MINUTES

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

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

June 19, 2019 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board and Committee meetings. If members of the public wish to speak on any agendized items, please alert the Retirement Administrator to that request prior to the matter being called.

CALL TO ORDER

Chair Klein called the meeting to order at 9:02 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Shaw (ex officio alternate), Silberstein, Thomas, Werby

ABSENT: Cooper

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

B. MANAGER ANNUAL REPORTS

1. Manager Overview – *Jim Callahan, Callan LLC*

   Jim Callahan, President of Callan LLC, introduced managers presenting annual portfolio reviews. Dimensional Fund Advisors (DFA) manages the domestic small cap core portfolio. Previously, the DFA mandate was domestic small cap value. The prior small cap growth portfolio was liquidated and folded into the new DFA mandate. Parametric representatives will be reviewing the emerging markets strategy, and then the futures overlay program for the overall Fund.

Trustee Jones joined the meeting at 9:04 a.m.

2. Dimensional Fund Advisors, Small Cap Core – 9:05 a.m. – *Ted Simpson, Gavin Crabb, Chermaine Fullinck*

   Ted Simpson, Vice President with Dimensional Fund Advisors, introduced Chermaine Fullinck, Regional Director in Dimensional's Global Client Group, who will be MCERA's client service representative going forward. Mr. Simpson expressed appreciation for his years working with MCERA and explained he will remain at DFA. Mr. Simpson further reported that Jed Fogdall has become the sole portfolio manager overseeing the portfolio. Former co-portfolio manager Joseph Chi has stepped back into an advisory role. Mr. Simpson stated what drives DFA is its insight into how securities have expected returns using a team-based, process-driven approach. As of March 31, 2019, the DFA small cap core portfolio returned 12.57% for the quarter (versus 14.58% for the Russell 2000). Mr. Simpson introduced Vice President and Portfolio Manager Gavin Crabb to review the small cap core portfolio.

   Mr. Crabb stated DFA's goal is to outperform the market using a factors-based approach. Long-term factors include company size, relative price, and profitability. Over the short term, the investment team considers momentum and the securities lending environment. He explained that the team will avoid purchasing midcap stocks with negative momentum until the momentum subsides. Conversely, if a small cap stock in the portfolio is doing well as it exits the small cap universe, the team will wait before selling the position. On an intra-day basis, the team makes sure they are adding value by doing everything at the margin. Mr. Crabb said this process involves deciding what to trade in order to work with the market in a harmonious way by not impacting prices, especially in the small cap space. Because DFA builds diversification into each portfolio, on any given day traders have several stocks to choose from.

   In summary, Mr. Crabb said the investment team's quest for long-term premiums considers questions of what information in prices can be used to build portfolios, and why the data is pointing in the direction it is. From a sensibility standpoint the team thinks about whether there is a rationale for investing in stocks with a premium. Then there is the focus on being cost-effective to capture premiums and not give them away through trading costs. Profitability is a factor since companies with low profitability tend to do poorly over time. Mr. Crabb noted the intersection of where profitability meets high growth stocks is an important metric. He further stated that companies investing heavily back into their business is a negative to expected returns going forward, and therefore DFA plans to implement this factor in the future.

Late last year MCERA changed the DFA mandate from domestic small cap value equities to the domestic small cap core strategy. DFA defines the small cap universe as the bottom 10% by capitalization across the entire U.S. market. The strategy excludes REITs, and differs from the Russell 2000 by going down to about $10 million in market cap and rebalancing daily, rather than annually. Mr. Crabb stated the biggest difference of the small cap core strategy from the benchmark is profitability.

In response to Trustee Silberstein's inquiry, Mr. Crabb stated the portfolio is market-cap weighted. Trustee Gladstern asked about the degree of automation, and if the size of the portfolio has an effect on the market. Mr. Crabb replied the strategy is very automated and has a lot of tools. Every morning, he receives a list stocks that fit the criteria and screens out stocks considered not suitable to buy. On affecting the markets, he said what matters is volume more than the number of holdings. Chair Klein asked how the new strategy was implemented without impacting price. Mr. Crabb replied for the most part there was no change in normal practices since there was a reasonable three to four weeks for the portfolio transition. DFA managed the costs the best it could, he said, and was very diligent on how that looks with respect to the main fund so there would be a similar experience with the separate account.

