**MINUTES**

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

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

**September 18, 2019 – 9:00 a.m.**

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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 9:00 a.m.

## ROLL CALL

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

ABSENT: Gladstern, Jones (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.

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*

Investment Consultant Jim Callahan, President of Callan LLC (Callan), stated MCERA's two private equity managers, Abbott Capital Management and Pathway Capital Management, will provide portfolio reviews. Then Callan's Gary Robertson will talk about MCERA's private equity pacing for future commitments and annual private equity fees.

Trustee Shaw joined the meeting at 9:01 a.m.

2. Abbott Capital Management – Private Equity – Jonathan Roth, Sean Long – 9:05 a.m.

Jonathan Roth, Abbott Capital Management (Abbott) President and Managing Director, stated today's portfolio review will go over Abbott and its processes, including detail on the commitments MCERA has made since 2008. Mr. Roth introduced Sean Long, Abbott Vice President, who stated Abbott was one of the first private equity managers to manage assets for California public pension funds. He attributed Abbott's success to its relationship and focus advantage built up over multiple years in the private equity industry. Mr. Long explained that the firm uses a team approach for investment decisions and considers itself to be a steward of the capital managed for the MCERA plan. Abbott employs knowledge-sharing in a cognitive, thoughtful approach to investing. Current investment vehicles are offered in an Annual Program. Abbott just held the final closing for Annual Program 2019 and is actively in the market for Annual Program 2020. The overall goal is to generate internal rates of return in the low-to-mid double-digits.

Trustee Given joined the meeting at 9:05 a.m.

Mr. Roth emphasized that Abbott remains independent and its partners have a substantial amount of personal capital invested alongside clients so that interests are aligned. Mr. Roth reported that since 2008 MCERA has committed a total of $200 million. Of that amount, about 80% is paid-in as of today and the Net Internal Rate of Return (IRR) stands at 12.9%. Looking at performance from a multiple perspective, the Total Value to Paid-In capital (TVPI) is 1.5 times MCERA's money. Mr. Roth also pointed out that MCERA's private equity program is net cash neutral, meaning this is a self-liquidating portfolio as MCERA receives distributions from maturing private equity vehicles, ACE VI and ACE VII.

Mr. Roth explained that the ACE VI fund started in the teeth of the global financial crisis and as a result experienced an elongated commitment period. In contrast, ACE VII was structured to get capital working faster by investing in more secondaries earlier and committing capital over fewer years than ACE VI. The TVPI for ACE VI is 1.6 times and the IRR is 12.4% net of all fees and expenses. Mr. Roth expects further appreciation in ACE VI over the next 4 years. Mr. Roth reviewed relative performance of strategies across the private equity portfolio, noting the allocation to lower-middle market buyouts has contributed meaningfully to returns, and the energy area was a notable detractor.

Abbott began making investments for ACE VII in 2013. Based on lessons learned from ACE VI, ACE VII has a larger allocation to secondary investments that allow for putting capital to work earlier in the life of the fund. He explained that secondaries are when limited partners of other funds that have already been formed are looking to sell. As a collective strategy, secondaries have generated a TVPI of 1.7x as of March 31, 2019, which is well above Abbott's underwriting expectations. As of March 31, 2019, the total ACE VII fund has a 16.9% Net Internal Rate of Return.

Trustee Werby asked about net-of-fee return performance metrics for TVPI, for example. In response, Mr. Roth said the return metric provided net of fees for MCERA is the 12.9% Internal Rate of Return. Mr. Long said a general estimate for fees would be about 2.3% over a period of 15 years. Mr. Roth noted that MCERA's fees for ACE VII of about 65 basis points have been reduced to about 35 basis points for AP 2017 due to Abbott's focus on reducing fees and expenses. He explained that Abbott waived the entire ACE VII management fee for the first year for MCERA and applied a loyalty discount. As to the underlying funds, Abbott is trying to align interests of general partners with Abbott by negotiating fee reductions across as many funds as possible, which is a difficult process in the current environment with so much demand for deals. He made the point that some firms with premium carry interest are still generating good net returns for investors.

