

MINUTES

INVESTMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

May 5, 2011 - 9 A.M.

CALL TO ORDER

Chair Phillips called the meeting to order at 9:07 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Burroughs, Gladstern, Haim,
McFarland, Phillips, Webb (non-voting), Wofford

ABSENT: Richardson, Given (non-voting)

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

B. MANAGER ANNUAL REPORTS

1. Domestic Equity Overview – Callan Associates

Callan Associates Investment Consultant Kevin Dunne summarized the strategy of each domestic equity manager, beginning with the Dodge & Cox large cap portfolio, which is comprised of fewer than 90 stocks selected for fundamental value using a team approach. The RCM portfolio holdings of 50 to 75 large cap stocks are selected based on quality and growth characteristics. The small cap Dimensional Fund Advisors portfolio has a long-term value focus and contains 1,200 to 1,400 issues. The small cap Columbus Circle Investors portfolio holds under 100 stocks based on growth potential and positive performance, diversified across sectors and investment themes.

Mr. Dunne provided an analysis of domestic equity holdings based on market capitalization and investment style such as value versus growth. He reported that the domestic equity class has returned 8% net of fees over the past 15 years.

2. Columbus Circle Investors – Small Cap Growth

Columbus Circle Investors Senior Vice President and Relationship Manager Stephen Weeks reported that the portfolio is outperforming the benchmark, with the \$44 million initial investment by MCERA in November 2009 currently valued at \$80 million. During 2010, the portfolio returned 39% versus 29.1% for the Russell 2000 Growth Index. Mr. Weeks said that the investment team remains stable and meets daily to consider possible action.

Trustee McFarland joined the meeting at 9:38 A.M.

Mr. Weeks explained that the strategy uses bottom-up stock selection based on themes and positive momentum. Once key drivers of each company's business are identified, analysts project potential performance based on expectations. Risk is spread across themes to maintain diversification. Mr. Weeks reviewed the top ten holdings, which are contained to represent no more than 20 to 35% of the portfolio. The portfolio is currently overweight technology and consumer discretionary and underweight financials and health care.

Mr. Weeks sees signs that profits are being realized from the recent market rebound, as the small cap space has had excellent returns.

3. RCM – Large Cap Growth

Peter Sullivan, Relationship Manager with RCM, said that the foundation of the firm is research, which is structured on a global grass-roots network as well as fundamental analysts. The ownership structure, portfolio management, and research staff are stable, he said.

Senior Portfolio Manager Peter Goetz addressed portfolio performance, reporting a calendar year 2010 return net of fees of 12.86% versus the Russell 1000 Growth index return of 16.71%. Mr. Goetz attributed relative underperformance to financial holdings, and to the fact that technology holdings have been out of favor and are selling at historically low price-to-earnings ratios. Also, lower quality financial firms enjoyed outperformance during 2009 and 2010 and thus impacted the portfolio relative returns.

Mr. Goetz said that the strategy is to invest in firms with sustainable growth and also in cyclical growth sectors. The portfolio manager characterized the stock market as having more volatility than normal, but he continues to see opportunity and undervaluation in the large cap space.

Chair Phillips recessed the meeting for a break at 10:50 A.M., reconvening at 10:58 A.M.

4. Dimensional Fund Advisors – Small Cap Value

Sonya Park, Vice President with Dimensional Fund Advisors, discussed succession planning at the firm, and reviewed expansion of research and investment teams. Portfolio Manager and Vice President Grady Smith reviewed the portfolio strategy of broad diversification across small cap value stocks. Specifically, holdings are selected from 1,500 stocks in the smallest 10% of the market universe as to size, and the lower 25% as to value based on price and book value. This process results in a smaller weighted average market cap than the benchmark Russell 2000 value index.

Mr. Smith reviewed the qualitative screening process applied to eligible securities. Also, he discussed momentum trading strategies, which take advantage of the best opportunities available at a given point in time. Mr. Smith reviewed portfolio returns, observing that the portfolio outperformed the benchmark seven out of the last ten years. Over the twelve months ending March 31, 2011, the net-of-fee return was 29.1% versus 20.6% for the Russell 2000 Value Index.

5. Dodge & Cox – Large Cap Value

Dodge & Cox Vice President and Portfolio Manager Kevin Johnson reported that the firm and its management team were stable, with succession planning in place for the transition of the current CEO. The firm maintains an independent staff of analysts to conduct research, and uses a team approach to decision making during weekly meetings of the Investment Policy Committee. Four sector committees focus on technology-media-telecom, healthcare/consumer, finance/REITs, and industrial/materials.

