CALL TO ORDER

Chair Brenk called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Bolger, Brenk, Cooper (alternate safety), Given, Gladstern, Haim (alternate retiree), Piombo, Shore, Thomas, Webb

ABSENT: Bartfeld, Shaw (ex officio alternate)

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
   No discussion.


   Charlie van Horne, Managing Director for Abbott Capital Management LLC, stated that their diversified private equity portfolios are built using a fundamental investment approach to develop concentrated portfolios in selected investments. Over the past year the firm added a new Chief Compliance Officer and Head of Technology.

   Mr. van Horne advised that 2015 will be an important year for ACE VI as a significant amount of capital has been drawn and the Fund is on the tip of providing meaningful distributions. He noted that the portfolio is still young, with holdings averaging two years in duration. In response to Chair Brenk’s inquiry, Mr. van Horne explained that the Internal Rate of Return (IRR) is positive because it is not based on investable capital.

   Meredith Rerisi, Managing Director for Abbott Capital Management LLC, reported that the portfolio is performing according to expectations, with the robust technology and healthcare sectors outperforming in a healthy merger and acquisition market. Buyout and special situation sectors are benefiting from the strength of the overall
capital markets. A review of the top ten holdings is an indication of future liquidity expectations and high valuations, she said.

Mr. van Horne reported that the MCERA’s follow-on investment, ACE VII Fund, has 60% of capital committed and 6% of capital drawn. This fund is expected to be fully committed in one year. Diversification objectives are 25 to 40% in venture and growth equity, with the remainder in buyouts and special situations. There is some overlap with the ACE VI Fund which Ms. Rerisi described.

In response to Trustee Gladstern’s inquiry, Mr. van Horne stated that the firm is challenging general partners in how fees are structured between management and operations. He indicated that the SEC is looking into how fees are charged. He discussed general partner fees, noting that typically there has been a 2% management and 20% carry structure. In response to demand some general partners have raised fees, he stated. Very few general partners will reduce the 20% carry fee.

Abbott reduced its fees by approximately 10% for the ACE VII Fund and expects a further fee reduction for the new 2016 fund, according to Mr. van Horne. The new offering will have a menu approach with an option for a lower management fee in return for a carried interest fee.

Sean Howley, Artisan Partners Institutional Client Services representative, presented the annual review of the Artisan International Fund. Mr. Howley reported that in 2014 a technology analyst was added to the team for insight into social media and software sectors. Consumer analyst David Geyser departed to run another global equity fund. The fund strategy is to invest in companies with sustainable growth, strong pricing power, and a unique position in the market. These companies tend to cluster in themes which are high speed internet, cable and mobile devices, he said. Buy points reflect reasonable valuations using the Price-Earnings-Growth (PEG) ratio as a key metric.

Mr. Howley discussed the macro-economic environment, noting volatility in the capital markets as well as the currency markets due to the euro’s slide in value against the U.S. dollar. In addition, the materials sector was weak due to the collapse in commodity prices. The consumer discretionary sector rallied at the end of 2014, and U.S. markets outperformed as employment metrics showed improvement. Mr. Howley expects improved conditions in Europe with a rebound of cyclical stocks as exports improve due to the competitive advantage of a weaker euro.

As of December 31, 2014 the portfolio returned negative 0.74% (versus negative 4.90% for the MSCI EAFE Index). According to Mr. Howley outperformance is a result of good team research and the flexibility to find new areas to invest in over time. Performance is driven by stock selection, with over-weights to technology and health care and an underweight to the euro contributing to returns.

In conclusion, Mr. Howley listed examples of successful investments. Emission regulation is a sustainable growth theme for companies developing new technologies
that reduce emission from engines, he said. Top ten investment sectors and sector allocations were highlighted.


Sue Bonfeld, Relationship Manager with Wellington Management Company LLP, reported that for the year ending December 31, 2014 the core plus fixed income portfolio returned 6.18% net of fees (versus 5.97% for the BC Aggregate Index). Ms. Bonfeld introduced Portfolio Manager Campe Goodman to present the annual portfolio review.

Mr. Goodman described the investment strategy that incorporates a diverse set of ideas to avoid concentration. Specialists focus on tactics using duration, the yield curve, sector rotation and security selection to manage the portfolio. The firm is adding resources to specialize in emerging markets. Mr. Goodman reviewed the macro-economic environment, indicating improvement in the U.S. economy is expected to benefit credit sectors as interest rates should head higher. Portfolio returns on an absolute basis are better than had been expected due to lower-than-expected interest rates. This is a result of poor growth outside the United States leading to wider spreads between German and U.S. interest rates. The fall in commodity prices in 2014 was surprising and there were no signs of inflation. The portfolio performance attribution curve went flatter as the portfolio was positioned for rates to rise, which did not happen. Credit sectors, especially mortgage-backed non-agency securities tied to U.S. housing, have recovered well. Agency pass-through market security selection contributed to performance and helped to diversify returns.

