

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

**September 25, 2007 – Investment Committee Agenda**

**PUBLIC SESSION** – The committee met in Public Session at 10 a.m.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services - the Investment Committee Shall Review & Discuss
  - 6.1 Monthly Portfolio Performance Report
  - 6.2 Approval of Three Year Investment Consultant Agreement – Strategic Investment Solutions
  - 6.3 Approval of Small Cap Manager Review
  - 6.4 Approval of Investment Management Agreement Renewals
    - 6.4 a Approval of Three Year Investment Management Agreement – Brandes Investment Partners
    - 6.4 b Approval of Three Year Investment Management Agreement – Chartwell Investment Partners
    - 6.4 c Approval of Three Year Investment Management Agreement – Goldman Sachs Asset Management
    - 6.4 d Approval of Three Year Investment Management Agreement – Julius Baer Investment Management
    - 6.4 e Approval of Three Year Investment Management Agreement – Mondrian Investment Partners
    - 6.4 f Approval of Three Year Investment Management Agreement – Western Asset Management
  - 6.5 Acceptance of Amendments to *SamCERA's Investment Plan* Parts One and Two
  - 6.6 Introduction of Amendments to *SamCERA's Investment Plan* Parts Three and Four
- 7.0 Other Business
- 8.0 Investment & Finance Manager's Report
- 9.0 Adjournment

**MINUTES OF SAMCERA's Investment Committee**

- 1.0 **Call to Order:** Ms. Tashman called the Public Session of the Investment Committee of the Board of Retirement to order at 10:05 a.m. September 25, 2007, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bryan, Ms. Jadallah and Ms. Tashman (dep. 11:47 a.m.). *Other Board Members in Attendance:* Ms. Stuart. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* Two. *Retirees:* None.
- 3.0 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the August 28, 2007, Investment Committee minutes: 8.0 L3: "...a couple months ago. Ms. Gallegos may or may not serve as consultant to *SamCERA*."

Ms. Tashman also submitted the following correction to the minutes: 9.0: "There being no further business, ~~Ms. Tashman~~ Mr. Bryan adjourned the committee at 11:43 a.m. ~~EMILY TASHMAN-TOM~~

BRYAN, Chair”

**Motion** by Bryan, second by Arnott, carried unanimously to approve the minutes of the August 28, 2007, Investment Committee meeting, as amended.

4.0 **Oral Communications From the Committee:** Ms. Arnott reported that she and Mr. Buffington met with the Grand Jury on September 5<sup>th</sup>. The meeting was merely informational. The Grand Jury’s main concern was *SamCERA*’s exposure to sub-prime markets. The Jury also inquired on the Association’s policy on credit ratings. Ms. Arnott informed the members on the Grand Jury that *SamCERA* does not permit bond holdings rated below BBB.

5.0 **Oral Communications From the Public:** None.

6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*’s -0.15% Total Fund Return for August 2007 underperformed the Total Plan Policy Benchmark return of 0.72%. The Fund’s return for the trailing twelve months is 11.09%, which is 334 basis points above the Actuarial Discount Rate, 7.75%, but 229 basis points below *SamCERA*’s Total Plan Policy Benchmark of 13.38%. The spread between actual return and actuarial return has been narrowing over the past few months, while the spread between actual return and the policy benchmark return has been increasing.

Turmoil in the capital markets reached a new high in August. Trading liquidity evaporated and the Federal Reserve was forced to take unprecedented measures in an attempt to restore confidence and unclog lending channels.

Mr. Clifton also reported that the Association commenced its securities lending program in July 2007 and earned approximately \$60,000 in July and another \$80,000 in August.

Mr. Clifton then requested that the committee consider reviewing *SamCERA*’s large cap manager structure in a similar way to how the committee is reviewing the small cap manager structure. His concern is the lack of diversification in the current large cap structure. He stated that one-third of *SamCERA*’s portfolio rests in the BGI Russell 1000 Alpha Tilts strategy which recently has not been performing well. Ms. Jadallah said that, although she is not opposed to the idea of reviewing the association’s large cap manager structure, the committee should give the Alpha Tilts strategy some time before making any harsh judgments since most quant products have been suffering in the current market environment. She suggested that the large cap review occur after the small cap review. Mr. Bryan feels comfortable with the current large cap manager structure and agreed with Ms. Jadallah’s assessment that the Alpha Tilts’ underperformance is probably a short term issue. He does not feel that manager diversification in the large cap asset class is efficient. Mr. Thomas does not feel it is necessarily a manager diversification issue; however BGI does have a value tilt in the strategies. Mr. Thomas briefly reminded the committee of the various alternatives the trustees considered during the manager structure review earlier in the year.

