MINUTES

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)
RETIREMENT BOARD STRATEGIC WORKSHOP

Marin Community Foundation
5 Hamilton Landing, Novato, California
Redwood Room
March 25-26, 2015

Day One

8:00 a.m. – 9:00 a.m.
Continental Breakfast

9:00 a.m.
Call to Order Chair Shore called the meeting to order at 9:10 a.m.

Roll Call PRESENT: Bartfeld, Bolger, Brenk, Cooper (alternate safety), Given, Gladstern, Haim (alternate retiree), Piombo, Shaw (ex officio alternate), Shore, Thomas, Webb

ABSENT: None

Open Time for Public Expression Note: The public may also address the Board regarding any agenda item when the Board considers the item.

No public comment.

Chair Shore directed discussions to the second agenda item regarding oversight challenges posed by alternative investments.

Oversight Challenges Posed by Alternative Investments: What Issues do Alternative Investments Pose to Trustees/Board Members
Ashley K. Dunning, Partner
Yuliya Oryol, Partner
Nossaman LLP

Counsel Ashley Dunning, Partner with Nossaman LLP and Co-Chair of the Public Pensions and Investments Practice Group, stated that alternative investments including private equity, venture capital and hedge fund of funds do not afford some of the protections available through public investment vehicles. As a result there is a need to develop reporting processes to achieve informed oversight. In addition there are complexities associated with governing law, regarding fiduciary obligations for example, and the ownership structure for private equity vehicles. Ms. Dunning introduced Yuliya Oryol, Partner and Co-Chair of the Public Pensions and Investments Practice Group at Nossaman.

Ms. Oryol stated that alternative investments introduce complexities to the oversight process for public pension plans. Monitoring fees is the biggest oversight challenge, in Ms. Oryol's view. Violations in reporting management fees and operations in particular are a current issue for the Securities and Exchange Commission (SEC) which oversees private equity funds. In response to Trustee Bartfeld's inquiry, Mr. Oryol gave the example of the cost of chartered flights for due diligence operations. The additional cost over regular air fare may be negotiated with the general partner paying the difference. Similarly there is a need to allocate research and development costs. In response to Trustee Bolger's inquiry, Mr. Oryol explained that such disclosures are negotiated as part of the contract.

Another oversight challenge is the valuation of private equity holdings. In the absence of daily pricing (as with public investments), judgment and the ability to understand the industry itself are needed to assess appropriate valuations. The true value is only determined when the investment is sold, she observed. In response to Chair Shore's inquiry, Ms. Dunning explained that if there is disagreement on a valuation one option would be to conduct an independent review. It is important to know whether valuations are inflated, she said, since fees are based on the valuation.

One approach to address oversight challenges is the formation of a Limited Partner Advisory Committee (LPAC) to oversee conflicts of interest, waivers of restrictions in the partnership agreement, and monitoring and general oversight of the fund. Activities of the LPAC would include approving borrowing restrictions, use of public securities, term of the funds, and voting on the extension of investment terms if needed. The goal is to interact with other Limited Partners and monitor valuations and potential liabilities to the Plan. Another option is to request an observer seat with no voting authority.

Advisory committee are becoming more common as a sounding board for alternative investments. The presence of other California plans on advisory committees lends a level of credibility to the investment, according to Ms. Oryol. For smaller plans the investment consultant would fulfill the oversight process; depending on the size of commitments, investment consultants may get fee breaks and a seat on the board. Ms. Oryol addressed potential conflicts of interest in the event a consultant who oversees private investments is also affiliated with the General Partner who manages the investment.

Another avenue is to engage an independent advisor to oversee the General Partner. The advisor would develop a strategic plan, conduct due diligence, and receive and interpret financial reports for the Retirement Board. Ultimately the most important factor in the success of an alternative investment is the team that is running the fund and their track record, Ms. Oryol stated.

In summary Mr. Wickman explained that this session was strictly educational but it was also placed on the agenda as a lead-in to tomorrow's discussion of hedge fund strategies.

