

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

March 23, 2004 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:00 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 Criteria to be Employed in SamCERA's International Equity Manager Searches
 - * 6.3 Selection of finalists for SamCERA's Domestic Equity Small Cap Value & Growth Manager Structure
 - 6.4 Approval of Transition Management Strategy
 - 6.5 Acceptance of SamCERA's Standard Investment Manager Agreement
 - 6.6 Acceptance of Bank of Ireland Asset Management's Contract Extension
 - 6.7 Acceptance of State Street Bank & Trust's Contract Renewal
 - 6.8 Acceptance of Deutsche Asset Management, Inc.'s Contract Renewal
 - 6.9 Acceptance of INVESCO Realty Advisor's Compliance Certification Statement
 - 6.10 Approval of Written Consents of Sole Stockholder/Shareholder in Lieu of Annual Meeting
- 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 10:00 A.M March 23, 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, Ms Salas, and Ms. Tashman *Alternate Board Member:* Ms. Arnott *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 February 18, 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

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6.1 Acceptance of Monthly Portfolio Performance. Mr. Clifton reported that for the period ended 02/29/2004, *SamCERA's* fiscal year to date return is 15.88%. The returns for the one (1.34%), three (7.00%) and six (13.12%) month periods exceed the actuarial interest rate in each of the periods. Domestic Small Cap (63.87%), Large Cap (39.70%) and International Equity (50.02%) all had excellent absolute returns for the trailing twelve months. As an aggregate *SamCERA's* equity return for the twelve months is 45.54%. On February 29 the Real Estate Allocation is 4.0% of assets. That is the low end of the real estate rebalancing band and dropping below that level should trigger rebalancing. However, while the Board is conducting its manager structure review, the real estate allocation will be allowed to move below the band without being rebalanced.

On the economic front during February, macroeconomic data clearly fell short of market expectations this past month. Leading indicators took a step back. The four-week moving average of initial jobless claims increased, confidence measures dropped and housing starts declined. With the Fed focused on slack in the economy, capacity utilization has become rather important. This measure has been increasing at a disappointing pace and, at 76.2% remains well below its long-term average of approximately 82%. The message from Chairman Greenspan and others at the Fed continues to be accommodative and one would expect this policy to remain in place. Core CPI inflation remains at 1.1% for the third month in a row. History suggests that inflation is far more important than budget deficits in determining market interest rates with the election we are likely to hear much more about budget deficits and employment in the months ahead. If the debate makes consumers more worried and cautious, investors could start to question the sustainability of this recovery.

The table presented below shows the composite returns

February 29, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,008,027,325	1.46%	8.93%	17.28%	45.54%
Equity Composite Benchmark		1.58%	9.03%	17.76%	47.02%
Variance		-0.12%	-0.10%	-0.48%	-1.48%
Fixed Income Aggregate	\$387,380,964	1.15%	3.10%	5.26%	5.19%
Fixed Income Composite Benchmark		1.08%	2.93%	4.92%	4.53%
Variance		0.07%	0.17%	0.34%	0.66%
Real Estate Aggregate (2)	\$58,266,495	0.74%	2.40%	2.91%	11.37%
NCREIF (one quarter lag)		0.00%	2.76%	4.78%	8.99%
Variance		0.74%	-0.36%	-1.87%	2.38%
Cash Aggregate	\$3,043,890	0.19%	0.61%	1.13%	2.30%
91 Day Treasury Bill		0.07%	0.25%	0.51%	1.12%
Variance		0.12%	0.36%	0.62%	1.18%
Total Fund Returns	\$1,456,718,674	1.34%	7.00%	13.12%	30.46%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.08%
Variance		0.70%	5.06%	9.20%	22.38%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		1.34%	7.00%	13.12%	30.46%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.08%
Variance		0.70%	5.06%	9.20%	22.38%

