

MCERA RETIREMENT BOARD
BOARD AND INVESTMENT MEETING MINUTES

April 24, 2008

Meeting called to order 8:15 a.m.

MEMBERS PRESENT: Jim Lindsey, LeRoy Gilsdorf, David Baker, Ralph Busby, David Ness, Karen Rodriguez, Ron Kinchloe and alternate Dwayne McCoy. **STAFF:** Maria L. Arevalo, Gale Garcia. **ALSO PRESENT:** Bill Cottle, Paul Viera, Miro Pastrnak, Erick Schonberg, Michael Marsh, Graeme Neuff, Dana Dean, and Christopher Neill. **County Counsel:** Absent.

Absent: Karen Adams, Kathleen Crookham, excused.

Approval of Minutes: Motion to approve the minutes of February 28, 2008. Gilsdorf/Baker U/A.

PUBLIC OPPORTUNITY: None

BOARD ACTION/DISCUSSION

1. Interview of Finalists: International Alpha Equity Manager Search.

The MCERA Board of Trustees interviewed four (4) investment firms for MCERA's International Alpha Equity mandate. The investment firms interviewed were Earnest Partners, Thornburg Investment Management, Marathon-London, and Manning & Napier Advisors. There was a discussion as to whether hiring another manager at this time was still the correct way to proceed in light of the current market conditions. Mr. Ness expressed his view stating how important it was to implement the steps necessary to carry out the asset allocation plan that was adopted in April 2007 and that there should not be a delay in hiring the managers necessary to effectively implement the new allocation plan. There was also a discussion as to whether a global account vs. an international account would better serve MCERA's portfolio. Trustees also acknowledged the fact that although one of the firms was on MCERA's watch list; the Board felt the manager should not be excluded from consideration as the international portfolio was a different product and the search criteria identified that manager to have a viable product and unique strategy.

Motion to hire Earnest Partners for MCERA's International Alpha Equity Manager. Ness/Busby. U/A

2. Review of Response from Lehman Brothers.

Mr. Cottle noted that Lehman Brothers had provided correspondence and documentation in response to the Board's concern over the performance, types of securities within the portfolio and lack of communication to the Board and MCERA's consultant. The Board reviewed the materials provided in response to the watch letter sent to Lehman. Mr. Cottle addressed the negative returns and noted that it may be positive for MCERA that Lehman had not sold the positions that have hurt their performance because he feels the pricing will come back. The Board agreed that there were opportunities in the bond market and that they would expect Lehman to produce positive results in the future. It was agreed that no further

action would be taken at this time with regards to MCERA's bond portfolio and that Lehman would be asked to report back to the Board later in the year.

3. Report on Due Diligence Visit with UBS/Aberdeen.

Mr. Cottle presented a memo dated April 15, 2008 summarizing his on site due-diligence meeting and follow-up meetings. Mr. Cottle noted his call with Ron Lanier confirmed that the organizational issues associated with the UBS parent organization have had little impact on the firms' institutional real estate group. He also noted that Mr. Lanier addressed UBS's more aggressive appraisal approach that reflects the current real estate values and this is likely to impact performance during several quarters in 2008 but when the market turns around, their performance should improve more quickly.

Mr. Cottle presented a memo dated April 16, 2008 summarizing the Aberdeen Asset management on-site due diligence meeting on March 20, 2008. Mr. Cottle noted that Aberdeen believes in their positions. He noted that they were hurt in the mortgage area but not due to sub-prime or Alt-a securities. Their performance was down due to all mortgages that were affected by the depth of the poor credit market for mortgage-related securities. Mr. Cottle noted that Aberdeen would like to come to MCERA to discuss the portfolio's positions and discuss the current market environment that they feel presents a near unprecedented investment opportunity. Ms. Arevalo noted she would contact Aberdeen and invite them to the June 26th Board meeting.

4. Preliminary Performance/Flash Report

Ms. Garcia presented the Board with the preliminary performance for March-2008. Mr. Cottle presented the flash report for the quarter ending March 31, 2008. Mr. Cottle noted that domestic equity underperformed the benchmark primarily due to NorthPointe and Earnest Partners. Mr. Cottle recommended an on-site due diligence meeting with NorthPointe. Mr. Cottle noted that international equity out-performed their benchmark and fixed income under-performed their benchmark. Mr. Cottle noted that the fixed income portfolios brought down the performance by 90 basis points and because MCERA was over-weighted to domestic and international equity more than the benchmark, that also contributed to the results vs. the benchmark.

5. Adoption of amended MCERA Investment Objectives and Policy Statement.

Mr. Cottle reviewed the amended document that incorporated the recommended changes by the Ad Hoc committee. Mr. Busby wanted to require additional fidelity and crime insurance coverage and eliminate the need for a surety bond on page 7 and Ms. Arevalo requested a change regarding the economic interest form on page 3 that would reflect a reference to MCERA's Board Governance policy.

Motion to approve and adopt the document with the requested changes.

Rodriguez/Gilsdorf. U/A

6. Report on NorthPointe meeting/call.

Mr. Cottle reported on a due diligence conference call held with NorthPointe, also on the call were Ms. Arevalo, Gale Garcia and Board Chair, Jim Lindsey. It was felt that due to poor performance a follow up due diligence meeting was necessary with NorthPointe and one will be scheduled for July in Troy, Michigan.

7. **Review of Private Equity Funding.**

Mr. Cottle noted that private equity tends to diversify by type of investment, venture capital buy-out, growth opportunities and over different time periods. He noted that private equity managers invest over a period of time (usually 3 to 5 years). Mr. Ness requested clarification that the heightened number of capital calls weren't being called by the managers to increase leverage or the managers having difficulty with financing. Mr. Cottle noted the heightened number of capital calls is due to investment opportunities.

CORRESPONDENCE:

Delta Asset Management- Mr. Cottle reviewed the letter from Delta noting that Mr. Sandroni is nearing retirement and will possibly stay on as a consultant to the firm. Also Marla Ryan would be moving into Sandroni's position.

Earnest Partners- Mr. Cottle noted that Earnest Partners responded to the letter informing them that MCERA has put them on their watch list. The letter detailed their performance, diversification, and their investment process.

GMO- Mr. Cottle reported that GMO changed their executive committee from a group of 8 people to 3 people. Mr. Cottle noted that this would be part of the discussion that will be addressed at a scheduled due diligence meeting.

OTHER BUSINESS:

Mr. Cottle noted he received a call from Jeff Romwell with Wentworth, Hauser & Violich. Mr. Romwell communicated to Mr. Cottle that they have lost an analyst. Mr. Cottle noted that he didn't feel this was issue however; he was concerned that they still have not replaced their CIO and that could be a risk to MCERA.

Ms. Garcia summarized her attendance at the UBS business meeting on April 7th -9th.

Ms. Arevalo announced that the Trustee Round table will be held May 30th and if any one was interested to let her know and she will send them the agenda.

Meeting Adjourned 12:05 p.m.

Respectfully Submitted,

Ralph Busby, Secretary

Jim Lindsey, Chairperson

Date