

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

August 24, 2004 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:07 A.M.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes for the Investment Committee Meeting
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services of the Investment Committee
 - 6.1 Acceptance of Monthly Portfolio Performance Report
 - 6.2 Acceptance of Quarterly Investment Performance Analysis for periods ending June 30, 2004
 - 6.3 Selection of Finalists for *SamCERA's* Core Plus Fixed Income Manager
 - 6.4 Approval of BGI Investment Management Agreement Amendment to include an Enhanced Equity Mandate
 - 6.5 Approval for BGI to Transition *SamCERA* Assets from BGI's Russell 1000 Index to BGI's Russell 1000 Alpha Tilts
- 7.0 Other Business
- 8.0 Adjournment

MINUTES OF *SAMCERA's* Investment Committee

- 1.0 Call to Order:** Mr. Lewis called the Public Session of the Investment Committee of the Board of Retirement to order at 10:07 A.M August 24 2004, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan (excused), Mr. Buffington, Ms. Colson, and Mr. Lewis *Board Members in Attendance:* Mr. McMahon, Ms. Salas, Ms Stuart, and Ms. Tashman *Alternate Board Member:* None *Staff:* Mr. Clifton and Mr. McCausland. *Consultant:* Ms. Jadallah *Public:* One *Retirees:* none
- 3.0 Approval of the Minutes:** Ms. Colson suggested that the August 24, 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:** The Committee discussed the date and time for the October Committee meeting. The Committee will meet in the morning of October 25th. The Board will meet to hear regular board business in the afternoon of Monday, October 25th. The board will meet the morning of October 26th to interview finalists for the Chief Executive Officer's Position.
- 5.0 Oral Communications From the Public** None
- 6.1 Acceptance of Monthly Portfolio Performance.** *SamCERA's* portfolio began the new fiscal year with a negative return for the month of July, -2.36%. In the first half of the month *SamCERA* was overweight equity and underweight fixed income which resulted in the Total Fund Return of -2.36% underperforming the Plan Policy Benchmark by 13 basis points. Approximately mid-month, *SamCERA* received the County Prepaid Contributions, which were deployed through rebalancing to the fixed income portfolios. The rebalancing reduced the amount of total Fund Return underperformance. *SamCERA's* trailing twelve month return, 12.77%, is still positive. However, the trailing periods one month through six months are now negative.

Economic data in July was mixed putting the strength of the economic recovery in question. The most daunting report during the month was the second quarter GDP growth of 3%. Consequently, the Fed futures market began

pricing in a slower Fed tightening, changing the overnight lending projections to 2% for year end. Corporate earnings growth has fueled the equity market much of this year. Despite persistent turmoil in the Middle East, terrorist threats, a toss-up U.S. presidential election, and high energy prices, investors had taken solace in strong corporate earnings. Earnings growth in coming quarters appears likely to be less robust than in the earlier periods, which is giving investors pause. Many economists are lowering their targets for year end index levels.

The table presented below shows the composite returns

July 31, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$955,390,085	-4.00%	-0.80%	-2.67%	14.99%
Equity Composite Benchmark		-3.87%	-0.51%	-2.13%	16.46%
Variance		-0.13%	-0.29%	-0.54%	-1.47%
Fixed Income Aggregate	\$442,660,826	1.05%	1.16%	0.67%	5.45%
Fixed Income Composite Benchmark		0.99%	1.16%	0.34%	4.84%
Variance		0.06%	0.00%	0.33%	0.61%
Real Estate Aggregate (1)	\$59,422,293	0.55%	2.15%	5.57%	8.48%
NCREIF (one quarter lag)		0.00%	3.13%	5.77%	10.83%
Variance		0.55%	-0.98%	-0.20%	-2.35%
Cash Aggregate	\$18,686,518	0.18%	0.55%	1.12%	2.26%
91 Day Treasury Bill		0.12%	0.27%	0.51%	1.03%
Variance		0.06%	0.28%	0.61%	1.23%
Total Fund Returns	\$1,476,159,722	-2.36%	-0.03%	-1.31%	12.01%
Total Plan Policy Benchmark		-2.23%	0.22%	-0.92%	12.77%
Variance		-0.13%	-0.25%	-0.39%	-0.76%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		-2.36%	-0.03%	-1.31%	12.01%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		-3.00%	-1.97%	-5.23%	4.01%

