CALL TO ORDER  Chair Phillips called the meeting to order at 9:03 A.M.

ROLL CALL

PRESENT:  Bolger, Burroughs (early departure), Given, Gladstern, McFarland, Phillips, Richardson (early departure), Webb, Wofford

ABSENT:  Brenk, Haim

A. OPEN TIME FOR PUBLIC EXPRESSION
Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

No public comment.

B. MANAGER ANNUAL REPORTS

1. Sector Overview – Real Estate – Callan Associates
Callan Associates investment consultant Kevin Dunne

Callan Associates real estate specialist Sara Angus, CAIA, reported that the MCERA real estate portfolio returned 4.19% (versus the 16.03% NCREIF Property Index return) over the 12 months ending March 31, 2011, and returned 2.23% (versus the 3.36% NCREIF Property Index return) for the quarter ending March 31, 2011.

Trustee Given joined the meeting at 9:08 A.M.

The relatively low leverage of MCERA’s real estate holdings affected performance since leveraged real estate portfolios led the advance. Ms. Angus stated that the apartment class is leading a rebound from the real estate downturn of the prior two years. Due to increasing allocations by plan sponsors into core real estate, liquidity has improved and exit queues have diminished since their peak in 2009, she said.

Real estate sector and geographical allocations were reviewed by Ms. Angus, who also provided an overview of the management structure, fund strategies, and performance of the four real estate managers.
2. **ING Clarion**

Clarin Partners is the new name for the former ING Clarion Lion Properties Fund. The original management team remains in place and has purchased a significant ownership share in the company, according to Bill Krauch, the firm’s client services representative. Clarion Partners’ strength rests on regional research from offices dispersed throughout the country, according to Mr. Krauch.

Portfolio Manager Steve Hansen stated that the Fund’s core strategy of active investing based on risk adjusted return and cash flow has remained the same since 2000. The Fund’s largest geographic allocation is to Washington, D.C., and total portfolio occupancy is 92%. Operating income has improved since the declines in 2008 and 2009, with leverage currently at 42%, according to Mr. Hansen. Through March 31, 2011, the Fund returned 23.13% after fees over 12 months (versus the 19.94% NCREIF-ODCE return) and 5.96% over the last quarter (versus the 4.01% NCREIF-ODCE return).

3. **AEW**

Dave McWhorter, AEW Director of Investor Relations and Portfolio Manager Marc Davidson reviewed the AEW Partners V Fund. Mr. McWhorter reported that the management team and portfolio strategy are stable. Mr. Davidson stated that the goal of the Fund is to return invested capital over the next several years. The Fund’s return is improving and as valuations approach prior highs, the portfolio manager is selling into the current market. Mr. Davidson reviewed specific property developments and current properties on the market across property types. Hotels represent the largest holdings at 45% of the portfolio. Debt restructuring continues for 2011 and 2012 maturities, according to the manager.

Chair Phillips inquired about the real estate market going forward, and Mr. Davidson replied that he foresees an uneven recovery, with office properties presenting the best current opportunity. Mr. Davidson reviewed capital distribution and capital calls for the Fund to date.

4. **RREEF**

Michelle Wells, Director of Client Relations for RREEF, and Managing Director Frank Garcia, Portfolio Manager, reviewed the RREEF America III Fund. Mr. Garcia stated that investments are diversified with office space representing the largest holdings. Mr. Garcia reviewed development progress of key portfolio holdings including one in Silicon Valley. A New York Riverside apartment property has improved returns this year, he said.

Mr. Garcia reported that the Fund was restructured during 2009 and currently operates as closed-end. Due to maturing debt and high leverage, distribution of capital will be deferred indefinitely. Any return of capital would be on a pro-rata basis, according to Mr. Garcia. In summary, Mr. Garcia stated that his current strategy involves stabilizing the portfolio, restructuring and paying down debt, and selling assets.
Trustee Burroughs was excused from the meeting at 10:30 A.M.

5. **Woodmont**

Ron Granville, Chairman of Woodmont Realty Advisors, reviewed the private core real estate portfolio consisting of 8 properties in northern California. Mr. Granville stated that property valuations remain problematic as transaction volume remains relatively low and lenders extend loans. The recent downturn in the real estate and financial markets has led to more prudent underwriting and lending standards, he said. On a positive note, Mr. Granville sees strong interest in properties in valued locations and signs of improved employment in the West Bay corridor of the San Francisco area. Mr. Granville reviewed capitalization rates across the property spectrum in response to Trustee Bolger’s inquiry.

Mr. Granville projected a 9.52% return through June 30, 2011, for the portfolio and reviewed internal rates of return over time. The total occupancy rate is 92%. The portfolio’s three largest property types are office, multi-family, and flexible use. Cash flow is projected to be 5% across the unleveraged portfolio.