Trustee Klein inquired about Abbott's method of determining the best fund managers. Mr. Roth replied Abbott differentiates itself by conducting primary due diligence that includes calling and meeting with the CEO's of 3rd party companies to verify a fund manager's sourcing advantages. Key elements are finding out what the manager's processes were, did they ask the right questions, did they focus on due diligence, and what value did they add as a member of the Board of Directors. Using information from multiple different references, Abbott uses pattern recognition to identify luck versus skill in a fund manager. Abbott is looking for repeatable performance over multiple years versus isolated successes, Mr. Roth stated. Mr. Roth discussed examples of companies in ACE VII, one of which was Robinhood which has raised $1 billion due to capital requirement needs. Robinhood still needs to raise more money and is not yet profitable; Robinhood was recently valued at $7.6 billion market capitalization in the latest round of funding. In summary, Mr. Roth reported ACE VII is off to a stronger start that ACE VI.

Mr. Roth stated Abbott repeated the approach to put buyouts into the fund early for Annual Programs (AP) AP 2016 and AP 2017. MCERA committed $50 million to AP 2016, Mr. Roth reported. Abbott continues to be bullish on this portfolio and there are no key man issues or strategy drift, he said. One of the holdings in AP 2016 is Cloudflare that went public on September 13, 2019 at a cost basis of $9 and is trading at about $19 per share. Mr. Roth said AP 2016 is off to good start due to secondaries.

Mr. Roth reported that MCERA committed $15 million to Abbott's AP 2017 fund, which is about 80% of the way through portfolio construction. He expects the last commitment will be fully identified in terms of investments by the middle of 2020. Trustee Block observed that the amount paid-in for AP 2017 is notably lower than committed capital. In response, Mr. Roth explained that a new innovation is the use of credit lines to fund initial investments and capital calls are pushed back until the end of the year. Trustee Block also noted that AP 2017 strategies include 73% for Small Buyouts (SBO), which is different from prior strategies, whereas MCERA's SBO allocation for AP 2017 is 15%. In response, Mr. Roth explained that Marin took the core strategy, which has a lower level of SBO's. One large investor took a large (custom) SBO allocation that skewed the SBO percentage for AP 2017. Abbott accommodates other clients who want to over-weight the certain allocations. Mr. Roth noted that Abbott made a small change to AP 2019 and AP 2020 to increase the core allocation for small buyouts (SBO) from 15% to 20% as a function of where Abbott thinks the opportunities are.

Trustee Silberstein asked who is exiting in the secondary market. Mr. Roth replied that the secondary market has exploded over the past 10 years and is no longer a market of distressed limited partners. He said the pricing in the secondary market is more competitive and the average discount is about 7%, or 93 cents on the dollar, for the buyer. Price depends on the particular situation, and he gave an example of a distressed public company being negotiated at a significant discount. Another situation is not distressed and is trading at par. Mr. Roth said Abbott tries to look at the underlying fundamental value using Abbott's information advantage.

In Callan's Private Equity Fee Disclosure report for December 31, 2018 to be discussed below, Trustee Block noticed an audit expense for ACE VII seems to be out of line with prior years. Mr. Robertson of Callan stated the number was incorrect and he will have it corrected for MCERA.

3. <u>Pathway Capital Management – Private Equity – Jim Reinhardt, Valerie Ruddick – 9:50 a.m.</u>

Jim Reinhardt, Senior Managing Director and one of the founders of Pathway Capital Management (Pathway), reported that MCERA has a total of $200 million committed over time in four separate Pathway funds. Each fund is in a different stage of development. MCERA's original investment in PPEF 2008 is in the harvesting and distribution state. The PPEF I-7 fund is in development and beginning the harvesting phase. The PPEF I-8 fund is in the development phase, and PPEF I-9 is in the investment state.

Mr. Reinhardt reported the funds show strong returns as of March 31, 2019 for the last year and since inception. When combined the total Pathway private equity program has a net Internal Rate of Return (IRR) of 12.5%. Each fund is outperforming the industry benchmark by a substantial margin, and Pathway is pleased with how the portfolio is doing. Mr. Reinhardt said one of Pathway's risk metrics is the loss ratio which averages about 1% for each of the funds, indicating the funds are not experiencing a lot of losses while at the same time generating strong returns. For additional context, Mr. Reinhardt noted that returns are driven across all strategies and regions, and almost 50% of the partnerships in the two oldest funds are generating returns over 20%. Mr. Reinhardt introduced Valerie Ruddick, Managing Director, who discussed details of the Pathway private portfolio.