Mr. Crabb said the portfolio is underweight information technology and health care due to the profitability factor. Sector allocation is an intentional result of how DFA constructs the portfolio, rather than matching the index. He attributed underperformance in part to the profitability premium not showing up for the year-to-date performance.

Trustee Thomas was excused from the meeting at 9:46 a.m.

Trustee Silberstein asked about governance and Mr. Crabb said once DFA is invested in a company, it makes sure to stay engaged on incentives that are appropriate for executives and to see there are no poison pills that discourage free market activity. Governance can have an impact on assets, and bad governance may lead to lower returns, he said. Trustee Silberstein indicated that DFA has a relatively good record on pay packages for executives as compared with Institutional Shareholder Services (ISS) recommendations, but not as compared with some public pension plans that vote against executive pay packages 50 percent of the time. He asked if DFA is paying attention to this and whether it has any plans to change its policy on executive pay. Mr. Crabb replied that overall DFA is listening to clients and does consider different ways to implement change. Now that MCERA has a separate account, DFA would certainly be open to different direction on how to vote on certain issues, Mr. Crabb said. Other areas of concern to Trustee Silberstein are the frequency of considering CEO pay and a shareholder resolution on gun safety. Mr. Crabb indicated he was not involved in proxy voting decisions, but that on the gun safety shareholder resolution, DFA decided to let the company go ahead with the plan it had.

Retirement Administrator Jeff Wickman thanked Mr. Simpson for his service to the MCERA Board and stated that he is looking forward to working with Mr. Fullinck.

3. <u>Parametric Emerging Markets – 9:50 a.m. – *Dan Ryan, Jennifer Sireklove*</u>

Dan Ryan, Senior Director and Relationship Manager with Parametric, reported that Jack Hansen, Chief Investment Officer, will retire in October of 2019 as previously announced. Parametric enacted succession plans, including streamlining investment teams by consolidating two investment teams into one team reporting to Chief Investment Officer Tom Lee. At the same time, Paul Bouchey, currently Chief Investment Officer, will move into a new role as Global Head of Research & Development effective November 1, 2019. In January Parametric announced that Tim Atwill, Head of Investment Strategy for the equity and commodity strategies, will retire at the end of June 2019. The portfolio management teams that manage MCERA's portfolios each day are not changing. The investment strategies are rules-based and managed at the investment committee level as before. As of March 31, 2019, the Parametric emerging markets portfolio returned 7.08% for the quarter (versus 9.93% for the benchmark, the MSCI Emerging Markets Index), and negative 9.03% for the prior 12 months (versus negative 7.40% for the benchmark). Mr. Ryan introduced Jennifer Sireklove, current Managing Director for Responsible Investing, who will lead the Investment Strategy team at Parametric effective June 30, 2019.

Ms. Sireklove discussed the development of the emerging markets strategy. Emerging markets are characterized by high volatility and low correlation, which is a ripe atmosphere for diversification and the use of rebalancing to outperform in this asset class. Another characteristic is that country risk is dominating, meaning when differentiated by country, a strategy will differ from the benchmark. Ms. Sireklove said this explains the approach of the strategy and its performance.

Ms. Sireklove said countries are classified in tiers based on market capitalization and liquidity. Within each tier, the idea is to get closer to equal weight at the country level, but not to force this. Rebalancing based on trigger bands around each country keeps the portfolio diversified. Stock selection differs from the benchmark by going deeper into the capitalization level. Relative to the benchmark, the overall portfolio is underweight the three largest countries, and overweight other countries. The strategy lends downside protection over the long run and protects in choppy markets, Ms. Sireklove said. It can outperform over time, but this is more challenging in strong markets. Trustee Gladstern asked how often rebalancing occurs and whether it is all automated. Ms. Sireklove replied rebalancing will be triggered by market conditions on average two to four times per year. Rebalancing is done on a country by country basis. She indicated in response to Trustee Gladstern's further inquiry that unrest in a country would not automatically trigger a rebalancing event. Chair Klein expressed an interest in how markets are accessed operationally. Ms. Sireklove said Parametric has its own trading team that has been dealing with emerging markets for decades, so access evolves over time.

