

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

October 25, 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 Review, Revision & Reaffirmation of Investment Committee Charter
 - 6.3 Approval of Revisions to SamCERA's Investment Plan – Section 12 – Real Estate
 - 6.4 Acceptance of Investment Manager Due Diligence Report
 - 6.5 Approval of BGI Letter of Authorization for Restructure of US and Non-US Equity Portfolios
 - 6.6 Approval for Staff to Execute Alternative Restructure Strategy
 - 6.7 Approval of Investment Management Agreement – Goldman Sachs Asset Management
 - 6.8 Approval of Investment Management Agreement – Chartwell Investment Partners
 - 6.9 Approval of Investment Management Agreement – Brandes Investment Partners
 - 6.10 Approval of Investment Management Agreement – Mondrian Investment Partners Ltd.
 - 6.11 Approval of Investment Management Agreement – Julius Baer Investment Management LLC
 - 6.12 Approval of Investment Management Agreement – Western Asset Management Company
- 7.0 Other Business
- 8.0 Adjournment

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 10:07 A.M October 25, 2004, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan, Mr. Lewis (11:00), Ms. Salas, and Ms. Tashman *Board Members in Attendance:* Mr. McMahon, *Staff:* Ms. Carlson, Mr. Clifton and Mr. McCausland. *Consultant:* Mr. Thomas, *Public:* none *Retirees:* One
- 3.0 Approval of the Minutes:** The Minutes for the September 25, 2004 were not available.
- 4.0 Oral Communications From the Committee:** None
- 5.0 Oral Communications From the Public:** Mr. Clifton Provide the Investment & Finance Managers report.
 1. **Deutsche Asset Management** – DAMI's September 30, 2004 Market Commentary was provided
 2. **Bank of Ireland Asset Management** – BIAM's September 30, 2004 was provided.
 3. **INVESCO Realty Advisors** - The initial closing of the fund was successful in getting the five Founding Investors committed, obtaining all necessary lender consents to the transfers, and all necessary documents executed resulting in a gross asset base of \$464 million and Net Asset Value (NAV) of \$330 million. The Fund is 31% apartments, 20% industrial, 13% office building and 27% retail. The Fund has additional commitments of \$88 million of investable capital and is looking for

suitable investments. SamCERA's contribution of \$52.3 million receives 523 shares valued at \$100,000 per share which is approximately 16% of the Fund's ownership. INVESCO will be organizing the Fund's Advisory Committee shortly, which will be made up of representatives from each of the Founding Investors and will provide input on the strategic direction and governance of the Fund. The INVESCO Core Fund was in the finals and won a small mandate, \$12.5 million.

4. **Fixed Income Transition Report** – Mr. Clifton reminded the Committee that Fixed Income is an asset class that normally is transitioned without the assistance of a Transition Manager. SamCERA will liquidate \$100 million of its units in the BGI's US Debt Index fund and \$45 million from Deutsche Asset Management. The monies will be provided to Western Asset Management Company. The transition will create three fixed income portfolios worth approximately \$145 million each.
5. **SACRS' Fall 2004 Events** – A memorandum of SACRS' Fall 2004 events is attached. October 14, 2004 the memorandum was e-mailed to SamCERA personnel attending the Fall Conference.
6. **Deutsch Asset Management** – An e-mail was distributed on October 19th informing the Board that Tony Freitas, SamCERA's Client Representative at Deutsche Asset Management accepted a position with Blackrock. He will be with DeAM until month end. Heidi Walker, DeAM's Head of Client Services will support SamCERA until a senior person can be hired for DeAM's San Francisco Office. Mr. Clifton added that DeAM's Susan Brandy from San Francisco and Boris Karol from Philadelphia are easily accessible and provide excellent assistance.

- 6.1 Acceptance of Monthly Portfolio Performance.** Mr. Clifton Noted that the final performance numbers for the period ended September 30, 2004 was not available. The final audited numbers for the INVESCO Core Real Estate US Fund had not been submitted to State Street Bank. As soon as the audited performance data is available, the performance packet will be distributed. The Investment Committee was provided a preliminary performance report and a report that provides the assets in SamCERA's legacy portfolios and how they will be distributed to the target portfolios. Mr. Clifton noted there was nothing that stuck out on the performance report, ● In reviewing the report Ms. Tashman inquired rather the portfolio would be rebalance following the transition. Mr. Clifton stated that the transition should leave all portfolios, except Real Estate, within their target rebalancing ranges. Those target ranges are +/- 5% equities, +/- 3% Fixed Income and +/- 2% Real Estate.

The September 30, 2004 performance packet was delivered to the Board on October 25, 2004. Part of the following information is from that distribution.

SamCERA's 1.70% Total Fund Return for September 2004 trailed the Total Plan Policy Benchmark by 4 basis points (bps). Attribution, based on portfolio weightings and security selection, reveals that over the past thirty days security selection added 3 bps, which was not enough to offset the loss of 7 bps to portfolio weights. Russell 1000 Alpha Tilts returned 1.50% in its inaugural month, adding alpha of 24 bps. Real Estate was the strongest performing asset class for the month, 6.18%, and the quarter, 9.43%.

Major equity indexes were predominately negative during the third quarter of 2004. Record high oil prices and concerns of a terrorist attack going into the Presidential election stymied market gains. Crude oil ended the quarter slightly below \$50 a barrel due to a series of supply shocks. The Fed is expected to continue their gradual unwinding of the easy monetary policy with another 25 basis point rate hike at the November FOMC meeting.

The table below shows *SamCERA*'s composite returns.

