February 18, 2004 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 1:02 P.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 December 31, 2003
  6.3 Acceptance of SamCERA's Investment Manager Search Schedule
  6.4 Acceptance of Criteria to be Employed in SamCERA's International Equity Manager Searches
  ** 6.5 Selection of finalists for SamCERA's Domestic Equity Small Cap Value & Growth Manager Structure
  6.6 Acceptance of Deutsche Asset Management's Compliance Certification Statement
  6.7 Initiate Review of State Street Bank & Trust's Contract, Expiration Date 04/30/2004
7.0 Other Business
8.0 Adjournment

* *The Investment Committee will hear the entire report. An executive summary will be provided to the Board.*

** *The Investment Committee will review all semi-finalists in detail and make a recommendation to the Board. Finalist selection will be at the Board.*

MINUTES OF *SAMCERA'S* Investment Committee

1.0 Call to Order: Mr. Bryan called the Public Session of the Investment Committee of the Board of Retirement to order at 1:02 P.M February 18, 2004, 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:* Mr. McMahon *Staff:* Mr. Clifton and Mr. McCausland. *Consultant:* Ms. Jadallah and Mr. Thomas, *Public:* none *Retirees:* One (1:15)

3.0 Approval of the Minutes: The January 27, 2004 Investment Committee Minutes were unanimously approved.

Action: Motion by Ms. Colson, seconded by Mr. Buffington, 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 *SamCERA's* Total Fund Return outperformed its Policy Benchmark Return for the one-month (0.12%) and three-month (0.43%) periods ended 01/31/2004. The outperformance is attributed to Alpha provided by SamCERA's active investment managers. During the quarter, Bank of Ireland Asset Management added 1.79%, while Deutsche Asset Management added 0.34%. The Association's Fiscal Year to Date Fund Return is well ahead of the Actuarial Discount Rate (14.3% vs. 4.59%), but slightly behind the Policy Benchmark (13.34% vs. 14.79%). Over longer periods, 3, 4, 7, 5 years, the Association has consistently outperformed its Policy Benchmark.

Overall, January was a positive month for the markets. However, on January 28th the Federal Reserve policy maker decided to replace the oft-repeated phrase that monetary policy could be accommodative for a "considerable period" with a new stance, that they could "be patient" in deciding when to start raising interest rates. This statement caused the markets to end the month on a cautious note.

The table presented below shows the composite returns

January 31, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	$998,492,634	2.39%	9.63%	18.15%	40.14%
Equity Composite Benchmark		2.21%	9.26%	19.00%	42.01%
Variance		0.18%	0.37%	-0.85%	-1.87%
Fixed Income Aggregate	$382,975,616	0.91%	2.33%	4.74%	5.45%
Fixed Income Composite Benchmark		0.80%	2.07%	4.48%	4.85%
Variance		0.11%	0.26%	0.26%	0.60%
Real Estate Aggregate (1)	$57,975,855	0.20%	1.91%	2.76%	11.34%
NCREIF (one quarter lag)		0.00%	2.76%	4.78%	8.99%
Variance		0.20%	-0.85%	-2.02%	2.35%
Cash Aggregate	$3,155,708	0.22%	0.57%	1.13%	2.23%
91 Day Treasury Bill		0.08%	0.26%	0.52%	1.13%
Variance		0.14%	0.31%	0.61%	1.10%
Total Fund Returns	$1,442,599,812	1.89%	7.18%	13.50%	27.51%
Total Plan Policy Benchmark		1.67%	6.75%	13.82%	28.30%
Variance		0.22%	0.43%	-0.32%	-0.79%

The table below shows portfolio market values and target weightings versus actual allocations.