Mr. Bryan opined that he is more concerned with Brandes’ consistent underperformance in the small cap value asset class. Ms. Jadallah opined that although most investment managers only require three years of experience to make a well-informed judgment on performance, she believes Brandes requires five to seven years. If the committee deems Brandes’ performance too volatile for *SamCERA*, she said that it is more prudent to wait until Brandes illustrates better performance to avoid selling at the bottom. Ms. Tashman said that she is also comfortable with Brandes’ current performance. She stated that she is not surprised with Brandes’ underperformance or that it may require seven years to reach full cycle because of its high tracking error.

With regards to the underperformance of the association’s quant managers, the committee expressed

confidence in BGI's ability to tweak its quant model, however, was not confident in Goldman Sachs' ability. In response to a question from Ms. Tashman, Mr. Thomas said that SIS does not necessarily recommend a quant manager to replace GSAM and has included the whole small cap universe in its manager search.

The committee wishes to review Goldman Sachs as a priority. The committee will also review SamCERA's small cap structure, including small cap value manager, Brandes Investment Partners, as a second priority.

The table presented below shows the composite returns.

August 31, 2007	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,418,622,768	-0.46%	-5.48%	2.69%	13.70%
Equity Composite Benchmark		0.83%	-3.39%	5.42%	16.47%
<b>Variance</b>		<b>-1.29%</b>	<b>-2.09%</b>	<b>-2.73%</b>	<b>-2.77%</b>
Fixed Income Aggregate	\$583,029,527	0.54%	0.66%	0.37%	4.38%
Fixed Income Composite		1.23%	1.77%	1.54%	5.26%
<b>Variance</b>		<b>-0.69%</b>	<b>-1.11%</b>	<b>-1.17%</b>	<b>-0.88%</b>
Real Estate Aggregate	\$156,610,221	0.00%	3.82%	8.05%	14.36%
NCREIF (one quarter lag)		0.00%	4.59%	8.38%	17.24%
<b>Variance</b>		<b>0.00%</b>	<b>-0.77%</b>	<b>-0.33%</b>	<b>-2.88%</b>
Cash Aggregate	\$3,785,429	0.39%	0.93%	2.14%	4.46%
91 Day Treasury Bill		0.56%	1.34%	2.70%	5.29%
<b>Variance</b>		<b>-0.17%</b>	<b>-0.41%</b>	<b>-0.56%</b>	<b>-0.83%</b>
Total Fund Returns	\$2,162,047,945	-0.15%	-3.20%	2.44%	11.09%
Total Plan Policy Benchmark		0.72%	-1.35%	4.63%	13.38%
<b>Variance</b>		<b>-0.87%</b>	<b>-1.85%</b>	<b>-2.19%</b>	<b>-2.29%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns		-0.15%	-3.20%	2.44%	11.09%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-0.77%</b>	<b>-5.08%</b>	<b>-1.36%</b>	<b>3.34%</b>

SamCERA's current asset allocation is summarized as follows:



**Action: No action is required. The Monthly Portfolio Performance Report is an informational report.**

6.2

**Approval of Three Year Investment Consultant Agreement – Strategic Investment Solutions:**

Mr. Clifton gave a brief review *SamCERA*'s relationship with its investment consulting firm, SIS. The new contract requests an increased retainer relationship fee from \$185,000 to \$200,000 per annum. Having researched the fees of SIS' other Bay Area clients and considering inflation since the previous three-year term contract, staff is comfortable with the fee increase. Mr. Thomas introduced Jonathan Brody of SIS to the board. SIS will be working with *SamCERA* to find a backup consultant to Mr. Thomas. In response to a question from Mr. Bryan, Mr. Thomas stated that SIS' only income comes from consulting. SIS does not involve itself in other businesses. There is language in the contract regarding conflict of interest that would notify *SamCERA* of any new businesses.

