

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

April 26, 2004 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 9:02 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 Selection of Domestic Equity Small Cap Value Managers (*Special Order at 9:15 a.m.*)
 - * 6.3 Selection of Domestic Equity Small Cap Growth Managers (*Special Order at 1:30 a.m.*)
 - ** 6.4 Adoption of Criteria to be Employed in SamCERA's Domestic Enhanced Equity Manager Searches
 - 6.5 Selection of finalists for SamCERA's International Core Value & Core Growth Manager Structure
 - 6.6 Approval of State Street Bank & Trust's Contract Renewal
 - 6.7 Approval of the Structure for SamCERA's Real Estate Allocation – Commingled Core Real Estate Fund
 - 6.8 Approval of Barclays Global Investor's Compliance Certification Statement
 - 7.0 Other Business
 - 8.0 Adjournment
- * *Manager interviews will be at the April 27th Board Meeting. Small Cap Value at 9:15 & 10:00 Small Cap Growth at 1:30 and 2:15*
- ** *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 9:00 A.M April 26, 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 Stuart, and Ms. Tashman *Alternate Board Member:* Ms. Arnott *Staff:* Mr. Clifton *Consultant:* Ms. Jadallah and Mr. Thomas, *Investment Manager (INVESCO):* Mr. Keough and Mr. Swango *Public:* none *Retirees:* One
- 3.0 Approval of the Minutes:** The March 23, 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 for the period ended 03/31/2004, SamCERA's fiscal year to date return is 15.44%, which is down slightly from last month's 15.88%. The one month's return of (-0.37%) is this fiscal year's first negative performance month. The decline is reflective of the decline in large cap domestic equities and under-performance by SamCERA's international equity manager.

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The table presented below shows the composite returns

March 31, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$992,943,305	-1.00%	2.84%	16.80%	43.45%
Equity Composite Benchmark		-0.55%	3.25%	17.43%	45.64%
Variance		-0.45%	-0.41%	-0.63%	-2.19%
Fixed Income Aggregate	\$390,512,894	0.81%	2.90%	3.37%	6.04%
Fixed Income Composite Benchmark		0.75%	2.65%	2.98%	5.40%
Variance		0.06%	0.25%	0.39%	0.64%
Real Estate Aggregate (2)	\$59,307,612	2.35%	3.32%	5.42%	9.92%
NCREIF (one quarter lag)		2.76%	2.76%	5.60%	9.93%
Variance		-0.41%	0.56%	-0.18%	-0.01%
Cash Aggregate	\$4,033,237	0.20%	0.61%	1.09%	2.35%
91 Day Treasury Bill		0.08%	0.24%	0.50%	1.08%
Variance		0.12%	0.37%	0.59%	1.27%
Total Fund Returns	\$1,446,797,048	-0.37%	2.88%	12.31%	29.35%
Actuarial Discount Rate		0.02%	3.05%	12.41%	30.68%
Variance		-0.39%	-0.17%	-0.10%	-1.33%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		-0.37%	2.88%	12.31%	29.35%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.06%
Variance		-1.01%	0.94%	8.39%	21.29%

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

Asset Allocation As of 03/31/2004	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
Barclays Global Investors Russell 1000	\$598,917,126	41.40%	40.00%	1.40%	±5%
Barclays Global Investors Russell 2000	\$167,178,807	11.56%	10.00%	1.56%	±5%
Bank of Ireland Asset Management	\$226,847,373	15.68%	15.00%	0.68%	±5%
Total Equity	\$992,943,305	68.63%	65.00%	3.63%	
Barclays Global Investors US Debt	\$215,888,845	14.92%	16.00%	-1.08%	±3%
Deutsche Asset Management, Inc.	\$174,624,049	12.07%	13.00%	-0.93%	±3%
Total Fixed Income	\$390,512,894	26.99%	29.00%	-2.01%	
INVESCO Realty Advisors	\$59,307,612	4.10%	6.00%	-1.90%	±2%
Cash	\$4,033,237	0.28%	0.00%	0.28%	
Total	\$1,446,797,048	100.00%	100.00%		

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After climbing for almost a year, stocks took a breather in March. Most participants view the decline as a normal market correction. The month ended with a positive surprise with an increase on employment. That encouraged hopes that the economy can move from a recovery to a sustainable expansion. That scenario would be good news for stocks. As for bonds, yields are likely to move higher, unless the March 2004's jobs gain was just a one-month wonder.

