

MINUTES

INVESTMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

March 15, 2012 – 9 A.M.

CALL TO ORDER Chair Richardson called the meeting to order at 9:04 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Cooper, Gladstern, Haim, McFarland, Piombo (safety alternate), Richardson, Stevens, Webb (retiree alternate)

ABSENT: Given

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 – International Equity – Callan Associates / Uvan Tseng & Andy Iseri, International Equity Research

Callan Associates investment consultant Uvan Tseng introduced colleague Andy Iseri, Callan's Head of International Equity Research, to present the sector overview. Mr. Iseri reported that as of December 31, 2011, the Fund's international portfolios returned 6% annualized over ten years, exceeding the MSCI ACWI ex-US IMI benchmark by approximately 1.5%. During 2011, the international markets were negatively affected by the Japan earthquake and resulting nuclear crisis, political changes in the Middle East, and European Union sovereign debt issues, leading to a negative 8.87% return for the calendar year that nevertheless outperformed the benchmark by approximately 5.4%.

International holdings are actively managed, and balanced across capitalizations and style with a slight small cap bias. The Artisan large cap growth portfolio focuses on fundamental analysis for stock selection. The Morgan Stanley large cap value portfolio is designed to provide downside protection. Pyramis is a risk-controlled small cap portfolio performing close to the benchmark. The Eaton Vance portfolio uses an analytical model based on the volatility and correlation of emerging market securities.

2. Morgan Stanley – International Equity / Nancy Jean Norton & Christian Derold
Nancy Jean Norton, Executive Director with Morgan Stanley, introduced Christian Derold, Executive Director and international equities portfolio manager, who presented the large cap value portfolio review. Mr. Derold stated that the bottom-up strategy relies on fundamental research of each company's intrinsic value and innovation profile. Position size is driven by the confidence level of value with cash flow being emphasized. Mr. Iseri commented that performance is moderate in positive markets and superior in weak markets, as reflected in the portfolio's 4.74% outperformance of the MSCI EAFE Index negative 12.14% return in 2011. Since inception the portfolio's annualized return of 7.14% exceeds the benchmark by 1.9%.

Trustee Cooper was excused from the meeting at 10:19 A.M.

Mr. Derold reviewed top ten holdings and discussed the defensive nature of portfolio positioning, with the overweight in consumer staples buffering losses in financials and materials during 2011. The portfolio manager favors peripheral European markets such as Portugal and Ireland; Western Europe and Japan represent the two largest geographic holdings. Trustee Bolger discussed the trade settlement process with Ms. Norton.

3. Eaton Vance – Emerging Markets / Kristen Gaspar & Brian Dillon
Eaton Vance Relationship Manager Kristin Gaspar emphasized the importance of the firm's experience in implementing the analytical strategy of the emerging markets portfolio. Brian Dillon, Institutional Portfolio Manager, explained that a structured, rules-based, quantitative model is designed to take advantage of the low correlation and high volatility of the emerging markets asset class. As of January 31, 2012, the portfolio's annualized returns are negative 7.92% over 12 months (versus negative 6.64% for the MSCI Emerging Markets Index), and 3.75% since the 08/23/10 inception (versus the benchmark's 4.52%).

Mr. Dillon described the strategy as a contrarian model with disciplined portfolio construction rules and systematic rebalancing to maintain exposure to major economic sectors. Country selection accounts for 80% of returns, and risk reduction is achieved by diversification and statistical measures of country interactions.

In discussing the trustees' remarks, Mr. Dillon stated that over 24 years volatility is lower than the emerging market index. Mr. Dillon also commented on fees, including redemption fees, and the effect of political risk on market liquidity.

Chair Richardson recessed the meeting for a break at 10:52 A.M., reconvening at 11:04 A.M.

4. Pyramis – International Small Cap / Melissa Moesman and Chris Steward
Melissa Moesman, Pyramis Client Services representative, introduced Institutional Portfolio Manager Chris Steward to present the portfolio review. Mr. Steward stated that the core small cap equity portfolio is actively managed by portfolio manager Rob Feldman. The strategy is based on qualitative stock selection and quantitative risk management. For the year ending December 31, 2011, the portfolio returned

negative 13.39% (versus negative 14.49% for the S&P Developed ex-US Small Cap Index; and since inception, 1.5% on an annualized basis (versus the benchmark's negative 0.82%). The portfolio is recovering from difficult market conditions during 2011.

