

**Illinois Metropolitan Investment Fund (“IMET”) Convenience Fund  
Frequently Asked Questions Regarding First Farmers Financial, LLC (“FAQs”)  
November 12, 2014**

IMET is in receipt of questions from participants in IMET’s Convenience Fund (the “Convenience Fund”) related to the Convenience Fund’s investment in repurchase agreements backed by First Farmers Financial, LLC (“FFF”) loans (the “FFF Repo”). IMET has prepared the following FAQs to address your questions. IMET will continue to keep you apprised of any material developments. These FAQs reflect the most current information to date and are intended to replace IMET’s prior disclosures to participants. Please be assured that IMET is working diligently to recover the Convenience Fund’s investment in the FFF Repo.

IMET will not make any further investments with Pennant Management, Inc. (“Pennant”). IMET is in the process of selling the only other repurchase agreement recommended by Pennant that is held by IMET currently, the proceeds of which are expected to be received by the end of November. The other assets of the Convenience Fund portfolio consist of cash, high-quality bank deposits insured by the FDIC, collateralized by government securities or Federal Home Loan Bank letters of credit and U.S. government securities.

The Convenience Fund serves as a sound alternative to other investment products available to public funds in Illinois with average maturities and returns generally greater than those of money market instruments. The investment in the FFF Repo represents an isolated incident in an otherwise successful investing track record. IMET has a long history of providing outstanding investment returns to its participants and will seek to maintain a high-quality portfolio consisting of bank deposits, U.S. government securities and other eligible investments.

**Background**

Beginning on May 16, 2013, the Convenience Fund first invested in the FFF Repo related to FFF loans that were allegedly backed by guarantees from the United States Department of Agriculture (“USDA”). At the end of the day on September 29, 2014, IMET was notified by Pennant, the investment adviser that recommended, documented and facilitated the acquisitions of the FFF Repo, that the loans underlying the FFF Repo were fraudulently made. IMET later learned that FFF, a USDA-approved lender, allegedly forged the loan documents on behalf of borrowers that were shell entities, forged the signatures of USDA officials and pocketed the loan proceeds. IMET was one of many investors to invest in the FFF Repo through Pennant. Nikesh Patel, the chief executive officer and principal owner of FFF, was arrested by the FBI and later released on a \$100,000 bond. In an action in the Federal District Court for the Northern District of Illinois (Case No. 14 CV 7581) (“Pennant Litigation”), Pennant seized significant assets of FFF and Mr. Patel on behalf of the FFF Repo investors. On November 7, 2014, the judge in the Pennant Litigation appointed a receiver, Michael M. Nanosky of Janus Hotel Management Services, LLC, to gather, oversee and liquidate the assets.

The FAQs are broken down into five sections. First, the FAQs identify which IMET fund was impacted by the fraud and the amount of the investment. Second, the FAQs address IMET’s retention of Pennant, Pennant’s due diligence regarding the FFF Repo and the status of IMET’s

relationship with Pennant. Third, the FAQs address IMET's recent steps to segregate the FFF Repo from the rest of the Convenience Fund portfolio. Fourth, the FAQs detail the remedial efforts being undertaken by IMET in the wake of the fraud. Finally, the FAQs address the portfolio characteristics of the remaining assets in the Convenience Fund portfolio.

### **Additional Information on the FFF Repo**

#### ***Which IMET fund invested in the FFF Repo?***

The Convenience Fund is the only IMET fund that invested in the FFF Repo.

#### ***What was the value of the Convenience Fund's investment in the FFF Repo?***

As of September 30, 2014, the value of the FFF Repo was \$50,442,142.78, which constituted approximately 2.8% of the Convenience Fund at that time.

#### ***When was IMET notified about the potential impairment?***

IMET was notified of the impairment late in the day on September 29, 2014. IMET was later notified that the USDA guarantees on the loans were forged. Prior to such notifications, IMET believed the FFF Repo would ultimately be backed by the full faith and credit of the United States. Participants were subsequently notified of this matter in a series of communications starting in early October 2014.

#### ***Is there collateral or other assets to cover the loss?***

The collateral for the FFF Repo is comprised of the FFF loans which were supposedly backed by the USDA. IMET learned after FFF defaulted on the loans that the USDA guarantees were forged. It is our understanding that there is no collateral pledged by the borrowers of the FFF loans since they were shell entities. As discussed in detail below, Pennant seized significant assets of FFF and its principals, the proceeds of which are expected to be distributed to investors, including IMET.

### **Relationship with Pennant**

#### ***When did IMET retain Pennant?***

Pennant was hired by IMET after responding to a Request for Proposal for investment-related services in June 2012. The RFP was very detailed and included significant information on the investment program and policies of the Convenience Fund. In June 2012, IMET entered into an agreement with GreatBanc Trust Company ("GreatBanc"), which is an affiliate of Pennant, is owned by the same parent company and is regulated by the State of Illinois. IMET later entered into a separate investment advisory agreement with Pennant. The services under both agreements were on a non-discretionary basis. Pennant is an investment adviser registered with the United States Securities and Exchange Commission ("SEC").

