

**MCERA RETIREMENT BOARD
INVESTMENT MEETING MINUTES
Thursday July 22, 2010**

Roll Call: 8:15 AM

Board Members Present:

Sandy Teague, Al Peterson, Michael Rhodes, Deidre Kelsey, Ron Kinchloe, Dwayne McCoy, and David Ness. **Counsel:** Michael Calabrese **Staff:** Maria L. Arevalo, Gale Garcia and David Liu. **Also present:** Bill Cottle, George Brown, Michael Bishop and Doug Ober

Absent: Karen Rodriguez-excused
Tom Mackenzie-excused
Mark Bodley- excused
Karen Adams-excused

**Approval of Minutes: Motion to approve the minutes of July 8, 2010
Teague/Peterson. U/A**

PUBLIC COMMENT: NONE

**CLOSED SESSION—CONFERENCE WITH LEGAL COUNSEL—SIGNIFICANT EXPOSURE
TO LITIGATION:** Government Code section 54956.9(c) one case

RETURN TO OPEN SESSION

- **REPORT ON CLOSED SESSION- NONE**

BOARD ACTION/DISCUSSION

1. **BNY Mellon: Report from custodial bank related to asset management services provided to MCERA including security litigation monitoring and update on the securities lending program: George Brown, Michael Bishop and Doug Ober.**

Mr. Brown presented a review of BNY Mellon's Asset services, Securities Lending and securities litigation monitoring programs. Mr. Brown noted BNY is a client focused organization and a worldwide leader in asset management and securities servicing. Mr. Brown described the roles of BNY Mellon which include the safekeeping of the plan's securities, arranging trade settlements, managing cash transactions and performing fund accounting and reporting. Mr. Brown also discussed the development of the securities lending program and MCERA's history of participation and noted the difficulties in the program with the failure of the Sigma security. Mr. Brown also reviewed the security monitoring and securities litigation services as well as how proxy voting was conducted.

2. **Educational Presentation on Investment Issues including Private Equity Review, Manager Search Process, Investment manager Monitoring: Bill Cottle**

Mr. Cottle made an educational presentation on MCERA's private equity, manager search process, and investment manager monitoring to the Board. Mr. Cottle noted in early 2003, the Board decided to consider a new private equity asset class to the mix and decided to hire two or more private equity managers. Based on specific evaluation criteria, 27 firms were sent

questionnaires, 5 were selected for interviews. Based upon the review and interview process the Board hired three firms with total a commitment of \$30 million. Mr. Cottle also noted each asset class in MCERA's portfolio is rigorously researched and monitored; the due-diligence process used to evaluate managers is comprehensive and continuous. Managers are placed on watch list when there are poor returns and must demonstrate improvement or they are terminated. There was discussion on the timelines to see returns from private equity investments and the different kind of companies that are part of the private equity portfolios. The Board determined that future contributions to private equity should be considered.

3. Approve and adoption of MCERA Budget Policy

Ms. Arevalo presented MCERA's Budget policy to the Board for approval and adoption. Ms. Garcia noted there is an error in item IV part d (3). The capital asset value should be \$2,500 instead of \$25,000. There were questions about the need to analyze variances and whether only variances of a certain degree should be explained. There were also comments about how often the budget needed review. After discussion, the Board decided to approve and adopt the policy with only the correction to item IV part d (3).

Motion to adopt MCERA Budget Policy with correction item IV part d (3)

Kelsey/Teague. U/A

Trustee Kelsey left at 9:45 am.

CORRESPONDENCE: NONE

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

Due to different schedules conflicts there will be a combined administrative and investment meeting on September 9, 2010 and no meeting on September 23, 2010.

Ms. Arevalo noted that Earnest Partners will attend the Board meeting on October 28, 2010 as part of the due diligence schedule for the fund's managers. The Board agreed that the visits from fund managers and other service providers were informative and necessary.

INFORMATION ONLY

Report on recent GMO and UBS Personnel Development – 7-14-10

Mr. Cottle discussed his memo on GMO and UBS personnel developments to the Board and noted GMO notified Milliman that Jean-Pierre Mittaz, formerly of UBS Global Asset Management had joined GMO as the firm's new Chief Operating Officer. Mr. Cottle reported Mr. Mittaz is regarded as a strong operations manager and is expected to advance the efficiency and oversight of GMO's investment operations.

UBS Small Cap Int'l Update Memo – 7-6-10

Mr. Cottle noted on June 29th a meeting was held with William Morgan, the product specialist for UBS Small International Equity that manages MCERA's small cap international equity portfolio. Mr. Cottle reported the firm has been quite successful in all aspects of its business and although, the June 30, 2010 results were below benchmark, those results do not reflect the norm. The risk level of the portfolio has been moderated and Mr. Cottle determined that UBS plays a useful function in the MCERA's investment manager structure.

Pantheon Ventures On-site Due-diligence meeting Memo – 6-29-10

Mr. Cottle reported that after the Pantheon presentation to the Board, he held an on-site, due-diligence meeting with the firm in San Francisco on June 25th and discussed the firm's ownership changes,

personnel stability and the private equity market outlook. Mr. Cottle noted the affiliation with AMG is a positive development. Personnel at the senior level has been stable and they have signed long term employment contracts with AMG. Mr. Cottle also noted meaningful performance results are still a number of years in the future and feels the firm has the potential for delivering on its performance expectations.

Mr. Cottle also presented the MCERA's preliminary flash report for 2nd quarter 2010 to the Board and noted domestic equity and fixed income both underperformed the benchmark for the quarter, international equity and real estate performed better than benchmark and total fund returned -5.7% compare to -5.9% for the Benchmark. A detailed quarterly report will be presented to the Board in next investment meeting. The annual return as of June 30, 2010 was 13%.

ADJOURNMENT 11:20 AM

Respectfully Submitted,

David Ness, Chairman

Al Peterson, Secretary

Date