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

Asset Allocation As of 02/29/2004	Market Value	Allocation Current	Target	Percentage Off Target	Rebalance Range
Barclays Global Investors Russell 1000	\$607,187,551	41.68%	40.00%	1.68%	±5%
Barclays Global Investors Russell 2000	\$170,891,780	11.73%	10.00%	1.73%	±5%
Bank of Ireland Asset Management	\$229,947,994	15.79%	15.00%	0.79%	±5%
Total Equity	\$1,008,027,325	69.20%	65.00%	4.20%	
Barclays Global Investors US Debt	\$214,266,361	14.71%	16.00%	-1.29%	±3%
Deutsche Asset Management, Inc.	\$173,114,603	11.88%	13.00%	-1.12%	±3%
Total Fixed Income	\$387,380,964	26.59%	29.00%	-2.41%	
INVESCO Realty Advisors	\$58,266,495	4.00%	6.00%	-2.00%	±2%
Cash	\$3,043,890	0.21%	0.00%	0.21%	
Barclays Global Investors Russell 1000	\$607,187,551	41.68%	100.00%		

Ms. Colson asked if *SamCERA's* individual equity portfolios could each near the top of the 5.0% rebalancing range without triggering a rebalancing for the asset class. Mr. Clifton responded that *SamCERA's Investment Plan* also specifies a ±5% rebalancing range for equity as an asset class. If the asset class exceeded 5.0% it would trigger a rebalancing. Mr. Clifton noted that at the completion of the manager search process the *Investment Plan* will be reviewed. It should be amended to incorporate all recent changes resulting from the asset liability study, manager structure review, and manager search process. The current rebalancing policy will be reviewed at that time, probably September or October of 2004.

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 Criteria to be Employed in SamCERA's International Equity Manager Searches

Margaret Jadallah presented the draft criteria and screening steps for *SamCERA's* International Equity Search. Ms. Colson noted that there was not specific mention of an ability to manage Emerging Markets, which *SamCERA's* benchmark requires. Mr. Thomas stated that typically is included in the seventh criteria. It will be clearly stated under that item. The criteria as approved by the Investment Committee is:

1. Create starting universe of all International Equity managers.
2. Minimum 5-year track record.
3. Pass half available performance screens (3,5,7 and 10 yrs.) versus MSCI ACWI –ex US Index and median International Equity manager.
4. At least \$500 million in product assets (so SamCERA would be maximum of 20% of product assets).
5. Product open to new business.

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6. Run return-based style screen and divide managers into Core-Growth and Core-Value styles based on a minimum 60% plotting to the MSCI Growth and Value indexes, respectively.
7. Initial qualitative cuts due to extreme style leanings, very high tracking error, low information ratios/relative performance, organizational instability, significant personnel turnover, unethical behavior, lack of institutional focus, inability to manage Emerging Markets, etc.

Mr. Lewis requested that when Strategic Investment Solutions provides the manager write-ups a section on currency should be included. The Committee would like to know the manager's currency strategy.

Action: By consensus the Investment Committee will recommend to the Board of Retirement that it adopt the international equity search criteria as reviewed and approved by Committee.

- 6.3 Selection of finalists for SamCERA's Domestic Equity Small Cap Value & Growth Manager Structure** Ms. Jadallah initiated the presentation of the Small Cap Value Managers remaining in the search process by asking the Committee if it had time to review the manager's responses to the questionnaires, and the review booklets prepared by Strategic Investment Solutions. ● At Mr. Bryan's request, the Committee affirmed that in each manager search they would try to arrive at two finalists that would be interviewed by the Board. ● Since the Committee had reviewed all of the resource materials, Ms. Jadallah stated she would discuss the managers in alphabetical order using the summary materials. Ms. Jadallah, Mr. Thomas and the Investment Committee discussed the following pros and cons for the Small Cap Value Managers.

American Century Investment Management

Pros

- Systematic, disciplined approach that utilizes fundamental research
- Some employee ownership and a strong strategic partner (JP Morgan)

Cons

- Use S&P/BARRA Value benchmark
 - Primarily mutual fund assets
- One portfolio manager Todd Vingers left in June 2002, and the dedicated analysts are fairly new additions

Brandes Investment Partners

Pros

- 100% employee-owned with broad ownership
- Commitment to value approach throughout equity products
- Will close product at low asset level (\$800 million)
- Large equity research staff of 21 with global industry coverage across capitalization spectrum

Cons

- Deep value approach can lead to lumpy return patterns
- Noteworthy portfolio manager and analyst turnover in 2003
- Small assets in the composite until 2002

Donald Smith & Company

Pros

- 100% employee-owned
- Deep value orientation, concentrated portfolio of best ideas
- Strong fundamental research orientation
- Performance overall has been solid even with tough period for style in 1999