Chair Shore recessed the meeting for a break at 10:07, reconvening at 10:17 a.m. and directing discussions to the first agenda item regarding diligence and current trends in private equity.

9:00 a.m. – 12:00 p.m.
Diligence and Current Trends in Private Equity – Top Matters
Yuliya Oryol, Partner
Nossaman LLP

Ms. Oryol began the presentation on diligence and current trends in private equity by discussing issues with the reporting of fees. The SEC is investigating issues with fees in numerous private equity firms. In addition, Limited Partners are calling for greater transparency and fairness. According to Ms. Oryol there is a shift in expenses from the General Partner payroll to the portfolio companies, resulting in an expense against returns, instead of the General Partner's management fee. According to Ms. Oryol, the management fee should cover advisors for the portfolio companies and in-house services for legal, tax accounting, record keeping and back office operations. In response to Trustee Given's inquiry, Ms. Oryol stated that the trend is leading to transparency for all fees.

As a result of issues with fee reporting, there is a trend to align the interests of Limited Partners with the interests of General Partners. Limited Partners are seeking greater disclosure of affiliates and related parties, detailed calculation of management fees, the impact on fee offsets, expense reporting, and caps and parameters. She emphasized the importance of Side Letters to accompany Partnership Agreements with provisions to keep interests in balance. Ms. Oryol reviewed material Side Letter provisions, including the following key points:

- The Most Favored Nation provision allows for the same rights for same size of investments. Carve-outs may include a place on an advisory committee, for example.
- Investor rights to view Side Letters provisions – distributed before the closing with time for review. The problem has been in finding out what other investors have before the closing.
- Making California the jurisdiction for resolution of legal issues.
- Waiver of jury trials is something most clients want and General Partners may not prefer.
- The disclosure of "Bad Acts" – there has been reluctance on the part of General Partners to disclose these issues, which may be pertinent to the Limited Partners, such as legal proceedings against the General Partner.

As a way of managing issues related to alternative investments, Ms. Oryol presented and reviewed a checklist as a risk management tool.

1. Side Letter – Address whether there will be a Side Letter, which is advisable in view of the general nature of Limited Partnership agreements.
2. Waterfall Structure – Addresses the question of how are distributions are received. It is recommended to get committed capital back first, then some preferred level of return, followed by carried interest for the General Partner.
3. Carried Interest – Regarding the calculation of carried interest as to whether it will be net or gross of profits.
4. Clawback – Refers to the return of overpayments to the Limited Partner.
5. Management Fees – Consider how management fees are calculated. The trend is for the General Partner to take a step down after the initial commitment period.
6. Expenses / Operations – Consider what is included in addition to normal operating expenses, such as legal fees to form parallel funds.

In response to Trustee Bolger's inquiry, Ms. Oryol explained there is a management fee and performance fee, called "Carried Interest" split 80/20 between Limited Partners and the General Partner, respectively, after contributions have been returned.

7. Placement Agents - Disclosure is required by California Law and there has been an effort to educate General Partners on this matter. Ms. Dunning noted that MCERA has a Placement Agent disclosure policy to implement state law on this topic.
8. Term of Fund – Ms. Oryol indicated that either Limited Partners or LPACs typically have a right to limit extensions for the term of the fund.
9. General Partner Fee Income Offsets
10. General Partner Commitment – Relates to maintaining alignment of interests.

In response to Chair Shore's inquiry, Ms. Oryol stated that oversubscribed managers are sometimes less open to restrictions by Limited Partners.