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 Selection of Domestic Equity Small Cap Value Managers (*Special Order at 9:15 a.m. on April 27th*)

The interviews were conducted at the Board Meeting on April 27, 2004.

The following excerpt from the Board Minutes is for informational purposes

The Board conducted interviews of the two finalists in the Domestic Equity Small Cap Value Manager asset class. Each firm provided a 30-minute overview of their proposal and then responded to 15 minutes of questions.

Ben Giele, Patrick Krumm and Lawrence Remstedt represented American Century Investment Management.

Michael Israel and Jeffrey Meyer represented Brandes Investment Partners.

*At the Board, after extensive discussion, **motion** by Lewis, second by Salas, carried unanimously to select Brandes Investment Partners as the Association's Domestic Equity Small Cap Value Manager.*

Action: This item was heard at the April 27th Board Meeting. No action was taken by the Investment Committee.

6.3 Selection of Domestic Equity Small Cap Growth Managers (*Special Order at 1:30 a.m. on April 27th*)

The interviews were conducted at the Board Meeting on April 27, 2004.

The following excerpt from the Board Minutes is for informational purposes

The Board conducted an interview with the finalist in the Domestic Equity Small Cap Growth Manager asset class. The firm provided a 30-minute overview of their proposal and then responded to 15 minutes of questions.

Edward N. Antoian and David Gallagher represented Chartwell Investment Management.

*At the Board, after extensive discussion, **motion** by Hooley, second Stuart, carried unanimously to select Chartwell Investment Management as the Association's Domestic Equity Small Cap Growth Manager.*

Action: This item was heard at the April 27th Board Meeting. No action was taken by the Investment Committee.

6.4 Adoption of Criteria to be Employed in SamCERA's Domestic Enhanced Equity Manager Searches. Strategic Investment Solutions' representatives, Margaret Jadallah and Patrick Thomas, presented the

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proposed criteria and screening steps for the Large Cap and Small Cap Enhanced Index Searches. The search criteria as approved by the Investment Committee is detailed below. Please note that there is a slight difference between the Large Cap and Small Cap criteria.

SamCERA Large Cap Enhanced Index Search – April 2004

1. Create starting universe of all Large Cap Enhanced Index managers who manage versus the Russell 1000 Index or S&P 500 Index.
2. At least \$750 million in product assets (maximum of 25% of product assets after funding).
3. Pass half available performance screens (3,5,7 and 10 yrs.) versus Russell 1000 Index or S&P 500 Index, depending on product benchmark.
4. Pass half available performance screens (rolling 3 year periods) versus Russell 1000 Index or S&P 500 Index, depending on product benchmark.
5. Minimum 3-year track record.
6. Return-based style screens confirm Large Cap Enhanced Index style.
7. For remaining Large Cap Enhanced Index managers using the S&P 500 benchmark, ensure that manager has some experience managing to Russell 1000 Index and/or custom benchmarks.

SamCERA Small Cap Enhanced Index Search – April 2004

1. Create starting universe of all Small Cap Enhanced Index managers.
2. Pass half available performance screens (3,5,7 yrs.) versus Russell 2000 Index.
3. At least \$140 million in product assets (maximum of 30% of product assets after funding).
4. Pass half available performance screens (rolling 3 year periods) versus Russell 2000 Index.
5. Minimum 3-year track record.
6. Product open to new business.
7. Return-based style screens confirm Small Cap Enhanced Index style.
8. Qualitative screens – exclude Russell 2500 benchmarked products where multiple products for a manager exist (keeping Russell 2000 benchmarked product), products with portfolio manager turnover or organizational instability, and firms involved in regulatory improprieties.

In May 2004, Strategic Investment Solutions will provide a short-list of semi-finalists and the Board will select the finalists. The board is scheduled to interview the finalist in June 2004.

Action: By consensus the Investment Committee will recommend to the Board of Retirement that it adopt the Large Cap and Small Cap Enhanced Index search criteria as detailed above.

6.5 Selection of finalists for *SamCERA's* International Core Value & Core Growth Manager Structure.

Ms. Jadallah and Mr. Thomas reviewed the following search criteria that resulted in the selection of six semi-finalists for the International Equity Core Value Mandate.

