533,570)						
<b>CASH and SHORT-TERM INVESTMENTS</b>							
CASH	24,963,929	0.01%	0.00%	0.01%	0.00%	0.10%	0.05%
90 DAY TREASURY BILL		0.01%		0.01%		0.05%	
TOTAL StanCERA Fund	1,382,432,653	2.85%	-0.06%	-4.87%	-0.42%	0.25%	-1.47%
Policy Index		2.91%		-4.45%		1.72%	
Actuary Rate of Assumption (8.00%)		0.66%	2.19%	0.66%	-5.53%	8.00%	-7.75%
Actuary Rate of Inflation (3.50%)		0.29%	2.56%	0.29%	-5.16%	3.50%	-3.25%

12 mos. attribution  
(approximate)  
Small Cap Over-weight -75 bps

Otc FI -30 bps

Delaware +35 bps

Legato +8 bps

D+C FI -24 bps

Pimco +9 bps

LSV -15 bps

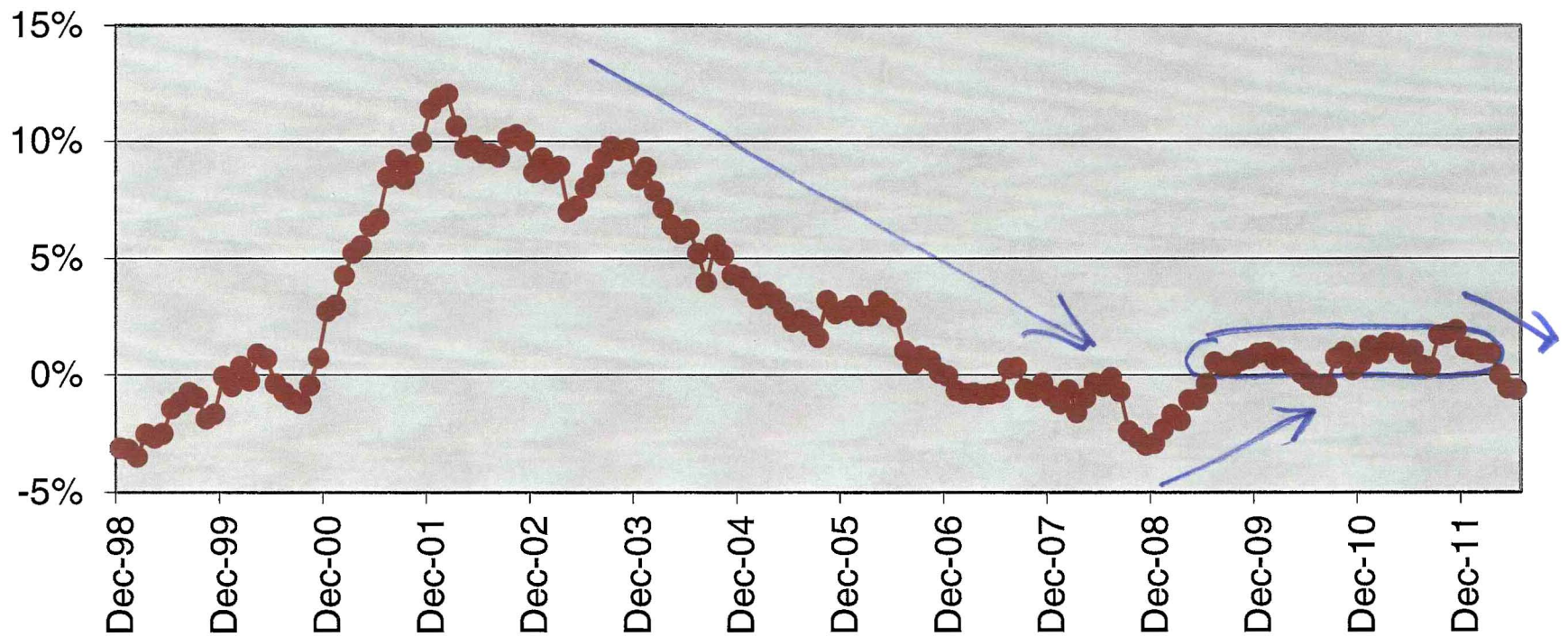
Pyramis +12 bps

RAFI -60 bps

Total Plan -150 bps

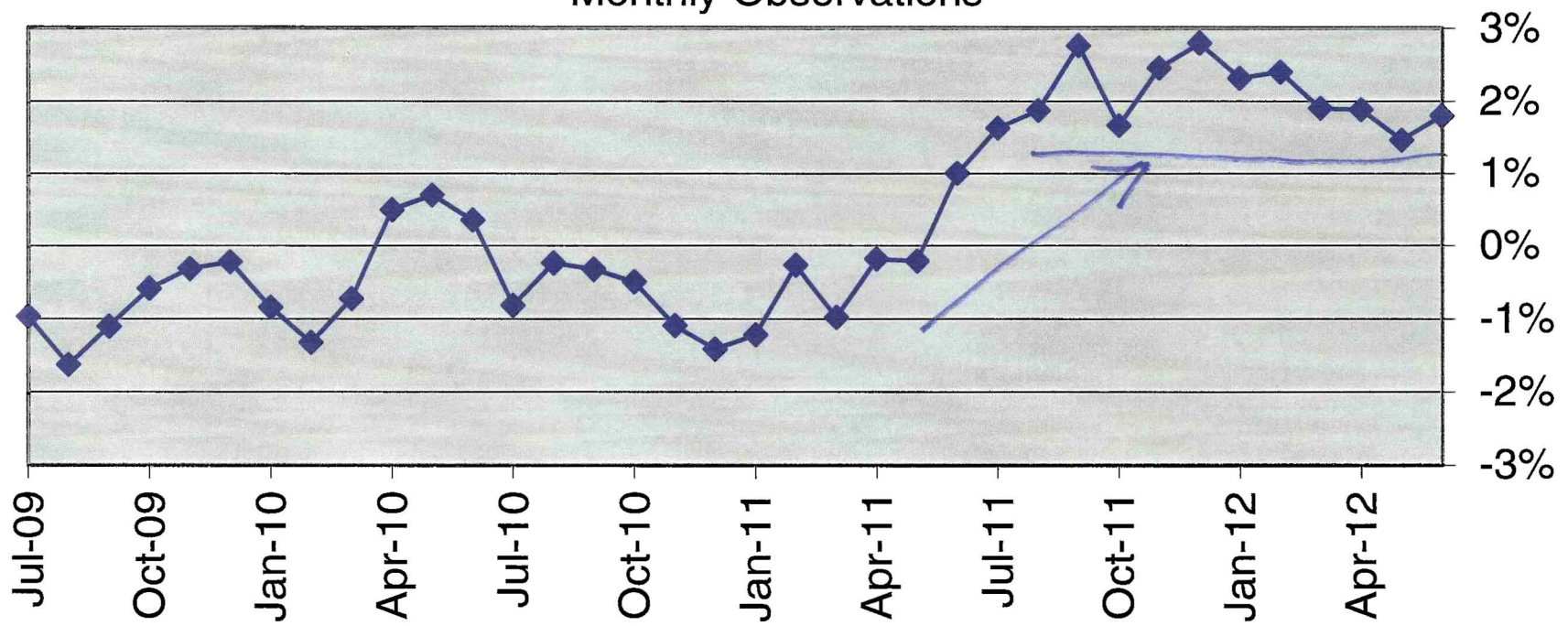
5

Dodge & Cox Equity  
Rolling 3-Years Annualized Alpha  
Monthly Observations

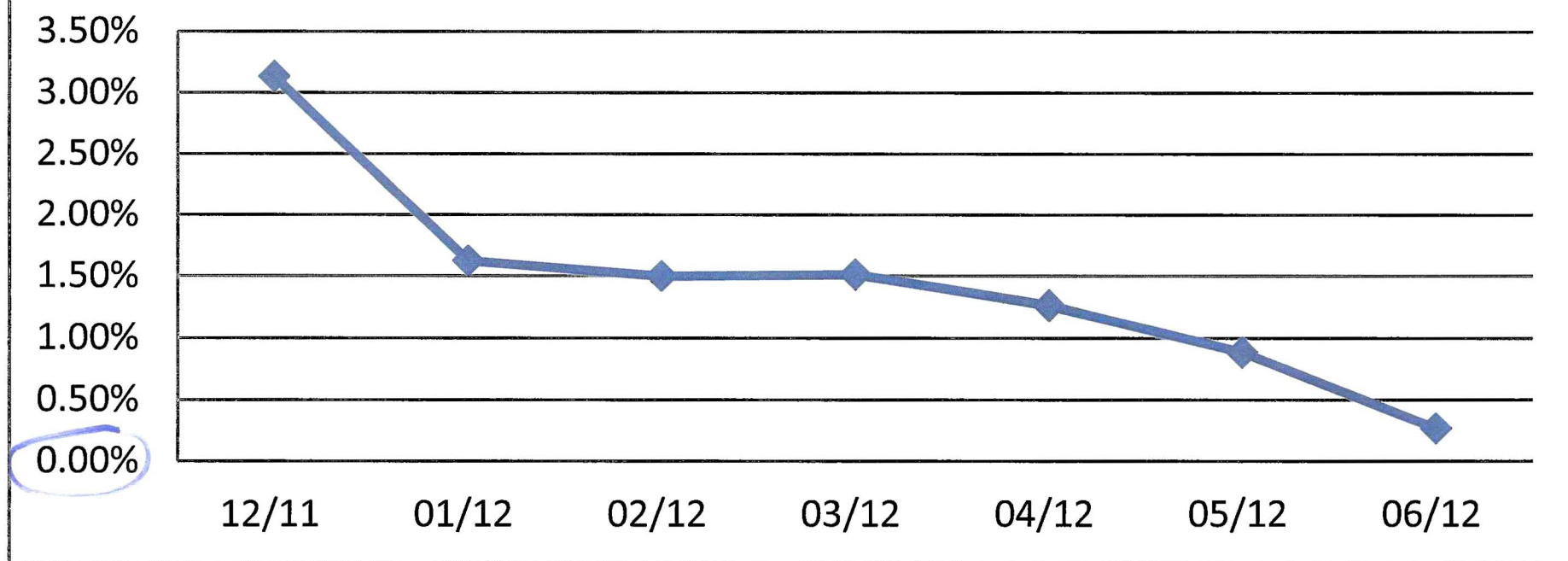




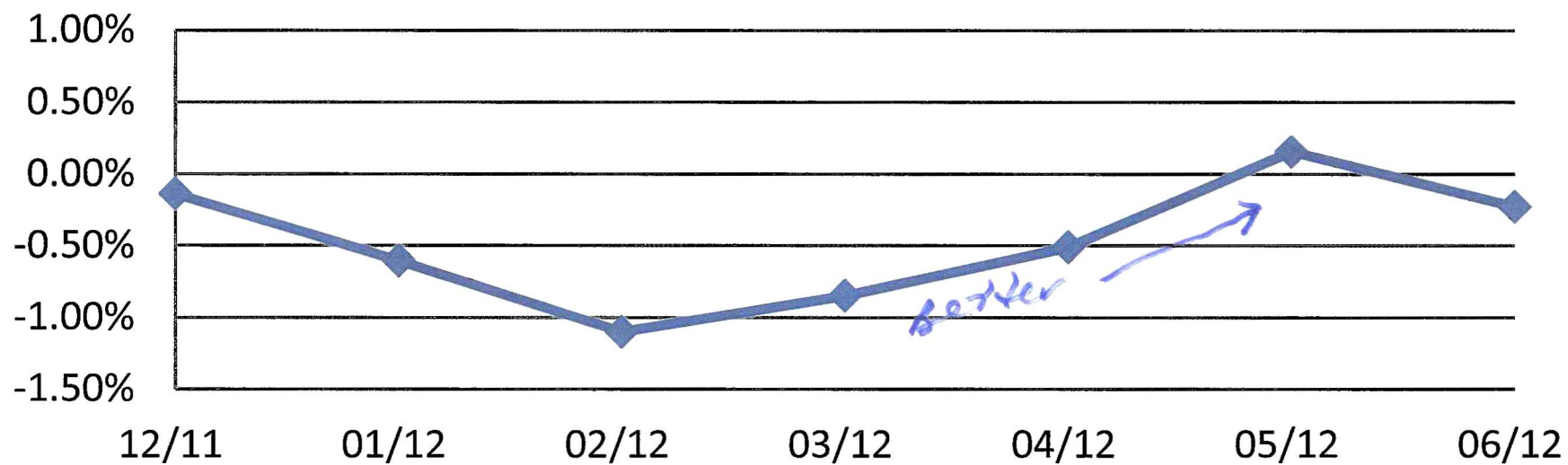
Delaware  
Rolling 3-Years Annualized Alpha  
Monthly Observations



