

MINUTES

INVESTMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

September 9, 2010 - 9:00 A.M.

CALL TO ORDER

Chair Richardson called the meeting to order at 9:02 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Gladstern, Hufford (late arrival),
Phillips, Richardson, Smith, Webb

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

MINUTES

It was M/S Gladstern/Bolger to approve the July 14, 2010, Investment Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. MANAGER ANNUAL REPORTS

1. Numeric Investors – Market Neutral

Numeric Investors Director of Client Services Dave Stewart stated that the firm manages assets of approximately \$10 billion for its institutional clients. The average experience level for the five-member investment management committee is fifteen years and the staff is stable, according to Mr. Stewart. He reported that the U.S. Market Neutral Portfolio has recovered after a period of negative returns, with a year-to-date performance of 4.5% and an annualized return of 2.35% since inception.

Portfolio Manager Greg Bond reviewed the portfolio strategy, which he said is value-based with neutral long-short positions. The fund is also sector neutral, he said, with the primary focus on stock selection from a universe of the top 1,300 U.S. stocks based on liquidity. Inexpensive stocks with healthy balance sheets and earnings potential are favored, he said.

When Trustee Bolger asked if the advent of ETFs affected the correlation level of stocks to the market, Mr. Bond responded that correlation levels were elevated due to ETFs, but he expected a reversion to more normal levels. Trustee Webb inquired as to what the term “intuitive signals” refers to, and Mr. Bond responded that the strategy is not purely a black-box model, but considers information flow in a qualitative sense.

Trustee Hufford joined the meeting at 9:18 A.M.

Callan Associates Investment Consultant Kevin Dunne asked about factors contributing to recent performance, and Mr. Bond replied that a 10% small cap overweight improved returns. Mr. Bond added that more reliable investment models, lower transaction costs, and a return to fundamentals signal the return of a more favorable environment for value investing. In response to Trustee Bolger's inquiry, Mr. Bond said that stock selection and not trading is the main strategy.

2. Pyramis Global Advisors – Market Neutral

Pyramis Institutional Portfolio Manager Brian Hoesly stated that Pyramis Global Advisors manages \$754 million for thirty-five institutional clients worldwide. According to Mr. Hoesly, research is fundamentally based and differentiates the firm. The U.S. Market Neutral portfolio is neutral with regard to beta, style, market cap, and sector, he said, and has a target return of 3% above the T-bill rate and an expected volatility of 5 to 6%. The portfolio returned negative 3.6% for the second quarter of 2010, negative 6.8% year-to-date, .57% annualized for the past three years, and 4.82% annualized for the past five years. The five-year return exceeded the benchmark T-bill by 2%.

The Portfolio Manager attributed recent underperformance to high market correlations, high volatility, the 2009 debt crisis, weak bank stress tests, and other factors including short-term investing in ETFs. Callan Associates Senior Vice President Mark Stahl asked if Mr. Hoesly discerns a return to stock fundamentals and he replied affirmatively. Mr. Hoesly said that the portfolio is long on diversified financials as he anticipates rising interest rates in a muted growth environment with no double-dip recession. Board Chair Phillips noted that a due diligence visit to Pyramis is planned in the near future.

3. Analytic Investors – U.S. Market Neutral

Personnel changes headlined the Analytic Investors presentation, with former Director of Client Services Brian Haskin announcing his transition to the position of Head of Investment Strategy. His replacement, Mark Osterkamp, Senior Director, Marketing and Client Service, reported that the former Portfolio Manager resigned and is being replaced by former analyst Ryan Brown.

Mr. Osterkamp said that the portfolio objective is to outperform the T-bill rate by 3 to 4% with low volatility, and the strategy is to maintain a neutral position as to sectors, long and short positions, and capitalization levels. He stated that the investment discipline includes forecasting expected excess returns and applying statistical and structural risk parameters to optimize the portfolio.

Chief Investment Officer and Portfolio Manager Dennis Bein characterized the portfolio as quantitative, with stocks reviewed on a daily basis and alpha generated by following recent trends. Mr. Bein reported that the fund returned 3.5% year-to-date, in line with its benchmark, negative 2.3% in 2009, and negative 6.8% in 2008.