Trustee Bolger asked about U.S. Treasury Inflation-Protected Securities (TIPS) and Mr. Goodman responded they are a good value relative to nominal U.S. Treasurys. Over five or ten years Mr. Goodman expects inflation to be over 2% and so the TIPS would perform well. In the credit sectors there are more attractive alternatives that are fairly reasonably priced at this point, he noted.

Moving forward Mr. Goodman has the portfolio in a moderately pro-cyclical position and believes the credit market is in the middle of the current cycle. Duration is expected to shift from neutral toward the shorter side as rates are more likely to move up than not. The best opportunities remain in the structured finance sector, according to Mr. Goodman, who has added collateralized loan obligations that are at the top of the capital structure and have good yields. The portfolio is underweight energy issues as these are expected to be more challenged looking forward. The small allocation to emerging bonds has been challenged but remains warranted in Mr. Goodman’s view.

In response to Chair Brenk’s inquiries, Mr. Goodman stated that sentiment affects short duration but moving forward fundamentals will be more of a factor. As to the strength in the U.S. dollar, Mr. Goodman advised it has been a headwind for TIPS and inflation generally. Eventually, he said, this phenomenon will weigh on the credit markets and if it reverses, as Mr. Goodman expects, would serve as a tailwind for the portfolio.
Chair Brenk recessed the meeting for a break at 10:30 a.m., reconvening at 10:41 a.m.

Trustee Given was excused from the meeting at 10:40 a.m.

C. **OLD BUSINESS**

1. **Real Assets Investment Manager Selection (Action) (TIME CERTAIN: 10:20 a.m.)**
   Consider and take possible action to select real asset managers

   Jim Callahan reviewed the Investment Committee’s decision to revise the real estate allocation to 8% private real estate and 7% public real assets consisting of U.S Treasury Inflation-Protected Securities (TIPS), commodities, real estate and natural resources in equal weights. The plan is to implement this strategy through passive investment vehicles as a first step. Callan Associates was directed to conduct searches for active managers for natural resources and commodities, due to inefficiencies in these markets, for potential consideration at a later date.

   Mr. Callahan stated that the real asset investment vehicles presented for consideration today are managed by three well-respected, best-of-breed index managers. The resulting custom portfolio can be redesigned in the future as to targets and strategy, he said.

   In response to Trustee Bolger’s inquiry, Mr. Callahan reviewed the expected return/risk modeling presented at the Fall Workshop for the real asset allocation. The most aggressive model (with lower TIPS allocation) represented the best risk/return profile. By adding real assets portfolio risk is reduced, Mr. Callahan stated.

   a. **BlackRock, US Treasury Inflation-Protected Securities (TIPS) and Commodities – Tim Murray, Kathryn Donovan, Trish Hunter**

      Trish Hunter, BlackRock Director, stated that BlackRock’s proprietary investment platform, the Aladdin Enterprise System (Aladdin), allows for the efficient management of assets. Aladdin is a powerful tool encompassing pre-and post-trade and scenario analysis resulting in the solid tracking of benchmarks over time. The investment vehicles under consideration are the BlackRock U.S. TIPS Index and the BlackRock DJ-UBS Commodity Index Fund.

      Kathryn Donovan, Associate on the model-based Strategy Team for TIPS and commodities, stated the passive commodities strategy is structured as a large, liquid collective trust fund. The fund has a stable investment management team and a 30-year track record of tight tracking to the index that minimizes idiosyncratic risk. Ms. Donovan pointed to efficiencies in optimizing transaction cost as a key element of implementing the strategy. Client reporting and compliance emanate from the central system. In response to Chair Brenk’s inquiry, Ms. Donovan said derivatives are not employed and non-index securities are rare.
Tim Murray, Director and Product Strategist for beta equity and commodities, stated that the beta strategies area is a significant portion of BlackRock’s business. The commodities index is based on a broadly diversified approach using futures contracts for 22 fully replicated and collateralized commodities. Underlying cash is conservatively invested in 3-month U.S. Treasurys. The active strategy goes out on the curve resulting in outperformance, Mr. Murray stated. Current research on a scarcity model may further enhance returns.

