

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

March 21, 2005 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 8:40 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' Report on the Russell Investment Group Transaction
 - * 6.3 Acceptance of Quarterly Investment Performance Analysis for periods ending December 31, 2004
 - 6.4 Annual Investment Manager Review – Barclays Global Investors
 - 6.5 Approval of Real Estate Funding - INVESCO Core Real Estate – U.S.A., LLC
 - 6.6 Approval of Amendment to Julius Baer's Investment Management Agreement
 - 6.7 Approval of Investment Committee Plan for Fiscal Year 2005/2006
 - 6.8 Acceptance of Amendments to Part One & Part Two of *SamCERA's Investment Plan*
 - 6.9 Introduction of Amendments to Part Three & Four of *SamCERA's Investment Plan*
 - 6.10 Approval of Annual Shareholder Written Consent Form
 - 7.0 Other Business
 - 8.0 Investment & Finance Manager's Report
 - 9.0 Adjournment
- * *The Committee will briefly discuss this topic. The Board will hear the Agenda Item in its entirety on March 22, 2005.*

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 8:40 a.m. March 21, 2005, 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:* None. *Alternate Board Member:* None. *Staff:* Mr. Bailey and Mr. Clifton. *Consultant:* Ms. Jadallah. *Public:* None. *Retirees:* One.
- 3.0 Approval of the Minutes:** In February, the investment agenda items were discussed at the board meeting. By direction from the board, the approved minutes for the investment section will be posted with the investment committee minutes. It is the board's desire that SamCERA's membership be able to follow the chronological progression of investment decisions.

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* 1.90% Total Fund Return for February 2005 out-performed the Total Plan Policy Benchmark return of 1.64%. The Fund's Fiscal Year to Date return, 9.12%, is 286 basis points ahead of the Actuarial Discount Rate, 5.26%, and 55 basis points ahead of *SamCERA's* Total Plan Policy Benchmark at 8.57%.

The stock market was jittery in February. Bad news had a greater effect on share prices and volume than good news. That indicates some basing may be needed before stocks can make a sustained advance. David Wyss, Standard & Poor's chief economist, believes the dollar will continue to slide this year, ending 2005 at \$1.45 to the euro, a 9.0% decline from the current exchange rate. That being said, he expects European stocks to offer better combined benefits ahead based on relative value, forecasting returns, and some reversion regarding return correlations. Over the past five years the correlation to U.S. stocks was 81.5%.

Western Asset Management says both the Fed and Bank of Japan remain accommodative, increasing the odds that inflation will rise, which in turn would mean higher bond yields in the coming year. There is little value in U.S. bond yields at current levels, given their view that inflation is likely to prove somewhat higher than the market expects.

The table presented below shows the composite returns

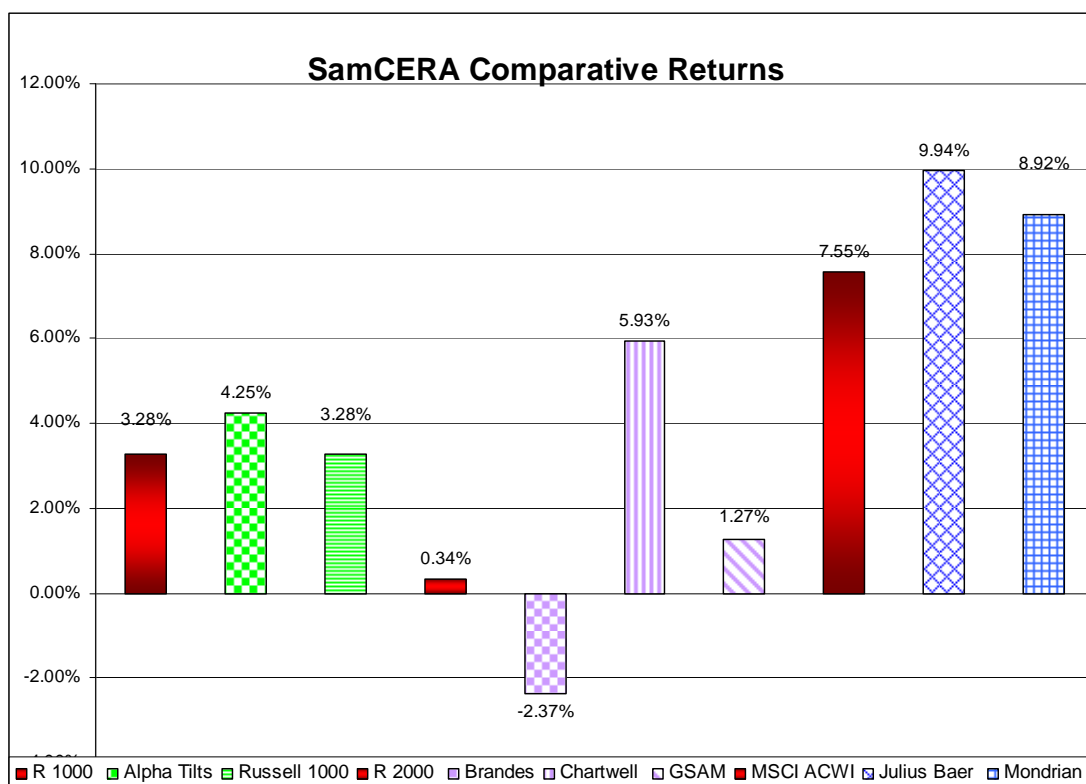
February 28, 2005		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,092,919,985	2.99%	4.70%	15.22%	10.81%
Equity Composite Benchmark		2.78%	3.80%	14.39%	10.06%
Variance		0.21%	0.90%	0.83%	0.75%
Fixed Income Aggregate	\$459,156,067	-0.37%	1.42%	1.82%	3.24%
Fixed Income Composite Benchmark		-0.59%	0.96%	1.26%	2.44%
Variance		0.22%	0.46%	0.56%	0.80%
Real Estate Aggregate (1)	\$54,967,034	0.00%	4.90%	10.86%	16.94%
NCREIF (one quarter lag)		0.00%	4.69%	8.27%	14.52%
Variance		0.00%	0.21%	2.59%	2.42%
Cash Aggregate	(\$3,938,744)	0.66%	1.11%	1.68%	2.82%
91 Day Treasury Bill		0.16%	0.54%	0.94%	1.50%
Variance		0.52%	0.57%	0.74%	1.32%
Total Fund Returns	\$1,603,104,342	1.90%	3.73%	10.92%	8.82%
Total Plan Policy Benchmark		1.64%	3.05%	10.14%	8.57%
Variance		0.26%	0.68%	0.78%	0.25%