***What investments did Pennant recommend to the Convenience Fund?***

Pennant's investment recommendations to the Convenience Fund were limited to repurchase agreements on loans guaranteed by the U.S. government, including, but not limited to, loans sourced by FFF.

***What due diligence did Pennant conduct on its repurchase agreement investments recommended to clients like IMET?***

Please see the statement below provided in the First Farmers Repo FAQ (which is attached hereto in full) dated October 22, 2014 from Pennant. IMET did not prepare Pennant's FAQ and takes no responsibility for its accuracy or adequacy.

“Prior to doing business with First Farmers, Pennant conducted due diligence regarding the firm and three of its executives, including Mr. Patel. This diligence was performed by Pennant employees, external counsel and a private investigation firm retained by Pennant and staffed by former FBI agents. The most significant finding was that First Farmers had been approved by the USDA and was included in the USDA's exclusive Business and Industry lending program. Prior to doing any business with First Farmers, Pennant's private investigators confirmed directly with the USDA that First Farmers was one of their approved lenders. By this representation, Pennant concluded that First Farmers had been subjected to and passed the approval processes and diligence the USDA was required to conduct. This is not intended to be a complete or exhaustive description of the due diligence and analysis performed regarding the counterparty.”

***Does the Convenience Fund still own any repurchase agreements recommended by Pennant other than the FFF Repo?***

As of November 12, 2014, the Convenience Fund owns one other repurchase agreement recommended by Pennant. The value of that repurchase agreement as of that date was \$74,842,791.57. To the best of IMET's knowledge and as confirmed by Pennant, that asset is not impaired and is backed by loans validly guaranteed by the full faith and credit of the United States. Nevertheless, IMET is in the process of selling the investment and expects to receive proceeds by the end of November.

***Is IMET considering purchasing any other investments recommended by Pennant?***

No.

***Does the Convenience Fund employ any other third party investment managers besides Pennant?***

No.

## **Remedial Efforts**

### ***What is the status of the FFF Repo investment?***

\$50,442,142.78 of the Convenience Fund's assets were segregated by IMET into a restricted account as of the close of business on September 30, 2014. Redemptions from the restricted account by participants of the Convenience Fund ("Eligible Participants") as of that date were suspended pending further notice.

As noted in prior disclosures to participants, on October 24, 2014, IMET's Board of Trustees ("Board") unanimously determined it to be in the best interests of the Convenience Fund and the Eligible Participants to remove the value of the FFF Repo from the books and records of IMET's Convenience Fund, and to seek to recover, liquidate and distribute any proceeds received from the FFF Repo to the Eligible Participants.

In order to accomplish the foregoing, the Board approved the establishment of a liquidating trust (the "Liquidating Trust"). In connection therewith, effective as of September 30, 2014, it was determined that IMET would transfer its interest in the FFF Repo into the Liquidating Trust. Under the terms of the Liquidating Trust, the Board, acting as trustees of the Liquidating Trust, will hold for the account of each Eligible Participant its proportionate share of the FFF Repo and distribute to each Eligible Participant proceeds from the FFF Repo that are reduced to cash. Proceeds from the FFF Repo may be subject to a reasonable reserve for payment of the expenses and liabilities of the Liquidating Trust, if any. IMET shall cause a redemption, as of September 30, 2014, of an aggregate number of shares of the Convenience Fund, from Eligible Participants in consideration for and equal to the total amount outstanding under the FFF Repo.

### ***Under what authority was the Liquidating Trust created?***

IMET's Declaration of Trust provides broad authority for the Board to take action for the protection of participants, including the establishment of a Liquidating Trust.

### ***Which Convenience Fund investors will own an interest in the Liquidating Trust?***

Any Convenience Fund investor who owned shares as of September 30, 2014 will be an Eligible Participant and will have a proportionate interest in the Liquidating Trust.

### ***When will participants receive distributions from the Liquidating Trust?***

IMET cannot predict when the first distribution to Eligible Participants from the Liquidating Trust will occur. As detailed below, Pennant commenced the Pennant Litigation to recover assets from FFF and its CEO, Nikesh Patel, for investors, including IMET. In that action, Pennant secured a preliminary injunction that prohibits the transfer of assets by the defendants and, in fact, seized various assets of FFF and Mr. Patel as detailed in the attached First Farmers Repo FAQ dated October 22, 2014. Pennant is in the process of identifying additional assets for recovery and at this time it is not known when seized assets will be distributed to investors such as IMET. On November 7, 2014, the judge in the Pennant Litigation appointed a receiver, Michael M. Nanosky of Janus Hotel Management Services, LLC, to gather, oversee and liquidate the assets.

***Has IMET amended its investment policy in light of the fraud?***

IMET has and will continue to evaluate its practices and policies in order to continue to protect the Convenience Fund's participants. At present, IMET has limited the Convenience Fund's investments to bank deposits insured by the FDIC, collateralized by government securities or Federal Home Loan Bank letters of credit and U.S. government securities.

