

MINUTES

SPECIAL INVESTMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

June 8, 2010 - 9:00 A.M.

CALL TO ORDER

Chair Richardson called the meeting to order at 9:10 A.M.

ROLL CALL

PRESENT: Bolger, Gladstern, Haim, Phillips, Richardson, Smith, Sweet, Webb

ABSENT: Brenk, Given, Wofford, Hufford

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. SELECTION OF EMERGING MARKETS INVESTMENT MANAGER

1. Finalist Presentations

- a. Genesis Asset Management 9:00 A.M.

Genesis Asset Management representatives Jonathan Snow, Director of Client Services, and Yiyong Yang, Portfolio Manager and key decision-maker, discussed the London-based firm's history, investment management team structure, and investment methodology by way of teleconference. Mr. Snow emphasized the firm's focus on emerging markets equities, and stated that the firm's client base is largely U.S.-based pension funds.

Mr. Snow said that upon its origination in 1989, the stable investment team members became active partners, with one outside "hands-off" shareholder in Boston. He stated all members of the team focus strictly on investment management, living and working in the markets in which they specialize. The team structure is horizontal, with all members conducting investment research and analysis, sharing information, and engaging in healthy debate, he said.

According to Mr. Snow, the investment approach is to invest in the best companies worldwide at reasonable intrinsic values determined by independent analysis. He said that team members are cross-trained in different countries in order to provide for rigorous decision-making. In response to a query by Trustee Haim, Mr. Snow stated that weekly team meetings include most but not always all team members.

Mr. Snow introduced Portfolio Manager Yiyong Yang to review portfolio strategy and management. Mr. Yang stated that it is the disparity among companies resulting

from emerging markets industrialization which is creating investment opportunities within the asset class. He said that the firm confines its universe to developing countries with relatively high incomes and companies with 50% or more of their business in emerging markets. He stated that the 1,000 companies currently in the portfolio are selected by qualitative analyses including management interviews and site visits; and quantitative analyses including determinations of intrinsic value based on discounted free cash flow.

Trustee Smith inquired about the firm's asset allocation, portfolio compliance, and currency management. Mr. Yang said that currency hedges are not engaged in. Addressing the portfolio's country weighting and asset allocation, Mr. Yang explained that these measures are the result of individual stock decisions. Expected returns are closely monitored, he stated. In summary, Mr. Yang highlighted the firm's 3.4% outperformance to the index over the long term.

Responding to Committee Chair Richardson's inquiry as to performance net of fees and the fee structure, Mr. Snow reviewed the fee structure. Trustee Bolger expressed concern as to the number of countries represented in the firm's portfolio; she also questioned the financial sector overweight and relatively low commodity weighting. Mr. Snow explained that only the best investment opportunities are considered. As to financials, he explained that financial services in emerging markets are experiencing rapid growth and are also more straightforward than in developed markets. Economic and political factors should not affect long-term performance, he said, responding to Trustee Haim's concern about recent economic woes affecting Europe.

Trustee Smith inquired as to the current valuation level of the emerging markets asset class. Stating that emerging markets have recently contributed a large portion of the world's GDP, Mr. Yang contended that the class will continue to grow faster than other markets. Mr. Yang argued that emerging markets valuations were reasonable in view of his forecast for 18% earnings growth in 2010.

Trustee Gladstern asked whether the firm's decision-making process includes consideration of companies' operating environments and treatment of shareholders and the workforce. Mr. Yang stated that shareholder structures are closely examined, as are reinvestment of earnings. Mr. Snow added that how management treats its employees is an important determinant of a company's sustainability. Trustee Webb inquired about headline risk from possible labor improprieties by mining firms. The presenters answered that management interviews and due diligence site visits are conducted so that such risks may be avoided.

b. Artisan Partners

10:00 A.M.

Artisan Partners Managing Director Lori Johnson introduced Emerging Markets Portfolio Manager Maria Negrete-Gruson and Chip Ridley, Managing Director, who provides for client services and strategy for the emerging markets class. Mr. Ridley stated that each Artisan Partners investment team is a boutique, so that each portfolio's unique strategy need not overlap with other portfolios. Portfolio Manager Negrete-Gruson stated that the firm was founded in 1994 and currently has over \$48

billion in assets under management. She said that the four-member emerging markets investment team had been together for over ten years.