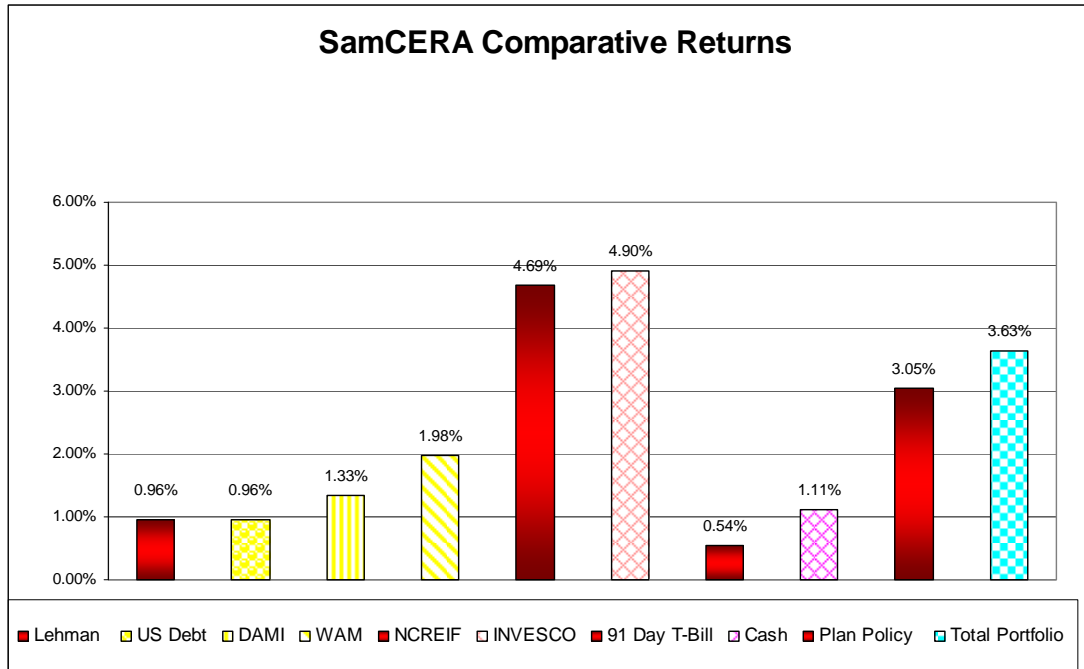
Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		1.90%	3.73%	10.92%	8.82%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		1.26%	1.79%	7.00%	0.82%