**Recovery Efforts**

***What happened to Nikesh Patel, the alleged perpetrator of the FFF fraud?***

Nikesh Patel, the CEO of FFF, was arrested by the FBI in Orlando on September 30, 2014. He has since been released on bond and is awaiting trial on a variety of criminal charges.

***Did others invest in the FFF Repo?***

Yes. IMET is aware of other investors in the FFF Repo. Certain bank investors have published public disclosures on their investment. The total amount of fraudulently issued loans by FFF to Pennant is approximately \$179,000,000. It is anticipated that IMET will share proceeds that are recovered with other aggrieved investors of FFF's fraud but at this time it is not known how such proceeds will be allocated among the investors.

***What is being done to recover the Convenience Fund's investment in the FFF Repo?***

On November 6, 2014, IMET retained outside counsel, Vedder Price P.C., to assist with the recovery of the Convenience Fund's assets. The shareholders at Vedder Price P.C. who are involved in the matter, Randall M. Lending and Joseph M. Mannon, have significant securities litigation experience. Mr. Lending has been involved in a number of high profile securities and commodities fraud cases, including Madoff and Peregrine Financial. Mr. Mannon was previously an enforcement attorney with the SEC in Chicago. Prior to the retention of Vedder Price, IMET was and continues to be represented by fund counsel, Chapman and Cutler LLP.

***Is IMET contemplating legal action against others?***

With the assistance of counsel, IMET is evaluating potential claims and recoveries against all potentially responsible parties involved in this matter. On November 10, 2014, IMET sent a litigation hold letter to Pennant and GreatBanc requiring them to retain documentation that may be relevant in future litigation.

***Will IMET intervene in the Pennant Litigation?***

IMET is considering intervening in the Pennant Litigation, if necessary, to protect the Convenience Fund's interests in the seized assets. Pennant has indicated that it will not oppose any motion by IMET to intervene in the Pennant Litigation.

***How much money has Pennant seized in its action against FFF?***

Based on a memorandum provided by counsel for Pennant to IMET, Pennant appears to have seized significant assets for the benefit of investors, including IMET. Based on the memorandum, the total estimated value of the seized real estate, commercial properties, residences, liquid assets, loan receivables, potentially returned political contributions, personal property and other assets is approximately \$155,490,427.

***The above information is provided for informational purposes only and may not represent the value of the assets actually distributed to investors. In addition, the above summary includes a rough estimate of the value of the assets seized to date and does not include any future recoveries or costs associated with the recoveries. IMET has not been able to verify the value of the assets seized and this estimate is subject to change as we obtain more information.***

***Will IMET seek a recovery from the USDA?***

The USDA has denied Pennant's claim on the guarantees of the FFF loans as not having been validly issued by the USDA since the USDA's signatures on those guarantees were forged by agents of FFF. Pennant is currently pursuing a claim on the USDA guarantees for the benefit of the FFF Repo investors, including IMET. IMET is currently unable to determine or estimate the value of any expected recovery. Please refer to the attached First Farmers Repo FAQ for more information. IMET did not prepare Pennant's FAQ and takes no responsibility for its accuracy or adequacy. In light of Pennant's existing claim, IMET will monitor the action and evaluate the merits of a claim against the USDA.

***Is there insurance?***

Pennant may have a number of insurance policies that could apply. In addition, IMET has a number of coverages and is evaluating if any of the coverages may apply in the event of a loss. IMET will continue to evaluate whether there is insurance coverage related to the FFF Repo.

**Current Status of the Convenience Fund**

***Are any other Convenience Fund investments impaired?***

Other than the FFF Repo, IMET has no reason to believe any other investments in the Convenience Fund are impaired.

***What is the value of the assets in the Convenience Fund?***

As of November 12, 2014, the Convenience Fund had \$1,183,651,739.72 in assets.

***What other investments does the Convenience Fund currently hold other than the FFF Repo and the repurchase agreement in liquidation?***

The Convenience Fund portfolio consists of cash, high quality bank deposits insured by the FDIC, collateralized by government securities or Federal Home Loan Bank letters of credit and U.S. government securities.

***How much cash does the Convenience Fund hold?***

The Convenience Fund held \$357,940,115.59 in cash as of November 12, 2014.

***Where can participants find information on the Convenience Fund's current holdings?***

Please see the Convenience Fund Collateral Report posted under the Financial Reports section on [www.investimet.com](http://www.investimet.com). Please note the Collateral Report does not include the fund's cash balances.

***Why should participants remain invested in the Convenience Fund?***

The Convenience Fund serves as a great alternative to other investment products available to public funds in Illinois with average maturities and returns generally greater than those of money market instruments. The FFF Repo fraud is an isolated incident in the otherwise lengthy successful history of investing. Further, IMET is no longer investing in repurchase agreements recommended by Pennant.

***Is IMET committed to the Convenience Fund?***

Yes. IMET has a long history of providing outstanding investment returns to its participants. IMET will seek to maintain a high quality portfolio of bank deposits insured by the FDIC, collateralized by government securities or Federal Home Loan Bank letters of credit and U.S. government securities.