INVESTMENT MCERA RETIREMENT
BOARD MEETING MINUTES
Thursday May 23, 2013

Roll Call: 8:17 AM

Board Members Present:
Mark Bodley, Deidre Kelsey, Jim Pacheco, David Ness, Michael Rhodes, Scott Johnston, Ronald Kinchloe, Darlene Ingersoll, Al Peterson, ***Counsel***: Michael Calabrese ***Staff:*** Maria L. Arevalo, Gale Garcia, David Liu and Yadira Vazquez ***Also Present:*** Paul Harte and Nathan Pratt.

Absent: Deidre Kelsey arrived 8:27, left 9:41
Mary McWatters - absent
Karen Adams - Excused

Approval of Minutes: Motion to approve May 9, 2013 Board meeting minutes Ingersoll/Bodley. U/A

PUBLIC COMMENT: **None**

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:

REPORT ON CLOSED SESSION: None

BOARD ACTION/DISCUSSION:

1. **Performance Analysis Report: For period January 1, 2013 to March 31, 2013: Paul Harte, Nate Pratt**
   Mr. Harte reviewed the First Quarter performance report. In the First quarter, the U.S. equity market rose sharply on improving U.S. economic data and better corporate earnings. The MCERA portfolio returned 4.9% during the quarter, underperforming the benchmark return of 5.2% and ranked in the 35th percentile of the total fund universe. Market value increased $30 million from December 31, 2012 and since inception, the fund has returned 8.3% versus 5.4% for the benchmark. Mr. Harte also reviewed the performance of each of MCERA's asset classes and managers.

2. **Report and recommendation related to meeting with UBS and retention of UBS Small Cap International manager**
   Mr. Pratt reported on the meeting with the UBS International Small Cap Equity group. SIS and MCERA Administrator Arevalo met with Vincent Willard, managing director and head of Global ex-US Growth Equities, Katherine Martin, Joseph Devine and Stephan Derkash. After reviewing the meeting, SIS recommends that MCERA replace UBS as its non-US Small Cap

manager. The Board discussed the recommendation and approved a search for a new international small cap manager to be conducted by SIS.
Motion to direct SIS to begin search to replace UBS.
Rhodes/Peterson. U/A

3. **Report and update related to meeting with WHV, domestic small cap manager**
   Mr. Pratt reported on a meeting with Andy Turner, CEO of WHV. Mr. Pratt noted the purpose of the meeting was to evaluate new organizational changes and recent underperformance. SIS will have a follow up meeting with Richard Hirayama of the Small Cap team and will provide an update on the strategy and the firm at the next Investment Board meeting.

4. **Review of Asset Allocation Board survey results and possible further action on Asset Allocation Plan**
   SIS reviewed and discussed the Asset Allocation Board Survey. Mr. Pratt noted the survey results will assist the Board and SIS to develop the asset allocation plan for the fund. The plan will be completed over the next several months.

5. **Recommendation and possible action related to Domestic Equity Manager Structure and increased allocation to Tangent Added Strategy with Mellon Capital**
   Mr. Harte and Mr. Pratt reviewed MCERA's current domestic equity manager structure and recommends the elimination of MCERA's Mid Cap strategy and equal weighting the three Large Cap strategies, including an increased allocation to the Tangent Added mandate. SIS also recommends the addition of second domestic small cap manager. The Board approves the termination of the Mid Cap portfolio.
   Motion to terminate Mellon Capital Mid Cap Stock Index Fund and move the proceeds to Mellon Capital Tangent Added fund and Mellon Capital Large Cap Value/Growth Index fund.
   Peterson/Kinchloe. U/A

6. **Report and update related to meeting with Barrow Hanley and fixed income portfolio**
   Mr. Pratt reported on the conference call meeting with John Williams and Debbie Petruzzeli from Barrow Hanley. SIS made no recommendation for changes in this portfolio.

7. **Report on meeting with UBS Real Estate Portfolio manager**
   Mr. Pratt reported on the meeting with Ron Lanier from UBS Trumbull Property Fund to review the portfolio and get an overview of the AgriVest Farmland Fund (AFF). Mr. Pratt noted there will be a meeting scheduled with the AFF Portfolio managers to further review the fund and opportunities for MCERA.

8. **Review of Monthly Preliminary Report for April 2013**

INFORMATION ONLY:
Report from SACRS: Trustees noted the conference provided good opportunities for networking. Arevalo reported the Administrators session discussed a proposed SACRS project to clarify the 37 Act and discussed different system's approaches to implementing PEPRA tiers and provisions.

CORRESPONDENCE: NONE

OTHER BUSINESS:

Future Meetings, Conferences, Future Agenda Items
The Ad Hoc Budget Committee will conduct a meeting following the regular Board Investment meeting

ADJOURNMENT 10:45 AM

Respectfully Submitted,

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David Ness, Chairman

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Al Peterson, Secretary

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Date