CALL TO ORDER
Acting Chair Bolger, serving at the request of Trustee Brenk, called the meeting to order at 9:00 A.M.

ROLL CALL
PRESENT: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Shaw (ex officio alternate), Shore, Webb (alternate retiree)

ABSENT: Cooper (alternate safety), Piombo, Smith

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

Henry Disano, State Street Global Advisors Vice President, reported that Lou Maiuri has been appointed head of Securities Finance to manage expanding regulatory and custody needs, replacing Nick Bonn who will lead the transition management team. Mr. Disano introduced Tom Motley, cash management manager.

Trustee Brenk requested that the presentation focus on whether securities lending produces rewards that are worth the risk. In response, Mr. Disano stated that over the years there has been no loss due to a borrower default in a securities lending transaction because State Street indemnifies clients from such losses. Mr. Disano further stated that there would be no risk if State Street were to experience credit issues since securities held as collateral are owned by clients.

Mr. Motley reviewed the status of the Quality D Duration Pool that represents less than 6.5% of total collateral and consists of asset-backed securities priced at $0.96. As issues have matured, MCERA’s Quality D Duration balance has been reduced by 88.3% since December 6, 2010. Certain holdings reflect continued duration risk, according to Mr. Motley, as payment of principal and interest has slowed down with
the extension of maturities. These include two home equity bonds subject to principal devaluation that make up approximately 1% of the Quality D Duration Pool. State Street recommends continuing to collect payments of principal and interest on remaining securities rather than liquidating at a loss.

Trustee Bolger expressed concern about potentially higher expenses to run the pool as stakeholders seek to exit. In response Mr. Disano stated that as 95% of assets have matured there is no plan to exit. Mr. Disano further explained that fewer lendable assets in MCERA’s Fund and the low interest rate environment have resulted in a decline in income for the program.

In conclusion Mr. Motley reported that since inception in 2007 the securities lending program has generated income of $3 million for MCERA (10 basis points of lendable assets). Depending on central bank policies, he said, there may be more volatility going forward.

Investment consultant Jim Callahan of Callan Associates supported the securities lending program as a source of income with reasonable risk controls in place. He noted that the majority of MCERA assets are in a high-quality pool. With patience, he observed, State Street has recovered better than most from the 2008 financial crisis and the impaired securities it inherited when MCERA transitioned to State Street for custodial services in 2007.

2. Global Fixed Income Investment Manager Selection (Action)

(TIME CERTAIN: 9:30 A.M.) Jim Callahan, Brett Cornwell, Anne Heaphy - Callan Associates

Consider and take possible action to select global fixed income manager

Mr. Callahan presented Colchester Global Investors, Manulife Asset Management, and Brandywine Global Asset Management for consideration as potential global fixed income managers. Mr. Callahan stated that the managers share an unhedged currency strategy that allows them to express a currency view for potential alpha and diversification.

a. 9:30 A.M. - Colchester Global Investors

David Rothon, Senior Vice President for marketing and client services at Colchester Global Investors, stated that the firm specializes in sovereign bonds and currencies. The portfolio managers are stable and have an interest in the business. The relationship manager for MCERA would be based in the New York office. In response to Trustee Shore’s inquiry, Mr. Rothon described the global fixed income strategy as conservative with a traditional bond focus for transactions.

Paul Grice, Senior Investment Officer, explained that the strategy of investing in the government bond market results in a stable and diversified portfolio. The portfolio will vary from benchmarks, he said, due to country selection that is a
source of excess returns. Mr. Grice discussed currency cycles and referred to favorable returns resulting from an overweight to the U.S. dollar.

In response to Trustee Bartfeld’s inquiries, Mr. Grice explained that European-based holdings focus on higher yielding markets and duration is managed close to the benchmark to control risk. Recent sources of alpha include emerging markets and an underweight to Japan. Mr. Callahan asked how the country view is expressed which Mr. Grice explained will vary meaningfully from the benchmark with a 3 to 3.5% average tracking error.