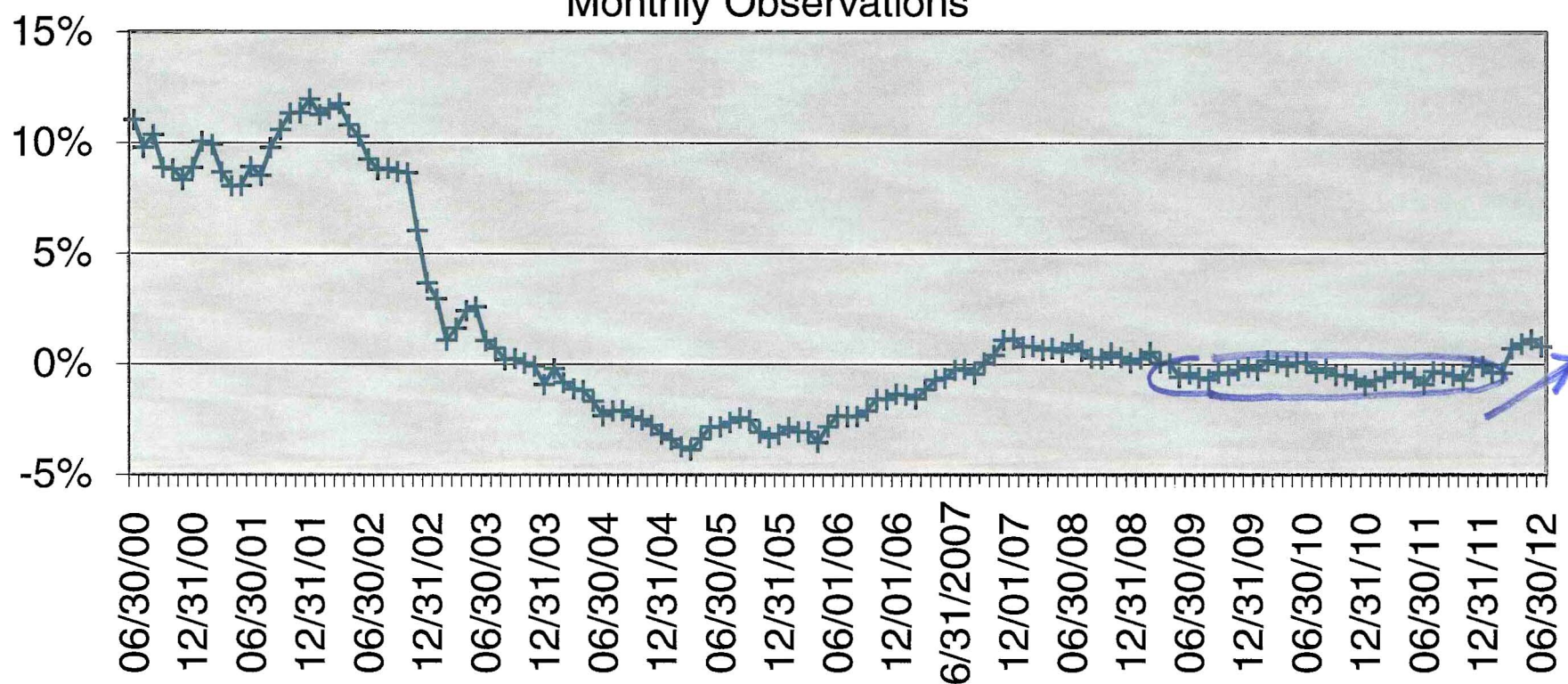
Capital Prospects  
Rolling 3-Year  
Alphas  
Monthly Observations



