

MINUTES

SPECIAL BOARD MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

August 28, 2009 8:00 A.M.

CALL TO ORDER

Vice Chair Gladstern called the meeting to order at 8:05 AM

ROLL CALL

PRESENT: Arrigoni, Bolger (late arrival), Given (non-voting), Gladstern, Haim (late arrival), Hufford, Phillips (late arrival), Richardson, Smith, Sweet, Webb (non-voting)

ABSENT: Wofford

A. SELECTION OF SMALL CAP GROWTH MANAGER

1. Finalist Presentations

Investment consultant Jim Callahan explained that Fort Washington Investment Advisors and Columbus Circle Investors are true small capitalization growth managers and will vary in performance from the hybrid small-to-mid-capitalization managers ("SMID"), Wells Capital Management and Tygh Capital Management.

Chair Phillips joined the meeting in session at 8:08 A.M.

Callahan explained that the four presenters were selected based on a one-manager scenario, which he believes is appropriate to the size of the Fund.

Trustee Haim joined the meeting in session at 8:12 A.M.

Chair Phillips agreed with Callahan's recommendation to focus on the quality of the organization selected and the level of confidence in the managers. Callahan noted that the intent of this search is to identify a candidate to potentially replace Mazama Capital Management, which underperformed for a long period, but which has outperformed recently. Concerns were expressed regarding the stability of the organization remain, including departure of managers and poor communications.

a. Fort Washington Investment Advisors

Scott Noelcke, Business Development Officer, said the twenty-year-old firm was previously part of Bank One. They are owned by Western Southern Life, a stable firm. Noelcke introduced the investment team including Daniel Kapusta, Senior Portfolio Manager, and Bihag Patel,

CFA, Senior Portfolio Manager. The small capitalization growth team has been together 11 years and has a five year track record in the small capitalization growth arena. All managers are invested in the portfolios, with each manager having expertise in different industries. The portfolio returned 10% year to date through June 30, 2009; negative 42% in 2008.

Noelcke stated the firm focuses on performance consistency. Other key points include performance-based pay, a client focus, benchmark outperformance over a full market cycle, risk control, and collaboration. The firm manages \$500 million in small cap growth funds and recently added three new client relationships.

Daniel Kapusta reviewed the team's strategy, which is bottom-up and focused on identifying the next "super-star" companies. The firm looks to outperform over a market cycle, hoping to best both the benchmark Russell 2000 Growth Index and its peers.

Kapusta explained that fundamental research includes evaluation of quantitative data such as low debt-to-capitalization ratios and high return on equity. Once growth drivers are confirmed, the investment team makes personal visits to investment candidates, followed by a team review. Lastly, risk control is considered. Price momentum is not a major factor but is used as a flag to determine what is driving the stock.

Bihag Patel provided an example of a successful investment, referring to an early 2004 investment in Intuitive Surgical (ISRG), which manufactures surgical robots and enjoys an ongoing revenue stream from the sale of surgical tools. The initial investment was at 1% of the portfolio. The company exceeded revenue growth targets, and soared from \$30 to \$250 per share. Maximum individual positions cannot exceed 2.5% of the portfolio.

Callahan asked whether the managers have a process to deal with those stocks that underperform. Patel said that these stocks are flagged and reviewed for whether they still meet the fundamental drivers.

Trustee Bolger joined the meeting in session at 8:52 A.M.

Chair Phillips asked about relative performance during different market cycles. Mr. Kapusta responded that during the recent junk rally, the firm had underperformed. It was noted the firm's fees are negotiable.

Trustee Hufford was excused from the meeting in session at 9:08 A.M., and rejoined the meeting at 9:10 A.M.

b. Columbus Circle Investors

Stephen Weeks, Senior Vice President for Institutional Marketing, said the firm, which was established in 1975, is affiliated with Principal Global Investors. The primary focus is managing growth equities in a boutique environment. The investment teams meet daily and the Senior Managing Director and Portfolio Manager, who makes all final decisions. The firm has 215 clients and recently added approximately \$400M in new assets. The team has outperformed the benchmark by 700 basis points since 2002. A key contributor to this success was the decision to take profits in 2008.