Asset Allocation As of 01/31/2004	Market Value	Allocation Current	Target	Percentage Off Target	Rebalance Range
BGI Russell 1000	$598,889,639	41.51%	40.00%	1.51%	±5%
BGI Russell 2000	$174,232,467	12.08%	10.00%	2.08%	±5%
BIAM	$225,370,528	15.62%	15.00%	0.62%	±5%
Total Equity	$998,492,634	69.21%	65.00%	4.21%	
BGI US Debt	$211,958,475	14.69%	16.00%	-1.31%	±3%
DAMI	$171,017,141	11.85%	13.00%	-1.15%	±3%
Total Fixed Income	$382,975,616	26.55%	29.00%	-2.45%	
Real Estate	$57,975,855	4.02%	6.00%	-1.98%	±2%
Cash	$3,155,708	0.22%	0.00%	0.22%	
Total	$1,442,599,812	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 December 31, 2003

Ms. Jadallah and Mr. Thomas presented SIS' quarterly performance report. Below is selected summary detail from Strategic Investment Solutions' Quarterly performance Report.

INVESTMENT PERFORMANCE SUMMARY

December 31, 2003

- The composite fund returned 9.2% in the fourth quarter of 2003 and ranked 23rd among other public funds greater than $100 million (median of 8.6%). The fund beat its policy index (9.1%) during this time period. Longer term, the three and five-year returns of 2.5% (54th percentile) and 4.1% (64th percentile), respectively, were below median among large public plans (2.8% and 4.5%).
- Fourth 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 12.2%), and matched its benchmark. The Russell 1000 Index had a return of 12.3%.
2. The BGI Russell 2000 Index Fund matched its benchmark, the Russell 2000 Index (14.5%), and ranked above the small cap equity manager median of 14.2%.
3. Deutsche Asset (0.6%) was ahead of the Lehman Aggregate Index (0.3%) and ranked 32nd among other core bond managers. Deutsche Asset's selective increase of utilities, telecom and auto BBB holdings and significant exposure to commercial mortgage-backed and asset backed securities were significant contributors to performance. The portfolio's overall lower exposure to lower quality investment grade corporate credits dampened performance. Deutsche Asset continues to carry a bias towards higher quality corporates.

- Fourth quarter results were hindered by the following factors:

1. Although it ranked in the top third among its peers (international equity managers' median of 15.6%), Bank of Ireland's quarterly return trailed its benchmark, the MSCI All Country World ex-US Free Index (16.5% vs. 17.1%). The portfolio lost relative value as Japanese (Canon) and Asian (Johnson Electric Holdings) companies were exposed to the sliding US dollar. However, European stocks were among the strongest performers, with a rebound in the large regional bank. ING Groep, ABN Amro Holdings, UBS, and Banco Santander fared well.
2. The BGI US Debt Index Fund (0.3%) matched its index, the Lehman Aggregate, but not the median core bond manager (0.4%). BGI ranked in the 58th percentile among its peers.
3. INVESCO Realty returned 2.0% for the quarter, lagging the NCREIF Index (2.8%) and ranking just below the median real estate investment. Three investments-- Boca Colony, Highland Bank, and Pacific Corporate Center—appreciated less than two percent during the quarter.

CAPITAL MARKET REVIEW: FOURTH QUARTER 2003

ECONOMIC REVIEW

- The trade deficit through November 2003 was $446.8 billion, 18.9% higher than the year-to-date total for the same period in 2002. Imports increased by 3.9%, while exports, aided by the weakening dollar, grew by 8.4%. In the fourth quarter the U.S. dollar weakened 4.0% against the yen (107.22), and 8.1% against the euro ($1.2595). For the year, the U.S. dollar weakened 10.8% against the yen and 20% against the euro. Industrial production advanced in each of the three months of the final quarter of 2003 and ended the year 2.3% higher than 2002.

- In the third quarter, GDP expanded at the impressive annualized rate of 8.2%. According to the preliminary report, GDP was up 4.0% in the fourth quarter. In December, the consumer price index was 1.9% higher year-over-year. Reported unemployment was 5.7% in December, down from 6.1% in September. Retail sales were flat in October, but rose 1.2% in November and 0.5% in December. Housing starts were 2.07 million units in November, higher than both September (1.93 million) and November of 2002 (1.76 million). Conventional 30-year residential mortgage rates averaged 5.73% at the end of December 2003.

