MCERA RETIREMENT BOARD
INVESTMENT MEETING MINUTES
Thursday April 22, 2010

Roll Call: 8:18 AM

Board Members Present:
Sandy Teague, Mark Bodley, Al Peterson, Michael Rhodes, Karen Adams, Tom Mackenzie, Deidre Kelsey, Ron Kinchloe, Karen Rodriguez, and David Ness. ***Counsel***: Michael Calabrese ***Staff:*** Maria L. Arevalo, Gale Garcia and David Liu. **Also present:** Bill Cottle, Jim Brown, Graham Schmidt, Bob McCrory, Marla Ryan ,David Garza

Absent: Dwayne McCoy-excused

Approval of Minutes: Motion to approve the minutes of April 8, 2010
Rodriguez/Peterson. U/A

PUBLIC COMMENT: None

CLOSED SESSION—CONFERENCE WITH LEGAL COUNSEL—SIGNIFICANT EXPOSURE TO LITIGATION: Government Code section 54956.9
NONE

BOARD ACTION/DISCUSSION

The Board agreed to begin the meeting with item #2

2. **Report on Due Diligence trip to Barrow, Hanley, Mewhinney and Strauss**
   Mr. Cottle reported on the due-diligence meeting with Barrow Hanley on 4/14/2010 in Dallas Texas which was also attended by Maria Arevalo. As of December 2009, Barrow Hanley has converted its legal structure to a limited liability corporation. This change will facilitate the acquisition of 24.9% of Barrow Hanley's partnership units by employees. The meeting included discussions with MCERA's portfolio managers, David Hardin, Mark Luchsinger and Debbie Petruzzelli. The firm has added three new analysts to the team in 2010 and described a careful hiring procedure which takes into account training, education and experience. Mr. Cottle noted Barrow Hanley is taking a relatively conservative fixed income approach in managing MCERA's portfolios and he felt this is appropriate. With regards to the workout portfolio, the firm understood MCERA's desire to minimize losses while transitioning this portfolio. The meeting was beneficial and informative with no current issues to address.

3. **Update on AXA Management portfolio transition to separate account**
   Ms. Arevalo reported the AXA Management portfolio was transitioned from the commingled fund to a separate account per the agreement between AXA and MCERA. The transition was completed with an in kind transfer of securities and the account was ready to trade as of April 19, 2010.

4. **Flash Report regarding Fund's First Quarter 2010 Performance**
   Mr. Cottle presented the Flash report for MCERA's preliminary performance through the 1st Quarter, 2010. Total Domestic Equity at 5.1% for the quarter underperformed the benchmark of 5.4%; international equity performed well in the first quarter returning 2.9% versus 0.9% for the

benchmark. Real Estate also performed better than the benchmark, for the quarter returning 2.9% versus 0.8% for the benchmark. MCERA's total fund performed slightly better at 3.9% than the benchmark of 3.8%.

5. **Effect of Income Stripping: Discussion on taking income to pay Fund's expenses**
   Mr. Cottle discussed MCERA's income stripping schedule from January 2007 to December 2009. For the three years combined, income stripped from Real Estate and Fixed Income totaled $22.6 million and is used to pay for expenses that include administrative, investment, custodial, and actuarial expenses. The Board discussed the effect of taking this income from the portfolio.

6. **Actuarial Presentation regarding the Fund's annual valuation: EFI**
   Graham Schmidt and Bob McCrory of EFI Actuaries presented the results of the Actuarial Valuation as of June 30th, 2009 and of the audit of the 2008 Buck Consultants' valuation. The audit of the prior valuation revealed assumptions made by Buck that EFI determined were not reasonable. The impact of the corrections made to the assumptions resulted is an increase of 6 % to the 2009 contribution rate and the determination that there was a shortfall in contributions in fiscal year 09/10. In addition, market losses and the decrease in net assets of the fund will also increase the contribution rate for the fiscal year 10/11 by 5% . EFI determined the employer contribution rate to be 35.71% for fiscal year 10/11 taking into account the impact from the shortfall in contributions, market losses and other factors. Jim Brown, Assistant CEO, noted that all departments had submitted their budget for next year and the County is estimating a $24 million shortfall next year; he requested that MCERA and the County explore options on how to pay the recommended contribution. EFI used the Projection Software to display different methods of calculating contribution payment plans. Board members discussed different alternatives with regards to the valuation results; there was agreement that both MCERA and the County need to work together in addressing the contribution issues. The Board directed staff to meet with plan sponsors to explore different scenarios on the contribution payment and bring back to the Board for action.
   Motion to have a special Board meeting on 5/29/2010 to take action on June 30, 2009 Actuarial Valuation.
   Rodriguez/Peterson. U/A

1. **Presentation by Delta Management regarding MCERA's portfolio performance and update on Delta: Marla Ryan, David Garza**
   Marla Ryan reported on Delta Management's organization and noted as of 3/31/2010 total firm assets are $1.5 billion, no new clients have been added in the last 15 months and 3 accounts had departed due to changes in the client's investment strategy. Ms. Ryan noted Delta was acquired by Marshall and Ilsley Corporation however, Delta will continue to operate out of Los Angeles and the investment team remains the same. Mr. Garza presented MCERA's performance as of 12/31/2009 and noted MCER's 1 year performance before fees returned 29.6% versus 26.5% for the S&P 500 benchmark. First quarter 2010 return of 5.1% is slightly under the benchmark of 5.4%. Mr. Garza also noted Delta's top down business cycle analysis and focus on stock selection provides the flexibility to outperform in both rising and declining markets.

REFUND OF SERVICE PURCHASE: NONE

DEATH BENEFIT: NONE

CORRESPONDENCE: N/A

OTHER BUSINESS: Future Meetings, Conferences, Direction for Future Agenda Items
One meeting only in May due to SACRS conference, Special meeting April 29, 2010.

INFORMATION ONLY

NONE

ADJOURNMENT 11:45 AM

Respectfully Submitted,

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David Ness, Chairman

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Al Peterson, Secretary

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Date