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Cons

- Most of assets with one separate account client, composite assets very low prior to year 2003
- No institutional clientele, no growth in assets prior to 2003?
- Manager believes that it can manage \$2.8 billion in this concentrated small value strategy

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Osprey Partners Investment Management

Pros

- 100% employee owned, widely distributed among 20 employees
- Team with institutional background and market focus starting over with own firm, small assets
- Strong fundamental research focus
- Will close product at \$750 million in assets, small current asset base of \$400 million

Cons

- Fairly young firm that has experienced some growing pains – Director of Research left firm in the year 2002
- Flagship Large Cap Value product has produced uneven performance
- Management team left an organization (Fox) in the past, will they again?
- Composite assets very low prior to year 2002

Thompson Siegel & Walmsley

Pros

- Disciplined and systematic investment methodology
- Low risk on a relative basis (tracking error to the benchmark)
- Low base of assets

Cons

- 100% owned by Old Mutual – no employee ownership
- Rapid account growth since 2002

Mr. Bryan opened the floor to discussion regarding the selection of two finalists for the small cap value mandate. ● Ms. Colson stated that she classified American Century and Thompson Siegel as being more benchmark driven, while Brandes and Donald Smith are more concentrated. She would like to see one of each style come in for an interview. She also stated that soft dollars seem to be an issue. She would be willing to eliminate Osprey based on their use of soft dollars. Mr. Lewis was also concerned with the length that the team has been with the product. **By consensus the Committee agreed to eliminate Osprey partners Investment Management.** ● Mr. Buffington offered that using those criteria he preferred American Century and Brandes. Ms. Colson concurred. ● Mr. Lewis concurred on American century, but also like Donald Smith and did not prefer Brandes. ● Mr. Bryan thought American Century was a strong candidate. He also liked Brandes and would be comfortable with them managing assets in this asset class. ● **By consensus the Committee agreed to recommend to the Board of retirement that American Century Investment Management and Brandes Investment Partners be invited in as finalists for the small cap value mandate.**

Ms. Jadallah, Mr. Thomas and the Investment Committee discussed the following pros and cons for the Small Cap Growth Managers.

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Chartwell Investment Partners

Pros

- Product closed at reasonable asset level – open for SIS client

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- Good ownership structure – 77% owned by active employees
- Excellent return history without large Technology Sector overweight
- Good risk control – lowest tracking error to the Russell 200 Growth benchmark
- Ed Antoian veteran small growth investor; success over several market cycles

Cons

- Other Chartwell products have not performed well in recent years
- Chartwell team left predecessor firm, Delaware
- Lowest longer-term excess returns among candidates

Next Century Growth Investors

Pros

- Boutique firm exclusively focused on small and small-mid growth equities
- Product closed at low asset level – open for SIS client
- Good ownership structure – 80% owned by active employees
- Simple investment philosophy and transparent process implementation
- Tom Press veteran small growth investor; success over several market cycles

Cons

- Mostly superior performance history contains significant flaw in 2001
- Back office and trading until recently outsourced to Strong Capital Management
- Currently 20% owned by Strong Capital Management
- NCG in process of repurchasing Strong stake - some uncertainty in the short term regarding ownership

Wellington Management Company

Pros

- Deep research organization with large staff of analysts
- Good performance over post bubble period in small cap growth
- Strong and stable organization – 100% employee ownership and low personnel turnover

Cons

- Small Cap Growth effort a relatively small part of a large organization
- Small Cap Growth product one of three Wellington offerings in the asset class
- Organization has placed its interest ahead of clients in the past (Schneider incident)
- Consistently high portfolio turnover
- High level of assets

Westcap Investors

Pros

- Good ownership structure – 80% employee-owned
- Good performance over post bubble period
- Best risk-adjusted returns of group – best returns during post bubble down market

Cons

- Manager tends to perform best in falling market and lags in up market
- Westcap open to new accounts for many years without gaining assets
- Firm composite held limited assets prior to year 2000

Mr. Buffing proposed eliminating Wellington Management Company because of their use of soft dollars. He also noted that they manage two billion in assets, however, they sub advise for an additional one billion dollars. Finally he noted that SIS indicated Wellington does not always provide complete attention to client need. **By consensus the Committee agreed to eliminate Wellington Management Company.** ● Mr. Buffington then addressed the fact that Westcap Investors employed 30% of its

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commissions in soft dollars. They also have many side agreements with Schwab in the WRAP programs.

