MINUTES
INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION
One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA
March 10, 2011 - 9:00 A.M.

CALL TO ORDER
Chair Phillips called the meeting to order at 9:05 A.M.

ROLL CALL
PRESENT: Bolger, Brenk, Given (non-voting), Gladstern, Haim, McFarland, Phillips, Walsh, Webb (non-voting)
ABSENT: Richardson, Wofford

A. OPEN TIME FOR PUBLIC EXPRESSION
No public comment.

B. MANAGER ANNUAL REPORTS
Investment Consultant Kevin Dunne, CFA, Callan Associates Vice President, provided an introduction to the international equity portfolio.
The MCERA international portfolio is diversified in holdings style as to geographic area and value versus growth. Mr. Dunne characterized the international portfolio as core-based, with an expanding presence in the emerging markets. As such, its benchmark is now the broader MSCI ACWI ex-US IMI Index.

1. Morgan Stanley – International Equity
Morgan Stanley Executive Director Teri Martini stated that the portfolio management team headed by Peter Wright and William Lock emphasizes strategy and fundamental research. Team members are stock-specific sector specialists.

Ms. Martini defined the investment philosophy as using fundamental analysis to identify superior franchises at good value, with the goal of achieving long-term returns while preserving capital. As of December 31, 2010, the portfolio returned 6.26% net of fees, versus the 7.75% MSCI EAFE Index return. Since inception in 2001, the portfolio has exceeded the index return.

The discussion turned to relative currency values and their effect on regional returns. Currency hedges between the Euro and the pound detracted from 2010 performance, according to Ms. Martini. Additionally, under-weights to the benchmark in metal and consumer discretionary stocks also hindered performance.
Trustee Haim inquired about Japanese equity holdings, and Ms. Martini explained that geographical diversification of Japanese firms has diminished the effect of the value of the yen on returns of those equities. Opportunities in Japan are confined to industrial and banking firms, she said. The discussion included portfolio allocations to Europe and emerging markets. Ms. Martini expressed concern about sovereign debt reduction and political risk.

Trustee Phillips initiated a discussion of the currency trading process in view of comingled assets. Ms. Martini said that currency trades are executed at best price when not mandated to flow through MCERA’s custodian, and results are analyzed to determine performance.

2. **Eaton Vance – Emerging Markets**

Kristin Gasper, Vice President, Senior Relationship Manager for Eaton Vance reviewed the Eaton Vance management structure. Ms. Gasper said that the Tax-Managed Emerging Markets Fund was inaugurated in mid-2006 by Parametric Portfolio Associates which, upon being acquired by Eaton Vance in 2003, continues to operate independently.

Chris Sunderland, Vice President, Director of Equity Product Management said that the portfolio strategy is an alternative, structured, rule-based approach with extensive diversification which reduces volatility by avoiding over-concentration. Exposure to low-correlation frontier markets has lowered risk, he said. Investments are selected based on market cap and liquidity. The result of the strategy is that the portfolio is underweight the index in larger emerging markets countries, and conversely, overweight the index as to smaller countries. Investments are concentrated in the top five economic sectors in each country. Trustee Haim inquired about political risk and high oil prices, and Mr. Sunderland said that the strategy relies on the disciplined and unemotional process which benefits over time from volatility across predetermined country and sector allocations.

Trustee Bolger sought assurance as to the adequacy of stock liquidity and custody, and currency trading. Mr. Sunderland replied that no investments are made unless daily liquidity and adequate custody is available, and there is oversight over the custodian of currency settlements.

Trustee Phillips pointed out that sovereign debt may be less of an issue in emerging markets than developed markets. Mr. Sunderland advised that with discipline and patience, the emerging markets portfolio will generate alpha with less risk.

3. **Pyramis – International Small Cap**

Sue Curran, Pyramis Senior Vice President and Relationship Manager, said that the portfolio management team remains stable. Chris Steward, Institutional Portfolio Manager, emphasized the proprietary fundamental research process with extensive global market coverage. The strategy is active with variation from the benchmark expected due to relatively less diversification. Analyst recommendations for changes to model portfolios are reviewed daily for possible active management. Currency hedging is not employed so as to retain the benefit of international diversification over time.
Mr. Steward explained that the portfolio is constructed to be region-neutral and sector-neutral to its benchmark. He reviewed detailed technical research tools which provide for efficient analysis of factors specific to each investment. Qualitative value-based stock selection is balanced with quantitative risk management. As of December 31, 2010, the Pyramis Select International Small Cap portfolio returned 21.9% before fees.

The discussion included management and oversight of currency trades, which are aggregated for cost efficiency and executed by competitive bid.

4. **Artisan – International Fund**
Artisan Partners Managing Director Lori Johnson reviewed the firm’s management structure. The global equity portfolio managers are Mark Yockey and Barry Dargan, whose compensation is performance-based. She said that the international fund’s strategy is based on price sensitivity and extensive research, with the goal of sustainable growth over the long term. As of December 31, 2010, the portfolio returned 6.18% net of fees, versus the 7.75% MSCI EAFE Index return.