Legato Rolling  
3-Year Alphas  
Annualized  
Monthly Observations

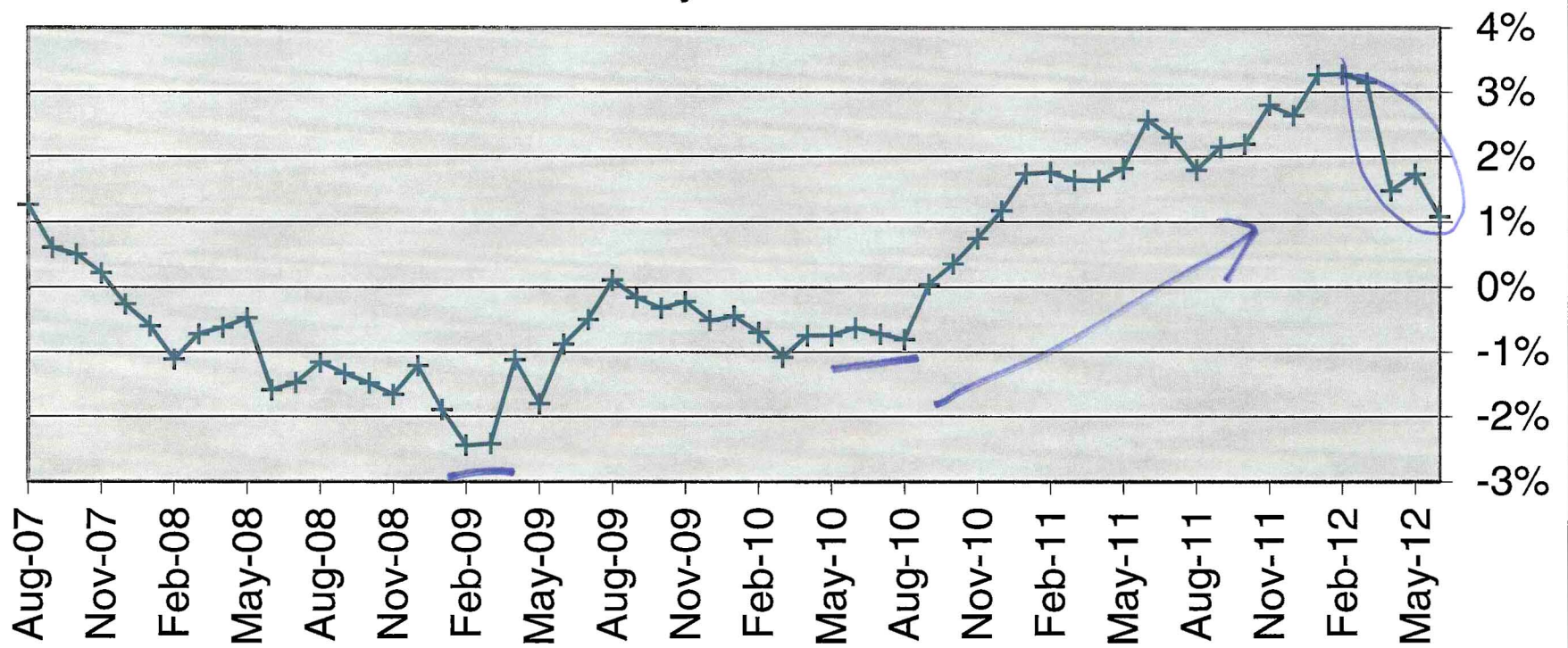


Pyramis (May 2006)  
Rolling 3-Years Annualized Alpha  
Monthly Observations



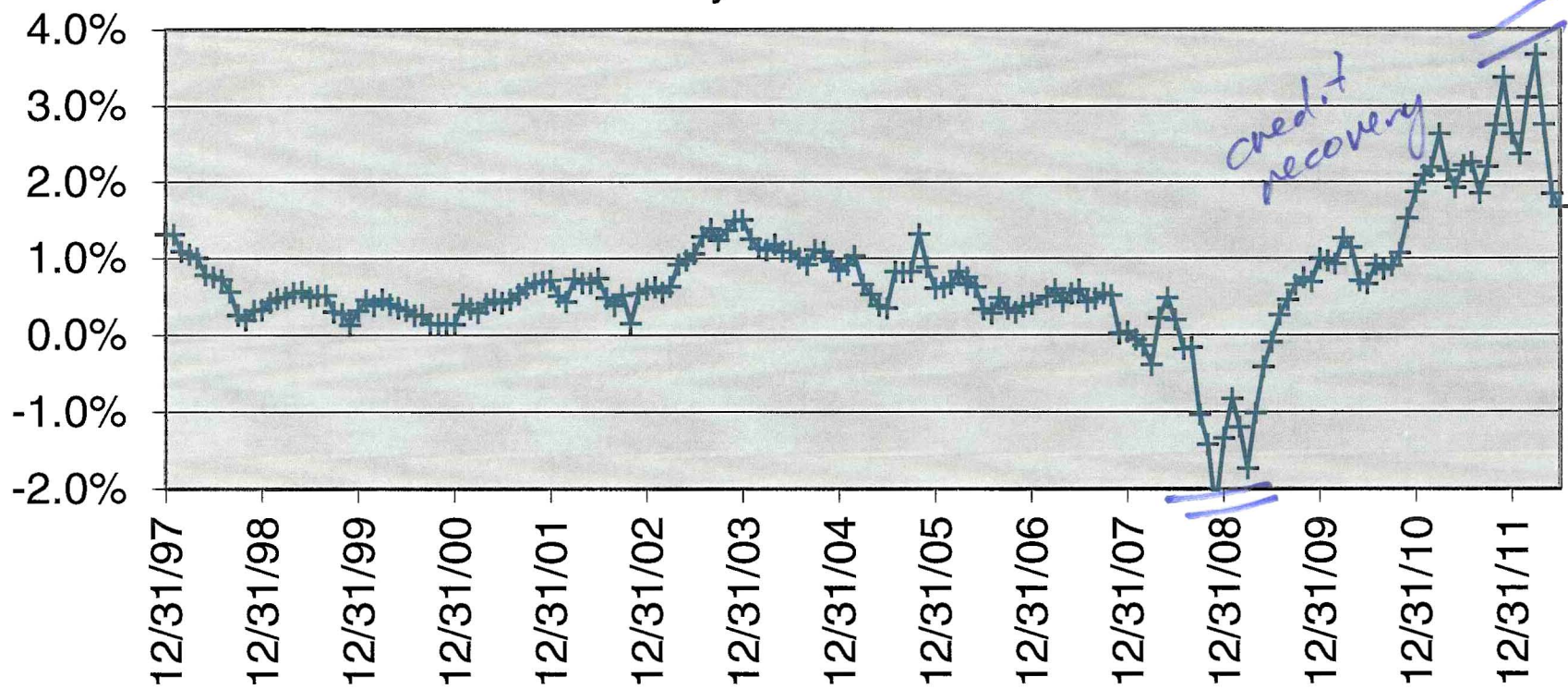


