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

ROLL CALL   PRESENT: Bolger, Brenk, Cooper, Given, McFarland, Piombo (alternate safety), Shaw (ex-officio alternate), Smith, Stevens, Webb (alternate retiree)

ABSENT: Gladstern

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. OLD BUSINESS
None.

Chair Brenk directed deliberations to Agenda Item D.1.

D. NEW BUSINESS
1. State Street Securities Lending Program Presentation
Presentation and review of securities lending program

The review of the State Street Securities Lending Program was rescheduled for September Investment Committee meeting.

2. Asset Allocation Implementation Plan
Consider transition of assets to implement asset allocation

Chair Brenk introduced this subject explaining that the Investment Committee adopted revisions to asset allocations at its May meeting. Jim Callahan of Callan Associates presented an implementation plan that rebalances the Fund and transitions to the new asset allocation targets, which are: reduce domestic equity from 33 to 32%; increase international equities from 21% to 22% by increasing international small cap and emerging markets and reducing international large caps; reduce fixed income from 26% to 23% and add a new asset category of global fixed
income targeted to 5.75%; increase real estate from 12% to 15%. Small and large cap domestic equities that are currently overweight will be a source of funds to balance the portfolio.

To reach the new real estate target of 15%, Mr. Callahan recommended allocating $100 million from the S&P 500 Index to current core real estate managers AEW and UBS in equal portions of $50 million each. Funding the new AEW commitment will likely occur in late 2013/early 2014; for UBS, the queue is four to five quarters out. In response to Trustee Stevens’ inquiry, Mr. Callahan explained that REITs are essentially equities and therefore too volatile to serve as transition vehicles for assets targeted for AEW and UBS.

For international equities, Mr. Callahan recommended reducing the current overweight in the Artisan and Morgan Stanley large cap portfolios to fund the increased target for the Pyramis small cap portfolio. Mr. Callahan recommended reducing each manager by $11.5 million to fund a new $23 million commitment to Pyramis. To fund the new emerging market commitment Mr. Callahan recommended reducing overweights to Columbus Circle and Dimensional Fund Advisors.

Mr. Callahan expects the process of determining a manager for the new global fixed income asset category to develop over the course of several months, with initial consideration of candidates at the September Investment Committee meeting. The likely partial funding source for the global fixed income allocation will be the current domestic fixed income portfolios, he said.

Trustee Given initiated a discussion about using the S&P 500 Index to fund international small cap in order to move closer to the 70% large cap / 30% small cap target balance for domestic equity. In response, Mr. Callahan indicated a preference for using S&P 500 Index assets as the most efficient and less complex method of funding sizeable ongoing commitments to private equity and real estate managers.

Mr. Wickman requested direction to staff from the Investment Committee on Mr. Callahan’s recommendations for managing the transition of assets. Specifically, Mr. Wickman recommended for the near term using the S&P 500 Index to fund the current two core real estate managers to attain the new 15% target for real estate, and secondly, to fund the increase to the Pyramis international small cap portfolio by trimming the Artisan and Morgan Stanley international large cap portfolios.

Chair Brenk and members of the Investment Committee agreed with Trustee Smith’s recommendation to direct the Retirement Administrator to proceed with the transition of assets as recommended by Mr. Callahan.

3. Consider and take possible action on Amendment to Investment Policy Statement to adjust asset classes and allocations (Action)
Mr. Wickman presented updates to the Investment Policy Statement that adjust asset allocations and targets as presented and approved at the May 2013 Investment Committee meeting.

It was M/S Given/Cooper to approve the amendment to the Investment Policy Statement to adjust asset classes and allocations as submitted. The motion was approved by unanimous vote.

Mr. Wickman noted that further revisions to the Investment Policy Statement regarding Watchlist provisions were approved by the Board at the July 10, 2013, Regular Board meeting.

