CALL TO ORDER  Chair Brenk called the meeting to order at 9:03 a.m.

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

ABSENT: Cooper (alternate safety), 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 – Jim Callahan, Callan Associates
      Mr. Callahan reminded the Committee that last year the fixed income portfolio was restructured as yields were particularly low and the expectation was interest rates would eventually rise. To diversify the portfolio across different sectors and markets the Colchester global bond portfolio was added and the mandate for Western Asset was changed to an intermediate credit strategy with half of the previous assets being used to fund the Colchester investment. The Wellington fixed income portfolio remains as a core plus strategy. This structure moves fixed income away from the Barclays Aggregate which surprised with a robust 6% return last year. This is the reason for relative underperformance for fixed income portfolios which still had positive returns in the domestic portfolios.

      Mamak Shahbazi, President of Colchester Global Investors, stated that the firm is a private global investment manager of sovereign global bonds for institutional clients. The investment philosophy is value based on inflation-adjusted returns of investment grade (or higher) global bonds. Ms. Shahbazi explained that a two-year inflation forecast is subtracted from nominal yield to determine the expected real yield. The yield includes a financial risk factor, she explained in response to Trustee Haim’s inquiry. Bonds are ranked accordingly with a thorough financial analysis of the country built into the ranking. Currency portfolios are built separately based on long-
term purchasing power, with currencies weighted according to distance from fair value.

Since inception in March 2014 through December 31, 2014 the overall portfolio returned negative 1.7% (versus negative 3.2% for the Citigroup World Government Bond Index). Ms. Shahbazi attributed performance to the rise of the U.S. dollar in the second half of the year. Bonds outperformed the index due to over-weights in Norway, Mexico and Australia. Currencies also outperformed the benchmark due to over-weights in the Euro, British Pound and Korean Won.

In response to Chair Brenk’s inquiry Ms. Shahbazi stated that approximately 62% of portfolio returns come from bonds and 38% from the currency portfolio. Ms. Shahbazi discussed specific bond and currency holdings and their relative weights. The average credit quality of global bonds is AA minus. Duration is currently slightly shorter than the benchmark and may vary by plus or minus 20%.

Ms. Shahbazi discussed the investment management process in response to Trustee Haim’s inquiry. Investment team members based in London are assigned a country that is analyzed according to a standard model. Every two weeks expected real yields are determined in a formal meeting resulting in decisions implemented across all portfolios. Chair Brenk inquired about research quality and Ms. Shahbazi explained that team members are rotated and check one another’s work in a generalist approach. She further noted that the investable universe is limited and manageable.

Looking forward Ms. Shahbazi expects lower rather than higher inflation based on the relatively low velocity of money in the developed world. She views the United States as the global growth engine, noting that European growth estimates may surprise on the downside. Mr. Callahan observed that the firm’s inflation forecasts are for a relatively short time frame of two years.


Frances Coombes with Western Asset Management Company client services reported that the portfolio was transitioned from a core plus strategy to intermediate credit in February 2014. Ms. Coombes noted that there is increasing interest in specialized mandates for fixed income clients. She introduced Senior Portfolio Manager Blanton Keh to present the annual portfolio review. Mr. Keh works closely with Ryan Brist who heads up the U.S. credit team.

Mr. Keh stated that fundamentals and technicals are the basis for investments. With the end of the quantitative easing tailwind, he said, sector allocation is becoming increasingly important as the alpha generator. Mr. Keh believes credit levels are peaking as shareholders push for mergers and acquisitions. The current environment is detrimental to credit spreads, he explained, and has resulted in price depreciation for bonds, notably in industrials.