LSV  
Rolling 3-Years Annualized Alpha  
Monthly Observations

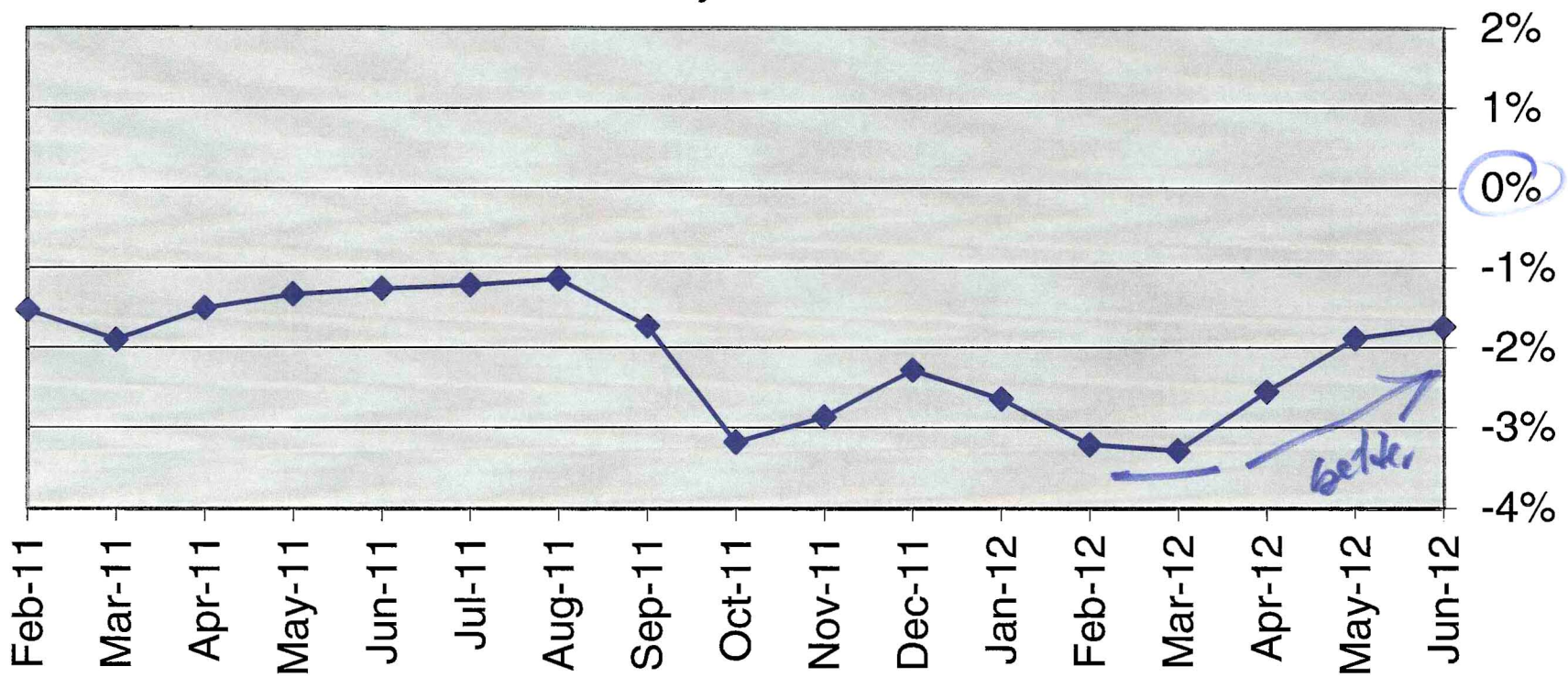




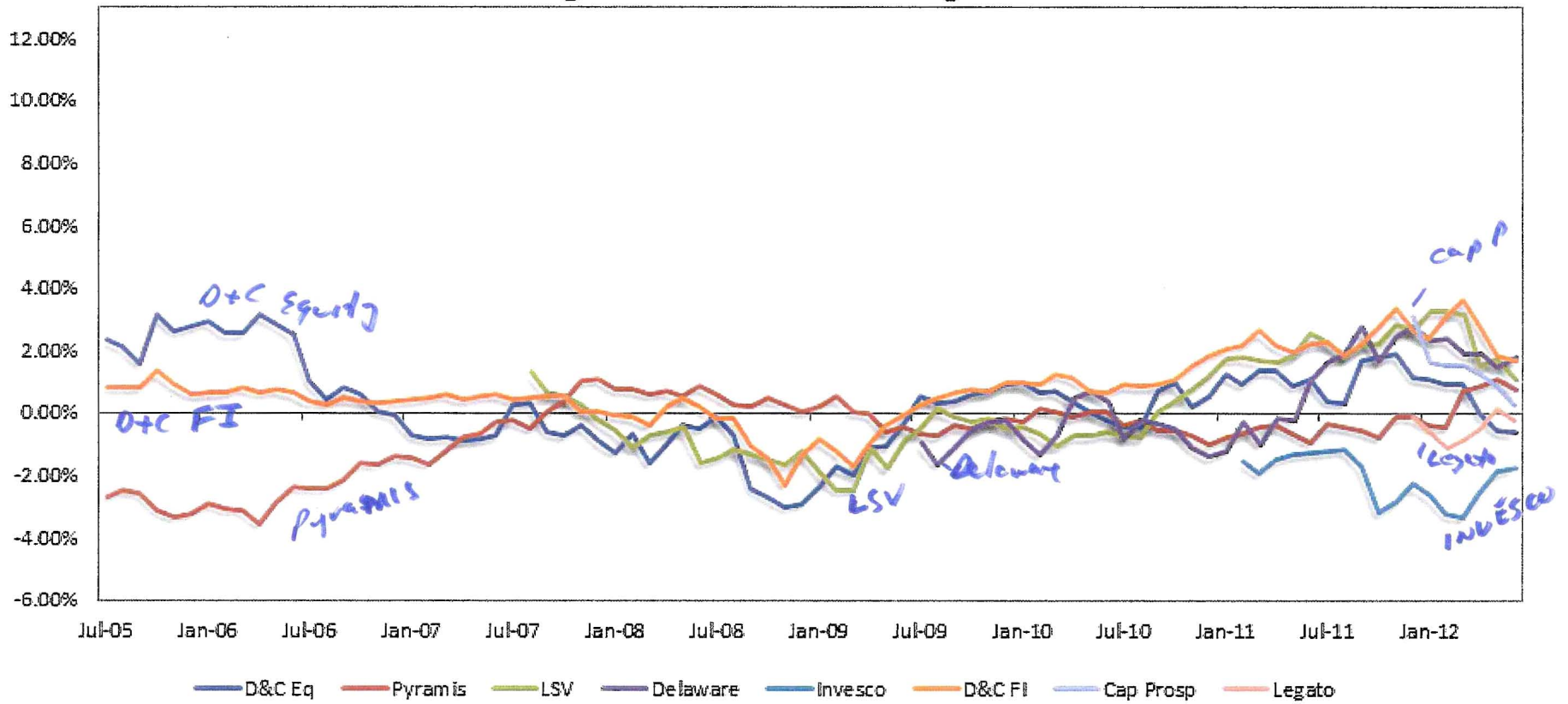
Dodge & Cox Fixed Income  
Rolling 3-Year Alphas Annualized  
Monthly Observations



