

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

August 26, 2003 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:02 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 to Strategic Investment Solutions' Quarterly Performance Report
 - * 6.3 Introduction to the Review of SamCERA's Investment Manager Structure
 - * 6.4 Annual Investment Manager Review – Deutsche Asset Management
 - 6.5 Approval of Topics for Investment Manager Review – INVESCO Realty Advisors
 - 6.6 Adoption of a Commitment to INVESCO's Commingled - Open End - Core Real Estate Fund
 - 6.7 Review of Frank Russell Company's Manager Research Capabilities & On-Site Due Diligence Processes
 - 6.8 Adoption of Due Diligence Policy & Procedures
 - 6.9 Review, Revision & Reaffirmation of Investment Committee Charter
- 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 10:02 A.M., August 26, 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:* Ms. Salas, and Ms. Stuart *Alternate Board Member:* Ms. Arnott *Staff:* Mr. Clifton and Mr. McCausland. *Consultant:* Ms. Jadallah, and Mr. Thomas *Public:* none *Retirees:* One
- 3.0 Approval of the Minutes:** Ms. Colson and Ms. Arnott provided grammatical corrections for the Minutes of July 22, 2003.

Action: Motion by Mr. Buffington, seconded by Ms. Colson, carried unanimously to accept the Investment Committee Minutes.
- 4.0 Oral Communications From the Committee:** Ms. Colson informed the Committee that Mr. Lewis expressed an interest in being on the Committee. After a brief discussion, the Committee determined that its current structure, which was decided last month, is adequate. They expressed their regrets in turning down his request. Mr. Lewis' excused absence in the July 2003 Board Meeting prevented him from expressing his desire to be included in the Investment Committee.
- 5.0 Oral Communications From the Public** None

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6.1 Acceptance of Monthly Portfolio Performance. Mr. Clifton presented the monthly performance report.

The first table presented below shows the composite returns. The second table shows portfolio market values and target weightings versus actual allocations.

July 31, 2003		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$861,268,464	2.60%	10.88%	18.61%	10.68%
Equity Composite Benchmark		2.80%	11.51%	19.34%	12.51%
<i>Variance</i>		<i>-0.20%</i>	<i>-0.63%</i>	<i>-0.73%</i>	<i>-1.83%</i>
Fixed Income Aggregate	\$365,642,743	-3.35%	-1.56%	0.68%	5.23%
Fixed Income Composite Benchmark		-3.36%	-1.76%	0.35%	5.42%
<i>Variance</i>		<i>0.01%</i>	<i>0.20%</i>	<i>0.33%</i>	<i>-0.19%</i>
Real Estate Aggregate (1)	\$65,536,433	0.65%	3.34%	8.35%	15.07%
NCREIF (one quarter lag)		0.00%	2.09%	4.01%	7.64%
<i>Variance</i>		<i>0.65%</i>	<i>1.25%</i>	<i>4.34%</i>	<i>7.43%</i>
Cash Aggregate	\$3,759,268	0.21%	0.68%	1.09%	2.26%
91 Day Treasury Bill		0.07%	0.31%	0.61%	1.45%
<i>Variance</i>		<i>0.14%</i>	<i>0.37%</i>	<i>0.48%</i>	<i>0.81%</i>
Total Fund Returns	\$1,296,206,908	0.74%	6.64%	12.34%	9.98%
Total Plan Policy Benchmark		0.85%	7.00%	12.72%	10.66%
<i>Variance</i>		<i>-0.11%</i>	<i>-0.36%</i>	<i>-0.38%</i>	<i>-0.68%</i>

Asset Allocation As of 7/31/2003	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
BGI Russell 1000	\$534,563,506	41.24%	40.00%	1.24%	±5%
BGI Russell 2000	\$142,089,894	10.96%	10.00%	0.96%	±5%
BIAM	\$184,615,064	14.24%	15.00%	-0.76%	±5%
Total Equity	\$861,268,464	66.45%	65.00%	1.45%	
BGI US Debt	\$202,785,180	15.64%	16.00%	-0.36%	±3%
DAMI	\$162,857,563	12.56%	13.00%	-0.44%	±3%
Total Fixed Income	\$365,642,743	28.21%	29.00%	-0.79%	
Real Estate	\$65,536,433	5.06%	6.00%	-0.94%	±2%
Cash	\$3,759,268	0.29%	0.00%	0.29%	
Total	\$1,296,206,908	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.

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6.2 Acceptance of Strategic Investment Solutions' Quarterly Investment Performance Analysis for the period ending June 30, 2003. Ms. Jadallah and Mr. Thomas presented Strategic Investment Solutions' Quarterly Investment Performance Report.