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

Asset Allocation As of 07/31/2004	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
BGI Russell 1000	\$579,388,370	39.25%	40.00%	-0.75%	±5%
BGI Russell 2000	\$156,854,093	10.63%	10.00%	0.63%	±5%
BIAM	\$219,147,622	14.85%	15.00%	-0.15%	±5%
Total Equity	\$955,390,085	64.72%	65.00%	-0.28%	
BGI US Debt	\$244,738,548	16.58%	16.00%	0.58%	±3%
DAMI	\$197,922,277	13.41%	13.00%	0.41%	±3%
Total Fixed Income	\$442,660,826	29.99%	29.00%	0.99%	
Real Estate	\$59,422,293	4.03%	6.00%	-1.97%	±2%
Cash	\$18,686,518	1.27%	0.00%	1.27%	

Total	\$1,476,159,722	100.00%	100.00%		
-------	-----------------	---------	---------	--	--

A recent addition to the monthly performance report is a table that depicts *SamCERA*'s proposed changes in manager structure. Implementation of the new manager structure is scheduled for October 31, 2004.

Legacy Portfolio As of 07/31/2004	Current Market Value	New Mandated Target Portfolios Market Value %		Portfolio Manager
BGI Russell 1000	\$579,388,370	\$295,231,944	20.00%	BGI Russell 1000
Enhanced R1000		\$295,231,944	20.00%	BGI Enhanced R1000
BGI Russell 2000	\$156,854,093	\$0		
Enhanced R2000		\$73,807,986.10	5.00%	Goldman Sachs Asset Mgmt
Active Value Mandate		\$36,903,993.05	2.50%	Brandes Investment Partners
Active Growth Mandate		\$36,903,993.05	2.50%	Chartwell Investment Mgmt
Bank of Ireland Asset Management	\$219,147,622	\$0		
Active Core Mandate		\$110,711,979	7.50%	Delaware Int'l Advisors, Ltd.
Active Core Mandate		\$110,711,979	7.50%	Julius Baer Investment Mgmt
Total Equity	\$955,390,085	\$959,503,819	65.00%	
Barclays Global Investors US Debt	\$244,738,548	\$142,614,940	9.66%	BGI US Debt
Deutsche Asset Management, Inc.	\$197,922,277	\$142,614,940	9.66%	Deutsche Asset Management,
Core Plus Mandate		\$142,614,940	9.66%	To Be Announced
Total Fixed Income	\$442,660,826	\$427,844,819	28.98%	
Real Estate	\$59,422,293	\$59,241,450	4.01%	Core Real Estate Fund
		\$29,569,633	2.00%	Possible Manager Diversification
Cash	\$18,686,518	\$0	100.00%	
Total	\$1,476,159,722	\$1,476,159,722		

Mr. Lewis asked staff in July to reduce the variance between the Custodian's calculation of performance and Deutsche Asset Management's calculation. Mr. Clifton reported that he met with State Street and spoke with Deutsche. The variances are caused by pricing differences. *SamCERA* receives a monthly reconciliation report from both State Street and Deutsche Asset Management. That report will receive closer scrutiny in an attempt to narrow the pricing difference.

Action: The Committee unanimously accepted the Monthly Performance Report. The Committee will recommend to the Board of Retirement that it accepts the report.

6.2 Acceptance of Strategic Investment Solutions' Quarterly Investment Performance Analysis for the period ending June 30, 2004.

