

MINUTES

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION INVESTMENT COMMITTEE MEETING OF THE RETIREMENT BOARD

Wednesday, February 11, 2009

CALL TO ORDER Chairperson Richardson called the meeting to order at 12:06 PM.

ROLL CALL Present: Arrigoni, Bolger, Given (non-voting), Gladstern, Haim, Hufford, Phillips, Richardson, Smith, Sweet, Webb (non-voting), Wofford (non-voting)
Absent: none

A. **MANAGER ANNUAL REPORTS**

1. **BGI – Core/Core Plus Equity**

Rhonda Vitanye (Managing Director), Lee G. J. Wanie (Principal) and Prentice Y. Ng (Client Relationship Associate) presented BGI's performance through December 31, 2008. Credit markets remained significantly tight, but thawed marginally in December, 2008. Equity markets suffered their worst performance in decades as a major global economic recession began to take hold. Volatility surged to all-time record levels and remained elevated through year end.

BGI's Alpha Advantage 500 Fund was down -37.34% year to date vs. the S&P 500 benchmark of -37% for the same period.

2. **Wellington Asset Management – Domestic Fixed Income – Core**

Valerie Mosley (Portfolio Manager), Sue Bonfeld (Relationship Manager), and Sunita Patel (Client Service Analyst), presented the Wellington portfolio for the Fourth Quarter. Wellington's core bond strategy included reducing an underweight to the government sector, an increased exposure to Industrial names with attractive yields, and a decreased exposure to the US Mortgage Backed sector. Wellington predicts that interest rates will remain low and that lack of liquidity will continue to be problematic in the First Quarter of 2009.

Wellington's Core Bond portfolio was up +0.31% for the fourth quarter 2008 vs. the Barclays Capital US Aggregate benchmark of +4.57% for the same period.

3. **Western Asset Management – Domestic Fixed Income – Core Plus**

Frances Coombes and James So represented Western Asset to review the Core Plus portfolio for the Fourth Quarter. Firm updates and investment philosophy were provided. Western Asset's outlook for 2009 includes a severely challenged economy and a Fed/Treasury policy supportive of capital markets. Considerations for fixed income were high liquidity costs and attractive credit sectors.

Although the portfolio was down -2.8% for the fourth quarter 2008 vs. the Barclays Capital U.S. Aggregate Index benchmark of +4.6%, the returns for the month ending December 31, 2008 were up +5% vs. the Barclays benchmark of +3.7% for the same period.

4. Woodmont – Real Estate/Direct
Removed from Agenda. Presented at last meeting.

The Board recessed to convene the Special Meeting at 1:00 P.M.

In deference to Jim Callahan's schedule, the Chair requested that the Board recess the Special Meeting at 1:30 P.M. and reconvene the Investment Committee meeting, so that the Investment Consultant Quarterly Report could be presented.

B. INVESTMENT CONSULTANT QUARTERLY REPORT

Jim Callahan, Executive Vice President of Callan Associates, presented the quarterly portfolio report for the period ending December 31, 2008.

As of December 31, 2008, MCERA's assets were valued at \$1.087 billion, down from the total asset value on September 30, 2008, of \$1.265 billion. The sharp decline in domestic equities in calendar year 2008 brought the equity allocation to more than 6% under target. At the December board meeting Callahan recommended that MCERA temporarily waive the rebalancing policy due to extreme market volatility and the attendant trading costs to rebalance repeatedly. It was Callan Associates' recommendation to extend the temporary freeze on rebalancing until market conditions improved.

MCERA's total fund returned -13.9% for the quarter, placing it ahead of the benchmark return of -14.2%. Positive contributors to relative returns for the quarter came from Woodmont's real estate portfolio and the bondized market neutral portfolio. Contributions to the downside included domestic small cap and core plus fixed income.

Sentence 2

For the year ended December 31, 2008, MCERA's return of -27.4% trailed the composite benchmark return of -25.94%.

Despite negative returns, International equity and real estate beat their respective benchmarks over this period. For the trailing five years ended December 31, 2008, the fund has returned +2.2% on an annualized basis, in line with the benchmark's return.

The domestic equity portfolio returned -24.2% during the December quarter, underperforming the benchmark return of -22.8%. Despite the disappointing relative results for the portfolio in 2007 and 2008, results for the longer-term periods measured remain solid in relative terms versus the benchmark and the peer group.

MCERA's international equity portfolio returned -40.2% for the trailing year. This exceeded the MSCI EAFE Index's -43.4% return and ranks in the 15th percentile of the public fund universe. For the trailing three years, the portfolio outpaced the MSCI EAFE Index by approximately +2.5% per annum and ranks in the 11th percentile of the peer universe. The trailing five year returns, formerly below the benchmark, now exceed both the index and the peer group.

The underperformance of non-U.S. Treasury securities in 2008 negatively impacted the MCERA fixed income portfolio. Pressure on the mortgage and credit markets since July of 2007 negatively impacted the portfolios of Wellington and Western over the trailing year. The portfolio continues to see a significant boost from the bondized market neutral portfolio.

MCERA's total real estate return for the trailing year on a preliminary basis was -0.7%, which exceeded the NCREIF Property Index (NPI) return of -6.5%. The trailing five year return on the total real estate portfolio remains strong at +11.7%.

Callahan felt that rebalancing, if performed, should be done during an awareness of cost and market conditions, and any significant changes to the portfolio should be considered closely. Although many things have changed during the past 18 months, Callan was not prepared to suggest that the future would include a completely different investment environment, or that time-tested investment principles should be abandoned. It was Callan's belief that disciplined investors are the successful investors over the long-term.

Trustee Bolger and Trustee Hufford suggested that Mazama Capital Management be placed on a Watchlist. In addition, Trustee Bolger made a request for Callan to initiate a search for a new Small Cap Growth Manager.

C. OPEN TIME FOR PUBLIC EXPRESSION

There being no further business, the meeting was adjourned at approximately 2:41 P.M.

Gerald Richardson, Chairperson

Michael Smith, Secretary