Mr. Fox explained that the firm's investment philosophy combines positive momentum with positive surprise: finding companies whose business is getting stronger and that are performing better than the market expected. Keeping this focus allows the firm to outperform over time. Fox referred to sets of expectations from various sources which gives a sense of what is built into the current stock price. After that, fundamentals are examined for favorable divergence from expectations, market expectations tend to raise the bar and eventually exceed the ability of the stock to perform. It is this gap between expectations and performance above expectations which is the key metric. As this gap narrows, the firm exits the stock as gracefully as possible.

Trustee Haim noted the success of the fund's performance since Fox took over the portfolio in 2003, and asked Fox whether he expected to remain with the firm. Fox replied that had no intention of leaving the firm in the foreseeable future..

Trustee Gladstern was excused from the meeting in session at 9:31 A.M., rejoining at 9:34 A.M.

In addition to stock selection and sector analysis, a meaningful change in fundamentals flags stocks for selection. Fox reviewed risk control measures, saying he is acutely aware of those companies and/or industries that are linked together and therefore represent a higher risk to the portfolio. Sector weightings are capped at 25% to maintain adequate diversification.

Fox reviewed the portfolio holdings which number from 60 to 80 issues, with the top ten holdings representing 20 to 35% of the portfolio. He noted that issue liquidity is critically important and drives holding size. Financials are currently under-represented, as opposed to a heavy weight in technology, health care and industrials. Current underperformance reflects the market's focus on less valuable stocks which should abate over time.

When a stock underperforms, it is eliminated if it fails to respond to positive surprise. Fox emphasized the longevity of the firm and the size of the portfolio as positive advantages.

The Chair recessed the session at 9:54 A.M. and resumed the session at 10:00 A.M.

c. Wells Capital Management

The Associate Portfolio Manager, Ozo Jaculewicz, CFA, said Wells Capital Management, an affiliate of Wells Fargo Bank, has twenty investment teams that operate as investment boutiques. Wells Fargo manages the trading and infrastructure, leaving the investment team to focus 100% on portfolio performance, Jaculewicz said. The firm covers the entire capitalization range. The portfolio returned 23% year to date, negative 21% over one year, and 2.5% over five years.

Jaculewicz reported that John Evans, lead research analyst, is leaving the firm in order to manage his own investments. Portfolio Manager James Leach, CFA, said his background in mechanical engineering, practical experience in the Far East, and his M.B.A. differentiate him from his peers. Leach pointed out that all portfolio managers are also research analysts.

Leach stated that the firm's portfolio strategy consists of a bottom-up analysis based on fundamental research and qualitative screening. One year price targets of 20% or greater are expected. Lastly, risk factors are considered. Leach reported that the firm focuses on managing valuation targets in order to trim appropriate positions, and balances return with risk. The firm Under Armor was highlighted as a successful investment. Exit strategies are driven by price targets.

In summary Jaculewicz said the volatility of the asset class necessitates balancing higher risk stocks with more stable stocks. He pointed out that while mid cap stocks may not have explosive growth, they have stronger balance sheets and are therefore more desirable, especially in current market conditions.

d. Tygh Capital Management

Jeff Curtis, President and co-founder, said the independent boutique firm was founded in 2004. Curtis emphasized the firm's narrow focus on small and mid-cap issues. The firm's clients are solely institutional investors. Chief Investment Officer, Richard Johnson, CFA, was a former geologist who previously worked at a successful growth firm, and possesses 19 years of applicable experience in the small/mid-cap arena.

Portfolio managers are required to invest significant personal assets in the funds and receive a bonus based on the performance of their stocks. The performance of the Small-Mid Cap Growth Composite Fund is 10% through June 2009, negative 35% over one year, and negative 8% over three years. The performance of the Small Cap Growth Composite Fund is 9% through June 2009, negative 33% over one year, and negative 8% over three years.

Investment strategy emphasizes sustainable valuation to avoid momentum swings, and there is an earnings and revenue growth rate expectation of 20% for the stocks. Trustee Haim asked whether this goal creates an unfavorable level of risk, and Curtis responded that the performance metrics are long-term and as such, avoid the high-risk scenarios.

The firm is a bottom-up stock picker and does not look for the most volatile, highest growth stocks. Meeting with managers of firms is standard practice with a thorough review of financials. Analyst recommendations are monitored, and inventory and accounting methods are considered. As the stock reaches the price target the firm will begin to exit the position and as the stock exceeds the target, the position will be eliminated. Price targets are modified over time to adjust to financial fundamentals. The maximum position in any stock is 4%, with most valued around 3% of the portfolio. Liquidity is also monitored carefully. Sector value is allowed to fluctuate 10% over or under normal weight.

