

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

**September 23, 2003 – Investment Committee Agenda**

**PUBLIC SESSION** – The Committee met in Public Session at 10:45 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 Introduction to *SamCERA's* Investment Manager Structure – U.S. Equity
  - \* 6.3 Annual Investment Manager Review – INVESCO Realty Advisors
  - \* 6.4 Acceptance of Status Report on INVESCO's Proposed Commingled - Open End - Core Real Estate Fund
  - 6.5 Approval of Topics for Investment Manager Review – Barclays Global Investors
  - 6.6 Approval of Contract Extension for Bank of Ireland Asset Management
  - 6.7 Adoption of Due Diligence Policy & Procedures
  - 6.8 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. Colson called the Public Session of the Investment Committee of the Board of Retirement to order at 10:47 A.M., September 23, 2003, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan, Mr. Buffington, Ms. Colson, and Mr. Lewis *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:**

**Action: Motion by Mr. Buffington, seconded by Mr. Bryan, 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.** Mr. Clifton reported that the period ended August 31, 2003 saw *SamCERA's* Total Fund Return underperformed its Policy Benchmark in all periods through the trailing twelve months. Most of the under performance may be attributed to international equity where the manager, through poor security selection, trailed the MSCI ACWI Free ex-US by 784 basis points in the trailing twelve months. *SamCERA* was underweight International Equity, which helped limit the underperformance.

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Mr. Clifton noted that the market value of assets exceeded \$1.3 billion for the first time since August 2001. Two charts were provided that chronicled monthly asset market values since June 2000.

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

August 31, 2003		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$880,303,590	2.21%	6.44%	24.10%	12.97%
Equity Composite Benchmark		2.64%	7.34%	24.84%	15.16%
<b>Variance</b>		<b>-0.43%</b>	<b>-0.90%</b>	<b>-0.74%</b>	<b>-2.19%</b>
Fixed Income Aggregate	\$368,017,904	0.65%	-2.86%	-0.07%	4.15%
Fixed Income Composite Benchmark		0.66%	-2.91%	-0.36%	4.36%
<b>Variance</b>		<b>-0.01%</b>	<b>0.05%</b>	<b>0.29%</b>	<b>-0.21%</b>
Real Estate Aggregate (1)	\$65,700,481	0.59%	3.46%	8.21%	14.83%
NCREIF (one quarter lag)		0.00%	2.09%	4.01%	7.64%
<b>Variance</b>		<b>0.59%</b>	<b>1.37%</b>	<b>4.20%</b>	<b>7.19%</b>
Cash Aggregate	(\$1,208,030)	0.19%	0.61%	1.16%	2.17%
91 Day Treasury Bill		0.08%	0.29%	0.60%	1.38%
<b>Variance</b>		<b>0.11%</b>	<b>0.32%</b>	<b>0.56%</b>	<b>0.79%</b>
Total Fund Returns	\$1,312,813,946	1.68%	3.51%	15.33%	11.03%
Total Plan Policy Benchmark		1.91%	4.00%	15.83%	12.01%
<b>Variance</b>		<b>-0.23%</b>	<b>-0.49%</b>	<b>-0.50%</b>	<b>-0.98%</b>

Asset Allocation As of 8/31/2003	Market Value	Allocation Current	Target	Percentage Off Target	Rebalance Range
BGI Russell 1000	\$545,413,761	41.55%	40.00%	1.55%	±5%
BGI Russell 2000	\$148,640,629	11.32%	10.00%	1.32%	±5%
BIAM	\$186,249,201	14.19%	15.00%	-0.81%	±5%
Total Equity	\$880,303,590	67.05%	65.00%	2.05%	
BGI US Debt	\$204,135,635	15.55%	16.00%	-0.45%	±3%
DAMI	\$163,882,270	12.48%	13.00%	-0.52%	±3%
Total Fixed Income	\$368,017,904	28.03%	29.00%	-0.97%	
Real Estate	\$65,700,481	5.00%	6.00%	-1.00%	±2%
Cash	-\$1,208,030	-0.09%	0.00%	-0.09%	
Total	\$1,312,813,946	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 Introduction to SamCERA's Investment Manager Structure – U.S. Equity.** Ms. Jadallah & Mr. Thomas presented an introduction to SamCERA's domestic equity manager structure. The presentation contained ten alternative structures ranging from Alternative One (Passive Large Cap with ½ Passive

