

**MCERA INVESTMENT MEETING MINUTES**  
**Date: Thursday, May 22, 2014**  
**MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**ROLL CALL: 8:17 A.M.**

**Board Members Present:** Karen Adams, Mark Bodley, , Darlene Ingersoll, Scott Johnston, Ronald Kinchloe, Deidre Kelsey David Ness, Al Peterson, and Michael Rhodes. **Counsel:** Richard Flores **Staff:** Steven Bland, Bren Horrocks, and David Liu. **Others:** Paul Harte (SIS), Tom Holliday (Titan), Marice Leo (Titan), Lee Minton (Och Ziff), and Andres Schumann (Och Ziff)

**Roll call:** Jim Pacheco absent - excused

**Approval of minutes:** May 8, 2014.

**Motion to approve Minutes of May 8, 2014.**

**Kelsey/Bodley. U/A**

**PUBLIC COMMENT** - There was no public comment.

**CLOSED SESSION - CONFERENCE WITH LEGAL COUNSEL - SIGNIFICANT EXPOSURE TO LITIGATION:** Existing Litigation Government Code Section 54956.9(a): AFSCME Local 2703 et al v. MCERA, Merced Sup. Ct. Case No. CV003073.

**RETURN TO OPEN SESSION**

No action was taken.

**BOARD ACTION/DISCUSSION**

**1) Update on Pension Software.**

Staff presented a brief update on the pension software system. Staff has contacted other county retirement systems that have recently contracted with CPAS as well as counties with other pension software providers. These counties have issues similar to those that MCERA is experiencing: general data related issues, and specific CPAS specific issues. Staff will provide more detailed updates in the June 12<sup>th</sup> meeting.

**2) Potential Real Estate Investment Trust commitment – Possible action re investment in REIT index mutual fund or ETF.**

MCERA's current allocation in Real Estate is about 6.7% versus a target allocation of 8.0%. The prioritization of RFPs for other mandates may take precedence over a real estate RFP. This gap may not be closed for several years. To temporarily fill this 1.3% gap, both staff and SIS are recommending purchasing \$8 million in an international (ex-US) REIT fund. After discussing the proposal, the Board approved the redemption of domestic fixed income to fund the new mandate. Two viable candidates for the REIT are Vanguard and Blackrock's products in this arena.

**Motion to redeem \$8 million from fixed income (Barrow Hanley) to fund the new international (ex-US) REIT mandate. SIS & staff are directed to determine which vendor to utilize.**

**Peterson/Kelsey,**

**Yes: Kinchloe, Peterson, Kelsey, Ness, Rhodes, Bodley, Ingersoll**

**No: None**

**Abstain: Adams**

**3) Investment Expense (Mike Rhodes' question)**

MCERA's current investment management fee structure was reported. Also, projected fees under the adopted but not yet fully implemented asset allocation were presented. The new asset allocation will lead to a significant increase in fees due to the high management fees for alternative assets. The Board discussed the reports and directed staff to present updated reports to the Board at least annually.

**4) Presentation by Hedge fund managers. Discussion and possible action. The mandate may be part or all of SIS's recommended 4.5% allocation of the total fund, or \$10 million to \$30 million.**

**a. Och-Ziff – Andres Schumann and Lee Minton.**

Mr. Schumann, and Mr. Minton of Och-Ziff capital management group presented on the Hedge Fund strategy for Och-Ziff. They discussed the firm's organization, investment philosophy, strategy and performances.

**b. Titan – Tom Holliday and Marice Leo.**

Ms. Leo, Director of Investor Relations and Mr. Holliday, CIO of Titan Advisors presented on the firm's organizations, investment strategy and performance.

The Board discussed the presentations and reviewed the materials provided by Och-Ziff, Titan and SIS. These included risk management, liquidity, performance history, fee structure, lock up period, tactical shifts in weighting strategies, and assets under management.

After comments from trustees and input from SIS and staff, the Board voted to hire both managers and split the \$28 million between the two.

**Motion to invest \$14 million in Titan Advisors and \$14 million in Och-Ziff capital management group, subject to contract review by County Council. Funding is to come from equities, as determined by SIS and staff. The Och Ziff contract should utilize the lowest fee option, available, the 36 month contract.**

**Adams/Bodley. U/A**

**5) Performance Reports.**

**a. 1<sup>st</sup> Quarter 2014**

Mr. Harte reviewed the quarterly performance for 1<sup>st</sup> quarter of 2014. The total fund returned 2.0% for the quarter, slightly underperforming the benchmark return of 2.2%. The one year return was 13.0% outperforming the benchmark of 12.6% and fiscal year to date return of 13.4% versus 12.4% for the index and ranked in the 12<sup>th</sup> percentile.

**b. Monthly flash report, April 2014.**

Mr. Harte reviewed the highpoints of the April investment performance report.

**6) Discussion of WHV performance, attribution analysis with respect to energy & emerging market.**

Mr. Hart presented a statistical analysis of WHV's performance to the Board and noted WHV performance has been disappointing recently and recommends WHV is terminated. Staff also presented an analysis of the WHV and also recommended the Board terminate WHV. After discussion the Board agrees with the recommendation made by SIS and staff and hire Dimensional Fund Advisors (DFA) to replace WHV as the second U.S. Small Cap equity manager.

**Motion to terminate WHV and hire DFA as the replacement for the U.S. small cap equity manager**

**Adams/Peterson.**

Discussion: The PanAgora commitment is unchanged. U/A

**7) Investment Policy Statement – acknowledgement of need to update Investment Policy Statement and Board intent to migrate to the new allocation.**

The consultant, SIS, has performed an Asset Allocation Study. This included adopting a new target asset allocation. It is not possible to simultaneously adopt a new allocation, rewrite the Investment Policy Statement, create RFPS, interview managers, make selections, perform contract reviews, and transition assets to the new managers. The fund remains in compliance with its policies and procedures and the time lags in implementing all these changes are significant and may provide the erroneous impression that the plan is out of compliance. The plan is in compliance with its policies and procedures and is transitioning at a reasonable pace as it performs all the steps due diligence requires.

Staff and the Investment Consultant will continue to:

- Revise the Investment Policy Statement as needed,
- Bring viable candidates for the new mandates to the Board, and
- Bring options for changing the weighting to existing mandates to reflect the revised target.

**8) Conference Travel Approval for Trustees**

SACRS – Investment management program at Berkeley

Staff noted there are two spaces available and encouraged trustees who did not attend the program to register.

Darlene Ingersoll to attend CALAPRS – Principle of Pension Management for Trustees at Stanford

**Motion to approve attendance for Trustee Ingersoll**

**Peterson/Rhodes. U/A**

**CORRESPONDENCE:** None

**OTHER BUSINESS: Future Meetings, Conferences, Future Agenda Items.**  
CALAPRS Trustees' Roundtable, San Francisco Airport Double Tree Inn  
June 13, 2014 – 8:30 am – 3:30 pm.

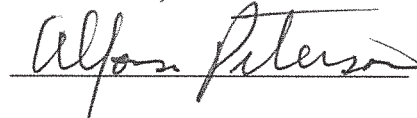
**INFORMATION ONLY**

- 9) SACRS report – moved to next meeting on June 12, 2014
- 10) Staff asked if Bob Palmer (retired plan administrator from San Joaquin County and SACRS officer) should speak to the Board. It was recommended he meet with Deidre Kelsey and Jim Brown.

**ADJOURNMENT**  
**12:10**

Respectfully Submitted,

  
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David Ness, Chairman

  
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Al Peterson, Secretary

6.12.2014  
Date