Ms. Ruddick presented a chart showing MCERA's annual contributions to and distributions received from the 4 Pathway funds. She pointed out that the funds returned $28 million back to MCERA in distributions during 2018, compared with $19 million in capital calls that year. To date MCERA has paid in $162 million, which is 81% of the total

$200 million committed. MCERA has received distributions of $106 million, which is 65% of the amount committed Ms. Ruddick reported that the market values of each of the funds continue to grow over time as underlying managers execute plans. As the funds distribute capital , the total market value starts to taper due to lower levels of commitment MCERA has made over time. Ms. Ruddick said 2019 is the peak of market value that is projected to taper continuously due to the greater decline in the first fund relative to investment growth of newer funds.

Ms. Ruddick reported MCERA is invested across multiple investment strategies, industries, and geographic regions, with no concentration of exposure. The largest region geographically is in the Bay area. Ms. Ruddick reported there has been strong after-market performance due to exits through buyout managers, and mergers and acquisitions. Fund managers have the ability to sell through a number of different channels and across industry sectors. Examples of successful companies were discussed. Chair Klein asked how distributions are managed and how managers decide how many shares to sell in an Initial Public Offering (IPO). In response, Ms. Ruddick said it is a manager-specific decision and managers take into consideration if there is additional upside in the stock price, the lifecycle of the fund, cash flow, or regulatory considerations.

A chart of MCERA's vintage year ratio of distributions to paid-in capital shows outperformance to the benchmark median by a significant margin, with the exception of one year, Ms. Ruddick said. Mr. Reinhardt pointed out that Pathway overall has more realized private equity returns than the industry. In summary, Ms. Ruddick said Pathway expects continued appreciation in the funds.

Trustee Block asked if Pathway has any visibility regarding the total amount of outstanding lines of credit. In response, Ms. Ruddick stated Pathway receives a look-through of credit information every quarter. Mr. Reinhardt added that Pathway talks with general partners to see that the amount and timing of the credit is controlled. Chair Klein requested insight into the WeWork IPO issue and its impact. Mr. Reinhardt replied that the WeWork IPO failure extends beyond WeWork, and has to do with the reasons a company is doing an IPO. He indicated WeWork and some other companies this year went public too early because they need capital. An IPO can be just an interim step as a company grows, he said, and the WeWork situation is not expected to create any major issues. Chair Klein asked if there a lot more of this hiding in the private markets where values will be reduced in the public market. In response, Mr. Reinhardt said there is no more than usual, and it is not a significant issue. Ms. Ruddick noted the Softbank fund is investing large amounts of capital that has inflated values in late-stage venture rounds, so you may start to see some of this play off slowly over time.

Chair Klein recessed the meeting for a break at 10:24 a.m., reconvening at 10:34 a.m.

## C. NEW BUSINESS

1. Private Equity Annual Review and Pacing Plan – Gary Robertson, Callan LLC

Gary Robertson, Private Equity Consultant for Callan, stated that both Abbott and Pathway are performing well in a broader context relative to the benchmark of professionally managed private equity programs.

Reviewing MCERA's private equity portfolio as a whole as of March 31, 2019, Mr. Robertson said there have been no new commitments since 2018. Paid-in capital went up 14% which he said was a little slow compared with the preferred 20% investment rate per year. During 2019 the market rebounded, so the effect was minimal, he reported. Uncalled capital went down from $135 million to $97 million, which is good as it had been a bit more than it should be. Once the private equity allocation is on target, the preference is for uncalled capital to be about 30%. By the end of 2019, the uncalled capital ratio is expected to be in the right place to consider committing future capital, Mr. Robertson said. Chair Klein asked about the difference in the total of money paid in and uncalled capital from the amount of the total commitment. Mr. Robertson explained there is a currency effect that causes that difference.

Mr. Robertson reported the total portfolio time-weighted return was 15.4%, derived from adding the net distribution yield of 5.9% to the 9.5% increase in the NAV. This return was slightly lower that the 19% return for the prior year. Both Abbott and Pathway portfolios have Total Value to Paid-In capital ratios of 1.51 over the life of the private equity program, Mr. Robertson pointed out. Both portfolios are slightly below the 12.8% median IRR due to elongated cash flows. Overall the private equity program is performing well, he said.

Mr. Robertson discussed Callan's proposed pacing plan showing MCERA has been committing every few years to the private equity program. The last commitment was in 2017, so 2020 would be timely to continue dollar-cost-averaging into the private equity market. The program is slightly overfunded but within range, and based on the backlog is about to be in just the right place. He discussed private equity market conditions in 2018, noting the sensitivity to public equity markets. Distributions were robust but slowed after several record years of distributions. Private equity fund raising was up and prices are high, which is a headwind going forward. Valuations are at 10 times cash flow and moving toward 11, which Mr. Robertson said is getting pricey. As a result, general partners are putting more equity in buyout deals (not including venture) to make them more resilient. This year is expected to be similar to last year.

