

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

**November 23, 2004 – Investment Committee Agenda**

**PUBLIC SESSION** – The Committee met in Public Session at 10:05 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 Strategic Investment Solutions Quarterly Portfolio Performance Report
  - 6.3 Approval of Post US and Non-US Equity Portfolios Restructure Report
  - 6.4 Approval of Futures Agreement – Goldman Sachs Asset Management
  - 6.5 Review of Investment Management Agreement “Service to Other Clients” Language
  - 6.6 Approval of Amendment to the Real Estate Section of SamCERA Investment Plan
- 7.0
- 8.0 Other Business
- 9.0 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 10:05 A.M November 23, 2004, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan, Mr. Lewis, Ms. Salas (excused), and Ms. Tashman *Board Members in Attendance:* Ms Stuart (10:30) *Alternate Board Member:* None *Staff:* Ms. Carlson, Mr. Clifton and Mr. McCausland. *Consultant:* Ms. Jadallah and Mr. Thomas *Public:* One *Retirees:* none
- 3.0 Approval of the Minutes:** The members of the Investment Committee were not afforded adequate time to review and approve the minutes of September 28, 2004 and October 25, 2004. Those minutes will be held over until January 24, 2005.  
  
**Action: No action is required.**
- 4.0 Oral Communications From the Committee:** None
- 5.0 Oral Communications From the Public:** None
- 6.1 Acceptance of Monthly Portfolio Performance.** *SamCERA's* 1.73% Total Fund Return for October 2004 exceeded the Total Plan Policy Benchmark, 1.61% by 12 basis points (bps). The entire outperformance may be attributed to the security selection in the new BGI Russell 1000 Alpha Tilts. The Alpha Tilts had an outstanding month with a return of 2.49% versus the Russell 1000 Benchmark of 1.61%. The strongest performing asset class for the month was International Equity, 3.36%, while Real Estate had the best return for the quarter, 6.87%.

The economy was still running at a pretty solid rate in October. The market rallied in the last week of the month for four major reasons: i) evidence that the economy is alive and well; ii) Oil prices fell significantly; iii) Profit expectations increased materially; and iv) Long US bond yields remained low. In early November, a swift outcome in the presidential election helped restore legitimacy to our electoral system, and helped to boost the markets. Most economists do not view the post-election surge as a harbinger of huge percentage

gains in the months ahead.

The table presented below shows the composite returns

October 31, 2004		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,000,394,766	2.28%	4.68%	3.84%	11.69%
Equity Composite Benchmark		2.10%	4.81%	4.27%	12.08%
<b>Variance</b>		<b>0.18%</b>	<b>-0.13%</b>	<b>-0.43%</b>	<b>-0.39%</b>
Fixed Income Aggregate	\$455,954,434	0.77%	3.00%	4.19%	6.01%
Fixed Income Composite Benchmark		0.84%	3.04%	4.24%	5.53%
<b>Variance</b>		<b>-0.07%</b>	<b>-0.04%</b>	<b>-0.05%</b>	<b>0.48%</b>
Real Estate Aggregate (1)	\$52,643,479	0.00%	6.87%	9.17%	14.98%
NCREIF (one quarter lag)		0.00%	3.42%	6.66%	12.41%
<b>Variance</b>		<b>0.00%</b>	<b>3.45%</b>	<b>2.51%</b>	<b>2.57%</b>
Cash Aggregate	\$3,532,995	0.18%	0.56%	1.11%	2.26%
91 Day Treasury Bill		0.13%	0.38%	0.65%	1.16%
<b>Variance</b>		<b>0.05%</b>	<b>0.18%</b>	<b>0.46%</b>	<b>1.10%</b>
Total Fund Returns	\$1,512,525,674	1.73%	4.24%	4.21%	10.26%
Total Plan Policy Benchmark		1.61%	4.22%	4.45%	10.23%
<b>Variance</b>		<b>0.12%</b>	<b>0.02%</b>	<b>-0.24%</b>	<b>0.03%</b>

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		1.73%	4.24%	4.21%	10.26%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
<b>Variance</b>		<b>1.09%</b>	<b>2.30%</b>	<b>0.29%</b>	<b>2.26%</b>