September 30, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$978,015,813	2.09%	-1.75%	-0.83%	15.83%
Equity Composite Benchmark		2.24%	-1.31%	-0.54%	16.79%
Variance		-0.15%	-0.44%	-0.29%	-0.96%
Fixed Income Aggregate	\$452,468,471	0.34%	3.29%	0.92%	4.32%
Fixed Income Composite Benchmark		0.27%	3.20%	0.68%	3.68%
Variance		0.07%	0.09%	0.24%	0.64%
Real Estate Aggregate (1)	\$52,643,501	6.18%	7.45%	9.43%	15.35%
NCREIF (one quarter lag)		3.42%	3.42%	6.66%	12.41%
Variance		2.76%	4.03%	2.77%	2.94%
Cash Aggregate	\$7,475,229	0.18%	0.56%	1.10%	2.20%
91 Day Treasury Bill		0.13%	0.37%	0.60%	1.10%
Variance		0.05%	0.19%	0.50%	1.10%
Total Fund Returns	\$1,490,603,015	1.70%	0.05%	0.15%	12.48%
Total Plan Policy Benchmark		1.74%	0.29%	0.27%	12.71%
Variance		-0.04%	-0.24%	-0.12%	-0.23%

Performance versus *SamCERA*'s Actuarial Discount Rate

Total Fund Returns		1.70%	0.05%	0.15%	12.48%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		1.06%	-1.89%	-3.77%	4.48%

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

Asset Allocation As of 09/30/2004	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
BGI Russell 1000 Alpha Tilts	\$295,317,923	19.81%	20.00%	-0.19%	±5%
BGI Russell 1000	\$294,811,117	19.78%	20.00%	-0.22%	±5%
BGI Russell 2000	\$163,408,192	10.96%	10.00%	0.96%	±5%
BIAM	\$224,478,581	15.06%	15.00%	0.06%	±5%
Total Equity	\$978,015,813	65.61%	65.00%	0.61%	
BGI US Debt	\$250,109,844	16.78%	16.00%	0.78%	±3%
DAMI	\$202,358,627	13.58%	13.00%	0.58%	±3%
Total Fixed Income	\$452,468,471	30.35%	29.00%	1.35%	
Real Estate	\$52,643,501	3.53%	6.00%	-2.47%	±2%
Cash	\$7,475,229	0.50%	0.00%	0.50%	
Total	\$1,490,603,015	80.19%	80.00%		

Below is a report that provides the assets in *SamCERA's* legacy portfolios and how they will be distributed to the target portfolios.

Legacy Portfolio As of 09/30/2004	Current Market Value	New Mandated Target Portfolios Market Value	%	Portfolio Manager
BGI Russell 1000 Alpha Tilts	\$295,317,923	\$295,317,923	19.81%	Barclays Global Investors Russell 1000
BGI Russell 1000	\$294,811,117	\$294,811,117	19.78%	Barclays Global Investors Enhanced R1000
BGI Russell 2000	\$163,408,192	\$0		
Enhanced R2000		\$81,704,096.05	5.48%	Goldman Sachs Asset Management
Active Value Mandate		\$40,852,048.03	2.74%	Brandes Investment Partners
Active Growth Mandate		\$40,852,048.03	2.74%	Chartwell Investment Management
Bank of Ireland Asset Management	\$224,478,581	\$0		
Active Core Mandate		\$112,239,291	7.53%	Delaware International Advisors, Ltd.
Active Core Mandate		\$112,239,291	7.53%	Julius Baer Investment Management
Total Equity	\$978,015,813	\$978,015,813	65.61%	
Barclays Global Investors US Debt	\$250,109,844	\$144,091,625	9.67%	Barclays Global Investors US Debt
Deutsche Asset Management, Inc.	\$202,358,627	\$144,091,625	9.67%	Deutsche Asset Management, Inc.
Core Plus Mandate		\$144,091,625	9.67%	Western Asset Management
Total Fixed Income	\$452,468,471	\$432,274,874	29.00%	
Real Estate	\$52,643,501	\$52,643,501	3.53%	Open End Core Real Estate Fund
		\$27,668,827	1.86%	May Consider Manager Diversification (2)
Cash	\$7,475,230	\$0	100.00%	
Total	\$1,490,603,015	\$1,490,603,015		

Action: The Investment Committee unanimously accepted the performance report. The Committee will recommend to the Board of Retirement that it accepts the report.

6.2 Review, Revision & Reaffirmation of Investment Committee Charter. The Investment Committee recommended the following amendment to its Charter at the September 28, 2004, Investment Committee meeting. The Committee reviewed its charter. At the meeting of the Retirement Board, the Investment Committee recommended the amendment. Certain trustees expressed the opinion that they did not have adequate time to review the proposed amendments. The consensus of the Board was to table the proposed amendments until October 25, 2004.

In September, Mr. McCausland pointed out that the Regulations of the Board of retirement had been amended and the third and fourth Whereas Clauses no longer applied. The Investment Committee opined that the Third Whereas Clause should be removed in its entirety. The Fourth Whereas Clause would be amended as follows:

WHEREAS, *The Board of Retirement*, wishes to exercise these powers as follows:

EXERCISE OF POWERS: The Board shall exercise its investment, management and administrative authority and responsibility through the approval of motions recorded in public meeting

Below is the entire Resolution.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Investment Committee Charter as Amended
RESOLUTION 99-00-09

*This Resolution, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA),
sets forth the Charter for the Board's Investment Committee.*

WHEREAS, Article XVI, §17 of the Constitution of the State of California as amended in 1992 to read, in pertinent part, as follows:

Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:

- (a) The retirement board shall have the sole and exclusive fiduciary responsibility over the assets of the ... system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets ... are trust funds and shall be held for the exclusive purposes of providing benefits to participants ... and their beneficiaries and defraying reasonable expenses of administering the system.*
- (b) The members of the retirement board ... shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.*
- (c) The members of the retirement board ... shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*
- (d) The members of the retirement board...shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.*
- (e) The retirement board..., consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the system . ; &*

WHEREAS, California Government Code §31595 states, as follows:

The Board has exclusive control of the investment of the employees' retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board...; &

WHEREAS, *The Board of Retirement*, wishes to exercise these powers as follows:

EXERCISE OF POWERS: *The Board shall exercise its investment, management and administrative authority and responsibility through the approval of motions recorded in public meeting&*

WHEREAS, the Board has adopted *SamCERA's Investment Plan* and amendments thereto to direct the investments of the Retirement Fund and now wishes to establish an Investment Committee to guide the future

evolution of *SamCERA's Investment Plan*. Therefore, be it

RESOLVED that the Board hereby establishes a standing Investment Committee to direct the Board in its ongoing evaluation of *SamCERA's Investment Plan*, including but not limited to