Mr. Robertson presented a projected commitment pattern that will grow with the Fund over time and assumes the Fund will continue to get a median return. The commitments are calculated to maintain MCERA's 8% target allocation for private equity and show MCERA should start committing again in 2020. There are different options of how to move forward that MCERA should consider, Mr. Robertson said.

Chair Klein asked how Callan accounts for estimated distributions into the future. In response, Mr. Callahan said Callan uses the central tendency of the Cambridge data base over time. Mr. Callahan explained the takeaway is the need to do the pacing frequently to make sure you are on course and adjust future commitments accordingly. He said the private equity program has been a good contributor for the Fund. Given the need to make more commitments, it makes sense to look at what the alternatives are going forward. He indicated there may be alternatives to structuring the private equity program considering fees, for example.

In response to Trustee Block's inquiry, Mr. Callahan indicated there is a timing urgency due to the early subscriber discount available to MCERA that would need to be executed by the end of this year. Chair Klein noted MCERA is invested in some of the same underlying funds through its private equity managers Pathway and Abbott. Mr. Callahan said there is overlap and he will discuss different ways to look at it during the Strategic Workshop in October.

2. Private Equity Annual Fee Disclosure Review – Gary Robertson, Callan LLC

Mr. Wickman stated the Private Equity Annual Fee Disclosure is presented to comply with the requirement that private equity fees be made available to the public through MCERA's website. Mr. Robertson will be providing a correction to one of the expenses listed on the fee disclosure as discussed above. The fee disclosure is based on a template developed by the Institutional Limited Partners Association (ILPA) to promote fee transparency.

Mr. Robertson reported that historical fees are not comparable because Abbott voluntarily provided historical underlying partnership costs for each fund of fund MCERA was invested in beginning with 2008 while Pathway provided those costs for the fund of funds effective with the new disclosure law requirement. For the private equity program including both managers, total fund-of-fund manager fees and expenses were $2.99 million for the last 12 calendar months. The underlying partnership fees and expenses were $18 million for 2018. Totals for Abbott and Pathway individually are comparable. Abbott provided details on fees for underlying partnerships that was not provided by Pathway.

Trustee Given asked if the information for both Abbott and Pathway could be consistent. Mr. Wickman replied that staff has requested that Pathway provide the same information as Abbott. Mr. Wickman said we will continue to press Pathway on this issue over the next year. Mr. Robertson said Callan has also requested that more detail be provided by Pathway.

Mr. Wickman said staff's recommendation is to get an updated report which he will agendize for consideration at the next Board meeting. He stated in the past we have posted the entire presentation including historical fees.

Trustee Silberstein observed MCERA is paying $21 million per year in fees for the private equity program valued at $275 million, which he estimated is 800 or 900 basis points of the private equity program. Upon consideration, Mr. Callahan said the fees could be in those ranges. Trustee Silberstein figured the 12% return would be about 20% without the fees, so fees are substantially higher in private equity, and Mr. Robertson concurred. Chair Klein noted that the fees MCERA is paying to underlying managers are not reflected in Callan's report on private equity quarterly changes in market value, and Mr. Callahan agreed that the Callan quarterly report shows just the management fee for Abbott and Pathway.

3. Investment Manager Updates

   a. DFA Portfolio Enhancement: High Asset Growth Exclusion

      Mr. Callahan reported that Dimensional Fund Advisors (DFA) made an enhancement to its definition of the universe of stocks to be considered for investment. The firm is adding an additional exclusion of companies with high asset growth rates. He explained this is just another filter used to build DFA's portfolios and is based on their research over a long period of time.

   b. TimesSquare International Small Cap Team Update

      There will be a change in the TimesSquare team as it was recently announced that Robert Madsen, who covers Japan and parts of Asia, will retire in six months. The firm has hired Robert Purcell to assume that coverage, and Magnus Larsson remains as the lead portfolio manager. Callan will be looking closely at how the attribution to Japan might change over time and to determine whether the impact to the portfolio will be meaningful. Mr. Callahan is not concerned about this change at this time.

   c. UBS Trumbull Property Fund Performance Update

      Mr. Callahan stated that UBS is one of MCERA's two core open-ended real estate managers. The Trumbull Property Fund is one of the bigger funds in the universe and is managed conservatively with the lowest leverage. Its large size allowed UBS to buy assets of larger size which provides for diversification, which in recent periods have hurt them. UBS recently announced it is writing down regional malls which were overweighted in The Trumbull Property Fund. Mr. Callahan explained that Amazon has had a massive disruption in the retail space and UBS is being preemptive about this valuation.