11. Dedication of General Partner's time – Key persons should devote substantially all their business time to the fund.
12. Fiduciary Duty and Conflicts of Interest – Receive General Partner acknowledgement as to their fiduciary duty.
13. Removal of General Partner – Since cause is difficult to prove there should be a right to remove the General Partner without cause.
14. Investment Strategy – Considers the right to control the agreement if strategy changes.
15. Change to Fund – Relates to Limited Partner control over fund amendments.
16. No-Fault Rights and Withdrawal Rights – Defines conditions and control over material events such as suspension of commitment period and removal of General Partner.
17. Independent Auditor / Independent Fund Counsel. Limited Partners should have the right to an independent auditor and to approve a new auditor, for example.
18. Team and Personnel – Conditions for Limited Partner control over key man events.
19. Limited Partner Advisory Committee – Considers level of control over valuation methodologies, for example.
20. Management and other fees – Considers fee structure and timing and degree of fee disclosures.
21. Capital Calls and Distribution Notices – Addresses consistency with standards, expectations and reporting. Considerations include the degree of lead time and explanation of the purpose of the capital call. If the deal falls through, then the money should be returned. There is a need to know if another limited partner defaults on its capital commitment.
22. Disclosure related to General Partner – Addresses timing of and need to disclose events such as inquiries by regulatory bodies or potential liabilities for the fund, for example.
23. Risk Management – Considers reporting of material risks and the timing of same.
24. Financial Information – Providing for regular, standard quarterly and annual financial reports and timing of same.
25. Limited Partner information –General Partners need to disclose other limited partners and their commitment levels.

Trustee Bolger proposed more detail in reporting of capital calls and review of financial reports for the private equity portfolios.

Exit considerations were reviewed for specific investment vehicles. These include the following rights:

- Terminate the fund for a separate account
- Control exit strategies
- Orderly liquidation
- Remove the General Partner
- Suspend the investment period
- Assignment of interest

Exit considerations include:

- What is the vote required to liquidate a fund.
- Upon liquidation how well are the rights of Limited Partners documented.
- What are the conditions for an Initial Public Offering.
- What if a new regulation causes a change in investment strategy.

Trustee Haim expressed appreciation for the informative presentation.

Chair Shore recessed the meeting for lunch at 11:50 a.m., reconvening at 1 p.m.

12:00 p.m. – 1:00 p.m.
Lunch (on site)

Mr. Wickman invited members of the public to comment before or after presentations.

1:00 p.m. – 1:30 p.m.
Overview of MCERA's Fiduciary Responsibilities for Investing the Portfolio
Ashley K. Dunning, Partner
Nossaman LLP

Counsel Ashley Dunning stated that the Retirement Board's fiduciary responsibilities for investing the portfolio consist of the duty of care and the duty of loyalty, which are based on the California constitution, the County Employees' Retirement Law of 1937 (CERL), and existing case law.

In exercising the duty of care the trustee must act as a prudent expert, defined as a person exercising diligence in a like capacity and familiar with these matters. For investing trust assets, there is the additional responsibility, and objective legal standard, to make available particular further skills to the Board. Ms. Dunning further stated the Constitution explicitly mandates diversification of investments to minimize the risk of loss and maximize the rate of return.

In response to Trustee Webb's comment, Ms. Dunning noted that in the distant past permitted investments for public pension funds in California consisted solely of fixed income vehicles. Mr. Wickman responded to a question about whether a 100% fixed income portfolio would be appropriate for the Fund, noting that the Plan's annual funding models are based on the actuary's studies and recommendations and capital market projections provided by MCERA's professional investment consultant, both of which take into consideration MCERA's time horizon for investing the portfolio. Ms. Dunning pointed out that a qualified investment expert would have to explain why a given portfolio structure would be a prudent course for MCERA.

Regarding the fiduciary duty of care, Ms. Dunning stated that the legislature may by statute prohibit certain investments by retirement boards, provided that prohibitions can be implemented consistent with the Board's fiduciary duties, as determined by the Board. The duty of care includes the obligation to monitor the portfolio and take corrective action if necessary. There is a need to consult with experts where trustees do not have sufficient personal knowledge. The actuary and investment consultant provide their expertise to the Board on a regular basis, for example. Ms. Dunning advised that rejecting the investment or actuarial consultants' advice would require an informed, reasonable, and prudent rationale that was grounded in the expertise required on a particular subject. As an example, she explained that just "not liking using actuarial assumptions" would be an unsuitable reason not to follow an actuary's advice.