- 1.0 CONDUCT ASSET ALLOCATION STUDIES
 - 1.1 Determine the characteristics of the Plan's liabilities in regards to the nature of Fund's cash flows
 - 1.2 Evaluate plan funded status
 - 1.3 Evaluate active & retired member demographics
 - 1.4 Model plan payments for 50-70 years into future
 - 1.5 Project expected contribution rates & variability
- 2.0 DEVELOP ASSET MIX ALTERNATIVES TO MEET LIABILITY REQUIREMENTS
 - 2.1 Establish allowable asset classes
 - 2.2 Determine asset class benchmarks
 - 2.3 Develop risk, return & correlation projections
- 3.0 EVALUATE EFFICIENT FRONTIER ALTERNATIVES
 - 3.1 Define risk, return and correlation
 - 3.2 Evaluate mean variance optimization
 - 3.3 Determine low risk alternatives and high risk alternatives
 - 3.4 Scale portfolios between two extremes
 - 3.5 Evaluate optimized efficient frontier
 - 3.6 Integrate optimized efficient frontier with asset-liability relationships
- 4.0 ANALYZE BOARD RISK TOLERANCE
 - 4.1 Assess risk/reward trade-offs
 - 4.2 Assess contribution rate sensitivity & variability
 - 4.3 Assess ability to exceed actuarial interest rate
 - 4.4 Assess comfort level with characteristics of specific asset mixes
- 5.0 RECOMMEND PREFERRED ASSET MIX
 - 5.1 Evaluate differences from current target
 - 5.2 Evaluate Board's willingness to implement new target asset mix
 - 5.3 Evaluate appropriateness of variance from peer public fund norms
- 6.0 RECOMMEND AMENDMENTS TO *SAMCERA'S INVESTMENT PLAN*
 - 6.1 Adjust target asset mix
 - 6.2 Introduce new benchmarks
 - 6.3 Include required asset class/portfolio modifications
- 7.0 RECOMMEND REVISIONS TO MANAGER STRUCTURE
 - 7.1 Adjust manager/style line-up as necessary
 - 7.2 Introduce new managers/asset classes
 - 7.3 Terminate managers/asset classes as necessary
 - 7.4 Establish active & passive allocation targets as appropriate
- 8.0 IMPLEMENT CHANGES TO MANAGER STRUCTURE
 - 8.1 Recommend time-line & approach to revise structure
 - 8.2 Conduct manager evaluations
 - 8.3 Establish portfolio and asset allocation rebalancing procedures
- 9.0 EVALUATE MANAGER PERFORMANCE
 - 9.1 Monitor results of managers both gross and net of investment management fees
 - 9.2 Assess consistency of portfolio decision making
 - 9.3 Evaluate organizational, ownership, personnel & other firm developments
- 10.0 RECOMMEND AND EVALUATE INVESTMENT CONSULTANT STRUCTURE & PERFORMANCE
 - 10.1 Recommend for Board determination the retention and termination of Investment Consultant(s) as necessary
 - 10.2 Define and assign special projects as warranted

- 10.3 Monitor performance of Investment Consultant
- 10.4 Conduct evaluations of Investment Consultants
- 10.5 Evaluate organizational, ownership, personnel and other firm developments
- 11.0 EVALUATE & RECOMMEND REVISIONS TO THE ECONOMIC ACTUARIAL ASSUMPTIONS AND OTHER ACTUARIAL ASSET CONSIDERATIONS
 - 11.1 Evaluate the data and methodology employed by the Actuary when setting the assumptions for inflation, investment return, salary increase and when establishing the actuarial value of assets and recommend revisions as appropriate.
 - 11.2 Assure that the Consultant integrates Actuarial input with all Asset Liability Modeling Studies
 - 11.3 Evaluate the consistency of actuarial-economic and investment policies and processes
- 12.0 INITIATE & EVALUATE SPECIAL INVESTMENT STUDIES
- 13.0 UNDERTAKE OTHER WORK ASSIGNED TO IT BY THE BOARD Be it further

RESOLVED that the Chair may appoint the members of the Investment Committee per Regulation 2.5.1. Be it further

RESOLVED that the Chief Executive Officer is hereby instructed to provide the Committee with access to all appropriate County and SamCERA resources and records, so long as such access is consistent with sound fiduciary practices. Be it further

RESOLVED that the Chief Executive Officer is hereby authorized to provide compensation of \$100 per meeting for not more than two meetings per month to the members of the Committee eligible for such compensation, per GC§31521. Be it further

RESOLVED that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations, which the Investment Committee may present from time to time pursuant to the provisions of this Resolution, per Regulation 2.3.

ADOPTED by unanimous vote, January 25, 2000

AMMENDED by unanimous vote, May 22, 2001

AMMENDED by unanimous vote, October 26, 2004 (added after Board approval)

Action: By consensus, the Investment Committee will recommend to the Board of Retirement that it adopt the above amendment to Board Resolution 99-00-09, Investment Committee Charter as Amended

6.3 Approval of Revisions to SamCERA's Investment Plan – Section 12 – Real Estate. In September, Mr. Clifton reminded the Board that the restructuring of SamCERA's managers and changes in Capital Market Assumptions necessitated amendments to SamCERA's *Investment Plan*. Board direction early in the manager restructure project was to begin a thorough review at its conclusion. ● Mr. Lewis noted that the real estate core fund mandate was significantly different from the separate property mandate. He requested that the Committee place that section of the *Investment Plan* on the October agenda.

The Investment Committee reviewed the following redline version of the proposed amendment to the real estate section.

12.0 REAL ESTATE PROPOSED

12.1 INVESTMENT OBJECTIVES: SamCERA has determined that over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of its portfolio investment. Real estate investments occur in an inefficient market and will be designed to provide returns in excess of the industry benchmarks. Active management, value creation and opportunistic strategies, as well as prudent use of third party debt, are approved methods of generating excess return. A secondary objective will be to improve the diversification of the overall investment portfolio.

12.1.a: Completion of due diligence entails Staff, Consultant, and Counsel to review the investments structure and associated legal documents.

12.1.b: Investment structures will be monitored quarterly to evaluate investment performance and to

ensure compliance with vehicle documents.