Ms. Negrete-Gruson said that the firm's emerging markets portfolio has returned 12.5% since inception, and has outperformed the MSCI Emerging Markets Index by 1.7% since inception, by .75% over three years, by 8.2% over one year, and by .85% year-to-date. The Portfolio Manager said that she expects continued growth and volatility in the class. The portfolio of 100 companies is currently relatively underweight China and India, overweight Brazil and Turkey, and generally overweight in smaller capitalization stocks. She said the team's investment approach includes extensive travel in order to discover companies with business models which allow for sustainable growth and a competitive advantage. She stated that determining factors include valuation relative to global peers, country and history, and risk analysis including economic and political risk. She stated that the firm does not hedge currencies.

Investment Consultant Jim Callahan asked how inter-country accounting variations are controlled, and Ms. Negrete-Gruson replied that adjustments are made for such anomalies. Trustee Bolger received Ms. Negrete-Gruson's assurances that there were no legal issues involved in the private firm's break from its former employer. When Trustee Smith asked the manager if she considered emerging markets equity values extended, the Portfolio Manager responded that there could be possible negative factors developing in Greece and China. In response to Trustee Sweet's inquiry as to a sell discipline, Ms. Negrete-Gruson stated that holding periods are normally three to five years, with valuations continually monitored to determine exit points.

Trustee Gladstern pursued information regarding the firm's investment decisions vis-à-vis workforce treatment and operating environment policy. The Portfolio Manager responded that she visits the companies' operations so as to assure no mistreatment of the environment or employees occurs. Along the same line of thought, Ms. Negrete-Gruson assured Trustee Webb that a particular mining company was not in the portfolio. She assured Trustee Haim that a violation of child labor laws would cause her to question a firm's earnings sustainability.

Ms. Negrete-Gruson stated, in response to Trustee Jim Phillip's inquiry, that four months per year is a normal travel schedule. Trustee Phillips also inquired about data sources for evaluating country economic models, and she explained that external data sources are used.

c. Eaton Vance/Parametric Portfolio Associates 11:00 A.M.

William Irvine, Institutional Business Development representative for Eaton Vance Investment Managers, stated that Eaton Vance is a public corporation with \$175 billion in assets under management and an 86-year history, with offices in Boston, New York, and London. The firm manages a wide variety of asset classes and has a 21% institutional client base, he said. Mr. Irvine emphasized the strength and depth of the firm's investment team, as well as the firm's client-focused culture including independent thinking to provide creative solutions. He introduced Brian Dillon,

Director, Institutional Services and Institutional Portfolio Manager for the Seattle-based subsidiary Parametric Portfolio Associates.

Mr. Dillon stated that the \$6 billion emerging markets portfolio consists of 1500 securities based in 45 different countries. He explained that the firm's emerging markets strategy was formulated in 1994 as an alternative to traditional investment methods, with statistics playing a vital role in portfolio construction as the Chief Investment Officer is a mathematician. Mr. Dillon stated that the strategy of the structured (quantitative, rules-based) portfolio consists of systematic, opportunistic rebalancing over time, and has resulted in excess returns in addition to relatively low volatility. He pointed out that the strategy mitigates negative attributes of the emerging markets asset class such as high volatility, inconsistent information flow, and high transaction costs. Mr. Dillon outlined a contrarian four-tier, top-down investment approach of ample diversification, broad sector constraints, and index-based company selection. According to the Portfolio Manager, the approach also provides for relative protection in down markets, and has outperformed the benchmark MSCI Emerging Markets Index (net dividends) nine out of ten years.

Responding to Trustee Smith's inquiry, the Portfolio Manager said that he joined the firm in January of 2008. The fee structure was discussed upon Trustee Bolger's inquiry, after which Mr. Dillon addressed Trustee Gladstern's interest in the efficiencies of frontier stock markets by listing country selection factors of:

- an open economy
- basic legal securities rights
- sufficient liquidity
- acceptable provisions for custody and administrative support

Trustee Smith asked if site visits are conducted, and the answer was that they do not employ that research tool. When queried by Trustee Webb as to how the firm manages headline risk for labor law non-compliance, for example, Mr. Dillon replied that broad diversification serves to control headline risk.

d. Capital International 12:30 P.M.

