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

ROLL CALL  PRESENT: Bolger, Brenk, Cooper, Given, Gladstern, Richardson, Stevens, Webb

ABSENT: None

MINUTES

It was M/S Richardson/Webb to approve the February 16, 2012, Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

Chair Bolger initiated the Ad Hoc Financial Statement Notes Committee, appointing Trustees Gladstern, Stevens, and Webb as members.

A. OPEN TIME FOR PUBLIC EXPRESSION
   No public comment.

B. OLD BUSINESS
   1. Administrative Budget FY 2011/12 Quarterly Review
      Consider and review budget for quarter ending March 31, 2012

Retirement Administrator Jeff Wickman presented the current fiscal year administrative budget as of March 31, 2012, for review by the Committee. At the third quarter mark, expenses are 66% of the budget for the fiscal year. Mr. Wickman reviewed the items charged to professional services in response to Trustee Richardson’s inquiry. Charges for the new retiree payroll service provider, ASI, were discussed. ASI is performing in a professional and responsive manner, according to Assistant Administrator Michelle Hardesty. Mr. Wickman was asked about employee benefits, which currently show as being well under budget. He pointed out that benefit costs were budgeted consistent with Marin County policy.

The recent quarter included expenses for training three new trustees, the off-site strategic workshop, and previously approved moving expenses for the Assistant Retirement
Administrator. During the quarter three ergonomic assessments were conducted for staff. The assessments resulted in the purchase of new office furniture that will help prevent on-the-job injuries. Mr. Wickman also noted that payment for items related to One McInnis Parkway included a new key card striker and fail-safe systems for doors in the bathroom hallway.

Since MCERA has assumed the retiree payroll processing function from Marin County, Trustee Gladstern inquired about a reduction to inter-departmental charges. Mr. Wickman indicated that IT charges include other services that are expected to continue, subject to reassessment in the new fiscal year.

In reviewing the non-administrative budget items Mr. Wickman noted that retiree payroll represents the largest single expense. He noted that legal, information technology and investment management fees are also paid from the investment fund. Due to the complexity of investment policy issues, Ms. Bolger recommended that MCERA consider alternatives for legal expertise on investment matters.

Chair Bolger directed deliberations to New Business, Agenda Item C.1.

C. NEW BUSINESS
1. System Risk Quarterly Review – San Francisco (SF) Sentry
   Presentation and discussion of preliminary system risk analysis

   David Hansen of SF Sentry presented the system risk analysis for the first quarter of 2012. Mr. Hansen outlined key macro factors in the quarter such reduced volatility as measured by the Volatility Index (VIX), and the unusual 48% appreciation of Apple common stock. Based on the interest of the trustees, the VIX and its relationship to the capital markets will be discussed in depth at a future meeting. Another measure of volatility is the Value at Risk (VaR) analysis, according to Mr. Hansen.

   Mr. Hansen stated that each quarterly review will focus on one element of the portfolio, in this case, cash positions. According to SF Sentry representative Tim Holmes, the Wellington portfolio cash level is notably higher than the zero-to-4% range of other portfolios. Since cash is a drag on performance, MCERA should consider discussing cash holdings and trends with their managers.

   The equity stress analysis resulted in no significant change from the prior quarter, according to SF Sentry representative Scott White. The rise in equity values contributed to reduced risk as measured by the VaR, although recent volatility in the capital markets will reduce that effect. The portfolio is well diversified, according to Mr. White, with no single position representing a significant risk to the Fund. Top VaR diversifiers such as US Treasuries and bonds were reviewed.

   The equity portfolios show consistency across quarters as expected, and continue to drive portfolio risk, Mr. Hansen stated. In reviewing performance, he observed that Pyramis lagged international portfolios during the quarter. An analysis of asset classes and
capitalization levels shows an orientation to highly liquid large cap equities. The value of top ten equity holdings benefited from the rise in value of Apple Computer.

The fixed income portfolios were reviewed by Mr. Holmes, who observed an underweight in US Treasurys and agency paper relative to the Barclays Aggregate Bond Index benchmark, and overweight in corporate issues. Average duration is near the benchmark. The Western Asset portfolio is becoming more core-plus oriented, and the Wellington portfolio continues to transition to core plus.

Viewing the overall Fund from the system risk perspective provides additional insight into the portfolios to encourage meaningful dialogue with portfolio managers about their strategies, according to Mr. Wickman.