Ms. Sireklove said performance for 2019 is trailing the benchmark year-to-date as of March 31, 2019, and ahead of the benchmark as of May. In this period, sector allocation was the dominating factor. Negative contributors included the underweight to telecom in Brazil, and the overweight to Turkey that had a currency crisis. The underweight to the technology sector in China was beneficial. For the 2018 calendar year, the strategy outperformed the benchmark.

Trustee Werby questioned the strategy since it has underperformed for the last three years. Ms. Sireklove attributed the underperformance to the impact of 2017 when the benchmark index went up sharply and the strategy underperformed. She pointed to outperformance in 2016 and 2018, adding that the strategic goal is broad access to the emerging markets. Trustee Werby asked about the overweight to Russia, indicating there are claims of market manipulation there. Ms. Sireklove replied there is no perfect country in emerging markets and there are varying concerns. The strategy calls for diversification and there is still value in being able to access these markets.

Trustee Silberstein asked for the basis for Parametric's votes against reelecting numerous directors of boards. He said indicated some emerging market companies are family controlled and have objectives other than returns for the shareholders. In response, Ms. Sireklove explained that Parametric's policy is at least 50% of board members and members of key committees should be independent; another aspect is too long a membership on a board.

Chair Klein recessed the meeting for a break at 10:33 a.m., reconvening at 10:42 a.m.

4. Parametric Futures Overlay Program – 10:35 a.m. – *Dan Ryan, Justin Henne*

Mr. Ryan introduced Justin Henne, Managing Director, Customized Exposure Management. Mr. Henne explained that with the futures overlay solutions, Parametric is trying to do three things: first enhance returns; second, manage risk, accomplished in the background by making sure MCERA's portfolio stays within its targets and ranges; and third, increase efficiency. The overlay program uses exchange-traded futures to gain market exposure for daily unused cash. The futures are very safe and, importantly, integrate seamlessly with the portfolio. The overlay solutions suite is menu-based. Mr. Henne noted that MCERA started with the cash overlay and then expanded into rebalancing.

Mr. Henne explained that typically from 2% to 5% of the Fund sits in cash and causes performance drag. Some level of liquidity is needed for capital calls and paying benefits, and for managers to settle trades. By overlaying this cash with futures to expose cash to the capital markets, the Fund can carry liquidity without suffering the opportunity cost of holding cash. The goal is to drive daily cash to its 0% allocation.

The purpose of rebalancing the portfolio is to drive the Fund's asset classes to their target allocations. When triggers are met, the allocations will rebalance the Fund to maintain policy allocations. Parametric also used the futures overlay to bridge the last portfolio transition to keep the portfolio fully invested until the transition was completed.

To implement the futures overlay and rebalancing, Parametric receives and analyzes data from MCERA's custodian, State Street bank. Mr. Henne stated there is multi-person verification for trades, and robust reporting every day in order to have the utmost transparency. In response to Trustee Werby's inquiry on managing risk, Mr. Henne said Parametric makes sure to have good data. Chair Klein followed by asking for an example of bad data, and Mr. Henne replied one common occurrence is for monthly benefit payments to be double-booked, and they work with custodians to have this corrected when it is identified.

Mr. Henne stated the overlay program since inception has added an incremental return of $27 million to MCERA's Fund, resulting in 15 basis points of annualized return. He explained that the one place not capturing the incremental return is in fixed income because Parametric uses government securities and does not capture the incremental credit exposure. A tracking analysis on the entire Plan shows the Fund is closer to the benchmark than it would be without the overlay program in place.

Trustee Werby asked about losses in the overlay program on a three-year basis. Mr. Henne explained that because the Fund is overweight in equities, Parametric is reducing some of that equity exposure based on policy ranges while equity markets are continuing to go up. So, the loss in the overlay position is a byproduct of how the portfolio is positioned. Mr. Henne pointed out that the Fund is still experiencing gains in the physical equities. Mr. Callahan asked about measuring the value added from the cash overlay and rebalancing separately, indicating that rebalancing trades may be anti-return. Mr. Henne said he can follow up with recent values, but does not have that data prior to 2014. He agreed the data would show that the cash overlay would add value, and the rebalancing would take away from that. Mr. Callahan noted there are two components: not having frictional cash because returns will be better; and rebalancing with short positions that hurts the return relative to the policy. Mr. Callahan stated if it were just the cash overlay, there would be a positive return on the cash. He gave the example of a 60/40 equity/fixed income portfolio being rebalanced and ending up with a 55/45 equity/fixed income portfolio that would not compare as well in performance.