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

Asset Allocation As of 010/31/2004	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
BGI Russell 1000 Alpha Tilts	\$302,705,525	20.01%	20.00%	0.01%	±5%
BGI Russell 1000	\$299,576,863	19.81%	20.00%	-0.19%	±5%
BGI Russell 2000	\$166,090,396	10.98%	10.00%	0.98%	±5%
BIAM	\$232,021,982	15.34%	15.00%	0.34%	±5%
Total Equity	\$1,000,394,766	66.14%	65.00%	1.14%	
BGI US Debt	\$151,966,912	10.05%	9.66%	0.39%	±3%
DAMI	\$203,983,585	13.49%	9.67%	3.82%	±3%
Total Fixed Income	\$100,003,937	6.61%	9.67%	-3.06%	±3%
Real Estate	\$455,954,434	30.15%	29.00%	1.15%	
Cash	\$52,643,479	3.48%	6.00%	-2.52%	±2%
Total	\$3,532,995	0.23%	0.00%	0.23%	

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 010/31/2004	Current Market Value	New Mandated Target Portfolios Market Value      %		Portfolio Manager
BGI Russell 1000 Alpha Tilts		\$302,705,525	20.01%	<a href="#">BGI Russell 1000 Alpha Tilts</a>
BGI Russell 1000	\$602,282,388	<a href="#">\$299,576,863</a>	<a href="#">19.81%</a>	BGI Russell 1000
BGI Russell 2000	\$166,090,396	\$0		
<a href="#">Enhanced R2000</a>		<a href="#">\$81,445,198.00</a>	<a href="#">5.38%</a>	<a href="#">Goldman Sachs Asset Management</a>
<a href="#">Active Value Mandate</a>		<a href="#">\$40,722,599.00</a>	<a href="#">2.69%</a>	<a href="#">Brandes Investment Partners</a>
<a href="#">Active Growth Mandate</a>		<a href="#">\$40,722,599.00</a>	<a href="#">2.69%</a>	<a href="#">Chartwell Investment Management</a>
Bank of Ireland Asset Management	\$232,021,982	\$0		
<a href="#">Active Core Mandate</a>		<a href="#">\$113,510,991</a>	<a href="#">7.50%</a>	<a href="#">Delaware International Advisors,</a>
<a href="#">Active Core Mandate</a>		<a href="#">\$113,510,991</a>	<a href="#">7.50%</a>	<a href="#">Julius Baer Investment Management</a>
Total Equity	\$1,000,394,766	\$992,194,766	65.60%	
BGI US Debt	\$251,970,849	\$143,210,815	9.47%	<i>Barclays Global Investors US Debt</i>
Deutsche Asset Management,	\$203,983,585	\$143,210,815	9.47%	<i>Deutsche Asset Management, Inc.</i>
<a href="#">Core Plus Mandate</a>	\$0	<a href="#">\$143,210,815</a>	<a href="#">9.47%</a>	<a href="#">Western Asset Management</a>
Total Fixed Income	\$455,954,434	\$429,632,445	28.40%	
Real Estate	<a href="#">\$52,643,479</a>	<a href="#">\$52,643,479</a>	<a href="#">3.48%</a>	<a href="#">INVESCO Real Estate Core Fund</a>
		<a href="#">\$38,108,061</a>	<a href="#">2.52%</a>	<a href="#">May Consider Manager Diversification (2)</a>
Cash	<a href="#">\$3,532,995</a>	\$0	100.00%	
Total	<a href="#">\$1,512,525,674</a>	<a href="#">\$1,512,525,674</a>		

