

San Mateo County Employees' Retirement Association
Minutes of the Investment Committee

July 23, 2002 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:12 P.M.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes for the Investment Committee Meeting
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services of the Investment Committee
 - 6.1 Acceptance of Monthly Portfolio Performance Report
 - 6.2 Approval of extension to INVESCO Realty Advisors Investment Management Contract
 - 6.3 Introduction to Review of *SamCERA's Investment Plan*
 - 6.4 Consideration of Topics for SIS August Workshop
 - 6.5 Approval of Topics for Investment Manager Review – INVESCO Realty Advisors
 - 6.6 Annual Investment Consultant Review – Strategic Investment Solutions
 - 6.7 Annual Global Custodian Review – State Street Bank & Trust Company
- 7.0 Other Business
- 8.0 Adjournment

MINUTES OF SAMCERA's Investment Committee

- 1.0 Call to Order:** Ms. Colson called the Public Session of the Investment Committee of the Board of Retirement to order at 10:12 A.M., July 23, 2002, in *SamCERA's* Board Room, Suite 280, 702 Marshall Street, Redwood City, California.
- 2.0 Roll Call:** Mr. Buffington, Mr. Bryan, Mr. Cottle and Ms. Colson. *Board Members in Attendance:* Ms. Salas and Ms. Stuart *Alternate Board Member:* Ms. Arnott *Staff:* Mr. Clifton and Mr. McCausland. *Consultant:* Ms. Gutoff *Public:* One (11:22) *Retirees:* One
- 3.0 Approval of the Minutes:** The last "investment meeting" on May 28 was held at the full Board. There are no Investment Committee minutes to approve.

Action: By consensus the Committee approved the minutes for July 23, 2002 minutes.
- 4.0 Oral Communications From the Committee** None
- 5.0 Oral Communications From the Public** None
- 6.1 Acceptance of Monthly Portfolio Performance.** Ms. Colson reported that the absolute returns for one year (-5.92%), two years (-5.08%) and three years (-0.24%) are disappointing. Even the five-year return (4.14%) is below the actuarial interest or discount rate. The small outperformance of the Plan versus the policy benchmark may be attributed to performance of SamCERA's active managers.

Mr. Bryan asked for an explanation regarding the 58 basis point variance between the Total Fund Return of -5.92% and the Total Plan Policy Benchmark of -6.50% when no individual asset class had

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such a wide variance. Mr. Clifton reminded the Board that in May SamCERA received approximately \$150,000 settlement for a class action suit. That settlement was received via the cash account. If the increase in cash were treated as a return, performance on cash would be distorted. Therefore, the performance only appears in Total Plan and not in any individual asset class.

Mr. Cottle noted that the real estate return versus the benchmark does not look very good. • Ms. Colson agreed, but she wished to point out that the real estate numbers relative to other asset classes in the portfolio happen to be the best performing numbers. The asset class is not the problem. • Mr. Cottle noted that it might be the manager.

Mr. Clifton suggested that the Committee review *SamCERA's* Rebalancing Policy. Although no asset class is outside the target rebalancing band, the Russell 1000 at -4.35% is very near the low end. The Plan received ~\$32 million from the County of San Mateo as prepayment of contributions. \$12 million will be use for working capital and \$20 million should be deployed. Because the Investment Plan is gray on deployment of these monies and because of the markets recent declines the \$20 million has not been deployed.

Below are the composite returns and target allocations for the period ending March 31, 2002.

