MINUTES

INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA

March 11, 2010 9:00 A.M.

<u>EVENT CALENDAR</u> 9:00 A.M. – Investment Committee Meeting

<u>CALL TO ORDER</u> Chair Richardson called the meeting to order at 9:05 A.M.

<u>ROLL CALL</u> PRESENT: Bolger, Gladstern, Haim, Phillips, Richardson, Smith, Sweet, Webb (non-voting)

ABSENT: Given (non-voting), Hufford, Wofford (non-voting)

<u>MINUTES</u>
It was M/S Haim/Bolger to approve the 1-14-10 Investment Committee Meeting Minutes as submitted.

AYES:	Bolger, Gladstern, Haim, Phillips, Richardson, Smith, Sweet
NOES:	None
ABSTAIN:	Smith
ABSENT:	Hufford

A. <u>OPEN TIME FOR PUBLIC EXPRESSION</u>
Acting Retirement Administrator Tom Ford reported that legal contract review and investment consulting legal services will be transferred to County Attorney Pat Faulkner, who will also attend the Strategic Workshop. Chair Richardson welcomed Counsel Faulkner. Outside Counsel Ashley Dunning will continue to serve as general counsel for the Board and for benefit issues, according to Mr. Ford.

B. <u>MANAGER ANNUAL REPORTS</u>
1. <u>RCM</u>
Peter Sullivan, Director and Relationship Manager for RCM Capital Management, and Peter Goetz, Director and Senior Portfolio Manager, presented for RCM. Mr. Sullivan reported that Bob Goldstein has been selected as CEO of the San Francisco office as of the beginning of 2010. At the same time, Scott Migliori was appointed CIO of the San Francisco office.

Portfolio Manager Peter Goetz reviewed the RCM portfolio performance, referring to the challenges of 2008 and the ensuing market recovery. Mr. Goetz reported a 36.8% portfolio return during 2009, slightly under the benchmark Russell 1000

Growth Index return of 37.2%. He stated that the portfolio returned 3% over five years, outperforming the benchmark Russell 1000 by 1.4%. In 2008 the firm failed to appreciate the magnitude of the credit crisis, which caused high-quality stocks to be sold indiscriminately in most asset classes. The dramatic fiscal and monetary policy response in 2009 was the impetus for a major repositioning of the portfolio toward cyclical sectors, according to Mr. Goetz. The top ten holdings include mostly technology companies which have significant cash flow and strong balance sheets, he said. The report reveals that Apple, Exxon, and Amazon were key contributors to 2009 returns. Mr. Goetz said that his strategy is to invest in significant growth companies with a unique product and a technological advantage which have the ability to sustain growth into the future.

Trustee Haim asked whether the Portfolio Manager expected technology outperformance to continue, and Mr. Goetz replied he did, adding that he expected a capital spending cycle to begin. Trustee Phillips queried the manager as to whether the top investments are dependent on consumer spending. Mr. Goetz explained that they are not because they provide value-added technology. The Portfolio Manager said that he does not believe there will be a double-dip recession, and he is bullish on the economy. Consultant Jim Callahan noted that there is still a great deal of uncertainty going forward due to continued macro issues, such as the possibility of increased taxes.

2. <u>Dimensional</u>

Sonya Park, Vice President and Manager of Client Relations for Dimensional Fund Advisors, Inc., introduced Arthur Barlow, Portfolio Manager and Vice President. Mr. Barlow reviewed the portfolio performance, which beat the benchmark Russell 2000 Value Index over most time periods. The year-to-date return is negative 2.9% versus negative 2.75 for the benchmark; the one-year return is 55.5% versus 36.5% for the benchmark, and the three-year return of negative 9.5% matches the benchmark. Mr. Barlow stated that his strategy is based on the premise that small capitalization value companies provide greater returns over time because they have more risk. The firm does not shift the portfolio based on macro-economic events, he said, which minimizes transaction costs.

Noting that over a long period of time the portfolio has performed well, Trustee Haim inquired as to the underperformance over the past two years. Mr. Barlow explained that during the acute market decline, the sector was sold aggressively. Going forward, he stated that he expects the portfolio to enjoy a robust rebound. It is a necessary element of greater risk to accept periods of downturn, he said. Mr. Haim followed by asking the manager's opinion of the direction of the economy. The Portfolio Manager replied that growth rates will not be as high going forward, and that inflation is a possibility. Trustee Phillips asked the manager if sufficient business loans would be available, and Mr. Barlow replied that the question is whether smaller banks feel confident enough to make small loans. Referring to the high volatility in the stock market, Trustee Bolger asked the manager whether it was reasonable to expect that expected returns can be generated. Mr. Barlow stated that there should be compensation for risk over the long term. Trustee Haim inquired as to the relative value between investments in emerging markets versus developed markets. Mr. Barlow said that as emerging markets are growing faster, he has increased investments in this area.

3. Dodge & Cox

Matt Beck, Client Services representative for Dodge & Cox, reviewed performance for the Dodge & Cox portfolio. He related that last year's underperformance was due to certain financial holdings as well as the health care sector. In the face of the depths of the market decline, he said the team decided to retain technology and energy investments, which proved to be a successful strategy. The portfolio returned 41.6% (vs. 31.4%, Russell 1000 Value Index) over one year, and negative 9.6% (vs. negative 10.2%, Russell 1000 Value Index) over three years.