● Ms. Colson noted that Westcap is partially owned by CALPERS. She is concerned that should CALPERS continue with its corporate governance issues. They may influence Westcap and as a result unintentionally impact *SamCERA's* investment decisions. **By Consensus the Committee agreed to eliminate Westcap Investors.**

Action: By consensus the Committee agreed to recommend to the Board of Retirement that American Century Investment Management and Brandes Investment Partners be invited in as finalists for the small cap value mandate. By consensus the Committee agreed to recommend to the Board of Retirement that Chartwell Investment Partners and Next Century growth Investors be invited in as finalists for the small cap growth mandate.

- 6.4 Approval of Transition Management Strategy.** Mr. Clifton reported that the Board of Retirement is nearing the end of its study on manager structure. As a result of the study, the Board concluded that changing portfolio structure and hiring additional managers in all asset allocations could increase the Plan Portfolio's Alpha. To that end the Investment Committee and the Board are currently conducting investment manager searches. As investment managers are hired, *SamCERA* will move, or transition, assets from the legacy portfolios (current managers) to the target portfolios (new managers). Hiring a Transition Manager should facilitate the movement of assets.

Strategic Investment Solutions provided an overview of the transition process They offered the following consideration when considering transition management: (i) How to administer the process in a timely and efficient fashion, (ii) How to minimize/eliminate real explicit costs (commissions) and implicit costs (market impact), (iii) How to ensure best execution and maintain market exposure, (iv) How to build new portfolios in the lowest cost and most timely fashion, (v) How to manage, track and measure the results.

The basis steps for transition management are: Step 1: Communication with the Client, Custodian and Managers to gather information about the transition Step 2: Determine an appropriate strategy for transitioning the assets Step 3: In kind transfers – compare legacy to target portfolio and transfer securities in common Step 4: Trade remaining securities Step 5: Make sure trades settle Step 6: Hand over assets to the new manager(s) Step 7: Post Transition Reporting reviewed with Client

A transition manager should act as a fiduciary and should make risk management priority number one. A single point of management mitigates risk. Strategic Investment Solutions highly recommends that *SamCERA* hire a firm that will take fiduciary responsibility to help the Association move assets from the legacy portfolios to the target portfolios.

During the Committees discussion of transition management, they noted that two of *SamCERA's* current service providers, Barclays Global Investors and State Street Bank & Trust are leader in transition management. Both are already under contract and act as fiduciaries. Both would use the corpus of the existing contract with a side letter to provide the transition services. The Committee wishes staff to ask both providers to bid on the transition business as dictated by the manager search process.

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

- 6.5 Acceptance of *SamCERA's* Standard Investment Manager Agreement.** Mr. Clifton noted that the

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Board has been engaged in a study of the Association's manager structure. The board opined that it should include fifty percent active management in the Domestic Small Cap Equity Allocation. The Board intends to select finalists in each investment style and will invite them to interview with the Board next month. Staff wishes to forward *SamCERA's* Standard Small Cap Agreement to the finalists prior to their interviews. The Investment Manager should review the Agreement and notify the Board of any language that is unacceptable. If revisions are not requested, the Investment Manager will be expected to sign the Standard Agreement.

Action: By consensus the Committee will recommend that the Board instruct staff to forward *SamCERA's* Standard Investment Manager Agreement to finalists in the manager search process prior to them coming in for an interview. Instructions will be given to the Manager to note in the interview process any language which they wish to amend.

- 6.6 Acceptance of Bank of Ireland Asset Management's Contract Extension** 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. In April 2003 the Board extended BIAM's Agreement for six months until October 31, 2003. In September 2003 the agreement was extended through April 30, 2004 to allow for completion of the manager structure study and selection of investment managers. It is likely that the study will not be completed until mid summer or early fall. Staff recommended that the Board adopt the following amendment, which extends the BIAM Agreement through October 31, 2004.

**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 March 2004, 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

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

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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, on September 23, 2003 the parties agreed to amend the Agreement to extend the termination date to April 30, 2004 (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 October 31, 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 Ms. Colson, second by Mr. Buffington passed unanimously to recommend to the Board to adopt the amendment extending Bank of Ireland Asset Management's Agreement until October 31, 2004.