SamCERA International Equity Core Value Search – April 2004

1. Create starting universe of all International Equity managers. (405 products)
2. Pass half available performance screens (3,5,7 and 10 yrs.) versus MSCI ACWI -ex US Index and median International Equity manager. (292 products)
3. At least \$500 million in product assets (so SamCERA would be maximum of 20% of product assets). (154 products)

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4. Product open to new business. (137 products)
5. Minimum 5-year track record. (117 products)
6. Eliminate regional and emerging markets only products. (74 products)
7. Run return-based style screen and determine managers with Core-Value style based on a minimum 60% plotting to the MSCI Value Index. (27 products)
8. Initial qualitative cuts due to lack of emerging markets exposure/proven expertise, extreme style leanings, very high tracking error, low information ratios/relative performance, organizational instability, significant personnel turnover, unethical behavior, lack of institutional focus, etc. (6 products left)

The six semi-finalists in alphabetical order are:

1) Alliance Bernstein Institutional Investment Management, 2) Delaware International Advisors, Ltd., 3) INVESCO Global Asset Management (N.A.), Inc., 4) LSV Asset Management, 5) Philadelphia International Advisors, and 6) The Boston Company Asset Management. LLC.

Ms. Jadallah and Mr. Thomas and the Investment Committee discussed the following pros and cons for those managers.

Alliance Bernstein International

Pros

- Deep research team with huge organizational resources
- Benchmark relative approach produces lower risk portfolio
- Rigorous fundamental research
- Eclectic value methodology can yield contrarian holdings
- Recent SIS meeting with new co-CIO Henry D'Auria provided comfort that investment approach will remain consistent
- Very strong downside capture ratio

Cons

- Complex ownership structure with limited employee ownership
- Bernstein possibly distracted by recent problems in the Alliance side of the shop
- Historically most appropriate benchmark is EAFE, but offers product benchmarked to ACWI Ex.US
- Historically light Emerging Markets exposure in International Value Equity Composite
- Large asset base of almost \$30 billion in international equity
- Firm lost International Equity Director of Research and CIO of Global Value Equity in last three years
- Large SEC fine of \$250 million in 2003

Delaware International Advisors

Pros

- At less than \$10 billion, relatively low level of international equity assets
- Product just closed but open for SamCERA search
- Rigorous DDM research methodology
- High historical exposure to Emerging Markets in products
- Strong leadership from Chief Investment Officer David Tilles

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Cons

- Less than ideal ownership arrangement – wholly-owned subsidiary of Lincoln National Corporation
- Defensive investment style can lag significantly in strong market environments
- Some turnover among investment team in recent years
- Relatively small investment team
- Recent returns have brought high asset growth

INVESCO Global Asset Management

Pros

- Large investment team; rigorous investment process with disciplined implementation
- Unique portfolio optimization overlay to investment process
- Diversified research gathered from around the world
- Stable team with exception of product CIO John Rodgers leaving team to become firm-wide CEO
- Team appears to be at the bottom of its performance cycle after difficult 2003

Cons

- Part of a large and complex investment organization
- Very poor recent returns, especially 2003
- Historically light on Emerging Markets exposure
- SEC investigation into Denver mutual funds group related to market timing of funds

LSV Asset Management

Pros

- Very low level of international equity assets = \$2 billion
- Firm founded and managed by distinguished academics Joseph Laconishok and Rob Vishney
- Strong theoretical support for investment process, process continuously updated based upon new findings
- Stock selection process tends to produce all cap exposure
- Strong risk control orientation through sector and country exposure limits

Cons

- 46% owned by SEI Funds, Inc
- Process completely quantitative; no traditional fundamental research or security analysis
- Firm track record built against EAFE benchmark, but can implement ACWI Ex. US portfolios
- Process highly capacity constrained
- Very small investment team
- Recent returns have brought high asset growth

Philadelphia Int'l Advisors

Pros

- Senior investment professionals are equity stakeholders in PIA. Philadelphia Int'l Advisors holds 75% of the partnership.
- International equity boutique.
- Core team of for PIA professionals working on the product have been together for close to 10 years.
- Emerging Markets can go up to 10%, in line with benchmark weight.
- "Hard" product cap at \$9B.
- Defensive value strategy yet fairly good fit (beta, R-squared, tracking error) to MSCI ACWI-ex US Index.

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Cons

- Fundamental research process more reliant on outside Street research than other SamCERA candidates.
- 10% of PIA's operating expenses were covered through the receipt of products & services acquired through soft dollar arrangements.
- Mutual funds are roughly half of the product's assets.

