CALL TO ORDER
Investment Committee Chair Richardson called the meeting to order at 9:00 A.M.

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

ABSENT: None

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

None

B. MANAGER ANNUAL REPORTS
1. Sector Overview – Domestic Equity – Callan Associates
   Callan Associates Executive Vice President Jim Callahan introduced new representative Anne Heaphy who reviewed her background and experience. Uvan Tseng of Callan Associates presented an overview of the domestic equity portfolio, characterizing it as essentially style-neutral with respect to capitalization and ratio measures such as price/earnings. When looking at performance, Mr. Callahan indicated that three-year performance is most applicable. Underperforming strategies have been removed and this period represents the current overall fund structure. The cumulative return for the group is 25.25% over the three years ending March 31, 2012, outperforming the benchmark Russell 3000 by 0.92%. As of April 30, 2012, the year-to-date return is 12.79% (versus 12.13% for the benchmark).

Trustee Given joined the meeting at 9:09 A.M.

Over the past ten years the domestic equity portfolio has outperformed the public fund peer group, according to Mr. Tseng. Mr. Callahan discussed the risk-return profile and weighted average market cap, which is slightly less than the benchmark, with Trustee Brenk.
The Columbus Circle small cap growth portfolio strategy attempts to capture the momentum of strong companies that are exceeding investors’ expectations. Callan Associates reported that as of March 31, 2012, the Columbus Circle small cap growth portfolio’s cumulative return for three years is 31.99% (versus 28.36% for the Russell 2000 Growth Index), and 2.59% for one year (versus 0.68% for the benchmark). As of April 30, 2012, the portfolio returned 15.26% year-to-date. The portfolio shows outperformance to its benchmark over all time frames.

The Dimensional small cap value portfolio has a research-driven strategy that uses a quantitative model and team approach to invest in value stocks over the long term. As of March 31, 2012, the Dimensional small cap value portfolio’s cumulative return for three years is 33.5% (versus 25.36% for the Russell 2000 Value Index), and negative 2.64% for one year (versus negative 1.07% for the benchmark). As of April 30, 2012, the portfolio returned 11.75% year-to-date.

The Dodge and Cox large cap value portfolio bases stock selection on fundamental research that focuses on earnings. As of March 31, 2012, the Dodge and Cox large cap value portfolio’s cumulative return for three years is 23.82% (versus 22.82% for the Russell 1000 Value Index), and 3.06% for one year (versus 4.79% for the benchmark). As of April 30, 2012, the portfolio returned 11.94% year-to-date.

The RCM large cap select growth portfolio bases investments on high quality growth securities combined with a disciplined valuation methodology. As of March 31, 2012, the RCM large cap growth portfolio’s cumulative return for three years is 20.70% (versus 23.73% for a composite benchmark), and 4.93% for one year (versus 9.37% for a composite benchmark). As of April 30, 2012, the portfolio returned 13.01% year-to-date.

2. Columbus Circle Investors – Small Cap Growth
Senior Vice President Stephen Weeks, institutional marketing representative with Columbus Circle Investors, presented a review of the structure and management of the firm. The portfolio has nearly doubled since inception in November 2009, and has an average market cap of approximately $2.5 billion, he stated.

Cliff Fox, Portfolio Manager, discussed the portfolio’s outperformance against the benchmark Russell 2000 Growth Index. He explained that the strategy captures favorable market cycles as different sectors come in and out of favor, with the key being employment of a discipline that avoids the market’s tendency to revert to the mean. Mr. Fox reviewed the bottom-up process for stock selection, diversification measures, and the dynamics of selected holdings. In summary, he stated that the strategy is to invest in good companies with positive momentum that are exceeding investor’s expectations.

3. Dimensional Fund Advisors – Small Cap Value
Walid Shinnawi, Dimensional Fund Advisors (DFA) relationship manager, stated that the investment philosophy of the small cap value portfolio is based on research that shows that small cap equities with low valuations outperform over the long term. A team approach is used to design the broadly diversified holdings.
Portfolio Manager Grady Smith discussed DFA’s approach which is based on academic research on sources of risk and return in the market that show that small cap value equities outperform growth over time. The strategy does not consider fundamental analysis, but instead targets a broad class of securities within defined ranges. Mr. Grady distinguished the portfolio characteristics from the Russell 2000 value index, stating that the target universe is the smallest 10% of U.S. value companies with some exclusions such as REITs and utilities.