Mr. Murray explained that the total return of the commodities fund has three sources: price or spot return, roll return where the spot price is different from the futures price, and collateral return. Supporting the fund’s success are the team leader’s knowledge of the regulatory environment, several PhD’s who research roll and efficient ways to get in and out of markets, and risk assessment by the Aladdin system. Mr. Murray reviewed the backgrounds and experience of team members.

Chair Brenk inquired about commodity returns and entry points in view of weak returns in recent years. In response Mr. Murray stated that since the financial crisis commodity demand has been weak and timing the market is difficult.

Trustee Given rejoined the meeting at 11:32 a.m.

Trustee Shore observed that diversification is a fundamental reason for adding the commodities strategy.

b. State Street Global Advisors, Natural Resources Equity – Sonya Park

Sonya Park, State Street Global Advisors (SSgA) Senior Relationship Manager, explained that SSgA is the investment manager for State Street Corporation. The firm is one of the world’s largest passive index managers with a 35-year track record, global trading capability and 24-hour market coverage. The S&P Global Large MidCap Natural Resources Index Non-Lending Fund is managed by the passive equity investment team headed by Melissa Kapitulik. Managers are cross-trained and technology is responsive to manager needs. A centralized investment management tool provides for global consistency. The index replicates the related S&P index providing diversified exposure to natural resources that is rebalanced quarterly. Tracking error is 35 basis points annually across markets.

Responding to trustee inquiries, Ms. Park stated there are environmental-social-governance (ESG) strategies the majority of which are separately managed customized accounts, she said, and as a result, track records for ESG strategies are difficult to compare.

c. Vanguard, Real Estate Investment Trusts (REITs) – Mark Landay

Mark Landay, Principal, Vanguard Institutional Investor Group, presented Vanguard’s REIT Index Fund. Mr. Landay stated that Vanguard is the largest mutual fund provider in the United States.
Mr. Landay stated that the REIT Index Fund is a highly liquid index fund that closely tracks the performance of the MSCI US REIT Index. Daily risk management is a key factor in tracking the index as closely as possible, he said. Investments are comprised of equity REITs, which are trusts that invest directly in real estate and not mortgage-backed securities. Because its value is determined daily by the market, Mr. Landay explained, the REIT tracks more closely to a small cap value fund than to a real estate index. REITs have a minimum of 75% of assets in real estate and pay out 95% of income. REITs are interest-rate sensitive and provides similar inflation protection as equities.

Trustee Given asked about the difference in diversified REITs having various asset classes and specialized REITs that focus on only one area of the market. In response Mr. Landay stated that investments are broadly diversified across sectors. In response to Trustee Shore’s inquiry, Mr. Landay explained that in global REITs the parent company is based outside of the United States.

Chair Brenk recessed the meeting for lunch at 12:15 p.m., reconvening at 12:36 p.m.

Trustee Webb made a motion to hire the managers presenting. Trustee Bolger recused herself from the decision and left the room because she is an investor in the Vanguard REIT Index Fund. Chair Brenk disclosed that he is a Vanguard client but is not invested in the Vanguard REIT Index Fund. Trustee Shore seconded the motion.

In response to Trustee Thomas’ inquiry, Mr. Callahan explained that the real asset vehicles presented above have an expected return and behavior going forward that benefits the portfolio for diversification purposes by reducing the overall risk of the Fund. Mr. Callahan spoke to the current extraordinarily unique time in the capital markets, with post-financial crisis governmental intervention resulting in a low inflation environment. There is a need to further diversify the portfolio, he stated, to address the likelihood that investment and market scenarios in the future will feature different macro-environmental conditions. For example, adding real assets would serve as protection against a potential future inflationary trend.

Mr. Callahan pointed out in response to Chair Brenk’s inquiry that commodities are a good diversifier because they have a low-to-negative correlation to equities and bonds. Active managers of commodities may be considered at a later date, he explained, since they add value by taking advantage of the futures curve by managing conditions known as ‘contango’ and ‘backwardation’.

Trustee Gladstern asked what has changed in advising adding commodities to the portfolio now when this was not the case in the past. In response Mr. Callahan explained that, unlike equities or bonds, putting a value on commodities based on the future value of cash flows is difficult. Nevertheless commodities are expected to rise in value, he stated. The intent is to build a small diversifying component into the real assets portfolio, which is a different discussion than in the past, he said.
In summary, Mr. Callahan noted that the passive real asset vehicles under consideration are expected to reduce overall expected risk for the Fund by 5% with a measurable reduction in fees.