In conclusion, Mr. Rothon reviewed favorable performance data resulting in an average annual outperformance to benchmarks of 3.3% since inception. He listed relatively low trading costs and a consistent track record as strategic advantages.

b. 10:15 A.M. - Manulife Asset Management

Scott Eversole, Managing Director, Manulife Asset Management Institutional Sales and Business Development, introduced the firm’s presentation for its strategic fixed income strategy. Mr. Eversole stated that Daniel Janus, III, Senior Portfolio Manager, has been running the portfolio since 1999. The investment team based in Boston relies on research teams across the globe. Dave Zielinski, Managing Director for Product Management with Manulife, explained that the strategy is to achieve risk-efficient returns from a diversified, global multi-sector approach. He added that in the current low interest rate environment the challenge is to increase returns while protecting value.

Mr. Janus emphasized the independent team approach where regular meetings keep everyone working together to formulate the best ideas. Investments are selected based on a top-down assessment of central bank activities, asset allocation, and risk analysis. Risks associated with credit, interest rates, currencies, and liquidity are assessed by specialists experienced in each area. Currencies are actively managed using tactical positioning.

In conclusion Mr. Zielinski explained that diversification and limited duration exposure leads to reduced volatility. He discussed the importance of pre- and post-trade compliance and the assessment of non-investment risk by senior management.

Mr. Zielinski responded to trustee inquiries on returns for sovereign versus private debt and the strategy of recovering from the credit crisis in 2008. In response to Mr. Callahan’s inquiry, Mr. Zielinski indicated that there are opportunities in preferred and convertible debt moving forward, with high yield issues less favorable. The relative attractiveness of bond opportunities in different countries were discussed. Mr. Zielinski emphasized the importance of duration management to limit risk and volatility given current low interest rates. He further stated that currency positions are monitored around the clock.
c. 11:00 A.M. - Brandywine Global Investment Management

John T. Ford, Director of Marketing for Brandywine Global Investment Management, stated that the Global Opportunistic Fixed Income portfolio strategy is unconstrained and long only with returns derived from bond appreciation, currency and yield. A five-member team, including a recently added high yield analyst, manages the portfolio with support from international analysts.

Brian Hess, Associate Portfolio Manager, indicated that expanding opportunities across the globe are one answer to the likely end to a multi-year bull market for fixed income instruments. Returns are enhanced through high yield issues and active currency management. Concentration and patient rotation lead to total returns, with key factors being the employment of macro analysis, credit risk analysis, and position allocation to drive returns with relatively low turnover. The investment strategy is based on the expectation for interest rates to revert to the mean and the relative rise in bond values when yields fall in weaker economies. Mr. Hess compared real and nominal yields across countries, explaining that the objective is to find opportunities with the appropriate amount of risk. For currencies, large deviations from fair value are opportunities for returns.

Mr. Hess discussed how active management leads to benchmark deviation and duration management in different market conditions. In conclusion, Mr. Hess reviewed favorable performance data versus the benchmark.

Acting Chair Bolger recessed the meeting for lunch at 12:10 P.M., reconvening at 12:36 P.M.

Upon conclusion of the presentations, Mr. Cornwell reviewed and contrasted the strategies of the three global fixed income managers. He characterized Colchester’s sovereign debt focus as conservative whereas Manulife would be considered a more aggressive, multi-strategy approach that he said may be valuable given the limitations of achieving yield in a sovereign-only approach. Manulife is the most broadly diversified portfolio with the largest number of holdings, he added. Trustee Given asked about key-man risk and Mr. Callahan pointed to the advantage of having a talented portfolio manager driving the strategy and currency element. Mr. Cornwell stated that Brandywine is more concentrated and is therefore in the middle between the other two managers. In keeping with this analysis, the volatility profiles of the three managers range from Colchester as the least volatile to Manulife as the most volatile, with Brandywine in between the two. Over a five year period Manulife has the highest risk-adjusted return and the highest correlation to equities. Mr. Callahan indicated that with this investment being 6% of the total Fund, risk would not be the biggest factor.

In response to Acting Chair Bolger’s inquiry, the majority of trustees expressed a preference for Colchester due to the return profile during the financial crisis and conservative, steady returns.
It was M/S Webb/Shore to engage Colchester Global Investors as global fixed income manager.

