

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

October 27, 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 Investment Manager Review – Barclays Global Investors
(Interviewed by the Investment Committee at 9:15 a.m.)
 - 6.3 Annual Investment Manager Review – Invesco Realty Advisors – Core
(Presentation at the Board)
 - 6.4 Approval of Amendments to Barclays Global Investors' Management Agreement
 - 6.5 Acceptance of Report on Implementation of Angelo Gordon PPIP Fixed Income Strategy
 - 6.6 Approval of Semi-Finalists for a Fixed Income Treasury Inflation Protected Securities (TIPS) Manager Search
 - 6.7 Approval of Request For Proposal (RFP) for Investment Consultant Services
- 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:** Ms. Jadallah called the Public Session of the Investment Committee of the Board of Retirement to order at 9 a.m., October 27, 2009, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. David and Ms. Jadallah. *Excused:* Mr. Bowler. *Other Board Members in Attendance:* Mr. Murphy, Ms. Salas and Mr. Spinello. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Thomas and Mr. Brody. *Public:* One. *Retirees:* None.
- 3.0 **Approval of the Minutes: Motion** by Arnott, second by David, carried unanimously to approve the minutes from the September 29, 2009, Investment Committee meeting.
- 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* 3.48% Total Fund Return for September 2009 outperformed the Total Plan Policy Benchmark return of 3.39%. The outperformance is primarily due to the fixed income portfolios. *SamCERA's* three bond portfolios substantially outperformed the Barclays Capital Aggregate Index. The fund's return for the trailing twelve months is -2.26, which is 1,001 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 303

basis points below *SamCERA*'s Total Plan Policy Benchmark of 0.77%.

The table below shows the composite returns:

| | Market Value | One Month | Trailing Three Months | Trailing Six Months | Trailing Twelve Months |
|-----------------------------|----------------|---------------|-----------------------|---------------------|------------------------|
| Equity Aggregate | \$1,193,381,11 | 4.56% | 16.87% | 39.32% | -4.97% |
| Equity Composite Benchmark | | 4.57% | 17.41% | 40.65% | -3.76% |
| Variance | | -0.01% | -0.54% | -1.33% | -1.21% |
| Fixed Income Aggregate | \$461,463,770 | 1.86% | 7.38% | 14.78% | 11.10% |
| Fixed Income Composite | | 1.05% | 3.74% | 5.59% | 10.56% |
| Variance | | 0.81% | 3.64% | 9.19% | 0.54% |
| Real Estate Aggregate | \$110,601,490 | 0.00% | 0.00% | -15.78% | -30.43% |
| NCREIF (one quarter lag) | | 0.00% | 0.00% | -5.20% | -19.43% |
| Variance | | 0.00% | 0.00% | -10.58% | -11.00% |
| Cash Aggregate | \$22,968,814 | 0.07% | 0.20% | 0.77% | 1.78% |
| 91 Day Treasury Bill | | 0.02% | 0.07% | 0.12% | 0.39% |
| Variance | | 0.05% | 0.13% | 0.65% | 1.39% |
| Total Fund Returns | \$1,788,415,19 | 3.48% | 12.64% | 25.79% | -2.26% |
| Total Plan Policy Benchmark | | 3.39% | 12.71% | 28.26% | 0.77% |
| Variance | | 0.09% | -0.07% | -2.47% | -3.03% |