Ms. Johnson reviewed country and sector weightings in the relatively concentrated portfolio. Demographics are the revenue growth theme. The portfolio is underweight the index in metals and mining; however, opportunities in industrialization and commodities are areas of interest, according to Ms. Johnson. Trustee Brenk inquired about the energy sector, and Ms. Johnson stated that investments in specific energy companies are being considered.

Chair Phillips directed deliberations to **Agenda Item D.1**.

**D. OLD BUSINESS**

1. **Update on AXA Rosenberg**
Retirement Administrator Jeff Wickman discussed the AXA Rosenberg coding error and subsequent compensation report. AXA has provided MCERA with a summary of the methodology that will be used by Cornerstone to calculate the compensation for MCERA. When the final computation is received MCERA will authorize Callan Associates to review the methodology and results.

Chair Phillips recessed the meeting for lunch at 11:42 A.M., reconvening at 11:55 A.M. Mr. Phillips directed deliberations to **Agenda Item E.1**.

**E. NEW BUSINESS**

1. **Custody Process Presentation – State Street**
Client service representative Travis Calabio said that as custodian State Street Global Services receives, delivers, and is responsible for the maintenance of securities in custody. The firm keeps books of record and is a source of accounting information. Mr. Calabio detailed valuation of holdings in response to Trustee Bolger’s query.

Representative Paula Troy reviewed key custody functions such as monitoring of trades and settlement, collection of income, monitoring corporate actions and proxy voting, and filing and monitoring class actions.
Ms. Troy reviewed custody methods, observing that physical custody is becoming less common than book-entry electronic depository records. State Street provides on-line access to records and provides a monthly report to MCERA.

Other matters discussed included tracking holdings of securities on loan, class action monitoring, and management of cash pools for cash sweeps.

Chair Phillips directed deliberations to Agenda Item C.

C. INVESTMENT CONSULTANT QUARTERLY REPORT
For period ending December 31, 2010

Callan Associates reported that MCERA’s Total Fund returned +7.0% for the fourth quarter of 2010, 0.3% ahead of the Fund’s benchmark return and ranked in the 18th percentile of the Callan Public Fund Universe. For the quarter, the Fund’s domestic equity and fixed income portfolios contributed to relative returns while the real estate, international equity and private equity portfolios slightly detracted from relative returns.

Chair Phillips requested an analysis of the international portfolio by the investment consultant. Callan Associates Executive Vice President Jim Callahan said that the geographical move of Morgan Stanley portfolio manager Peter Wright has been monitored closely, with the result that he remains comfortable with the Morgan Stanley investment team. The portfolio has performed as expected over time, and notably has provided capital preservation during down markets. He said the portfolio anchors the international portfolio with conservative large-cap holdings and a long-term focus. The Artisan portfolio is designed to complement the Morgan Stanley portfolio with a growth strategy and attendant increased volatility. Because Artisan Partners is looking to build global research capability, Callan Associates is monitoring whether that effort may compromise portfolio performance.

Mr. Callahan said that the Eaton Vance portfolio’s exposure to frontier countries as an attractive attribute. Mr. Callahan addressed Trustee Bolger’s concern as to the stability and liquidity of frontier markets by explaining that the Eaton Vance portfolio takes advantage of opportunities to provide liquidity in those markets.

As emerging markets are expected to be the source of global growth over the next 10 to 15 years, increasing emerging market exposure is a positive development, according to the Mr. Callahan. While historically MCERA had high international allocation relative to peers, the allocation is now normalized. Still, the fund remains underweight emerging markets relative to the global opportunity set, according to the investment consultant. Mr. Phillips pointed out that dedicated emerging markets portfolio managers have the advantage of investing in smaller companies. Mr. Callahan reviewed political and currency risks associated with the emerging markets class.

Pyramis provides value due to its superior resources in proprietary in-depth securities research, said Mr. Callahan. Chair Phillips supported that sentiment based on the recent
due diligence visit to Pyramis which revealed the investment team’s skill in focusing on investment research while relying on the Fidelity affiliation for administrative functions.

Trustee Bolger asked whether high-frequency trading affected the equity markets. One effect may be increased short-term volatility, he said, which elongates the time frame to assess portfolio performance. Chair Phillips encouraged further monitoring of the high-frequency trading factor.

The discussion turned to inflation and its effect on the investment portfolio. While recent concerns have surfaced that economic stimulus may result in inflation, Mr. Callahan does not expect an unusual spike in inflation based on that factor. Callan Associates 10-year inflation assumption is 2.5%. Mr. Callahan reviewed potential inflation hedges, which include real estate and equities. Callan Associates will provide a capital markets analysis at the Strategic Planning Workshop.

There was discussion about assets such as credit default swaps, and Mr. Callahan said the portfolio had minimal exposure to such assets.

Mr. Callahan reviewed the changing status of ING Clarion ownership, observing that it remains highly leveraged.

Chair Phillips directed deliberations to Agenda Item E.2.

2. Foreign Currency Conversion – Callan Associates
   Chair Phillips observed that the foreign currency trading process was discussed within the previous investment manager presentations. There was further discussion about foreign currency transaction costs. Mr. Callahan noted that the investment policy requires best execution.

There being no further business, Chair Phillips adjourned the meeting at 1:15 P.M.

Jim Phillips, Chair

Attest: Jeff Wickman
Retention Administrator