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

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 June 30, 2004.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	2.88%	59	29.35%	40	5.48%	51
<i>Policy Index</i>	<i>3.04%</i>	<i>48</i>	<i>30.67%</i>	<i>26</i>	<i>5.50%</i>	<i>50</i>
BGI Russell 1000 Fund	1.91%	51	36.38%	44	1.28%	47
<i>Russell 1000 index</i>	<i>1.90%</i>	<i>51</i>	<i>36.37%</i>	<i>45</i>	<i>1.26%</i>	<i>47</i>
BGI Russell 2000 Fund	6.27%	39	63.21%	29	10.94%	60
<i>Russell 2000 index</i>	<i>6.26%</i>	<i>39</i>	<i>63.83%</i>	<i>27</i>	<i>10.90%</i>	<i>60</i>
BIAM	2.90%	85	50.72%	80	1.56%	86
<i>MSCI ACWI-ex US Index Free</i>	<i>4.83%</i>	<i>49</i>	<i>59.91%</i>	<i>29</i>	<i>5.41%</i>	<i>55</i>
BGI US Debt Index Fund	2.69%	46	5.47%	66	7.56%	51
Deutsche Asset Management	3.16%	5	6.87%	22	8.07%	27
<i>Lehman Aggregate Index</i>	<i>2.65%</i>	<i>53</i>	<i>5.40%</i>	<i>68</i>	<i>7.44%</i>	<i>58</i>
INVESCO	3.31%	35	9.91%	45	8.25%	31
<i>NCREIF Index</i>	<i>2.56%</i>	<i>42</i>	<i>9.71%</i>	<i>48</i>	<i>7.74%</i>	<i>38</i>
Cash Composite	0.61%	13	2.35%	13	2.79%	19
<i>91 Day T-Bill Index</i>	<i>0.24%</i>	<i>49</i>	<i>1.08%</i>	<i>43</i>	<i>2.01%</i>	<i>53</i>

INVESTMENT PERFORMANCE SUMMARY

June 30, 2004

- The composite fund returned 0.1% in the second quarter of 2004 and ranked 39th among other public funds greater than \$100 million (median of -0.1%). The fund beat its policy index (-0.1%) during this time period. Longer term, the three and five-year returns of 4.1% (57th percentile) and 3.6% (62nd percentile), respectively, were near median among large public plans (4.5% and 4.0%).
- Second quarter results were enhanced by the following factors:
 - The BGI Russell 1000 Index Fund ranked in the 57th percentile among large cap managers (median 1.7%), and matched its benchmark. The Russell 1000 Index had a return of 1.4%.
 - The BGI Russell 2000 Index Fund slightly exceeded its benchmark, the Russell 2000 Index (0.5%), and ranked in line with the small cap equity manager median of 0.6%.
 - Deutsche Asset (-2.1%) was ahead of the Lehman Aggregate Index (-2.4%) and ranked in the 33rd percentile among other core bond managers. Deutsche Asset's overweight to asset-backed securities and exposure to commercial mortgagebacks were contributors to performance. The portfolio's exposure to mortgage pass through securities dampened performance.
 - Ranking in the second quartile among its peers (international equity managers' median of -0.2%), Bank of Ireland's quarterly return beat its benchmark, the MSCI All Country World ex-US Free Index (-0.1% vs. -0.7%). BIAM's bias towards large capitalization, quality companies positively impacted relative performance during this difficult market quarter. The portfolio was slightly less exposed to the resurging Japanese economy than its benchmark which was a detractor.
- Second quarter results were hindered by the following factors:

1. The BGI US Debt Index Fund (-2.4%) matched its index, the Lehman Aggregate, but underperformed the median core bond manager (-2.3%) BGI ranked in the 72nd percentile among its peers.
2. INVESCO Realty returned 1.8% for the quarter, underperforming the NCREIF Index (3.1%) and ranking in the second quartile among real estate investments.

