

MINUTES
INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA

June 9, 2016 – 9:00 a.m.

CALL TO ORDER

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

ROLL CALL

PRESENT: Bolger, Cooper (alternate safety), Given, Gladstern, Murphy, Piombo, Shaw
(ex officio alternate), Shore, Stevens, Thomas

ABSENT: Brenk, Haim (alternate retired)

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. NEW BUSINESS

1. **Real Assets Manager Selection (Action)**

Consider and take possible action to select active manager for Global Natural Resources portfolio

a. **Overview – Callan Associates – Jim Callahan, Andy Iseri – 9:00 a.m.**

Jim Callahan, Executive Vice President, Callan Associates, introduced Andy Iseri, head of global and international equity research for Callan Associates. Mr. Iseri outlined the three managers under consideration for the global natural resources equity portfolio. Jennison Associates is a pure play on global natural resources. T. Rowe Price has significant exposure to the commodities but differs from Jennison Associates in diversifying into the customer chain which helps in bear markets. Kleinwort Benson Investors International's unique strategy is to invest in companies providing solutions to global resource challenges rather than direct use of the natural resources. Trustee Gladstern requested that each manager discuss the approach to environmental, social and governance (ESG) matters during their presentations.

b. Jennison Associates – Global Natural Resources Equity – Jay Saunders, Abhi Kamerkar, MacKenzie Hurd – 9:10 a.m.

MacKenzie Hurd, Client Relationship Manager with Jennison Associates (Jennison), stated that the global natural resources strategy was initiated in 1991. Mr. Hurd introduced Portfolio Manager Jay Saunders and Portfolio Specialist Abhi Kamerkar. Mr. Kamerkar stated that the global natural resources strategy is both top down and bottom up with value added through stock selection. The strategy is characterized by a long-term focus on secular changes in the commodity markets with relatively low turnover of 20 to 40% annually.

Responding to Trustee Shore's inquiry about dramatic changes in the commodities markets, Mr. Kamerkar stated that the strategy calls for adapting to changes in facts and performs well in flat markets and uptrends. Responding to Trustee Stevens' inquiry, he stated that this is the only strategy the team manages.

Portfolio Manager Jay Saunders explained that investments are selected based on identifying exposure to the resource that facilitates production and can lead to better margins. He emphasized the focus on cash flow and earnings before interest, taxes, depreciation and amortization. Mr. Saunders shares investment ideas with the 3-member portfolio management team which are then either validated or refuted. High-conviction ideas are implemented gradually.

Trustee Given joined the meeting at 9:25 a.m.

Mr. Saunders stated that the energy sector typically comprises approximately 60% of the portfolio. Other sectors include materials such as diversified metals and precious metals. Due to volatility the plan is to change the portfolio structure to adapt to a shorter time frame. The portfolio manager attributed the fall in oil prices in 2015 to high inventories as a result of more supply and the weak economy. The plan is to stay long in the energy space as inventories are getting low in a modest supply-demand scenario.

Responding to Trustee Shore's inquiry Mr. Saunders indicated that diversification into alternative energy is a potential approach. On ESG matters he believes energy companies have responded well to regulations and need to act responsibly.

Trustee Bolger asked why active management is better than a passive approach. In response Mr. Saunders observed that average quarterly excess returns demonstrate that passive management can never expose an investor to alpha, or returns over the benchmark. By actively diversifying and limiting companies with risk, he said, the portfolio will outperform over the long term. In response to a question, Mr. Saunders explained that Jennison is a wholly owned subsidiary and manages products independently.

c. Kleinwort Benson Investors International – Global Resource Solutions – Noel O'Halloran, Simon Padley, Geoff Blake – 9:45 a.m.

Geoff Blake, Head of Business Development and Client Services, stated that the Dublin-based Kleinwort Benson Investors (KBI) International team members are all equity owners in the firm. The investment strategy focuses on solution providers for the demand for

water, food and energy. Exposure to extractors of resources is minimized to reduce risk. The belief is specialization of research teams who interact regularly helps to deliver better returns over time.

In response to Trustee Shore's inquiry, Mr. Blake said that the need for clean water and sanitation will eventually benefit solution providers. Trustee Stevens inquired about the relevance of the benchmark because of differences in asset allocations. In response Mr. Blake explained that the themes are the same and comparing performance answers the question of whether there is value added over time.

