

MCERA RETIREMENT BOARD MINUTES
Thursday, July 23, 2009

Roll Call: 8:15 AM

Board Members Present:

Dwayne McCoy, Alfonse Peterson, Mike Rhodes, Karen Adams, Sandy Teague, Deidre Kelsey, Karen Rodriguez, Mark Bodley, Tom Mackenzie and David Ness. **Counsel:** Fernanda Saude. **Staff:** Maria L. Arevalo, Gale Garcia. **Also present:** Bill Cottle, Timothy Price, Ben Lazarus, and Kip Chaffee

Ms. Kelsey left the meeting at 9:50 a.m.

Approval of Minutes:

Motion to approve minutes of the July 9, 2009 Board Meeting with the correction of Adams misspelled name.

Rodriguez/Adams U/A

Public Opportunity: None

Closed Session:

It is the intention of the Retirement Board to meet in Closed Session pursuant to Government Code Section 31532 regarding the confidentiality of member records.

No item scheduled in closed session.

Report Out Of Closed Session:

None

Board Action/Discussion

1. Election of Board Officers

Motion to nominate:

Board Chair-David Ness. Rodriguez/Adams U/A

Vice Chair-Sandy Teague. Adams/Kelsey U/A

Secretary-Al Peterson. Adams/Rodriguez U/A

2. Board Education

Mr. Ben Lazarus and Mr. Kip Chaffee provided information and education related to cash overlay strategies. Mr. Lazarus' discussion included a description of an overlay service as a fund enhancement tool; the use of exchange traded futures and their characteristics and risks. The discussion also included target policy returns, synthetic rebalancing and cash securitization. Mr. Lazarus answered Board questions and provided examples of how the strategy could work for MCERA. Mr. Lazarus noted that the presentation was for the purpose of Board education.

3. Asset Allocation Plan and Implementation

Mr. Cottle and Mr. Price reviewed the preliminary results that were presented at the July 9th Board meeting regarding the proprietary model that integrates the Association's liabilities into

the asset allocation process and the inputs to the model. Mr. Cottle noted that the final report presented today was an enhanced version of the preliminary report and that an additional narrow range of asset mixes was prepared as requested by the Board that excluded the high yield asset class. The study revealed that the net impact of eliminating a high yield allocation is to drive assets primarily into domestic equity, increasing this allocation by 3.0% with the remainder allocated to international equity (+0.8%), domestic bonds (+0.6%) and real estate (+0.6%). Mr. Cottle noted that eliminating high yield makes each equivalent-return asset mix slightly less efficient (more plan risk for the same expected return). Mr. Cottle recommended the Board adopt Mix 6 (with an allocation to high yield and TIPs) among the narrowed asset mix range, which offers a reasonable return and is better diversified than the current target or current asset mix. There was discussion that Mix 7, also including TIPs and high yield, was preferable, offering a slightly higher return with comparable risk. Mr. Cottle and Mr. Price stated that they could also support adoption of the asset allocation in Mix 7.

Motion to adopt Mix 6 of the narrowed asset mix range that includes an allocation to high yield and TIPs.

Adams/Peterson

Ayes-Teague, Peterson, Rhodes, Kelsey, Adams and Ness

No- Mackenzie, Bodley and Rodriguez

Mr. Cottle then reviewed his memo dated July 20, 2009 regarding the implementation of the new asset allocation plan. The goals of an implementation plan include not disrupting the strong results currently being generated by the investment managers, while gradually moving to implement the conclusions of the study and making as few manager changes as possible.

4. Securities Lending Collateral Pool: Overnight vs. Money Market

BNY Mellon has sent security lending participants notice regarding the transitioning of its investment strategy of the cash/overnight assets held in the ASL Short Term Fund from overnight investments only to investment guidelines generally consistent with Rule 2(a) 7 of the Investment Company Act of 1940. BNY Mellon indicated that the ASL Short Term Fund will probably invest a small % of the collateral with maturities out 3 to 9 months and then as the market stabilizes increase the % invested as well as extend the maturities out to 13 months. Additionally, BNY Mellon will offer a Pooled Employee Securities Lending Overnight Fund as an alternative. Ms. Arevalo noted BNY Mellon is requesting direction from all clients as to which fund would best serve their needs.

Motion to leave MCERA's cash/overnight assets in the ASL Short Term Fund.

Adams/Teague

Ayes: Adams, Teague, MacKenzie, Rodriguez, Ness, Bodley, Peterson, Rhodes

Noes: none

Absent: Kelsey

5. Review of Watch Status of Earnest Partners and NorthPointe Capital

Mr. Cottle noted that both managers have met or exceeded their benchmark over the last two quarters but recommended MCERA keep them on watch and continue to monitor their performance closely.

6. Pension Administration System (PAS) RFP Recommendation

Ms. Arevalo reviewed her memorandum to the Board, dated July 23, 2009 related to the PAS RFP. Ms. Arevalo reported that the Evaluation Committee unanimously agreed to recommend

that CPAS Systems be retained as MCERA's PAS provider pending successful contract negotiations.

Motion to approve the recommendation of the PAS RFP Evaluation Committee and authorize the Plan Administrator to negotiate a contract with CPAS Systems and bring a final contract to the Board for approval and signature by the Board Chair.

Rodriguez/Bodley

Ayes: Rodriguez, Bodley, Adams, Teague, MacKenzie, Ness, Peterson,

Noes: none

Abstain: Rhodes

Absent: Kelsey

7. Appointment of Ad Hoc Audit Committee

Ms. Arevalo requested that the Chair appoint a trustee to sit on the Ad Hoc Audit Committee to replace Ron Kinchloe. Tom Mackenzie was appointed.

CORRESPONDENCE:

1. WHV: Market Capitalization

Ms. Arevalo discussed a letter from Wentworth, Hauser & Violich (WH&V), MCERA's small capitalization core manager. WH&V indicated MCERA's portfolio may contain securities that have exceeded the capitalization threshold of the Russell index due to the changes in the index.

Ms. Arevalo reported that staff and Mr. Cottle reviewed the index over the past ten years and noted that significant changes in the recently reconstituted Russell Indices are due to the unusual bear market of the past twelve months and that the present ranges are not consistent with the historical range of the indices. In view of these recent changes, staff has notified WH&V and its other domestic equity managers that MCERA agrees that they may continue to hold securities outside the current market capitalization ranges and over time bring the portfolio back in line with the benchmark market capitalization ranges. While MCERA agrees to give managers this temporary flexibility, MCERA expects them to maintain competitive performance relative to the current benchmark.

INFORMATION ONLY: Future Meetings, Conferences, Direction for Future Agenda Items

Next Board Meeting Scheduled for August 13, 2009

ADJOURNMENT 10:45 AM

Respectfully Submitted,

David Ness, Chairman

Al Peterson, Secretary

Date