Paula Pretlow, a senior vice president and relationship manager for Capital Group Institutional Investment Services, introduced vice president and investment specialist David Polak, who has been with the firm since 2005. Ms. Pretlow stated that the privately managed firm was founded in 1931 and that the emerging markets portfolio was initiated in 1986. Six portfolio managers, who are compensated based on rolling four- and eight-year returns, lend perspective by being based in different countries, she said. Ms. Pretlow turned the presentation over to Mr. Polak to review portfolio details.

Mr. Polak stated that the firm invests in emerging markets equity, private equity, and debt with a long-term focus. He said that current portfolio investment themes include energy, infrastructure, and consumer affluence and related services. The investment specialist emphasized the following portfolio features: key decision-

maker risk minimized due to team structure; company risk controlled due to on-site visits; early entry into nascent investments provided by private equity.

The Trustees discussed various matters of interest, with Trustee Haim focusing on the fee structure which Mr. Polak outlined. Trustee Phillips sought to determine how meetings were conducted given the disparate locations of the investment team. Mr. Polak explained that conference calls occur weekly, and that face-to-face meetings occur on a quarterly basis. Trustee Webb inquired as to how headline risk is handled in the decision-making process, singling out a mining company in the portfolio that he was concerned about. Ms. Pretlow discussed the firm's risk control process, and said that the firm's compliance officer gives serious consideration to risk factors such as questionable social and governance practices.

Ms. Pretlow summarized the presentation by stating that the portfolio has outperformed for 25 years and is managed by a dedicated team with extensive experience. She also characterized the investment fee structure as relatively reasonable.

2. Consider and make recommendation to the Board regarding Emerging Markets Investment Manager (Action)

The presentations by the four emerging markets investment manager candidates evoked considerable discussion among the Trustees, with several Trustees acknowledging the high quality of all four emerging markets presenters. The Eaton Vance investment approach was characterized by Board Chairperson Jim Phillips as having considerable appeal. Trustee Smith also expressed interest in the Eaton Vance portfolio due to the consistent performance over time and reduced volatility. Trustee Webb favored Artisan Partners and also Eaton Vance.

The Genesis Asset Management team presentation, superior portfolio investment returns, and methodology received favorable comment from several Trustees including Trustee Phillips. Trustee Haim expressed interest in the Capital International portfolio due to the low fees.

Investment Committee Chair Richardson expressed a preference for Artisan Partners and then Genesis Asset Management. The Artisan Partners portfolio also received favorable comment from Trustee Bolger and other Trustees, with Trustee Sweet pointing to the emerging markets focus of the portfolio's holdings, and to the balance of quantitative and qualitative analysis; however, she and other Trustees voiced concern about Artisan Partners' key-person risk as well as the team's stability over time. Investment Consultant Jim Callahan expressed his belief that the Artisan Partners team was stable.

Retirement Administrator Tom Ford advised that all of the four candidates were well-qualified, while expressing some concern about the long-term stability of the Artisan Partners investment team.

Investment Consultant Jim Callahan reviewed entry and exit fee differences among the managers. He defined the Artisan Partners investment as a mutual fund, and the Capital International and Genesis Asset Management investments as commingled institutional funds. A few Trustees expressed disappointment that the London-based Genesis Asset

Management investment team did not send a representative to make a presentation in person; however, both Trustee Phillips and Investment Consultant Callahan dismissed the mode of presentation as being an appropriate determining factor.

Upon two tied votes, the Trustees continued discussions regarding fee structures and gave consideration to a review provided by Investment Consultant Jim Callahan.

Chair Richardson called for a new vote to recommend that the Board select Artisan Partners, Eaton Vance, or Genesis Asset Management as the new Emerging Markets Investment Manager. Eaton Vance was selected by a vote of 7-1, with Trustee Sweet voting for Artisan Partners.

There being no further business, Chair Richardson adjourned the meeting at 2 P.M.

Gerald Richardson, Chair

Attest: Thomas C. Ford, Retirement Administrator