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

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

ABSENT:  Cooper (alternate safety), 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. MANAGER ANNUAL REPORTS  1. Manager Overview – Callan Associates
   Jim Callahan, Executive Vice President of Callan Associates, introduced presenters for the annual portfolio reviews. Charlie van Horne, Marketing and Client Services representative, and Katie Stokel, Chief Operating Office, will report on the Abbott Capital Management (Abbott) private equity portfolio. Sue Bonfeld, Relationship Manager with Wellington Management Company (Wellington), will review the core plus fixed income portfolio.

2. Abbott Capital Management – Private Equity
   Chair Brenk requested an update on the timing of distributions from the fund.

   Mr. van Horne reminded the Committee that that Abbott invests exclusively in private equities. To align interests with its investors, Abbott takes a position in each of their funds. Funding for MCERA’s first commitment of $100 million in ACE VI began in the third quarter of 2008. As of the end of February 2014 the fund is 93% drawn, with no further primary commitments expected. Early investments have returned 7% as of the end of February. MCERA made a follow-on commitment of $35 million to the ACE VII fund in 2013.

   Ms. Stokel stated that the private equity funds consist of high-conviction portfolios diversified by vintage year, strategy and geography. Buyouts and special situations
represent approximately two-thirds of holdings, with the remainder in equity positions. Ms. Stokel discussed total commitments and internal rates of return, reporting that venture capital growth equity funds have a 15% internal rate of return as of September 30, 2013.

In responding to Chair Brenk’s inquiry about the use of leverage by general partners, Ms. Stokel explained that recapitalization is typical on the front end, with leverage reduced in following years. Trustee Shore inquired about risk and return measures. In response, Ms. Stokel stated that return multiples of 2 to 2.5 are expected depending on the risk level, and returns are compared with industry measures and other venture capital funds.

3. Wellington Management – Domestic Fixed Income
Ms. Bonfeld provided a review of the Wellington core plus fixed income portfolio, reporting that Portfolio Manager Campe Goodman was elected as a partner with the firm. Ms. Bonfeld reported that the portfolio has outperformed the Barclays U.S. Aggregate over one, three, and five years. As of December 31, 2013, the portfolio returned negative 1.00% net of fees (versus negative 2.02% for the benchmark). In general, she stated, holdings are underweight relative to the benchmark in government-backed securities and overweight in the corporate sector, with value added through sector and security selection. At this time, Mr. Goodman is reducing risk due to a cautious viewpoint on the markets relative to current valuations, according to Ms. Bonfeld. As a result there is a move to higher quality securities in the high yield space.

In her response to Trustee Bolger’s inquiry on the effects of Federal Reserve actions and market sentiment on interest rates, Ms. Bonfeld noted that both factors can affect interest rates. She further stated that reduced purchases of mortgages by the Federal Reserve will reduce liquidity in the markets. Ms. Bonfeld discussed the relationship of the yield curve and negative absolute returns in the market. Spreads are not attractive, she observed, as interest rates are historically low and corporations are generally conservative with cash. As an example, she noted the relatively narrow spread between investment grade and high yield bonds.

Chair Brenk recessed the meeting for a break at 10:41 A.M., reconvening at 10:48 A.M.

C. NEW BUSINESS
1. Structure of Morgan Stanley and Artisan Investments (Action)
   Consider and take possible action to move to separate accounts

   Mr. Callahan presented a proposal for coordinating the potential transition of the Artisan and Morgan Stanley commingled fund vehicles to separately managed accounts for a total fee of $50,000. The concept has been considered as a way of reducing investment manager fees, which would be lower with the separate accounts. Barriers to such a transition were discussed by Mr. Callahan, including the need to set up custodial accounts in several countries. The project would be led by Bo Abesamis and Mark Kinoshita of Callan Associates who would coordinate operations with the investment managers and custodian State Street.
Based on discussions, Chair Brenk directed staff to develop a projection of the cost savings as a result of the change and those areas of cost that would be added.

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

Mr. Wickman presented a memo outlining the history and structure of the Woodmont real estate portfolio and summarizing the recommendations of the Ad Hoc Woodmont Committee (Committee). Committee member Given stated that Woodmont has been a valuable partner for MCERA managing the assets that helped generate income for the Fund. Based on the items outlined in the Retirement Administrators memo the Committee recommends selling the properties over a period of time and reinvesting the proceeds.

Mr. Wickman noted there would need to be a new agreement with Woodmont to manage the transition. The Chair invited comment by representatives of Woodmont Real Estate Services.

Woodmont Real Estate Services Chairman Ron Granville expressed appreciation to the Committee for the partnership that he said has provided an internal rate of return of over 11% since inception. In winding down the portfolio Mr. Granville recommended a strategic plan for each property which would include capital improvements and marketing. Mr. Granville indicated that Woodmont is in the best position to provide these services. The estimated transition time for winding down holdings is less than two years, he said. Ms. Bolger complimented Mr. Granville on the management of the portfolio, and Mr. Granville expressed his appreciation for working with MCERA.

It was M/S Given/Gladstern to terminate the existing contract with Woodmont and propose and execute a new contract for Woodmont to manage the portfolio and prepare properties for sale, subject to acceptable terms.

The structure of a proposed agreement with Woodmont was discussed as to provision for property management, asset management, and transition management. Part of the process, according to Mr. Wickman, would include strategic planning for asset transitions.

