May 27, 2003 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:10 A.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 Acceptance of Quarterly Investment Performance Analysis for periods ending March 31, 2003
 6.3 Review & Selection of Optimal Portfolios for the Asset / Liability Modeling Study
 6.4 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions
 6.5 Acceptance of Deutsche Asset Management's Compliance Certification Statement
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: Mr. Cottle called the Public Session of the Investment Committee of the Board of Retirement to order at 10:10 A.M., May 27, 2003 in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.

2.0 Roll Call: Mr. Buffington, Mr. Bryan, Ms. Colson, and Mr. Cottle
Board Members in Attendance: Mr. McMahon, Ms. Salas, and Ms. Stuart *Alternate Board Member:* Ms. Arnott *Staff:* Mr. Clifton and Mr. McCausland. *Consultant:* Mr. Gesell, Ms. Jadallah, and Mr. Thomas *Public:* none *Retirees:* One

3.0 Approval of the Minutes: The April 22, 2003 Investment Committee Minutes were unanimously approved.

Action: Motion by Mr. Buffington, seconded by Ms. Colson, carried unanimously to accept the Investment Committee 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 provided the following review of the portfolio performance.

As of 4/30/2003, *SamCERA's* year-to-date return is –1.90%, a 542 basis points improvement over the prior month when the year-to-date return was –7.32%.

Returns for the trailing one month (5.85%), three months (5.35%) and six months (4.21%) were all positive. Hopefully it is the beginning of a long positive trend.

Over the past month and quarter, *SamCERA's* return has approximated its Policy Benchmark. In both periods the Plan's returns were dampened by an underweight to equities. At the same time the active managers were able to add alpha through security selection. For the one-month period of April 2003 Bank of Ireland Asset Management's security selection contributed 24 basis points of Alpha.

Below is a table with the composite returns followed by portfolio market values and target versus actual allocations.

April 30, 2003		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	$749,320,303	9.02%	6.97%	3.76%	-16.04%
Equity Composite Benchmark		8.65%	7.02%	4.81%	-14.93%
Variance		0.37%	-0.05%	-1.05%	-1.11%
Fixed Income Aggregate	$360,895,254	0.86%	2.28%	4.26%	10.53%
Fixed Income Composite Benchmark		0.83%	2.14%	4.32%	10.48%
Variance		0.03%	0.14%	-0.06%	0.05%
Real Estate Aggregate (1)	$64,839,080	0.39%	4.85%	8.71%	14.04%
NCREIF (one quarter lag)		0.00%	1.67%	3.49%	6.74%
Variance		0.39%	3.18%	5.22%	7.30%
Cash Aggregate	$2,190,422	0.13%	0.41%	0.88%	2.53%
91 Day Treasury Bill		0.09%	0.30%	0.68%	1.60%
Variance		0.04%	0.11%	0.20%	0.93%
Total Fund Returns	$1,177,245,058	5.85%	5.35%	4.21%	-5.68%
Total Plan Policy Benchmark		5.86%	5.34%	4.79%	-6.40%
Variance		-0.01%	0.01%	-0.58%	0.72%

Asset Allocation As of 4/30/2003	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
BGI Russell 1000	$471,062,324	40.01%	40.00%	0.01%	±5%
BGI Russell 2000	$110,551,285	9.39%	10.00%	-0.61%	±5%
BIAM	$167,706,694	14.25%	15.00%	-0.75%	±5%
Total Equity	$749,320,303	63.65%	65.00%	-1.35%	
BGI US Debt	$191,629,132	16.28%	16.00%	0.28%	±3%
DAMI	$169,266,122	14.38%	13.00%	1.38%	±3%
Total Fixed Income	$360,895,254	30.66%	29.00%	1.66%	
Real Estate	$64,839,080	5.51%	6.00%	-0.49%	±2%
Cash	$2,190,422	0.19%	0.00%	0.19%	
Total	$1,177,245,058	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 Acceptance of Strategic Investment Solutions' Quarterly Investment Performance Analysis for the period ending March 31, 2003

Ms. Jadallah and Mr. Thomas provided an executive summary of the Strategic Investment Solutions' Quarterly Performance Report. The report in its entirety will be presented at the meeting of the Board of Retirement.

Below is the Capital Market Review & Investment Performance Summary provided by Strategic Investment Solutions and presented by Mr. Thomas.

