CALL TO ORDER Chair Richardson called the meeting to order at 11:20 A.M.

ROLL CALL

PRESENT: Brenk, Given (non-voting), Gladstern, Phillips, Richardson, Smith, Sweet, Webb, Wofford

ABSENT: Bolger, Haim, Hufford

MINUTES June 8, 2010 Special Investment Committee Meeting Minutes

It was M/S Gladstern/Sweet to approve the June 8, 2010, Special Investment Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. INVESTMENT MANAGER ANNUAL REPORTS

Chair Richardson directed the discussion to Agenda Item B.2.

2. AEW

Dave McWhorter, AEW Director of Client Service and Marketing for the western U.S., and Portfolio Manager Mark Davidson presented the AEW Partners V, L.P., portfolio review. Mr. McWhorter stated that in the face of the difficult real estate market, the firm was stable and had not experienced layoffs. He announced that the firm was pronounced 2010 real estate manager of the year by Institutional Investor.

Portfolio Manager Mark Davidson stated that the fund was a 2005 vintage fund, and that as he saw decreasing investment opportunities, he retained capital and ceased new investments in 2008. He stated that his fund is sufficiently liquid as a result. There is still uncalled capital due to those conditions, he said, and the fund is in the process of returning capital by selling into the current market, with 27% of allocated capital returned as of March 31, 2010. He said that the portfolio is structured to survive the difficult areas of the real estate market, and is well diversified.

Reviewing the current real estate market, Mr. Davidson stated that the job market is a critical factor to real estate recovery. He said that banks continue to sell real estate in order to recapitalize. The portfolio manager reviewed debt maturities, with the largest maturities due in 2012. He reviewed potential 2010 sales candidates which
will be used to return capital, stating that he expects a return of capital in excess of $75 million in 2010.

1. **ING Clarion**
   Doug Wolski, Assistant Portfolio Manager for the Lion Properties Fund, reported that the fund is in the process of being sold by ING Clarion, and will become an independent fund with no changes to operations. He reviewed key portfolio statistics, including a total real estate value of $4.4 billion, net asset value of $2.1 billion, with 141 investments averaging $30 million in value. According to Mr. Wolski, the largest portfolio holdings are office and residential properties, followed by retail and industrial, hotel, and other categories; Washington, D.C. and Los Angeles are the two concentrations of portfolio holdings, he said. He stated that the property with the highest value is in Washington, D.C., and represents 5.5% of the portfolio.

   Mr. Wolski reported the portfolio occupancy rate to be 90%, with 52.3% leverage due to decreasing asset values. He stated that the long-range goal is to reduce the leverage ratio to 30% area. The redemption queue of $254 million will be funded soon, he stated. Paying down leverage currently is not wise, he said, as there is a steep prepayment penalty. There is considerable debt coming due in 2012, he stated. He stated that the fund is no longer an active seller, and does not need additional cash in order to fund operations. He listed new properties for 2010, and reviewed lease activity. He stated that he expects occupancy rates and rents to continue to rise throughout 2011 and 2012. Homewood Suites and Marriott Extended Stay hotels represent the bulk of the debt maturities in 2012, he reported, adding that those properties are undergoing renovations and will be sold in 2012. He stated that maturities of private notes in 2015 will be paid down at that time if needed to achieve 30% leverage. Mr. Wolski stated that the long term goal is to reduce leverage and reduce hotel exposure.

   Mr. Wolski reviewed investment performance, revealing negative annual returns for periods up to the past five years, and a net asset value as of March 31, 2010, of $16.95 million, versus the $30 million originally invested in the MCERA portfolio.

3. **RREEF**
   Portfolio Manager Frank Garcia reviewed the RREEF America III real estate portfolio, stating that the management team running the fund is stable. Operating conditions continue to be difficult, he said, with pricing difficulties on leveraged properties. As a result, the firm has experienced difficulties with liquidity and debt recently, negotiating debt restructurings by extending maturities in order to avoid having to sell at unfavorable prices, he said. Mr. Garcia stated that job recovery will be key to the recovery of the real estate market.

   Mr. Garcia reviewed portfolio holdings, reporting that 52% are in office/industrial. The Riverside South condominium in New York City is an active development, he said, and sales for the development are going well. He gave the example of the Buckhead area of Atlanta as being hit hard by declining values. He said that venture capital is not expected to return to Silicon Valley to past levels; nor is job growth expected in the San Francisco area, he said. The portfolio manager said that they have returned to valuing one quarter of the portfolio each quarter. He expects
continued uncertainty in property values going forward as comparable sales continue to be scarce.

Mr. Garcia reported declining returns on investment as market fundamentals hinder rental growth, and an 84 percent same store occupancy rate. Of the original $15 million investment, the current net asset value is $3.1 million. He reviewed debt maturities, with little coming due in 2010 and 2011, and 41% due in 2012. He said that properties will continue to be sold to deleverage the fund, and that his recommendation will be to return capital on a prorata basis when distributions are available. Mr. Garcia said that liquidity has recently improved so that the fund has operating capital. Looking forward, he expects a wind down of the fund over the next five to eight years.

4. Woodmont
Chairman Ron Granville of Woodmont Real Estate Services reported on fiscal year 2010 cash flows and investment returns for the unleveraged portfolio. He said that the annual cash-flow return on equity was 4.96%, with a total portfolio return of negative 18.6% return for the fiscal year. Cash flow returns are projected to be 4.4% in the following year, he said. Total portfolio occupancy is 87%, he reported.

