

MEMORANDUM

To: Pueblo County Employees' Retirement Plan Participants

From: Pueblo County Board of Retirement

Date: October 11, 2007

Re: Investment in conservative hedge fund-of funds

The Pueblo County Retirement Board recently elected to invest a portion of the pension plan's assets in Grosvenor Institutional Partner, L.P., a diversified hedge "fund of funds".

Hedge funds as an asset class are attractive as an addition to the overall portfolio because hedge funds have return patterns that are different from traditional stock and bond investments. This low correlation of returns provides diversification benefits, especially during periods when markets are volatile. For example, when the stock market was down significantly for the three years 2000, 2001 and 2002, most hedge fund of funds investment returns were positive. Because of these benefits, 46% of pension funds have an allocation to hedge funds and this percentage has been increasing.

Hedge funds come in a variety of strategies, sizes and risk levels. The Board has decided to invest in a hedge "fund of funds" which will have approximately 60 underlying hedge fund investments through many varied strategies. A hedge "fund of funds" functions in a manner similar in many respects to a mutual fund of various stocks. This large diversification of hedge funds should result in a more stable and consistent monthly return closer to bond returns than stock market returns.

The Board selected Grosvenor for the hedge fund of funds allocation. Grosvenor is one of the oldest and most established firms in the industry with over 35 years of experience investing in hedge funds. Grosvenor currently has \$20 billion in assets (all in hedge funds) and a team over 173 people. Grosvenor was selected by the Board from a number of firms it considered that specialize in hedge funds for a number of reasons including, but not limited to, its history, relative conservative strategy, and its ability and policy of constant monitoring, research and analysis of the various hedge funds available on the market and in its portfolio.

This new investment is the most recent move in the continuing effort of your Retirement Board to adequately diversify our portfolio in order to place the plan fund in the best position possible to maximize its return potential while at the same time minimize its risk to the greatest degree possible from periodic downturns in individual investment markets. We're working hard to grow the fund to better meet your retirement needs!