CALL TO ORDER     Chair Brenk called the meeting to order at 9:00 a.m.

Upon the request of the Chair, the Committee observed a moment of silence in remembrance of September 11, 2001.

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

ABSENT: McFarland, Piombo

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 – Anne Heaphy, Avery Robinson

Anne Heaphy, Callan Associates Vice President, introduced Avery Robinson, Vice President and real estate specialist, who stated that the UBS portfolio invests in core real estate throughout the United States. Following the initial $15 million, MCERA made two additional commitments of $50 million each.

2. UBS – Core Real Estate – Thomas Klugherz, Steve Olstein – 9:05 a.m.

Thomas Klugherz, UBS Executive Director and Relationship Manager, introduced Steve Olstein, one of the Portfolio Managers for the Trumbull Property Fund. Mr. Olstein addressed the question of whether the timing is right for further investments in real estate given current market conditions. Mr. Olstein considers current market conditions to be favorable with the exception of the suburban office market.

In response to Mr. Robinson’s inquiry on how market conditions differ from the 2006-2007 period, Mr. Olstein stated that there is no shortage of capital and more real estate on the market. There is also a positive outlook on rent growth potential and minimal near-term risk of rising interest rates. Mr. Olstein explained the firm’s strategy is to seek opportunities to add value in known markets, take advantage of properties with otherwise unattractive debt, and insulate portfolios from development risk. In
response to questions from Trustees Gladstern and Shore, Mr. Olstein discussed the low risk level of the portfolio and medium-term debt maturities.

Trustee Bolger asked about the potential effect on interest rates of multi-year quantitative easing by the Federal Reserve (the Fed). Mr. Olstein stated that they do not see the Federal Reserve changing the current interest rate policy any time soon. He also noted that rent increases would follow an improving economy to offset a future rise in interest rates or reversal of current monetary policy.

Mr. Olstein discussed the fund’s performance fees in response to Trustee Bolger’s inquiry. Because investors requested that UBS assume part of the fee risk, the firm tied a portion of the fee to performance relative to the CPI. For example, if the total return falls short of the CPI, that portion of the fee is not charged to investors. The fee resumes incrementally as returns exceed the CPI.

Continuing the review Mr. Olstein explained the portfolio’s overweight to office properties is the result of a tactical decision identified in 2006 and 2007. Trustee Bolger asked whether the San Francisco Bay area is at a market top and if so how would that affect the rest of the country. In response Mr. Olstein explained that he does not expect a significant downturn in the area since the Bay Area economy is so heavily based on intellectual capital. In response to Trustee Brenk’s inquiry, Mr. Olstein explained that value is added through improvements to multifamily housing, building to suit industrial developments without construction risk, and repositioning of existing retail power life-style centers.

With respect to Trustee Gladstern’s inquiry on climate change, Mr. Olstein stated that there is an active sustainability policy for the office sector that lends itself to facilities that can be registered with the Green Building Council to seek LEED certification.

3. AEW – Core Real Estate – Jonathan Martin – 9:50 a.m.

Jon Martin, Portfolio Manager of the AEW Core Property Trust, stated that the fund was launched in 2007 to invest in the best assets in the best markets that are expected to hold value over time. Initial capital of $15 million was called in the first quarter of 2013 and additional capital called in the first half of 2014. With the additional commitments there is a reduced fee based on the tiered fee structure.

The fund returned 10.78% net of fees (versus 11.37% for the NFI-ODCE Equal Weight Net benchmark) in the 12 months ending June 30, 2014, with a dividend yield just under 5%. With the recent rise in property values the fund is slightly lagging the index due to its focus on income return. Mr. Martin expects returns for core real estate to become normalized to the 7 to 8% range. The strategy is not to chase returns in secondary markets but to stay in top tier markets that have historically outperformed over time. Mr. Martin believes that going forward returns will come from growing net income.

Mr. Martin stated that over 80% of net assets are located in top markets. The fund is diversified by property type, the largest being office. Mr. Robinson observed that the fund’s leverage at 28% is higher than the benchmark. In response Mr. Martin
explained the relatively high leverage as a temporary condition for the purpose of locking in favorable rates for 10 to 12 year terms. Trustee Bolger asked how the debt was used and Mr. Martin stated it was applied to unleveraged assets.

Properties are 93% leased, up from 2013 levels with good activity in office space. The average lease is approximately 5 years with capitalization and interest rates at historic lows. As the economy improves rents are expected to increase and will serve as a hedge against a potential move higher for these rates.

Ms. Heaphy asked about the pace of acquisitions as compared with last year. Mr. Martin stated the pace is somewhat slower in 2014. Based on a standard hold/sell profile there is a 5 to 10% turnover annually.

Chair Brenk asked about the current queue. According to Mr. Martin capital is being called once per quarter and new commitments are 6 months out. The firm’s solid reputation for following through on deals is an advantage, he said. Deals are selective and a comfort level with submarkets is needed, he said. Mr. Martin reviewed some of the funds’ newer investments, notably in Houston where he said the energy sector is causing a fundamental change in the market. Another current investment focus is young professional renters in Manhattan.