Capital Market Review, First Quarter 2003

Economic Review

In early 2003, the Dow, NASDAQ, and the S&P 500 jumped to a good start. Positive news included rising productivity, better corporate earnings news, the government's fiscal stimulus plan, and improved accounting standards. However, there were negatives to consider; the war in Iraq, continued geopolitical risks, fragile consumer confidence, ballooning federal deficit, low corporate spending, and layoffs continued to affect the economy. During the quarter, the FOMC decided to leave the Federal Funds rate unchanged, at 1.25%. As a broad proxy for domestic equity performance, the S&P 500 Index declined -3.1% while fixed income investors enjoyed modest gains as reflected by a 1.4% advance in the Lehman Aggregate Bond Index for the quarter.

The U.S. economy remained lethargic. Fourth-quarter GDP grew by only 1.4% annualized, and growth estimates for 2003 were revised down to 2.2%. The Consumer Price Index rose 0.3% in March following prior month advances of 0.3% and 0.6% in January and February, respectively. Expressed in annualized terms, consumer prices increased at a seasonally adjusted rate of 5.2% during the quarter and by 3.0% for the twelve months ending March 31, 2003.

Industrial production declined by 0.5% in March, after a contraction of 0.1% in February. Household survey data disclose a seasonally adjusted unemployment rate of 5.8% for the month of March and an average rate of 5.8% for the 1st quarter. Housing starts for January increased 0.5%, declined -10.5% in February, and increased in March by 8.3%, numbering 1.78 million units when expressed in seasonally adjusted annual terms.

Equity Markets Review

U.S. stock prices had wide swings during the quarter, with most ending the period in the red. While NASDAQ was slightly positive, the S&P 500 Index fell 3.1% and the DJIA fell approximately 3.5%. The best performing sectors during the quarter were Health Care (+1.2%) and Energy (+0.7%). Underperforming sectors included Communications (-14.4%), Materials (-7.2%), and Consumer Staples (-5.8%).

During the quarter, growth stocks outperformed their value counterparts. As measured by the Russell 1000 (large cap), Russell Mid Cap, and Russell 2000 (small cap) indices, growth asset classes returned

-1.1%, -0.0%, and -3.9% and value asset classes returned -4.9%, -4.1%, and -5.1%, respectively.

Global markets continued to struggle. Against a volatile geopolitical backdrop, European equity markets suffered from problems specific to regional economies, and returns were largely negative across industries. Euro-zone bonds outperformed U.S. treasuries. Major European central banks lowered interest rates during the quarter. In Japan, the country's banks dragged the market lower during the quarter. The Australian and New Zealand currencies strengthened against the USD while the Japanese Yen ended the quarter flat, compared to the USD. For the quarter, the MSCI EAFE Index declined -8.1%, the Emerging Markets Free (EMF) Index dropped 6.0%, and the Latin EMF Index was up marginally by 0.2%.

Fixed Income Markets Review

Fixed Income markets generally benefited from a benign economic environment aided by a strong showing by corporate issues. Corporate spreads tightened as the deleveraging trend continued. Treasuries and mortgages lagged, with only modest positive results; high-yield bonds made headway for the second consecutive quarter. Closing the quarter at a yield of 1.1%, the front end of the yield curve suggests the likelihood of additional easing is tangible. The long bond saw its yield climb by 4.3 basis points. The Lehman Aggregate Bond Index posted a 1.4% return for the 1st quarter and 11.7% for the twelve months ending March 31, 2003. The Salomon World Government Bond Index returned 3.1% for the quarter.

Real Estate Markets Review

Real estate in general, and REITs in particular, have done well over the last three plus years, especially when compared to the equity indexes. For example, since 2000 REITs have produced an annual total return of 14.7%, compared to a -14.3% return for the S&P 500 index. For the last three years, the Morgan Stanley REIT index reported a 3.6% total return in 2002, 12.8% in 2001, and 26.8% in 2000.

The future may not be as rosy, as continued poor economic conditions may put the average 7% yield of REITs at risk. Overall, the market conditions in general have deteriorated for real estate, what with a weak economy and poor tenant demand. Fortunately, real estate entities are not as leveraged in this recession as they were in the late 1980s and early 1990s when real estate investments were still partially driven by tax incentives.

