MINUTES

INVESTMENT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

August 12, 2009 11:00 A.M.

EVENT CALENDAR 11:00 A.M. Investment Committee meeting

CALL TO ORDER Chairperson Richardson called the meeting to order at 11:22 A.M.

ROLL CALL PRESENT: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Sweet, Webb

ABSENT: Hufford, Smith,

A. OVERVIEW OF REAL ESTATE MARKET – Callan Associates

Investment consultant Jim Callahan reported a $90M increase in market value for the quarter, with the total fund value up 11.4%, slightly trailing the benchmark. Callahan reported that several managers who struggled last year are recovering. He said there has been significant improvement in corporate bond markets, in particular Western which returned 10%. Wellington has also done well. The real estate sector continues to suffer, with write-downs continuing, most notably in the RREEF portfolio. He then introduced Sara Angus to report on the real estate portfolio.

Ms. Angus pointed to the 35% benchmark decline in real estate values over the past year, with write-downs overcoming income. Leverage, few comparables, and more frequent asset valuation caused the precipitous decline. Consensus is that real estate will lose 15 to 50% in value this year, not including negative leverage effects, which will amplify the problem. There will be more distressed debt strategies occurring over time, as attractive financing is scarce. Manager responsiveness is key and involves layoffs and spinoffs as well as implementation of alternative strategies. Although the REIT market declined through March 2009, it is experiencing a rebound. Redemption requests continue to mount, but few are being honored due to lack of capital. Vacancies are rising, with transactions reflecting lower values. Co-tenancy clauses exacerbate the problem.

Callahan explained that the current 3% over-allocation to real estate is due to valuation volatility and will naturally rebalance with the recent spike in equity values. The Woodmont portfolio return for the quarter was negative 7.37% which represents 85% of the real estate portfolio. Angus said the portfolio is well diversified, with the heaviest concentration in the Western US. While the fund's long term performance has been

strong, in the near term short-term performance will suffer as it goes through the appraisal cycle. The appraisals are now staggered throughout the year, with the balance of the portfolio to be appraised in the next few months. Callahan said the current portfolio will benefit from the absence of leverage which avoids cash flow problems.

The performance of ING lags, with a quarter return of negative 11%; however, they are proactively reducing their relatively high debt level and performance should improve, although they are experiencing some difficulty in refinancing short maturity debt. ING Clarion now reports through the Global Investment Management group which is a positive change. Angus reported the CFO has been replaced, the debt level is a major focus, and the debt ratio covenant has been increased to 55%. Additionally, they have paid down their line of credit. In 2010 there is a $16M loan maturity.

RREEF performance has been poor relative to the benchmark, with a quarterly return of negative 30.23%. The firm considered a prepackaged Chapter 11 bankruptcy, which they are working hard to avoid. They have a debt workout team whom Callan maintains close communication with. They are making progress by working out terms with each lender individually. They may try to raise additional capital depending on how the individual negotiations go.

The AEW portfolio returned negative 17.31% in the quarter. It has a considerable amount of development property and so their ranking is relatively low. They have not had layoffs but one member of the team left. They have additional equity ready to invest. They are actively working on their debt issues and will not have liquidations as the fund is closed-ended. The fund's 8-year life may be extended.

Trustee Wofford was excused from the meeting in session at 11:49 a.m.

B. INVESTMENT MANAGER ANNUAL REPORTS

1. ING Clarion – Real Estate/Core

Steve Hansen, portfolio manager, reported the net return on the portfolio of negative 10% for the quarter and negative 31% for the year. The complexion of the portfolio has not changed in the last few years, but overall value has decreased from $7B to $4.8B. The firm has sold more than $1B of assets in the past year. The majority of assets are located on the east and west coasts.

The valuation decline caused an increase in the debt ratio, although no new debt has been added. At 48% they are higher than most of their competitors. Typical debt levels are around 30%. The firm has paid down $240M in debt thus far. Interest payments are covered at 2X, which is a safe margin. Loan maturity and the ability to refinance is an issue. No loans are maturing in 2010-2011, but some notes come due in 2012.

Trustee Given was excused from the meeting in session at 11:52 and returned at 11:57 a.m.

The Administrator asked how the debt structure aligned with each property's exit strategy, and Hansen responded that the larger loan maturities are not due until

2012 and that in the short term there is a line of credit available as well as sufficient cash flow to cover debt payments. Hansen stated that refinancing debt is not a concern at this time.

Hansen summarized by stating that the 2009 outlook focuses on income versus decreasing valuations, with leasing and cash distribution the top priorities. He cautioned that portfolio turnover is low with the ability to sell assets challenged. He said the recession continues to have a negative effect on occupancy rates, and therefore income is expected to be flat this year.