Responding to Trustee Gladstern’s inquiry on climate change, Mr. Martin stated that approximately half the properties are LEED certified. The desirability of LEED certification is balanced with projected return, and the certification is not currently driving leases. A potential rise in sea levels is a consideration for investments in Boston, New York and San Francisco for the long term.

In conclusion Mr. Martin discussed the value-added Partners V Fund that was launched in March 2006 just prior to the recession. To date 75% of investor capital has been returned and the expectation is to return 100% by the end of the first quarter 2015. The net-of-fee internal rate of return is expected to be over 2% once the fund is liquidated in 2015.

Chair Brenk recessed the meeting for a break at 10:25 a.m., reconvening at 10:38 a.m.


Sue Curran, Pyramis Global Advisors Senior Vice President, stated that the international small cap equities strategy has been a hallmark of the firm since June 1995. The fund is managed with a consistent approach using Fidelity’s global resources to select the best stocks and to provide for appropriate diversification. Performance is tracking the target alpha of 300 basis points. Ms. Curran introduced Portfolio Manager Nick Horn to present the annual portfolio review.

Mr. Horn stated that Rob Feldman remains as lead portfolio manager and the team of analysts has been built out to cover every sector. The strategy focuses on active stock selection that is region and sector neutral. In response to Chair Brenk’s inquiry Mr.
Horn indicated that the relatively high number of holdings protects the fund from concentration and event risk. In the current market there is a small cap premium with considerable sector rotation over the past four quarters.

The fund returned 26.38% in the year ending June 30, 2014, (versus 29.95% for the S&P Dev ex US Small Cap Index). Positive contributors to performance were holdings in consumer staples and health care. Contributing to underperformance were weakness in Japan and European markets. In Japan the consumer discretionary sector sold off following an increase in the consumption tax on April 1, 2014.

In response to Trustee Bolger’s inquiry, Mr. Horn discussed the use of fair value pricing that he said is appropriate given short-term price disparities in international small cap equities. Trustee Shore inquired about the phenomenon of disproportionate returns coming from a relatively small number of stocks in the small cap space. Mr. Horn responded that this can be the case over the short term but over two or three years the idiosyncratic risk is mitigated.

Chair Brenk noted that the fund has achieved the target alpha since inception but not recently. Mr. Horn explained that the past year has been a challenging market to manage with no consistent theme. He continues to believe in stock selection and taking advantage of opportunities created by market volatility to add to high-conviction ideas.

In conclusion, Chair Brenk requested a discussion of environmental, social, and governance matters (ESG). Mr. Horn emphasized the importance of having a large research platform in the international small cap space, especially in the energy sector, to conduct on-site visits to monitor whether the organization is being managed as a good corporate citizen.

5. **Artisan Partners – International Growth Equities – Sean Howley, Andrew Euretig – 11:20 a.m.**

Andrew Euretig, Managing Director at Artisan Partners, stated that the International Fund strategy focuses on stock selection based on bottom-up fundamental research to achieve long-term growth. In the 12 months ending June 30, 2014 the Fund returned 22.44% net of fees (versus 23.57% for the MSCI EAFE Index) and has outperformed its benchmark over the long term.

According to Mr. Euretig stock selection in several sectors was a key contributor to overall results. Factors detracting from recent performance include underperformance of holdings in Germany and weakness in financial holdings. Ms. Heaphy inquired about a significant decrease in their financial holdings. In response Mr. Euretig referred to the difficulty of assessing the regulatory environment. Over the long term a positive theme for financials is emerging market wealth management, he said.

In responding to trustee inquiries, Mr. Euretig explained that investments are in the middle of the growth-value spectrum. A growing company is more valuable, he
explained, based on discounted cash flow projections and therefore growth rates can justify price.

Mr. Euretig stated that long-term strategies include the demand for clean air and water. As an example Mr. Euretig discussed a technology company that produces a diesel particulate filter to reduce air pollution that has performed well. In the aerospace industry jet engines that increase fuel efficiency fit the sustainable energy model although the sector is subject to cyclical contractions.

Trustee Cooper was excused from the meeting at 11:38 a.m.

Mr. Euretig responded to Trustee Webb’s question about recent unrest in Spain, indicating that the investment team analyzes what investments will be affected and whether there may be potential currency risk. When warranted, positions may be sold to insulate the portfolio from exogenous events.

Environmental-Social-Governance (ESG) themes are considered to be a long-term growth trend and are assessed on a company-by-company basis, according to Mr. Euretig. Good governance is considered a predictor of long-term performance. In response to Trustee Gladstern’s inquiry, Mr. Euretig stated that a company’s rank in the Dow Jones Sustainability Index is monitored. Environmental investment themes include cleaner energy such as reduction of auto emissions. Energy exploration companies are not in favor due to diminishing oil supplies, Mr. Euretig said. Artisan has developed custom portfolios divested of assets related to fossil fuels but there is no long-term performance available for these vehicles.

Chair Brenk recessed the meeting for lunch at 11:52 a.m., reconvening at 12:32 p.m.