Mr. Henne explained that Parametric buys and sells futures every day as cash flows occur. A single futures contract is employed for large and small cap domestic equity. For developed international equity, there is a basket of five different futures contracts, with the Canada benchmark layered in. Tracking error to benchmarks is pretty tight, he said. In fixed income, a futures contract on the Bloomberg Barclays Aggregate is used that is missing mortgages, for example. Trustee Block asked if more capital is required when rolling contracts every quarter. Mr. Henne replied that with futures gains are wired into account the next day. Therefore, when a contract is removed, it is just removing the exposure. Trustee Block asked whether customers like MCERA have liability for futures contracts. Mr. Henne explained that because MCERA's account is at market value every day, there is zero at risk; the clearing members have risk, but not MCERA. He said the nice thing is in going through stress periods, the exchange-traded futures have worked perfectly. Chair Klein inquired as to whether all futures contracts are electronically traded, and Mr. Henne said 99% of futures trading is electronic.

C. NEW BUSINESS

1. Colchester Organizational Update – *Jim Callahan, Callan LLC*

Anne Heaphy, Senior Vice President in Callan's Fund Sponsor Consulting group, reported that Mamak Shahbazi, President of Colchester Global Investors and Head of Marketing and Client Service, departed the firm on May 1, 2019. It was an abrupt departure that is unusual for Colchester, with reasons that were initially unclear. Paul Allen will become the new Global Head of Marketing and Client Service. Since Mamak did not have portfolio management responsibilities, Callan is not concerned about the portfolio, but will be monitoring the firm to see if other departures take place.

2. Educational Presentation on Custodial Risk Management – *Mark Kinoshita, Callan LLC*

Mr. Wickman stated MCERA has very important custodial services it receives from State Street Bank, and there are some questions on where the risks are. Mr. Callahan introduced Mark Kinoshita, Senior Vice President and a member of Callan's Trust and Custody team, who has spent time researching custody issues. Mr. Kinoshita said he will address the risks of a custodian bank if it becomes insolvent, best practices for custodians, and what others doing to monitor the risk. He pointed out that the Federal Reserve has put numerous regulations on many of these financial institutions.

The responsibilities of custodians are to safekeep assets, process trades, and service those assets. Servicing involves collecting dividends, attending to corporate actions, and reporting. Custodial banks differ from other banks in that they hold assets segregated in a trust department. In the case of insolvency of a custodian bank, the assets in the trust are segregated from the bank's assets. For asset managers there is a safeguard known as the custody rule that protects against fraud, and a separate custodian and auditor are required. These regulations provide checks and balances to protect investors.

Mr. Kinoshita explained that trading securities has become dematerialized. Initially, there are transfer agents who register physical stock certificates and the number of shares outstanding with the Depository Trust Company (DTC), where they are placed in a vault. Since the late 1960's, the trading of stocks is in book-entry form. Noting that DTC maintains the ledger, is the custodian, and does not employ Blockchain, Trustee Block asked what happens if the DTC is vulnerable to losing the data. Mr. Henne replied that systemically important financial institutions like the DTC are subject to disaster recovery plans and examination of their financials. They are storing redundant information and would have a clean isolated copy. Even so, the short answer is it is possible the data could be lost.

There are controls in place when shares are purchased that serve as safety nets. For example, the investment manager has to go through the custodian and the broker dealer, and cannot move money without the direction of the client or the broker. If the custodian became insolvent, there are a number of regulatory considerations. After the 2008 financial crisis, a list of global, important banks was developed that are subject to far more scrutiny, including stress tests, to protect retail investors. Trustee Gladstern asked about Northern Trust Bank that is not on the list, and Mr. Kinoshita said they try to maintain key standards anyway. Trustee Block asked whether cyber risk is encompassed in disaster recovery plans, or in another section of the regulatory framework. Mr. Kinoshita replied that cyber risk guidelines are within disaster recovery plans and cyber security standards are being developed.