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Small Cap and ½ Active Small Cap, which was projected to have 0.70% Active Risk with an Information Ratio of 0.30 and contributing 0.21% Alpha) to Alternative Ten (Active Large and Small Cap, which was projected to have 3.67% Active Risk with an Information Ratio of 0.54 and contributing 2.00% Alpha). The Recommendation from SIS would be somewhere in the middle. They believe all of SamCERA's Small Cap Assets and a portion of its Large Cap Assets should be managed actively. If SamCERA wants its US Equity Composite to rank in the top 40%-33% of the Composite Universe, it should target .75% to 1.30% of Alpha.

The Committee discussed the proposed alternatives and opined that they wish to observe additional alternatives before providing direction to SIS.

The Committee asked SIS to provide an additional five alternatives for its review. Today's presentation contains the following alternatives:

- 1) ½ Passive and ½ Enhanced Large Cap with Passive Small Cap. (Active Risk 0.80%, Information Ratio 0.30, Alpha 0.24%)
- 2) ½ Passive and ½ Enhanced Large Cap with ½ Passive Small Cap, ¼ Active Small Value, and ¼ Active Small Growth. (Active Risk 1.02%, Information Ratio 0.48, Alpha 0.50%)
- 3) ½ Passive and ½ Enhanced Large Cap with ½ Passive and ½ Enhanced Small Cap Core. (Active Risk 0.96%, Information Ratio 0.39, Alpha 0.38%)
- 4) ½ Passive and ½ Enhanced Large Cap with ½ enhanced and ½ Active Small Cap split between Value and Growth. (Active Risk 1.19%, Information Ratio 0.53, Alpha 0.63%)
- 5) ½ Passive and ½ Enhanced Large Cap with Active Small Cap split between Growth and Value. (Active Risk 1.48%, Information Ratio 0.50, Alpha 0.75%)

**Action: By consensus the Committee directed Strategic Investment Solutions' to report back to the Committee in October with the five additional scenarios listed above. The Committee will report its progress to the Board.**

- 6.3 Annual Investment Manager Review – INVESCO Realty Advisors.** This item will be discussed at the Board. ♦ Ms. Colson asked if the Committee had any questions regarding the materials that were distributed. Mr. Clifton noted that he is unfamiliar with some of the ten individuals listed as key to the success of INVESCO. Ms. Colson stated that in a separate question INVESCO listed twenty-five individuals who were Global Partners through Directors. She was concerned about the lack of diversity. To her knowledge the list contains only one female and one minority.

The following is a review of INVESCO Realty Advisors prepared by staff:

INVESCO Realty Advisors (IRA) is a division of INVESCO Institutional under the AMVESCAP PLC umbrella. IRA's assets under management as of June 30, 2003 totaled \$12.7 billion, which represents a growth of \$3.0 billion over the prior year. INVESCO manages assets in U.S. Direct Real Estate Investments (\$7.5 BN), US Real Estate Securities (\$2.6 BN) and European Direct Real Estate Investments (\$2.6 BN).

In response to *SamCERA's* query in the annual questionnaire, INVESCO Realty Advisors states they will no longer accept direct real estate separate accounts. Any new client allocations will be accepted through commingled funds. *(At the board meeting, Mr. Swango noted that since 1999 they have received new separate account money from four prior commitments, Ohio Fire & Police, State of Florida, SBC, and City of San Diego.*

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As of August 31st, INVESCO managed \$65.7 million or 5.0% of *SamCERA*'s \$1,312.8 million portfolio. The table below contains individual property returns as of 8/31/2003.