**Motion** by Bryan, second by Arnott, carried unanimously to recommend that the board adopt the resolution approving a three-year investment consultant agreement with Strategic Investment Solutions, as follows:

- “**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board of Retirement (“Board”) with *“plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system”*; and
- “**WHEREAS**, Government Code §31595 vests in the Board *“. . . exclusive control of the investment of the employees retirement fund.”*; and
- “**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment consultants *“. . . in connection with administration of the Board's investment program . . . ”*; and
- “**WHEREAS**, On August 8, 2001 the Board reviewed proposals and interviewed representatives from Wurts Associates and Strategic Investment Solutions, Inc., as the finalists proposing to perform investment consulting services for the Board; and
- “**WHEREAS**, on August 28, 2001, the Board selected Strategic Investment Solutions as the successful candidate for a full retainer investment consultant relationship; and
- “**WHEREAS**, on July 27, 2004, the Board renewed Strategic Investment Solutions' agreement for an additional three year period; and
- “**WHEREAS**, County Counsel has approved the contract as to form and the Investment and Finance Manager has recommended approval of the contract; and
- “**WHEREAS**, the Board reviewed Strategic Investment Solutions' performance and wishes to extend the investment consultant contract for another three year period. Therefore, be it
- “**RESOLVED** that the Board hereby approves the contract between the Board and Strategic Investment Solutions, Inc. for a term of three years, cancelable by either party on thirty days notice. Be it further
- “**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in Government Code §31596.1 in accordance with *SamCERA's* internal controls. Be it further
- “**RESOLVED** that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further
- “**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the contract and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract. Be it further

**“RESOLVED** that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations that the investment consultant may present from time to time pursuant to the provisions of the contract.”

- 6.3 **Approval of Small Cap Manager Review:** Mr. Thomas presented the snapshot information SIS collected on available small cap core equity managers as a replacement for Goldman Sachs’ small cap core position. Mr. Brody reviewed the initial screening criteria in the search. He requested that the committee allow SIS the discretion to make minor changes to the track record length and asset size criteria. Mr. Thomas said that SIS leans towards a fundamental manager for GSAM’s replacement. SIS will bring back more descriptive information on eight managers at the October Investment Committee meeting and should be able to select three finalists in November. The board would be able to interview the finalists in December or January.

**Motion** by Arnott, second by Bryan, carried unanimously to approve SIS’ small cap manager review and allow SIS the flexibility to amend the screening criteria as appropriate.

6.4 **Approval of Investment Management Agreement Renewals**

- 6.4 a **Approval of Three Year Investment Management Agreement – Brandes Investment Partners:** Mr. Clifton presented the Investment Management Agreement with Brandes Investment Partners for a three-year term ending September 30, 2010.

**Motion** by Bryan, second by Jadallah, carried unanimously to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and Brandes Investment Partners, subject to fee negotiation, as follows:

**“WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *“plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system”*; and

**“WHEREAS**, Government Code §31595 vests in the Board *“. . . exclusive control of the investment of the employees retirement fund.”*; and

**“WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *“. . . in connection with administration of the Board’s investment program . . . ”*; and

**“WHEREAS**, on March 23, 2004, the Board considered proposals from five firms for investment management services under a small cap value mandate. Donaldson Smith & Company, Osprey Partners Investment Management, and Thompson, Siegel & Walmsley were eliminated. American Century Investment Management and Brandes Investment Partners were invited to return for a second interview as finalists; and

**“WHEREAS**, on April 27, 2004, the Board interviewed representatives from American Century Investment Management and Brandes Investment Partners, selecting Brandes Investment Partners for a small cap value mandate to be funded with approximately \$37 million; and

**“WHEREAS**, an Investment Management Agreement was executed between *SamCERA* and Brandes Investment Partners on October 25, 2004, for a term of three years; and

**“WHEREAS**, the Board wishes to renew the Investment Management Agreement for an additional term of three years, ending September 30, 2010. Therefore, be it

**“RESOLVED** that the Board hereby approves the contract between the Board and Brandes Investment Partners for a term of three years, the Board may terminate the contract on thirty days written

notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Brandes Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

6.4 b **Approval of Three Year Investment Management Agreement – Chartwell Investment Partners:** Mr. Clifton presented the Investment Management Agreement with Chartwell Investment Partners for a three-year term ending September 30, 2010.

**Motion** by Jadallah, second by Bryan, carried unanimously to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and Chartwell Investment Partners, subject to fee negotiation, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“**WHEREAS**, Government Code §31595 vests in the Board *"... exclusive control of the investment of the employees retirement fund."*; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *"... in connection with administration of the Board's investment program ..."*; and

“**WHEREAS**, on March 23, 2004, the Board considered proposals from four firms for investment management services under a small cap growth mandate. Wellington Management Company, and Westcap Investors were eliminated. Chartwell Investment Partners and Next Century Growth Investors were invited to return for a second interview as finalists.; and

“**WHEREAS**, before the final interviews on April 27, 2004 Next Century Growth Investors requested that it be excused from the finalist selection process due to uncertainty surrounding its relationship with Strong Funds and the Security Exchange Commission's investigation into market timing.; and