Noting that historical correlations were skewed during the market downturn, Mr. Bein said that he sees a return to more normal correlations.

The Trustees discussed portfolio details with the Portfolio Manager, including Mr. Bein's use of stock prices to determine market expectations, and his use of factors such as cash flow to price, historical earnings to price, asset utilization, and price momentum to add value. Trustee Hufford asked about the effect of ETFs on market dynamics, and Mr. Bein said that ETFs caused increased market volatility.

Chair Richardson initiated a discussion of the market neutral class, and Mr. Dunne referred to the recent directive to reduce the class due to poor performance. Chair Richardson and several Trustees expressed disappointment in the performance of the group, in particular during market downturns, and Board Chair Phillips stated that it is difficult to justify continuing the investment. Trustee Hufford suggested reflecting on the matter prior to making a decision, and the Committee determined to continue discussions at the October Board meeting.

C. INVESTMENT CONSULTANT QUARTERLY REPORT

For period ending June 30, 2010

Callan Associates Investment Consultant Kevin Dunne reviewed portfolio performance, stating that for the second quarter the total fund return was negative 7.5% versus the Composite Benchmark return of negative 6.6%. For the first two quarters of 2010, the total fund return was negative 4.4% versus the Composite Benchmark return of negative 3.41%. For the fiscal year, the fund returned 8.88% versus the benchmark return of 10.87%. Over the past five years, the fund has underperformed the benchmark, but over longer time periods the fund has outperformed the benchmark, he reported.

Mr. Dunne attributed recent underperformance in part to late write-downs in the real estate portfolio, especially considering the fund's previous relative overweight to the sector compared to the peer universe median. Retirement Administrator Jeff Wickman commented that when comparing to our peers, MCERA's performance is likely to be distorted as a result of the late write-downs in real estate. Mr. Dunne continued with his portfolio review, explaining that the relatively new private equity portfolio is not expected to show positive returns yet. Domestic equities struggled over the second quarter, and the fixed income group broke even, he reported.

Trustee Hufford was excused from the meeting at 11:38 A.M.

Mr. Dunne reviewed the watch list noting the continued underperformance of the BlackRock investments. Board Chair Phillips expressed his discomfort with the firm's investment strategy and resources, and recommended considering use of an index investment. The Board will take up the question of continuing with BlackRock at the October meeting. Mr. Dunne reviewed the status of the remaining managers on the watch list.

Mr. Dunne provided a detailed analysis of fund performance for the past fiscal year, stating that domestic equities performed well, notably RCM, the small cap equity group performed best, and international equities returned close to the benchmark. Mr. Dunne

referred to the Dodge & Cox management team as strong, although performance suffered during the credit crisis; while Trustee Brenk voiced concern about the firm's performance, both Mr. Dunne and Board Chair Phillips expressed confidence in the Dodge & Cox management team. Mr. Dunne reported that the Wellington Management and Western Asset Management fixed income portfolios outperformed the benchmark over the past year.

Mr. Dunne concluded his review by updating fund performance and asset allocations through July and August 2010. He also reported completion of initial funding for new emerging markets manager Eaton Vance and curtailment of the market neutral program as planned.

D. OLD BUSINESS

1. Report on AXA Rosenberg

Callan Associates representative Mark Stahl reviewed current developments at AXA Rosenberg, stating that the firm has delayed providing an impact report defining the 'single-strategy' error. The parent firm set aside an \$84 million reserve in anticipation of legal action, he reported, and continues to lose assets.

2. Due Diligence Report – Dodge & Cox, August 20, 2010

No discussion accompanied the written review of the Dodge & Cox due diligence visit.

3. Due Diligence Report – BlackRock, August 2010

No discussion accompanied the written review of the Dodge & Cox due diligence visit.

E. NEW BUSINESS

1. Quarterly Portfolio Analysis, June 30, 2010

Trustee Bolger discussed the report briefly with Administrator Wickman. Clarifications will be included in how the numbers are generated in future reports.

F. INFORMATION

1. Clifton, Legislative Update, August 2010

There being no further business, Chair Richardson adjourned the meeting at 12:11 P.M.

Gerald Richardson, Chair

Attest: Jeff Wickman
Retirement Administrator