The Boston Company Asset Management

Pros

- Stable and experienced team led by Kirk Henry.
- Multiple International Equity products with strong long-term track records; ACWI-ex US product has a shorter track record but appropriate benchmark.
- Very strong performance record.
- Strong upside capture ratios for a value manager while preserving capital in down markets.
- Highest information ratios of SamCERA's Core-Value candidates.

Cons

- Firm & other Mellon companies were named as defendants in a civil action. RFP does not state the nature of the action.
- Can invest up to 30% in emerging market securities with the weighting over the last 5 years at 18%. (Similar International Value Equity product invests less in emerging markets and also passed SamCERA's criteria.)
- Longtime leader Sandor Cseh retired at the end of 2002. Kirk Henry was Sandor's "heir apparent" for several years but his tenure as leader is short.
- Expensive versus other International Core-Value candidates.

After an extensive discussion, the Investment Committee selected Delaware International Advisors, Ltd. And LSV Asset Management as the two finalists. Those firms will be invited to interview before the entire Board of Retirement on May 25, 2004.

The Investment Committee then turned to the selection of the finalists for the International Equity Core Growth mandate. Ms. Jadallah and Mr. Thomas reviewed the following search criteria that resulted in the selection of six semi-finalists for the International Equity Core Growth Mandate.

SamCERA International Equity Core Growth Search – April 2004

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2. Pass half available performance screens (3,5,7 and 10 yrs.) versus MSCI ACWI -ex US Index and median International Equity manager. (292 products)
3. At least \$500 million in product assets (so SamCERA would be maximum of 20% of product assets). (154 products)
4. Product open to new business. (137 products)
5. Minimum 5-year track record. (117 products)
6. Eliminate regional and emerging markets only products. (74 products)
7. Run return-based style screen and determine managers with Core-Growth style based on a minimum 60% plotting to the MSCI Growth Index. (34 products)

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8. Initial qualitative cuts due to lack of emerging markets exposure/proven experience, extreme style leanings, very high tracking error, low information ratios/relative performance, organizational instability, significant personnel turnover, unethical behavior, lack of institutional focus, etc. (6 products left)

The six semi-finalists in alphabetical order are: 1) BPI Global Asset Management, LLP, 2) Capital Guardian Trust Company, 3) Clan Finlay, Inc., 4) JPMorgan Fleming Asset Management, 5) Julius Baer Investment Management, 6) New Star Institutional Managers.

Ms. Jadallah and Mr. Thomas and the Investment Committee discussed the following pros and cons for those managers.

BPI

Pros

- Boutique firm focusing on international equity
- Direct and phantom equity ownership for investment professionals
- Closing at low asset level – closed except to a few remaining SIS searches
- Strong portfolio management team –Dan Jaworski and Pablo Salas
- Largely stable investment team
- Consistent approach seeking quality companies undervalued versus their industry peers
- Have had noteworthy (opportunistic) emerging markets exposure at times

Cons

- High tracking error
- Portfolio construction rules allow for meaningful deviation from the benchmark
- Below median performance in recent periods versus the broad international equity universe
- Approximately 10% of operating expenses covered with soft dollar arrangements

Capital Guardian

Pros

- Very stable organization; 100% employee-owned
- Strong international equity franchise with very large international research effort
- Multiple international equity products with long, successful track records; ACWI ex-US product newer but benchmarked to SamCERA's index
- Unique multiple portfolio manager approach helps manage large asset base
- Strong back office with good controls for compliance/guideline adherence
- Tend to maintain some emerging markets exposure

Cons

- Very large international asset base – at what point will there be capacity issues?
- Recent enhancements to emerging markets process and team (emerging markets implemented through fund managed by dedicated investment team) in effort to boost performance

Clay Finlay

Pros

- International equity specialist shop
- Succession planning has begun with co-CIOs Virginie Maisonneuve and Robert Schletter appointed to take over some of Francis Finlay's duties
- Some equity participation by a broad number of employees
- Have invested opportunistically in emerging markets

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Cons

- Performance less compelling than other candidates in SamCERA's International Core-Growth search
- Small assets in composite
- This International high conviction portfolio meets criteria but more diversified International product does not
- Some personnel turnover, in particular among research analysts following reorientation of research from regional to sector emphasis
- 10% of firm's operating expenses covered through soft dollars in '03