EQUITY MARKETS REVIEW

- U.S. stocks continued their rally with the DJIA rising 13.4%, and the NASDAQ and the S&P 500 up 12.1% and 12.2%, respectively. All economic sectors had positive returns in the fourth quarter. The best-performing sector was materials (+23.1%). The worst performing sector in the fourth quarter was Utilities (+8.0%). For the year, Information Technology was the best-performing sector (+46.9%) and Communications performed worst (+7.1%).

- Value stocks outperformed growth stocks in the fourth quarter with the Russell 1000 Value adding 14.2% versus the Russell 1000 Growth's 10.4%; and the Russell 2000 Value adding 16.4% versus the Russell 2000 Value's 12.7%. Small cap stocks outperformed large cap stocks: for the quarter, the Russell 2000 Index returned 14.5%, while the Russell 1000 index returned 12.3%. Small stocks also outperformed large stocks for the year, with the Russell 2000 returning 47.3%, and the Russell 1000 returning 29.9%.

- International equity returns, exemplified by the MSCI EAFE index, were favorable for the third consecutive quarter. In local currency the EAFE rose 9.3% in the fourth quarter, while in U.S. dollars the EAFE rose 17.1%. The difference is attributable to the depreciation of the U.S. dollar during the quarter. Emerging markets remained strong, with the MSCI EMF index adding 17.8% and outpacing both the major U.S. and developed markets indices. The MSCI EMF Index has now performed better than the developed country MSCI EAFE index in 10 of the last 12 quarters.

FIXED INCOME MARKETS REVIEW

- The FOMC took no action in the fourth quarter. With signs of economic strength in the third quarter (including an 8.2% annual-rate expansion in gross domestic product and a 9.4% quarter-over-quarter gain in productivity), the yield curve rose in the fourth quarter. The upward shift was most pronounced in the intermediate range, with five-year to seven-year Treasury yields rising 42 basis points in the quarter. The two-year Treasury yield rose 36 basis points to 1.82%; the 10-year, 31 basis points to 4.25%; and the 30-year, 19 basis points to 5.07%.

- The Lehman Aggregate Index posted a 0.3% gain and the Citigroup World Government Bond Index (WGBI) gained 5.2% for the quarter. Lehman Mortgage Backed Index ended the quarter 0.9% higher. High yield corporates, as measured by the Lehman U.S. Corporate High Yield Index, rose 5.9%. Emerging Markets Debt, as measured by the J.P. Morgan Emerging Markets Bond Index, rose 4.7%. For the year the Lehman Aggregate Bond Index was up 4.1%, the Citigroup WGBI 14.9%, Lehman Mortgage Backed Index 3.1%, Lehman U.S. Corporate High Yield Index 29.0% and J.P. Morgan Emerging Markets Bond Index 26.0%.

REAL ESTATE MARKETS REVIEW

- The NAREIT Equity Index closed the year up a whopping 37.1%, which compares favorably with the Dow Jones (up 28.3%) and the S&P 500 (up 28.7%), but unfavorably with NASDAQ (up 50.8%). Dedicated real estate mutual fund assets under management as of 12/31/03 were $27.4 billion, compared to $15.3 billion at year-end 2002.

- The increases in REIT stock prices were astonishing when one considers that in 2003, real estate faced rising vacancies, falling rents and weaker operating results. One probable explanation for this situation is that capital flows were responsible for the strong NAREIT returns. These strong capital flows and poor operating results raise questions about REIT valuations going forward. Most REITs are trading at a premium; according to Green Street Advisors: equity REITs were trading at an average 9.2% premium to NAV.