Property	Property Fair Value	3 Month Rolling Return	6 Month Rolling Return	12 Month Rolling Return	Since Inception
Matthews Festival	\$ 15,506,551	2.50%	7.43%	11.97%	
Campus Circle	\$ 7,450,000	2.33%	4.36%	9.38%	
Boca Colony Apartments	\$ 13,486,861	1.55%	8.93%	13.15%	
Highland Bank Building	\$ 6,739,630	2.20%	20.47%	26.71%	
Pacific Corporate Center*	\$ 13,447,312	3.61%	-3.86%	2.73%	
Hunter's Creek Plaza	\$ 7,426,179	6.93%	8.48%	12.83%	
<i>SamCERA</i> Portfolio - Property Level		2.89%	7.55%	13.53%	10.48%

Max Swango, Sally Kittles and Steve Wood will be present at the board meeting to provide an overview of INVESCO Realty Advisors and to answer the Board's questions.

**Action: No action is required.**

- 6.4 Acceptance of Status Report on INVESCO's Proposed Commingled - Open End - Core Real Estate Fund.** This item will be discussed at the Board. ♦ Ms. Colson asked if the Committee had any questions regarding the materials that were distributed. Mr. Clifton noted that INVESCO's response seemed evasive. The Committee should ascertain if they are evasive or it is still early in the process and solid responses are not available. Ms. Colson expressed concern over the time required for INVESCO to acquire property and diversify the fund. She also expressed concern that it would take 75% of investors to remove the Manager. She believes industry standard is lower than that, perhaps in the 50%-65% range. In addition, it does not seem acceptable that amendments to the Operating Agreement require approval of both the manager and investors. Her inclination is to let INVESCO come in to talk to *SamCERA*. However, if the Board decides to go into a Core Fund, she prefers to go out for a search, which should include INVESCO. She also suggested that *SamCERA* could achieve better diversification by splitting the real estate allocation. ♦ Mr. Bryan and Mr. Buffington are concerned that the founding investors fee structure is significantly higher than anticipated. In fact it is greater than *SamCERA*'s current fee structure. ♦ There was some discussion about delaying a decision on the core fund. Mr. Clifton reminded the Committee that with the sale of Hunter's Creek the Plan is underweight Real Estate 4.5% vs. the target of 6.0%. The allocation has been a contributor to alpha. It should not remain underweight for a significant period. At least the committee is interested in a Core Fund. He recommends moving ahead with a search.

The Committee's strategy for the board meeting is to confront INVESCO with their questions mentioned above. INVESCO's response will dictate the Committee's recommendation to the Board.

Max Swango, Sally Kittles and Steve Wood will be present to provide an overview of INVESCO Realty Advisors and to answer the Board's questions.

**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 – Barclays Global Investors.** The San Mateo County Employees' Retirement Association requires each Investment Manager to complete a Compliance Certification Statement semi-annually. One of which is in preparation for their annual review. The Association also requires the Manager to provide written responses to questions regarding an organizational update, performance, investment strategy and process, and their outlook on the market and the relationship.

Mr. Clifton submitted for the Board's approval a list of questions and a Compliance Certification Statement that BGI will be asked to complete.

**Action: By consensus the Committee approved a recommendation to the Board of Retirement that would instruct staff to forward the annual review questions and Compliance Certification Statement as submitted to Barclays Global Investors so that their written response will be available prior to the October 28, 2003 annual review.**

- 6.6 Approval of Contract Extension for Bank of Ireland Asset Management.** The current three year Investment Management Agreement between the Board and Bank of Ireland Asset Management was scheduled to expire on June 30, 2003. In March 2003, the Board was in the midst of an Asset Liability Study and opined it best not to renew Investment Management Agreements until the conclusion of both this Study and the review of *SamCERA's* manager structure. The Board extended BIAM's Agreement until October 31, 2003.

The Asset Liability Study was concluded in July. The Manager Structure Review was initiated in August. It is likely that the review will not be concluded until late 2003 or early 2004. The Investment Management Agreement between the Board and the Bank of Ireland Asset Management is scheduled to expire on October 31, 2003. Staff recommends that the Board adopt the attached amendment extending the BIAM Agreement through April 30, 2004.