As to delegation, Ms. Dunning advised that the Retirement Board always retains the fiduciary responsibility, but may delegate discretionary authority where it is agreed that the consultant has acknowledged its assumption of fiduciary duties as to the assets or other responsibilities delegated to them.

In summary, Ms. Dunning equated the fiduciary duty of care with the duty of prudence. Prudence requires asking questions and understanding the rationale for actions, analyzing advice and recommendations from experts, and following the Plan Document and other applicable law and Board charters, policies, resolutions and Bylaws governing the retirement system.

Ms. Dunning next reviewed provisions related to the fiduciary duty of loyalty. Funds are to be used exclusively for the benefit of members and beneficiaries, she advised. The primary duty rule requires trustees to act solely in the interest of, and for the exclusive purposes of providing benefits to, members and beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to the system's participants and their beneficiaries takes precedence over any other duty. According to Ms. Dunning, this is an important provision that is supported by considerable case law.

Further, duty of loyalty principles provide that once on the Board a trustee may not act as an agent for the appointing party or electing members. Nor may a trustee have collateral interests, meaning being motivated by advancing other purposes that are not serving the retirement interests of members and beneficiaries. Thus, for example, in managing the investments of the Fund, the trustee's decisions must not be motivated by a purpose of advancing or expressing the trustee's personal views concerning social or political issues or causes. Ms. Dunning stated that the Department of Labor guidance is that the reasonably expected investment return of the Plan is not to be compromised.

In response to Trustee Haim's inquiry, Ms. Dunning explained that for ESG investments there would be an obligation to consider the investment return expectation for the divestment/engagement.

In conclusion Ms. Dunning reviewed processes to demonstrate fiduciary compliance which include analysis, advice, reporting, education, independent investment and actuarial oversight, and legal consultation. Ms. Dunning stated in response to the inquiry of a member of the public that the Plan is funded and investments managed to achieve a reasonable return so employers are not overburdened. Funding policies are designed to smooth the annual highs and lows of employer contributions in order to manage volatility and at the same time maintain an actuarially sound system. According to Mr. Wickman the key aspect is every year the plan for financing the benefits is reviewed and revised as appropriate by the Board, taking into consideration investments, experience and demographic and economic assumptions.

Mr. Wickman introduced the Reverend Kirsten Snow Spalding, noting MCERA has received public comment on this topic.

1:30 p.m. – 3:30 p.m.
Utilizing Environmental, Social and Governance Factors in Your Investment Process
The Reverend Kirsten Snow Spalding, West Coast Regional Director of Investor Programs
CERES

Ms. Spalding described CERES as a non-profit advocate for sustainable investing. The message is to make an economic case regarding risk and opportunity, not what is right for the world. In response to Trustee Brenk's inquiry, she stated that CERES is funded by fees most of which are from foundations. There is a CERES network on climate risk consisting of 114 investors including CalPERS, CalSTRS, insurance companies, large banks, and asset managers such as BlackRock and State Street.

In response to Trustee Bolger's inquiry Ms. Spalding stated that investment managers are not necessarily divesting but are interested in assessing risk. CERES integrates environmental-social-governance (ESG) issues throughout the entire investment process. Carbon risk focuses on stranded assets in coal and gas companies. Trustee Shore asked if they have dropped any initiatives and Ms. Spalding acknowledged that the level of interest in selected issues is cyclical.

Ms. Spalding defined sustainable investing as meeting the needs of current beneficiaries without compromising the needs of future beneficiaries. Mega-trends include climate risk, population growth, human rights, worker safety, resource depletion, and economic globalization. The goal is to integrate material ESG risk and opportunities into the investment process. Ms. Spalding co-authored "The 21st Century Investor" listing ten steps to implement initiatives. Factors include materiality, asset allocation, investment strategy, manager selection, and monitoring manager performance. The premise is that climate change leads to material investment risks and opportunities. The conclusion is there is a need to understand and address these risks. CERES advocates measuring the risk and basing decisions accordingly.