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 September 30, 2003.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	9.17%	23	22.68%	43	2.48%	54
Policy Index	*9.08%*	*28*	*23.99%*	*26*	*2.06%*	*66*
BGI Russell 1000 Fund	12.26%	44	29.90%	40	-3.75%	51
Russell 1000 index	*12.26%*	*44*	*29.89%*	*40*	*-3.78%*	*51*
BGI Russell 2000 Fund	14.49%	48	46.79%	33	6.23%	57
Russell 2000 index	*14.52%*	*47*	*47.25%*	*31*	*6.27%*	*57*
BIAM	16.51%	31	30.50%	88	-4.09%	82
MSCI ACWI-ex US Index Free	*17.11%*	*22*	*41.41%*	*25*	*-0.96%*	*60*
BGI US Debt Index Fund	0.33%	58	4.22%	65	7.70%	56
Deutsche Asset Management	0.62%	32	5.03%	40	8.21%	29
Lehman Aggregate Index	*0.32%*	*62*	*4.11%*	*70*	*7.57%*	*62*
INVESCO	2.04%	52	11.67%	30	8.99%	30
NCREIF Index	*2.76%*	*38*	*8.99%*	*52*	*7.67%*	*42*
Cash Composite	0.47%	11	2.14%	12	3.07%	18
91 Day T-Bill Index	*0.26%*	*35*	*1.15%*	*40*	*2.44%*	*46*

Action: The Committee unanimously accepted the Strategic Investment Solutions' Quarterly Performance Report. The report in its entirety will be presented to the Board at the 02/24/ 2004 meeting.

6.3 Acceptance of SamCERA's Investment Manager Search Schedule

Mr. Clifton and Ms. Jadallah presented the proposed Manager search schedule. The schedule is similar to that of prior searches conducted by *SamCERA* or its Investment Consultant. It is a three month process. In the first month the Consultant provides the criteria for that particular asset mandate. The second month the Consultant provides a list of semi-finalists with products that meet the criteria and the Board will determine the candidates that should be interviewed. In the third month the finalists will be interviewed.

Mr. Buffington and Mr. Lewis stated there was a substantial amount of material to review for this month's small cap growth and value mandates. They did not have adequate time to review the material and wished to move the entire schedule back by one month. • The Committee expressed concern about the placement of the international search. After a brief discussion, it was agreed that quality small cap managers are reaching capacity and closing their product. The small cap searches would remain top priority followed by international equity, enhanced domestic equity, fixed income and real estate.

The approved schedule appears below:

March meeting –

- Review revised Small Cap Value and Small Cap Growth semifinalist client books and updated questionnaire responses
- Determine International Equity manager search criteria for core-growth and core-value searches
- Consider extension of Bank of Ireland Asset Management's Investment Agreement
- Review Real Estate Core Fund Private Placement Documents

April meeting –

- Interview up to three Small Cap Value and up to three Small Cap Growth candidates
- Review International Equity semifinalist client books and updated questionnaire responses
- Review INVESCO's Core Real Estate Fund and provide direction on the Real Estate Mandate.

May meeting –

- Interview up to three core-growth International Equity and up to three core-value International Equity candidates
- Review revised Enhanced Small Cap and Large Cap semifinalist client books and updated questionnaire responses

June meeting –
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- Interview up to three Enhanced Small Cap and up to three Enhanced Large Cap candidates
- Determine Core Plus fixed income manager search criteria

July meeting –

- Review Core Plus fixed income semifinalist client books and updated questionnaire responses

August meeting –

- Interview up to three Core Plus fixed income candidates

This schedule is very aggressive, especially if the Board intends to perform on-site due diligence visit(s) pursuant to its policy. During the due diligence policy deliberations, The Board expressed the belief that the most important time for due diligence is at the time of hiring. Therefore, an on-site visit during the investment manager search process is the first of three scenarios under which on-site visits may occur. In relation to manager searches the policy states, "*The top two finalists will be visited prior to offering an Agreement to the successful firm. When occasions demand that only one, or more than two, finalists are to be visited, the Board will approve, via motion, the variance from policy.*" What is unclear is whether the onsite due diligence visits should occur prior to the interviews or after a single finalist is selected. • The Committee expressed a desire to only perform due diligence on the finalist. The runner-up would be visited only if a grave concern surfaces during the on-site visit to the finalist. • Should the finalist be visited, those visits would occur as follows: Small Cap Value and Small Cap Growth on-sites in May, International Equity (core-growth and core-value) on-sites in June, Enhanced Small and Large Cap on-sites in July, and Core Plus bond on-sites in August.