CAPITAL MARKET REVIEW: SECOND QUARTER 2004

ECONOMIC REVIEW

- At the end of May, the trade deficit was \$518.8 billion, down by 4.5%. It was the first month since November 2003 that the deficit declined as exports reached a record high in May. For the 12 months ending May 2004, the deficit was 10.7% higher than one year prior with imports increasing 9.5% and exports rising 8.9% over the past year. In the second quarter, the U.S. dollar strengthened against both the euro (1.2199) and the yen (109.3494) by 0.9% and 4.7% respectively. For the prior 12 months, the U.S. dollar weakened 6.0% against the euro and 9.6% against the yen.
- First quarter GDP growth declined slightly to 3.9% from the fourth quarter 2003 annual rate of 4.1%. Preliminary results for the second quarter indicate further slowing of GDP growth, down to 3.0%.
- At the end of June, the year-over-year change of the CPI was 3.3%. Core CPI, excluding food and energy, was 1.8% higher than it was in June, 2003. Crude oil prices ended the quarter at \$33.51 per barrel. Prices of imported oil were at their highest in nearly 22 years.
- Industrial production advanced 1.4% in the second quarter and 5.8% for the trailing twelve months.
- The unemployment rate declined slightly during the second quarter to 5.6% compared to 5.7% at the end of the first quarter.
- Retail sales declined 0.5% in the second quarter, but have increased 3.1% year-to-date.
- Housing starts were 1.80 million units in June, lower than in both March (2.00 million) and June 2003 (1.85 million). Conventional 30-year residential mortgage rates averaged 6.21% at the end of May, 2004, up 48 basis points since December 2003.

EQUITY MARKETS REVIEW

- Domestic equity indices posted modest gains in the second quarter. The Dow Jones Industrial Average rose by 1.24%. The broader market represented by the S&P 500 rose by 1.72%, and the NASDAQ Composite climbed 2.69%. Of the ten economic sectors, six were up in the second quarter while four were down. The best-performing sector was Industrials (+8.48%). The worst-performing sector in the first quarter was Financials (-2.36%). For the trailing 12-month period, Materials and Energy were the best-performing sectors, returning 31.85% and 31.66% respectively. Health Care was the weakest performer for the trailing 12-month period (+5.45%).
- Among large capitalization stocks, the trend of value outperforming growth was reversed in the second quarter, with the Russell 1000 Growth adding 1.94% vs. the Russell 1000 Value adding only 0.88%. Among smaller capitalization stocks, value continued its out performance with the Russell 2000 Value adding 0.85% vs. the Russell 2000 Growth which added only 0.09%. Large cap stocks outperformed small cap stocks: for the quarter, the Russell 1000 Index returned 1.40%, while the Russell 2000 index returned 0.47%. But small stocks remain ahead of large stocks for the trailing 12-month period, with the Russell 2000 returning 33.37% and Russell 1000 returning 19.48%.
- International equity returns, exemplified by the MSCI EAFE index, were positive for the fifth consecutive quarter. The MSCI EAFE rose 0.21% in US dollar terms and 2.41% in local currency. Unlike the U.S. markets,

non-U.S. value stocks performed better than non-U.S. growth stocks, with the EAFE Value tacking on 2.10% while the EAFE Growth slipped 1.26% for the quarter. Emerging markets declined after a string of strong quarters, with the MSCI EMF index falling 9.57%. Over the last 12 months as of the end of the second quarter the MSCI EMF Index has risen 33.51%.

FIXED INCOME MARKETS REVIEW

- The Fed Funds Rate increased in June by 0.25% to 1.25%. This marks the first rate increase since May 2000. The yield curve increased in the second quarter. The upward shift was most pronounced in the three- to four-year range as Treasury yields increased 114 basis points during the quarter. The slope diminished moderately, as the two-year to 10-year spread declined from 226 basis points to 190 basis points. The two-year Treasury yield rose 111 basis points to 2.68%; the 10-year, 75 basis points to 4.58%; and the 30-year, 52 basis points to 5.29%.
- During the second quarter all the major bond indices declined. The Lehman Aggregate Bond Index posted a 2.44% loss and the Citigroup World Government Bond Index fell 3.32% for the quarter. Lehman Brothers Mortgage Backed Index ended the quarter 1.13% lower. High yield corporates, as measured by the Lehman Brothers High Yield Index, fell 0.96%. Emerging Markets Debt, as measured by the J.P. Morgan Emerging Markets Bond Index, fell 5.9%. For the trailing 12 months as of the end of the second quarter, the Lehman Aggregate Bond Index was up 0.32%, the Citigroup World Government Bond Index 5.65%, Lehman Brothers Mortgage Backed Index 2.23%, Lehman Brothers High Yield Index 10.33% and J.P. Morgan Emerging Markets Bond Index 4.76%.