Mr. Thomas reported that for the quarter *SamCERA* underperformed the Median Public Fund by approximately 80 basis points and ranked 92 (refer to the table below). The ranking may be due to the fact that the large public funds are conservative and it appears that they have not been rebalancing back to equities. The reluctance to rebalance worked to their advantage in the first quarter, as equities were negative and a large detractor to returns. However, that should work to SamCERA's advantage in the second quarter as equities are outperforming fixed income. • Returns relative to the Plan Policy Benchmark is a good indicator of how well the Plan is doing. By that measure the Plan is performing well. *SamCERA* outperformed its benchmark for the last year and the last two years.

Mr. Murphy noted that the Committee has not looked favorably upon Real Estate; however, as a diversifier, it is providing very good returns. He asked the Committee for comments. • Mr. Cottle and Mr. Bryan offered that the discussions were related to asset management more than asset class.

Ms. Jadallah provided a review of the investment performance summary presented below.

- The composite fund returned -2.4% in the first quarter of 2003 and ranked 92nd among other public funds greater than $100 million (median -1.6%). The fund trailed its policy index (-2.2%) during this time period. Longer term, the three and five-year returns of -6.5% (79th percentile) and -0.3% (89th percentile), respectively, were below median among large public plans (-5.1% and 1.2%).

- First quarter results were enhanced by the following factors:

  1. The BGI Russell 1000 Index Fund ranked in the second quartile among large cap managers (median -3.1%), and matched its benchmark. The Russell 1000 Index had a return of -2.9%.
  2. The BGI Russell 2000 Index Fund came out slightly ahead its benchmark, the Russell 2000 Index (-4.4% vs. -4.5%), and ranked above the small cap equity manager median of -4.5%.
  3. INVESCO Realty returned 5.0% for the quarter, beating the NCREIF Index (1.7%) and ranking in the top deciles among real estate investments. The Highland Bank property appreciated by 15%.

- First quarter results were hindered by the following factors:

  1. Bank of Ireland's quarterly return underperformed its benchmark, the MSCI All Country World ex-US Free Index (-10.9% vs. -7.3%), and the international equity managers' median of -8.5%. The portfolio lost value due to its insurance (ING Groep, Allianz, Lloyds) and oil (Shell T&T, TotalFinaElf, ENI) holdings, as well as the demise of Ahold, a Dutch supermarket chain. The more defensive stocks were among the top performers for the quarter. CRH, a European building materials supplier, and Kingfisher, a British electrical business, fared well.
  2. The BGI US Debt Index Fund (1.5%) edged out its index, the Lehman Aggregate (1.4%) but not the median core bond manager (1.6%). BGI ranked in the 62nd percentile among its peers.
  3. Deutsche Asset (1.4%) was on par with the Lehman Aggregate Index but could only rank 73rd among other core bond managers. Deutsche Asset's underweight to Treasuries and good individual picks in the telecom, utilities and cable/media sectors enhanced performance. The portfolio's higher exposure to asset backed securities hurt relative performance. Lower quality investment grade corporate credits were strong during the first quarter, also dampening performance. Deutsche Asset continues to carry a bias towards higher quality corporate securities.

Ms Jadallah informed the Committee that Mr. Clifton, Mr. McCausland, Mr. Thomas and herself recently met with Doug Poutasse, Chief Investment Strategist for Real Estate with AEW Capital Management at *SamCERA's* Office. Mr. Poutasse is the recently resigned President of NCRIEF. One of his accomplishments as President was to accelerate the delivery of data from forty-five days after the close of a quarter to twenty days. The availability of data means that the NCREIF can provide current comparisons rather than being lagged by one quarter. • Mr. Clifton is working with SIS and State Street to implement the transition to current benchmark data. He reminded the Committee that performance data is distributed to the Board generally by the tenth calendar day after month end. The Board's aggressive reporting schedule may cause staff to publish two Monthly Performance Reports for quarter end months. The first would not include the current NCREIF data and be distributed on the regular cycle. It would subsequently be amended to include current quarter NCREIF data so SamCERA's final report will reconcile with the Investment Manager's Quarterly Performance Report.

Staff will not distribute the amended report. The non-lagged data will be presented to the Board through SIS' Quarterly Performance Report.