Action: Motion by Mr. Buffington, second by Mr. Lewis, to recommend to the Board of Retirement that it approve the manager search schedule as represented above, which in part calls for manager interviews as follows: Small Cap Growth & Value Managers in April, Consideration on a Core Real Estate Fund in April, International Core Growth & Core Value Managers in May, Enhanced Domestic Equity Managers in June, and Domestic Fixed Income Core Plus Manager in August.

6.4 Acceptance of Criteria to be Employed in *SamCERA's* International Equity Manager Searches.

Under the previous agenda item the Committee set a schedule that pushes all manager search agenda items back one month. This item will be placed on the March, 2004 Agenda.

Action: By consensus the Committee instructed staff to place the criteria for international manager searches on the agenda for March, 2004.

6.5 Selection of finalists for *SamCERA's* Domestic Equity Small Cap Value & Growth Manager Structure. At the November, 2003 Board meeting, the Board opined to begin implementation of the manager search process. Strategic Investment Solutions was asked to provide six or fewer semi-finalists in all search categories. Strategic Investment Solutions' representatives, Margaret Jadallah, & Patrick Thomas, presented the semifinalists in Small Cap Growth and Small Cap value. The goal of the presentation was to select two managers in each category to be invited to interview before the Board.

Earlier in the Agenda (Item 6.3), Mr. Buffington stated he did not have adequate time to review the substantial review materials, including manager responses to the questionnaire. Mr. Lewis concurred and the Committee agreed to postpone the in-depth review and selection of finalists until March, 2004. Strategic Investment Solutions was asked to provide a brief review of the Small Cap Growth screening steps and the qualitative and quantitative pros and cons.

Mr. Thomas reviewed the screening steps. The first screen was for the Universe of all Institutional Small Cap Growth Products, 351 products. These candidates come from the Plan Sponsor Network (PSN) or Mobius data bases, which are the benchmark data bases for all products is the Institutional Market. If for some reason the product is not listed in either data base, SIS may add back some products so the whole universe is available to *SamCERA*. • The next screen is a minimum of 3-year track records. This is a difficult asset class and *SamCERA* must make a determination as to where to cut off the minimum track record. The consensus was that three years is the appropriate time frame. There are 214 products that comply with that screen. • The next two screens are performance related. In order for the product to pass these screens, it must beat the index and the median manager for the periods of 3, 5, and 7 years; or over the periods for which it has records. Over the time periods 115 products beat the benchmark and median manager. • The product must have at least $100 million under management and be open to new business. This screen left 59 products. • SIS next added back two quantitatively sound products that agreed to reopen for *SamCERA's* search. • Return-based style screens are employed to confirm Small Cap Growth style. Thirty products passed this screen. • Qualitative screens exclude managers with a micro cap or small/mid bias, organizational concerns, retail or wrap business focus, very high tracking error, sub-advisory or fund of funds products, and poor relative performance. In response to a question from the audience, Mr. Thomas explained that a wrap program involves retail clientele where sell side houses provide clients with a full investment service for a specific fee. Institutional managers participate in the products available.. This last screen reduced the product list to five. • Mr. Thomas reminded the Committee that last month SIS brought forward a manager with a small-mid cap product, which used a Russell 2500 Growth Index for the product benchmark. The Committee asked SIS to eliminate that manager, bringing to four the short list of products. • The four managers on the short list are: Chartwell Investment Partners, Next Century Growth Investors, Wellington Management Company, and Westcap Investors.

The Committee opined that it did not wish to spend as much time reviewing the Small Cap Value products as it did with the Small Cap Growth products. The Committee will discuss the value products in detail at the March meeting. Ms. Jadallah provided a brief summary of the following five managers: American Century Investment Management; Brandes Investment; Donald Smith & Company; Osprey Partners Investment Management; and Thompson Siegel & Walmsley.

