MINUTES
INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)
One McInnis Parkway, 1st Floor
Retirement Board Conference Room
San Rafael, CA
September 10, 2015 – 9:00 a.m.

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

ROLL CALL
PRESENT: Bolger, Brenk, Given, Haim (alternate retired), Murphy, Piombo, Shaw (ex officio alternate), Shore, Webb
ABSENT: Cooper (alternate safety), Thomas

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

Jim Callahan, Callan Associates Executive Vice President, gave a brief overview of the strategies for managers presenting at today's meeting. Emerging markets and core real estate portfolios will be reviewed as will the futures overlay and rebalancing programs.

2. Parametric, Emerging Markets Equity – Dan Ryan, Brian Dillon – 9:05 a.m.

Dan Ryan, Parametric Portfolio Associates LLC (Parametric) Managing Director and Client Relationship Manager, reported that the transition of the Chief Investment Officer (CIO) position from David Stein to Paul Bouchey has been seamless. In response to Trustee Bolger's inquiry, Mr. Ryan stated that replacing the Chief Compliance Officer is still in process. As of June 30, 2015, the emerging markets portfolio returned 0.75% net of fees for the quarter (versus 0.69% for the MSCI Emerging Markets index) and 3.53% net of fees over the past 3 years (versus 3.71% for the MSCI Emerging Markets index). Mr. Ryan introduced Jeff Brown, Director and Institutional Portfolio Manager, to present the annual portfolio review.

Mr. Brown stated that country selection and a disciplined rebalancing program account for 80% of returns for the emerging markets portfolio. He explained that the strategy calls for more diversification than the benchmark MSCI Emerging Markets index, which has 80% of holdings in the top nine emerging markets countries. Countries are selected according to...
market capitalization and liquidity and are divided into tiers, with countries in each tier equally weighted. Frontier markets are not correlated and are therefore good diversifiers, according to Mr. Brown. Stock selection within countries is based on benchmark weights. The portfolio is systematically rebalanced using country-specific triggers to sell overweight positions and invest in underweight positions.

Trustee Haim inquired about negative economic factors for emerging markets. In response, Mr. Brown stated that the strategy is expected to add value over time through economic cycles. Responding to Trustee Bolger’s inquiry, Mr. Brown stated that if trading is too difficult in a specific market they move on to the next investment option. Mr. Brown stated that the 2% redemption fee is a performance advantage for the tax-managed emerging markets fund relative to the collective investment trust vehicle, in response to Trustee Bolger’s inquiry. Trustee Brenk inquired about the effect of increasing volatility and Mr. Brown stated that volatility is a positive for the portfolio.

Trustee Shore joined the meeting at 9:31 a.m.


Jack Hansen, Chief Investment Officer with Parametric, stated that the Policy Implementation Overlay Service (PIOS) generates returns by passing equity and bond risk premiums onto the Fund’s 2% average cash balance. Since inception in 2001 the overlay program has returned 16 basis points (0.16%) on an annualized basis and the fee is 1/20th of that amount.

The objectives of the overlay program include increasing the “on demand” liquidity position so that unintended cash may be invested until needed. The result is the Fund’s un-invested cash position is near zero. Other objectives are to provide improved daily monitoring of Fund positions and maintain asset class exposure during transition periods. For example, the overlay program was used when assets were moved from the S&P 500 portfolio to real assets. Finally, the overlay program is expected to increase the long-term expected return on the Fund by over 0.10% compounded annually.

On June 30, 2015 threshold rebalancing was added which should result in another 10 basis points per year, Mr. Hansen said. He explained that ranges (bands) for asset classes are predetermined and the Fund is rebalanced by purchasing assets breaching the low end of the band and selling assets that breach the top of the band. On average rebalancing occurs once per year. Responding to Trustee Shore’s inquiry regarding letting momentum run, Mr. Hansen said the bands are within the norms, a little wider than most, and he considers them appropriate.

