

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

September 24, 2002 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:02P.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 Annual Investment Manager Review – Deutsche Asset Management
 - 6.3 Approval of INVESCO Realty Advisors Investment Management Contract
 - 6.4 Approval of amendments to *SamCERA's Investment Plan*
 - 6.5 Approval of Topics for Investment Manager Review – Barclays Global Advisors
 - * 6.6 Strategic Investment Solutions Workshop on Alternative Assets
- 7.0 Other Business
- 8.0 Adjournment

**The Committee will briefly discuss this topic. The Agenda Item in its entirety will be heard at the Board.*

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 10:02 A.M., August 27, 2002, in *SamCERA's* Board Room, Suite 280, 702 Marshall Street, Redwood City, California.
- 2.0 Roll Call:** Mr. Buffington, Mr. Bryan and Ms. Colson *Excused:* Mr. Cottle
Board Members in Attendance: Ms. Salas and Ms. Stuart *Staff:* Mr. Clifton and Mr. McCausland.
Consultant: Ms. Jadallah *Public:* none *Retirees:* One
- 3.0 Approval of the Minutes:** The Committee approved the minutes for the August 27, 2002 Committee Meeting.

Action: By consensus the Committee approved the minutes for August 27, 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.**

Staff reports **Total Plan Return for the Trailing Twelve Months (-7.12%) outperformed Total Plan Policy Benchmark (-7.85%) by 73 basis points.** • Bank of Ireland Asset management under performed the benchmark by 68 basis points in August. Attribution analysis points to stock selection and currency exposure as the major contributors. • There is a variance in the performance calculation between Deutsche Asset Management & State Street that exceeds *SamCERA's* range of tolerance, which is 25 basis points for fixed income. The variance may be traced to pricing differences between the Manager and the Custodian.

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

Below are the composite returns and target allocations.

August 31, 2002		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$669,901,512	0.37%	-15.00%	-16.00%	-16.99%
Equity Composite Benchmark		0.37%	-14.91%	-16.03%	-16.92%
Variance		0.00%	-0.09%	0.03%	-0.07%
Fixed Income Aggregate	\$411,704,047	1.69%	4.25%	5.28%	8.74%
Fixed Income Composite Benchmark		1.69%	3.82%	4.96%	8.11%
Variance		0.00%	0.43%	0.32%	0.63%
Real Estate Aggregate (1)	\$88,417,775	0.80%	2.56%	-2.74%	2.33%
NCREIF (one quarter lag)		0.00%	1.52%	2.20%	6.40%
Variance		0.80%	1.04%	-4.94%	-4.07%
Cash Aggregate	\$16,370,268	0.34%	1.05%	1.70%	3.07%
91 Day Treasury Bill		0.14%	0.44%	0.91%	2.27%
Variance		0.20%	0.61%	0.79%	0.80%
Total Fund Returns	\$1,186,393,601	0.72%	-7.38%	-7.22%	-7.12%
Total Plan Policy Benchmark		0.67%	-8.51%	-7.74%	-7.85%
Variance		0.05%	1.13%	0.52%	0.73%

Asset Allocation As of 8/31/2002	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target		
BGI Russell 1000	\$413,612,052	34.86%	40.00%	-5.14%	±5%
BGI Russell 2000	\$107,284,494	9.04%	10.00%	-0.96%	±5%
BIAM	\$149,004,966	12.56%	15.00%	-2.44%	±5%
Total Equity	\$669,901,512	56.47%	65.00%	-8.53%	
BGI US Debt	\$222,758,417	18.78%	16.00%	2.78%	±3%
DAMI	\$188,945,630	15.93%	13.00%	2.93%	±3%
Total Fixed Income	\$411,704,047	34.70%	29.00%	5.70%	
Real Estate	\$88,417,775	7.45%	6.00%	1.45%	±2%
Cash	\$16,370,268	1.38%	0.00%	1.38%	
Total	\$1,186,393,601	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 Annual Investment Manager Review – Deutsche Asset Management.

This item will be heard in its entirety at the Board of Retirement meeting.

The Investment Committee briefly discussed several issues that they will talk about with Deutsche

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

Asset Management during the annual review. • Ms. Colson expressed concern that Deutsche Asset Management (DAMI) continues to have inordinate personnel turnover. It is not only senior management such as Dean Barr, but also the client service/client advocate personnel, which could impact services to *SamCERA*. She also noted the bond team is still intact. • Ms. Colson notes that DAMI must address their ability to absorb and manage the ~\$5 billion in increased fixed asset resulting from the Scudder acquisition. • Mr. Bryan wants Deutsche to address the proxy voting in the HP Board dispute.

Action: No action is required. This item was heard at the Board Meeting.

- 6.3 Approval of INVESCO Realty Advisors Investment Management Contract** Mr. Bryan requested that this item be held over until October 22, 2002 so Mr. Cottle may contribute to the discussion.