The table below compares the Composite Fund Portfolio and Manager Portfolios to their Benchmarks. It also shows how the portfolios rank in their peer universe as of March 31, 2003.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	-2.43%	92	-7.32%	65	-12.08%	65
Policy Index	*-2.23%*	*82*	*-7.78%*	*76*	*-12.94%*	*75*
BGI Russell 1000 Fund	-2.94%	48	-12.75%	38	-24.49%	51
Russell 1000 index	*-2.94%*	*48*	*-12.78%*	*39*	*-24.51%*	*51*
BGI Russell 2000 Fund	-4.42%	49	-20.17%	58	-26.81%	54
Russell 2000 index	*-4.49%*	*51*	*-20.31%*	*60*	*-26.96%*	*54*
BIAM	-10.90%	94	-24.33%	84	-25.94%	78
MSCI ACWI-ex US Index Free	*-7.30%*	*29*	*-20.06%*	*36*	*-22.18%*	*36*
BGI US Debt Index Fund	1.47%	62	7.74%	52	11.85%	41
Deutsche Asset Management	1.38%	73	7.39%	64	11.29%	57
Lehman Aggregate Index	*1.40%*	*73*	*7.71%*	*53*	*11.70%*	*46*
INVESCO	4.96%	7	11.63%	10	14.40%	10
NCREIF Index	*1.67%*	*42*	*5.16%*	*39*	*6.74%*	*39*
Cash Composite	0.41%	17	1.77%	17	2.61%	17
91 Day T-Bill Index	*0.31%*	*47*	*1.19%*	*50*	*1.66%*	*52*

Action: The Committee unanimously accepted the Strategic Investment Solutions' Quarterly Performance Report. The report in its entirety will be presented to the Board at its afternoon meeting.

6.3 **Review & Selection of Optimal Portfolios for the Asset / Liability Modeling Study** Mr. Gesell, Ms. Jadallah and Mr. Thomas presented this session of the Asset Liability Study. • Mr. Thomas noted that the study is two months behind *SamCERA's* original work plan. If the Board cancels the June meeting, this will further delay the study. However delays are not unusual with an Asset Liability Study and the Committee is making progress with thoughtful decisions. • The Committee noted that the study schedule has been in its control and it is also pleased with the progress. • SIS finds that *SamCERA's* current portfolio mix is very close to the efficient frontier. They do not foresee the study resulting in major changes. However, SIS may suggest a slight increase to international equities.

The goal for today's presentation is to select an efficient frontier and a range along that frontier. Ms. Jadallah reminded the Committee that the asset modeling reviewed today is prior to interjecting the Plan's liabilities. The table below is representative of the range of portfolio mixes provided for the Committee's review. To arrive at these portfolios the Optimizer employed the following constraints: • US Equities are 80% Large Cap, 20% Small Cap per *SamCERA's* Policy Benchmark. • International Equity is 90% Developed Countries and 10% Emerging Markets, which is a proxy for the ACWI ex-US Index. • Per the Board's request Fixed Income was optimized with a core and core-plus element.

The table below represents the efficient frontier produced by the basic optimization. The Committee chose to use the basic optimization rather than the core-plus optimization.

	SamCERA Target	Mix 1	Mix 3	Mix 4	Mix 7	Mix 8	Mix 9	Mix 10
US Large Cap	40.0%	24.2%	26.9%	28.0%	32.8%	35.2%	37.7%	40.3%
US Small Cap	10.0%	6.1%	6.7%	7.0%	8.2%	8.8%	9.4%	10.1%
Int'l Equity	15.0%	13.8%	15.9%	17.3%	20.0%	20.0%	20.0%	20.0%
US Fixed	29.0%	49.9%	43.8%	40.6%	30.7%	27.3%	23.7%	20.0%
Real Estate	6.0%	6.0%	6.7%	7.1%	8.3%	8.7%	9.2%	9.6%
% Equities	71%	53%	56%	59%	69%	73%	76%	80%
Total Return	8.23%	7.39%	7.64%	7.77%	8.17%	8.29%	8.42%	8.55%
Total Risk	11.74%	8.95%	9.72%	10.14%	11.44%	11.89%	12.35%	12.85%

The Committee reviewed the constraints and resultant portfolio mixes with an aim at defining a risk tolerance level. • Mr. Cottle proposed a range of portfolios from Mix 3 to Mix 8. He reasoned that Mix 8 is slightly above the Actuarial Interest Rate of 8.25%, which is likely to be reduced to 8.0% during the next actuarial valuation. The proposed range provides portfolios above and below an 8.0% Actuarial Interest Rate.

Following a brief discussion on the International Equity Allocation, Mr. Thomas stated with a 20% allocation, *SamCERA* would be slightly above the Median Public Plan. However, Public Plans have been increasing their allocation.