Chair Bolger recessed the meeting for a break at 10:35 A.M. and reconvened at 10:42 A.M., directing deliberations to New Business, Agenda Item C.2.

2. **Fiduciary Role of Investment Managers**
   Consider and discuss delegation of fiduciary duty to managers

   Mr. Wickman reported that staff and counsel had completed a review of MCERA’s investment management contracts looking to see if the appropriate fiduciary acknowledgements had been received by each manager. The two new real estate managers are not included in this analysis but instead will be reviewed separately. In her research on the matter, Counsel Dunning found some form of fiduciary representation by 15 of the 17 managers. MCERA has not received fiduciary acknowledgement from its two mutual fund manager. She noted that the language in the Investment Policy Statement (IPS) has for a long time presumed the condition of acknowledging the fiduciary role of managers.

   According to Ms. Dunning the primary fiduciary duties of trustees are prudence and loyalty. To the extent that the trustees delegate discretion over the investment of trust funds to investment managers, they should also require the managers to acknowledge the fiduciary responsibility they assume as a result of that delegation.

   Chair Bolger recommended retaining an investment attorney to develop a model investment management agreement. Ms. Dunning stated that templates for contract language and terms should be provided in the RFP process for potential new managers. New investment manager agreements developed by Mr. Wickman and county counsel for Dodge and Cox and Wellington may serve as a starting point for new model agreements.

   Mr. Wickman listed three potential follow-up steps:
   1. Pursue discussions with Artisan and Eaton Vance regarding their fiduciary responsibilities.
   2. Identify any other risks in the current agreements.
   3. Secure investment manager agreements with the two new real estate managers.
Trustee Given recommended developing a specific policy prior to negotiating with investment managers. Ms. Dunning reviewed the status of individual managers, indicating that fiduciary acknowledgments and related terms in most of those agreements are acceptable, but that the Woodmont and RREEF agreements should be reviewed further. She also recommended follow up with Eaton Vance and Artisan. Mr. Wickman advised that staff and counsel will contact the two mutual funds regarding the fiduciary acknowledgement and report back to the Investment Committee.

Discussions will continue through an ad hoc investment counsel services committee, comprised of Trustees Bolger, Gladstern and Haim. The Chair also noted that counsel and staff should look at the language related to prohibited transactions to ensure it can be enforced with the managers.

It was M/S Given/Gladstern to move discussions on the fiduciary role of investment managers and development of investment manager agreements to the Governance Committee to develop related recommendations to the Board. The motion was approved by unanimous vote.

Chair Bolger directed deliberations to Old Business, Agenda Item B.2, at 11:24 A.M.

2. Quarterly Checklist
   Consider, review and updates on the following:
   a. MCERA travel and event related expenses

      Mr. Wickman reviewed travel expenses which the Committee found to be reasonable.

   b. Other expenses per Checklist guidelines

      Other expenses, including food for Board meetings and publications, are regularly reviewed by the Retirement Administrator.

   c. Variances in the MCERA administrative budget in excess of 10%

      No discussion.

   d. Reconciliation of MCERA administrative accounts

      The retirement administrator met with the Director of Finance to develop an approach for the reconciliation of administrative accounts.

   e. Vendor services provided to MCERA

      No discussion.

   f. MCERA staffing status

      No discussion.
g. Internal controls, compliance activities and capital calls

   No discussion.

h. Audits, examinations, investigations or inquiries from governmental agencies

   The audit engagement letter has been signed and the auditors will begin work at
   MCERA in July.

i. Other items from the Retirement Administrator related to risk and finance

   MCERA’s claim for the AXA Rosenberg settlement was submitted before the end of
   April, according to Mr. Wickman. MCERA will be notified of its share of the total
   $65 million settlement.

   MCERA uses Marin County Risk Management insurance broker, IOA Insurance
   Services, to purchase property insurance for the nine investment properties owned by
   MCERA and managed by Woodmont Real Estate Services. This year when IOA put
   the properties out for bid the cost of the insurance increased as a result of additional
   assessed earth movement risk for the Marina Bay property and the renewal of the
   three-year pollution insurance policy.

j. Form 700 summary submittal

   The Committee reviewed the Form 700 summary presented by Counsel Dunning
   listing the economic interests reported by MCERA trustees, staff, and consultants.

   It was M/S Webb/Richardson to adjourn the meeting at 11:45 A.M. The motion was approved
   by unanimous vote.

Bernadette Bolger, Chair                      Attest: Jeff Wickman, Retirement Administrator