REAL ESTATE MARKETS REVIEW

- The REIT Market experienced a very volatile second quarter. After being up the first quarter, the REIT market was down 12% in April but then rose in May and June to finish the quarter down almost 6%. Much of the volatility was blamed on a mix of economic news that seemed to focus real estate investors attention on the risk of rising interest rates.
- During the quarter, economic release finally encouraged investors to realize that the improvement in employment statistics was good for the REIT market since demand for real estate is dependent upon changes in employment. As companies hire new staff, additional workspace will be needed as will homes and apartments. There is also some acceptance of the fact that rising interest rates should not stop the real estate recovery unless they stifle the economic recovery.

Action: The Committee unanimously accepted Strategic Investment Solutions' Quarterly Performance Report for the period ended 6/30/2004. The report in its entirety will be presented to the Board at the 05/25/2004 meeting.

- 6.3 Selection of Finalists for SamCERA's Core Plus Fixed Income Manager** On July 27th Strategic Investment Solutions and *SamCERA's* Investment Committee reviewed six semi-finalists for *SamCERA's* Core Plus Fixed Income mandate. The Investment Committee opined that additional information concerning the cost of transitioning into the core plus portfolio would be helpful in determining the finalists for this mandate. Strategic Investment Solutions was instructed to request Deutsche Asset Management, PIMCO (Pacific Investment Management Company LLC, and Western Asset Management Company to provide an estimate of the cost of transitioning into their core plus product

Strategic Investment Solutions provided the following Summary of Transition Vendor Estimated Transition Costs: Portfolio Assumptions i) Total Bond Assets - \$381 million ii) Total Transition Assets: \$127 million

Barclays Global Investors Estimate for the Transitions

Transition Assets to Deutsche Portfolio: 20 to 31 bps *

Transition Assets to PIMCO Portfolio: 13 to 22 bps

Transition Assets to Western Portfolio: 22 to 30 bps

Deutsche Asset Management Estimate for the Transitions 13 bps **

Pacific Investment Management Company (PIMCO) Estimate for the Transitions 22 bps

Western Asset Management Estimate for the Transitions 23 bps

*Assumes no liquidation of existing Deutsche positions.

**Assumes transitioning to new Core + portfolio from existing ~\$199 million Core portfolio.

The Committee reviewed the following Pros & Cons before selecting Deutsche Asset Management and Western Asset Management as the finalists for SamCERA's Fixed Income Core Plus mandate. The finalists were invited to interview before the Board on September 28, 2004.

Deutsche Asset Management

Pros

- Known entity to SamCERA
- Add value through investing in inefficient credits and structured product within the US as well as through extended sectors.
- Largely stable team
- Strong returns

Cons

- Deutsche Asset Management and Deutsche Bank have had various regulatory issues in recent years (but none were associated with the Core Plus product).
- Firm has lost business across asset classes in the last year.
- Significant non-index exposure within the US investment grade component of Core Plus.
- Capacity constraints given niche bond exposure.

PIMCO (Pacific Investment Management Company LLC,

Pros

- Bond powerhouse led by skillful portfolio manager Bill Gross
- Very strong, consistent returns
- Top down, secular and cyclical forecasts developed by very deep, experienced team of investment professionals.
- Proprietary models and risk management tools developed and maintained by internal financial engineers.
- PIMCO has incorporated new and innovative instruments into its approach for many years.
- Well-publicized charges of market timing in several PIMCO bond funds were ultimately dismissed.

Cons

- High level of assets may decrease flexibility of strategy?
- Above average turnover in investment staff.
- Use of innovative securities and large asset base results in a large, complex portfolio.
- Highest fees of SamCERA's candidates.

