

## ANALYSIS OF PROPOSED INVESTMENT IN CAPITAL DYNAMICS GLOBAL SECUTIES IV, L.P.

The GERS Pension Plan (the “Plan”) is considering an investment in Capital Dynamics Global Securities IV, L.P. (the “Investment”) in the amount of \$10,000,000.00. The Investment is structured as a Delaware limited partnership. It purports to be an investment in a limited partnership managed by a General Partner. The General Partner will essentially have complete control of the management of the Investment in **Secondary Transactions**, which is an investment in other limited partnerships or investment vehicles or similar type entities the definition of which is set forth in the Amended and Restated Limited Partnership Agreement of Capital Dynamics Global Securities IV, L.P. (the “LPA”). Secondary Transactions are the investment in other limited partnership or investment vehicles that already exist and are operating. The documents to be signed generally include a Subscription Agreement agreeing to the Investment containing many attachments and the LPA. These represent a complex and sophisticated series of documents and it is not possible to detail each and every provision of all of these documents. Each Member of the Board should read and review the Private Placement Memorandum dated March 2015 which contains an analysis of the Investment and many of the issues that will be addressed in this analysis and to better understand how the Investment is going to be managed.

The purpose of this Memo is to focus upon what we believe are major issues the Board should be aware of in making this decision. While the Investment documents (the LPA, Subscription Agreement and the ancillary documents) are not unusual in this kind of investment, it is important the decision makers in making this type of investment understand the risks in this Investment and the very broad discretion given to the General Partner and the Manager. It is anticipated that at a meeting of the Board, Board Members will be able to ask questions concerning the Investment and a more detailed explanation can be made by referring to the LPA, Subscription Agreement and other related documents in answering those questions. It should be remembered that any representation made to the Board at any meeting by representatives of Capital Dynamics are not legally binding since both the Subscription Agreement and the LPA contain one or more statements which provide that the documents control and no oral representations or other statements other than those contained in the documents can be relied upon. Some of the items of major concern are the following:

1. Funds Locked Up – No Liquidity. The Investment will be made and will be for at least a period of ten (10) years. It can be extended by the General Partner for an additional three (3) years before the LPA is liquidated. So the funds will be generally tied up for a period of at least 10 years and perhaps 13 years.

2. No Redemption Rights. There is no right to redeem the Investment, so once it is made it is irrevocable and cannot be withdrawn.

3. Total Discretion. A Management Company, Capital Dynamics, Inc. will have total discretion with respect to which Secondary Transactions are invested in or which may be divested. The GERS cannot alter or influence the decision. The Management Company has absolute control.

4. Management Fees. The Management Company charges a 1.25% annual fee of total commitments made with respect to the Investment made by all limited partners (except for Affiliated Limited Partners) in the partnership. Such management fees are charged quarterly in advance. After the 5<sup>th</sup> anniversary of the Initial Closing the fee will be reduced by .05% each quarter thereafter but will never fall below .10%. Management fees appear to be adjustable for any limited partner if the Manager agrees to it and are therefore apparently negotiable. Affiliated Limited Partners do not bear this cost in the Investment.

5. Carried Interest. The General Partner is entitled to a “carried interest” fee of 10% (think of it as 10% of the profits that are generated). Limited partners receive 90% of the carried interest.

6. Capital Call Provisions. Broad language in Article 6 suggests that the General Partner has the right to make capital calls from the limited partners in excess of the Subscription Amount of \$10,000,000. Article 6, Capital of the Agreement contains this language and must be reviewed to appreciate the concern. Deficiency Draw Downs appear to require each limited partner to contribute capital where a limited partner has failed to make the required contribution which appears to increase the burden on contributing limited partners. The General Partner while committed to make a \$5,000,000 contribution. However, subscriptions made by the Management Company, its Affiliates, their employees and Affiliated Limited Partners will count towards the \$5,000,000 so it is possible the General Partner will put nothing into the deal.

7. Distributions. General Partner determines timing and form of all distributions from the Partnership to the limited partner. All such distributions are discretionary with the General Partner.

8. No Duty of Loyalty and Broad Waivers of Conflict of Interest Provisions. Applicable important sections of the Agreement include

a. Section 3.3.1 (b) (ability to waive Management Fee);

b. Section 3.5 Other Activities, 3.7 Co-Investment;

c. Section 3.7.1 Preference given to Subscriber who invest \$50,000 first (Priority Eligible Investor and their Affiliates) and next to Subscriber who invests \$20,000,000 and participants in Feeder Funds (Secondary Eligible Investor) and to other “strategic investors” before offering it to us and not charge carried interest or management fees; can permit such Eligible Co-Investors to participate on a fee free basis;

d. Section 3.8 Advisory Board (ability to waive Conflicts of Interest); this is not mandatory but discretionary and there is no obligation to take any conflict of issue to the Advisory Board – such decision is not required and conflicts of interest exist throughout this Investment in particular “cherry picking” investments.

e. Section 4.1.1 (a) (equalization payments made in sole discretion of General Partner with no duty to limited partners of any kind);

f. Section 4.1.1 (b) (Partnership can make investments on a temporary basis for the benefit of Other Capital Dynamics Funds without regard to Investment Policy – so in effect funds can be used as a loan to Other Capital Dynamics Funds in which we have no interest); See also Section 4.3.2 of the First Amendment which grants the General Partner to borrow and obtain leverage on short term basis, longer term basis and long term basis and in any case where the General Partner determines that borrowing is necessary and desirable and guarantee such amounts but generally not in excess of 10% of the Subscriptions;

g. Section 4.2.1 Exclusivity (General Partner and Management Company or Affiliates can advise other investments and retain all benefits therefrom);

h. Section 4.2.2 Obligations to Offer Investment Opportunities ( conflicts of interest which may exist, but investment opportunities offered to the Partnership are made in the sole discretion of the General Partner and Management Company even where other Capital Dynamics Funds or other related entities may be involved – this Section must be reviewed in its entirety to appreciate the conflicts of interest than can exist and that we are waving those conflicts of interest in this Agreement – cherry picking issue); and

i. Generally total discretion with respect to all investment decisions on behalf of GERS.

j. Possibility of taxable income as unrelated taxable business income.

#### 9. Organizational Fees and Partnership Expenses.

a. do not know the amount of organizational expenses;

b. do not know the amount of Other Expenses under 5.2.3 and there is no budget to review and since the Partnership pays for these Other Expenses, understanding the amount of the expenses reasonably anticipated is not known.

10. Claw Back Rights. Section 7.6 permits a capital call to return distributions made from the Partnership to the limited partners to pay Management Fees, the acquisition, holding or

disposition of Portfolio Investments or to satisfy Portfolio Investment Giveback or Drawdown. This claw back right survives the dissolution or liquidation of the Partnership.

11. Partnership Asset Valuation. Determined by General Partner without any third party analysis. Important for Management Fee and other reason.

12. Governing Law and Venue. Exclusively in the courts of the State of Delaware or U.S. District Court of Delaware.

13. Limited Access To Information – Confidentiality. Much information concerning the operation of the Partnership will not be accessible to the limited partner – Section 14.8.7 (b), (d), (e).

14. Most Favored Nations Clause. Section 14.8.11 grants favored nation's status, but is very limited with many exceptions; we do not have copies of "side letters" with other investors to know what, if any, advantages other investors have obtained with respect to such side letters.

Generally, these document grant to the General Partner and the Manager total discretion with respect to investments including investments in secondary markets with no ability to sell or redeem the Investment for up to thirteen (13) years.

At the time this Memo was prepared there were issues outstanding that are to be the subject of a "side letter" which we have not seen.

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