Trustee Bolger was excused from the meeting at 10:17 A.M.

In response to Chair Richardson’s inquiry, Mr. Grady stated that holdings are weighted according to market capitalization. Trading efficiencies are achieved by accumulating positions during favorable pricing periods over time.

4. Dodge & Cox – Large Cap Value
Dodge and Cox Vice President and Portfolio Manager Kevin Johnson reviewed the strategy of the large cap value portfolio that emphasizes bottom-up fundamental research and low turnover to invest in equities over the long term. Performance was affected by the equity selloff during 2011 and by holdings such as Hewlett Packard that reported lower-than-expected earnings, he reported. Mr. Johnson reviewed other contributors and detractors to performance. Dodge and Cox’s contrarian approach led to adding to financial holdings that have performed well this year.

In responding to matters of interest to the trustees, Mr. Johnson stated that additional qualitative data such as regulatory changes will be considered to improve performance. The firm maintains regular communication with corporate management and votes proxies according to the interests of long-term shareholders.

In summary, Mr. Johnson emphasized the importance of earnings by offering a study of the S&P 500 that shows earnings drove returns. He also presented historical data showing increasing returns after periods of underperformance, such as the price-earnings compression that reduced capital market returns over the past ten years.

Trustee Bolger rejoined the meeting at 11:15 A.M.

Chair Richardson recessed the meeting for a break at 11:11 A.M., reconvening at 11:17 A.M.

5. RCM – Large Cap Select Growth
Peter Sullivan, RCM Relationship Manager, referred to the portfolio’s transition from core growth to select growth late in 2011, and introduced the portfolio manager and Chief Investment Officer for RCM Scott Migliori who presented the performance review. Mr. Migliori reviewed changes to the portfolio management team, reporting that one departing portfolio manager was replaced by prior analyst Karen Hiatt, and David Jedlicka was recently promoted to portfolio manager.

Mr. Migliori stated that the bottom up investment strategy relies on fundamental research to select high quality growth securities, in concert with an investment thesis
formed around a product. Mr. Migliori discussed the negative effect of the European debt crisis on the capital markets during 2011, when defensive dividend-yielding securities performed relatively well. In comparing the portfolio structure to the benchmark, Mr. Migliori indicated that an overweight to oil was a factor in recent underperformance but is expected to produce favorable results over the long term.

In discussing macroeconomic events, Mr. Migliori stated that corporate profits are not likely to show significant improvement, and sovereign debt levels in Europe continue to present a challenge. Efforts to improve performance include personnel changes and new compensation incentives for analysts.

Chair Richardson directed deliberations to Agenda Item E.1.

E. NEW BUSINESS
   1. Portfolio Rebalancing – Clifton, Jack Hansen
      Education presentation on futures overlay portfolio rebalancing

      Mr. Wickman invited Jack Hansen, Clifton portfolio manager, to present the firm’s automatic rebalancing features to the Board. Mr. Hansen reported that the current futures overlay program has added 19 basis points to portfolio performance by tightening liquidity on a daily basis. Cash levels across the portfolio determine market exposure through futures that provide better-than-cash returns.

      Expanding the futures overlay with automatic rebalancing, according to Mr. Hansen, would add value through a buy-low and sell-high strategy to trim or add to positions that vary from targets by a determined amount. During periods of significant market dislocations, realignment of exposures consistent with long term goals is accomplished in an efficient and timely manner, using defined ranges to avoid overreaction to short term conditions. Mr. Callahan explained that rebalancing controls risk by staying close to strategic allocation targets and controlling portfolio drift. He stated that research shows that, regardless of the timing and type of rebalancing, the risk-adjusted return of the portfolio is enhanced.

