

**AGENDA ITEM I:
INVESTMENTS**

**Pension Commission
City Conference Room
260 Constitution Plaza
Friday, June 27, 2008
8:00 a.m.**

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Gene Goldman, Commissioner; Frank Lord, Commissioner; Walter Remes, Employee Representative; Kathleen Palm Devine, Secretary

STAFF PRESENT: Gary L. Carter, Director of Investments; Gary B. Draghi, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst

OTHERS PRESENT: Claire Shaughnessy, Rogerscasey, MERF's General Investment Consultant

Chairman Peter Stevens called the Investment portion of the meeting to order.

I. Review of Minutes: Regular Meeting of May 23, 2008

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

A motion was made, seconded and adopted to accept the minutes as presented.

II. Status of the MERF Portfolio as of May 31, 2008

Chairman Stevens introduced the item. Secretary Kathleen Palm Devine asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that at May 31, 2008, the market value of the MERF's investment portfolio approximated \$1.1 billion. He stated that the portfolio generated a positive 0.6% return net of fees for the month, essentially matching the MERF policy benchmark return of positive 0.5%.

Status of MERF Portfolio as of May 31, 2008 (continued)

Mr. Antoine further reported that the MERF's domestic equity portfolio experienced a positive 2.0% net return for the month, matching the benchmark (Russell 3000 Index) return of positive 2.0%. The MERF's international equity portfolio generated a positive 1.7% net return for the month, essentially matching the Russell Global Ex-U.S. equity index's return of positive 1.6%.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a negative 0.8% net return for the month, matching the custom fixed income benchmark return of negative 0.8%. Lastly, he noted that the Liquidity Fund generated a positive 0.2% net return for the month, underperforming the benchmark return of positive 0.5%. This underperformance, he noted, was due to the Liquidity Fund's temporary and tactical over-allocation to long duration bonds and non U.S. fixed income which underperformed and its underweight to high yield fixed income, which outperformed during the period.

The Commission accepted the report for advice.

III. Status of the MERF Portfolio FYTD - Report for the Period Ended March 31, 2008

Chairman Stevens introduced the item. Secretary Kathleen Palm Devine asked the Investment Unit to report. Mr. Gary L. Carter, the MERF Director of Investments gave the report. Discussion of the fiscal year to date returns and policy items noted within the report ensued.

The Commission accepted the report for advice.

IV. Consideration of Recommendation to Retain Small-to-Mid-Cap Growth Manager

Chairman Stevens introduced the item. Secretary Devine stated that the Commission, staff and she had interviewed four candidates for the domestic small/small-to-mid-cap growth equities mandate. Secretary Devine stated that the candidates had been identified after an extensive search by Rogerscasey, the MERF's Investment consultant. She noted that the candidates (ING Investment Management America, Globflex Capital, L.P., Goldman Sachs Asset Management (Goldman) and Tygh Capital Management (Tygh)), had all achieved good returns relative to their

Consideration of Recommendation to Retain Small-to-Mid-Cap Growth Manager (continued)

respective benchmarks and that she believed that each had the qualifications to be a valuable addition to the MERF's manager line-up based upon their risk-adjusted returns, information ratios, standard deviations and residual correlations with the MERF domestic equities managers.

Secretary Devine noted that among the candidates, Goldman Sachs and Tygh were the only two that had a mid-cap component in their mandates. She stated that the other two invest only in small cap. She then stated that the mid-cap exposure found in small to mid cap portfolios appears to provide an inherent advantage in the form of potentially higher returns and lower risk as compared to small-cap-only portfolios. She also noted that this inherent advantage appears to overcome the fact that the Tygh and Goldman products have been in existence for only three years, as compared to Globflex Capital's eight-plus years of experience.

Secretary Devine stated that based upon the preceding analysis, the four candidates were reduced to two, Goldman and Tygh, both of which were rated "BUY" by Rogerscasey. She stated that Tygh appears to have the edge over Goldman, noting that its small to mid cap strategy represents a more significant portion of Tygh's assets under management as compared to Goldman's product (47% vs. 0.02%). She went on to note that this would undoubtedly provide a strong incentive for Tygh to work hard to ensure the success of this product. Secretary Devine also noted that Goldman has a higher minimum account size than Tygh. She then recommended Tygh for the MERF's small to mid cap growth equity mandate. Discussion ensued.

A motion was made, seconded and unanimously adopted to authorize Secretary Devine to retain Tygh Capital Management for the MERF's small-to-mid-cap growth mandate, pending successful contract negotiations.

V. Report on Annual Performance Review meeting with Walter Scott & Partners, Ltd.

Chairman Stevens introduced the item. Secretary Devine stated that the report was self-explanatory. She asked if there were any questions. There were none.

The Commission accepted the report for advice.

VI. Other Business

Chairman Stevens introduced the item. Secretary Devine stated that City still owed the MERF interest on the sick-exchange benefit awarded through the Early Retirement Incentive Program of 2003, as well as on outstanding pension contributions from previous years, and that she hoped to have this matter resolved by June 30, the MERF's fiscal year end. She noted that she and staff had had discussions with the City about this issue and that progress had been made. Discussion ensued.

The Commission accepted the report for advice.

There being no further business, Chairman Stevens adjourned the meeting.

ATTEST: _____
Kathleen Palm Devine, Secretary