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- 6.7 Acceptance of State Street Bank & Trust's Contract Renewal.** Mr. Clifton reported that last month the Board authorized him to begin negotiations with State Street Bank & Trust to renew the service agreement for Global Custodian. He met with State Street to discuss service levels and fee structure. It was agreed that the service levels would remain the same or improve as enhancements were implemented by State Street while the fee structure put in place in 1999 would remain in affect. The annual proposed custodial fee is \$65,000 based on *SamCERA* not participating in a Security Lending Program. In addition, *SamCERA* will purchase performance services for an additional \$55,000. The custodial and performance inclusive cost is \$120,000 per annum. This represents approximately 0.8 basis points of total assets. Staff believes that a reasonable estimate of the median custody fee level currently paid by public funds of *SamCERA*'s size is approximately 1.5 to 2.0 basis points of total assets. State Street reports that the recent increases in the CPI, which have been in the 1.0% to 2.5% range, do not reflect the actual increase in their cost of operations. Therefore, SSB requests the inclusion of an operational cost escalator of 5.0%

Mr. Buffington stated that he recognizes the San Mateo County Fixed Income Portfolio is not as complicated and may not have the same amount of transactions as *SamCERA*'s, but that portfolio is twice as large (\$2.297 billion vs. \$1.457 billion as of 2/29/2004) and The County pays \$3,000 a year for service. Mr. Buffington made some inquiries and *SamCERA*'s fee is appropriate for Retirement Systems but that may be because Retirement Systems do not negotiate as hard as they could. ● Ms. Colson questioned the 5.0% escalator. She notes that compared to other *SamCERA* contracts that seems high. She would like to see staff go back to State Street with a proposal to that provides for an escalator, which would be the lower of the Bay Area Consumer Price Index or 3.0%.

Action: By consensus the Committee will recommend that the Board of Retirement approval of the five year extension to the State Street Agreement subject to approval of an escalator that is the lower of the Bay Area Consumer Price Index or 3.0%.

- 6.8 Acceptance of Deutsche Asset Management, Inc.'s Contract Renewal.** Mr. Clifton provided a brief history of *SamCERA*'s relationship with Deutsche Asset Management.

In February of 1995 Deutsche Asset Management Services Limited (DeAM) then known as Morgan Grenfell Investment Services Limited was selected to manage *SamCERA*'s \$50 million Global Fixed Income Portfolio. The Board increased DeAM's funds under management by \$50 million in June of 1996 and the management mandate was change to 70% Domestic (Lehman Aggregate Bond Index) and 30% International (Salomon Non-US World Govt. Unhedged). The Board renewed the original Agreement on April 28, 1998. The manager structure was revised by the Board on April 25, 2000. In a letter dated June 1, 2000, the San Mateo County Employees Retirement Association permitted Deutsche Asset Management Investment Services Ltd. "DeAM" to appoint Deutsche Asset Management, Inc. ("DAMI") to manage a portion of the account. That sub-delegation has been written into the Agreement. At that time the International Fixed Income mandate was eliminated and DeAM was instructed to invest assets under its management as a domestic core fixed income portfolio. Following that decision, the Board renewed its Agreement with Deutsche Asset Management for three years beginning on March 31, 2001, opining to sign the Agreement with Deutsche Asset Management, Inc. (DAMI), which is the United States subsidiary of DeAM.

County Counsel has reviewed and approved the DAMI Agreement and the resolution adopting the Agreement.

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 03-04-12

*THIS RESOLUTION, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA), approves
the contract between the Board and Deutsche Asset Management, Inc. (DAMI)*

WHEREAS, Article XVI, §17 of the Constitution of the State of California vests the Board with "*plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system*"; and

WHEREAS, Government Code §31595 vests in the Board ". . . *exclusive control of the investment of the employees retirement fund.*"; and

WHEREAS, Government Code §31596.1 (d) authorizes the Board to retain investment managers ". . . *in connection with administration of the Board's investment program . . .*"; and

WHEREAS, on February 23, 1995, the Board reviewed proposals and interviewed representatives from five firms proposing to perform fixed income investment management services for the Board, and the Board selected the firm of Deutsche Asset Management Investment Services (*DeAM*) then known as Morgan Grenfell Investment Services Limited (MGIS); and

WHEREAS, Board Resolution 94-95-25 approved the contract between the Board and DeAM for an initial term of three-years, effective March 31, 1995, and Board Resolution 97-98-19 extended the Agreement for an additional three-year term, effective April 28, 1998; and