Consider and take possible action to select interview candidates for emerging markets manager

Mr. Wickman reviewed the decision by the Investment Committee at its May 9, 2013 meeting to request that Callan Associates conduct a manager search for the additional $34 million commitment to the emerging markets asset class. Mr. Callahan presented an analysis of seven potential managers either to manage additional emerging market assets or serve as a stand-alone manager. The current Eaton Vance/Parametric Tax Managed Emerging Markets Fund, he observed, has a 2% redemption fee that has been a concern for the Investment Committee in the past. The Eaton Vance/Parametric Emerging Markets Collective Investment Trust that uses strategy in very similar approach and has no redemption fee is one of the candidates presented for consideration. Mr. Callan introduced Andy Iseri, Callan Associates Vice President and head of Global International Research, to assist with the topic of the manager search.

Mr. Callahan recommended that Eaton Vance be engaged to manage the additional allocation to emerging market assets based on its strategy of broad diversification and favorable risk/return profile. Mr. Callahan added that Eaton Vance is diligent in doing capacity studies with regard to liquidity and determining a limit to their asset base. Trustee Given expressed a preference for exiting the current Eaton Vance vehicle due to the redemption fee issue. Mr. Callahan observed that the redemption fee is desirable in that it protects investors from expenses associated with short-term trading.

Trustee Bolger recommended the Committee consider Dimensional Fund Advisors (DFA) as emerging market manager. Trustee Smith requested a comparison of the strategies of Eaton Vance and DFA. Mr. Iseri compared the market performance and style of Eaton Vance with DFA, highlighting Eaton Vance’s disciplined rebalancing strategy, frontier markets exposure, diversification, and low volatility. Eaton Vance’s frontier markets exposure is a significant advantage over emerging market funds such as DFA and Vanguard that have little or no frontier market exposure, he stated. Furthermore, Mr. Iseri explained that Eaton Vance’s quantitative, rules-based process and disciplined rebalancing results in lower volatility than other emerging market managers. Mr. Callahan agreed with Mr. Iseri’s assessment, adding that the
Eaton Vance approach of taking advantage of volatility in a disciplined and repeatable way is a powerful strategy.

Mr. Iseri continued reviewing candidates and responding to trustee questions. He outlined the strategies of candidates who would be complementary to the current Eaton Vance portfolio and those who would serve as stand-alone managers, such as AQR and MFS that he said has a good research platform. In response to Trustee Bolger’s inquiry, Mr. Iseri reviewed the performance patterns, excess return correlation, and stock overlap of the JP Morgan vehicle in comparison with Eaton Vance and DFA. Trustee Bolger engaged Mr. Iseri in a discussion of the effect of volatility over time. Mr. Iseri explained that Eaton Vance would provide beta value if volatility in the class were to recede. In response to Trustee Stevens’ inquiry, Mr. Iseri explained that the emerging markets asset class adds favorable growth and diversification characteristics to the Fund.

Trustee Given was excused from the meeting at 10:45 A.M.

Chair Brenk invited a motion on whether to stay with Eaton Vance for the additional emerging markets allocation, or select a new manager(s) to interview.

It was M/S Cooper/McFarland to retain the current Eaton Vance/Parametric Tax Managed Emerging Markets Fund and make an additional investment in the Eaton Vance/Parametric Emerging Markets Collective Investment Trust, using Columbus Circle and Dimensional small cap portfolios as a source of funds.

AYES:        Brenk, Cooper, McFarland, Shaw, Smith, Stevens
NOES:        Bolger
ABSTAIN:     None
ABSENT:      Given, Gladstern

5. Ad Hoc Woodmont Committee Report
Update on ad hoc committee meeting

Mr. Wickman reported on the meeting with the Ad Hoc Woodmont Committee. Mr. Wickman indicated that he requested the Ad Hoc Committee be formed after reviewing the existing contract and fee structure with Woodmont. He reported that the Committee discussed the service that Woodmont provides to MCERA which as defined in the current contract as being investment advisor and property management. MCERA is currently paying an asset-based fee for both services. The Committee discussed the types and age of properties owned by MCERA, expressing a desire to have a long-term strategy toward buy and hold and future acquisitions. The Committee also discussed that the Board was acting as fiduciary making the discretionary decisions about properties. Responding to a question from the Committee Mr. Callahan noted that it is highly unique for a Board to be a discretionary manager. In the past, Trustee Smith observed, Woodmont offered
discretionary buy-sell proposals for the Board to consider. Mr. Callahan recommended that the Committee should have a discussion about whether they desired a discretionary manager or non-discretionary manager as a first step.