In summary Mr. Hansen stated that over the past 14 plus years the overlay service has resulted in the elimination of cash exposure, generated $35.5 million of net incremental return, and improved tracking against benchmarks thereby lowering risk. In response to Chair Brenk’s inquiry regarding setting some cash aside, Mr. Hansen advised that from a long-term perspective it is best to remain fully invested.
4. **UBS, Core Real Estate – Thomas Klugherz, Steve Olstein – 9:55 a.m.**

Tom Klugherz, Executive Director and Portfolio and Client Services Officer with UBS Realty Investors LLC (UBS), stated that the Trumbull Property Fund is the flagship fund for UBS. Mr. Klugherz stated that real estate tends to benefit from strong Gross Domestic Product (GDP) and employment growth. Market conditions are favorable, he said, with strong corporate profits, minimal inflationary pressure, and efficient loan markets. For the year ending June 30, 2015 the Trumbull Property Fund returned 11.62% (versus 13.64% for the NFI-ODCE Equal Weight Net index).

Steve Olstein, Executive Director and Portfolio Manager, stated that the Trumbull Property Fund provides access to private real estate at the lower end of the risk spectrum. The strategy focuses on investing in high quality existing properties that produce income. Portfolio risk is mitigated by restricting leverage and adhering to a diversification model, according to Mr. Olstein. A small percentage of investments devoted to building new properties to suit has contributed to performance over time. There is some level of development in the majority of apartments, Mr. Olstein said in response to Chair Brenk’s inquiry. The firm implements a sustainability strategy and is ranked 2 in global sustainability ratings.

Asset allocations were reviewed as compared with the benchmark NFI-ODCE Equal Weight Net index. Mr. Olstein stated that the office sector is underweight and apartments and retail are overweight. Responding to Trustee Shore’s inquiry, Mr. Olstein explained that internet retailers are opening stores because brick and mortar retail is still important even though there are high internet sales. Mr. Olstein noted that construction starts and employment levels are important economic indicators for real estate in response to Trustee Haim’s inquiry.

In conclusion Mr. Olstein reviewed specific properties and addressed the importance of managing lease timing. There has been an active acquisition program since inception of the portfolio, he said, and income growth has been very good. Periods of underperformance to the benchmark were attributed to a lower leverage level for the portfolio. Recently most performance is coming from appreciation, Mr. Olstein observed.

Mr. Wickman recommended adding an item to the agenda regarding the UBS capital call in the amount of $50 million, stating that the capital call is due by September 18, 2015, before the next Investment Committee meeting and that the matter came to the attention of MCERA on September 4, 2015, subsequent to the posting of the Investment Committee Agenda on September 3, 2015. Counsel Dunning advised that under these circumstances, the Brown Act permits the Board to add the UBS Capital Call item to the agenda if at least two-thirds of the Board members present vote to do so.

It was M/S Given/Webb to invoke the “need for immediate action” exception to the Brown Act and add Agenda Item C.4, UBS Trumbull Property Fund Capital Call, to today’s Investment Committee meeting Agenda. The Board approved the motion unanimously.

| AYES: | Bolger, Brenk, Given, Murphy, Piombo, Shore, Webb |
| NOES: | None |
| ABSTAIN: | None |
| ABSENT: | Cooper, Thomas |
Based on the vote to add a new agenda item, deliberations were directed to **NEW BUSINESS**, Agenda Item C.4.

**C. NEW BUSINESS**

4. **UBS Trumbull Property Fund Capital Call (Action)**
   Consider and take possible action to reduce the amount of the capital call

   Mr. Wickman discussed the status of the Fund’s asset allocations, noting that based on recent market activity rebalancing the portfolio will be considered in Agenda Item C.3. In addition Mr. Wickman noted that the target for private real estate was reduced to 8% of the Fund and a new real asset allocation of 7% was added. As a result, according to Callan Associates a lesser amount than the $50 million capital call for the UBS Trumbull Property Fund would be appropriate. The new proposed commitment is $8 million. Based on discussions Ms. Dunning indicated action on this agenda item may be deferred until the rebalancing presentation, Agenda Item C.3, by Callan Associates and the Chair so directed.

**MANAGER ANNUAL REPORTS** continued.

5. **AEW, Core Real Estate – Candida Hoeberichts, Jonathan Martin – 10:20 a.m.**

   Candida Hoeberichts, Director, AEW Investor Relations, introduced Portfolio Manager Jonathan Martin to present the annual portfolio review. For the year ending June 30, 2015 the AEW Core Property Trust returned 12.19% (versus 13.64% for the NFI-ODCE Equal Weight Net index). Mr. Martin stated that the conservative investment strategy focuses on income from high-quality properties in liquid, first-tier markets. The portfolio is diversified across the top ten coastal markets in the United States. Asset allocations are closely aligned with the benchmark NFI-ODCE Equal Weight Net index, with the exception of the Atlanta and Miami markets which are overweight to the index. In response to Chair Brenk’s inquiry, Mr. Martin stated that a thorough insurance program and due diligence protect against exposure to natural disasters in the southeastern United States.

