

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

August 25, 2009 – Investment Committee Agenda

PUBLIC SESSION

- 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 Annual Review, Revision, and Reaffirmation of the Investment Committee Charter
 - 6.3 Quarterly Investment Performance Analysis for period ended June 30, 2009
 - 6.4 Annual Review of *SamCERA's* Small Cap Equity Asset Class and Investment Managers
 - 6.4 a Annual Investment Manager Review – Chartwell Investment Partners
(Interviewed by the Investment Committee at 10 a.m.)
 - 6.4 b Annual Investment Manager Review – Jennison Associates
(Interviewed by the Board)
 - 6.5 Annual Review of *SamCERA's* Investment Plan
 - 6.6 Approval of *SamCERA's* Fixed Income Structure
 - 6.7 Approval of Topics for Annual Manager Review – INVESCO Realty Advisors
 - 6.8 Approval of Topics for Annual Manager Review – Barclays Global Investors
 - 6.9 Approval to Authorize Chief Executive Officer to Delegate Power of Attorney for Tax Reclaim Purposes
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

MINUTES OF *SAMCERA's* Investment Committee

- 1.0 **Call to Order:** Mr. Bowler called the Public Session of the Investment Committee of the Board of Retirement to order at 10:04 a.m., August 25, 2009, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Mr. David and Ms. Jadallah. *Other Board Members in Attendance:* Ms. Stuart, Mr. Spinello, Ms. Salas and Mr. Murphy. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** **Motion** by Arnott, second by David, carried unanimously to approve the minutes from the July 28, 2009, Investment Committee meeting, as submitted.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** None.

- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 5.95% Total Fund Return for July 2009 underperformed the Total Plan Policy Benchmark return of 6.19%. The underperformance is primarily due to the equity portfolios. *SamCERA's* three bond portfolios substantially outperformed the Barclays Capital Aggregate Index. The fund's return for the trailing twelve months is -15.59%, which is 2,334 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 326 basis points below *SamCERA's* Total Plan Policy Benchmark of -12.33%.

Testifying before Congress on July 21, Chairman Bernanke credited the Fed's policy actions over the past year with improving financial conditions, which in turn resulted in "some improvement in economic prospects."

At the end of July, *SamCERA* transitioned assets from BGI Alpha Tilts to five new managers. The new managers are AXA Rosenberg, D. E. Shaw and T. Rowe Price for enhanced core mandates and BlackRock and Barrow Hanley for fundamental growth and value mandates respectively. *SamCERA* also transitioned assets from Brandes to The Boston Company for the small cap value mandate.

Mr. Bowler noted that *SamCERA's* fixed income managers have performed well for the trailing six months, relative to their performance in 2008.

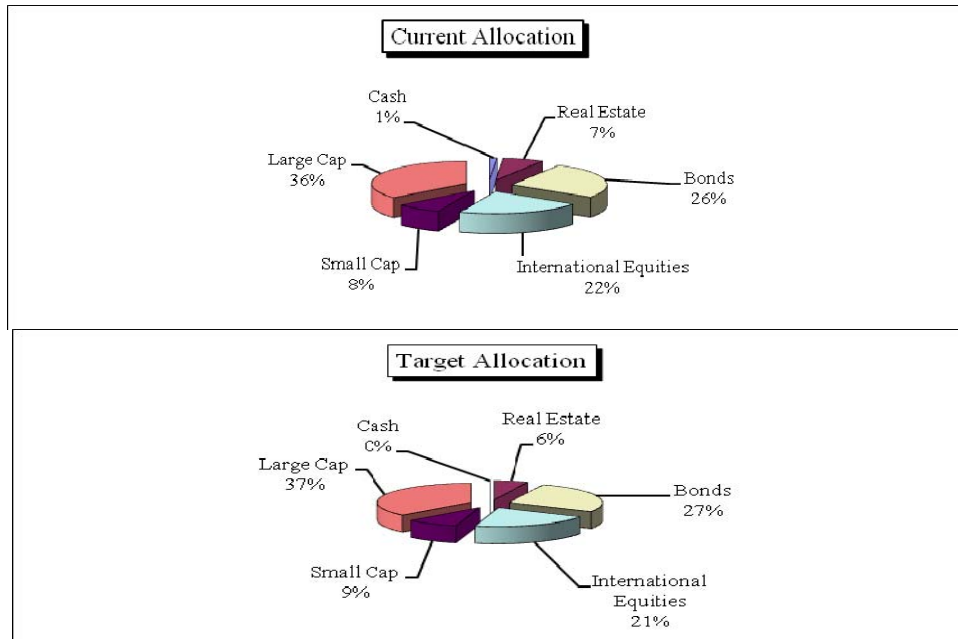
The table presented below shows the composite returns:

