

MCERA RETIREMENT BOARD MINUTES

Thursday August 27, 2009

Roll Call: 8:17 AM

Board Members Present:

Dwayne McCoy, Karen Adams, Sandy Teague, Deidre Kelsey, Karen Rodriguez, Mark Bodley, Tom Mackenzie, Al Peterson and David Ness. **Counsel:** Fernanda Saude. **Staff:** Maria L. Arevalo, Gale Garcia and David Liu. **Also present:** Bill Cottle

Absent: Mike Rhodes-excused

Deidre Kelsey left at 9:30.

Approval of Minutes: No Minutes to approve

Public Opportunity:

Retired member, Michael Tanner, called Ms. Arevalo with comments regarding the proposed release to the Merced Sun Star of the names, date of retirement, positions held and pension amounts of retired members who are receiving retirement pay of over \$100,000 a year. Mr. Tanner requested sending the Sun Star the number of years of service and the formula MCERA uses to calculate each member's retirement pay. Board members commented they would like the Sun Star to understand how pensions are calculated and that employees pay a fair amount towards their retirement benefit each pay check.

Closed Session:

None scheduled

Board Action/Discussion

1. Implementation of Asset Allocation Plan

The new asset allocation plan calls for an increase in the allocation to international equities. In implementing this goal, Mr. Cottle discussed responses from domestic equity managers regarding his inquiry on their global equity management capabilities. Mr. Cottle noted most of the managers have global equity management capabilities; however some of the managers are reluctant to take on global equity portfolios. Mr. Cottle also noted if MCERA is to proceed with a global equity manager, the Board should review Earnest Partners' capability as Earnest Partners presently manages both domestic and international equity portfolios for MCERA. There will be a follow up on this issue in the next two months.

Mr. Cottle also discussed an article on TIPS (Treasury Inflation Protected Securities) market and the list of TIPS managers which had been provided to the Board. Mr. Cottle noted the TIPS can be either passive or actively managed. The Board requested a narrower list of possible managers. Mr. Cottle will continue the search and will share results with the Board at the October meeting.

2. Performance Analysis Report, Second Quarter, 2009

Mr. Cottle presented the performance analysis report for period ending June 30, 2009. Mr. Cottle noted equities were up sharply in April and May. Small cap stocks began to exceed large cap stocks. Large cap stocks returned 15.9%, as measured by the S&P 500, in the quarter compared to small cap stocks return of 20.7%, as measured by the Russell 2000®. The International equity market rebounded better than the domestic equity market, with the MSCI EAFE Index returning 25.9% in the quarter. Total private equity had a -13.5% return; incorporating this component into the total fund return, the Retirement Association's total return of 12.2% ranked in the 26th percentile of the total fund universe.

Mr. Cottle noted domestic equity actual asset allocation as of June 30, 2009 is 46.8% compared to 43.1% as of March 31, 2009, an increase of 3.1%. International equity actual asset allocation increased 3% from 13.9% as of March 31, 2009 to 16.9% as of June 30, 2009. Fixed income decreased by 5.1%, real estate decreased by 1.1% and private equity decreased by 0.9%. Mr. Cottle also noted the total investment gain in the period ending June 30, 2009 is \$40.7 million.

3. Transaction Cost Report, Second Quarter, 2009

Mr. Cottle presented the transaction cost report for period ending June 30, 2009. Mr. Cottle noted equity trading for MCERA increased 5.5% from 2,318,759 shares in the first quarter of 2009 to 2,446,999 shares in the second quarter. The higher trade volume was due to higher trading volume for NorthPointe Capital and Wentworth, Hauser & Violich. Mr. Cottle also noted the total trading costs increased 66.3% in the second quarter; however trading costs in the first quarter were unusually low. The total average price penalty for all portfolios increased from 1 cent to 4 cents per share. The total average commission cost was unchanged at 3 cents per share, for both sales and purchases.

CORRESPONDENCE: N/A

OTHER BUSINESS: Future Meetings, Conferences, Future Agenda Items

Reminder: Meeting on September 24, 2009 is cancelled. There will be a combined General and Investment meeting on September 10, 2009

SACRS Conference: Ms. Arevalo reminded the Board of the SACRS conference in Costa Mesa from November 10-13. Present Board attendees are Mark Bodley, Al Peterson and Sandy Teague, possible attendee is Tom Mackenzie.

Due to the SACRS conference and the Thanksgiving holiday, the Board meeting in November is changed to November 19, 2009.

INFORMATION ONLY:

1. **Preliminary Monthly Performance Review:** Mr. Ness noted MCERA had a strong performance in July. Almost all managers exceeded their benchmark and total market value change is a positive \$21.8 million.
2. **Report on GMO visit:** Mr. Cottle discussed his visit with GMO in Boston and noted that GMO has been adding new staff to the investment team over the last year and GMO's assets are rising due to performance.
3. **Update on Standish Mellon account:** Mr. Cottle reported that 75% of the Standish Mellon work out account has been liquidated and investments have been sold at or above fundamental fair market value.

Respectfully Submitted,

ADJOURNMENT 9:45 AM

David Ness, Chairman

Al Peterson, Secretary

Date