Woodmont President Bob Rouse stated that the office market continues to be experiencing reduced occupancy rates. He reviewed the tenant mix, characterizing it as well diversified. Mr. Rouse stated that the Sacramento market was hard hit, with a negative impact on the portfolio. Reviewing specific properties, Mr. Rouse reported that Century Plaza has an occupancy rate in the high 80% range. He said that the San Francisco area office market continues to have relatively low occupancy, with rents stabilizing, he said. Job growth needs to occur before rates will improve, he said. He said that the Kaiser building lease has been negotiated. One McInnis will be fully occupied in the fall. Going forward, Mr. Rouse stated that the firm is focusing on being being proactive to reduce the time to negotiate contracts, and that operating efficiencies will be implemented to reduce expenses.

Chairman Granville offered an analysis of current real estate market conditions, stating that because transactional volume in northern California is so low, provision for meaningful appraisals is difficult. Distressed property sales are infrequent, he said. There is considerable Collateralized Mortgage-Backed Securities (CMBS) indebtedness nationally, he said, expressing uncertainty as to the recovery in real estate. Underwriting is strict, he added, with few lenders in the office/industrial sector. Mr. Granville expressed concern about the disposition of maturing loans, as many properties are not worth the original investment. While Mr. Granville stated that he believes the market has bottomed out, he expects a long, slow recovery. Mr. Granville observed that recent leasing activity is encouraging, but characterized his outlook as guardedly optimistic.

C. INVESTMENT CONSULTANT QUARTERLY REPORT Q1 2010
Real estate analyst Sara Angus of Callan Associates reviewed the real estate market, reporting that prime properties in core markets are starting to see improvements. She stated that the real estate market is considered to have bottomed, with transaction volumes showing signs of recovery, and distressed asset buyers active in a transition from redemption queues to new investors. Hotels have shown signs of improvement in
occupancy, she said. She cautioned that banks may be required to divest of their private real estate holdings, however. She said that there is a clear bifurcation between those funds which are well positioned and those that are not. She pointed out that the bulk of the MCERA real estate portfolio is in core real estate, with 88.8% in the Pacific region, which is considerably higher than the 28.5% weighting of the benchmark.

The trustees engaged Ms. Angus in a wide-ranging general discussion of factors affecting the real estate market, such as rising sea levels, earthquakes, and changing weather patterns affecting insurance rates. Trustee Phillips said that there may be a concern in the Pacific region about acts of nature. Diversifying the real estate portfolio to the Washington, D.C., area was discussed. Retirement Administrator Ford recommended that the Board consider augmenting the Woodmont portfolio, and Trustee Phillips concurred. Callan Associates Investment Consultant Kevin Dunne recommended diversifying the real estate portfolio globally. Trustee Phillips concurred, and encouraged Callan Associates to initiate a search of global REIT investment opportunities.

Mr. Dunne reviewed portfolio returns for the first quarter of 2010, reporting a fund value of $1.3 billion, and a 3.34% appreciation over the period. He reviewed asset allocations, noting the under allocation of 9% to real estate which would allow for additional investments. According to Mr. Dunne, the Fund has outperformed the benchmark over the last 3- and 5-year periods. Over the last year, the Fund returned 30.4%, underperforming the 33.5% return of the benchmark due to an overweight in real estate and underweight in equities relative to the benchmark, he said. The RCM portfolio underperformance was due to exposure to the financial sector, he said. He stated that BlackRock (formerly BGI) is on the watch list and will continue to be monitored. Trustee Phillips discussed quantitative managers and their strategies with Mr. Dunne. Mr. Phillips announced that BlackRock, Dodge & Cox, and Artisan due diligence visits were planned.

D. INVESTMENT PERFORMANCE UPDATE Q2 2010

Mr. Dunne reviewed preliminary second quarter investment performance, reporting that a world-wide selloff in the equity markets erased the gains of the first quarter, and created considerable volatility in the equity markets. Mr. Dunne discussed the European debt crisis, stating that there is concern that problems in Greece and Spain will spread to the U.S. He said that recessions caused by financial crises take longer to recover, adding that attaining actuarial assumptions over the next few years will be difficult.

Mr. Dunne reviewed the performance of each investment manager, noting that the international managers outperformed the benchmark for the second quarter. While Pyramis underperformed over the second quarter, the manager has outperformed over the long term, he noted. Both fixed income managers outperformed the benchmark, he stated. The Woodmont performance numbers were affected by write-downs, he said. Real estate returns will improve given a recovery in rents, Mr. Dunne stated.

Mr. Dunne reviewed former investment manager AXA Rosenberg, stating that structural management changes have been made to improve risk control. The firm continues to lose assets, he reported. The Committee discussed ramifications of a potential class action lawsuit against the firm, and agreed that the matter and its implications should be researched further.

E. OLD BUSINESS

MCERA 7/14/10 Investment Committee Meeting Minutes Page 4 of 5
1. **Investment Policy Statement - Administrative Correction (Action)**
   Consider and take possible action regarding administrative correction to Investment Policy Statement

   It was M/S Phillips/Gladstern to approve administrative corrections to the Investment Policy Statement. The motion was approved by unanimous vote.

**F. INFORMATION**

1. AXA Rosenberg memo from Bill Ricks, June 30, 2010
2. Callan, Second Quarter 2010: Brief Market Recap
3. Callan, Preliminary Index Returns – 2Q2010

There being no further business, Chair Richardson adjourned the meeting at 3:00 P.M.

_______________________________
Gerald Richardson, Chair

Attest: Jeff Wickman, for Tom Ford Retirement Administrator