Three methods listed by Ms. Spalding of measuring carbon in an investment portfolio are: 1) carbon emissions (a work in process); 2) fossil fuel reserves (at risk of being stranded); and 3) carbon substitution by shifting some fossil fuel holdings into clean energy opportunities to balance risk across the portfolio. Some fossil fuel companies are leading in the clean energy space, she said, and therefore there is not necessarily a need to change companies.

In response to Trustee Brenk's inquiry on the potential for fossil fuel assets becoming stranded, Ms. Spalding replied there should be a long term view and the market may not be looking that far out. Chair Shore supported the view that the market is smarter than that in discounting the value of future cash flows. There could be regulation against the extraction of fossil fuels, Reverend Spalding said, adding we as market actors need to look at this in new ways. Chair Shore inquired about a tax on carbon emission, which CERES takes no position on, she said. Chair Shore observed that because of the complex analytics involved and uncertain time frames, the political approach may be preferable.

Ms. Spalding responded to trustee inquiries, stating in response to Trustee Haim there are no '37 act systems in the CERES network but some work is being done for the Los Angeles Area Pension Trustees Network. CERES serves student organizations and businesses with green policies, she explained in response to Chair Shore's inquiry. In response to his comment that investment analysts do this work, Ms. Spalding expressed her opinion that Bloomberg is picking this issue up but this is not the case with buy-side analysts. As to Trustee Gladstern's inquiry on the manager search process, Ms. Spalding advised asking how managers deal with stranded asset risk in their portfolio, and let them know to include this in their presentation. In addition, she said, find out if proxy voting policies address this issue. Ms. Spalding gave examples of ways to go about asking questions and offered CERES resources to provide examples of what others have done. Responding to Trustee Bolger's inquiry, she stated that CERES is advocating for legislation on the structure of a carbon-free index. As for impact investing, Ms. Spalding said many investors in the network are active in this area but this is not the case for public pensions and the largest asset managers.

In conclusion Ms. Spalding indicated that CERES does not advocate for divestment legislation. She recommended direct engagement as a good first step to understanding risk. Based on the level of resources available, different approaches are to be expected, she said. For example, CalPERS is staffed to have a meaningful engagement process and as a large system is in a position to test strategies. This would not be appropriate for a fund as small as MCERA's Fund, she said.

Chair Shore recessed the meeting for a break at 2:50 p.m., reconvening at 3:02 p.m.

3:30 p.m. – 4:00 p.m.
Closing and Follow-up Items from Today's Agenda

Chair Shore expressed appreciation for the well-organized educational presentations. Mr. Wickman noted the intent was to lend a policy-level perspective based on the interests expressed by the Board and Investment Committee. Along with insight into Nossaman's expertise, the concepts presented set up tomorrow's presentations on the capital markets and absolute return strategies.

As a follow-up to the presentations on private equity, Trustee Bolger requested an analysis of private equity portfolio fees and financial statements by Callan Associates. Trustee Given supported her view, noting these should be expectations moving forward. It was suggested that the Governance Committee develop the list of issues private equity managers should address when meeting with the Board.

Responding to Trustee Piombo's inquiry, Ms. Dunning advised that the Board is not required to have a further discussion of the CERES presentation beyond the discussion that had already occurred during the Workshop. Mr. Wickman observed that today's presentation allowed the Board to follow-up on comments received during open public expression and to continue conducting its diligence in this area.

Trustee Shore recessed the meeting at 3:34 p.m.

EVENING RECESS

5:00 PM
Dinner at Wild Fox
225 Alameda Del Prado
Novato, CA

Day Two

8:00 a.m. – 9:00 a.m.
Continental Breakfast

Chair Shore reconvened the meeting at 9:00 a.m.

9:00 a.m. – 10:30 p.m.
Economic and Capital Market Review
Jim Callahan, Executive Vice President
Jay Kloepfer, Executive Vice President
Callan Associates

Jim Callahan, Executive Vice President of Callan Associates, introduced Jay Kloepfer, Executive Vice President, who presented the Economic and Capital Market Review. Mr. Kloepfer explained that even with a long-term time horizon short-term events need to be analyzed and considered to determine the appropriate path.