   Discussing the status of the portfolio, Mr. Martin reported that as of June 30, 2015 occupancy is 95% and leasing activity is strong. The office sector is improving as the economy recovers from the economic downturn. Mr. Martin noted that appreciation has become a significant part of total return for the core real estate portfolio as lower capitalization rates lead to higher appraisal values. Eventually these conditions are expected to normalize back to a focus on income. Mr. Martin stated that the historically low leverage ratio of 25% is increasing as long-term fixed debt is acquired at low interest rates.

   In conclusion Mr. Martin reviewed specific properties. Noting that acquisition activity has slowed, in the near term he expects net selling of holdings. In response to Trustee Shore’s inquiry, Mr. Martin explained that the office sector will be reduced to pay down several maturing loans. As far as the market cycle from a yield perspective rates are at or near historic lows. The AEW Core Property Trust is well positioned to do well in the current environment, Mr. Martin said, and is expected to produce good income relative to other asset classes over the next two to three years.

Chair Brenk recessed the meeting for a break at 10:54 a.m. reconvening at 11:12 a.m.
NEW BUSINESS continued.

1. Private Equity Program Funding (Action)
   Consider and discuss pacing plan for private equity program

   Mr. Callahan presented a review of the private equity program and a proposed funding pacing plan, advising that it is time to consider recommitments to the private equity asset class. He introduced Gary Robertson, Senior Vice President and Manager of the Callan Associates Private Equity Research Group, for the presentation.

   Mr. Robertson explained that private equity consists of unregistered investments accessed through limited partnerships. Over time private equity returns are expected to exceed public equity returns (as measured by the S&P 500 index) by 3 to 4%. In response to Trustee Given’s inquiry about current investment opportunities, Mr. Robertson indicated the investment pace is slowing down and assets are relatively highly priced.

   MCERA’s private equity program, managed by Abbott Capital Management (Abbott) and Pathway Capital Management (Pathway), was initiated in 2008 at the start of an economic downturn. As a result of increased merger and acquisition activity over the past two and a half years, private equity assets are nearing the 8% target allocation. Follow-on investments serve to maintain the private equity target allocation as distributions are returned to the Fund and sustain vintage year diversification. Reinvestment is needed since committed capital remaining uncalled does not support getting the private equity program to target, Mr. Robertson explained.

   Mr. Robertson reviewed a proposed Pacing study showing projected future commitments to the private equity program. Of two funding methods, Annual or Serial, Callan Associates recommends the Annual funding method which has smaller and more frequent commitments leading to program consistency and more efficient Net Asset Value (NAV) management. The Annual funding model calls for a $50 million investment, followed by lesser amounts ($40 million) in subsequent years. Mr. Robertson noted that the Pathway Capital Management PPEF I-8 is currently open but is expected to close by the end of 2015. Abbott is launching the Annual Program (AP) 2016 fund, phasing out the ACE fund series that MCERA is invested in.

   Chair Brenk recessed the meeting for a break at 12:13 p.m., reconvening at 12:37 p.m.

2. Private Equity Managers (Action)
   Consider and take possible action on new commitments to private equity program

   Mr. Robertson recommended implementing the Annual funding model for the private equity program by committing $50 million each to Abbott and Pathway’s new private equity funds.

   Mr. Robertson reviewed strategies and performance metrics of private equity funds managed by Abbott and Pathway, reporting that overall performance is competitive with the universe of private equity fund-of-fund providers (the Thomson/Cambridge All Region, All Private Equity Benchmarks as of March 31, 2015). Both managers take conservative approaches and focus on the developed private equity markets, Mr. Robertson said. Mr. Callahan observed
that Abbott and Pathway complement one another in their approaches, thus providing for diversification for the private equity asset class.

It was M/S Piombo/Webb to approve the Annual funding method for the private equity portfolio as set forth on page 4 in the Callan Associates Private Equity Portfolio Commitment Pacing Study and Manager Review dated September 10, 2015.