In considering custodians, MCERA can analyze if there are deficiencies in the area of cyber risk. For example, it can ask the custodian to share the penetration testing it performs during due diligence on enterprise security. Most banks will not share that information because disclosure is a risk, Mr. Kinoshita said. In one case, a bank that was subject to a denial-of-service attack reported this to the FBI, which told the bank to let the attacks continue so the FBI could monitor them. Trustee Silberstein asked why there are only a few custodians qualified for public retirement systems like MCERA. Mr. Kinoshita explained that, of 30 or so banks on the list, most focus on retail customers and retail trading activities. The difference is that J.P. Morgan, Bank of New York Mellon (BONY), and State Street Bank provide custodial services to public retirement plans in particular. It is not a big universe because not all of the banks on the list have the ability to support the reporting requirements on the institutional side. Mr. Callahan added that custody is not a profitable business for the banks, and technology advancements have streamlined services.

Trustee Block asked if there a meaningful way through a Request for Proposal (RFP) requirement to differentiate various custodians in terms of operational and cyber factors. In response, Mr. Kinoshita said custodian banks are similar and highly regulated. There is no perfect custodian, he said, and they each excel in different areas, depending on the service team that is assigned. Mr. Callahan pointed out that MCERA changed custodians from BONY to State Street, and there is no guarantee of getting exactly what you need. In conclusion, Mr. Kinoshita said as a best practice MCERA can review a custodial bank's stress test results in the yearly assessment and audit of operational controls prepared by an independent firm.

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

   Ms. Heaphy stated updates to the Investment Policy Statement document the Investment Committee's prior action to move the State Street Global Assets S&P 500 Index Fund to a separate account, and transition the international small cap portfolio from Fidelity Institutional Asset Management to TimesSquare Capital Management. Other ancillary edits include updating benchmarks and an item negotiated in the new agreement with State Street regarding clients that Callan tracks in any event.

It was M/S Gladstern/Silberstein to adopt as submitted amendments to the Investment Policy Statement as listed in Agenda Items C.3.a-g below.

AYES:	Block, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby
NOES:	None
ABSTAIN:	None
ABSENT:	Cooper

a. General Investment Objectives and Guidelines, Equity Portfolios, Index for International Small Cap Stocks: Replace S&P EPAC Small Cap (N) Index with MSCI EAFE Small Cap Index.

b. General Investment Objectives and Guidelines, Fixed Income Portfolios, Global Fixed Income Index: Replace Citigroup World Government Bond Index (USD Unhedged) with FTSE World Government Bond Index (USD Unhedged).

c. Duties of Responsible Parties, duties of the Investment Managers: Remove requirement to maintain communication regarding: Each significant client which terminates its relationship with the investment manager, within 30 days of such termination.

d. Appendix B-1, State Street Global Advisors, S&P 500 Index Fund, Statement of Objectives, Guidelines & Procedures: Replace with S&P 500 Index Strategy Statement of Objectives, Guidelines & Procedures.

e. Appendix B-5, Fidelity Institutional Asset Management, Select International Small Cap, Statement of Objectives, Guidelines & Procedures: Remove.

f. Appendix B-5, TimesSquare Capital Management, International Small Cap Collective Investment Trust, Statement of Objectives, Guidelines & Procedures: Add.

g. Appendix B-9, Colchester Global Investors Global Fixed Income Statement of Objectives, Guidelines, and Procedures, Performance Objectives: Replace Citigroup World Government Bond Index (USD Unhedged) with FTSE World Government Bond Index (USD Unhedged).

Chair Klein recessed the meeting for a lunch break at 12 noon, reconvening at 12:20 p.m.

Trustee Werby was excused from the meeting at 12:15 p.m.

D. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Quarterly Report as of March 31, 2019

a. Summary Report

Mr. Callahan reported that some of the concerns the market exhibited during December 2018 abated, and the stock market rose sharply 14% during the first quarter of 2019. Small cap outperformed large caps which benefited the Fund due to the small cap overweight. Growth equities outperformed value during that period in a continuing theme. The DFA small cap core portfolio is tilted to value, which was a headwind. Overall domestic equities had good returns, and international equities trailed the United States, with emerging markets lagging. The U.S. Dollar was strong as interest rates are higher than the rest of the world. Bond yields have retreated, and today the Federal Open Market Committee said it is more biased to ease interest rates going forward. There were modest returns from real estate that has had good returns from appreciation that is tapering, and is still getting income return. REITs rose in value, and private equity has lagged, reflecting results of the 4th quarter of 2018. In May the market pulled back when the dialogue focused on tariffs.