      The Trumbull Property Fund performance in the second quarter as of June 30, 2019 is lower than the industry. Further, its performance has been substandard in other sectors. In addition, there have been changes in management. UBS is experiencing a build-up in the redemption queue, and will need to sell assets to meet those redemptions. UBS will construct an orderly process to conduct the redemptions that will depend on the size of the queue and how much money is coming in. Currently, the redemption queue is approximately $4 billion which represents about a quarter of the fund. The risk is that over time UBS will be forced to sell better assets, which has the potential to change the composition of the fund. Mr. Callahan said the leverage level is also creeping up and all these factors are leading to concern about the fund.

      The deadline to notify UBS to get into the redemption queue is 60 days before quarter end, which for the next quarter means by November 1, 2019. Trustee Block asked if investors in the queue are according to the date of the redemption notice. Mr. Callahan replied redemptions will be prorated for clients in the queue and MCERA could rescind any redemption request within 14 days. In response to Trustee Silberstein's inquiry, Mr. Callahan said the redemption levels far outweigh the contributions coming in, but UBS can use contributions to offset some redemptions. Trustee Silberstein observed that devaluing assets means UBS would not have to pay as much in redemptions.

Trustee Werby asked for Mr. Callahan's recommendation and Mr. Callahan said the Committee can wait to decide until portfolio reviews by the core real estate managers in December. Any request for redemption is estimated to take about two years to be completed.

Trustee Block made a motion to request redemption of assets from the Trumbull Property Fund. The motion was seconded by Trustee Murphy.

Trustee Block indicated he is uneasy about the UBS portfolio. Mr. Callahan noted there are options to get out of the cue so there is no downside for MCERA to make the request. Chair Klein requested clarification of the motion.

Trustee Block withdrew his motion and restated it to say that he moved for MCERA to exercise the right to redeem assets in the Trumbull Property Fund at the next available opportunity.

Trustee Given asked what the safeguard is for investors who are not redeeming their investment. Mr. Callahan replied UBS is allowing redemptions and managing that to minimize the impact on current investors. He explained that the real estate cycle has matured, appreciation levels have slowed, and some investors are rebalancing out of real estate as a result. Trustee Silberstein said he is not prepared to request a redemption and prefers more information before making a decision. Mr. Callahan said he agrees with that approach; however, electing to get into the queue allows for the opportunity to get more information and decide whether to get out or stay in. Trustee Block noted waiting until hearing from the core real estate managers on December 4 would still allow MCERA to get out of the queue, adding it is too big a risk to wait for the next quarter to enter the redemption queue. He explained that very rarely is the first write-down the last write down by a manager. Also, there will be other funds experiencing the same write-downs in the future. Trustee Block added that having cash is better than losing money.

Chair Klein said she wants a better picture of what else is going on, such as whether this is unique to this fund or related to the market. MCERA may have to ride out illiquid periods, she said. Administrator Wickman agreed with Chair Klein and said the Board should go through a deliberative process to understand more about the Trumbull Property Fund situation. He indicated the matter could be discussed at the October Board meeting or the Strategic Workshop.

Trustee Block amended his motion to add the core real estate portfolio allocation to the October Strategic Workshop agenda.

Counsel Dunning stated that the motion need not include a change to the Strategic Workshop agenda. Mr. Wickman said he can put the matter on the October Board meeting agenda. The Administrator recommended that Trustee Block withdraw his motion.

Trustee Block withdrew his motion.

Trustee Block supported having further discussion on this matter during October. Mr. Callahan stated these are all fair points, but it is good to get ahead of it and recognize you can still make some changes. Mr. Wickman will bring the Strategic Workshop agenda back to the Board in October for approval. Trustee Given said he would also like to have a conversation about the AEW core real estate portfolio, and Mr. Callahan agreed AEW will be part of that discussion as well.

Trustee Werby was excused from the meeting at 11:56 a.m.