WHEREAS, on June 1, 2000 the Board executed a letter of sub-delegation that permits Deutsche Asset Management Investment Services Ltd. to appoint Deutsche Asset Management, Inc.(DAMI) to manage a portion of the San Mateo County Employees' Retirement Association account; and

WHEREAS, Board Resolution 00-01-04 approved the contract extension between the Board and DAMI for a term of three-years, effective March 31, 2001; and

WHEREAS, the contract has been approved by County Counsel as to form and the Investment and Finance Manager has recommended approval of the contract. Therefore, be it

RESOLVED that the Board hereby approves the contract between the Board, Deutsche Asset Management, Inc. (DAMI) for a term of three years, cancelable by either party on thirty days notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Investment Managers to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the contract, the *Investment Plan* (as incorporated into the contract), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

RESOLVED that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

RESOLVED that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further

RESOLVED that the Board hereby designates the Chief Executive Officer as its designee to perform those functions so identified in the contract and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.

Action: Motion by Ms. Colson, second by Mr. Buffington passed unanimously to recommend to the Board to adopt a Resolution extending Deutsche Asset Management's Agreement for three years until March 31, 2007.

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- 6.9 Acceptance of INVESCO Realty Advisor's Compliance Certification Statement.** As part of *SamCERA's* ongoing due-diligence, Investment Managers are asked, on a semi-annual basis, to respond to a questionnaire and to complete a Compliance Certification Statement (CCS). The questionnaire is fairly generic with certain questions adapted to the manager's investment mandate. The questions are designed to gain insight into the Investment Manager's organization, performance, investment strategy & process, and its outlook on certain subjects. *SamCERA* tailors its CCS toward the manager's investment mandate. It then asks specific questions related to the governance of that mandate in accordance with *SamCERA's Investment Plan*.

The Committee reviewed the Compliance Certification and responses to the questionnaire. There were no issues that stood out for further review.

Action: By consensus the Committee accepted the Compliance Certification Statement and INVESCO's response to the questionnaire. The Committee will recommend to the Board of Retirement that it accept the semi-annual due diligence documents.

- 6.10 Approval of Written Consents of Sole Stockholder/Shareholder in Lieu of Annual Meeting.** Mr. Clifton reported that this item is a house keeping issue. Bob Stein, *SamCERA's* Real Estate Counsel, advises the Board that the marginal cost of establishing a corporation such as the annual tax filings and corporate minutes is well spent when considering that it insulates each of the assets in the portfolio should a catastrophic loss or liability occur at any other asset. The Retirement Board appoints INVESCO's officers to serve as officers and directors of the 501(c) 25 holding companies. Their appointment facilitates a smooth property level workflow.

Pursuant to provisions of the California General Corporation Law *SamCERA*, being a sole shareholder has certain responsibilities. Those responsibilities include but are not limited to convening an annual meeting and maintaining a corporate minute book. The *Written Consent of Sole Shareholder in Lieu of Annual Meeting* and *Written Consent of Directors in Lieu of Annual Meeting* specify actions that shall constitute valid corporate action on behalf of the Company and shall have the same force and effect as if such action had been authorized and taken at a formal meeting.

The California Corporation Written Consent of Shareholders elects David Ridley and David Farmer as Directors of the Corporation and directs the appropriate officer of the "Company" to file the Written Consent in the minutes book of the Company. A representative of the Board of Retirement executes this document.

The California Corporation Written Consent of Directors is executed by David A. Riley and David N. Farmer as Directors of the Corporation and filed with the corporate minutes. The Directors Written Consent adopts resolutions, which elect Officers of the Corporation and note "that all actions taken for and on behalf of the Corporation by the Officers of the Corporation prior to the date of this Consent be, and such actions are, in all respects ratified, confirmed and approved."

SamCERA is the single shareholder of six corporations. Staff recommends that the Chair be authorized to sign a Shareholders Written Consent for each corporation. Those Consents will be forwarded to INVESCO to be recorded in the book of minutes for those corporations.

Action: By consensus the Committee will recommend to the Board of Retirement that it authorize the Board Chair to execute the California Corporation Written Consent of Shareholder.

- 7.0 Other Business: None**

- 8.0 Adjournment:** There being no further business Mr. Bryan adjourned the Committee at 11:40 A.M.