June 30, 2002		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$725,942,451	-6.05%	-10.19%	-9.23%	-14.38%
Equity Composite Benchmark		-6.30%	-10.22%	-8.90%	-14.19%
Variance		0.25%	0.03%	-0.33%	-0.19%
Fixed Income Aggregate	\$398,899,950	1.01%	3.73%	3.83%	9.09%
Fixed Income Composite Benchmark		0.87%	3.70%	3.80%	8.63%
Variance		0.14%	0.03%	0.03%	0.46%
Real Estate Aggregate (1)	\$88,316,530	1.10%	2.48%	-2.98%	0.87%
NCREIF (one quarter lag)		1.52%	1.52%	2.20%	6.40%
Variance		-0.42%	0.96%	-5.18%	-5.53%
Cash Aggregate	\$2,441,348	0.38%	0.82%	1.38%	3.08%
91 Day Treasury Bill		0.14%	0.46%	0.89%	2.63%
Variance		0.24%	0.36%	0.49%	0.45%
Total Fund Returns	\$1,215,600,280	-3.33%	-5.13%	-4.82%	-5.92%
Total Plan Policy Benchmark		-3.75%	-5.60%	-4.58%	-6.50%
Variance		0.42%	0.47%	-0.24%	0.58%

Asset Allocation As of 6/30/2002	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target		
BGI Russell 1000	\$433,345,597	35.65%	40.00%	-4.35%	±5%
BGI Russell 2000	\$126,499,288	10.41%	10.00%	0.41%	±5%
BIAM	\$166,097,566	13.66%	15.00%	-1.34%	±5%
Total Equity	\$725,942,451	59.72%	65.00%	-5.28%	

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BGI US Debt	\$216,678,241	17.82%	16.00%	1.82%	±3%
DAMI	\$182,221,709	14.99%	13.00%	1.99%	±3%
Total Fixed Income	\$398,899,950	32.82%	29.00%	3.82%	
Real Estate	\$88,316,530	7.27%	6.00%	1.27%	±2%
Cash	\$2,441,348	0.20%	0.00%	0.20%	
Total	\$1,215,600,280	100.00%	100.00%		

Action: The Committee unanimously accepted the Monthly Performance Report. The Committee will recommend to the Board of Retirement that it accept the report.

6.2 Approval of extension to INVESCO Realty Advisors Investment Management Contract. The current management agreement with INVESCO expires on August 31, 2002 after a three-year term. Staff recommends that the Board extend the contract until November 30, 2002. The extension provides ample opportunity for the Board to conduct the annual review with INVESCO and address issues that have risen at recent committee meetings.

Action: Motion by Mr. Cottle, second by Mr. Bryan, passed unanimously to recommend that the Board of Retirement authorize the Chair to execute an extension of the Investment Management Agreement between San Mateo County Employees' Retirement Association and INVESCO Realty Advisors that will have a term from August 31, 2002 through November 30, 2002.

6.3 Introduction to Review of SamCERA's Investment Plan. Staff is recommending that the Board hold off on review of the Investment Plan until after the Asset Liability Study and Manager Structure work has been completed. The Committee determined that there would be duplication of effort if the review were not rescheduled. It would be prudent to schedule the Investment Plan review after completion of the Asset Liability Study and manager restructure work.

Action: Motion by Mr. Bryan, second by Mr. Cottle, passed unanimously to recommend that the Board of Retirement hold off review of the Investment Plan until the Asset Liability Study and manager structure work is completed.

6.4 Consideration of Topics for SIS August Workshop. Strategic Investment Solutions suggested three topics for a Board workshop. 1) Introduction to Private Markets 2) Introduction to Asset Liability Modeling and 3) Manager Due Diligence.

Mr. Buffington suggested that Private Markets is not appropriate for SamCERA at this time. The Plan is not performing very well with its current asset mix. It should not consider adding something else to the mix. The Committee does not have the time to waste on an asset class that will not be included in the allocation. • Mr. Bryan suggested that as a first step SIS might provide the Board with a White Paper on Private Markets. • Ms. Colson stated she might not disagree with Mr. Buffington, but believes it appropriate to at least study Private Markets so the Board could make an informed decision regarding how to proceed. • Mr. Cottle also agreed and reiterated Ms. Colson's point that education cannot harm you. Even if it confirms your worst fears, it is good information. • By consensus the Committee agree that the first step should be to review SIS's White Paper on Private Markets. After reviewing the paper the Board will discuss whether additional education is desired.