Weak positions are trimmed regularly, and all stocks are screened weekly for performance vs. expectations or changes in fundamentals.

Johnson stated that the firm has had no turnover since inception and is currently at full staffing levels.

Johnson said the firm has outperformed by following world growth; however, in the third quarter of 2009 there was underperformance due to the extreme underperformance of financials in July 2008. Curtis emphasized the outperformance of the portfolio in the 2000 time period and attributed it to the lack of exposure to high-flying technology stocks for which the firm could not find earnings value. Curtis emphasized that this philosophy results in market cap-weight averages higher than the benchmark.

The Chair recessed the session at 11:29 A.M. and resumed the session at 11:41 A.M.

2. Consider and take possible action on selection of Small Cap Growth Manager (Action)

Callahan reviewed the strengths and weaknesses of each presenter, and noted that the portfolio value is approximately \$40MM at this time.

The investment consultant stated that Fort Washington's strengths are 1) depth of experience, 2) conservative organization and stable position in the organization, 3) good team collaboration and stability, and 4) investment process more middle-of-the-road as opposed to the volatility experienced with Mazama. Further stabilizing performance is tighter sector weightings, although this also works in the reverse to limit outperformance to the index. Callahan said that recent performance numbers do not reflect their track record, noting that the recent

market environment has been notably difficult for the small cap managers. Callahan said that fees were negotiable.

Callahan cautioned that Columbus Circle Investors is subject to the risk of Clifford Fox leaving the firm at some point in the future, but that he does not believe there is a risk that Fox will retire in the foreseeable future. There was discussion regarding the relative outperformance of Columbus Circle Investors, with Callahan pointing out that while normally he would shy away from such distinguished relative outperformance, their long-term performance is stable.

Callahan said that Tygh was most similar to Mazama, with a stronger management structure, is a bit more conservative, and has a better understanding of investment management. However, he cautioned that by the same token the negative experience with Mazama may be revisited with Tygh.

Callahan said that Tygh would be a better fit for the portfolio as compared to Wells due to the market cap weight.

Trustee Smith was excused from the meeting in session at 12:10 P.M., rejoining at 12:12 P.M.

Trustee Smith asked if Callahan was concerned about the departure of the head of research at Wells. Callahan said that while it is a loss, they have a deep team and it is not a deal breaker in his opinion.

Chair Phillips thanked Callahan for the presentation and requested a straw vote with each voter selecting two presenters. The Chair noted Columbus and Washington as the top two selections. The majority selected Columbus Circle Investors as first choice with a total of 8 votes, and Fort Washington Investment Advisors received a total of 7 votes. Trustee Hufford argued for having only one manager and there was general agreement to this point.

It was M/S Hufford/Smith to approve Columbus Circle Investors as a replacement for Mazama Capital Management as small capitalization growth manager as soon as practicable, subject to contract negotiation.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford,
Phillips, Richardson, Smith, Sweet

NOES: None

ABSTAIN: None

ABSENT: Wofford

The Chair requested that Callahan negotiate the fee with Columbus Circle. To control cost and limit market exposure, State Street will be used as a transition manager. During this process State Street is to maintain market exposure to the

markets through the use of ETF's or futures, which is customary. Administrator Benner said the custodian will be able to provide an estimate of the cost involved.

It was M/S Hufford/Richardson to hire State Street to act as custodian and manage the transition to the new manager as soon as practicable.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford,
Phillips, Richardson, Smith, Sweet

NOES: None

ABSTAIN: None

ABSENT: Wofford

Callahan introduced Lynn Fitzenhagen as a new member of the Callan team. Lynn will be working closely with Callahan on the MCERA account, he said. The Chair asked Callahan to define his current position at Callan, and Callahan explained that he was head of all consulting for the firm at this time, and had recently assumed responsibility for the San Francisco office. He indicated that the firm had recently been engaged by Mendocino County, with Gregg Ungerman assisting with that relationship. Four consultants recently left Callan to join Mercer, causing some turmoil in the office, according to Callahan, who added that he intends to hire new staff to replace those who left. Chair Phillips voiced his appreciation for the continuity of the relationship.

B. OPEN TIME FOR PUBLIC EXPRESSION

There being no further business, the meeting was adjourned at 12:51 p.m.

James Phillips, Chairperson

Michael Smith, Secretary