Portfolio Manager Noel O'Halloran stated that KBI's approach is based on the thesis that there is a demographic-driven need for food, energy and water. The plan is to generate more alpha based on these megatrends. As a result of insufficient supply Mr. O'Halloran expects increased spending on infrastructure and solution providers for these resources. Responding to Trustee Stevens' inquiry, Mr. O'Halloran said sector cycles are actively managed. An ESG score is used to rank companies and the investing committee has approval over investments.

In conclusion Mr. O'Halloran reviewed performance that shows the strategy has delivered consistently better returns with less risk and lower volatility than the S&P Global Natural Resources Index. Reviewing specific investments, the portfolio manager noted that a solar energy plant in Abu Dhabi is being built based on economics. Mr. O'Halloran offered to cap the investment fee to 85 basis points. According to Mr. Iseri KBI is 87.5% owned by Amundi Asset Management.

Chair Piombo recessed the meeting for a break at 10:27 a.m., reconvening at 10:35 a.m.

d. T. Rowe Price Associates – Global Natural Resources Equity – Brian Dausch, Ken Brooks – 10:20 a.m.

Kenneth Brooks, T. Rowe Price Institutional Sales Executive, stated that T. Rowe Price is an independent firm with a strong research platform that adds value for clients. Mr. Brooks introduced Portfolio Specialist Brian Dausch who emphasized the disciplined investment process and collaborative business culture of the firm. The investment strategy is managed by lead Portfolio Manager Sean Driscoll who makes final buy and sell decisions. Current analysts are sector specialists looking for the best investment alternatives in the space.

Assets are allocated to the common stocks of companies owning or developing natural resources and other basic commodities. In addition assets are diversified into sectors upstream of and downstream from the resources, such as oil services, refining, and paper manufacturing.

Trustee Given was excused from the meeting at 10:51 a.m.

The approach calls for moving investments based on commodity cycles across sectors. Factors considered for stock selection include cost levels, the use of debt, and an ESG rating system to assess practices that are expected to lead to better performance over time.

In response to Trustee Stevens' inquiry, Mr. Dausch said buy and sell decisions are made by the portfolio manager based on analysts' recommendations.

Mr. Dausch reviewed portfolio holdings that are diversified across a variety of commodities. Major integrated oil companies in exploration, production and refining have consistent cash flow, reduced capital expenditures due to oil prices, and big projects coming on line with improving returns. A third group of companies benefiting from weakness in commodities like specialty chemicals further the goal of consistent performance and lower portfolio volatility.

Reviewing performance, Mr. Dausch stated that clients have been rewarded since the inception of the strategy in 1969. He attributed consistent outperformance to diligence around the process and analysts who are incentivized to stay with the company.

Chair Piombo closed the presentations and requested comments on the candidates. Mr. Callahan presented a performance comparison against the Lipper Global Natural Resources Index showing outperformance by KBI and T. Rowe Price global natural resources strategies over most time frames. In Mr. Callahan's view the Committee could safely choose the well-diversified T. Rowe Price strategy. He also noted that KBI is a compelling, interesting and different strategy. KBI is not designed to be an ESG portfolio, he said, but happens to have ESG characteristics as noted by Trustees Shaw and Piombo.

Several trustees expressed a preference for KBI. Trustee Gladstern pointed to KBI's investments in sustainable companies. Trustees Shore and Piombo noted KBI's favorable risk-return profile and believe the KBI portfolio would be a better diversifier for the Fund, as do Trustees Cooper and Shaw.

Trustee Stevens preferred the T. Rowe Price strategy due to the careful approach to selecting good companies and her belief that the firm is well run. Trustee Murphy supported Trustee Stevens' view that the potential for KBI to invest in genetically modified organisms was a concern.

It was M/S Shore/Gladstern to select Kleinwort Benson Investors International Ltd. as manager of the global natural resources portfolio subject to successful contract negotiations.

AYES: Bolger, Gladstern, Murphy, Piombo, Shaw, Shore, Thomas
NOES: Stevens
ABSTAIN: None
ABSENT: Brenk, Given

In response to Mr. Wickman's request, trustees listed reasons for their votes. Trustee Gladstern noted, as others did, that KBI has less overlap with other aspects of the portfolio. Trustee Piombo pointed to KBI's diversification into solution providers. Trustee Bolger added that KBI showed strong performance, was less of pure commodity play, and is forward-thinking in investing in alternative energy and water.