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The Committee agreed that as a group they have done a great deal of work on asset liability issues. The time devoted for the workshop could be better spent on another subject. Therefore, the Committee will direct SIS to develop a workshop around item three on their July 8, 2002 memorandum to the Board, Manager Due Diligence. The topics covered will include:

- ❖ Active vs. passive manager due diligence
- ❖ Quantitative analysis – historical returns and risk, consistency, assets under management/business risk, understanding tracking error and information ratios
- ❖ Qualitative analysis – organizational stability, investment professional experience, stability and depth, appropriateness of investment strategy, validity of track record
- ❖ Importance of on-site manager visits.

Action: Motion by Mr. Cottle, second by Mr. Bryan, passed unanimously to recommend that the Board of Retirement direct Strategic Investment Solutions to conduct a workshop on manager due diligence made applicable through SamCERA's current Investment Managers.

- 6.5 Approval of Topics for Investment Manager Review – INVESCO Realty Advisors.** Mr. Cottle noted that the Committee has concerns regarding questions about the performance review and the 20% rule in the Investment Plan. Those issues are addressed in the topics for discussion and the Compliance Certification Statement. • Mr. Bryan noted there is a property that exceeds the 20% rule. Although the Board's options are limited, it should at least grant that property an exception to the rule so that the Board is not in violation of its own Investment Plan. • Mr. Buffington agrees. The Committee has engaged in numerous conversations regarding the property. It is time for the Board to take action.

Action: By consensus the Investment Committee will recommend to the Board of Retirement that it approve the topics of discussion and Compliance Certification for INVESCO Realty Advisors annual review.

- 6.6 Annual Investment Consultant Review – Strategic Investment Solutions** This item will be discussed at the Board.

Staff noted that SIS appeared to be requesting direction under question one, "*Understanding the Systems Goals and Objectives*" and question four, "*Ability to Communicate Effectively*" The Committee should make sure those items are discussed at the Board. • Ms. Jadallah was asked to elaborate regarding these two subjects. She stated that discussions at the Board and Committee sometimes leave it unclear as to topics the need further exploration versus topics that are just not acceptable. She noted SIS accepts responsibility to seek clarification on those items as they develop in the future. • Mr. McCausland inquired whether SamCERA's Board is more diverse in that regard than others. Ms. Jadallah answered affirmatively, stating that trustees have different issues. That makes it difficult to determine what are the Board issues. • Ms. Colson stated she could easily see how, as an investment consultant, it could be difficult to determine the Board's goals. Although the asset allocation has been relatively consistent the opinions on the manager structure has been very diverse. • Mr. Bryan commented the under question three of the consultant evaluation a trustee stated SIS could provide more attention to the needs of trustees not on the Investment Committee. His observation is that Ms. Jadallah takes time to converse with individual trustees on a variety of topics. If a trustee feels their topics are not receiving the proper attention, it may not be SIS's fault. • Ms. Jadallah reminded the Committee that SIS is local. They are generally able to make themselves available when trustees have questions.

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Action: None is required.

- 6.7 Annual Global Custodian Review – State Street Bank & Trust Company** This item will be discussed at the Board.

Ms. Colson noted that State Street's response to the question regarding any regulatory or litigation events in against State Street is vague at best. • Mr. Cottle wished to be sure that State Street addressed their loss of clients in the past year. They lost New York Teachers \$18 billion and State of Tennessee Consolidated Retirement System \$25 billion. He also wishes to know more about State Street's relationship with Bank of Ireland, PIMCO, Merrill Lynch and others. He does not believe there is a conflict or anything wrong with the relationships, but the Committee should know a little bit more.

Action: None is required.

- 7.0 Other Business:**

- 8.0 Adjournment:** There being no further business Mr. Colson adjourned the Committee at 11:25 A.M.