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

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

Mr. Wickman stated that parameters are being presented for the previously approved Parametric rebalancing program. Mr. Callahan stated that targets and ranges for assets as set forth in the Investment Policy Statement are proposed for the Parametric overlay and rebalancing policy. Private equity and real estate do not have investable overlay options and therefore for rebalancing purposes will be included in the domestic equity category. In response to Trustee Bolger’s inquiry, Mr. Callahan explained that shorting a future is a liquid, non-leveraged transaction involving posting margin that is adjusted daily. Mr. Callahan characterized the rebalancing program as an efficient and economical method of controlling the portfolio asset allocations.

Trustee Piombo inquired about the 15% target to real estate in view of the new 8%/7% real estate/real asset targets. Mr. Callahan replied that an adjustment will be made to reflect the real assets portion when it is funded and he will look into whether real assets can be synthetically replicated.

It was M/S Shore/Webb to adopt the overlay program as presented including the recommended target ranges for rebalancing.

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

2. Investment Policy Statement Updates (Action)
Consider and take possible action on recommended amendments to Investment Policy Statement re:

1. Investment Goal Statement, Derivatives and Leverage, regarding rebalancing portfolio exposure, securitizing fund level and manager cash
2. General Investment Objectives and Guidelines to adjust benchmarks for international small cap stocks and fixed income portfolios.
4. Private Equity Policy to change benchmark.
5. Appendix A, Long-Term Strategic Asset Allocation Targets and Ranges regarding rebalancing the portfolio and securitizing cash.
6. Appendix A, Long-Term Strategic Asset Allocation Targets and Ranges to reduce Real Estate target and add Real Assets to Asset Classes and targets.
7. Appendix B-6, Pyramis Global Advisors Performance Objectives to change benchmark.
8. Appendix B-11, Policy Implementation Overlay Service, regarding name change to Parametric Portfolio Associates LLC and revisions to Investment Approach, Performance Objectives and Investment Guidelines.

Mr. Wickman recommended adopting the above with the exception of Item 3 which will be reconfigured in accordance with Agenda Item D.1 above. The revisions incorporate prior determinations of the Investment Committee into the Investment Policy Statement to bring it up to date.

It was M/S Piombo/Shore to approve amendments to the Investment Policy Statement as presented.

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

E. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE
For period ending December 31, 2014

Mr. Wickman reported that 1290 Borregas was sold for $12 million, bringing the total for the two Woodmont properties sold to date to $45 million. Mr. Callahan discussed the management of cash flows that staff will consider to maintain target asset allocations and build the new allocation to real assets.

Trustee Gladstern was excused from the meeting at 1:33 p.m.

Chair Brenk directed staff to develop a plan for funding real assets that would be presented at the March Strategic Workshop.

Anne Heaphy, Callan Associates Vice President, reported that the total Fund value was slightly above $2 billion as of December 31, 2014, gaining 6.42% net of fees (versus 6.5% for the benchmark) for the calendar year. During the final quarter of 2014 the Fund returned 2.07% net of fees (versus 1.82% for the benchmark) and ranked in the 20th percentile of the Callan Public Fund Universe. During 2014 domestic capital markets were strong and international market challenged. Domestic and international equity and real estate assets contributed relative positive performance for the final quarter. Overall
manager and asset allocation effects were also positive. Ms. Heaphy stated that assets are within target ranges, noting that the relatively high allocation to domestic equity has driven Fund performance. As a result the Fund has outpaced its 7.5% target investment return over the past 10 years.

Ms. Heaphy reviewed portfolio performance during the quarter, noting that Morgan Stanley and Artisan outperformed their indices. The DFA small cap value, Columbus Circle small cap growth and Pyramis small cap international portfolios lagged benchmarks. Fixed income slightly trailed the blended benchmark, with the Colchester Global Fixed Income portfolio experiencing currency challenges but nevertheless outperforming since inception a year ago. In the real estate sector core portfolios outperformed and material distributions are expected from the RREEF value-added portfolio over the next five quarters.

The Administrator reported that liquidation of the State Street Securities Lending Quality D Duration Pool was completed and the shortfall was less than the projected $85,000 that had been previously discussed with the Committee.

In response to Trustee Given’s inquiry Ms. Heaphy reviewed the Manager Watch List. The RREEF America III fund, with an original commitment of $15 million, is being wound down. Columbus Circle underperformed for two years in part due to an underweight to the biotechnology sector. Mr. Callahan expressed confidence in the manager, noting that small cap growth equities are expected to be volatile. The investment consultant further stated that quantitative easing by the Federal Reserve has caused an artificial environment on many levels, acting as a headwind for active managers who he expects will recover.

Trustee Bolger asked about the departure of the Chief Compliance Officer at Parametric and Mr. Callahan replied Callan was not concerned about this change to their team.

There being no further business, Chair Brenk adjourned the meeting at 2:03 p.m.