The Committee discussed the timing of the contract. In May the Board extended the expiration date of the current contract from May 31, 2002 until November 30, 2002. Mr. Buffington and Ms. Colson see no reason to issue another extension or to delay the renewal of the contract. Mr. Bryan believes that holding the item over until October still allows adequate time for action prior to the current expiration date.

Mr. Bryan stated he has concerns about the real estate manager and notes Mr. Cottle has raised questions in general about how the asset class is managed. It would add value to air those concern when the Committee is at full strength. He noted his concern that INVESCO jeopardized the diversification of the portfolio by allowing one property to exceed *SamCERA's Investment Plan* guideline, which states one asset may not exceed 20% of the portfolio. Mr. Buffington noted the property exceeded 20% due to market appreciation and INVESCO was granted an exception to the rule on this property. In addition he reminded the Committee that staff and INVESCO immediately notified the Board when appreciation pushed the property through the 20% threshold.

Action: Motion by Buffington seconded by Colson to recommend to the Board of Retirement that it approve renewal of the INVESCO/SamCERA Investment Manager Agreement. The motion passed two yes to one no (Bryan).

- 6.4 Approval of amendments to *SamCERA's Investment Plan*.** During the August 27, 2002 Investment Committee meeting, the Committee reviewed the *Investment Plan* guidelines for real estate leverage and diversification. The *Plan* states acceptable levels as a percentage of the total real estate portfolio. Those percentages may vary depending upon the timing and method of valuation. The *Plan* is silent on the timing and method of valuation. The Committee's consensus was that for purposes of compliance with the *Investment Plan* the valuations should be based on market value at the time of acquisition. The Committee drafted amendments to sections 12.3.a.2 & 12.3.d. Staff was instructed to present the following amendments to the Board.

12.3.a.2: At acquisition ~~No~~ individual property shall constitute more than 20% of the market value of SamCERA's assets under a manager's supervision. Through market movement should a property exceed 33% of the assets under a manager's supervision, the manager will present a report to the Board recommending a course of action regarding that asset.

12.3.d Leverage: The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 50% of an individual property, nor 25% of the aggregate portfolio as

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

calculated at the time the leverage was put in place.

The Investment Committee briefly discussed the two proposed amendments. Mr. Bryan reiterated his concern that lack of diversification or allowing a single asset to be greater than 20% of the portfolio has potential to impact the performance of the real estate portfolio. The asset in question has significant appreciation. Mr. Bryan would like to see the property sold and the appreciation realized before it dissipates. That course of action should be preferred to amending the Investment Plan and reducing diversification.

Action: Motion by Buffington seconded by Colson to recommend to the Board of Retirement that it approve the above amendments to *SamCERA's Investment Plan*. The motion passed two yes to one no (Bryan).

- 6.5 Approval of Topics for Investment Manager Review – Barclays Global Advisors.** Mr. Clifton noted that Strategic Investment Solutions (SIS) provided the Board with their due diligence questionnaire. The list of questions is excellent. *SamCERA*, without objection from SIS, should incorporate several of the questions into its own manager questionnaire. Ms. Jadallah stated that *SamCERA* is welcome to incorporate any questions it finds helpful. (The SIS questionnaire may be found under the Investment & Finance Manager's report on today's Board Agenda.) • Ms. Jadallah recommends Expanding *SamCERA's* second question to include and inquiry whether BGI is emphasizing certain products or asset classes in their new business goals. She believes BGI is highlighting the active or Alpha Tilt products and wishes to understand how that will impact the passive portfolios in which *SamCERA* is invested. • In response to a question from Ms. Colson, Mr. Clifton stated that it is his understanding that BGI would not purchase the passive portfolio business, which Deutsche Asset Management is currently shopping around. BGI told Mr. Clifton that they reviewed Deutsche's book of business, however feel that BGI is positioned to compete for those assets rather than purchase them.

Action: By consensus the Investment Committee will recommend that the Board of Retirement instruct staff to forward the amended annual review questions and Compliance Certification Statement to Barclays Global Investors.

- 6.6 Strategic Investment Solutions Workshop on Alternative Assets**

This item will be heard at the Board Meeting.

Action: No action is required. This item was heard at the Board Meeting.

- 7.0 Other Business:** Ms. Colson broached the subject of Pension Obligation Bonds. In the ensuing discussion Mr. Bryan, Mr. Buffington and Ms. Colson concluded that there would be value in the Board of Retirement and the Board of Supervisors discussing the pros and cons of Pension Obligation Bonds. **Conclusion:** The Investment Committee will recommend that the Board of Retirement authorize the Investment Committee to meet with the Board of Supervisors regarding Pension Obligation Bonds.
- 8.0 Adjournment:** There being no further business Ms. Colson adjourned the Committee at 11:02 A.M.