**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 September 30, 2004.

Margaret Jadallah and Patrick Thomas of Strategic Investment Solutions presented the quarterly performance report, which is summarized below.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
<b>Composite Fund</b>	0.05%	68	12.48%	42	7.03%	50
<a href="#">Policy Index</a>	<a href="#">0.29%</a>	<a href="#">49</a>	<a href="#">12.71%</a>	<a href="#">36</a>	<a href="#">7.56%</a>	<a href="#">42</a>
BGI Russell 1000 Fund	-1.79%	47	13.95%	49	4.71%	46
<a href="#">Russell 1000 index</a>	<a href="#">-1.81%</a>	<a href="#">48</a>	<a href="#">13.90%</a>	<a href="#">52</a>	<a href="#">4.69%</a>	<a href="#">46</a>
BGI Russell 2000 Fund	-2.82%	57	18.93%	53	13.68%	57
<a href="#">Russell 2000 index</a>	<a href="#">-2.86%</a>	<a href="#">58</a>	<a href="#">18.77%</a>	<a href="#">54</a>	<a href="#">13.71%</a>	<a href="#">57</a>
BIAM	-0.97%	77	18.63%	73	6.01%	89
<a href="#">MSCI ACWI-ex US Index Free</a>	<a href="#">1.01%</a>	<a href="#">29</a>	<a href="#">23.15%</a>	<a href="#">36</a>	<a href="#">11.39%</a>	<a href="#">42</a>
BGI US Debt Index Fund	3.21%	49	3.72%	58	5.97%	56

Deutsche Asset Management	3.38%	17	5.08%	9	6.47%	31
<i>Lehman Aggregate Index</i>	<i>3.20%</i>	<i>50</i>	<i>3.68%</i>	<i>60</i>	<i>5.88%</i>	<i>61</i>
INVESCO	7.45%	17	15.35%	30	10.09%	28
<i>NCREIF Index</i>	<i>3.42%</i>	<i>42</i>	<i>12.41%</i>	<i>43</i>	<i>8.61%</i>	<i>44</i>
Cash Composite	0.56%	14	2.20%	11	2.44%	15
<i>91 Day T-Bill Index</i>	<i>0.37%</i>	<i>30</i>	<i>1.10%</i>	<i>39</i>	<i>1.47%</i>	<i>55</i>

### INVESTMENT PERFORMANCE SUMMARY September 30, 2004

- The composite fund returned 0.1% in the third quarter of 2004 and ranked 68<sup>th</sup> among other public funds greater than \$100 million (median of 0.3%). The fund trailed its policy index (0.3%) during this time period. Longer term, the three and five-year returns of 7.0% (50<sup>th</sup> percentile) and 4.0% (66<sup>th</sup> percentile), respectively, were near median among large public plans (7.0% and 4.6%).
- Third quarter results were enhanced by the following factors:
  1. The BGI Russell 1000 Index Fund ranked in the 47<sup>th</sup> percentile among large cap managers (median - 1.9%), and matched its benchmark. The Russell 1000 Index had a return of -1.8%. On September 1<sup>st</sup>, half of the Index Fund was liquidated and proceeds went to purchase the BGI Russell 1000 Alpha Tilts Fund, which appreciated 1.5% for the month. Its benchmark was up 1.3%.
  2. The BGI Russell 2000 Index Fund (-2.8%) slightly exceeded its benchmark, the Russell 2000 Index (-2.9%), although it ranked below the small cap equity manager median of -2.3%.
  3. The BGI US Debt Index Fund (3.2%) matched its index, the Lehman Aggregate, and the median core bond manager.
  4. Deutsche Asset (3.4%) was ahead of the Lehman Aggregate Index (3.2%) and ranked in the 17<sup>th</sup> percentile among other core bond managers. Deutsche Asset's overweight to the credit sector, taxable municipals, and commercial mortgage-back securities were contributors to performance. The portfolio's exposure to asset-backed securities dampened performance.
  5. INVESCO Realty returned 7.4% for the quarter, beating the NCREIF Index (3.4%) and ranking in the top quartile among real estate investments. On September 30<sup>th</sup>, the five properties were exchanged for shares in the INVESCO Real Estate-USA Fund.
- Third quarter results were hindered by the following factor:
  1. Ranking in the bottom quartile among its peers (international equity managers median of 0.5%), Bank of Ireland's quarterly return trailed its benchmark, the MSCI All Country World ex-US Free Index (-1.0% vs. 1.0%). BIAM's relative underweight exposure to energy, bias to defensive-type stocks, and selective Japanese investments (NTT, Canon) negatively impacted relative performance during this quarter. A recovery in healthcare and financial stocks helped offset some of the portfolio's decline.

