

## MINUTES

### INVESTMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

One McInnis Parkway, 1<sup>st</sup> Floor  
Retirement Board Chambers  
San Rafael, CA

November 4, 2010 - 9:00 A.M.

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**CALL TO ORDER** Chair Richardson called the meeting to order at 9:06 A.M.

**ROLL CALL** PRESENT: Bolger (early departure), Brenk, Gladstern, Haim, McFarland, Richardson, Phillips, Smith, Webb (non-voting)

ABSENT: Given (non-voting), Wofford

**A. OPEN TIME FOR PUBLIC EXPRESSION**

No public comment.

**B. MANAGER ANNUAL REPORTS**

1. Columbus Circle Investors – Small Cap

Stephen Weeks, Senior Vice President, Client Services, provided an overview of Columbus Circle Investors small cap growth portfolio. Mr. Weeks introduced Senior Managing Director and Portfolio Manager Clifford Fox, CFA who reviewed the portfolio's investment strategy.

Mr. Fox explained that the strategy of the small-cap growth fund is to invest in equities which are outperforming expectations as signaled by leading indicators such as higher price-to-earnings ratios. The Portfolio Manager gauges direction with three-year trend lines within five-year economic cycles.

Responding to Trustee Phillips' inquiry regarding stock selection, Mr. Fox characterized his strategy as early recognition of potential strength. Trustee Haim inquired as to Mr. Fox's view of the current investing environment, and he replied that a slow but steadily growing economy would be a favorable environment for the portfolio.

Trustee Gladstern asked if small cap equities' tendency to price volatility made maintaining diversification difficult, and Mr. Fox acknowledged the importance of early recognition of substantial changes in stock prices. In response to a question about the firm's performance over time, Mr. Fox attributed improved returns in recent years to changes in key personnel.

## 2. Abbott Capital – Private Equity

Abbott Capital Management, LLC, Managing Director of Marketing and Client Services Charles van Horne discussed the experience and stability of the firm's team. Mr. van Horne emphasized that six members of the investment team's decision makers are managing directors. Mr. van Horne stated that the firm's objective of achieving long-term returns while providing superior client service was based on a strategy of broad diversification in high-conviction portfolios.

Mr. van Horne defined the private-equity investment process as a circle, explaining that funds are diversified among Special Situations, Venture Capital and Growth Equity, Buyouts, and selected funds. Mr. van Horne introduced Timothy Maloney, CPA and Managing Director, who reported that the portfolio is currently 43% committed. Mr. Maloney characterized the current private equity environment as beneficial for limited partnership agreements.

Trustee Gladstern asked about institutional divestment from private equity, and Mr. Maloney responded that the firm does not have significant participation in the secondary market due to its price discipline.

Trustee Bolger initiated a discussion of the flow of money and valuation procedures, and Mr. van Horne explained that capital is called on a just-in-time basis, and that funds are verified with the fund's general manager, with evidence of ownership in the general partnership agreement. General managers follow guidelines on fair evaluation such as similar transactions, he said.

Trustee Phillips expressed an interest in the due diligence process, and Mr. Maloney outlined an extensive, in-depth process whereby the team visits in person with CEO's of a minimum of five companies in a given fund. When Mr. Phillips asked if a lack of capital is having a negative effect on the private equity product, Mr. Maloney stated that valuations have been affected, but that investors' increased selectivity is a positive development.

Investment Committee Chair Richardson inquired whether diversification may be compromised due to overlap, but Mr. van Horne assured the Chair that the portfolio is highly diversified with little overlap.

Trustees Haim and Webb indicated an interest in further discussions about the specific nature of the private equity portfolio, including a summary of each investment class. Mr. van Horne agreed to provide such a summary in future reports, and there was general agreement that further discussions of the private equity class would be productive, especially for new trustees.

### 3. Clifton – Futures Overlay

Benjamin Lazarus, Director of Sales and Marketing, and Jack Hansen, Chief Investment Officer and Portfolio Manager, provided a review of the Clifton Group Futures Overlay Program. Mr. Lazarus reported that the Minneapolis-based Clifton Group manages \$33.7 billion in assets, and its investments are comprised of exchange-traded futures contracts.

Portfolio Manager Jack Hansen stated that the annual return of the portfolio futures overlay program since inception was 4.05%. Mr. Hansen also said that the firm's investment process is expected to yield approximately \$6.5 million over a five-year period on \$30 million in cash.

Mr. Hansen explained that the overlay program neutralizes the opportunity cost of carrying cash on a daily basis by overlaying residual manager and transitional cash with futures. Specifically, he said that each day cash flow is determined and investments are managed accordingly, thus maintaining market exposure during portfolio rebalancing and changing investments.

Mr. Hansen summarized the benefits of Clifton's futures overlay program as providing improved returns, flexibility, increased efficiency, lower cost, and controlled risk. Since investments are exchange-traded, there is no counter-party risk exposure, he added. Mr. Hansen emphasized the firm's team approach, proprietary data, daily mark-to-market safeguards, and single clearing broker as additional positive features of the investment program.