## D. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Quarterly Report as of June 30, 2019

   a. Summary Report

Mr. Callan reported that the quarter ending June 30, 2019 was good for equities and for the first half of 2019. Given dovish commentary from the Federal Reserve Open Market Committee (the Fed) and good underlying economy, the equity markets posted strong returns of 18.5% for the first half of 2019. Since then trade wars became the issue dominating market behavior, leading to more volatility in the third quarter. Within equity markets, themes we have discussed have continued with small cap underperformance, large technology dominance, and energy not performing particularly well. There are signs these themes are having some meaningful change. The other big theme is non-U.S. markets continue to trail the U.S. market, indicating a pause in global growth synchronicity and the U.S. dollar's continued strength.

Interest rates have continued to come down, and at end of the second quarter the yield curve had not inverted, Mr. Callahan reported. Later the yield curve did invert but now has flattened back out. Mr. Callahan observed there is moderation in the real estate market and 10-year performance metrics no longer have financial crisis data included. For the past 10 years, U.S. equities have compounded returns of over 14%, reflecting the dominance of the U.S. equity market in that time period. This means that diversification globally has been a headwind for the Fund. In that period bonds are up about 4% and real estate has returned 9.25%. Mr. Callahan pointed out that these 10-year returns mean return expectations are being met when everyone doubted that would happen. The question now is where to make returns going forward since the risk environment has changed.

Anne Heaphy, Senior Vice President at Callan, reviewed MCERA's portfolio as of June 30, 2019. Asset allocations are within target ranges, with domestic equity slightly underweight to the 32% target and international equities also just under the 22% target allocation. The fixed income portfolio is at 21.3% of the Fund compared with the 23%

target, and real assets are slightly over the 15% target. Private equity was 10.6% of the Fund as compared with its 8% target allocation and within the target range. In April 2019 MCERA transitioned its international small cap equity portfolio from Fidelity Institutional Asset Management to TimesSquare Capital Management.

As of June 30, 2019, the total market value of the Fund was $2.58 billion, an increase of $55 million over the first quarter of 2019. Fiscal-year annualized returns for the Fund were 5.28% for the fiscal year, 6.85% for the past five years, and 10.00% for the past ten years. Ms. Heaphy noted that these are preliminary returns and will be adjusted to reflect private equity returns that lag by one quarter. Relative to peers, the MCERA Fund returns were below the median over one and three years due in part to its small cap equity overweight and core real estate portfolio that lags during appreciation cycles and were a drag on returns. Over the past ten years MCERA's annualized return of 10% ranks in the top quartile of its peers and is above the 7.0% actuarial expected return. Ms. Heaphy reported that the Fund's standard deviation is in line with the median of its peer group and the Sharpe ratio is better than the median, meaning MCERA is getting more return for the risk it is taking. Ms. Heaphy noted that the Colchester global bond portfolio trails quantitative criteria modestly and will be added to the Watchlist when it is reviewed by the Committee in December. Trustee Block asked if the UBS core real estate portfolio would go on the Watchlist and Ms. Heaphy explained the criteria relate to public assets, but UBS can be discussed along with the Watchlist.

Ms. Heaphy reviewed performance as of June 30, 2019 for sectors and managers within the Fund. The domestic equity large cap core portfolio is passively managed in the S&P 500 Index by State Street and has outperformed domestic small cap equities over the past few years. Dimensional Fund Advisors manages small cap equities in their active small cap core strategy that trailed for the quarter due to its focus on the micro-universe that has been a headwind. MCERA's international equity portfolio outperformed for the quarter and the past 12 months. The Morgan Stanley international value equity portfolio trailed its benchmark, and the Artisan international growth and Parametric emerging markets portfolios did well last in the quarter. Parametric's underweight to China was a tailwind for that portfolio.

In the fixed income portfolio, the overweight to corporates which have done well lately resulted in returns in line with the benchmark for the quarter and slight outperformance for the year. The UBS core real estate portfolio below-benchmark returns are dragging down returns for the Fund. MCERA's public real assets portfolio outperformed the target for the last quarter and the fiscal year. The Invesco commodities portfolio underperformed due to industrial metals and agriculture allocations that slumped from trade tensions. The KBI global resources portfolio had strong performance from the renewable energy and energy efficiency segments.

2. <u>Flash Performance Update</u>

Ms. Heaphy presented the Callan flash performance update through August of 2019 when Total Fund value was $2.56 billion.

There being no further business, Chair Klein adjourned the meeting at 12:27 p.m.

Sara Klein, Chair

Attest: Jeff Wickman
Retirement Administrator