### CAPITAL MARKET REVIEW: THIRD QUARTER 2004

## ECONOMIC REVIEW

- At the end of July, the trade deficit was \$546.0 billion with exports hovering near a record high. For the 12 months ending July 2004, the deficit was 13.7% higher than one year prior with imports increasing 11.3% and exports rising 10.1% over the past year. In the third quarter, the U.S. dollar strengthened against both the pound (.5526) and the yen (110.1928) by 0.2% and 0.8% respectively.
- Second quarter GDP growth declined to 3.3% from the first quarter 2004 annual rate of 4.5%. On October 29th, preliminary results for the third quarter will be released by the Bureau of Economic Analysis. At the end of August, the year-over-year change of the CPI was 2.7%. Core CPI, excluding food and energy, was 1.7% higher than it was in August, 2003. Crude Oil prices eased in August before hitting a record high in September of \$47.08 per barrel. Concerns from around the world showed no signs of relief in the near future.
- The unemployment rate declined slightly during the third quarter to 5.4% compared to 5.6% at the end of the first quarter. Unemployment was 6.1% in September 2003. Retail sales advanced during July by 0.8% and then declined in August by 0.3%. Housing starts were 2.00 million units in August, higher than in June (1.81 million) and higher than Aug 2003 (1.83 million). Conventional 30-year residential mortgage rates averaged 5.64% at the end of September, 2004, down 9 basis points since December 2003.

## EQUITY MARKETS REVIEW

- The major U.S. equity indices posted negative returns for the third quarter with the NASDAQ Composite experiencing the biggest drop of 7.4%. The Dow Jones Industrial Average lost 2.9%. The broader market represented by the S&P 500 declined by 1.9%. Of the ten economic sectors, five were up in the third quarter while five were down. The best-performing sector was Energy (+11.1%), and the worst-performing sector was Information Technology (-10.2%). For the trailing 12-month period, Energy was the best-performing sector, returning 44.8%. Information Technology was the weakest performer for the same period (+1.7%).
- Among large capitalization stocks, value outperformed growth during the quarter, with the Russell 1000 Value (R1000V) adding 1.5% vs. the Russell 1000 Growth (R1000G) declining 5.2%. Among smaller capitalization stocks, value continued its out-performance with the R2000V adding 0.1% vs. the R2000G which declined 6.0%. Large cap stocks outperformed small cap stocks. Small stocks remain ahead of large stocks for the trailing 12-month period, with the Russell 2000 returning 18.8% and Russell 1000 returning 13.9%.
- International equity returns, exemplified by the MSCI EAFE index, reversed a streak of five consecutive quarters of positive returns, with the index falling 0.2% in US dollar terms and 1.0% in local currency. Emerging markets had a positive quarter, with the MSCI EMF index gaining 8.3%. Over the last 12 months, the MSCI EMF Index has risen 26.5%.

## FIXED INCOME MARKETS REVIEW

- The Federal Reserve increased the Fed Funds rate by 25 basis points at their meetings in both August and September, bringing the rate to 1.75%. The yield curve increased in the third quarter for the very short term, while the overall trend was downward and most pronounced for the 10 years +, as the Treasury yields decreased 46 basis points during the quarter. The slope diminished moderately, as the two-year to 10-year spread declined from 190 basis points to 154 basis points. The two-year Treasury yield fell 7 basis points to 2.61%; the 10-year, 46 basis points to 4.12%; and the 30-year, 40 basis points to 4.89%.

- During the third quarter, all the major bond indices showed positive returns. The Lehman Aggregate Bond Index (LAB) posted a 3.2% gain and the Citigroup World Government Bond (CWGB) Index rose 3.3%. Lehman Brothers Mortgage Backed (LBMB) Index ended the quarter 2.6% higher. High yield corporates, as measured by the Lehman Brothers High Yield (LBHY) Index, gained 4.9%. Emerging Markets Debt, as measured by the J.P. Morgan Emerging Markets Bond Index, gained 9.4%. For the trailing 12 months, the LAB Index was up 3.7%, the CWGB Index 7.0%, LBMB Index 4.4%, LBHY Index 12.6% and J.P. Morgan Emerging Markets Bond Index 12.0%.