### 4. Pathway Capital – Private Equity

James Reinhardt, Senior Managing Director, and Valerie Ruddick, Director, presented a review of the Pathway Capital Management, LLC, private equity fund.

The firm's strategy of active management of holdings by the general partners is an important factor in out-performing public equities over time, according to Mr. Reinhardt, as is the creation of efficient, highly selective portfolios. Mr. Reinhardt emphasized the stability of the investment team, the time-tested investment strategy and process, as well as strong long-term performance. Trustee Phillips observed that Pathway was an early proponent of the fund-of-fund concept.

Valerie Ruddick said that the PPEF 2008 portfolio's current holdings include 14 private equity partnerships, with the final number expected to be 28. Investments in buyouts, venture capital and special situations are diversified by investment strategy, manager, time, industry, and geographic region, she said, with no more than 5% invested in any one manager or partnership. Mr. Reinhardt stated that the initial public offering (IPO) and capital markets are improving.

Chair Richardson recessed the meeting for a break at 11:55 A.M., reconvening at 12:15 P.M.

## **C. INVESTMENT CONSULTANT QUARTERLY UPDATE**

For period ending September 30, 2010

For the quarter ending September 30, 2010, Callan Associates reported a total fund quarterly return of 9.5% (vs. 9.5% composite benchmark return). Mr. Dunne reviewed the portfolio and markets over the past year and provided returns over one, three, five, and ten-year periods in a report.

Mr. Dunne reported continued economic stimulus by the government to support the economy which is still burdened by debt. Mr. Dunne stated that allocation targets have been met during recent portfolio rebalancing. The new Eaton Vance emerging markets portfolio has performed well since inception. He noted that the international benchmark (MSCI ACWI IMI Index) now includes small cap and emerging markets. In response to Trustee McFarland, Callan Associates Executive Vice President Jim Callahan explained the structure of the fees in the private equity portfolio.

Mr. Callahan also observed that the portfolio's performance versus peer groups over the past year was impacted in part by late real estate write-downs and fees paid on private equity committed capital. Mr. Callahan's overall view is that the assumed rate of investment return is reasonable in view of the system's 30-year investment return; however, he allowed that achieving performance to the assumption rate will be challenging over the near term.

Trustee Phillips pointed out that the MCERA fund's 20-year rate of return is in line with its assumption rate, voicing confidence in the markets over the long term and emphasizing the need for a long-term perspective.

Trustee Gladstern offered the Spring Strategic Workshop as a forum for further discussion on the assumption rate. Trustee Bolger singled out risk as a key issue, and Mr. Callahan stated that the portfolio can be assessed for ways to reduce risk while maintaining returns.

Trustee Bolger was excused from the meeting at 1 P.M.

## **D. OLD BUSINESS**

### **1. Update on AXA Rosenberg**

AXA Rosenberg has submitted a report to the Department of Labor stating their view of how to assess the effect of the risk model coding error. MCERA is monitoring the results of the review in order to determine any potential action.

### **2. Due Diligence Report – RCM**

Trustee Phillips stated that MCERA representatives met with the two main portfolio managers from RCM. He stated that the firm is bullish on the equity markets and that he and Investment Committee Chair Richardson continue to be impressed with the firm and its extensive resources. He said that key-person risk was not a concern with RCM's team.

3. Due Diligence Report – AEW

Chair Richardson reviewed the meeting with the AEW investment team, reporting that the real estate firm is restructuring debt and that in the best-case scenario, it plans to return 100% of capital to investors over time. Trustee Phillips noted the unfortunate timing of the leveraged real estate portfolio investments.

4. Due Diligence Report – Numeric

Trustee Phillips stated that Numeric is a boutique firm with a quantitative strategy which includes fundamental analysis. The firm's performance has not met expectations and it is experiencing capital flight, he said. Further discussions on the market neutral space are planned, he added.

5. Due Diligence Report – Pyramis

Trustee Phillips stated that the due diligence visit with key Pyramis manager Tim Heffernan and others resulted in good impressions of the firm's resources and research capabilities, as well as the intellectual capacity of the investment team. Mr. Phillips was impressed with the firm's trading-desk software which included front-end compliance to control trading.

6. Due Diligence Report – State Street

Mr. Phillips reviewed the due diligence meeting with the State Street team. He reported that the firm has significant resources and is a major manager of passive investments vehicles. In MCERA's securities lending portfolio, one old investment remains which will reduce gains.

7. Due Diligence Report – Wellington

According to Trustee Phillips, Wellington Management Company has sophisticated compliance software and resources to support management of the fixed income portfolio. The discussion included expectations of interest rates going forward and alternative fixed income investments to U.S. treasuries. The planned transition to core-plus holdings involves adding non-U.S.-dollar investments as well as high-yield investments, according to Mr. Dunne.

**E. NEW BUSINESS**

1. Long-term Investment Performance Report – Callan Associates (see Agenda Item C)
2. Portable Alpha (market neutral) Strategies Discussion

Chair Richardson deferred discussion of Agenda Item E.2 until January.

There being no further business, Chair Richardson adjourned the meeting at 1:39 P.M.

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Gerald Richardson, Chair

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Attest: Jeff Wickman  
Retirement Administrator