Trustee Bartfeld asked about the impact of climate change in Western’s decision processes. Mr. Keh said it is a factor. For example, he views the electric utilities
sector as unfavorable as it is issuing too much debt. Mr. Keh said the industry trend and regulatory environment is part of their credit analysis. He referred to the deadline of the year 2020 for utilities in California to increase procurement of renewable energy to 33% that is expected to result in capital expenditures to upgrade facilities and invest in new industries. He stated that U.S. production has an effect on lowering the price of oil, noting that the U.S. is here to stay as a major oil shale producer. At some point conditions are expected to be favorable for increasing the energy sector. The firm has formed a task force for the oil sector according to Mr. Keh.

Other industries that are underweighted include chemicals, communications, pharmaceuticals and technology. Mr. Keh stated that over the past five years the overweight in the banking sector has been productive. He explained that due to regulation financial firms are more attractive as they are reducing debt and are not able to take on as much risk.

Portfolio duration has been reduced based on expectations for 10 year bond yields. The Federal Reserve (Fed) is expected to increase interest rates in June that would make bond spreads higher and thus more favorable. Mr. Keh believes we are late in the credit cycle due to the trend to use leverage and share buybacks to increase earnings per share. Issuance of debt has been driven in part by low interest rates. Mr. Keh believes that at some point the market will adjust to record credit supplies. He considers cash levels to be reasonable and the economy is growing. In response to Chair Brenk’s inquiry he stated that cash flow and the ability to pay debt are the key factors considered for bonds. In addition face-to-face meetings with managers are conducted as part of the bond analysis process.

In 2014 the portfolio returned 4.5% (versus 4.5% for the combined index). The returns are comprised of the Core Plus portfolio and Barclays Aggregate Index up to February 11, 2014 and the Intermediate Credit portfolio and Barclays Intermediate Credit Index thereafter. Mr. Keh reported that the overweight in financials and short energy positions helped performance in the fourth quarter of 2014. The allocation to the high yield sector detracted from performance. Portfolio holdings were reviewed as compared with the Barclays Aggregate. In conclusion Mr. Keh stated that the expectation for 2015 is muted as considers the portfolio be at fair value given current yields.

Chair Brenk recessed the meeting for a break at 10:51 a.m., reconvening at 11:03 a.m.

C. NEW BUSINESS

1. Portfolio Rebalancing (Action)
Consider and take possible action to set parameters for futures overlay portfolio rebalancing

Mr. Wickman stated that this agenda item will be moved to the next Investment Committee meeting. Mr. Callahan reviewed the decision by the Investment Committee to grant authority to Parametric to rebalance the portfolio as a risk control measure. This is a policy that allows for a liquid and cost effective mechanical process to
rebalance the portfolio, he explained. The Investment Policy Statement will be updated to include overlay provisions which include shorting futures contracts.

2. **Real Assets Allocation Implementation (Action)**
Consider and take possible action to determine real assets portfolio

Mr. Callahan stated that the Investment Committee determined at its December 11, 2014 meeting to change the private real estate target from 15% to 8% and allocate the remaining 7% to a public real asset portfolio. Mr. Callahan explained that the four main building blocks for a diversified real assets portfolio are TIPS, commodities, REITs, and natural resource equities. In response to Trustee Bolger’s inquiry, Mr. Callahan discussed the strategy where commodities, for example, have a low correlation to other investments and therefore provide a benefit to diversification. Mr. Callahan noted that although there is not robust data on performance in an inflation environment since we have had an extended period of declining inflation and declining interest rates real assets have an inflation component to their value. From a policy and historical perspective, he stated, inflation protection makes sense now to diversify risk for the Fund. This can be done cost effectively in the public markets in a manner that does not dramatically change the overall profile of the portfolio.

Trustee Shore observed that the public real asset portfolio would be more liquid than the private real estate portfolio it is partially replacing. Trustee Gladstern recalled that upon discussion the Board was disinclined to use direct ownership of real assets.