Ms. Heaphy reported MCERA's Total Fund asset allocations are in line and within target ranges, so no rebalancing is needed. Trustee Block asked if allocations take into account the overlay program, and she replied they do. He asked what allocations look like without the overlay program, and Mr. Callahan reviewed this data. Trustee Block asked if there is a trigger as to when an actual rebalancing would take place. Mr.

Callahan replied yes, there are policy ranges around allocations that when broken will trigger a physical rebalancing.

Ms. Heaphy reported the Total Fund value as of March 31, 2019 is $2.5 billion, and the annualized investment return is 7.3% net of fees. Historical annualized and fiscal year returns were presented, including peer comparisons. Ms. Heaphy reviewed volatility metrics, including the Sharpe ratio. Mr. Callahan explained that for years the Fund had relatively more volatility than peers, but with more diversification now exhibits more average volatility. He stated that on a risk-adjusted basis, MCERA is getting paid for the risk in the Fund.

The Morgan Stanley portfolio is a candidate for removal from the Watchlist because performance has been good lately. Based on MCERA's policy, the Investment Committee (Committee) will reconsider managers on the Watchlist in December. The Parametric emerging markets portfolio is always going to be an issue because it is dramatically different from the benchmark, Mr. Callahan said. He explained that Parametric reengineered the emerging markets universe and the Committee liked the idea of having more diversified exposure to emerging markets; that profile ultimately leads to less volatility that Parametric has delivered. Mr. Callahan said the Committee needs to be patient with it, because underperformance is mainly due to its underweight to China . Trustee Gladstern supported this view, and asked about investing in China. Mr. Callahan replied that would imply making a conscious decision to have more exposure to a single country. This is not unreasonable, but generally is a decision left to the manager. Based on discussions, this may be a topic for the fall Strategic Workshop.

Ms. Heaphy reviewed individual portfolios and their returns. The domestic equity allocation consists of the State Street Global Advisors S&P 500 portfolio and the DFA small cap core portfolio. The Morgan Stanley portfolio is developed value international equity, and Artisan manages the developed growth international equity portfolio that has some emerging markets exposure. The Fund's domestic fixed income allocation is split half and half between the Wellington core plus and Western intermediate credit portfolios. Colchester manages the foreign government bond portfolio. The fixed income composite had a strong return for the quarter, and each fixed income portfolio had good returns, outperforming respective benchmarks.

Mr. Callahan explained the fixed income allocation was designed to deal with lower interest rates. There may not be as much urgency to have the narrow intermediate credit strategy anymore, he said, and changing that mandate back to a broader strategy could be considered. An educational session on this topic will be considered for the fall Strategic Workshop.

MCERA's two real estate portfolios are conservative, low-leverage portfolios relative to the benchmark. Real assets consist of two passive portfolios, the BlackRock TIPS and REITs, and two active portfolios, KBI global resources and Invesco commodities. The REIT portfolio had strong performance in the quarter. Both the Invesco commodities and KBI global resources portfolios slightly trailed benchmarks due to underweights in energy.

As of December 31, 2018, the private equity program is 75% Paid-In of the $400 million in commitments. MCERA has received $183 million in Distributed Capital, and the total Net Asset Value of the program is $265 million. The Total Value to Paid-In Capital ratio is 1.49, and the Net Internal Rate of Return is 12.44%. Ms. Heaphy stated Total Value to Paid-In Capital has an upward trajectory as the private equity program matures.

2. Flash Performance Update

Year-to-date, net-of-fee returns for the Fund as of May 31, 2019 were reviewed. The S&P 500 portfolio has returned 10.7% in the period, and U.S. domination continues relative to ex-U.S equity markets. The overall domestic equity portfolio returned 9.5%, and the international equity portfolio returned 9.0%. The fixed income portfolio had very strong performance, returning 4.7% net of fees. The public real assets portfolio returned 7.8%. Mr. Callahan reported that after a poor May in the markets, the Fund is having decent performance in June. Real estate and private equity returns are preliminary estimates and subject to revision.

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

Sara Klein, Chair

Attest: Jeff Wickman
Retirement Administrator