Hansen stated there is a redemption queue of $421m dollars, which originated as a result of the Lehman bankruptcy, and the fund paid out $521M in redemptions last year. Property sales of $200 to $300M will be used to reduce current debt.

2. AEW – Real Estate/Value Added

Dave McWhorter reported quarterly results of negative 22% in a rapidly deteriorating real estate market, noting we are in "unprecedented times." Revenue decreased 18% in 2009 and occupancy is off 55%, adding that while there have been no layoffs, management has weathered a 10% pay cut this year. The closed end fund was originally capitalized at $686M. with a current net asset value of $215M, the fund will not be returning any capital this year. There is $86M in unallocated capital available.

Since 2007 the firm has reduced new investments and focused on retaining capital and protecting the portfolio. The high liquidity in the market then was believed to be unsustainable, and in fact the current distressed market evokes the late 1980's with property values below mortgage values. The strategy to protect capital is to analyze leases for possible renegotiation. Key priorities are to restructure or buy back debt and obtain lender concessions. Trustees expressed interest in obtaining more detailed information on vacancy and occupancy rates due to the concentration in hotels.

The firm is projecting greater than 20% vacancy rates in office properties before hitting bottom. Expectations are for continued contraction until 2012.

3. RREEF – Real Estate/Value Added

Laura Gaylord, Head of Client Relations, said that, in addition to recapitalization efforts, the firm is responding to market difficulties by hiring an outside property manager as well as effecting layoffs. Fees have been reduced by half. Assurances were made that the fund is important to the firm and has the attention of top management.

Continuing the report for RREEF was Jay Miller, Director of Portfolio Management, who reported that tThe fund has lost 30% in value during the quarter and 70% over the past 12 months. The fund net asset value is currently $640M, and there is $600M in debt due this year. Miller said he was focusing on minimizing capital outlay and obtaining lender concessions.

Current portfolio market value is $2.4 B, with geographical distribution in coastal areas. Miller said the frequency of valuations is increasing in order to respond to client needs for accurate data. Factors exacerbating declines in asset value are: 1) lack of transactions, 2) reduced rental income, 3) higher capitalization rates.

At Market Center in San Francisco the firm is increasing occupancy. There is risk in the NYC condominium market due to difficulty obtaining permanent financing, resulting in construction halts on some projects.

Considerable loans are maturing in 2009, which will cause an equity pay down issue. The firm is attempting to mitigate problems by requesting that lenders extend maturities and stabilize interest rates as well as reduce loan balances. Properties will revert to the lender in some instances; for each bank, negotiations are on a global scale for efficiency.

Trustee Sweet was excused from the meeting at 12:53 p.m.

Trustee Gladstern was excused from the meeting at 12:55 p.m.

Reference was made to the increased intensity of lender negotiations and some success in extending loan maturities as a result. No assurances were available as to the outcome or the timing of the resolution. stated that no redemptions were available at the present time. The Board will send a representative to the RREEF investor meeting on October 1 in Chicago.

Trustee Sweet rejoined the meeting in session at 12:58 p.m.

4. Woodmont – Real Estate/Direct Ownership

The firm reported annual return on equity of negative 5.48% and occupancy of 90%. The presenter reported the firm's management structure is sound and the firm is solid financially. Salaries were frozen in 2009. Holdings are stable and currently there is little sale or acquisition activity. Transactional volume is down 78% from 2008 to 2009.

Portfolio valuation was moved from once annually to quarterly appraisal of ¼ of the portfolio each quarter in response to the Administrator's request. Values are difficult to determine and have moved down with pressure on capitalization rates. Office buildings have been hit hardest and will take time to recover. Only 9% of leases are up for renewal this year. Going forward the strategy is to preserve renewal leases and push hard for potential new leases. The market in Sacramento had a significant downturn and will be the slowest to recover.

Trustee Gladstern rejoined the meeting in session at 1:03 p.m.

The lack of debt in the portfolio is a significant positive factor in preservation of investor capital and has buffered the fund from the current rapid real estate decline. Note was made of a variance in valuation of properties from the July 8

minutes and the report and the presenter expressed confidence in the numbers in the report.

C. INVESTMENT CONSULTANT QUARTERLY REPORT

For period ending June 30, 2009
Please refer to investment consultant comments under Item A.

D. OPEN TIME FOR PUBLIC EXPRESSION

None.

There being no further business the meeting was adjourned at 1:22 p.m.

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Gerald Richardson, Chairperson Attest: Charnel K. Benner, Administrator