There have been interesting divergences in economies around the globe, according to Mr. Kloepfer, who indicated that relative to the United States, the rest of the world's economies look weak. There is a divergence in the euro zone where peripheral countries are struggling.

Emerging markets are dependent on the euro zone for growth. The growth rate in China is slowing where 360 million people are moving from the country to the cities. With its relatively strong job market the United States is attracting capital.

Mr. Kloepfer believes short-term interest rates will rise gradually, which has never been the forecast before. The potential for stocks moving lower is greater than for bonds, he stated. Therefore, Mr. Kloepfer cautioned against further trimming bonds in reaction to interest rates being at all-time lows.

Trustee Shore inquired about social inequity. In response Mr. Kloepfer referenced forecasts indicating slowing growth of the labor force and income inequality.

Mr. Kloepfer reviewed historical returns across asset classes, noting that returns are close to projections. Over 5 years returns look good and over 10 years, including the market downturn, returns are reasonable. Fifteen-year returns for stocks and bonds are the same. Mr. Kloepfer observed that investors need to be prepared for market volatility. Mr. Kloepfer reported that the yield curve has flattened as long term rates fell from 2013 to 2014. This is a reflection of investor sentiment and lower-than-normal GDP growth. The United States has recovered all the jobs that were lost during the 2008 recession, he stated, but jobs have lower pay rates. Mr. Kloepfer noted that the labor force participation rate has declined markedly from 2000 levels.

Trustee Brenk asked about the relatively high level of home ownership affecting statistics on housing. In response Mr. Kloepfer said that household formation is trending lower in reaction to weaker wage growth, lower marriage rates, and limited access to credit to buy a house. Debt burdens remain relatively high, he said.

Positive forces listed by Mr. Kloepfer include pent-up demand for durable goods and lower oil prices which benefits consumers. Corporate profits have been strong as companies are learning to be more efficient but may be near a peak. Consumption is now growing faster than the greater economy which is encouraging. He noted that the commodity super-cycle since 2007 appears to have ended and real price declines are expected over the next 10 years. Mr. Kloepfer expects the Fed to raise interest rates sooner rather than later.

Trustee Gladstern joined the meeting at 10:03 a.m.

In conclusion Mr. Kloepfer reviewed projected 10-year returns for MCERA asset classes which are 7.6% for domestic equity, 7.8% for global ex-U.S. equity, 3% for domestic fixed income, 8.5% for private equity, 6.25% for real assets and 2.25% for cash equivalents. The challenge, he stated, is not taking too much risk for returns. Mr. Callahan noted that Diversifying Assets (projected return of 6.35%) using absolute return and hedge fund strategies are getting more attractive. Vehicles for this class focus on liquid public markets and are modeled on a 60/40 (equity/fixed income) expectation. Mr. Callahan explained that the idea is to achieve a similar return but with a diversifying effect.

Chair Shore recessed the meeting for a break at 10:15 a.m., reconvening at 10:30 a.m.

Trustee Bolger thanked retiring Trustee Gladstern for her dedicated service and wished her well on behalf of the Retirement Board. In her twelve years on the Board Ms. Gladstern served as chairperson of the Board and of all the Board's committees. Trustees Shore, Haim, Webb, Brenk, Thomas, Given and Shaw joined in the well wishes. Mr. Wickman expressed appreciation for her focus and guidance early in his tenure. Ms. Gladstern thanked her peers for the well wishes and expressed appreciation for serving on the Retirement Board.

10:30 a.m. – 12:00 p.m.
Education on Absolute Return and Hedge Strategies
Jim Callahan
Callan Associates

Mr. Callahan introduced the topic of absolute return and hedge strategies by comparing the risk/return profile projected for the Fund as currently structured with the risk/return profile resulting from the addition of a diversifying assets allocation. Mr. Callahan explained that the strategy centers around global equity and global fixed income assets explicitly designed to have a different return pattern from a standard 60/40 (60% equity, 40% fixed income) public portfolio. The focus is on tactical allocation and capital preservation, he said.