Trustee Cooper rejoined the meeting at 11:20 A.M.

Mr. Steward discussed the investment process including proprietary fundamental research to forecast earnings, sell disciplines, and monitoring liquidity and trade execution. Portfolio positioning is close to the benchmark. In responding to trustee inquiries he discussed European market conditions and monetary policy, and emphasized the importance of the Chinese economy on capital markets for the foreseeable future.

5. Artisan – International Fund / Sean Howley

Artisan Partners representative Sean Howley reviewed the large cap growth portfolio, reporting that two research analysts were selected as associate portfolio managers to assist Portfolio Manager Mark Yockey. The strategy identifies structural global themes, including demographics, with investments based on sustainable business models and valuation to reduce risk in growth positions.

Three major headwinds were identified by Mr. Howley for international markets in 2011: European debt, the slowing Chinese economy, and the U.S. federal deficit. Significant declines in financials and materials led to a negative return of 6% for calendar year 2011, though that still outperformed the MSCI EAFE Growth Index by 6%. The fund has returned an annualized 8.9% since inception, outperforming the benchmark by over 2.1% on an annualized basis.

Contributors and detractors from market sector performance were reviewed, with consumer staples and Hong Kong real estate notable performers in 2011. Consumer discretionary and financials have been trimmed, and the portfolio is underweight Europe, with the exception of Germany, and the Pacific Basin. There is strong growth in emerging markets.

Mr. Howley addressed European sovereign debt and the relaxing of capital controls in China that he expects will reduce currency imbalances around the world. He responded to Trustee Bolger's interest in fees and Mr. Haim's inquiry about Mr. Yockey, who he said travels extensively and is expected to remain with the firm for the long term.

C. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE

For period ending December 31, 2011

Mr. Tseng presented the quarterly report and performance update for the Fund. He reported that significant global events in 2011, including political changes in the Middle East, the Japanese earthquake, the European Union sovereign debt crisis, and the downgrade of U.S. debt, caused the market correlations to tighten to a record high and trade as if it were a single stock, making differentiation by active managers difficult. In the fourth quarter, positive GDP and consumer confidence signals spurred a rally. Fund allocations are within targets, and returns are improving as a return to fundamentals drives market performance. For the year ending December 31, 2011, the Fund returned an annualized 0.87% (versus the Composite Benchmark return of 1.13%). The fourth quarter return was 6.59% (versus the Composite Benchmark return of 6.33%).

Periods of underperformance to the benchmark pointed out by Trustee Brenk have been overcome by outperformance of benchmark since inception, according to Mr. Tseng. Due to the defensive structure of the portfolio, periods of underperformance are to be expected that will resolve over time, according to Mr. Iseri.

Mr. Tseng provided a detailed review of each portfolio in the Fund, and he engaged in a discussion of fixed income strategy in response to Trustee Brenk's suggestion to reduce the allocation. Major short term tactical shifts in the fixed income space, he advised, are not recommended due to the long term strategy of the Fund. In the context of the Fed's current low interest rate policy, Mr. Tseng explained that the fixed income portfolio's managers have strategically maintained a shorter duration versus the benchmark. .

Funding for the new Cornerstone core real estate portfolios is expected to commence in April, and later for UBS due to the longer entry queue. In responding to Trustee Stevens' inquiry about the RREEF redemption queue, Mr. Tseng explained that, if it were to exceed 40%, a vote for liquidation would occur.

Private equity is funded at 2.5%, with a target allocation of 8%. Representatives are available periodically for consultation with the trustees.

D. OLD BUSINESS

1. Due Diligence

Consider and discuss investment manager and related site visit schedule for 2012

The discussion was deferred to the next meeting.

E. NEW BUSINESS

1. Large Cap Equity Review – Callan Associates
Historical analysis of large cap equity managers

No discussion.

There being no further business, Chair Richardson adjourned the meeting at 1:08 P.M.

Gerald Richardson, Chair

Attest: Jeff Wickman
Retirement Administrator