“**WHEREAS**, The Board interviewed representatives from Chartwell Investment Partners on April 27, 2004 before offering it *SamCERA's* small cap growth mandate to be funded with approximately \$37 million; and

“**WHEREAS**, the Board wishes to renew the investment management agreement for an additional three-year period, ending September 30, 2010. The agreement has been approved by County Counsel as to form and the Investment & Finance Manager recommends approval of the

agreement. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Chartwell Investment Partners for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Chartwell Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

6.4 c

**Approval of Three Year Investment Management Agreement – Goldman Sachs Asset**

**Management:** Mr. Clifton presented the Investment Management Agreement with Goldman Sachs Asset Management for a three-year term ending September 30, 2010.

**Motion** by Arnott, second by Jadallah, carried unanimously to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and Goldman Sachs Asset Management, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“**WHEREAS**, Government Code §31595 vests in the Board *" . . . exclusive control of the investment of the employees retirement fund."*; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *" . . . in connection with administration of the Board's investment program . . . "*; and

“**WHEREAS**, on May 25, 2004, the Board considered proposals from four firms for investment management services under a small cap enhanced index mandate. Citigroup Asset Management and PanAgora Asset Management were eliminate and Goldman Sachs Asset Management and JPMorgan Fleming Asset Management were invited to return for a second interview ; and

“**WHEREAS**, on June 22, 2004, the Board interviewed representatives from Goldman Sachs Asset Management and JPMorgan Fleming Asset Management, selecting Goldman Sachs Asset Management for the small cap enhanced index mandate funded at approximately \$75 million; and

“**WHEREAS**, an Investment Management Agreement was executed between *SamCERA* and Goldman

Sachs Asset management on October 25, 2004, for a term of three years; and

“**WHEREAS**, the Board wishes to renew the Investment Management Agreement for an additional term of three years, ending September 30, 2010. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Goldman Sachs Asset Management for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Goldman Sachs Asset Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

6.4 d

**Approval of Three Year Investment Management Agreement – Julius Baer Investment**

**Management:** Mr. Clifton presented the Investment Management Agreement with Julius Baer Investment Management, LLC for a three-year term ending September 30, 2010. JBIM is requesting that *SamCERA* allow them to loosen their constraint by increasing its maximum exposure to 35% in emerging markets. The committee discussed the risk associated with approving Julius Baer's request given the increased amount allocated to the association's international managers following the asset/liability study earlier in the year.

Mr. Clifton also said that the manager requested that *SamCERA* increase its exposure to 144A's. The board turned down this request at the May board meeting due to 144A's lower liquidity.

**Motion** by Bryan, second by Arnott, failed with two ayes and two noes, to recommend that the board approve the Julius Baer's IMA, amending its maximum exposure to emerging markets from 35% to 30%.

**Motion** by Jadallah, second by Arnott, carried with three ayes and one no, to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and Julius Baer Investment Management, subject to fee negotiation, as submitted, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“**WHEREAS**, Government Code §31595 vests in the Board ". . . *exclusive control of the investment of*

*the employees retirement fund.*"; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers “. . . *in connection with administration of the Board's investment program . . .*”; and

“**WHEREAS**, on April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. BPI Global Asset Management, Clan Finlay, Inc, JPMorgan Fleming Asset Management and New Star Institutional Managers were eliminated. Capital Guardian Trust Company and Julius Baer Investment Management were invited to return for a second interview as finalists.; and

“**WHEREAS**, on May 25, 2004 the Board interviewed representatives from Capital Guardian Trust Company and Julius Baer Investment Management, selecting Julius Baer Investment Management for an international core growth mandate to be funded with approximately \$110 million; and

“**WHEREAS**, an Investment Management Agreement was executed between *SamCERA* and Julius Baer Investment Management on October 25, 2004, for a term of three years; and

“**WHEREAS**, the Board wishes to renew the Investment Management Agreement for an additional term of three years, ending September 30, 2010. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Julius Baer Investment Management for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Julius Baer Investment Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

6.4 e **Approval of Three Year Investment Management Agreement – Mondrian Investment Partners:** Mr. Clifton presented the Investment Management Agreement with Mondrian Investment Partners for a three-year term ending September 30, 2010. The agreement includes a lower management fee schedule.