Trustee Bolger questioned the historical performance of TIPS because their performance in an inflationary environment is unknown. In response Mr. Callahan said the assumption is that principal value rises with rising inflation. He further stated that historical data shows TIPS are a little more sensitive to inflation than regular stocks and bonds. There is a duration element to TIPS, he stated, so they could go down in value if interest rates rise without a rise in inflation. Mr. Callahan noted the purpose is to improve diversification over the long term to lend sensitivity to different economic environments.

Trustee Shore expressed his comfort with moving forward with the real asset concept because it is liquid and a relatively small portion of the portfolio. Trustee Given observed that the determination has already been made to move into real assets and the next step is to consider how it will be constructed. Chair Brenk recommended continuing with more details on the investment consultant’s presentation.

Mr. Callahan pointed out that the risk-return characteristics of the real asset model with equal portions of each asset class has the preferred closest profile to real estate. The expected return is thus similar with modestly less risk because of the negative correlation of commodities to stocks and bonds, according to Mr. Callahan.

Based on the limitations and expense of off-the-shelf passive real asset vehicles, Mr. Callahan recommended a custom built portfolio. The possibility of eliminating the energy component was discussed. The idea of building a passive real asset portfolio
initially and then considering active managers for natural resources and commodities at a later date was also discussed.

It was M/S Gladstern/Given to adopt a custom passive equal-weighted structure for the real asset portfolio.

AYES: Bartfeld, Brenk, Gladstern, Given, Shore, Webb
NOES: Bolger
ABSTAIN: Thomas
ABSENT: Cooper, Piombo

Chair Brenk referenced page 12 of the Callan Associates real assets presentation that outlines the proposed structure of the selected real asset portfolio structure. Mr. Wickman stated that presentations by real asset managers will be scheduled for the next Investment Committee meeting.

Chair Brenk recessed the meeting for a break at 12:40 p.m., reconvening at 12:46 p.m.

3. Investment Topics and Education for 2015
Discuss and consider topics and educational subjects for presentation at future investment committee meetings

Chair Brenk invited discussion on potential investment-related topics for the Investment Committee to consider this year. Individual trustees in turn recommended educational sessions with CERES on environmental-social-governance issues, private equity, and evidence-based decision making. Investment consultant Jim Callahan recommended an educational session on performance measures. Mr. Callahan advised education on absolute return strategies and hedge funds, which are used in other public funds, as productive avenues to explore for the Fund from a risk/return perspective. Once the Ad Hoc Committee has met to consider these and other potential topics, Chair Brenk recommended reviewing its recommendations when Trustee Piombo can be present.

4. Investment Manager Reporting for 2015 (Action)
Consider and take possible action to schedule annual portfolio reviews by investment managers

Mr. Wickman presented the proposed schedule for annual portfolio reviews by investment managers.

It was M/S Bolger/Gladstern to approve the schedule for annual portfolio reviews by investment managers as presented.

AYES: Bartfeld, Bolger, Brenk, Gladstern, Given, Shore, Thomas, Webb
NOES: None
ABSTAIN: None
ABSENT: Cooper, Piombo
Mr. Wickman noted time for manager presentations may need to be curtailed.

5. **Due Diligence (Action)**
Consider and take possible action on investment manager due diligence site visit schedule for 2015

Mr. Wickman presented a list of managers falling within the five year policy cycle for due diligence site visits. Noting there is considerable work to be done, the Administrator spoke to the value of meeting with managers on site. Upon discussion it was agreed that Mr. Wickman would meet with investment consultant Jim Callahan and Chair Brenk to plan the due diligence visits. Traditionally the Chair and one other trustee have participated and Chair Brenk requested that those interested let him know.

It was M/S Bolger/Gladstern to approve the investment manager due diligence sit visit schedule for 2015 as presented.

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**D. INVESTMENT CONSULTANT PERFORMANCE UPDATE**

Mr. Callahan presented the performance update through December 31, 2014.

There being no further business, Chair Brenk adjourned the meeting at 1:04 p.m.

Greg Brenk, Chair  Attest: Jeff Wickman
Retirement Administrator