Trustee Cooper was excused from the meeting at 11:42 a.m.

2. Investment Beliefs (Action)

Consider and take possible action on Governance Committee's recommendation to adopt Investment Beliefs

Mr. Wickman presented draft Investment Beliefs as a follow up to ESG-related discussions at the 2015 Fall Workshop. The draft Beliefs were reviewed and edited by the Governance Committee prior to being presented to the Investment Committee. The draft was based on the CalPERS model scaled to how MCERA chooses to invest trust fund assets. Trustee Bolger expressed her preference that MCERA capture the individual beliefs of each trustee in a document. Mr. Wickman explained the Beliefs are meant to represent a high-level collective concept that capture and consolidate information that is available in other MCERA policies. He noted that a next step could be aligning individual beliefs with the overarching approach to investment. Ms. Dunning added the Beliefs would serve as an important training tool for new trustees.

Trustee Shore responded positively to the Beliefs as a good start to capture how and why we do things at a policy level. Trustee Thomas noted there is public interest in this type of policy statement. Chair Piombo described the Beliefs as a mission-vision-values approach that serves as a directional compass.

It was M/S Stevens/Shore to adopt the Investment Beliefs as submitted.

AYES: Bolger, Gladstern, Murphy, Piombo, Shaw, Shore, Stevens, Thomas

NOES: None

ABSTAIN: None

ABSENT: Brenk, Given

Chair Piombo recessed the meeting for a lunch break at 12:10 p.m., reconvening at 12:36 p.m.

3. Watch Period Review

Mr. Wickman reviewed the changes that were made to MCERA's Watchlist policy in 2015. Columbus Circle and Parametric have both been on the Watchlist one year and that triggers an automatic reviewing and discussion by the Investment Committee. Mr. Callahan presented their analysis of each manager for the Committee noting that Callan remains comfortable with both managers.

a. Columbus Circle Small Cap Growth (Action)

Consider and take possible action regarding Watchlist status

Trustee Shore expressed appreciation for Callan Associates' thorough analytical research. Given recent performance he noted the Columbus Circle small cap growth portfolio appears risky. In response Mr. Callahan reviewed the investment strategy. Relative to the broad market small caps are overweight because they are expected to outperform over long periods of time. In addition, small cap is an area where active management has the ability to add value, he said. MCERA has two small cap strategies, growth and value, that are expected to balance one another across cycles to smooth volatility. Mr. Callahan's recent thinking is that the growth investment may have too much volatility and not be a good fit for MCERA's portfolio; however, he does not feel that this is an appropriate time to make

a change. Columbus Circle has added value since the inception. Responding to Trustee Bolger's inquiry, the investment consultant stated that six years is too short a time frame to evaluate the performance of a small cap strategy. In conclusion Mr. Callahan said there are no other issues to consider and the Columbus Circle investment approach is intact. He recommends leaving Columbus Circle on the Watchlist for another one-year period.

It was M/S Bolger/Gladstern to adopt the investment consultant's recommendation to continue Columbus Circle Investors, manager of the small cap growth portfolio, on watch status for another one-year period.

AYES: Bolger, Gladstern, Murphy, Piombo, Shaw, Shore, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: Brenk, Given

b. Parametric Emerging Markets (Action)

Consider and take possible action regarding Watchlist status

Mr. Callahan stated that Parametric is the sole dedicated emerging markets manager for MCERA. Other international equity managers are Morgan Stanley, Artisan, and Fidelity Institutional Asset Management (FIAM) who manage value, growth and small cap portfolios, respectively. Parametric's investment strategy is different from the MSCI Emerging Markets Index that is based on the six biggest emerging markets. Instead Parametric takes a diversified approach by creating four tiers of countries that are equally weighted. Volatility among countries is used opportunistically to rebalance. Following difficult periods in 2014 and 2015, Parametric was placed on the Watchlist.

In the last year the performance of the emerging markets portfolio has improved relative to the benchmark. Given that nothing has changed in the strategy and the portfolio provides good standalone exposure to emerging markets, Mr. Callahan recommends keeping Parametric on the Watchlist for another one-year period.