## REAL ESTATE MARKETS REVIEW

- REITs have returned 14.19% for the nine months ending 9/30/04. For the three months ending 9/30/04, REITs returned 8.22%, having significantly recovered from the dramatic drop in April of this year, when the March jobs report negatively affected the bond market.
- While investors are still concerned about the negative aspects of higher interest rates, there are some positive attributes – for example, as the replacement cost of real estate increases that cost eventually flows through in the form of higher market rents. Also, as the cost of debt increases, the development of new real estate slows down, choking off competition.

**Action: The Committee unanimously accepted Strategic Investment Solutions' Quarterly Performance Report for the period ended 9/30/2004. The report in its entirety will be presented to the Board at the 11/23/2004 meeting.**

- 6.3 Approval of Post US and Non-US Equity Portfolios Restructure Report** Barclays Global Investors was engaged to restructure a Domestic Small Cap Equity portfolio worth approximately \$167 million to three new investment managers and a Non-US Equity portfolio worth approximately \$231 million to two new investment managers on *SamCERA's* behalf.

### **Domestic Small Cap Equity Restructure**

The legacy portfolio for the Domestic Small Cap Equity transition was the BGI Russell 2000 Index Fund. Approximately 50% was transitioned to Goldman Sachs Asset Management, approximately 25% to Brandes Investment Partners and approximately 25% to Chartwell Investment Partners.

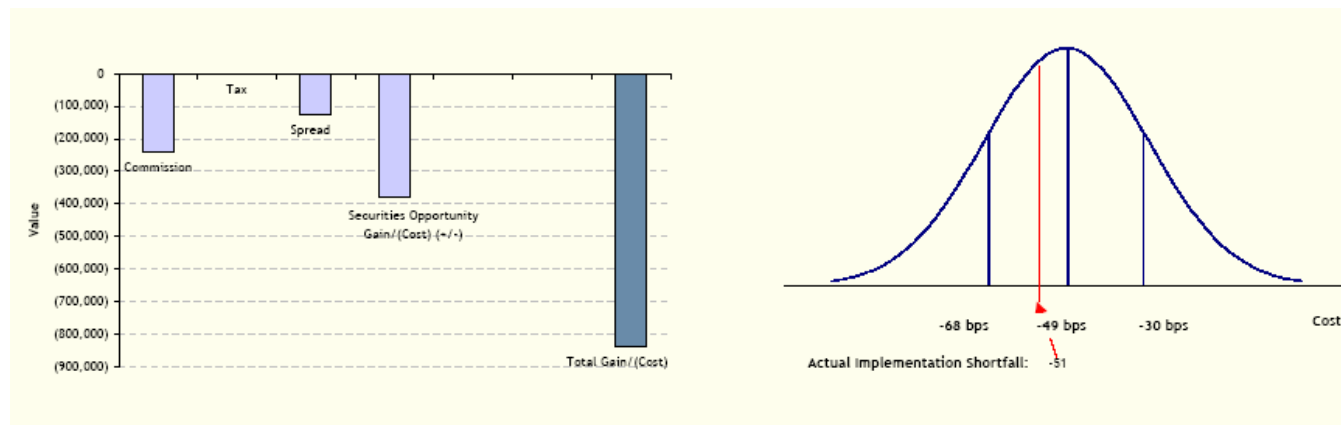
The transition began on October 26, 2004, when BGI isolated *SamCERA's* pro-rata share of its holdings in the Russell 2000 Index Fund, and transferred the securities and cash to a Transition Account. BGI utilized its proprietary Multi-Period Optimization Tool ("MPO") to create the optimal trading solution to meet *SamCERA's* investment objective for this transition.

Approximately 21% of the legacy portfolio overlapped with the target portfolio and therefore did not require trading. Approximately 17% of the portfolio was crossed. The remaining 62% was traded on an agency basis in the open market.

The potential cost of the transition as measured by implementation shortfall (based upon 100% sell and buy in the open market) was estimated to fall between -30.0 bps and -68.0 bps. The realized implementation shortfall was -52 bps or approximately -\$837,000. In summary the short fall on the lower end of the expectation range may be attributed to market movement. Transition trading was completed on October 29.

A summary of the transition analysis appears below.

