

**MCERA RETIREMENT BOARD
INVESTMENT MEETING MINUTES
Thursday January 26, 2012**

Roll Call: 8:15 AM

Board Members Present:

Sandy Teague, David Ness, Michael Rhodes, Al Peterson, Karen Rodriguez, Mark Bodley, Mary McWatters, Jim Pacheco, Deidre Kelsey and Ron Kinchloe. **Counsel:** Michael Calabrese **Staff:** Maria L. Arevalo and Gale Garcia. **Also present:** Bill Cottle, Carl "Pepper" Whitbeck, Robert Houle, Robert Schumacher, Richard Moreau, Renee Rawls and Jim Brown.

Absent:, Karen Adams, excused. Karen Rodriguez left meeting at 10:50.

**Approval of Minutes: Motion to approve the minutes of January 12, 2012
Rodriguez/Peterson. U/A**

PUBLIC COMMENT:

None (public comment was made at the time of discussion of Board agenda item #5).

CLOSED SESSION—CONFERENCE WITH LEGAL COUNSEL:

Government Code Section 54957: Public Employee Performance Evaluation
Title: Retirement Plan Administrator

RETURN TO OPEN SESSION

REPORT ON CLOSED SESSION: None

BOARD ACTION/DISCUSSION

1. Presentation from AXA Investment Management: Carl Whitbeck, Robert Houle, and Robert Schumacher.

Mr. Whitbeck, head of High Yield investments, Mr. Shumaker, head of Fixed Income and Mr. Houle, Portfolio manager discussed AXA's new fixed income team and new personnel developments at AXA since the departure of senior members of the investment team. They gave the Board an update and review of AXA's investment processes, portfolio strategies and characteristics. Mr. Schumacher reviewed MCERA's performance, asset mix and risk/return profile.

2. Presentation on Securities Lending Program and Update on MCERA Participation.

Richard Monreau, MCERA's BNY Mellon relationship manager introduced Renee Rawls, client service officer of the securities lending program. Ms. Rawls discussed the principle areas of risk in the program and the different practices put into place since the financial crisis. She described the types of securities in the collateral pool, maturity of these securities and the returns MCERA has received since inception. Ms. Rawls also described the revenue sharing agreement between

the bank and MCERA; no changes were made to MCERA's participation in the lending program.

3. Update on Current Emerging Market Exposure in MCERA Portfolio and Status of Search for Emerging Markets Mandate Manager.

Mr. Cottle reviewed the semi-finalist report presented to the Board. Sixteen managers were sent questionnaires regarding their EM products. Milliman selected 5 semi finalists and provided detailed comparisons. After discussion, the Board decided to interview two finalists for the EM mandate at the next Investment Board meeting on February 23, 2012. The Board also reviewed a memo dated January 24, 2012 describing the a hypothetical emerging market allocation and the positive impact an EM mandate would have made on the portfolio over the last five years.

Motion to interview emerging market equity managers, Blackrock and Wells Capital. Ness/Bodley. U/A

4. Updates on UBS and Sky Harbor, Due Diligence Trip Schedule to be finalized for Greenwich Connecticut.

Mr. Cottle noted that SKY Harbor has been successful in its first four months of business and recommended an on-site visit to SKY Harbor and AXA Investment Managers in Greenwich. There was discussion from the Board on whether the onsite visits should be delayed due to the positive report from AXA. The Board determined that the on site visit would be beneficial to support the Board's decision to retain AXA. Mr. Cottle also discussed his memo dated January 19, 2012, UBS Realty Update, noting that there is a strong demand for the real estate funds provided by UBS Realty and in particular, the Trumbull Property Fund. Mr. Cottle noted that while recent performance has been poor versus its peers, investors see the long-term benefit of the Fund's lower risk posture. Mr. Cottle noted that the team is stable and the investment process remains consistent. The Board agreed with Milliman's recommendation to stay the course with UBS Realty.

5. Discussion and Direction to EFI Related to Valuation Report as of June 20, 2011.

As public comment, Jim Brown, County CEO expressed his concern regarding the County's budget shortfall and the funded status of the retirement fund. He expressed appreciation for receiving information about the actuarial valuation and data from MCERA staff related to increasing the amortization period from the current 17 years. Mr. Brown noted that after review of the data, he could not support increasing the amortization period from 17 years to 20 years but asked the Board to consider 18 or 19 years. There was discussion from Board members; Trustee Bodley noted the Board had the fiduciary duty to insure the viability of the retirement fund; Trustee Ness noted the Board had previously increased the amortization period on at least three other occasions at the request of the County; Trustee Rhodes noted that county funds were needed to fund the system and Trustee Teague expressed concern about failing to decrease the amortization period. The Board also discussed the need to complete a funding policy as suggested by the administrator. After a motion to increase the amortization period to 18 years failed, the Board inquired whether there was time for further discussion of the issue at the next meeting. Administrator Arevalo commented that decisions about the contribution rates must be based on what is beneficial for the retirement fund and that the Board may want further discussion to reach consensus on the issue; she noted that EFI Actuaries could wait for direction until the February 9, 2012 meeting. The item will be included on the next meeting agenda.

Motion to change the amortization period from 17 to 18 years.

Rhodes/Kelsey.

Yes-Rhodes, Kelsey, Ness, Pacheco

No-Peterson, McWatters, Teague, Bodley

Motion fails

6. Board Discussion and Possible Amendment to MCERA by-laws to have MCERA Conduct Retirement Board Elections.

Due to the very low voter turnout and the high cost of the last two Trustee elections, staff suggested that the Board consider amending the bylaws so that the MCERA instead of the Elections office could conduct Board elections at a lower cost. The Board expressed concern about fulfilling all election requirements and asked staff to discuss reducing costs with the Elections department and to bring the issue back to the Board. The Board noted Trustee Rhodes' term will end June 30, 2012, Trustee Peterson's term ended December 2011 and Trustee Ness' term will also end June 30, 2012.

CORRESPONDENCE:

Ms. Arevalo noted that Trey Greer provided information regarding new developments at Earnest Partners and will update the Board at the February 23, 2012 Board meeting.

OTHER BUSINESS: Future Meetings, Conferences, Direction for Future Agenda Items

Final plans will be made for due diligence visits with SKY Harbor and AXA on February 15, 2012, attending will be Maria Arevalo, Ron Kinchloe and Bill Cottle.

Funding Policy Ad Hoc committee meeting will be scheduled.

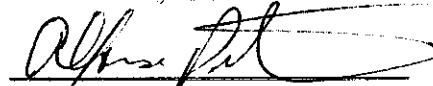
INFORMATION ONLY

Ms. Arevalo noted the Board had copies of the Flash Report, a review of December 2011 returns; the preliminary Investment analysis for the period ending December 2011 from Milliman and the second quarter report of the MCERA budget.

ADJOURNMENT 11:50am

Respectfully Submitted,


David Ness, Chairman


Al Peterson, Secretary

2/9/12
Date