It was M/S Bolger/Gladstern to adopt the investment consultant's recommendation to continue Parametric, manager of the Emerging Markets Portfolio, on watch status for another one-year period.

AYES: Bolger, Gladstern, Murphy, Piombo, Shaw, Shore, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: Brenk, Given

4. Due Diligence – Investment Manager Site Visit Reports

Consider and discuss recent due diligence site visits

a. Pathway Capital Management

Mr. Wickman, Chair Brenk, and Anne Heaphy and Michael Bise of Callan Associates met with Pathway Capital Management representatives for an onsite due diligence visit. During the meeting Chair Brenk did an excellent job of probing and asking questions

relevant to how Pathway invests the private equity assets. He noted that there were no negative items to report. In response to Trustee Bolger's inquiry on fees, he stated there is no carried interest. Pathway has embraced the Institutional Limited Partners Association's (ILPA) fee disclosure recommendations. As a multiple investor with Pathway, MCERA received a "renewal" fee break as an investor in the new PPEF I8 fund, according to the Administrator.

b. Western Asset Management

The Administrator, Chair Brenk, and Anne Heaphy conducted an onsite due diligence visit with representatives of intermediate credit manager Western Asset Management. Mr. Wickman gave a positive assessment of the manager, reporting being impressed with their team and enhanced compliance operations.

C. INVESTMENT CONSULTANT QUARTERLY REPORT AND PERFORMANCE UPDATE

For period ending March 31, 2016

Ms. Heaphy presented the quarterly review of the Fund as of March 31, 2016. Callan Associates incorporated manager overviews into the report that provide a high-level review as was proposed during discussions at the Fall 2015 Strategic Workshop, Mr. Wickman said. Ms. Heaphy reported that RREEF, the remaining manager on the Watchlist, holds one property that is expected to be sold in the next few quarters. Callan Associates will continue to monitor Columbus Circle and Parametric.

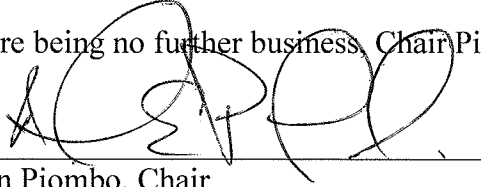
During the quarter ending March 31, 2016 the Fund value rose to \$2.05 billion, an increase of approximately \$47 million from the prior quarter. Asset allocations are in line with targets and annualized total Fund returns are outperforming over most time frames. Since the end of the quarter funds were transferred from BlackRock to Invesco to manage the commodities portfolio. Capital calls were received for the new private equity vehicles managed by Pathway and Abbott Capital Management.

During the quarter the domestic equity portfolio was flat and small cap domestic equities detracted from performance. In international equities the Parametric emerging markets portfolio rebounded and outperformed the benchmark. Morgan Stanley international value and FIAM small cap equity portfolios both outperformed in a negative international market. Real asset portfolios contributed to returns and include positive appreciation from properties liquidated from the Woodmont and value real estate portfolios. The fixed income portfolio outperformed the benchmark, returning 4.3% during the quarter with notable outperformance by the Colchester global bond portfolio that benefited from a weaker U.S. dollar. The AEW value real estate portfolio has one property left that will be closed by end of the year followed by the final distribution in 2017.

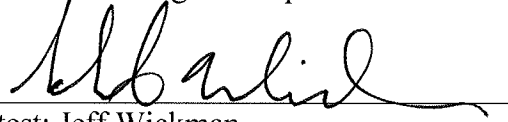
Updated portfolio returns through May 31, 2016 were presented. Mr. Callahan pointed out that the fixed income portfolio returned 5%, outperforming the 4.3% return of the blended benchmark and the 3.5% return of the Barclays Aggregate. Individual managers have implemented their strategies effectively since the structure of the fixed income portfolio was adjusted, he said.

Trustee Bolger asked Mr. Callahan to comment on the Wall Street Journal article on changes in asset allocations for pension funds since 1995 based on Callan Associates' research. Mr. Callahan explained that the point of the analysis is that with declining interest rates the composition of a portfolio to get to a 7.5% return has changed dramatically. In 1995 the return could be achieved using bonds but investors have had to put more into growth assets including global assets and alternative investments.

There being no further business, Chair Piombo adjourned the meeting at 1:35 p.m.



Alan Piombo, Chair



Attest: Jeff Wickman
Retirement Administrator