	Pre-Trade Estimates		Actual Results	
Commissions	(253,824)	(16)	(239,652)	(15)
Taxes	0	0	(2,769)	0
<b>Explicit Costs</b>	(253,824)	(16)	(242,421)	(15)
Spread	(169,840)	(11)	(125,462)	(8)
Market Impact	(370,172)	(23)	(91,179)	(6)
<b>Implicit Costs</b>	(540,012)	(34)	(216,641)	(14)
<b>Total Transaction Cost</b>	(793,836)	(50)	(459,062)	(29)
Equity Trade Gain/Loss	(305,242)	+/- 19	(378,111)	(23)
<b>Opportunity P&amp;L</b>	(305,242)		(378,111)	(23)
<b>Total Shortfall</b>	(1,099,078)		(837,173)	(52)



## Non-US Equity Restructure

The legacy portfolio for the non-US equity transition was the Bank of Ireland Asset Management Group Trust portfolio. Approximately 50% was transitioned to Julius Baer Investment Management and approximately 50% to Mondrian Investment Partners.

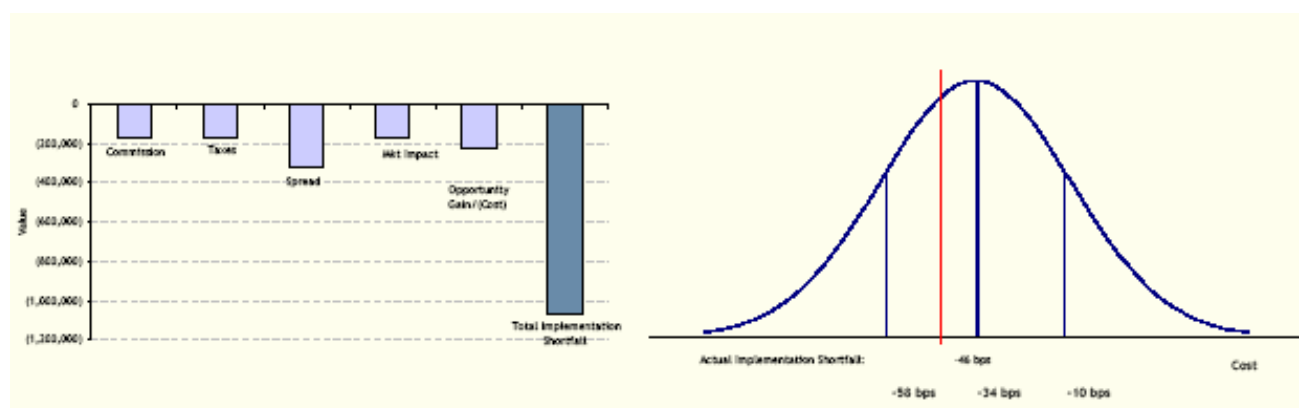
The transition began on November 1, 2004, with the redemption of SamCERA's pro-rata share of its holdings in the BIAM Group Trust. Securities and cash from the redemption were transferred to a Transition Account domiciled at State Street Bank & Trust.

The trade began on November 9<sup>th</sup>. Overall 25.8% of the legacy portfolio overlapped with the target portfolio and therefore did not require trading. Crossed Trades accounted for 0.4%. The remaining 73.8% was traded on an agency basis in the open market.

The potential cost of the transition as measured by implementation shortfall was estimated to fall between -9.0 bps and -57.0 bps. The realized implementation shortfall was -46 bps or approximately -\$1,067,000. In summary the short fall on the lower end of the expectation range may be attributed to market movement. Transition trading was completed on November 10<sup>th</sup>.

A summary of the non-US Equity transition analysis appears below.