12.2 REAL ESTATE PERFORMANCE OBJECTIVES: The investment manager(s) retained by SamCERA shall be accountable for generating total time-weighted rates of return (TTWRR), net of fees, which equal or exceed, the NPI (“NCREIF Property Index”).

12.3 REAL ESTATE GUIDELINES: The responsibility for real estate selection and purchase and sale decisions is delegated to the real estate manager(s) in Section 15.4, *et seq.* The manager, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions, (d) leverage, (e) special conditions, (f) annual plan and (g) exemptions.

(a) Diversification:

12.3.a.1: The Board will employ a Collective Vehicles account investment structure.

12.3.a.2: The Collective Vehicle may not exceed a concentration of 40% (by value) in any single property type or 25% in any single metropolitan statistical area, determined as of the date of the acquisition of a property.

12.3.a.3: Collective Vehicles shall be diversified as to region, property type, industry and economic base.

(b) Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar properties, high quality construction and design, a market with underlying fundamental strengths and a strong location.

(c) Restricted Transactions:

12.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq*

12.3.c.2: No properties shall be purchased outside of the boundaries of the forty-eight contiguous United States.

12.3.c.3: No single-purpose, specialized properties (e.g. hotels, medical facilities, land, etc.) shall be purchased unless the criteria are specified in the investment manager's contract.

(d) Leverage: The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 30% of overall loan to value, with a target of 15% of the aggregate portfolio.

(e) Special Conditions:

12.3.e.1: The Collective Vehicles shall include specific provisions governing reporting, due diligence, property valuations, property management, insurance, unrelated business income tax and property specific environmental evaluations and environmental liabilities.

12.3.e.2: No transaction shall be entered into that does not meet the unique compliance requirements outlined in the Collective Vehicle’s Private Placement Memorandum.

(f) Exemptions: The investment manager(s) must request prior written approval from the Board for permission to deviate from the provisions of these guidelines.

(g) Annual Plan: The investment manager(s) must provide the Board with a strategic review on an annual basis. Some of the items to be provided in the annual plan include: (1) Organizational Review, (2) Leasing Status, (3) Operating Income, (4) Distributed Income, (5) Operating Expenses, (6) Capital Expenses, (7) Fees, (8) Buy/Sell Analysis by Property and (9) Strategy for Coming Year.

12.4 COLLECTIVE VEHICLE OVERSITE: The Board has determined that engagement is the best course to implement change.

12.4.a. Whenever possible, SamCERA’s Investment & Finance Manager will be appointed to The Collective

Vehicle's Advisory Committee. The Advisory Committee meets with management to consider and comment on such matters as the financial statements, appraisal reports, the status of outstanding investments, the economic and financial trends and conditions affecting investments, and such other matters relating to the business of the Collective Vehicle.

12.4.b. Whenever possible, *SamCERA's* Investment & Finance Manager attend the Collective Vehicle's annual meeting. The annual meeting offers investors the opportunity to review and discuss the Collective Vehicle's activities. will be appointed to The Collective Vehicle's Advisory Committee. The Advisory Committee meets with management to consider and comment on such matters as the financial statements, appraisal reports, the status of outstanding investments, the economic and financial trends and conditions affecting investments, and such other matters relating to the business of the Collective Vehicle.

In reviewing the proposed amendments the Committee addressed the following issues:

- 1) Section 12.1 Investment Objectives – The Committee embraced the new objective, including due diligence and monitoring.
- 2) Section 12.2 cash on cash returns of 70%. Mr. McCausland offered that part of the Board's original reasoning for a Real Estate allocation was that it would be a source of working capital. In addition the Board wished to have a portfolio where 70% of the TTWR was generated through cash flow not through appreciation. In response to Ms. Tashman, Mr. Clifton noted that the separate property portfolio had provided approximately \$7 to 8 million in cash flow per year. That cash flow will now come from portfolio rebalancing. As needed, cash will be requested from portfolio's that are the most over the targeted allocation.
- 3) Section 12.3 Real Estate Guidelines – The use of the term Collective Vehicles was approve to indicate a wide range of fund products that may be employed in future strategies.
- 4) Section 12.4 Oversight – The Committee approves of engagement as a strategy to implement change.
- 5) Ms. Carlson noted the proposed amendment uses the term collective vehicle and investment manager. She recommended the term be consistent throughout.

This is the first hearing of the amendment.

Action: By consensus, the Investment Committee will notify the Board of Retirement of its changes to the proposed amendment and recommend that the Board of Retirement review and provide comments on the proposed amendment.

6.4 Acceptance of Investment Manager Due Diligence Report. *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. The Board instructed staff to perform the site visit due diligence at the conclusion of the manager structure process. During October Mr. Clifton and Ms. Jadallah or Mr. Thomas conducted due diligence on five of *SamCERA's* six proposed new managers. Please, note Mondrian Investment Partners was not visited. The Mondrian due diligence pursuant to Board direction took the form of an interview with Clive Gilmore, Deputy Managing Director, Andrew Miller, Portfolio Manager – Emerging Markets, and James Brecker, Client Services when they were in San Francisco on September 29, 2004.

Ms. Jadallah and Mr. Thomas prepared written reports on the due diligence visits to the Investment Managers. The Investment Committee, Mr. Thomas and Mr. Clifton discussed the visits. In summary the Investment Consultant and staff left each site comfortable with the fact that Investment Manager was a good choice to manage the mandate for which they were selected.

Mr. Lewis joined the committee during this agenda item. He asked Mr. Bryan to continue as Chair

Below is a recap of the asset/liability modeling study and the search process leading to the new manager structure.

In July 2003, the Investment Committee devoted most of its meeting to reviewing the results of Strategic Investment Solutions' asset / liability modeling study. After careful review of each of the alternatives evaluated, the Committee concluded that the risk and return profile of the Association's current asset allocation is the most appropriate one for *SamCERA*. The Board adopted the Investment Committee's recommendation and reaffirmed *SamCERA*'s asset allocation of 65% Equity (40% Large Cap Domestic, 10% Small Cap Domestic, & 15% International), 29% Domestic Fixed Income, and 6% Real Estate.