Ms. Colson offered that the Mix 3 return was too low and suggested narrowing the range to Mix 4 through Mix 8. She took a forward look at step two, Manager Structure. She noted that *SamCERA* is highly indexed at almost 70%. If the Plan retains that posture, the only method for change to the Plan's risk/return structure is asset allocation. Under that scenario she would be more comfortable with 20% active International Equity than with 40% indexed Large Cap.

Mr. Cottle summarized the Committee's discussions as arriving at a consensus regarding the range of expected risk and return, which would be from Mix 4 to Mix 8. After hearing the consensus verbalized, the Committee took the opportunity to refine its recommended tolerance. • Ms. Colson asked that the Committee's recommendation be stated as a range of returns 7.75% to 8.25%. • Mr. Buffington requested a broader range capped at 8.50%. • Mr. Bryan reminded the Committee that return is only one dimension of the efficient frontier. The other dimension is risk. The Board has demonstrated that it is not willing to assume the risk associated with an 8.50% return. • The Committee agreed to recommend to the Board a return range of 7.75% to 8.40% or approximately Mix 4 to Mix 9.

Action: By consensus the Committee adopted a total return range on the efficient frontier between 7.75% and 8.40%. The total return range approximates portfolio mixes 4 through 9, which have an expected total risk of 10.14% through 12.35%. The Investment Committee will

recommend that the Board of Retirement adopt the 7.75% through 8.40% range.

6.4 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions.

Mr. Clifton reminded the Committee that its Professional Service Performance Evaluation Form was designed to receive Trustee's input into the annual evaluation and review of the Investment Consultant. He noted that all Trustees have this year's evaluation and asked that the completed evaluations be left with him before they leave.

The Committee then turned its attention to the annual review questions that are to be completed by the Investment Consultant prior to the review. • Mr. Cottle noted question seven inquires about Strategic Investment Solutions' recent affiliation with Frank Russell. He suggested expanding upon that subject to include the following questions. i) What were the reasons for this ownership change? ii) How have clients reacted to this development? iii) How will this affiliation impact the firm's services? • There being no further comments on the questions for the annual review the Committee, by consensus, agreed to recommend that the Board instruct staff to forward the list to Strategic Investment Solutions for their written response.

Action: By consensus the Committee approved a recommendation to the Board that would instruct staff to forward the annual review question to Strategic Investment Solutions' for their written response prior to the July 22, 2003 annual review.

6.5 Acceptance of Deutsche Asset Management's Compliance Certification Statement. Staff provided the following brief historical review of *SamCERA's* relationship with DAMI and the firm's recent portfolio returns. On February 23, 1995, the Board selected Deutsche Asset Management Investment Services Limited (DeAM), then known as Morgan Grenfell Investment Services Limited (MGIS) to manage a $50 million global fixed income mandate. In June of 1996, the Board allocated an additional $50 million to DeAM and customized the mandate to 70% Domestic and 30% International. The Board extended its Agreement with DeAM for an additional three-year term, effective April 28, 1998. Two years later on April 25, 2000 the Board instructed DeAM to consolidate assets under a domestic mandate benchmarked against the Lehman Aggregate Bond Index. DeAM's Philadelphia subsidiary, Deutsche Asset Management, Inc. (DAMI) manages *SamCERA's* domestic mandate. On March 26, 2001 the Board authorized entering its third three-year agreement with the Deutsche Group. Effective March 31, 2001 the Board executed an Agreement with DAMI

As of April 30th, *DAMI* managed $169.3 million or 14.4% of *SamCERA's* assets. *DAMI's* management fee is subject to marginal pricing and is approximately27 basis points.

	Trailing Three Months	Trailing Twelve Months	Trailing Three Years	Since Inception
Deutsche Asset Management, Inc.	2.36%	10.40%	10.66%	8.31%
Lehman Aggregate Index	2.14%	10.48%	10.22%	8.00%
Variance	***+0.22%***	***-0.08%***	***+0.44%***	***+0.31%***

Mr. Clifton presented Deutsche Asset Management's responses to a comprehensive list of questions developed to monitor *SamCERA's* Fixed Income Manager(s). The Committee had no follow-up inquiries to DAMI's responses.