      Mr. Hansen detailed the daily process of monitoring cash positions and investing in exchange-traded futures to rebalance back to policy targets. Other benefits of using futures to rebalance include lower transaction costs, minimal credit risk, and fewer portfolio manager disruptions, according to Mr. Hansen.

Trustee Given was excused from the meeting at 12:21 P.M.

Trustee Stevens asked about market conditions which would require additional liquidity. Mr. Callahan explained that passive equity investments in the portfolio serve as ready source of cash. In summary, Mr. Callahan supported the automatic rebalancing program as a self correcting mechanism that would eliminate the need for tactical rebalancing. Mr. Callahan suggested that the staff and consultants work with Mr. Hansen to develop a rebalancing model that would be presented at a future Committee meeting.
Chair Richardson recessed the meeting for a working lunch at 12:40 P.M., reconvening at 12:55 P.M.

Trustee Webb was excused from the meeting at 12:50 P.M.

C. INVESTMENT CONSULTANT PERFORMANCE UPDATE

All active managers have outperformed their benchmarks in 2012, according to Mr. Callahan. Callan Associates reported that year to date returns through April 30, 2012, are 12.79% for domestic equity, exceeding the benchmark by 0.66%; 14.12% for international equity, exceeding the benchmark MSCI ACWI ex-US IMI Index by 4.18%; and 2.77% for fixed income, exceeding the Barclays Capital Aggregate Index by 1.36%. Leading performance, according to Ms. Heaphy, are cyclical sectors, financials and consumer discretionary. The Pacific basin and emerging markets have performed well during the first quarter of 2012, but Europe remains tenuous due to ongoing debt issues. Fixed income managers performed well due to over-weights in corporate, high yield and financial issues. The pace of private equity funding slowed due to the market dislocations in 2011. Trustee Gladstern inquired about the fee structure related to using a fund-of-fund model for private equity. Mr. Callahan described Callan’s preference for using a fund-of-fund vehicle due to the level of expertise required to manage other fund models.

D. OLD BUSINESS

1. Due Diligence
   Consider and discuss investment manager and related site visit schedule for 2012

   Chair Richardson deferred the matter to the July Investment Committee meeting.

Chair Richardson directed deliberations to Agenda Item E, NEW BUSINESS.

2. Long-Term Strategic Asset Allocation (Action)
   Discuss current asset allocation and take possible action to adjust allocations to fixed income and/or public equities.

   Mr. Callahan reviewed the capital markets expectation analysis presented at the March 2012 Strategic Workshop. He emphasized the higher-than-peer target allocations to equities and real estate that result in a more volatile return pattern. The relatively high equity allocation has resulted in periods of underperformance, including the previous ten years, which he referred to as “the lost decade” for equities. Trustee Brenk inquired whether the small cap equities should be increased. Mr. Callahan noted that the portfolio is already overweight to the asset category relative to peer group investments in small cap.

   The allocation to fixed income has been reduced over time to 26% which is below the public peer group, according to Mr. Callahan. The capital market environment is expected to produce muted returns with heightened volatility over the next ten years. Based on Mr. Callahan’s assessment of the market conditions and concern for MCERA’s existing exposure to equities, he recommended the Committee consider reducing some of the current equity risk in the portfolio. He advised maintaining fixed income levels for capital preservation and adding diversifiers to the equity
allocation to enhance risk-adjusted return. Alternative investment strategies may include covered calls, global tactical asset allocation (GTAA), and risk parity that the investment consultant offered to discuss in depth at a future meeting.

Mr. Callahan discussed topics of interest to the trustees such as non-U.S. fixed income investments, the 7.5% investment return assumption, dividend-paying stocks, trimming non-performing asset classes, and the potential for modest increases to the small cap and/or emerging markets allocations.

Chair Richardson recommended scheduling a separate Investment Committee meeting to consider Mr. Callahan’s advice to diversify the portfolio by considering absolute return strategies discussed above.

There being no further business, Chair Richardson adjourned the meeting at 2:12 P.M.

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Gerald Richardson, Chair        Attest: Jeff Wickman
                                     Retirement Administrator