The Committee will recommend that the Board of Retirement approve the following contract extension:

**AMENDMENT TO  
THE INVESTMENT MANAGEMENT AGREEMENT  
BETWEEN  
BOARD OF RETIREMENT OF THE SAN MATEO COUNTY EMPLOYEES' RETIREMENT  
ASSOCIATION  
AND  
BANK OF IRELAND ASSET MANAGEMENT**

THIS AGREEMENT entered into this 23rd day of September 2003, by and between the San Mateo County Employees' Retirement Association (hereinafter "*SamCERA*") and Bank of Ireland Asset Management (herein after "Investment Manager"),

**W I T N E S S T H**

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**WHEREAS**, on June 30, 2000, the parties hereto entered into an agreement (hereinafter referred to as the "Original Agreement") for the furnishing of certain services by Investment Manager to *SamCERA* as set forth in that Original Agreement; and

**WHEREAS**, on March 25, 2003 the parties agreed to amend the Agreement to extend the termination date to October 31, 2003 (hereinafter referred to as the "Amended Agreement"); and

**WHEREAS**, it is now the mutual desire and intent of the parties hereto to amend that Amended Agreement;

NOW, THEREFORE, IT IS HEREBY AGREED between the parties that the Amended Agreement is amended as follows:

Section 11 AMENDMENT AND TERMINATION (b), is hereby amended to read as follows:

" Section 11 AMENDMENT AND TERMINATION

(b) This Agreement shall terminate on April 30, 2004 unless extended by mutual agreement or unless terminated by either party by giving written notice to the other party at least thirty (30) business days prior to the date of termination. The parties agree that the fiduciary duty and standard of care provisions set forth in Section 1 (b) shall survive the expiration or termination of this Agreement."

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that:

1. The amendment is hereby incorporated and made a part of the Original Agreement and subject to all provisions therein.
2. All other provisions of the Original Agreement shall be binding on all the parties hereto.

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that the Agreement of June 30, 2000 be amended accordingly.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have affixed their hand on the day and year first above written.

**Action: Motion by Mr. Bryan, second by Mr. Lewis, to recommend to the Board of Retirement that it extend the Investment Management Agreement between the Board of Retirement of San Mateo County Employees' Retirement Association and Bank of Ireland Asset Management until April 30, 2004.**

- 6.7 Adoption of Due Diligence Policy & Procedures.** The Committee briefly reviewed the manager monitoring section of the policy. The members then engaged in a discussion, which resulted in simplifying the sections of the policy, which address site visits. The scenarios under which site visits should occur are:

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1. Manager Searches - The top two finalists will be visited prior to offering an Agreement to the successful firm. When an occasion arises that only one, or more than two, finalists are to be visited the Board will approve via motion the variance from policy.
2. Extraordinary Events – From time to time an Investment Management Firm may experience an event that prompts the Board to visit the firm's headquarter or branch location(s).
3. Investment Consultant Scheduled Visit – *SamCERA's* Investment Consultant will inform the Board when it plans to visit one of *SamCERA's* Investment Managers. The Board will determine if it is appropriate to send a representative(s). The Board will respect the Investment Consultant's schedule. The consultant may find it inappropriate to commingle client visits or to schedule additional time for a *SamCERA* only visit.

The Committee discussed a fourth form of site visit. That is one were a *SamCERA* representative finds himself or herself in the proximity of an Investment Manager's Office at no additional cost to the Association. The representative's visit will be unofficial unless otherwise determined by the Board.

**Action: By consensus the Committee directed staff to retain the proactive manager monitoring sections of the policy and simplify the site visit sections to address the above desires.**

- 6.8 Review, Revision & Reaffirmation of Investment Committee Charter.** This item is held over until the due diligence policy is adopted.

**Action: No action is required.**

- 7.0 Other Business: None**

- 8.0 Adjournment:** There being no further business Ms. Colson adjourned the Committee at 12:35 P.M.