Action: By consensus the Committee instructed staff to place the selection of finalists for *SamCERA's* Domestic Equity Small Cap Value & Growth Manager Structure on the agenda for the March, 2004 meeting.

6.6 Acceptance of Deutsche Asset Management's Compliance Certification Statement

Mr. Clifton reminded the committee that *SamCERA's* Compliance Certification Statement and review questions are only a part of *SamCERA's* due diligence. The Due Diligence Policy states as its purpose *"To discharge the fiduciary responsibilities of the Board of Retirement and staff, regular due diligence with the San Mateo County Employees' Retirement Association investment managers and real estate properties are essential to the Board of Retirement's ability to effectively monitor the performance of its* *investment professionals and to the prudent discharge of the Board's fiduciary duty to the beneficiaries of this multi-million dollar retirement system."* *SamCERA* monitors investment manager performance through monthly and quarterly reports. Additional qualitative information is provided semi-annually via review questions and a Compliance Certification Statement, which the managers are required to submit. Annually, the Board of Retirement invites the investment manager in for an interview.

Mr. Clifton noted that in DAMI's response to *SamCERA's* questionnaire they make the following representations;

1) Dave Baldt, the architect of the fixed income product left the firm in October of 2003. Mr. Baldt's responsibilities prior to leaving were exclusively related to tax-exempt fixed income. Mr. Gary Bartlett assumed the role of Chief Investment Officer.
2) Deutsche Asset Management (DeAM) as one of 88 mutual fund complexes and 34 broker-dealers identified in connection with the industry-wide market timing and late trading inquires is providing regulators with detailed information.
3) In August, 2003 DeAM settled a matter with the SEC concerning proxy voting in the Hewlett-Packard/Compaq merger. The SEC's Order censured DeAM and imposed a civil penalty of $750,000.
4) They have recently been named in a class action suit related to the mutual fund trading.
5) In response to the state of DAMI's mission critical systems, DAMI stated it anticipates migrating the fixed income portfolios off the Shaw accounting system and onto PIMS accounting system in 2004.
6) In response to DAMI's investable universe they state that *SamCERA's* portfolio holds 77.45% non-indexed securities as of 12/31/2003. The Lehman Aggregate does not hold CMOs, municipal bonds, mortgage TBAs or 144a securities. DAMI does not differentiate between index-eligible and non-eligible securities in their security selection process.
7) DAMI expects business growth of 105-15% in line with the anticipated growth of the fixed income market.

Action: By consensus the Committee accepted Deutsche Asset Management's Compliance Certification Statement and response to *SamCERA's* questionnaire.

6.7 Initiate Review of State Street Bank & Trust's Contract, Expiration Date 04/30/2004.

Mr. Clifton reported that State Street has a reputation as a high quality Custodian and has consistently ranked in the top three in any competitive assessment of Custodians over the last nine years. The current Agreement between the Board and SSB expires on April 30, 2004. Staff is pleased with the level of service received from State Street and wishes authority to begin negotiation on the renewal of their contract. Staff believes that a reasonable estimate of the median custody fee level currently paid by public funds of S*amCERA's* size is approximately 1.5 to 2.0 basis points of total assets. *SamCERA* currently pays approximately 1.0 basis point of total assets. That fee includes both custodial and performance services. Mr. Lewis asked how staff will be assured that the pricing is fair.

Staff wishes to put the new Agreement in place before *SamCERA* begins transitioning assets to the new investment manager. It would be extremely difficult and risky for a Plan Sponsor to transition assets between Custodians at the same time that it is transitioning assets to new managers.

Action: By consensus the Committee instructed staff to begin negotiations aimed toward renewal of the Custodian Agreement between the Board and State Street. Staff will present the results of the negotiations at the March, 2004 meeting.

7.0 Other Business: None

8.0 Adjournment: There being no further business Mr. Bryan adjourned the Committee at 3:40 P.M.