MINUTES

INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

May 6, 2010 - 9:00 A.M.

EVENT CALENDAR
9:00 A.M. – Investment Committee Meeting

CALL TO ORDER
Chair Richardson called the meeting to order at 9:04 A.M.

ROLL CALL
PRESENT: Bolger, Brenk, Hufford (late arrival), Phillips, Richardson, Sweet (late arrival), Webb

ABSENT: Given (non-voting), Gladstern, Haim, Smith, Wofford (non-voting)

A. OPEN TIME FOR PUBLIC EXPRESSION

B. MANAGER ANNUAL REPORTS
   1. Pyramis
      Pyramis Global Advisors Relationship Manager Art Greenwood acknowledged the recent addition of funds to the Select International Small Cap portfolio. Mr. Greenwood stated there have been no changes to the team or the strategy of the portfolio. He introduced Chris Stewart, Institutional Portfolio Manager, to provide the portfolio review.

      According to Mr. Stewart, Portfolio Manager Rob Feldman has managed the portfolio for many years and is the key decision maker. Substantial international research resources are available to Mr. Feldman, he said. The portfolio strategy is to achieve returns by active qualitative stock selection with a neutral regional and sector weighting, Mr. Stewart stated. Analysts’ model portfolio holdings are considered significant, he said.

      Trustee Sweet joined the meeting at 9:12 A.M.

      According to Mr. Stewart, the portfolio returned approximately 100 basis points above the S&P EPAC Small Cap Index during the first quarter of 2010. Over one year, the portfolio trailed that index by 1.6%, but outperformed it by 3.2% over three years. He explained that the relatively lower returns achieved versus the S&P Dev Ex-US Small Cap Index were due to the presence of Canadian stocks in that index.
Trustee Bolger inquired about succession management, and Mr. Stewart assured her that there is a planned successor for the key portfolio manager. Trustee Webb inquired about exposure to German banks, and Mr. Stewart stated there were no German or Greek banks in the portfolio. There was discussion regarding the effect of the Greek debt crisis on the European economy. To that point, Mr. Stewart advised that he did not expect contagion to set in, adding that the portfolio has minimal exposure to Greece. Responding to Trustee Bolger’s concern that hedge funds may create undue volatility in the value of the euro, he said that the effect was likely minimal.

2. Morgan Stanley
Teri Martini, Morgan Stanley Investment Management Executive Director, stated that the International Equity portfolio team is stable, with Christian Derold soon to join Peter Wright, Managing Director, in the increasingly successful Singapore office. Trustee Phillips focused on the portfolio team members and whether sufficient resources were available and would continue. Ms. Martini assured him that, in spite of recent corporate restructuring, no changes to the current team or product were planned. Ms. Martini defined the portfolio strategy as acquiring superior franchises at reasonable price levels, with capital preservation an important factor. She said that the relatively low turnover coincides with a long-term viewpoint which is not intended to keep pace with momentum markets.

Ms. Martini reviewed the portfolio performance. The firm reported a 2010 first quarter return of 1.9% versus .9% for the MSCI EAFE Net Index; a one-year return of 43.4% versus 54.4% for that index; and a three-year return of negative 3.7% versus negative 7% for that index. Ms. Martini reviewed the portfolio’s sector weightings versus the benchmark, emphasizing the financial sector underweight. According to Ms. Martini, recently cyclical sectors have led 2010 returns. On the negative side, Ms. Martini said that the declining Greek stock market and monetary tightening in China caused recent market reversals which weighed on performance.

Trustee Bolger initiated a discussion of currency hedging by referring to the strengthening U.S. dollar and its possible effect on the portfolio. Ms. Martini stated that the portfolio managers engage in defensive currency hedging, and that approximately 18% of the portfolio is currently hedged. Mr. Callahan pointed out that currency hedging is a risk-control measure in this portfolio.