The Board immediately embarked upon a review of its manager structure. At the onset of the review *SamCERA*'s large cap equity manager structure was 100% passively invested in BGI's Russell 1000 Index Fund. The Board opined that the Association should seek increased alpha in that asset class by investing in a Russell 1000 enhanced product. 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.

In March 2004, the Board considered small cap growth managers and reviewed data on Chartwell Investment Partners, Next Century Growth Investors, Wellington Management Company and Westcap Investors before narrowing the field to two finalists that were invited to interview before the entire Board at the April 2004 meeting. The finalists were Chartwell Investment Partners, and Next Century Growth Investors. When Next Century received the invitation to the *SamCERA* small cap growth final interview, it alerted SIS that the SEC investigation and the Strong situation have not been resolved. Next Century declined to accept the invitation to interview. The Board was determined to proceed with the search process by interviewing Chartwell Investment Management and then reviewing the Board's options for completion of the Small Cap Growth Manager Search. The Board opined that its search process was robust. Chartwell was the best of all candidates screened. Therefore would be offered *SamCERA*'s small cap growth mandate, approximately \$35 million

In March 2004, the Board also considered small cap value managers and reviewed American Century Investment Management, Brandes Investment Partners, Donald Smith & Company, Osprey Partners Investment Management, and Thompson Siegel & Walmsley before narrowing the field to two finalists that were invited to interview before the entire Board at the April 2004 meeting. Those finalists were American Century Investment Management and Brandes Investment Partners. Brandes Investment Partners was offered *SamCERA*'s small cap value mandate, approximately \$35 million.

In April 2004, the Board considered international core value managers and reviewed data on BPI Global Asset Management, Capital Guardian Trust Company, Clan Finlay, Inc., JPMorgan Fleming Asset Management, Julius Baer Investment Management, and New Star Institutional Managers before narrowing the field to two finalists that were invited to interview before the entire Board at the May 2004 meeting. The finalists were Capital Guardian Trust Company and Julius Baer Investment Management. Julius Baer Investment Management was offered *SamCERA*'s international core growth mandate, approximately \$110 million.

Also in April 2004, the Board considered international core growth managers and reviewed data for Alliance Bernstein Institutional Investment Management, Delaware International Advisors, Ltd., INVESCO Global Asset Management (N.A.), Inc., LSV Asset Management, Philadelphia International Advisors, and The Boston Company Asset Management, LLC. The field of candidates was then narrowed to two finalists who were invited to interview before the entire Board at the May 2004 meeting. Those finalists were Delaware International Advisors, Ltd. and LSV Asset Management. Delaware International Advisors, Ltd., now known as Mondrian Investment Partners was offered *SamCERA*'s international core value mandate, approximately \$110 million.

In May 2004, the Board, with the assistance of SIS, considered small cap enhanced managers and review data for Citigroup Asset Management, Goldman Sachs Asset Management, JPMorgan Fleming Asset Management, and PanAgora Asset Management before narrowing the field to two finalists that were invited to interview before the entire Board at the June 2004 meeting. The finalists were Goldman Sachs Asset Management and JPMorgan Fleming Asset Management. Goldman Sachs Asset Management was offered SamCERA's small cap enhanced mandate, approximately \$75 million.

In July 2004, the Board considered managers for a fixed income core-plus mandate and reviewed data for Deutsche Asset Management, Hartford Investment Management, Payden & Rygel, Pacific Investment Management Company, LLC (PIMCO), Trust Company of the West Group, Inc. (TCW), and Western Asset Management Company. The candidates were narrowed to three semi-finalists, Deutsche Asset Management, PIMCO and Western Asset Management who were asked to provide additional information on the cost of transitioning to their product from SamCERA's legacy portfolio, BGI's US Debt Index Fund. The Board reviewed the estimated transition costs, management fees, and historical performance in August, selecting Deutsche Asset Management and Western Asset management as the two finalists. On September 28, 2004 the Board selected Western Asset Management Company to manage approximately \$145 million in a core plus fixed income mandate.

Action: By consensus, the Investment Committee accepted the written and oral reports regarding the due diligence trips. The Committee will recommend to the Board of Retirement that it also accept the reports.

6.5 Approval of BGI Letter of Authorization for Restructure of US and Non-US Equity Portfolios. Should the Board authorize each of the Investment Manager Agreements (IMA) in the following agenda items, BGI's Russell 2000 must be restructured into the three small cap mandates and the Bank of Ireland's Group Trust must be restructured into the two international mandates. The distribution in percentage and approximate market value has been described in the previous agenda item. Implementation of the new mandates would occur on or around October 29, 2004.

In summary the BGI Letter of Authorization directs BGI to restructure *SamCERA's* US Equity Portfolio, the BGI Russell 2000 Index Fund, into portfolios managed by Goldman Sachs Asset Management, Chartwell Investment Partners, and Brandes Investment Partners. It also directs BGI to restructure *SamCERA's* Non-US Equity Portfolio, BIAM Group Trust, into portfolios managed by Julius Baer Investment Management and Mondrian Investment Partners. 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 2000 Index Fund portfolio, worth approximately \$167 million. The target portfolios for the restructure are Goldman Sachs Asset Management, Chartwell Investment Partners, and Brandes Investment Partners. BGI's analysis indicates that on a round trip basis approximately 20% of the transition can be completed through the natural overlap between the legacy and target portfolios. Of the residual trades, BGI estimates that 12% could be crossed at BGI or using public external crossing networks and 68% traded in the open market. Transaction costs, expressed both in dollars and basis points (bps), on the transition would be approximately \$924,063 or 56 bps. The estimated explicit (commission) trading costs associated with this transition are \$305,981 or 18 bps. The estimated implicit costs (spread & market impact) on the transition are \$618,724 or 37 bps. BGI's analysis points out there is an opportunity risk of +/- \$257,501 or 15 bps.