	Pre-Trade Estimates		Actual Results	
Commissions	(177,598)	(7)	(176,373)	(8)
Taxes	(169,195)	(7)	(168,053)	(7)
<b>Explicit Costs</b>	<b>(346,793)</b>	<b>(14)</b>	<b>(344,426)</b>	<b>(15)</b>
Spread	(314,594)	(13)	(323,444)	(14)
Market Impact	(144,982)	(6)	(171,674)	(7)
<b>Implicit Costs</b>	<b>(459,576)</b>	<b>(19)</b>	<b>(495,118)</b>	<b>(21)</b>
<b>Total Transaction Cost</b>	<b>(806,369))</b>	<b>(33)</b>	<b>(839,544)</b>	<b>(36)</b>
Equity Trade Gain/Loss	(564,450)	+/- 24	(227,220)	(10)
<b>Opportunity P&amp;L</b>	<b>(564,450)</b>		<b>(227,220)</b>	<b>(10)</b>
<b>Total Shortfall</b>	<b>(1,099,078)</b>		<b>(1,066,764)</b>	<b>(46)</b>



**Action: With out Objection the Investment Committee accepts Barclays Global Investors report regarding the restructured of SamCERA’s Domestic Small Cap Equity and Non-US Equity portfolios and will recommend that the Board of Retirement accept the report..**

**6.4 Approval of Futures Agreement – Goldman Sachs Asset Management.** On October 26 2004, the Board executed an Investment Management Agreement with Goldman Sachs Asset Management (GSAM). In Exhibit C, Equity Investment Objectives, Guidelines, Restrictions and Fee Agreement, investment in certain types of securities are specifically permitted. The Agreement states, “When deemed appropriate by the Investment Manager, the Investment Manager may invest a portion of the Assets in futures contracts for the purpose of acting as a temporary substitute for investment in common stocks. GSAM will not engage in speculative futures transactions”. Goldman Sachs Asset Management requested the ability to use futures to equitize the cash in *SamCERA*’s portfolio.

The Committee raised several question regarding the similarities and differences between the Agreement that the Association is being asked to execute with GSCO and the futures agreement in place with Barclays Global Investors. This item will be tabled to allow staff time to delve into questions raised.

**Action: Without objection the Investment Committee will recommend to the Board of Retirement that this item regarding execution of a futures agreement with Goldman Sachs Company be table until the January meeting of the Board.**

- 6.5 Review of Investment Management Agreement “Service to Other Clients” Language.** At the October 26, 2004 Board Meeting, a question surfaced concerning an investment manager’s service to other clients. A last minute amendment to the language was requested that would strike the words “officers” and “employees” from the language in Service to Other Clients 7 (b) of the IMA. Two of the six investment managers agreed to the amendment, four declined to accept the amendment. Additional questions arose concerning the intent of the requested amendment to the language. This agenda item is to discuss amendments to SamCERA’s Investment Management Agreement (IMA) and how they occur.

Mr. Clifton reviewed the history of SamCERA’s Investment Management Agreement. It was developed in 1994 and improved with several minor amendments over the ensuing years. He concluded that SamCERA’s IMA is thoroughly research and well structured. ● Ms. Carlson added that this boiler plate agreement is part of SamCERA’s Request For Proposal process. In affect both sides agreed on the IMA early in the process. It is difficult for SamCERA to go back with amendments at the last minute. If the Board has concerns with SamCERA’s IMA, those should be articulated. Staff could place a future agenda an item to thoroughly review the IMA.

**Action: Without objection the Investment Committee will recommend to the Board that staff place on a future agenda an item to review SamCERA’s Investment Management Agreement in its entirety.**

- 6.6 Approval of Amendment to the Real Estate Section of SamCERA Investment Plan.** The Investment Committee reviewed the Real Estate section of SamCERA’s Investment Plan and proposes the changes detailed below.

## **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 Commingled Fund Vehicles account investment structure.

12.3.a.2: The Commingled Fund 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: Commingled Fund 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 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 Commingled Fund 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 Commingled Fund Vehicle manager(s) must request prior written approval from the Board for permission to deviate from the provisions of these guidelines.

(g) Annual Plan: The Commingled Fund Vehicle 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 COMMINGLED FUND VEHICLE OVERSITE: The Board has determined that engagement is the best course to implement change.

12.4.a. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will secure a seat on the Commingled Fund Vehicle's Advisory Committee and attends its meeting.

12.4.b. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will attend the Commingled Fund Vehicle's annual meeting. .

**Action: Without objection the Investment Committee will recommend to the Board of Retirement that the above amendments to the Real Estate Section of *SamCERA's Investment Plan* be adopted.**

**7.0 Other Business: None**

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