INVESCO  
Rolling 3-Years Annualized Alpha  
Monthly Observations



## Manager Excess Return - Rolling 3-Yrs



07/24/12  
Item #9b

STANCERA  
Price Monitor Position Report

BlackRock  
Passive Large Cap Growth Manager  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	10,476	\$6,117,959	8.19%	0.44%	584.00	604.97	3.59%	3.90%
Microsoft Corp.	MSFT	81,074	\$2,480,052	3.32%	0.18%	30.59	29.39	-3.92%	-3.61%
INTL Business Machines	IBM	11,687	\$2,285,831	3.06%	0.17%	195.58	186.01	-4.89%	-4.58%
Google Inc.	GOOG	2,859	\$1,658,348	2.22%	0.12%	580.07	576.52	-0.61%	-0.30%
Coca-Cola Co.	KO	20,923	\$1,635,938	2.19%	0.12%	78.19	77.28	-1.16%	-0.85%
Philip Morris Intl.	PM	17,121	\$1,494,007	2.00%	0.11%	87.26	90.21	3.38%	3.69%
Verizon Communications	VZ	30,761	\$1,367,016	1.83%	0.10%	44.44	45.21	1.73%	2.04%
Oracle Corp	ORCL	40,997	\$1,217,616	1.63%	0.09%	29.70	29.58	-0.40%	-0.09%
Pepsico Inc.	PEP	16,703	\$1,180,266	1.58%	0.09%	70.66	70.41	-0.35%	-0.04%
Intel Corp.	INTL	55,205	\$1,068,215	1.43%	0.08%	19.35	19.50	0.78%	1.09%
TOP TEN HOLDINGS			\$20,505,246	27.45%	1.48%	Russell 1000 Growth:		<b>-0.31%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$74,700,350**  
\$1,382,432,653

STANCERA  
Price Monitor Position Report

BlackRock  
Passive Large Cap Value Manager  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
EXXON MOBIL CORP	XOM	59,308	\$5,074,960	5.69%	0.37%	85.57	85.47	-0.12%	0.20%
GENERAL ELECTRIC CO	GE	53,867	\$1,122,586	3.07%	0.08%	20.84	19.77	-5.13%	-4.81%
AT&T INC	T	31,592	\$1,126,567	2.98%	0.08%	35.66	35.35	-0.87%	-0.55%
CHEVRON CORP	CVX	25,193	\$2,657,888	2.98%	0.19%	105.50	106.01	0.48%	0.80%
PFIZER INC	PFE	93,844	\$2,158,419	2.42%	0.16%	23.00	22.81	-0.83%	-0.51%
WELLS FARGO & CO	WFC	61,612	\$2,060,309	2.31%	0.15%	33.44	33.91	1.41%	1.73%
PROCTER & GAMBLE CO	PG	13,194	\$808,103	2.22%	0.06%	61.25	65.09	6.27%	6.59%
BERKSHIRE HATHAWAY INC	BRK/B	9,650	\$804,122	2.11%	0.06%	83.33	84.48	1.38%	1.70%
JOHNSON & JOHNSON	JNJ	12,315	\$831,988	2.05%	0.06%	67.56	68.61	1.55%	1.87%
JPMORGAN CHASE & CO	JPM	46,823	\$1,658,950	1.86%	0.12%	35.43	36.07	1.81%	2.13%
TOP TEN HOLDINGS			\$18,303,891	27.69%	1.34%	Russell 1000 Value		<b>-0.32%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$89,190,860</b>
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\$1,382,432,653

STANCERA  
Price Monitor Position Report

Capital Prospects  
Active US Small Cap Value Manager  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000V	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
Regal Beloit Corp	RBC	14,272	\$888,566	1.41%	0.06%	0.00%	62.26	64.97	4.35%	4.94%
The Brink's Co	BCO	32,481	\$752,913	1.20%	0.05%	0.00%	23.18	22.95	-0.99%	-0.40%
Hanesbrands Inc	HBI	25,505	\$707,255	1.12%	0.05%	0.00%	27.73	29.71	7.14%	7.73%
Belden Inc	BDC	20,888	\$696,627	1.11%	0.05%	0.03%	33.35	32.48	-2.61%	-2.02%
Meredith Corp	MDP	21,462	\$685,495	1.09%	0.05%	0.20%	31.94	32.52	1.82%	2.41%
Littelfuse Inc	LFUS	11,865	\$674,993	1.07%	0.05%	0.02%	56.89	54.62	-3.99%	-3.40%
Newell Rubbermaid Inc	NWL	35,439	\$642,856	1.02%	0.05%	0.00%	18.14	17.70	-2.43%	-1.84%
Polyone Corporation	POL	46,114	\$630,844	1.00%	0.05%	0.05%	13.68	14.65	7.09%	7.68%
Gulfport Energy Corp	GPOR	28,594	\$589,903	0.94%	0.04%	0.13%	20.63	19.52	-5.38%	-4.79%
A. O. Smith Corp	3SM.F	15,704	\$576,193	0.92%	0.04%	0.24%	36.69	39.33	7.20%	7.79%
TOP TEN HOLDINGS			\$6,845,646	10.89%	0.50%	0.67%	Russell 2000 Value:		<b>-0.59%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$62,889,483</b>
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\$1,382,432,653