Western Asset Management Company

Pros

- A bond powerhouse like PIMCO.
- High conviction approach has yielded tremendous alpha for its clients.

- Portfolio outlook and structure determined by experienced and stable Investment Strategy Group.
- Successful sector rotation over many years.

Cons

- High tracking error
- Long term, value-oriented approach can require patience.

Action: Motion by Mr. Lewis, second by Ms. Colson, passed unanimously, for the Investment Committee to recommend that the Board of Retirement invite Deutsche Asset Management, and Western Asset Management Company to interview before the Board on September 28, 2004 for the Fixed Income Core Plus Mandate.

- 6.4 Approval of BGI Investment Management Agreement Amendment to include an Enhanced Equity Mandate.** The Board adopted a large cap equity mandate of 50% invested in BGI's Russell 1000 Index Fund and 50% invested in a Russell 1000 enhanced product. On June 22, 2004, the Board interviewed BGI and Goldman Sachs Asset Management as providers of a Russell 1000 enhanced product. Barclays Global Investors' Russell 1000 Alpha Tilts was selected for *SamCERA*'s first venture into an enhanced equity product.

SamCERA's Code of Fiduciary Conduct and Due Diligence Policy both mandate that the Association perform due diligence prior to committing assets to an investment. On Wednesday August 4th, Sandra Arnott, James Hooley, and Gary Clifton from *SamCERA*, along with Margaret Jadallah and Paul Harte from Strategic Investment Solutions, conducted an onsite due diligence visit to BGI. Prior to the onsite visit Barclays Global Investors responded to a standard series of questions. Those questions and responses allow staff to review specific criteria in preparation for the visit.

Following the August 4th visit, Ms. Jadallah prepared a report for the Board that details the visit. In summary the report states, "*All in all, SIS remains impressed with the depth and breadth of BGI's capabilities. The firm has a very robust large cap enhanced index effort and actively identifies bench strength in advance of its needs. The firm is one of the oldest and largest Russell 1000 enhanced index managers with a competitive long term record. The investment process used is theoretically sound and is continually updated. The firm maintains strong controls from an operational and regulatory standpoint. Effective execution, one of the cornerstones of the Alpha Tilts approach, is an area that BGI has recently upgraded and continues to improve upon. While BGI charges more for its enhanced index product than some other managers, Russell 1000 Alpha Tilts is still a compelling choice.*" In addition there was nothing in the preparation materials that caused staff's concern. Staff recommends that the Board accept the onsite report, which concludes the mandatory due diligence.

The Committee reviewed the following Resolution and will recommend that the Board of Retirement approve it.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management and Custody Services
 RESOLUTION 04-05-04

*THIS RESOLUTION, adopted by the Board of Retirement (Board)
 of the San Mateo County Employees' Retirement Association (SamCERA), approves
 an amendment to the contract between the Board and Barclays Global Investors, N.A. (BGI).*

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, Board Resolution 03-04-05 approved a contract between the Board and Barclays Global Investors for a term of three-years, effective November 30, 2003; and

WHEREAS, the provisions of *SamCERA's Investment Plan*, BGI's Collective Investment Fund Guidelines and Investment Management Fees, including any amendment(s) thereto are incorporated into the Agreement as Exhibit A, Exhibit B and Exhibit C respectively; and

WHEREAS, the Board wishes to amend Exhibit B, “Collective Investment Fund Guidelines” and Exhibit C, “Investment Management Fees” to include provisions that allow for investment in Barclays Global Investors' Russell 1000 Alpha Tilts Fund ; and

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

RESOLVED that the Board hereby approves the amendments to the *SamCERA/BGI Investment Management and Custody Agreement* to allow investment in BGI's Russell 1000 Alpha Tilts Fund. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Barclays Global Investors to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the contract, the *Investment Plan*, 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 Investment & Finance Manager as its designee to perform those functions so identified in the contract and hereby authorizes the Investment & Finance Manager 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. Buffington, second by Ms. Colson, passed unanimously, that the Committee will recommend that the Board of Retirement approve the Resolution authorizing the Board Chair to execute an amendment to the BGI Investment Management Agreement to include the BGI Russell 1000 Alpha Tilts Fund.