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,102,777,31	8.05%	16.13%	24.02%	-22.61%
Equity Composite Benchmark		8.44%	16.21%	26.45%	-20.23%
Variance		-0.39%	-0.08%	-2.43%	-2.38%
Fixed Income Aggregate	\$444,798,433	3.50%	8.04%	10.71%	4.05%
Fixed Income Composite		1.61%	2.93%	4.47%	7.85%
Variance		1.89%	5.11%	6.24%	-3.80%
Real Estate Aggregate	\$118,894,616	0.00%	-15.78%	-24.07%	-29.83%
NCREIF (one quarter lag)		0.00%	-5.20%	-12.15%	-19.57%
Variance		0.00%	-10.58%	-11.92%	-10.26%
Cash Aggregate	\$21,581,989	0.08%	0.52%	0.91%	-2.74%
91 Day Treasury Bill		0.02%	0.04%	0.13%	0.79%
Variance		0.06%	0.48%	0.78%	-3.53%
Total Fund Returns	\$1,688,052,34	5.95%	10.54%	14.58%	-15.59%
Total Plan Policy Benchmark		6.19%	11.73%	18.78%	-12.33%
Variance		-0.24%	-1.19%	-4.20%	-3.26%

Performance versus Actuarial Discount Rate

Total Fund Returns	5.95%	10.54%	14.58%	-15.59%	5.95%
Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	0.62%
Variance	5.33%	8.66%	10.78%	-23.34%	5.33%

SamCERA's current asset allocation is summarized as follows:



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

- 6.2 **Annual Review, Revision, and Reaffirmation of the Investment Committee Charter:** Mr. Clifton presented the Investment Committee Charter to trustees. He thoroughly reviewed the charter and committee's responsibilities. He stated that the committee will be analyzing risk tolerance more in depth. Mr. Clifton then briefly discussed the upcoming RFP for Investment Consultant and the timeline of the search. The chair might create an ad hoc committee for the search.

The committee unanimously voted to recommend reaffirmation of the Investment Committee Charter.

- 6.3 **Quarterly Investment Performance Analysis for period ended June 30, 2009:** Mr. Thomas and Mr. Brody of Strategic Investment Solutions performed a thorough presentation of the quarterly investment performance for the period ended June 30, 2009. The composite fund returned 11.7% in the second quarter of 2009 and ranked 37th among other public funds greater than \$100 million (median of 11.1%). The fund trailed its policy index (13.8%) during this time period. Longer term, the three and five-year returns of -5.4% (96th percentile) and 0.7% (91st percentile) and 0.7% (91st percentile), respectively, were below median among large public plans (-2.8% and 2.1%).

The INVESCO Core Real Estate-USA fund returned -15.8% for the quarter, trailing the NCREIF Index (-5.2%) and ranking in the bottom quartile among real estate investments. There was an overall gross write down of \$378.6 million. Mr. Thomas said that INVESCO has been aggressive with its appraisals and SIS expects more write downs in the future. Their overweight to apartments and underweight to office should help the fund.

The association's small cap managers also hindered second quarter results. Chartwell gained less value, 18.2%, than the Russell 2000 Index, 20.7%, ranking in the 82nd percentile among small cap growth managers. Jennison (19.1%) ranked in the 63rd percentile among its small cap core peers and

lagged its benchmark. *SamCERA*'s international managers, Artio Global Investment and Mondrian Investment Partners, also hurt the fund's performance, ranking in the 84th and 68th percentile, respectively. Mr. Thomas stated that the international and small cap managers did not perform well in the second quarter, however, are doing well overall.

The Association's fixed income managers significantly improved in the quarter. Aberdeen (7.2%) led the Barclays Aggregate Index (1.8%) and ranked above the median core bond manager (4.2%). Pyramis Broad Market Duration Fund gained 6.6% and ranked in the 20th percentile among core bond managers (median of 4.2%) and leading the index (1.8%). Western Asset Management's quarter was above par. It carried a return of 6.9% and ranked ahead of the core bond manager median of 4.2%.

