

# INVESTMENT COMMITTEE MEETING AGENDA

May 18, 2016 @ 3:00pm

1. Approval of March 16, 2016 Investment Committee Meeting Minutes
2. Performance & Market Review (April 30, 2016)

April 30, 2016	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
<b>Gross of Fees</b>						
<b>MERS Total Plan</b>	2.59	-0.39	5.65	5.93	9.75	5.22
<b>Policy Benchmark *</b>	3.85	-1.73	3.92	4.69	9.24	4.79
<b>Excess</b>	-1.26	1.34	1.73	1.24	0.51	0.43
<b>MSCI ACWI IMI</b>	1.88	-5.45	5.22	4.73	11.38	4.09
<b>Barclays Global Agg</b>	7.31	4.84	0.85	1.46	3.79	4.29

\***Policy Benchmark**=MERS Total Plan Custom BM-Lagged. The MERS Policy Benchmark consists of a global blend of equities and bonds. Its components are 65% MSCI ACWI IMI (Global Equity) and 35% Barclays Global Aggregate (Global Fixed Income). The global benchmark went into effect 01/01/2014. Prior to that, the Policy Benchmark consisted of a custom benchmark composite that mirrored MERS' Asset Allocation.

3. Portfolio Update
4. Governance and Compliance
5. New Investment Approvals
  - a. Acadian Asset Management – Diversified Alpha (**Tentative Action Item**)
6. Private Market Update
  - a. IPS Language – Due Diligence Costs (**Action Item**)
7. Other Business
  - a. Asset Allocation Review - June 15, 2016
  - b. Investment Manager Roundtable - June 8, 2016

# INVESTMENT COMMITTEE MEETING MINUTES

May 18, 2016 @ 3:00pm

BOARD ATTENDEES	MERS ATTENDEES
Michael Brown	Jeb Burns
Michael Gilmore	Mike Charette
Jason Sarata	Chris DeRose
Jim Wiersma	Ed Mikolay
	Julian Ramirez
	Mike Schrauben
	Lori Smith
	Paul Van Gilder
	Peter Wujkowski

## 1. Approval of March 16, 2016 Investment Committee Meeting Minutes

A motion was made and supported to approve the 3.16.16 Investment Committee (IC) minutes. Brown, Gilmore and Wiersma voted in the affirmative for the motion.

## 2. Performance & Market Review (April 30, 2016)

The Performance and Market Review Chart was updated to reflect year-to-date and from 1-year to 10 years performance. The one-month and three-month performance figures have been removed to allow the Committee to focus on information regarding meaningful time periods.

## 3. Portfolio Update

Mr. Burns reported that emerging markets and microcap equities performed well, fixed income returns were positive, diversifying strategies was the top performing asset class and the team is comfortable retaining TCW for the near term, as benchmark risk has been reduced. Mr. Wiersma asked how TCW (who is on watch) is doing, and it was reported that the manager is up 8.5% for the last 3 months. Discussion ensued about limiting risk, portfolio construction and attempting to spot opportunities in emerging fixed income.

## 4. Governance and Compliance

Mr. Burns reported that his office is working with State Street on compliance and monitoring matters. He advised that MERS will be sourcing more private investments internally to increase returns. He advised that his office is working with MERS deputy general counsel Brian LaVictoire on auditing and PERSIA matters. He advised that in December 2015, his office established an internal Compliance and Risk Committee to meet quarterly and go over risks that relate to investment, regulatory risks, volatility and proactively address potential internal audit issues.

Mr. Burns advised that, two years ago, his office devised a pricing model, which the Office of Finance is taking over in the next month or so, and which will allow that office to monitor financial statements.

## 5. New Investment Proposals

### a. Acadian Asset Management – Diversified Alpha (**Tentative Action Item**)

The Investment team is recommending investing \$100 million, as a part of the diversifying strategies, with this manager. Acadian has been a manager for other strategies (?) since 2003, and the Investment team is comfortable with Acadian and believes in its abilities as it has underperformed in only two of the thirteen years since being with MERS. The investment employs a global absolute return strategy, seeking a 10% return, using a beta-neutral long/short equity portfolio, and it is managed by Acadian's long/short investment team. This is a highly liquid portfolio and has a discounted fee at 80 bps flat.

A motion was made and supported to approve recommending investing \$75-\$100 million as described as part of the diversifying strategies. Brown, Gilmore and Wiersma voted in the affirmative for the motion.

A short break was taken, meeting reconvened at 4:19pm

## 6. Private Market Update

### a. Proposed IPS Language – Third Party Due Diligence Costs (**Action Item**)

The Investment team proposed the addition of language to the Investment Policy Statement regarding third party due diligence expenditures, which would reflect:

- The office of Investments will look to avoid such costs by either having the potential seller or potential partner fund such expenses;
- The office of Investments will seek to have any third party due diligence expenditures incorporated into the cost basis of completed investments;
- Third party due diligence costs anticipated to be less than (a) \$1.5M or (b) 2% of the expected commitment shall require authorization of the Portfolio Review Committee;
- Third party due diligence costs anticipated to be greater than \$1.5M or 2% of expected commitments shall require approval from the Investment Committee.

The Committee supported the recommendation, and this addition will be included in the presentation to the full board regarding the IPS update.

### b. Performance Updates

Mr. Mikolay presented updates on MERS' Private Market holdings:

- i. MERS received the first revenue check from a co-investment, reflecting a 3.2% yield. On the real estate side, MERS will be accelerating selling over next quarter. The triple net lease real estate strategy has been a boost to the portfolio (returns in excess of 32%), and MERS is now looking to trim holdings.
- ii. The Investment team is pleased with the results of the strategy shift for real assets adopted in 2014/15. MERS secured 3 of 4 tranches in the master limited partnership matter. MERS was ready to make a deal on the fourth, but company got bought out so the deal fell through.
- iii. MERS is under contract to sell 2 of the 3 Australian farms, and the Investment office was satisfied with the sales. The last remaining property is considered a showcase, and MERS is optimistic about a timely sale.

**7. Other Business**

**c. Asset Allocation Review - June 15, 2016**

It was reported that the Investments office has held a number of asset allocation meetings, has more meetings scheduled and is continuing to work on this.

**d. Investment Manager Roundtable - June 8, 2016**

Meeting adjourned at 4:44pm