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<th>AYES:</th>
<th>Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, Webb</th>
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<td>NOES:</td>
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Chair Brenk directed deliberations to **Agenda Item C.6**.

6. **Consider and take possible action on Amendment to Investment Policy Statement re Statement of Objectives for Western Asset Management Intermediate Credit Fixed Income (Action)**
Ms. Heaphy presented the Statement of Objectives for the intermediate credit strategy for the Western Asset fixed income portfolio. Modifications to the guidelines made since the guidelines were initially disclosed that clarify processes were reviewed by Ms. Heaphy.

It was M/S Bolger/Piombo to adopt the amendment to the Investment Policy Statement regarding the Statement of Objectives for the Western Asset Management Intermediate Credit Fixed Income portfolio.

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

Chair Brenk directed deliberations to Agenda Items C.4, 5, 7, 8, 9, and 10 pertaining to amendments to the Investment Policy Statement that align with prior actions of the Investment Committee or the Board.

4. Consider and take possible action on Amendment to Investment Policy Statement re General Investment Objectives and Guidelines, Fixed Income Portfolios (Action)

5. Consider and take possible action on Amendment to Investment Policy Statement re Appendix A, Long Term Strategic Asset Allocations and Ranges (Action)

7. Consider and take possible action on Amendment to Investment Policy Statement re Statement of Objectives for Colchester Global Investors Global Fixed Income (Action)

8. Consider and take possible action on Amendment to Investment Policy Statement re Statement of Objectives for Eaton Vance Emerging Markets Equity (Action)

9. Consider and take possible action on Amendment to Investment Policy Statement re Statement of Objectives for Pathway Capital Management (Action)

10. Consider and take possible action on Amendment to Investment Policy Statement re Statement of Objectives for Abbott Capital Management (Action)

It was M/S Piombo/Gladstern to adopt amendments to the Investment Policy Statement as provided in Agenda Items C.4, 5, 7, 8, 9, and 10 above.

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

Chair Brenk directed deliberations to Agenda Item C.3.
3. **Due Diligence (Action)**
   Consider and take possible action on investment manager due diligence site visit schedule and attendees for 2014

   Mr. Wickman presented a proposed schedule for due diligence site visits to investment managers in 2014. Such visits may also be conducted prior to hiring new managers as provided in the Trustee Due Diligence Policy, he noted. There is flexibility in the policy as to who attends the site visits.

   It was M/S Piombo/Gladstern to adopt the investment manager due diligence site visit schedule as presented.

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

   Chair Brenk recessed the meeting for lunch at 12:10 P.M., reconvening at 12:32 P.M.

   **D. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE**
   For period ending December 31, 2013

   Anne Heaphy, Vice President of Callan Associates, presented the quarterly portfolio review. Ms. Heaphy reported that as of December 31, 2013, the total Fund value was $1.9 billion, with a calendar year 2013 return of 19.88% net of fees (versus 17.92% for the Composite Benchmark). It was an active quarter as transitions to new managers or new target ranges for existing portfolios were initiated. These included additional funding for emerging markets in the Parametric collective investment trust vehicle of $35 million. In February 2014 the Colchester funding was completed along with the increased allocation to Wellington and change in mandate for Western Asset to Intermediate Credit.

   In view of recent changes in assets and allocations, an analysis relative to allocations representative of the public pension plan universe was provided by Mr. Callahan. Once transitions are completed, he said, the Fund allocations will be more in line with the peer group median, as will its returns. Exceptions will be a relatively higher real estate allocation and relatively lower alternative investments allocation, he said.

   In response to Trustee Bolger’s inquiry, Mr. Callahan reviewed capital market assumptions. He stated that Callan has revised their inflation assumption from 2.5% to 2.25% and the expected real return to 4.75%.

   Mr. Callahan observed that the Fund has recovered from difficult market conditions in 2008 by not overreacting and sticking with the equity allocation. The Fund is performing in the top quartile relative to peers, driven in part by a relative overweight to equities.
Trustee Webb was excused from the meeting at 1:19 P.M.

Mr. Callahan discussed the status of the private equity portfolio. Over time, private equity returns are expected to add 3 percentage points to the return over public equities. MCERA’s initial private equity funds are out of the J curve and expected to produce distributions in the coming years. To maintain the target allocation of 8% of the Fund, he explained, follow-on commitments are made over time to the private equity program.

Trustees Given and Shaw were excused from the meeting at 1:28 P.M.

Ms. Heaphy discussed management and other matters. At Morgan Stanley, Co-Portfolio Manager Peter Wright is leaving the investment industry and will retire. Callan Associates is confident that the remaining Portfolio Manager, William Lock, is backed by a strong team so there are no significant concerns at this time. Mr. Callahan addressed a security purchase error by Western Asset that did not affect MCERA’s portfolio. The firm was sanctioned and the delayed notification by Western Asset to clients was noted by Callan Associates. In subsequent visits with the firm, Callan Associates has confirmed that measures are in place to update processes and compliance measures at Western Asset. Trustee Bartfeld discussed the importance of support by senior officials for the compliance department.

In summary, Mr. Callahan reported that the Fund has performed well over the last few years. Mr. Callahan expressed caution at this point and recommended maintaining a long-term plan and prudence in the face of potential short-term noise in the capital markets.

There being no further business, Chair Brenk adjourned the meeting at 1:47 P.M.

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Greg Brenk, Chair              Attest: Jeff Wickman
Retirement Administrator