Ted Simpson, Dimensional Fund Advisors Vice President, reported that Gerard O’Reilly, Head of Research, was appointed co-Chief Investment Officer in recognition of his increasing responsibilities and contributions to the firm. The firm is implementing its profitability thesis into its portfolios. Mr. Simpson introduced Portfolio Manager and Vice President Brian Walsh for the annual portfolio review.

Mr. Walsh stated that the fundamental thesis for the US Small Cap Value Trust has been that stocks with lower market value relative to accounting value tend to outperform. Research indicates that the new factor, which measures profitability relative to expected return, will lead to higher and more stable returns for the portfolio. The process of incorporating the new factor was begun in December of 2013 and is 75% complete. Mr. Walsh reviewed metrics that show a significant increase in the weighted average profitability-to-book metric for the fund.

The portfolio returned 25.33% net of fees in the 12 months ending June 30, 2014 (versus 23.64% for the Russell 200 Index). The portfolio has also outperformed its benchmark over longer time frames, according to Mr. Walsh. Mr. Walsh discussed
the efficient market theory in response to Trustee Shore’s inquiry. There is no easy way to test which markets are more or less efficient, he said, so there is no systematic way to take advantage of price inefficiencies.

In response to Trustee Shore’s inquiry, Mr. Walsh reviewed the trading strategy of using patience to take advantage of favorable buy and sell price points. As an example, Mr. Walsh explained that it is rare to pay higher than the bid for a stock. To enhance control of the trading process, trading was brought in-house utilizing direct market access. Responding to Trustee Bolger’s inquiry, Mr. Walsh advised that the firm trades in dark pools alongside high frequency traders who have replaced market makers and specialists to provide market liquidity. Increased trading volume has a dampening effect on price volatility, he explained, as trades are executed in the spread between the bid and ask price. Market regulations require best-route order execution to keep prices in line with the market, he explained.

C. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE
For period ending June 30, 2014

Ms. Heaphy presented the quarterly report as of June 30, 2014 showing the Fund rose by $60.8 million during the quarter to $1.998 million and returned 18.07% net of fees in the previous 12 months (versus 18.12% for the Composite Benchmark). The report shows that performance tracks closely with the benchmark over longer time frames. The relatively high equity allocation in 2012 and 2013 boosted returns for the Fund that is ranked in the top quartile of peers over the long term, Ms. Heaphy stated.

Managers on the watch list include RREEF, which is winding down the value-added real estate portfolio, and small cap growth manager Columbus Circle which was added to the list at the beginning of 2014 based on two consecutive years of underperformance to the benchmark and peer group median. For Columbus Circle, Ms. Heaphy stated that the high-quality small cap market sold off last spring and has been difficult to manage. Due to the momentum-based strategy performance is expected to vary, she said. Performance has recently recovered and the manager will present a portfolio review at the December 11 Investment Committee meeting. Responding to Chair Brenk’s inquiry, Ms. Heaphy stated that Callan Associates monitors all clients’ investment managers on a regular basis.

Trustee Bolger inquired about the Western Asset intermediate credit fixed income portfolio holdings. In response Ms. Heaphy noted that financials and exposure to emerging market debt (limited to 10% of holdings) were additive to performance.

The Fund’s allocations are in line with defined ranges for targets, according to Ms. Heaphy. There is an underweight to fixed income that is within range. Domestic equities are overweight and a source of funds to build private equity and real estate to targets as capital commitments are called. Ms. Heaphy reported that AEW called the final $33 million of MCERA’s second commitment in April 2014 and UBS will call $50 million on October 1, 2014.
For the quarter ending June 30, 2014 Ms. Heaphy reported that fixed income portfolios attributed positively to performance. Domestic equity, in particular small cap growth, and international equity were negative performance factors. Core real estate managers slightly trailed their benchmark as they were underweight industrials that performed well.

Ms. Heaphy provided a preliminary performance update through August 31, 2014, stating that equity markets advanced from July levels as a result of positive second quarter earnings reports. In domestic equities growth outperformed value and small cap outperformed large cap. International equities were soft due to concerns about European Central Bank policies and economic data for Japan that fell short of expectations. In fixed income rates fell due to demand for U.S. Treasurys. The Colchester global fixed income portfolio outperformed, balancing the relatively flat domestic fixed income portfolios.

Ms. Heaphy reported that Parametric Chief Investment Officer David Stein will retire as of October 31, 2015. The current Director of Research Paul Bouchey will replace Mr. Stein and serve as co-CIO in the transition period. Thomas Seto, Managing Director of Portfolio Management and Trading, will become Head of Investment Management. Callan Associates is comfortable with the transition that Ms. Heaphy said has been thoughtfully planned.

Based on Chair Brenk’s inquiry on whether the key person would be able to continue to manage the strategy and Trustee Bolger’s disappointment at Mr. Stein’s departure, Mr. Wickman indicated it may be appropriate to schedule a meeting with Mr. Bouchey. Ms. Heaphy observed that the emerging markets team has been stable through other organizational changes.

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