STANCERA  
Price Monitor Position Report

Delaware Investments Advisers  
Active Large Cap Growth Portfolio  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000G	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	16,900	\$9,873,341	8.63%	0.71%	7.94%	584.00	604.97	3.59%	3.90%
Crown Castle International Corp.	CCI	105,800	\$6,208,580	5.43%	0.45%	0.25%	58.66	60.66	3.41%	3.72%
Visa Inc.	V	49,250	\$6,091,085	5.33%	0.44%	0.94%	123.63	124.09	0.37%	0.68%
MasterCard Inc. Cl A	MA	13,725	\$5,905,497	5.16%	0.43%	0.68%	430.11	429.60	-0.12%	0.19%
QUALCOMM Inc.	QCOM	97,100	\$5,408,577	4.73%	0.39%	1.39%	55.68	54.98	-1.26%	-0.95%
Allergan Inc.	AGN	57,400	\$5,315,532	4.65%	0.38%	0.41%	92.57	90.75	-1.97%	-1.66%
priceline.com Inc.	PCLN	7,800	\$5,185,221	4.53%	0.38%	0.48%	664.52	642.95	-3.25%	-2.94%
EOG Resources Inc.	EOG	54,950	\$4,953,421	4.33%	0.36%	0.35%	90.11	92.93	3.13%	3.44%
Intuit Inc.	INTU	77,700	\$4,613,243	4.03%	0.33%	0.25%	59.35	57.22	-3.59%	-3.28%
Google Inc. Cl A	GOOG	7,700	\$4,468,232	3.91%	0.32%	2.18%	580.07	576.52	-0.61%	-0.30%
TOP TEN HOLDINGS			\$58,022,730	50.74%	4.20%	14.87%	Russell 1000 Growth:		<b>-0.31%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$114,359,743**  
\$1,382,432,653

STANCERA  
Price Monitor Position Report

Dodge & Cox Equity  
Active US Large Cap Value Manager  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000V	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
COMCAST CORP-CLASS A	CMCSA	177,763	\$5,907,308	4.40%	0.43%	0.60%	31.97	31.87	-0.31%	0.01%
WELLS FARGO & CO	WFC	160,072	\$5,638,794	4.20%	0.41%	2.30%	33.44	33.91	1.41%	1.73%
MERCK & CO. INC.	MRK	122,500	\$5,370,280	4.00%	0.39%	1.80%	41.75	43.47	4.12%	4.44%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$5,236,023	3.90%	0.38%	0.50%	54.66	54.42	-0.44%	-0.12%
GENERAL ELECTRIC CO	GE	230,000	\$4,967,509	3.70%	0.36%	3.10%	20.84	19.77	-5.13%	-4.81%
HEWLETT-PACKARD CO	HPQ	205,005	\$4,296,224	3.20%	0.31%	0.60%	20.11	18.98	-5.62%	-5.30%
TIME WARNER INC	TWX	100,032	\$4,027,710	3.00%	0.29%	0.50%	38.50	38.19	-0.81%	-0.49%
SANOFI-ADR	SNY	98,255	\$3,893,453	2.90%	0.28%	-	37.78	37.10	-1.80%	-1.48%
GLAXOSMITHKLINE PLC-SPON ADR	GSK	77,500	\$3,759,196	2.80%	0.27%	-	45.57	45.00	-1.25%	-0.93%
PFIZER INC	PFE	153,100	\$3,624,939	2.70%	0.26%	2.50%	23.00	22.81	-0.83%	-0.51%
TOP TEN HOLDINGS			\$46,721,436	34.80%	3.38%	11.90%	Russell 1000 Value:		<b>-0.32%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$134,257,000**  
\$1,382,432,653



STANCERA  
Price Monitor Position Report

Legato Capital Management  
Active US Small Cap Growth Manager  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000G	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
PORTFOLIO RECOVERY ASSOCIATES II	praa	10,829	988,254.54	1.67%	0.07%	0.27%	91.26	89.34	-2.10%	-2.21%
ULTIMATE SOFTWARE GROUP INC	ulti	9,223	820,201.39	1.39%	0.06%	0.41%	88.93	91.26	2.62%	2.51%
CEPHEID INC	cphd	17,976	802,628.40	1.36%	0.06%	0.51%	44.65	42.14	-5.62%	-5.73%
UNITED NATURAL FOODS INC	unfi	13,757	754,709.02	1.28%	0.05%	0.47%	54.86	54.95	0.16%	0.05%
LKQ CORP	lkq	19,740	658,625.10	1.11%	0.05%	0.00%	33.36	34.11	2.25%	2.14%
NEOGEN CORP	neog	14,074	650,218.80	1.10%	0.05%	0.19%	46.20	44.10	-4.55%	-4.66%
COSTAR GROUP INC	csgp	7,664	622,316.80	1.05%	0.05%	0.38%	81.20	79.76	-1.77%	-1.88%
HEALTH MANAGEMENT ASSOC INC	hma	77,621	609,324.85	1.03%	0.04%	0.00%	7.85	7.76	-1.15%	-1.26%
ROLLINS INC COM	rol	26,442	591,507.54	1.00%	0.04%	0.00%	22.37	22.98	2.73%	2.62%
GEO GROUP INC	geo	25,825	586,744.00	0.99%	0.04%	0.00%	22.72	23.21	2.16%	2.05%
TOP TEN HOLDINGS			\$ 7,084,530.44	11.97%	0.51%	2.22%	Russell 2000 Growth:		<b>0.11%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$ 59,186,981**  
\$1,382,432,653