Mr. Beck introduced Gregory Serrurier, Vice President and Portfolio Manager, to review the portfolio. Mr. Serrurier stated that the portfolio strategy is long-term with a focus on fundamental value analysis. Those companies which performed the worst in 2008 and 2009 have had the most robust returns, he said. Over the last year the relatively favorable returns were generated by small adjustments in the portfolio as well as a low turnover rate. The largest single investment was Merck, and health care is the largest sector in the current portfolio. Concerns in the health care and pharmaceutical arena include patent expirations and pricing pressure due to the regulatory environment, he said. Trustee Phillips asked if there might be a potential value trap in the pharmaceuticals, similar to that in the financial sector in the recent market downturn. Mr. Serrurier stated that the answer is not certain, and may depend on an improved employment picture. While the rate of biotech innovation may not rival that of the 1990's, the current managements of invested firms exhibit strong business judgment, he stated, and they are preparing for the possibility of regulatory reform. The Portfolio Manager stated that portfolio valuations remain modest and therefore carry the potential for long-term growth.

Mr. Serrurier reported that John Gunn is turning over the CEO role to President Kenneth Olivier. Trustee Haim noted the superior performance of the manager and asked if the portfolio may be too large to provide for the same level of returns going forward. The Portfolio Manager stated that the portfolio was closed to new investments in 2003 and 2004 to contain its size; recently they reopened portfolios to separate accounts. Chair Richardson expressed the Board's appreciation to Mr. Serrurier.

C. INVESTMENT CONSULTANT QUARTERLY REPORT

For period ending December 31, 2009

Investment Consultant Jim Callahan introduced Kevin Dunne who recently joined the firm in a client relationships capacity. Trustee Phillips asked whether the CEO transition at Dodge & Cox should be a concern, and Mr. Callahan responded that the change reflects the firm's normal retirement policy. He said that succession by seasoned investment professionals is well-planned. Trustee Bolger commented that she has noticed private pension plans moving out of stocks, and she asked Mr. Callahan if a trend is in place. Mr.

Callahan acknowledged the Trustee's observation, stating that such changes are driven by the Pension Act of 2006 which requires pensions to balance the investment duration to match liabilities. The move away from equities is known as "Liability-Driven Investing," or LDI. Trustee Smith asked as to the portfolio's balance of growth versus value and Mr. Callahan said that currently there is a weight toward growth which is within the allowed ranges. He recommended reviewing the ranges at the imminent Strategic Workshop.

Mr. Callahan proved an overview of the recent investment environment, stressing the priority of capital preservation which is accomplished by diversification. He stated that during the first quarter of 2009, the market continued the declines of 2008 due to the lack of government action to combat the financial crisis; as government policies were developed to support the economy, the market rebounded, he said. In the fourth quarter a refocus on investment fundamentals emerged, thereby allowing active managers to outperform the market. Turning the discussion to the real estate sector, Trustee Smith asked what the cash returns were from real estate investments. Mr. Callahan said that cash returns are still positive, but that the market values of real estate have suffered enormous depreciation over the past few years. Trustee Smith recommended shifting underperforming investments to real estate due to the current underweight of the sector. Mr. Callahan said that he could support increasing the real estate portfolio at an opportune time, adding that the commercial real estate market is still searching for a bottom. Mr. Callahan pointed out that the portfolio's largest real estate holdings are in the unleveraged Woodmont investment, which is relatively protected from market value declines compared to leveraged real estate investments. Trustee Haim requested an explanation of the valuation method for the Woodmont investments. Acting Administrator Ford responded that a quarterly rotating appraisal is performed on the properties by an outside appraiser. Trustee Bolger questioned 2010 debt maturities in the AEW portfolio, and Mr. Callahan said that real estate refinancing is common and that AEW has been ahead of the curve in laddering debt maturities. He said that he expects lenders to be responsive to restructuring debt as 2010 progresses. Trustee Phillips and Chair Richardson recommended increasing the fund's allocation to emerging markets and international equities and Mr. Callahan agreed. He recommended consideration of hiring a global investment manager. It was agreed to pursue the discussion at the Strategic Workshop.

Trustee Gladstern initiated a watch-list discussion, with Mr. Callahan advising that BlackRock (formerly BGI) has been on watch throughout 2010 and is modestly ahead of the benchmark currently. He said that AXA Rosenberg, which has suffered in the recent market as a quantitative manager, is currently a concern, along with the market neutral managers, Pyramis excepted. The Investment Consultant recommended removing Western from the watch list as they are performing well. He said that in real estate, RREEF remains on the list.

Mr. Callahan referred to the Abbott and Pathway holdings as early private equity investments which by their nature are not expected to generate positive returns at this stage. Trustee Smith raised the issue of problems experienced by some large endowment funds in alternative investments. Mr. Callahan explained that their over-exposure to alternative illiquid investments caused solvency problems, resulting in the need for the funds to sell other assets at dramatically reduced values. According to Mr. Callahan, the lesson is to manage the amount of committed capital to match funds available. Acting Administrator Tom Ford noted that some public pension systems experienced similar liquidity difficulties. Mr. Callahan clarified the distinction between private equity investments and hedge funds. There was agreement to include a discussion of hedge funds at the Strategic Workshop. Mr. Callahan concluded by stating that he is comfortable with today's presenting firms.

There being no further business, the Chair adjourned the meeting at 11:50 A.M.

Gerald Richardson, Chair

Attest: Thomas C. Ford
Acting Retirement Administrator