Bob Rouse, President of Woodmont Realty Advisors, highlighted the sale of the Heritage Lane office building in Sacramento, which sold at a premium to its appraised value. Mr. Rouse’s goal is to maintain stability by retaining tenants with service and property improvements, which he reviewed for different holdings.

Mr. Granville expects an extended economic recovery period and characterized the core Bay area as stable, with intellectual-capital companies in social media and gaming driving the current market in San Francisco. He stated that the real estate market will continue to favor coastal markets in high demand with entry barriers.

Upon Trustee Gladstern’s inquiry, Mr. Granville said that current investment opportunities are selective due to low capitalization rates. Chair Phillips requested the Chairman’s opinion of the housing and apartment market, and Mr. Granville said the multi-family would be the better opportunity.

A tour of Woodmont properties will be arranged.

Chair Phillips redirected deliberations to **Agenda Item B.1., Sector Overview – Real Estate – Callan Associates**.

At Board Chair Gladstern’s request, Ms. Angus summarized the current status of each real estate portfolio by reviewing capital calls and distributions to be expected. She expects that AEW will return all capital over the life of the fund. Due to maturing debt, no return of capital should be expected from the RREEF portfolio through 2012, and future return is unpredictable, she said. Chair Phillips observed that the RREEF and AEW portfolios represent less than 5% of the real estate portfolio.

Chair Phillips directed deliberations to **Agenda Item E.3**.
E. NEW BUSINESS

3. Core Real Estate Investment Manager Search
   Update on search for new Core Real Estate manager

   Sara Angus reviewed the core real estate managers selected by Callan Associates for
   the Board’s consideration. The managers selected are Cornerstone Real Estate
   Advisors, Heitman Capital Management, JPMorgan, and UBS Realty Investors.
   Deciding factors included organizational stability and funds with conservative
   strategies and relatively low leverage. The managers will present to the Board at the
   September Investment Committee meeting.

   Responding to questions from Trustee Gladstern, Ms. Angus said that high fees and
   taxes are detriments to global real estate investing. Chair Phillips commented on the
   risk level of the Clarion Lion Fund given its core strategy. Ms. Angus noted that the
   three leveraged real estate managers are on the watch list.

   Chair Phillips directed deliberations to Agenda Item C.

C. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE
   UPDATE
   For period ending March 31, 2011

   Kevin Dunne presented the quarterly report of portfolio performance through March 31,
   2011. For the one year period through March 31, 2011, the total MCERA portfolio
   returned 13.09% (versus the 13.29% composite benchmark return). For the quarter ending
   March 31, 2011, the total portfolio returned 4.32% (versus the 3.83% composite
   benchmark return). In addition, Mr. Dunne reviewed updated performance numbers
   through May 31, 2011, showing further increases in Fund value.

   Fund performance has been driven by growth equities according to Mr. Dunne. The fixed
   income portfolios have recovered from the financial crisis and are essentially in line with
   their benchmarks. The low leverage in the real estate portfolio, which has enhanced
   stability over the long term, resulted in a short-term performance lag to peers and the
   benchmark as leverage enhanced recent returns. Options for additional real estate
   allocations are being addressed.

   Mr. Dunne reviewed risk-adjusted returns and portfolio sector weightings. Prior changes
   to Fund allocations include the transition of market neutral assets to an S&P 500 index
   fund. A potential move from the RCM growth equity portfolio to the better-performing
   RCM Large Cap Select Growth fund is under consideration, and Mr. Dunne reviewed the
   differences in strategies, holdings, and performance of each fund. Chair Phillips
   suggested that the Board consider alternative index products that would be available from
   SSgA at an upcoming meeting.

   Trustee Richardson was excused from the meeting at 12:15 P.M.
Chair Phillips recessed the meeting for lunch at 11:54 A.M., reconvening at 12:39 P.M. and directing deliberations to NEW BUSINESS, Agenda Item E.5.

5. Core Plus Strategy
   Discuss transition to the Core Plus Strategy at Wellington

The Board-approved transition from the Wellington Core to the Core Plus fixed income portfolio has been planned since 2007. With clarification to contractual language regarding derivatives transactions recently completed, Administrator Wickman felt it was timely to review the original decision for moving to a Core Plus strategy.

Mr. Dunne stated that Callan Associates recommended moving the Wellington fixed income portfolio from core to core plus to achieve higher risk-adjusted returns. Mr. Dunne reviewed the strategies, characteristics, and performance of the two investment products over time. The core plus strategy includes more investment options, such as high yield issues, foreign debt and emerging market debt, which add to volatility while enhancing returns. He expressed confidence in Wellington’s ability to manage the allocation decisions with regard to the plus sectors and allowing them additional discretion to express their views with respect to duration and yield curve positioning.