6.5 Approval for BGI to Transition *SamCERA* Assets from BGI's Russell 1000 Index to BGI's Russell 1000 Alpha Tilts With the Board's approval for an enhanced index product, *SamCERA's* large cap investment portfolio needed to be restructured from an investment in the BGI Russell 1000 Index Fund into units of the BGI Russell 1000 Alpha Tilts Fund. The restructure will result in two large cap equity portfolios, the BGI Russell 1000 Index Fund and the BGI Russell 1000 Alpha Tilts Fund. Each Fund will have an equal market value of approximately 50% of *SamCERA's* large cap allocation. Implementation of the new mandate would occur on or around August 31, 2004.

Staff recommended that the Board authorize the Chair to execute the attached Letter of Authorization. In summary the LOA directs BGI to restructure one half of *SamCERA's* investment in the BGI Russell 1000 Index Fund (the “BGI Legacy Fund”) into units of the BGI Russell 1000 Alpha Tilts Fund (the “BGI Target Fund”). The Letter of Authorization details the transition process, including certain disclosures and authorizations.

For restructuring purposes Barclays Global Investors was asked to analyze *SamCERA*'s Russell 1000 Index Fund portfolio, worth approximately \$290 million. The target portfolio for the restructure is Barclays Global Investors' Russell 1000 Alpha Tilts Fund. BGI's analysis indicates that on a round trip basis approximately 42% of the transition can be completed through the natural overlap between the legacy and target portfolios. Of the residual trades, BGI estimates that 14% could be crossed at BGI or using public external crossing networks and 45% traded in the open market. Transaction costs, expressed both in dollars and basis points (bps), on the transition would be approximately \$379,063 or 13.1 bps. The estimated explicit (commission) trading costs associated with this transition are \$186,295 or 6.4 bps. The estimated implicit costs (spread & market impact) on the transition are \$192,768 or 6.7 bps.

The Committee reviewed the following resolution and by unanimous vote opined to recommend that the Board of Retirement approve the Resolution.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Transition Management Services
RESOLUTION 04-05-05

*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 Barclays Global Investors, N.A. (BGI)
for Transition Management Services.*

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, Board Resolution 03-04-05, as amended, approved a contract between the Board and Barclays Global Investors (BGI) for a term of three-years, effective November 30, 2003; and

WHEREAS, the Board adopted a manager structure for *SamCERA*'s large cap equity mandate that invests monies equally in the BGI Russell 1000 Index Fund and the BGI Russell 1000 Alpha Tilts fund; and

WHEREAS, *SamCERA*'s large cap equity investments are currently 100% in the Russell 1000 Index Fund and therefore need to be restructured into the new mandate. Therefore, be it

RESOLVED that the Board hereby approves a Letter of Authorization (LOA) with Barclays Global Investors that directs BGI to restructure an investment portfolio of domestic securities and cash from an investment in the BGI Russell 1000 Index Fund into units of the BGI Russell 1000 Alpha Tilts Fund on or around August 31, 2004 and subsequent funding dates as necessary. Be it further

RESOLVED that the Board hereby approves the costs as specified in BGI's August 3, 2004 analysis of transition from the BGI Russell 1000 Index Fund to the BGI Russell 1000 Alpha Tilts Fund. Be it further

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

RESOLVED that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Letter of Authorization and hereby authorizes the Investment and Finance

Manager 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 Letter of Authorization.

Action: Motion by Mr. Lewis, second by Mr. Buffington, passed unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute a Letter of Authorization with Barclays Global Investors for Transition Services from the legacy Russell 1000 Index fund to the target Russell 1000 Alpha Tilts Fund.

7.0 Other Business: None

8.0 Adjournment: There being no further business Mr. Lewis adjourned the Committee at 11:20 A.M.