Based on discussions, Chair Brenk directed the Retirement Administrator to proceed with the review of the Woodmont contract and a presentation by Callan Associates about the question of discretion or non-discretion for consideration at the September Investment Committee meeting.

Trustee Cooper was excused from the meeting at 11:46 A.M.

Chair Brenk recessed the meeting for lunch at 11:46 A.M., reconvening at 12:19 P.M.

Chair Brenk directed deliberations to Agenda Item C.

C. **INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE**
   For quarter ending March 31, 2013

Mr. Callahan introduced Anne Heaphy, Callan Associates Vice President, to present the quarterly portfolio review. Ms. Heaphy provided a review of capital markets, stating that U.S. equity markets performed well during the first quarter of 2013, supported by favorable housing markets and an improving job market. Emerging markets lagged in the period due to slowing growth in Brazil and China. In the fixed income sector, yields on the 30-year U.S. Treasury are rising from historically low levels.

Ms. Heaphy reported that the market value of the Fund as of March 31, 2013 rose to $1.7 billion, returning 6.01% net of fees for the quarter (versus 5.60% for the composite benchmark). As of March 31, 2013, the Fund ranked in the top quartile of the Callan Public Fund Universe. For the fiscal year ending June 30, 2013, Mr. Callahan expects a return near 13.8% and a total Fund value near $1.7 billion. During the quarter both UBS and AEW core real estate portfolios were funded by MCERA.

For the quarter ending March 31, 2013, on a gross basis, the fixed income managers returned 0.61% (versus -0.12% for the Barclays Aggregate), domestic equities returned 11.00% (versus 11.07% for the benchmark), and international equity managers returned 5.80% (versus 3.57% for the MSCI ACWI ex-US IMI Index).

In her review of target asset allocations, Ms. Heaphy noted that domestic equity is expected to remain overweight in the interim as transitions to new target allocations occur. She stated that fixed income is moving toward the new target and domestic and international equity allocations that are high relative to peers contributed to recent and multi-year relative performance. Also contributing to quarterly performance were the manager effect and asset allocation.
Ms. Heaphy provided updates on key personnel, reporting that Portfolio Manager Frank Garcia of RREEF resigned – in his place Jay Miller will oversee the fund which is in distribution mode and therefore not a major concern. The resignation of Paul Jablansky, Head of Structured Products at Western Asset, is also not a major concern as Callan Associates believes the firm’s substantial and experienced team can successfully manage the portfolio during the transition to a successor. Mr. Callahan observed that one of Western Asset’s strengths is investment grade credit that may be a consideration when reviewing the fixed income portfolio structure. At Morgan Stanley, Dirk Hoffman-Becking will replace departing Portfolio Manager John Goodacre in September. Callan Associates believes the depth of the Morgan Stanley team will support the transition to the successor and will monitor the firm’s performance going forward.

Ms. Heaphy reported that the market capitalization of the Fund is small-cap weighted relative to the benchmark as designed, with sector allocations in line with the index. There was discussion about the relative correlation among equity classes that presents a challenge for active managers to outperform.

Ms. Heaphy’s review included sector and regional allocations and an active share analysis that compares portfolios with benchmark holdings. For the international portfolios, Mr. Callahan explained that the 77% overall active share is beneficial for active managers.

Trustee Given returned to the meeting at 1:21 P.M.

Ms. Heaphy gave an overview of the private equity portfolio that in its early stage consists of 64 partnerships with $200 million committed and $70 million invested as of December 31, 2012. Sector allocations were reviewed, with Mr. Callahan noting that the best performing class in private equity has been distressed debt and special situations. The portfolio has limited exposure to these sectors.

Ms. Heaphy presented and reviewed the flash performance summary for the second quarter ending June 30, 2013, that listed most domestic equity class returns in the 3% range and exceeding benchmark returns, with internationals pulling back.

There being no further business, Chair Brenk adjourned the meeting at 1:28 P.M.

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Gregory Brenk, Chair               Attest: Jeff Wickman
Retirement Administrator