6.4 **Annual Review of *SamCERA*'s Small Cap Equity Asset Class and Investment Managers**

6.4a **Annual Investment Manager Review – Chartwell Investment Partners:** Dave Reidinger, Principal, Portfolio Manager/Senior Portfolio Analyst, and Roddy Marino, Partner, Vice President/Director, were present for Chartwell's annual review. Mr. Marino reviewed Chartwell's organizational changes. He stated that Dawn Francfort has replaced Mark Cunneen, who has retired from the business. Mr. Marino said that Mr. Cunneen previously covered the Consumers sector of the portfolio and Ms. Francfort has been able to add a fresh look to the sector, adding value to the portfolio. In response to a question from Ms. Jadallah, Mr. Marino said he will return to the committee with more information regarding the six small cap clients lost over the past year, which totaled to a relatively small amount (\$70 million). Mr. Reidinger then discussed the portfolio's performance over the past year. He said that the portfolio's return of -45.39% severely underperformed the index's return of -38.54% in 2008. This underperformance follows three consecutive years of overperformance, since inception (12/31/04). In 2009, he said that there had been a rally in low quality names, stocks in which Chartwell would not invest due to their fiduciary duty and designated mandate. He then discussed the characteristics of the portfolio as well as the context of the market. Mr. Reidinger has strong confidence in the portfolio's names with a strong stable of companies, doubling bets in strong convictions.

6.4b **Annual Investment Manager Review – Jennison Associates:** This agenda item was conducted at the full board meeting.

6.5 **Annual Review of *SamCERA*'s Investment Policy:** Mr. Clifton stated that the Investment Policy was last reviewed in July 2008. The Investment Committee's work plan calls for the issuance of a request for proposal (RFP) for investment consultant services for September 2009. An initial project following the RFP will be an asset liability study. The study should be completed in late winter or early spring of 2010. Staff recommends that the board consider rewriting the entire policy at that time.

6.6 **Approval of *SamCERA*'s Fixed Income Structure:** Mr. Thomas and Mr. Brody provided a report on the analysis of *SamCERA*'s fixed income structure. Mr. Thomas reviewed the characteristics of the current fixed income structure which had been modeled as a very simple low risk, low return strategy. He noted the severe underperformance during the fourth quarter of 2008 which has swamped previous assumptions. He said that, going forward, the opportunity for alpha generation through the bond portfolio is large. SIS presented ten alternative fixed income structures to the committee. The committee then reviewed the risk/return of the various alternatives. SIS recommended the committee adopt Alternate 4, introducing global, credit and TIPS mandates. Mr. Bowler concurred with SIS' recommendation and liked the addition of global into the structure. Ms. Jadallah also agreed with Alternative 4. She liked the various opportunities and diversification of the new mandates as well as the addition of the inflation hedge component.

The committee asked that SIS create an implementation plan and timeline for Alternative 4 for its next meeting.

6.7 **Approval of Topics for Annual Manager Review – INVESCO Realty Advisors:** Mr. Clifton presented the list of topics for INVESCO Realty Advisors' annual investment manager review. He then reported that INVESCO is requesting its advisory committee to allow the fund to increase its maximum leverage percentage from 35% to 40% or 45%. The fund's advisory committee suggested that the increase have time constraints and will only be allowed on a temporary basis given the current market environment.

6.8 **Approval of Topics for Annual Manager Review – Barclays Global Investors:** Mr. Clifton presented the list of topics for Barclays Global Investors' annual investment manager review. He said that questions regarding the Russell 1000 Alpha Tilts product were removed from the questionnaire. Ms. Jadallah suggested that questions be added regarding the BlackRock acquisition and its effect on *SamCERA*'s team.

The committee agreed unanimously to recommend that the board approve the list of topics for Barclays Global Investors' annual review, as amended.

6.9 **Approval to Authorize Chief Executive Officer to grant limited Power of Attorney for certain custodial operations:** Mr. Clifton presented a Resolution authorizing *SamCERA*'s CEO to grant certain Power of Attorney to sub-custodians in certain international markets to evidence their authority on *SamCERA*'s behalf. Mr. Bowler said that he was comfortable with authorizing staff to grant POA and said it was within normal operations. Mr. David recommended that staff report how often Power of Attorney are granted to sub-custodians.

The committee unanimously recommended that the board authorize the Chief Executive Officer to grant limited Power of Attorney for certain custodial operations.

7.0 **Other Business:** None.

8.0 **Chief Investment Officer's Report:** None.

9.0 **Adjournment:** There being no further business, Mr. Bowler adjourned the committee at 12:50 p.m.

BENEDICT BOWLER, CHAIR