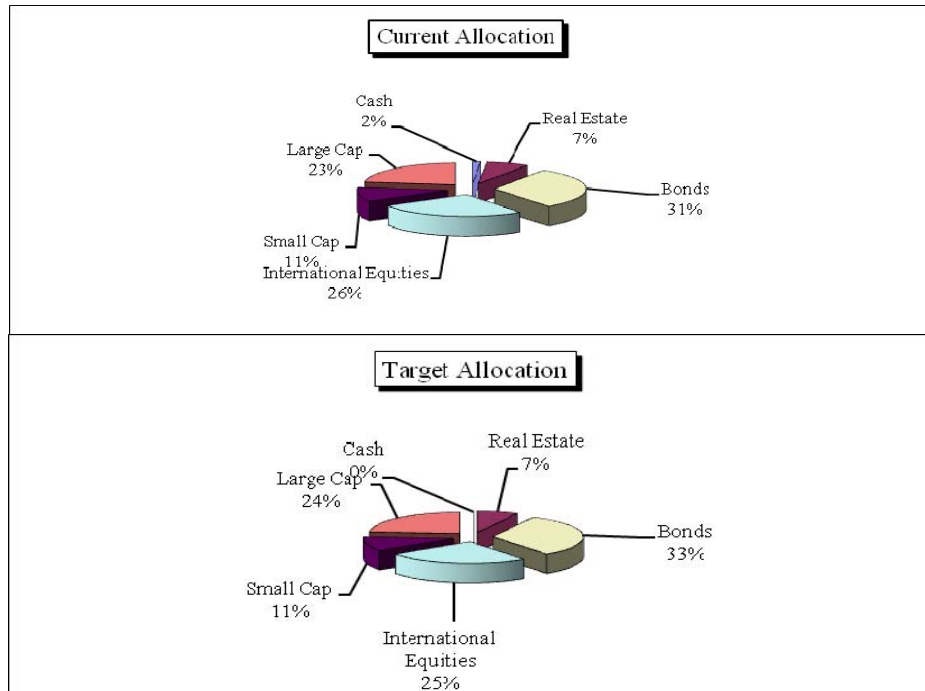
Performance versus Actuarial Discount Rate

| | | | | | |
|-------------------------|--|--------------|---------------|---------------|----------------|
| Total Fund Returns | | 3.48% | 12.64% | 25.79% | -2.26% |
| Actuarial Discount Rate | | 0.62% | 1.88% | 3.80% | 7.75% |
| Variance | | 2.86% | 10.76% | 21.99% | -10.01% |

Mr. Thomas provided an update on the Aberdeen Core fixed income fund. SIS and *SamCERA* participated in a conference call with Aberdeen Fixed Income Head Chris Gagnier on October 9 to discuss the announcement of several changes to their core bond team.

Dan Taylor, Senior Portfolio Manager, has decided to leave the firm effective June 30, 2010. Aberdeen states that Mr. Taylor has made this decision as part of a lifestyle change. Mr. Thomas says that three out of the five professionals identified in 2008 have now left the firm. Ms. Jadallah expressed her deep concern regarding the recent announcement. She suggested that *SamCERA* conduct a due diligence trip to confirm *SamCERA*'s view of Aberdeen's current status. The investment committee agreed with Ms. Jadallah's suggestion. Mr. Clifton stated that *SamCERA* can also conduct a due diligence visit to Angelo Gordon, *SamCERA*'s recently hired PPIP manager.

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 Investment Manager Review – Barclays Global Investors:** Mr. Clifton introduced Trey Heiskell and Marco Merz of Barclays Global Investors for the firm’s annual review. Mr. Heiskell briefly discussed the acquisition of BGI by BlackRock which is scheduled for a December 1st close. He said that Blake Grossman will be a member of the Office of the Chairman and report jointly to Larry Fink and Rob Kapito. Minder Cheng will maintain the head of index equity, transition management, securities lending and corporate governance for equity investing.

In terms of transition management, the two transition businesses will be combined into a single investment team operating with full transparency. Ravi Goutam will remain the head of the North America team.

As for security lending, Mr. Heiskell said that there are no changes on the BGI or BlackRock side. BlackRock’s collateral is managed in New York and the cash group with securities lending will be located in BGI’s San Francisco office. The collateral pool has more conservative guidelines in 2010 but, in practice, have already had conservative changes. There are no liquidity restrictions on the fund.