Ms. Martini stated that currently the portfolio is defensively positioned due to the threat posed by sovereign debt risk, including in the United Kingdom and the U.S., which may cause slower-than-normal growth rates. She said that other plausible negative factors include policy risk such as financial sector regulation and lower expected returns in the cyclical sector.

3. Artisan
Lori Johnson, Institutional Client Services representative for Artisan Partners, reported that former CEO Andrew Ziegler is now Executive Chairman, with Eric Colson stepping into the Chief Executive Officer position. She stated that Mark Yockey remains as
portfolio manager, with Barry Dargan recently joining the firm from London to initiate a new global investment product. An energy analyst has been added recently, she said, and the firm also plans to add a financial sector analyst. Ms. Johnson stated that their client base is stable and there are continued investments into the International Fund.

Ms. Johnson described the portfolio strategy as investment in dominant companies exhibiting sustainable growth at reasonable prices. She said that the strongest themes are demographics and industrial growth. She stated that in the first quarter of 2010 returns lagged the benchmark due to the momentum move in Japan, as the portfolio is underweight Japan. As of March 31, 2010, the firm reported portfolio returns of negative 2.5% in the first quarter versus 1.9% for the MSCI EAFE Growth Index, 51.5% over one year versus 50.6 for that index, and negative 5.9% over three years versus negative 5.7% for that index.

Trustee Hufford joined the meeting at 10 A.M.

Ms. Johnson reviewed factors affecting performance, including the unanticipated (by Artisan) severity of the Greek sovereign debt issue. Ms. Johnson contended that investments in Greek firms were manageable. Trustee Brenk asked if the yuan value was a concern, and Ms. Johnson responded by stating that changes in the value of the yuan are expected to be measured, stressing that the potential for social unrest is their major concern about China. Ms. Johnson concluded her remarks by characterizing the portfolio as defensively positioned at this time, as the portfolio manager believes global recovery in concert with consumer spending is less certain over the near term.

Chair Phillips stated that a due diligence meeting with the portfolio manager would be scheduled soon.

C. PERFORMANCE UPDATE FOR Q1 2010
Investment Consultant Jim Callahan of Callan Associates provided preliminary investment performance results as follows: in the first quarter of 2010, Total Fund value increased from $1.27 B to $1.32B, or 3.76%; over the past year, the Total Fund value increased by 31%, largely due to the rebound in the equity markets, according to Mr. Callahan. The one-year return trailed the Composite Benchmark by 2%, with detractors being private assets including real estate, he said. Mr. Callahan continued by reviewing the performance of each portfolio sector.

Trustee Brenk initiated a discussion of passive versus active investment management. Mr. Callahan stated that there is always the option of passive sector exposure by means of an index, and he discussed the relative merits of each method. He reviewed different asset classes and the relative ease or difficulty with which active managers outperform in each class. According to Mr. Callahan, each manager has a dual focus: first, to beat the benchmark net of fees; second, to rank in the top half of their peer group. Trustee Hufford recommended a workshop session to assure that the Fund’s active management including fees is achieving value over passive management.
D. **NEW BUSINESS**

1. **Investment Committee Charter (Action)**
   Consider and take possible action to approve Investment Committee Charter

   Retirement Administrator Ford introduced the proposed Investment Committee Charter to limited discussion.

   It was M/S Phillips/Sweet to adopt the Investment Committee Charter as submitted. Trustee Bolger proposed minor amendments to the Charter, and Trustee Phillips moved to incorporate the stated amendments and to adopt the Investment Committee Charter as amended, with Webb seconding. The motion was approved by unanimous vote.

2. **Portfolio Analysis Report – March 31, 2010**
   Mr. Ford stated that the report is presented in concert with the investment advisor’s report for informational purposes.