JPMorgan

Pros

- Benchmark relative approach with a modest growth bias
- Use locally based regional specialists; much of the EAFE Plus Equity team joined JPMorgan when the firm purchased Flemings
- Low tracking error
- Good performance, including attractive upside/downside capture ratios
- ACWI ex-US benchmarked product offers opportunistic exposure to emerging markets

Cons

- Merger with Bank One may result in organizational distractions
- Subpoenaed by NY Attorney General in relation to late trading and frequent trading and is cooperating with them in their investigation

Julius Baer

Pros

- International product an increasingly important part of Julius Baer's business
- Skilled portfolio management team led by co-heads Richard Pell and Rudolph Riad Younes who are equity holders in Julius Baer
- Opportunistic and flexible approach with regard to style, market cap, country and sector weightings
- Diversified security selection
- Very strong performance and return statistics
- Have maintained opportunistic exposure to emerging markets

Cons

- Portfolio composition can be quite different from benchmark
- Low R-Squared and high tracking error
- Rapid growth could result in loss of flexibility?

New Star

Pros

- Broad employee ownership
- Core of portfolio consists of large cap companies in developed markets with opportunistic exposure to off-index and emerging securities
- Fundamental research by regional specialists combined with portfolio managers who determine over/underweights within a fairly low tracking error range
- Strong performance record with lower risk profile than most of SamCERA's other International Core-Growth candidates

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Cons

- Investment trust inquiry by Financial Services Authority (equivalent to the SEC) has not yet been concluded
- Employee-owned predecessor firm WorldInvest sold portion of itself to New Star in January 2001

After an extensive discussion, the Investment Committee selected Capital Guardian Trust Company and Julius Baer Investment Management as the two finalists. Those firms will be invited to interview before the entire Board of Retirement on May 25, 2004.

Action: By consensus the Investment Committee will recommend that the Board of Retirement invite Delaware International Advisors, Ltd. and LSV Asset Management to interview for the International Equity Core Value mandate and that Capital Guardian Trust Company and Julius Baer Investment Management be invited to interview for the International Equity Core Growth mandate.

- 6.6 Approval of State Street Bank & Trust's Contract Renewal.** This agenda item is continued from last month. In March 2004, the Investment Committee considered a five year extension through April 1, 2009 of *SamCERA's* Global Custodial Services Agreement with State Street Bank & Trust. The committee reviewed the proposed service levels and fee structure. The fee schedule (based on a structure of 4 active domestic, 2 active international and 9 commingled accounts), which was 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 State Street's performance reporting 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 reported that a reasonable estimate of the median custody fee currently paid by public funds of *SamCERA's* size is approximately 1.5 to 2.0 basis points of total assets.

The only significant change in the fee structure from that adopted in 1999 is that State Street requested the inclusion of an annual operational cost escalator of 5.0%. The Investment Committee preferred a cost escalator that increases by no more than the lower of the Bay Area Consumer Price Index (CPI) or 3.0%. Staff was instructed to negotiate acceptable terms for the escalator. During the negotiation State Street noted that its expense growth will never correspond exactly to the Bay Area CPI because their numbers include all of their future technology development, real estate growth, corporate overhead, and strategic investment spending. Although State Street has a sizable presence in Alameda, California most of their custodial operations are located in the Greater Boston Urban Area. Staff presented the Investment Committee with a counter proposal in which the cost escalator would be a flat 2.5%. The Committee noted State Street's argument and acknowledged that the 2.5% escalator was half of their original request (5.0%). The Committee decided to accept the proposed contract amendment to include a 2.5% annual operational cost escalator and to recommend to the Board of Retirement that it approve the following resolution.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Global Custody Services
RESOLUTION 03-04-14

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the
San Mateo County Employees' Retirement Association (SamCERA),
Approves a Contract between the Board and State Street California, Inc.*

WHEREAS, Board Resolution 95-96-15 implements the provisions of Assembly Bill 1021 (Chapter 584, Statutes of 1995) which empowers the Board to delegate functions to "*the treasurer or other entity authorized by the board.*"; and

WHEREAS, Government Code §31595.1 (a) & (b) states in pertinent part:

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- (a) *"The Board may authorize the treasurer to control and safely keep some or all of the moneys of the retirement system . . .*
- (b) *The Board, in lieu of acting pursuant to subdivision (a), may delegate to another entity some or all of the powers prescribed in that subdivision.; and*

WHEREAS, the Board, pursuant to Government Code §31595, has approved contracts for Investment Management Services which mandate the use of Global Custody Services; and