Barclays Global Investors also analyzed *SamCERA's* BIAM Group Trust portfolio, worth approximately \$200 million. The target portfolios for the restructure are Julius Baer Investment Management and Mondrian Investment Partners. BGI's analysis indicates that on a round trip basis approximately 24% of the transition can be completed through the natural overlap between the legacy and target portfolios. Of the residual trades, BGI estimates that 76% will be traded in the open market. Transaction costs, expressed both in dollars and basis

points (bps), on the transition would be approximately \$1,187,397 or 60 bps. The estimated explicit (commission, taxes, & duties) trading costs associated with this transition are \$681,857 or 35 bps. This estimation includes a line item for Stamp Duties, which are imposed when there is a change in beneficial ownership. The duties are in Hong Kong, Ireland, Turkey and the United Kingdom. It is *SamCERA's* position there is no change in beneficial ownership. As of the Investment Committee date, staff is still communicating with Barclays Global Investors, Bank of Ireland Asset Management and State Street Bank in an attempt to avoid the \$235,000 Stamp Duty in the United Kingdom. The estimated implicit costs (spread & market impact) on the transition are \$505,540 or 25 bps. BGI's analysis points out there is an opportunity risk of +/- \$517,343 or 26 bps.

Mr. Lewis requested additional information regarding the commission structure for the transitions, including whether there was room for an additional savings. Mr. Clifton responded that BGI's initial charge for domestic equity transactions was three cents per share. Mr. Lewis instructed staff inquire with BGI if there was room to reduce the commission cost. (After the meeting, BGI agreed to reduce the domestic commission to one and three quarters cents per share. The international commission was reduced by 10% of the total.)

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Transition Management Services
RESOLUTION 04-05-17

*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* small cap equity mandate that invests 50% of the assets in a structured portfolio, 25% in an active value portfolio and 25% in an active growth portfolio; and

WHEREAS, the Board adopted a manager structure for *SamCERA's* international equity mandate that invests 50% of the assets in an active core value portfolio and 25% in an active core growth portfolio; and

WHEREAS, *SamCERA's* small cap equity investments are currently 100% in BGI's Russell 2000 Index Fund and *SamCERA's* international equity investments are currently 100% in the Bank of Ireland Group Trust, therefore the assets 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 2000 Index Fund into portfolios managed by Goldman Sachs Asset Management, Brandes Investment Partners and Chartwell Investment Management and to restructure an investment portfolio of international securities and cash from an investment in the Bank of Ireland Group Trust into portfolios

managed by Julius Baer Investment Management and Mondrian Investment Partners on or around October 29, 2004 and subsequent funding dates as necessary. Be it further

RESOLVED that the Board hereby approves the costs as specified in BGI's October 8, 2004 analysis of transition from the BGI Russell 2000 Index Fund to portfolios managed by Goldman Sachs Asset Management, Brandes Investment Partners and Chartwell Investment Management and BGI's October 20, 2004 analysis of transition from BIAM's Group Trust to portfolios managed by Julius Baer Investment Management and Mondrian Investment Partners. 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 Ms. Lewis, second by Ms. Tashman, carried 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 Investor to direct BGI to restructure SamCERA's US Equity Portfolio, the BGI Russell 2000 Index Fund, into portfolios managed by Goldman Sachs Asset Management (~50%), Chartwell Investment Partners (~25%), and Brandes Investment Partners (~25%). It also directs BGI to restructure SamCERA's Non-US Equity Portfolio, BIAM Group Trust, into portfolios managed by Julius Baer Investment Management (~50%) and Mondrian Investment Partners (~50%).

- 6.6 Approval for Staff to Execute Alternative Restructure Strategy.** Mr. Clifton requested the Investment Committee recommend to the Board that staff be provided with flexibility should unforeseen events occur during the restructuring of the portfolio. The attached Resolution authorizes staff to perform the necessary tasks to complete the restructuring in a manner as closely as possible to the mandate of the Board.

Also attached to this agenda item is a Letter of Authorization allowing Deutsche Asset Management to cross trades in the transition of SamCERA's assets from the DAMI portfolio to the WAM portfolio. SamCERA specifically disallows DAMI to cross a matter of normal operations. This LOA is required to allow the cross trading as one-time event.

The Committee unanimously agreed that staff should be delegated the authority to act in the Association's best interest to successfully accomplish a transition of this magnitude.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Transition Management Services
RESOLUTION 04-05-18

*THIS RESOLUTION, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA), approves
the execution of a Letter of Understanding with Deutsche Asset Management (DAMI) for Cross Trading and
authorizes staff to take required actions to complete the restructuring of SamCERA's Portfolio.*

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, the Board adopted a manager structure for *SamCERA's* small cap equity mandate that invests 50% of the assets in a structured portfolio, 25% in an active value portfolio and 25% in an active growth portfolio; and

WHEREAS, the Board adopted a manager structure for *SamCERA's* international equity mandate that invests 50% of the assets in an active core value portfolio and 25% in an active core growth portfolio; and

WHEREAS, *SamCERA's* small cap equity investments are currently 100% in BGI's Russell 2000 Index Fund and *SamCERA's* international equity investments are currently 100% in the Bank of Ireland Group Trust, therefore the assets need to be restructured into the new mandate; and

WHEREAS, the Board recognizes that cross trading may reduce transition costs during a portfolio restructure; and

WHEREAS, the Board recognizes that unforeseen events may occur during the restructuring of the portfolio. Therefore, be it

RESOLVED that the Board hereby authorizes staff to execute a Letter of Authorization with Deutsche Asset Management (DAMI) to allow cross trading as a one-time event to help facilitate the pending restructure. Be it further

RESOLVED that the Board hereby authorizes staff to take the steps require to complete the restructuring of *SamCERA's* portfolio as closely as possible to the manager structure described above. These steps may require and include executing binding agreements, as it relates to the restructuring, on behalf of the Board. Be it further

RESOLVED that the Board hereby authorizes staff to take the steps require to complete the restructuring of *SamCERA's* portfolio as closely as possible to the manager structure described above. These steps may require and include executing binding agreements, as it related to the restructuring, 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 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.

Action: Motion by Ms. Tashman, second by Ms. Salas, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize staff to perform the necessary tasks to complete *SamCERA's* portfolio restructuring in a manner as close as possible to the Board's mandate.