The portfolio strategy is to remain invested in solid business franchises which are undervalued based on fundamental research. The average holding period exceeding five years reflects the long-term approach. Mr. Smith discussed individual portfolio holdings and weightings relative to the Russell 1000 Value Index. In the twelve months ending March 31, 2011, the portfolio returned 12.4% versus the Russell 1000 Value Index return of 15.2%.

Chair Phillips recessed the meeting for lunch at 12:09 P.M., reconvening at 12:42 P.M. Mr. Phillips directed deliberations to **Agenda Item D.1.**

D. NEW BUSINESS

1. Dodge & Cox Global Equity presentation

Kevin Johnson provided background on the Dodge & Cox Global Stock Fund. The fund was established in May 2008 to eliminate geographic restrictions in response to the globalization of the economy. To support this concept, Mr. Johnson presented S&P 500 Index company sales statistics which reveal that as of March 2011 42% of sales come from outside of the U.S., versus 30% in 2003. The portfolio is diversified by sector and region, and is managed with a long-term view. Holdings include well-established companies with a median market capitalization of \$30 billion. Responding to trustee inquiries, Mr. Johnson discussed the firm's management of currency transactions and controls across countries.

The Committee determined to conduct further discussions on moving to global equity at the Fall Strategic Planning Workshop.

C. INVESTMENT CONSULTANT PERFORMANCE UPDATE

For period ending March 31, 2011

Kevin Dunne and Jim Callahan from Callan Associates provided a report on the capital markets and performance during the quarter. Mr. Dunne reviewed portfolio performance and relative weightings to benchmarks and target ranges over the past quarter as well as longer time frames. In the quarter ending March 31, 2011, the total fund returned 4.31% versus a composite benchmark return of 3.96%. Portfolio adjustments include the completion of the transition of market neutral assets to the S&P 500 Index, as well as continued allocations to the Eaton Vance Emerging Markets portfolio.

According to Mr. Callahan, the private equity portfolio returns are negative due to the "J-curve" effect of the initial investment phase, with positive returns expected to materialize

over a period of 10 to 15 years. The different investment styles of the two private equity managers balance one another for diversification in the space, according to Mr. Callahan.

Discussion of **Agenda Item D** continued.

2. Core Real Estate Investment Manager search

Consider and discuss initiation of search for core real estate investment manager

Mr. Callahan presented investment alternatives for the real estate portfolio for discussion on moving forward with a new real estate investment manager. Chair Phillips reflected that the decision to move forward with a new real estate manager is reasonable and deserves thoughtful consideration.

Mr. Callahan provided an overview of potential real estate investment vehicles and classes, explaining that office, multi-family, industrial, and retail comprise core real estate investments which may be diversified across geography and industry. In contrast, value-added real estate generally involves upgrading properties with leverage with the goal of capital appreciation. Mr. Callahan observed that REIT structures can be quite specialized and may produce more volatile return patterns than private real estate holdings.

The Board agreed to move forward with a search for a new core real estate manager. There was additional discussion about optimal real estate target allocations, and a consensus to continue discussions at the July Investment Committee meeting.

3. Large Cap Equity Structure Analysis - Callan Associates

Mr. Dunne presented alternatives for active versus passive management for consideration and discussion. Recent changes include the transition of the BlackRock and market neutral assets to the S&P 500 Index. With these changes the large cap allocation moves from 100% active management to 80% active/20% passive. Mr. Dunne summarized the characteristics of two potential alternatives for allocations to active versus passive management, one being 60% active and 40% passive, and the other, 50% active and 50% passive.

The advantages and disadvantages of each mix were discussed, and the optimal mix of active and passive management was considered given market and portfolio conditions. While acknowledging Chair Phillips' point that Dodge & Cox has outperformed passive management by 3% over fifteen years, Mr. Callahan said that there is an advantage to maintaining the status quo in that the index fund provides inexpensive liquidity to complete the private equity funding commitment. In conclusion, Mr. Callahan advised maintaining current positions for the reasons stated and to minimize transaction costs, while continuing to monitor the active/passive allocations going forward.

There being no further business, Chair Phillips adjourned the meeting at 2:17 P.M.

Jim Phillips, Chair

Attest: Jeff Wickman
Retirement Administrator