**Motion** by Jadallah, second by Arnott, carried unanimously to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and Mondrian Investment Partners, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the*

*administration of the system*"; and

“**WHEREAS**, Government Code §31595 vests in the Board “. . . *exclusive control of the investment of the employees retirement fund.*”; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers “. . . *in connection with administration of the Board's investment program . . .*”; and

“**WHEREAS**, on April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. Alliance Bernstein Institutional Investment Management, INVESCO Global Asset Management (N.A.), Inc. Philadelphia International Advisors and The Boston Company Asset Management. LLC. were eliminated. Delaware International Advisors, Ltd., and LSV Asset Management were invited to return for a second interview as finalists.; and

“**WHEREAS**, on May 25, 2004 the Board interviewed representatives from Delaware International Advisors, Ltd., and LSV Asset Management, selecting Delaware International Advisors, Ltd. for an international core value mandate to be funded with approximately \$110 million; and

“**WHEREAS**, on September 27, 2004, Delaware International Advisors, Ltd. changed its name to Mondrian Investment Partners; and

“**WHEREAS**, an Investment Management Agreement was executed between *SamCERA* and Mondrian Investment Partners on October 25, 2004, for a term of three years; and

“**WHEREAS**, the Board wishes to renew the Investment Management Agreement for an additional term of three years, ending September 30, 2010. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Mondrian Investment Partners for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Mondrian Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

6.4 f **Approval of Three Year Investment Management Agreement – Western Asset Management:**  
Mr. Clifton presented the Investment Management Agreement with Western Asset Management Company, LLC for a three-year term ending September 30, 2010.

**Motion** by Arnott, second by Jadallah, carried unanimously to recommend that the board adopt the resolution approving the Investment Management Agreement between the Board of Retirement and

Western Asset Management Company, subject to fee negotiation, as follows:

- “**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *“plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system”*; and
- “**WHEREAS**, Government Code §31595 vests in the Board *“. . . exclusive control of the investment of the employees retirement fund.”*; and
- “**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *“. . . in connection with administration of the Board's investment program . . . ”*; and
- “**WHEREAS**, on July 27, 2004, the Board considered proposals from six firms for fixed income investment management services under a core plus mandate. Hartford Investment Management, Payden & Rygel, Inc., PIMCO (Pacific Investment Management Company LLC), and TCW (Trust Company of the West Group, Inc.) were eliminated. Deutsche Asset Management, and Western Asset Management Company were invited to return for a second interview as finalists.; and
- “**WHEREAS**, on September 28, 2004 the Board interviewed representatives from Deutsche Asset Management, and Western Asset Management Company, selecting Western Asset Management Company for an core-plus fixed income mandate to be funded with approximately \$145 million; and
- “**WHEREAS**, an Investment Management Agreement and Subscription Booklet were approved by County Counsel as to form and the Investment & Finance Manager recommended approval of both. The board executed the agreement on October 25, 2004.; and
- “**WHEREAS**, the Board wishes to renew the investment management agreement for an additional three-year period, ending September 30, 2010. The agreement has been approved by County Counsel as to form and the Investment & Finance Manager recommends approval of the agreement. Therefore, be it
- “**RESOLVED** that the Board hereby approves the contract between the Board and Western Asset Management Company for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further
- “**RESOLVED** that the Board hereby delegates full discretionary authority to Western Asset Management Company to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the Subscription Booklet, the *Investment Plan* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further
- “**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further
- “**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement and the Subscription Booklet on behalf of the Board. Be it further
- “**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

- 6.5 **Acceptance of Amendments to *SamCERA's Investment Plan Parts One and Two*:** Mr. Clifton presented the amendments to Parts One and Two of *SamCERA's Investment Plan*. The committee reviewed these sections at the August board meeting. **Without objection**, Ms. Tashman accepted the amendments. The final version will be presented for approval at the October board meeting.
- 6.6 **Introduction of Amendments to *SamCERA's Investment Plan Parts Three and Four*:** Mr. Clifton introduced the amendments to *SamCERA's Investment Plan* Parts Three and Four and requested additional suggestions from the committee. Staff will bring back these parts of the Plan for additional review at the October board meeting.
- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that Aberdeen Asset Management acquired Dartmoor, a domestic equity manager. He then stated that long/short portfolios have been performing well during the past few months. Lastly, Mr. Clifton reported that he received a statement from BGI regarding its Alpha Tilts strategy. BGI indicates that their general model has been replicated by hedge funds, however, has been seeing recent comebacks as some aspects of their model are proprietary.
- 9.0 **Adjournment:** There being no further business, Mr. Bryan adjourned the committee at 11:58 a.m.

EMILY TASHMAN, CHAIR