MCERA INVESTMENT MEETING MINUTES

Date: Thursday, April 24, 2014

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ROLL CALL: 8:15 A.M.

Board Members Present: Mark Bodley, David Ness, Michael Rhodes, Karen Adams, Darlene Ingersoll, Jim Pacheco, Scott Johnston, Ronald Kinchloe, Deidre Kelsey and Al Peterson. **Counsel:** Richard Flores **Staff:** Steven Bland, Bren Horrocks, David Liu, and Angelo Lamas. **Others:** Scott DeMoss.

- ROLL CALL
- APPROVAL OF MINUTES April 10, 2014.

Motion to approve Minutes of April 10, 2014. Ingersoll/Bodley U/A

PUBLIC COMMENT

There was no public comment.

BOARD ACTION/DISCUSSION

1) Update on Pension Software.

Mr. Lamas discussed the status of the status and issues in converting from MCERA's legacy pension software system to the CPAS package.

2) MCERA Budget Status Review for 3Q.

Staff reviewed the MCERA FY 13/14 actual budget versus planed expenditures for the quarter ending March 31. Generally expenses are below budgeted amounts. The few exceptions are largely annual amounts that were paid at the beginning of the year.

3) 2014 – 2015 Budget.

Mr. Bland presented the proposed Budget for FY 14/15 as recommended by the Executive Committee. Mr. Bland noted the budget held very modest increases for most items. The few meaningful increases are: a) investment expenses that are largely asset based, b) computing expenses for the county's mainframe, and c) depreciation for the pension administration software package. Mr. Rhodes asked for a breakdown of investment expenses by investment manager. Staff suggested the building's waiting room be converted into an office to enable more confidential meetings with employees.

Motion to approve proposed budget for FY 14/15 Kinchloe/Peterson U/A.

4) Legal Review of Raven Fund II contract.

Mr. Flores discussed the Raven Fund II contract. The firm is in Delaware with offices in New York so any potential legal issues would be handled out of state and

would require lawyers licensed and experienced in other states. That would be quite expensive. Also, the contract does not mention the firm needing to carry liability insurance.

Staff reported that with 24 hours Raven had revised the contract. Raven also requested the contract be returned by April 28th. There were many seemingly innocuous changes. However, staff was uncomfortable with a request for a quick turnaround on a lengthily and complex legal contract. Mr. Harte will contact Raven.

5) Continued presentation and discussion of hedge funds strategy: SIS.

Staff presented explanations and examples of alpha, beta, and correlation. Mr. Harte provided additional information on hedge funds in general and fund of hedge funds and multi-strategy funds in particular. Representatives of Och-Ziff and Titan Advisors will be invited to present to the Board at the May 22 meeting. The allocation may be for part or all of SIS's recommended 4.5% allocation, and the total fund may increase or decrease prior to a potential board decision. The agenda should be broad enough to include a range of potential contract amounts.

6) Monthly Performance Report for February 2014.

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

7) Portfolio Manager Changes at WHV and AUM falling.

Mr. Hart commented on the recent onsite visit to WHV. WHV performance has been disappointing recently. However, it is possible that the underperformance is attributable to their emphasis on energy and emerging markets, both of which have been weak recently. Staff will work with SIS to perform attribution analysis to determine if recent underperformance is attributable to these two sectors and report results at the May 22 meeting. SIS indicated WHV analysts are split between San Francisco and Seattle. Formerly the analysts had reported directly to one of the four portfolio managers. Now they work on a pooled basis. Staff questioned the effectiveness of this.

8) Educational Session: Active vs. Passive Investing

Staff made an educational presentation on active and passive investing.

<u>9:30 CLOSED SESSION</u> - 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

A decision form the courts is expected soon. Staff is asked to communicate the results of that decision to employees via the newsletter or other means.

CORRESPONDENCE: None

OTHER BUSINESS: Future Meetings, Conferences, Future Agenda Items.

INFORMATION ONLY

Staff reminded trustees' of terms coming to an end soon. Mr. Bodley's term ends June 30, 2014. Mr. Johnston, Mr. Kinchole, and Mr. Pacheco all have terms ending December 31, 2014.

Staff will attend future REMCO meetings which are held in the MCERA offices. SACRS meeting from May 12-16 at Sacramento, CA CALAPERS Trustees Roundtable June 13, 2014 at Burlingame, CA

ADJOURNMENT 10:29

Respectfully Submitted,

David Ness, Chairman

Al Peterson, Secretary

5-8-2014

Date