STANCERA  
Price Monitor Position Report

BNY - S&P 500 Index  
Passive S&P 500 Index Fund  
Positions as of June 30, 2012

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	4,977	\$2,906,392	4.62%	0.21%	584.00	604.97	3.59%	3.98%
Exxon Mobil Corp	XOM	23,820	\$2,038,249	3.24%	0.15%	85.57	85.47	-0.12%	0.27%
Microsoft Corp.	MSFT	38,251	\$1,170,106	1.86%	0.08%	30.59	29.39	-3.92%	-3.53%
INTL Business Machines	IBM	5,854	\$1,144,942	1.82%	0.08%	195.58	186.01	-4.89%	-4.50%
General Electric Co	GE	52,525	\$1,094,615	1.74%	0.08%	20.84	19.77	-5.13%	-4.74%
AT&T	T	29,990	\$1,069,452	1.70%	0.08%	35.66	35.35	-0.87%	-0.48%
Chevron Corp	CVX	10,077	\$1,063,161	1.69%	0.08%	105.50	106.01	0.48%	0.87%
Johnson & Johnson	JNJ	14,060	\$949,925	1.51%	0.07%	67.56	68.61	1.55%	1.94%
Coca Cola Co.	KO	11,505	\$899,597	1.43%	0.07%	78.19	77.28	-1.16%	-0.77%
Wells Fargo	WFC	26,902	\$899,597	1.43%	0.07%	33.44	33.91	1.41%	1.80%
TOP TEN HOLDINGS			\$13,236,036	21.04%	0.96%	S&P 500 Index:		<b>-0.39%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$62,908,914</b>
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\$1,382,432,653

STANCERA  
Price Monitor Position Report

LSV Asset Management  
International Large Cap Value  
Positions as of June 30, 2012

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	6/30/2012 PX	7/13/2012 PX	Position % Change	Relative % Change
ROYAL DUTCH SHELL PLC	RDS/A	London	48,988	\$3,303,282	2.95%	0.24%	1.56%	67.43	68.73	1.93%	3.25%
SANOFI S.A.	SNY	Paris	61,649	\$2,329,094	2.08%	0.17%	0.66%	37.78	37.10	-1.80%	-0.48%
ASTRAZENECA PLC	AZN	London	42,288	\$1,892,389	1.69%	0.14%	0.41%	44.75	45.71	2.15%	3.47%
NOVARTIS AG	NVS	Switzerland	32,651	\$1,825,203	1.63%	0.13%	0.93%	55.90	55.77	-0.23%	1.09%
COMPANIA SANEAMENTO BASICO EST	SBS	Brazil	23,617	\$1,791,611	1.60%	0.13%	0.03%	75.86	75.45	-0.54%	0.78%
VODAFONE GROUP PUBLIC LIMITED CO	VOD	London	57,617	\$1,623,647	1.45%	0.12%	1.00%	28.18	28.59	1.45%	2.77%
ENI - ENTE NAZIONALE IDROCARBURI	ENI	Italy	86,227	\$1,612,450	1.44%	0.12%	0.37%	18.70	19.52	4.39%	5.71%
CHINA PETROLEUM & CHEMICAL CORP	SNP	Hong Kong	17,577	\$1,567,659	1.40%	0.11%	0.11%	89.19	87.82	-1.54%	-0.22%
BT GROUP PLC	BY	London	43,197	\$1,433,288	1.28%	0.10%	0.19%	33.18	34.69	4.55%	5.87%
OLD MUTUAL PLC	OML.L	London	9,399	\$1,422,091	1.27%	0.10%	0.08%	151.30	156.20	3.24%	4.56%
TOP TEN HOLDINGS				\$18,800,714	16.79%	1.36%	5.34%	MSCI ACWI ex-U.S.		<b>-1.32%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$111,975,664**  
\$1,382,432,653

## STANCERA

## Price Monitor Position Report

Pyramis Global Advisors

Active Non-US Growth Manager

Positions as of June 30, 2012

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	6/30/2012 \$ PX	7/13/2012 \$ PX	Position % Change	Relative % Change
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	58856	\$1,986,122	1.69%	0.14%	1.53%	67.43	68.73	1.93%	3.25%
NESTLE SA (REG)	7123870	Switzerland	30756	\$1,833,343	1.56%	0.13%	1.39%	56.55	59.00	4.33%	5.65%
VODAFONE GROUP PLC	B16GWD5	London	544581	\$1,527,786	1.30%	0.11%	0.99%	28.18	28.59	1.45%	2.77%
BP PLC	798059	London	225629	\$1,492,529	1.27%	0.11%	0.89%	40.54	40.95	1.01%	2.33%
SANOFI	5671735	Paris	18625	\$1,410,264	1.20%	0.10%	0.65%	37.78	37.10	-1.80%	-0.48%
SAMSUNG ELECTRONICS CO LTD	6771720	So. Korea	1284	\$1,351,503	1.15%	0.10%	0.82%	1167.00	1161.00	-0.51%	0.81%
BRITISH AMER TOBACCO PLC (UK)	287580	London	24600	\$1,245,733	1.06%	0.09%	0.71%	102.12	105.33	3.14%	4.46%
ROCHE HLDGS GENUSSSCHEINE	7110388	Switzerland	7223	\$1,245,733	1.06%	0.09%	0.86%	43.22	42.69	-1.23%	0.09%
BAYER AG	5069211	Paris	14192	\$1,022,441	0.87%	0.07%	0.42%	71.46	71.60	0.20%	1.52%
TORONTO-DOMINION BANK	2897222	Canada	12900	\$1,010,689	0.86%	0.07%	0.50%	78.23	78.72	0.63%	1.95%
TOP TEN HOLDINGS				\$14,126,142	11.73%	1.02%	8.76%	MSCI ACWI ex-US:		<b>-1.32%</b>	

Total Portfolio Value

**\$117,521,983**

Total StanCERA Value

\$1,382,432,653