- 6.7 Approval of Investment Management Agreement – Goldman Sachs Asset Management.** Agenda items 6.7 through 6.12 were primarily discussed collectively. Ms. Carlson and Mr. Clifton provided background for *SamCERA's* boiler plate Investment Management Agreement. They first developed the template 1994 when the Board moved from a single fixed income asset class to a modern diversified portfolio containing various asset classes. Since then there have been Investment Managers, Investment Consultants, Investment Client Service Personnel, Attorneys and various other experts on the Board of

Retirement who have provided insight and amendments over the years.

The most recent amendment occurred with this iteration. Mr. Buffington requested two days prior to this meeting that *SamCERA's* current language in Section 2 DUTIES AND POWERS OF THE INVESTMENT MANAGER, Sub-Section iv) which read, "*The Investment Manager shall make no profit on any transactions executed for the Board.*" Be broadened in an attempt to control soft dollars. The amended language reads, "*The Investment Manager or any of its affiliates will not receive compensation from the counter party in any transaction involving SamCERA.*" The requested amendment is an attempt to control the use of soft dollars. Mr. Clifton was successful in negotiating the new language into all six new Investment Manager Agreements.

Ms. Carlson offered that it may be appropriate that early in 2005 for the Investment Committee to place a review of the Investment Manager Agreement on the agenda. She noted that the boiler plate IMA was sent to all investment manager finalists for their review, comments, and approval during the search process. It is not professional for *SamCERA* to request that the managers adopt last minute amendments. Mr. Lewis informed the Committee that he requested an electronic version of *SamCERA's* IMA, which he forwarded to an attorney. The attorney indicated that the IMA was "pretty good".

In this agenda item and through agenda item 6.12 the Committee and staff discussed only those sections of the IMA that would deviate for *SamCERA's* boiler plate IMA.

Goldman Sachs Asset Management will be allowed to employ Institutional Shareholder Services to vote Proxies. Exhibit A, *SamCERA's Investment Plan*, and Exhibit C, Investment Guidelines, will be tied together to detail the investment guidelines. If there are variances, Exhibit C will prevail. The Board agrees to let GSAM reveal *SamCERA* as a client and to the counterparty. GSAM discloses that it may have conflicts and that those conflicts are more fully detailed in their ADV Part II. *SamCERA* attests it is a "Qualifies Eligible Person".

Mr. Thomas thoroughly reviewed Exhibit C, Investment Guidelines with the Investment Committee. The Committee was comfortable with the guidelines, including the fact that GSAM would equitize cash through the use of futures.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 04-05-11

*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 Goldman Sachs Asset Management (GSAM).*

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 May25, 2004, the Board considered proposals from four firms for investment management services under a small cap enhanced index mandate. Citigroup Asset Management and PanAgora Asset Management were eliminate and Goldman Sachs Asset Management and JPMorgan Fleming Asset Management were invited to return for a second interview ; and

WHEREAS, on June 22, 2004, the Board interviewed representatives from Goldman Sachs Asset Management and JPMorgan Fleming Asset Management, selecting Goldman Sachs Asset Management for the small cap enhanced index mandate funded at approximately \$75 million; and

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

RESOLVED that the Board hereby approves the contract between the Board and Goldman Sachs Asset Management for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Goldman Sachs Asset Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement 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 Agreement 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 Ms. Tashman, second by Mr. Lewis, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Goldman Sachs Asset Management.

- 6.8 Approval of Investment Management Agreement – Chartwell Investment Partners.** Mr. Clifton indicated that Chartwell had asked to lower the amount for worker compensation insurance, and having been reviewed by Staff, County Counsel and Risk Management, Chartwell's request was approved. There are no other items to point out regarding amendments to this IMA.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 04-05-12

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 Chartwell Investment Partners.

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 March 23, 2004, the Board considered proposals from four firms for investment management services under a small cap growth mandate. Wellington Management Company, and Westcap Investors were eliminated. Chartwell Investment Partners and Next Century Growth Investors were invited to return for a second interview as finalists.; and

WHEREAS, before the final interviews on April 27, 2004 Next Century Growth Investors requested that it be excused from the finalist selection process due to uncertainty surrounding its relationship with Strong Funds and the Security Exchange Commission's investigation into market timing.; and

WHEREAS, The Board interviewed representatives from Chartwell Investment Partners on April 27, 2004 before offering it *SamCERA's* small cap growth mandate to be funded with approximately \$37 million; and

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

RESOLVED that the Board hereby approves the contract between the Board and Chartwell Investment Partners for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Chartwell Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement 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 Agreement 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. Lewis, second by Mr. Salas, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Chartwell Investment Partners.

6.9 Approval of Investment Management Agreement – Brandes Investment Partner. Brandes requested that *SamCERA's* requirement for crime coverage be substituted with Fiduciary Liability Insurance in Exhibit B "Insurance". The section reads Fiduciary Liability/Errors and Omissions, "*A Fiduciary Liability Policy covering Investment Manager's employees and agents of not less than ten million dollars (\$10,000,000) to*

provide protection to the Board against loss by reason of acts of fraud or dishonesty on the part of the manager and Errors and Omissions insurance of not less than ten million (\$10,000,000)." Ms. Carlson informed the Board that staff, risk management, and she reviewed the language. She required the inclusion of the "by reason of fraud and dishonesty" language, which should cover *SamCERA's* concerns.

Mr. Clifton reminded the Committee that Brandes deep value style of investing may lead it to invest a portion of the portfolio in depressed corporations. The down-side risk of this type of investment is that the corporation may slide into bankruptcy.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 04-05-13

*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 Brandes Investment Partners*

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 March 23, 2004, the Board considered proposals from five firms for investment management services under a small cap value mandate. Donaldson Smith & Company, Osprey Partners Investment Management, and Thompson, Siegel & Walmsley were eliminated. American Century Investment Management and Brandes Investment Partners were invited to return for a second interview as finalists; and

WHEREAS, on April 27, 2004, the Board interviewed representatives from American Century Investment Management and Brandes Investment Partners, selecting Brandes Investment Partners for a small cap value mandate to be funded with approximately \$37 million; and

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

RESOLVED that the Board hereby approves the contract between the Board and Brandes Investment Partners for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Brandes Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement 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 Agreement 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. Lewis, second by Ms. Tashman, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Brandes Investment Partners.