An executive summary of the report is provided below.

Fund & Manager Performance Summary

- The composite fund returned 12.1% in the second quarter of 2003 and ranked 21st among other public funds greater than \$100 million (median 11.1%). The fund trailed its policy index (12.3%) during this time period. Longer term, the three and five-year returns of -2.2% (67th percentile) and 1.7% (92nd percentile), respectively, were below median among large public plans (-1.2% and 3.0%).
- Second 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 15.4%), and matched benchmark. The Russell 1000 Index had a return of 15.7%.
 2. Bank of Ireland's quarterly return outperformed its benchmark, the MSCI All Country World ex-US Free Index (20.4% vs. 19.9%), and the international equity managers' median of 19.0%. The portfolio gained relative value due to its financial (ING Groep, UBS, Barclays), energy (Total, ENI), and utility (E.ON) holdings, as well as appreciation from Japan's Canon. Consumer-related stocks, such as Unilever and Heineken, did not fare as well.
 3. Deutsche Asset (3.0%) was ahead of the Lehman Aggregate Index and ranked 33rd among other core bond managers. Deutsche Asset's underweight to Treasuries and the auto sector, and good individual picks in the telecom, utilities and cable/media sectors enhanced performance. The portfolio's lower exposure to lower quality investment grade corporate credits dampened performance. Deutsche Asset continues to carry a bias towards higher quality corporates.
 4. INVESCO Realty returned 3.1% for the quarter, beating the NCREIF Index (2.1%) and ranking in the top third among real estate investments. The Hunter's Creek property appreciated by 5%.
- Second quarter results were hindered by the following factors:
 1. The BGI Russell 2000 Index Fund lagged its benchmark, the Russell 2000 Index (23.0% vs. 23.4%), but still ranked above the small cap equity manager median of 22.3%.
 2. The BGI US Debt Index Fund (2.5%) matched its index, the Lehman Aggregate (2.5 %) but not the median core bond manager (2.8%). BGI ranked in the 69th percentile among its peers.

CAPITAL MARKET REVIEW: SECOND QUARTER 2003

ECONOMIC REVIEW

- During the 2nd quarter, the Fed cut the overnight bank lending rate for the 13th time since January 2000 by 25 bps to 1.0%, the lowest rate in 45 years. Current economic conditions remain poor despite economic stimulus (lower interest rates and monetary expansion) and a Bush tax cut. Employment has continued to decline as firms struggle with excess capacity and over-indebtedness. During the quarter, the federal budget has moved firmly into deficit. A number of companies preannounced earnings disappointments, attributing shortfalls to SARS and bad weather. Several corporate scandals were revealed, including a probe into Freddie Mac, which admitted it had understated earnings by \$1.5 to \$4.5 billion. Bonds had solid results for the quarter, though they ceded ground as yields globally backed up, starting mid-June. For the 2nd quarter, the S&P 500 was up 15.4% and the Lehman Aggregate Bond Index posted a gain of 2.5%.
- First-quarter GDP was revised from 1.9% to 1.4%, though this information was largely ignored by equity investors. The Consumer Price Index rose 0.2% in June, on a seasonally adjusted basis, following a flat reading in May and a 0.3% decline in April of 2003. In 2004, consumer prices declined at a seasonally adjusted rate of 0.7% in the second quarter, while rising 2.1% for the twelve months ended June 30. The rate of capacity utilization measured 74.3% in June-- some 7.0% below its average value for the years spanning 1972 - 2002. The seasonally adjusted unemployment rate is 6.2% for the quarter. As an alternative gauge of labor market activity, payroll data depicted a decline in non-farm employment of 30,000 during June.