3. **Strategic Workshop Review**
   a. **Portfolio Rebalancing (Action)**
      (Discussion of and action on Item D.3.a is included in Items D.3.b and D.3.d below.)

   b. **Reconsideration and Potential Changes to Market Neutral Equity Program (Action)**
      Mr. Callahan outlined his recommendations and the Board’s consensus decisions made at the Strategic Workshop regarding the market neutral asset class to: reduce market neutral exposure; consolidate the number of managers; move from separate accounts to commingled accounts; and eliminate the bond overlay.

   Trustee Hufford was excused from the meeting at 10:40 A.M., returning at 10:43 A.M.

   Mr. Callahan stated that his recommendations to achieve those objectives, confirmed by the Board at the Spring Workshop, are to close the First Quadrant and Analytic Japan portfolios, and rebalance equally to the Pyramis, Numeric and Analytic U.S. portfolios. According to Mr. Callahan, the market neutral class will be reduced by just over 50% once funds are reallocated. Trustee Bolger inquired about the liquidity of the pooled investment, and Mr. Callahan stated that liquidity would be available on a monthly basis. According to Mr. Callahan, in response to Trustee Hufford’s query, the futures overlays will maintain market exposure during the transition.

   It was M/S Bolger/Hufford to approve modifications to the Market Neutral Equity Program as follows:
   - Reduce the market neutral exposure from $125M to $75M
   - Consolidate the number of (market neutral) managers from 5 to 3;
   - Move from separate accounts to commingled accounts; and
   - Eliminate the bond alpha overlay strategy

   The motion was approved by unanimous vote.
c. **Emerging Markets Investment Manager Search (Action)**

Consider and discuss initiation of search for emerging markets investment manager

Callan Associates representative Kevin Dunne provided an overview of the Fund’s equity class, pointing out that international exposure was underrepresented, with a specific underweight in emerging markets. Mr. Dunne stated that Callan Associates’ recommendation is to increase the Fund’s allocation to international and emerging markets. Based on the Board’s prior approval at the Spring Workshop, he stated that a search for an emerging markets investment manager has been completed, with the Callan Associates’ Manager Search Committee approving the following four potential managers: Artisan Partners Limited Partners; Capital Guardian Trust Company; Eaton Vance Management; and Genesis Managers Limited. Mr. Callahan recommended that the Board consider all four prospective managers for the new emerging markets investment manager position.

It was M/S Bolger/Brenk to select an emerging markets investment manager from the four candidates provided by Callan Associates noted above. The motion was approved by unanimous vote. The Committee agreed to reserve the date of June 8 at 9 A.M. for the presentations and selection.

Mr. Dunne stated that Callan Associates recommended phasing the emerging markets allocation into the portfolio over four quarters, while using futures to maintain market exposure during the transition.

d. **Investment Policy Update (Action)**

Mr. Dunne presented a May 2010 Draft (redline) Investment Policy Statement with Callan Associates’ proposed revisions. The revisions include new benchmarks for the domestic and international equity portfolios, and modifications to the Long-Term Strategic Asset Allocation Targets and Ranges Appendix. Other adjustments to the document align with recent and approved changes to investment managers. Mr. Callahan stated that he is recommending increasing international exposure from 33% to 40% of the publicly traded equity portfolio. Mr. Dunne reviewed the recommended changes to the Fund’s asset class target allocations and ranges, noting that efficiencies in cash management allow for additional allocations to the equity and fixed income areas. Mr. Callahan stated that the Domestic Equity Active Extension and Equitized Market Neutral classes will continue to be under review.

It was M/S Bolger/Phillips to approve the portfolio rebalancing as stated on page 13 of Callan Associates’ “Review of 2010 Board Workshop” dated May 6, 2010, and revisions to the Investment Policy Statement as presented in the May 2010 Draft Investment Policy Statement (redline) provided by Callan Associates. The motion was approved by unanimous vote.

There being no further business, Chair Richardson adjourned the meeting at 11:38 A.M.

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Gerald Richardson, Chair

Attest: Thomas C. Ford, Retirement Administrator