Wellington Relationship Manager Sue Bonfeld explained that a proposed addendum to the investment agreement addresses an exchange format for derivatives. Ms. Bonfeld stated that the move to core plus would be fee neutral. Chair Phillips requested a review of factors affecting over and underperformance of the core and core plus strategies to one another over time. Ms. Bonfeld responded that a lack of liquidity in non-agency jumbo mortgages caused underperformance for the core plus strategy during the financial crisis in 2008. In the 2009 rebound, the core plus strategy outperformed core and continues to do so due to emerging markets debt holdings and security selection. Currency risk is neutralized by hedging every trade, she advised.

In weighing the additional risk versus the expected increased return of the core plus strategy, Chair Phillips expressed agreement with the transition to the core plus strategy. There was discussion about the current unfavorable bond market conditions, and Ms. Bonfeld said that the bond manager is reducing credit and non-agency exposure due to concerns about the market and sovereign debt issues. Given the long term focus of the Fund, Trustee Wofford agreed with the move to the core plus strategy.

Chair Phillips directed deliberations to Agenda Item D.1.

D. OLD BUSINESS
   1. Due Diligence Report
Chair Phillips presented a report on the due diligence visit to Callan Associates, MCERA’s investment consultant. MCERA relies on Callan to provide direct services for the Board and staff according to Mr. Phillips. The visit resulted in a favorable impression with all questions satisfactorily answered.

In his written report, Mr. Phillips states that he, Trustee Richardson and Mr. Wickman met with the Callan Associates Chief Executive Officer and President, in addition to consultants Jim Callahan and Kevin Dunne. They were provided with a review of the structure of the firm, which uses three oversight committees to support its team of consultants. In addition, they met with the Director of Capital Markets who presented his research team and discussed the process for preparing quarterly capital market reviews.

The meeting included a review of MCERA’s asset classes by Callan’s investment specialty consultants, and a discussion of performance reporting with the performance measurement and evaluation team. Finally, the MCERA visitors were provided with a tour and introductions to additional staff members.

Continuation of E. NEW BUSINESS follows.

1. **Investment Consultant Quarterly Report**

Consider and discuss modifications to the quarterly investment report including the development of a summary report.

Mr. Wickman said that a report to summarize the extensive quarterly review has been discussed, and Mr. Dunne indicated that customizing reporting such as an executive summary can be provided. The Trustees discussed their individual preferences, with Trustee Webb expressing his appreciation for the report as currently configured. Based on discussions, Chair Phillips appointed Trustees Brenk, Given, Gladstern, and Webb to an ad hoc committee to consider investment reporting alternatives and report its findings to the Investment Committee at its September meeting.

2. **Education Session on Real Return - Callan Associates**

As a follow-up to the capital markets discussion at the March 2011 Strategic Planning Workshop, Callan Associates presented a review of real return strategies for the Board’s consideration. These investments represent avenues to potentially increase return and further diversify the Fund.

Mr. Dunne explained there is increasing awareness that defining investments by their purpose allows for acknowledgement of performance differences in sub-classes from the broad asset class level. Furthermore, there is an expansion of the range of investable products in sub-asset classes for alternative investments in both equity and fixed income form. These may be structured within hedge funds or private equity, for example. One purpose-driven asset class is Absolute Return which Callan Associates believes should be considered to diversify risk. Another is the Inflation Hedge class which includes real estate, timber, farmland, commodities, and private
energy. The Opportunistic class includes distressed debt and takes advantage of dislocations in the market.

In discussing MCERA’s current and target asset allocations, Mr. Dunne observed that equities are the primary drivers of risk and return. He showed how potential rebalancing to different purpose driven asset classes could be structured, and pointed out that most public funds include an allocation to the Absolute Return class. Real return benefits include hedging inflation, diversification, and potential alpha-generation. Mr. Dunne listed Inflation-Linked Bonds, Absolute Return, Timberland, Real Return and Opportunistic Fixed Income strategies as worthy of further consideration.

Trustees Bolger and Phillips discussed commodities assets and indices with Mr. Dunne. The relative liquidity of real return assets was discussed, and Mr. Dunne observed that private real asset funds are closed end and therefore have a long lead time for entry.

4. Ad Hoc System Risk Committee Report
Mr. Wickman reported that SF Sentry is collecting data in order to perform analytics on system risk. The Committee will meet in early August to review the results.

There being no further business, Chair Phillips adjourned the meeting at 2:24 P.M.

______________________________  ________________________________
Jim Phillips, Chair  Attest:  Jeff Wickman
Retirement Administrator