AYES: Bartfeld, Bolger, Brenk, Gladstern, McFarland, Shore, Webb
NOES: Given
ABSTAIN: None
ABSENT: Cooper, Piombo, Smith

3. Implementation Plan for Fixed Income Assets (Action)
Consider transition of assets for domestic and global fixed income portfolios

Mr. Callahan reviewed the current structure of the fixed income portfolio that is targeted to 23% of the Fund consisting of two domestic core plus fixed income managers, Wellington Management (Wellington) and Western Asset Management (Western). The investment consultant presented three alternatives for the transition of assets to Colchester as global fixed income manager:

- **Alternative 1** – Fund Colchester equally from the two domestic fixed income managers.
- **Alternative 2** – Move to one domestic fixed income manager, which would result in 18% of Fund assets invested with one manager. Mr. Callahan does not recommend this alternative.
- **Alternative 3** – Diversify the fixed income sector further by changing the mandate for one of the existing managers from core plus to intermediate credit manager, thereby reducing duration and convexity risk. This is Mr. Callahan’s preferred course of action.

Trustee Shore suggested implementing the third alternative with equal weightings for the three fixed income managers.

Trustee Shore was excused from the meeting at 1:30 P.M.

Acting Chair Bolger directed that the matter be considered at the next Investment Committee meeting. In the interim Mr. Callahan will explore features of the intermediate credit strategy with Western.

Trustee Brenk was excused from the meeting at 1:33 P.M.

4. Review of Real Estate Management Structure
Consider and discuss structure of real estate investments

Mr. Callahan presented an analysis of real estate structure with respect to MCERA’s private real estate portfolio. Currently Woodmont is a non-discretionary manager, meaning they do not make buy-sell decisions on behalf of the Board. Thus, the Board is in the unique position of being the manager for the portfolio. Mr. Callahan
noted that over the years Woodmont has been a good partner for MCERA. He discussed alternative structures that included hiring a third party to analyze the portfolio holdings, hiring a Registered Investment Advisor to serve as discretionary manager, or selling the properties.

Trustee Gladstern supported Acting Chair Bolger’s recommendation to hire a discretionary manager, which may or may not be Woodmont, to make buy and sell decisions. Trustee Given prefers to conduct an independent evaluation of the Woodmont holdings as a first step.

Mr. Wickman explained that the contract with Woodmont is currently under review and negotiation with Woodmont. One of the goals of this process is to clearly express in the agreement the Board’s role as the decision makers for the portfolio. Other considerations include Acting Chair Bolger’s proposal to bring fees in line with Woodmont’s non-discretionary role.

In summary, Mr. Callahan advised the Board to determine whether or not they are comfortable with the current non-discretionary approach. If not, then consider hiring a discretionary manager who could for example, retain the holdings, fold them into a fund, or liquidate. Mr. Wickman recommended holding off on any decisions until contract terms have been agreed to and at that point the Ad Hoc Woodmont Committee could meet and come up with a recommended direction for the Investment Committee to consider.

Trustee Shaw was excused from the meeting at 2:02 P.M.

5. **Artisan Proxy Voting Proposal (Action)**
Consider and take possible action regarding proxy voting proposal

Acting Chair Bolger presented a memo from Mr. Wickman outlining a proxy vote with two proposals put forth by Artisan. The first proposal has to do with a change in legal structure related to Artisan’s issuance of an Initial Public Offering. In the second proposal retired Artisan founder Andy Ziegler would be replaced with the current CEO, Eric Colson. Callan Associates and staff have endorsed the proposals as they are not expected to impact management or governance of the Artisan Fund.

It was M/S Given/McFarland to direct the Retirement Administrator to vote the proxy as recommended by Artisan.

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<th>AYES:</th>
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C. **INVESTMENT CONSULTANT PERFORMANCE UPDATE**
Mr. Callahan reported briefly that the 2014 fiscal year beginning July 1, 2013 is off to a good start. In preliminary investment results for the quarter ending September 30, 2013, small cap and international equities led performance with returns of approximately 10%.
Real estate values are expected to be higher once valuations for the quarter are completed, according to Mr. Callahan.

There being no further business, Acting Chair Bolger adjourned the meeting at 2:10 P.M.

__________________________________   _____________________________________
Bernadette Bolger, Acting Chair       Attest: Jeff Wickman
                                          Retirement Administrator