- 6.10 Approval of Investment Management Agreement – Mondrian Investment Partners Ltd.** Mr. Clifton pointed out that in Section 16 Mondrian wishes to vote proxies in accordance with its' Proxy Voting Policies and Procedures, which incorporates the Institutional Shareholder Services ("ISS") policy which is the industry standard for protecting client interests. The Policies and Procedures are incorporated as Exhibit D. In addition Mondrian believes Delaware Pooled Trust (DPT) is an appropriate investment vehicle for the portion of *SamCERA's* assets being invested in international emerging markets equity securities because DPT's portfolio consists of an actively managed, fully diversified portfolio of international emerging markets equity securities. Mondrian is advisor for the DPT. Attached it the IMA as Exhibit E is an IMA that *SamCERA* must execute to purchase units of DPT.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 04-05-14

*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 Mondrian Investment Partners.*

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 April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. Alliance Bernstein Institutional Investment Management, INVESCO Global Asset Management (N.A.), Inc. Philadelphia International Advisors and The Boston Company Asset Management. LLC. were eliminated. Delaware International Advisors, Ltd., and LSV Asset Management were invited to return for a second interview as finalists.; and

WHEREAS, on May 25, 2004 the Board interviewed representatives from Delaware International Advisors, Ltd., and LSV Asset Management, selecting Delaware International Advisors, Ltd. for an international core

value mandate to be funded with approximately \$110 million; and

WHEREAS, on September 27, 2004, Delaware International Advisors, Ltd. changed its name to Mondrian International Investors; and

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

RESOLVED that the Board hereby approves the contract between the Board and Mondrian Investment Partners for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Mondrian Investment Partners to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement 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 Agreement 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. Lewis, second by Ms. Tashman, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Mondrian Investment Partners.

6.11 Approval of Investment Management Agreement – Julius Baer Investment Management LLC. Mr. Clifton point out that in Section 16 Julius Baer wishes to vote proxies in accordance with its' Proxy Voting Policies and Procedures. The Section states, "The Board recognizes that Investment Manager out-sources its proxy voting to Institutional Shareholder Services (ISS) and has adopted and will generally vote in accordance with their policies and procedures. However, Investment Manager will not vote in "blocking nations" since Investment Manager does not believe it is in the best interest of its clients to participate in proxies where voting restricts client's ability to sell or otherwise dispose of their equity interest. Investment Manager will report on all proxies voted but will not report on instances in which voting does not occur. The Policies and Procedures are incorporated as Exhibit D." Provisions were made for the investment guidelines in Exhibit C to supersede *SamCERA's* Investment Plan. Finally, in Section 2 C, the Board allows Julius Baer to rely on information provided by *SamCERA*.

Mr. Clifton reported that Julius Baer is outsourcing their back-office to Northern Trust. The conversion should be completed prior to funding the mandate on October 31, 2004.

Mr. Thomas thoroughly reviewed Exhibit C, Investment Guidelines with the Investment Committee. The Committee was comfortable with the guidelines, including exposure to certain emerging market countries through the acquisition of fixed income instruments.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services

RESOLUTION 04-05-15

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 Julius Baer Investment Management (JBIM).

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 April 27, 2004, the Board considered proposals from six firms for equity investment management services under an international core growth mandate. BPI Global Asset Management, Clan Finlay, Inc, JPMorgan Fleming Asset Management and New Star Institutional Managers were eliminated. Capital Guardian Trust Company and Julius Baer Investment Management were invited to return for a second interview as finalists.; and

WHEREAS, on May 25, 2004 the Board interviewed representatives from Capital Guardian Trust Company and Julius Baer Investment Management, selecting Julius Baer Investment Management for an international core growth mandate to be funded with approximately \$110 million; and

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

RESOLVED that the Board hereby approves the contract between the Board and Julius Baer Investment Management for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Julius Baer Investment Management to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement 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 Agreement 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. Lewis, second by Mr. Tashman, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Julius Baer Investment Management.

- 6.12 Approval of Investment Management Agreement – Western Asset Management Company.** Mr. Clifton pointed out that the Association will gain exposure to High Yield Securities, International Investment Grade, Emerging Markets, and Floating Rate High Income through participation in Limited Liability Corporations (LLC). SamCERA must execute the attached subscription booklet and Confidential Offering Memorandum. Provisions were made for the investment guidelines in Exhibit C to supersede *SamCERA's* Investment Plan.

Mr. Thomas thoroughly reviewed Exhibit C, Investment Guidelines with the Investment Committee. The Committee was comfortable with the guidelines.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Contract for Investment Management Services
RESOLUTION 04-05-16

*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 Western Asset Management (WAM).*

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 July 27, 2004, the Board considered proposals from six firms for fixed income investment management services under a core plus mandate. Hartford Investment Management, Payden & Rygel, Inc., PIMCO (Pacific Investment Management Company LLC), and TCW (Trust Company of the West Group, Inc.) were eliminated. Deutsche Asset Management, and Western Asset Management Company were invited to return for a second interview as finalists.; and

WHEREAS, on September 28, 2004 the Board interviewed representatives from Deutsche Asset Management, and Western Asset Management Company, selecting Western Asset Management Company for an core-plus fixed income mandate to be funded with approximately \$145 million; and

WHEREAS, an Investment Management Agreement and Subscription Booklet have been approved by County Counsel as to form and the Investment & Finance Manager has recommended approval of both. Therefore, be it

RESOLVED that the Board hereby approves the contract between the Board and Western Asset Management Company for a term of three years, the Board may terminate the contract on thirty days written notice. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to Western Asset Management Company to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Agreement, the Subscription Booklet, the *Investment Plan* (as incorporated into the Agreement), 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 Agreement and the Subscription Booklet 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 both 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. Lewis, second by Ms. Tashman, carried unanimously that the Investment Committee recommend to the Board of Retirement that it authorize the Chair to execute *SamCERA's* Investment Management Agreement as amended with Western Asset Management Company

7.0 Other Business: None

8.0 Adjournment: There being no further business Mr. Bryan adjourned the Committee at 12:36 P.M.