AYES: Bolger, Brenk, Given, Murphy, Piombo, Shore, Webb
NOES: None
ABSTAIN: None
ABSENT: Cooper, Thomas

Mr. Wickman requested authorization to commit $50 million to Pathway’s PPEF I-8 fund before the fund closes at the end of 2015.

It was M/S Bolger/Piombo to commit $50 million to the Pathway Private Equity Fund (PPEF) I8 subject to contract negotiations, any other due diligence and the exclusion of the co-investments option.

AYES: Bolger, Brenk, Given, Murphy, Piombo, Shore, Webb
NOES: None
ABSTAIN: None
ABSENT: Cooper, Thomas

Trustee Haim was excused from the meeting at 1:06 p.m.

3. Portfolio Rebalancing (Action)

Review August portfolio assets against targets and consider possible action to rebalance the portfolio

Mr. Callahan explained that portfolio rebalancing is a risk control discipline to keep asset allocations reasonably close to targets. Ranges around these targets are designed to allow for market volatility and to balance the cost of rebalancing the Fund. Asset classes that are more volatile are given a wider range, for example. The investment consultant reported on portfolios that have pierced their ranges: the Dimensional Fund Advisors Domestic Small Cap value and the Columbus Circle Domestic Small Cap Growth portfolios are above the top of their ranges and the Parametric Emerging Markets and Colchester Global Fixed Income portfolios are below the low end of their ranges.

In order to rebalance the Fund, Mr. Callahan recommended trimming the Dimensional Fund Advisors and Columbus Circle portfolios by a total of $45 million to below target, reducing the $50 million UBS capital call to $8 million, and investing a total of $37 million in the Parametric Emerging Markets, Western Asset Intermediate Credit Fixed Income, and Colchester Global Fixed Income portfolios. Callan Associates recommends staying in the UBS queue by deferring the balance of the $50 million capital call to use as the Fund grows.

Trustee Bolger observed that Parametric is currently on the MCERA Watchlist. According to Mr. Wickman the Investment Policy Statement provisions prevent managers on the Watchlist from receiving additional assets. Based on discussions the Governance Committee will review
the Investment Policy Statement provisions with respect to the Watchlist at its November meeting. In the meantime Mr. Callahan recommended using the futures overlay program to rebalance emerging markets assets.

It was M/S Piombo/Shore to approve rebalancing the Fund based on Callan Associate’s recommendations outlined the September 10, 2015 Rebalancing Recommendation Memorandum, using the futures overlay program to rebalance emerging markets assets and deferring $42 million of the UBS $50 million capital call.

AYES: Bolger, Brenk, Given, Murphy, Piombo, Shore, Webb
NOES: None
ABSTAIN: None
ABSENT: Cooper, Thomas

D. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE
For period ending June 30, 2015

Anne Heaphy, Callan Associates Vice President, reported the Fund was valued at $2.06 billion as of June 30, 2015. As of that date, the Fund returned 1.15% during the quarter, outperforming the Composite Benchmark return of 0.35%, with a preliminary return of 4.54% net of fees for the fiscal year, outperforming the Composite Benchmark return of 3.07%. Total Fund returns exceed the Benchmark Composite over the past 3, 5 and 10 year periods.

On June 30, 2015 funding was initiated for the real assets portfolio and asset allocations were close to interim targets. Ms. Heaphy stated that most asset classes contributed to relative outperformance during the quarter, with the exception of the private equity portfolio whose valuations are not yet available. The overweight to domestic small cap equity contributed to returns as small caps outperformed large cap equities during the quarter. In the real estate portfolio favorable sales of private holdings and winding down value-added portfolios contributed to a 7.53% net-of-fee return in the quarter ending June 30, 2015.

Ms. Heaphy reviewed the performance of selected individual portfolios, noting that the return pattern for the momentum-driven Columbus Circle small cap growth portfolio is expected to be volatile and will differ from its benchmark. According to Mr. Callahan it is important to recognize that the Columbus Circle portfolio has returned 18% annualized over 5 years. In the fixed income portfolio Colchester’s outperformance to the benchmark was attributed to an underweight to United States government bonds.

In summary Mr. Callahan observed that with favorable private real estate property sales the equity asset class is closer to target, thus mitigating the equity effect. Given concerns about rising interest rates, the overall portfolio structure worked well during the quarter, he concluded.

There being no further business, Chair Brenk adjourned the meeting at 1:56 p.m.

Greg Brenk, Chair

Attest: Jeff Wickman
Retirement Administrator