Trustee Given commented on the complexity of adding more managers and additional cost to the Fund. In response Mr. Callahan said this is an educational presentation to familiarize the Board with the broad universe of strategies available and the characteristics of different implementation vehicles. Exposures could include long short derivatives across broadly diversified investments. Hedge funds are limited partnerships that can use leverage and go short. In response to Trustee Haim's inquiry, Mr. Callahan stated that the goal of absolute return strategies is to deliver consistent, low volatility returns that are not directly correlated to the market.

Mr. Callahan compared investment performance of absolute return strategies with market indices that show there is return potential and a diversification benefit in reducing equity risk and smoothing volatility. Over 20 years hedge funds have delivered well, Mr. Callahan said. There is complexity from a back-office perspective, he stated, and fees are relatively expensive and include carried interest.

Mr. Callahan reviewed types of hedge fund strategies across the $2.8 trillion hedge fund universe and reviewed data showing there is a strong case for building a diversified hedge fund portfolio. The multi-strategy approach has become the more popular way to implement hedge fund exposure, he stated. Trustee Shore inquired about how the continuation of skill sets moving forward could be projected. In response Mr. Callahan indicated that there may be marginal diminishing returns since the bigger the universe the more difficult it becomes to implement the strategy.

Mr. Callahan reviewed the concept of risk parity, embraced in the institutional market, in which there are equal contributions to risk for each element in the portfolio. In response to Trustee Brenk's inquiry, Mr. Wickman noted that recently the San Diego County Employees Retirement Association has reduced exposure to risk parity. Expected outcomes for this approach were reviewed that result in favorable performance in weak market conditions and underperformance in strong markets.

A detailed review of historical return patterns for hedge funds followed. Mr. Kloepfer observed that dispersion of returns is reduced with the use of fund-of-funds. Mr. Callahan discussed the relative importance of strategy or portfolio design versus manager selection. Trustee Gladstern asked about CalPERS' experience and Mr. Callahan replied it is ending its hedge fund program. They were a victim of their size, he stated, and indicated hedge funds did not materially affect the Fund and were time-consuming for those managed internally.

In conclusion Mr. Callahan indicated that using a direct investing approach would be complex and costly and not appropriate for MCERA. He explained that the diversification effect can be achieved in a fund of fund portfolio that would be initiated by a manager search. The investment consultant advised that considering whether or not there is a desire to reduce the volatility of the Fund's equity exposure should be done on a regular basis. Chair Shore expressed appreciation for the educational presentation. Trustee Haim, referencing the difficulty of the market downturn in 2008, said he sees the need to diversify the portfolio to reduce risk. The Board discussed the relative merits of the strategies and decided that there would be no further action at this time.

Mr. Callahan presented public real asset funding recommendations at the request of the Investment Committee based on its determination to invest 7% of the Fund in real assets. Of three options presented, the investment consultant recommended Option 3 whereby the new asset class will be initially funded at 2.9% of total fund assets sourced from available cash ($36 million) and the S&P 500 Index Fund ($24 million). As the Woodmont real estate properties are sold, the proceeds can be distributed evenly among the four portfolios to bring the public real assets allocation to target.

It was M/S Piombo/Webb to adopt the recommendation of the investment consultant dated March 26, 2015 to implement Option 3 to fund the real asset portfolio.

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

Trustee Shore recessed the meeting for a break at 12:08 p.m., reconvening at 12:18 p.m.

Trustees Bolger, Given and Cooper were excused from the meeting.

12:00 p.m. – 12:30 p.m.
Closing and Follow-up Items from Today's Agenda

There being no further business, Chair Shore adjourned the meeting at 12:28 p.m.

DNShore
Dave Shore, Chair

Attest: Jeff Wickman
Retirement Administrator