WHEREAS, the Board issued a Request for Proposal for Global Custodian and determined that of the respondents State Street is the best qualified provider of Global Custody Services to pension plans; and

WHEREAS, Board Resolution 98-99-17 authorized the Chair to execute a contract for custodial services on behalf of *SamCERA*, which was approved as to form by the Board and County Counsel; and

WHEREAS, County Counsel approved the amendment as to form and the Investment & Finance Manager recommended renewal of the contract as amended. Now, therefore, be it

RESOLVED, that the Board hereby approves the amended contract between the Board and State Street for a term of five years, which may be extended in the sole discretion of the Board, cancelable by either party on forty-five days notice. Be it further

RESOLVED, that the Board hereby delegates full discretionary authority to State Street to manage the custody of the assets of the Retirement Fund 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 amended contract and authorizes the disbursement of funds as provided for in GC§31596.1(b) in accordance with *SamCERA's* internal controls as set forth in Resolution 94-95-02. Be it further

RESOLVED, that the Board hereby authorizes the Chair to execute the contract amendment on behalf of *SamCERA*. 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 Mr. Bryan, second by Mr. Lewis passed three (3) to one (1) (Mr. Buffington) to recommend to the Board of Retirement that it adopt the above resolution, which amends the term of the contract for Global Custody Services to be in full force and effect until April 1, 2009. It also amends the Fee Schedule to include a 2.5% annual operational cost escalator.

- 6.7 Approval of the Structure for SamCERA's Real Estate Allocation – Commingled Core Real Estate Fund.** As an alternative to the Board's separate property strategy, it is considering an open-end commingled core fund to increase portfolio diversity. *SamCERA's* separate property manager, INVESCO Realty Advisors, has developed a core fund, *INVESCO Core Equity Fund, LLC*. That fund is scheduled to have its first closing on or about July 1, 2004. *SamCERA's* Investment Committee and staff have been active partners during the development process. *SamCERA* has taken several opportunities to provide input into the Summary of Terms as they were developed and indirect input into the Private Placement Memorandum (PPM), including the fee structure.

As part of the Association's ongoing due-diligence, the Investment Committee and staff raised questions regarding the *INVESCO Core Equity Fund, LLC*. "Draft PPM". INVESCO's Max Swango was present to respond to the

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Investment Committee's concerns. After a discussion with Mr. Swango the Investment Committee had further questions regarding voting rights and industry standards. Staff was instructed to research the Committee's questions and report back to the Committee in May.

Regarding the industry standards, Margaret Jadallah of Strategic Investment Solutions stated that Private Placement Memorandums (PPM) all have their own idiosyncrasies. Therefore, one will find a range of practices rather than just one given industry standard. Regarding the availability of other commingled funds, Ms. Jadallah reported that the top half dozen commingled funds are essentially closed. While *SamCERA* has some leverage as a founding investor, she cautioned that there is significant pent up demand for the INVESCO's commingled fund and that its PPM appears to be designed for Institutional Investors as a whole.

Action: The Committee instructed staff to continue its due diligence research regarding the questions raised at today's meeting. The Committee will recommend that the Board of Retirement continue to research INVESCO's Commingled Core Real Estate Fund.

- 6.8 Approval of Barclays Global Investor'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.

In response to *SamCERA*'s questionnaire, Barclays Global Investors states that Bob Slotpole was hired as Chief Investment Officer, US Equity in January 2004 otherwise there were no significant changes to the organizational structure of BGI in the past year. It intends to continue to grow and leverage its existing index business while targeting BGI's fixed income strategies and long/short strategies for additional growth. BGI considers its management succession plan to be confidential and proprietary, but states that to ensure continuity in portfolio management all accounts are managed using a team approach. Neither BGI nor its officers and principals have been involved in any regulatory proceeding or business litigation in the past year. The SEC last examined BGI in 1999. There are no open issues and no major revisions to the firm's procedures/policies. BGI does not engage in soft dollar activity and accepts no services in exchange for their commission flow. The firm estimates its average commission paid for domestic equities at \$0.02-\$0.03 per share. There were no other significant findings to report to the Board regarding Barclays Global Investors' response to the questionnaire or Compliance Certificate Statement.

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

- 7.0 Other Business: None**

- 8.0 Adjournment:** There being no further business Mr. Bryan adjourned the Committee at 11:15 A.M.