On May 15, 2003 Mr. Bryan, Mr. Clifton and Ms. Jadallah spent approximately five hours visiting DAMI's Philadelphia office. Gary Bartlett, Deputy CIO and Chris Gagnier, Portfolio Manager, guided the discussion though topics that included a review of the organization, business strategy, personnel, and investment philosophy and process. An office tour included viewing of investment and support areas, a demo of research analytical tools, trading systems and DAMI's portfolio accounting/construction system. SamCERA's representatives interviewed DAMI's Staff in each of the areas mentioned above.

Ms. Jadallah prepared a written report, which was distributed with this agenda item. Mr. Clifton, Mr. Bryan and Ms. Jadallah presented an oral review of the onsite visit, which the Committee participated in via questions and comments.

Report Highlights are:

• Under DAMI's management succession plan Gary Bartlett, Deputy CIO, is heir apparent to David Baldt, CIO. Mr. Baldt is no longer involved in the US Core Fixed Income process. He is building and managing a team that focuses on municipals.
• The Core Fixed Income Team of six senior portfolio managers is currently in negotiations for a new contract with the parent Deutsche Asset Management. They state that the negotiations are almost finalized. The other Philadelphia professionals are not under contract. They will, however, benefit from an incentive pool being negotiated for the Philadelphia business. Staff will follow the contract to completion and report on whether or not it contains a non-compete clause. Ms. Colson stated that *SamCERA* is pleased with the Philadelphia team and it is to *SamCERA's* advantage not to have a non-compete clause.
• The Philadelphia team took three former Chicago Scudder bond professionals, a Corporate Researcher and two Portfolio Analysts.
• Assimilation of the Scudder Assets is complete. It resulted in a 25% growth in assets for Philadelphia in 2002, which is greater than its targeted annual growth of 10%-15%. Particular attention on the visit was paid to the internal controls of the back office. Staff wanted to be assured that DAMI did not weaken its controls by the rapid increase in assets under management.
• There are two Compliance Officers in Philadelphia that report to the parent, DeAM in New York not to the Philadelphia Team. The compliance staff is responsible for oversight on the client's investment guidelines and DAMI's investment guidelines. They use DeAM's Merrin Trading System, which is a front-end system that disallows trades that violate guidelines. It is important to note that portfolio managers do not have access to the compliance or accounting systems.
• Approximately 70% of the securities in *SamCERA's* portfolio are not in the Lehman Aggregate. Mr. Gagnier stated that percentage is normally closer to 60%, which is not unusual for managers benchmarked against the Lehman Aggregate. He offered that the Lehman has a minimum issue size of $300 million whereas DAMI often finds value in issues within the $100-$200 size range. DAMI invests in taxable municipal investment securities, corporate backed or "wrapped" securities and mortgage investments that are in stable PACs. All of those investment vehicles are outside of the index.
• Due to its asset growth, DAMI has had to invest in a greater percentage of similar but not identical securities, which are then allocated across portfolios. Philadelphia has added an Information Technology Specialist, Randy Smith, who created a portfolio trade allocation model that optimizes

portfolios using 27 sub-sector buckets. Trades are allocated across all accounts with accounts furthest from the target portfolio receiving securities first. The system seems methodical and objective, although it is not fully automated and appears to be time consuming.

Ms. Colson asked about DAMI's response to a question regarding their last SEC Audit. It was not clear to her if the audit was of only DAMI, Philadelphia, or of DeAM, the parent organization. Mr. Clifton confirmed that the Audit is of DeAM and includes DAMI. *"On June 4th, Mr. Clifton forwarded Deutsche Asset Management's March 24, 2000 letter to the Securities and Exchange Commission's Office of Compliance Inspections and Examinations. This letter was DeAM's response to the SEC Audit"*

Responding to Mr. Cottle, Ms. Jadallah stated that the onsite due diligence trip was absolutely time well spent. She summarized the visit as Philadelphia demonstrating that the firm is able to handle the growth of assets through adding depth of staff and analytical tools for efficiency. The relationship with the parent, DeAM, appears to be smooth and a new contract is in the works. Philadelphia has the autonomy to manage its own business and an excellent senior portfolio team, which should lead *SamCERA* to feel confident with DAMI's management of its core fixed income portfolio.

Action: By consensus the Committee accepted Deutsche Asset Management's written responses to the annual review questions, its Compliance Certification Statement and staffs written and oral report regarding the onsite due diligence visit.

7.0 Other Business: None

8.0 Adjournment: There being no further business Mr. Cottle adjourned the Committee at 11:38 A.M.