- 6.3 **Annual Investment Manager Review – INVESCO Realty Advisors – Core:** This agenda item was presented at the Board of Retirement meeting.

- 6.4 **Approval of Amendments to Barclays Global Investors’ Management Agreement:** Mr. Clifton presented the amendment to the Amended and Restated Investment Management and Custody Agreement with Barclays Global Investors. The amendment extends the previous contract for a period of three (3) years beginning December 1, 2009 through November 30, 2012, with all terms and conditions to remain the same.

Motion by David, second by Arnott, to recommend that the board approve the amendments to the BGI

agreement.

- 6.5 **Acceptance of Report on Implementation of Angelo Gordon PPIP Fixed Income Strategy:** Mr. Clifton reminded the committee that the board had determined that the PPIP program was an extraordinary opportunity and dedicated \$35 million of the newly adopted credit opportunity allocation to the program. The committee had narrowed the finalists to Alliance Bernstein and Angelo Gordon. Due to the timing of when the investment was scheduled to close, the board delegated further due diligence and selection provider to staff and SIS. Angelo Gordon was selected as the PPIP provider that would be utilized and negotiations for an agreement were begun. County Counsel referred the Angelo Gordon PPIP subscription documentation to Scott Smith of Hanson Bridgett. Mr. Clifton presented *SamCERA*'s draft side letter with Angelo Gordon.

Mr. Thomas reviewed the PPIP evaluation process and answered committee questions and concerns. The closing is scheduled for October 29th with a 5% capital call.

No action was required. This was an informational report.

- 6.6 **Approval of Semi-Finalists for a Fixed Income Treasury Inflation Protected Securities (TIPS) Manager Search:** Mr. Thomas and Mr. Brody of SIS presented the results of the quantitative and qualitative screens in *SamCERA*'s TIPS manager search. Mr. Brody provided an overview of the screening criteria and evaluation process. It was SIS' recommendation that the search proceed without issuing a formal RFP as they state that they are already familiar with each of the candidate firms from an organizational standpoint. In addition, their respective investment approaches are fairly straightforward and not very differentiated (unlike most other searches) therefore a full RFP process would provide only marginal utility in terms of gaining a deeper understanding of each of the proposed strategies.

Mr. Brody reviewed the six semi-finalists that passed the screening process. The investment committee thoroughly discussed the pros and cons of each of the candidates.

Motion by David, second by Arnott, carried unanimously to recommend that the board select (1) Brown Brother Harriman, (2) Standish Mellon and (3) Wellington as finalists for *SamCERA*'s TIPS manager search. The three managers will be interviewed in front of the board at its November meeting.

- 6.7 **Approval of Request For Proposal (RFP) for Investment Consultant Services:** Mr. Clifton Presented the RFP for Investment Consultant services. The committee reviewed and made minor amendments to the RFP where appropriate. The RFP will be distributed to investment consulting firms with a significant public fund client base. The committee narrowed down the list.

Motion by David, second by Arnott, carried unanimously to recommend the board approve the issuance of the Public Pension Fund Investment Consultant RFP, as amended.

- 7.0 **Other Business:** None.

- 8.0 **Chief Investment Officer's Report:** Mr. Clifton reported that INVESCO has announced the acquisition of Morgan Stanley's retail asset-management business, including the Van Kampen fund unit. Mr. Clifton said that *SamCERA*'s allocation to real estate has dropped to 6.8% and is near the association's target real estate allocation. Staff will ask the board in November to rescind its redemption request from the INVESCO Core fund redemption queue. Mr. Clifton then reported that on Western Asset Management's precautions against the H1N1 virus. Individuals entering WAMCO must

have their thermal temperature taken in order to gain access to the building.

9.0 **Adjournment:** There being no further business, Ms. Jadallah adjourned the committee at 11:13 a.m.

MARGARET JADALLAH, CHAIR OF THE BOARD OF RETIREMENT