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	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	12.05%	21	3.84%	54	-2.20%	67
<i>Policy Index</i>	<i>12.32%</i>	<i>18</i>	<i>3.60%</i>	<i>60</i>	<i>-3.10%</i>	<i>81</i>
BGI Russell 1000 Fund	15.75%	43	0.98%	30	-10.95%	57
<i>Russell 1000 index</i>	<i>15.74%</i>	<i>43</i>	<i>0.95%</i>	<i>31</i>	<i>-11.00%</i>	<i>58</i>
BGI Russell 2000 Fund	22.95%	44	-1.85%	58	-3.35%	61
<i>Russell 2000 index</i>	<i>23.42%</i>	<i>40</i>	<i>-1.64%</i>	<i>55</i>	<i>-3.30%</i>	<i>61</i>
BIAM	20.40%	30	-8.90%	82	-12.43%	60
<i>MSCI ACWI-ex US Index Free</i>	<i>19.85%</i>	<i>38</i>	<i>-4.19%</i>	<i>31</i>	<i>-12.54%</i>	<i>62</i>
BGI US Debt Index Fund	2.53%	69	10.47%	61	10.23%	47
Deutsche Asset Management	2.96%	33	10.57%	55	10.76%	24
<i>Lehman Aggregate Index</i>	<i>2.50%</i>	<i>71</i>	<i>10.41%</i>	<i>63</i>	<i>10.08%</i>	<i>53</i>
INVESCO	3.07%	26	15.06%	10	9.51%	28
<i>NCREIF Index</i>	<i>2.09%</i>	<i>52</i>	<i>7.64%</i>	<i>43</i>	<i>8.21%</i>	<i>40</i>
Cash Composite	0.60%	14	2.38%	16	3.54%	38
<i>91 Day T-Bill Index</i>	<i>0.34%</i>	<i>30</i>	<i>1.53%</i>	<i>46</i>	<i>3.34%</i>	<i>58</i>

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

6.3 Introduction to the Review of SamCERA's Investment Manager Structure

Ms. Jadallah and Mr. Thomas presented the overview of Strategic Investment Solutions' Report on Manager Structure.

Action: The Committee unanimously accepted the Strategic Investment Solutions' Report on Manager Structure and will recommend to the Board that it proceed with a review of *SamCERA's* equity manager structure at the next meeting. The report in its entirety will be presented to the Board at its afternoon meeting.

6.4 Annual Investment Manager Review – Deutsche Asset Management.

Christopher Gagnier, Managing Director & Portfolio Manager, and Tony Freitas, Director - Client Investment Specialist, will be present at this afternoon's Board Meeting for Deutsche Asset Management's annual manager review.

On July 31st, DAMI managed \$162.9 million or 12.6% of *SamCERA's* assets. DAMI's management fee is subject to marginal pricing and is approximately 26 basis points.

	Trailing Three Months	Trailing Six Months	Trailing Twelve Months (1)	Since Inception
Deutsche Asset Management, Inc.	-1.21%	1.12%	5.11%	7.82%
Lehman Aggregate Index	-1.76%	0.35%	5.42%	7.44%
<i>Variance</i>	<i>+0.55%</i>	<i>+0.77%</i>	<i>-0.31%</i>	<i>+0.38%</i>

(1) DAMI's returns in the last half of 2002 were impacted three asset-backed securities backed by loans on manufactured homes. (Oakwood Mortgage and Conesco and Green Tree Finance)

Action: No action is required. The review will be held at the Board Meeting.

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6.5 Approval of Topics for Investment Manager Review – INVESCO Realty Advisors.

Mr. Clifton presented a series of questions that would be submitted to INVESCO Realty Advisor for their written response prior to the annual manager review, which will be held on September 23, 2003.

Action: By consensus the Committee approved a recommendation to the Board that would instruct staff to forward the annual review questions to INVESCO Realty Advisors for their written response prior to the September 23, 2003 annual review.

6.6 Adoption of a Commitment to INVESCO's Commingled - Open End - Core Real Estate Fund.

The Committee raised several questions that it wished answered regarding the Commingled Open End Real Estate Fund. Staff was directed to develop a series of questions regarding portfolio construction, fund documentation, and INVESCO's product marketing.

Action: Motion by Buffington, second by Colson, to recommend to the Board that it proceed with the Commingled Open End Core Fund pending INVESCO's response to a series of questions that staff will submit to INVESCO.

6.7 Review of Frank Russell Company's Manager Research Capabilities & On-Site Due Diligence Processes.

Ms. Jadallah provided a review of Frank Russell's manager search capabilities as they relate to Strategic Investment Solution's capabilities.

Action: By consensus the Committee accepted Strategic Investment Solutions' presentation of both Frank Russell and SIS's manager search capabilities .

6.8 Adoption of Due Diligence Policy & Procedures.

Due to time constraint, the Committee opined to table this item until September 23, 2003. Mr. Cottle will not be at the meeting on the 23rd. The Committee scheduled the next Investment Committee for September 19, 2003.

Action: By consensus the Committee tabled this item until September 19, 2003.

6.9 Review, Revision & Reaffirmation of Investment Committee Charter.

Due to time constraint, the Committee opined to table this item until September 19, 2003.

Action: By consensus the Committee tabled this item until September 19, 2003.

7.0 Other Business: None

8.0 Adjournment: There being no further business Mr. Cottle adjourned the Committee at 12:00 A.M.