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

Asset Allocation As of 02/28/2005	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target		
Barclays Global Investors R1 Alpha Tilts	\$328,998,836	20.52%	20.00%	0.52%	±5%
Barclays Global Investors Russell 1000	\$312,319,192	19.48%	20.00%	-0.52%	±5%
Brandes Investment Partners	\$45,179,615	2.82%	2.50%	0.32%	±5%
Chartwell Investment Partners	\$47,087,488	2.94%	2.50%	0.44%	±5%
Goldman Sachs Asset Management	\$92,219,558	5.75%	5.00%	0.75%	±5%
Julius Baer Investment Management	\$134,594,519	8.40%	7.50%	0.90%	±5%
Mondrian Investment Partners	\$132,520,778	8.27%	7.50%	0.77%	±5%
Total Equity	\$1,092,919,985	68.18%	65.00%	3.18%	
Barclays Global Investors US Debt	\$152,198,591	9.49%	9.66%	-0.17%	±3%
Deutsche Asset Management, Inc.	\$159,787,540	9.97%	9.67%	0.30%	±3%
Western Asset Management Company	\$147,169,937	9.18%	9.67%	-0.49%	±3%
Total Fixed Income	\$459,156,067	28.64%	29.00%	-0.36%	
INVESCO Realty Advisors	\$54,967,034	3.43%	6.00%	-2.57%	±2%
Cash	-\$3,938,744	-0.25%	0.00%	-0.25%	
Total	\$1,603,104,342	100.00%	100.00%		





Mr. Bryon suggested the addition of aggregate returns for domestic large & small cap stocks and international equities on the summary pages. Mr. Lewis suggested combining the fixed income Lehman Index with SamCERA's total fixed income benchmark. Mr. Clifton said these change will be incorporated in April's report.

Action: Motion by Tashman, second by Bryon, carried unanimously to accept the performance report and recommend to the Board of Retirement that it accept the report.

6.2 Acceptance of Strategic Investment Solutions' Report on the Russell Investment Group Transaction.

Strategic Investment Solutions' and Frank Russell Company announced that they have agreed not to exercise their respective options for Russell to acquire a greater share of SIS, and that SIS has repurchased the 19.9% interest sold to Russell in July of 2003. SIS and Russell have also agreed to continue the practice of exchanging research resources in the fields of manager research, capital markets review, asset allocation, private equity research, and other areas of interest to their respective clients.

Ms. Jadallah provided a brief overview. With regards to the current status of Michael Beasley, Ms. Jadallah indicated that Mr. Beasley will incrementally step back from his current position. SIS is still undergoing some minor planning issues. She then reported that Russell requests that all of SIS' clients sign confidentiality agreements prior to accessing Russell's manager search resources.

Mr. Bryon inquired into Strategic Investment Solutions' perceived lacks of expertise, which is real estate consulting. Ms. Jadallah indicated that SIS has considered this subject and will review it at a later date. Currently several consultants have a real estate background, but SIS is not adding real estate consulting services at this time.

Action: With out objection the Investment Committee accepts Strategic Investment Solutions' report regarding the Russell Group transaction and will recommend that the Board of Retirement accept the report.

6.3 Acceptance of Quarterly Investment Performance Analysis for periods ending December 31, 2004.

Ms. Jadallah provided an overview of the quarterly performance report. In her report she reiterates that SamCERA transitioned to six new portfolios in the quarter. Even with those transaction costs, SamCERA's portfolio was in the top quartile for the quarter and about median throughout the five-year period, and ahead of SamCERA's policy benchmark for many of those time periods.

Below are summary reports for the quarter.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	8.53%	26	11.83%	41	7.44%	50
<i>Policy Index</i>	<i>8.14%</i>	<i>42</i>	<i>11.73%</i>	<i>46</i>	<i>7.66%</i>	<i>46</i>
BGI Russell 1000 Alpha Tilts	10.90%	23	N/A	-	N/A	-
BGI Russell 1000 Index Fund	9.80%	42	11.45%	51	4.30%	47
<i>Russell 1000 Index</i>	<i>9.80%</i>	<i>42</i>	<i>11.40%</i>	<i>52</i>	<i>4.27%</i>	<i>47</i>
Brandes Investment Partners	N/A	-	N/A	-	N/A	-
Chartwell Investment Partners	N/A	-	N/A	-	N/A	-
Goldman Sachs Asset Management	N/A	-	N/A	-	N/A	-
<i>Russell 2000 Index</i>	<i>14.09%</i>	<i>33</i>	<i>18.33%</i>	<i>46</i>	<i>11.48%</i>	<i>58</i>
Julius Baer Asset Management	N/A	-	N/A	-	N/A	-
Mondrian Investment Partners	N/A	-	N/A	-	N/A	-
<i>MSCI ACWI-ex US Index Free</i>	<i>15.41%</i>	<i>27</i>	<i>21.36%</i>	<i>33</i>	<i>13.56%</i>	<i>41</i>
BGI US Debt Index Fund	0.96%	57	4.37%	60	6.27%	60
Deutsche Asset Management	0.96%	57	5.43%	16	6.77%	33
Western Asset Management	N/A	-	N/A	-	N/A	-
<i>Lehman Aggregate Index</i>	<i>0.95%</i>	<i>58</i>	<i>4.34%</i>	<i>63</i>	<i>6.20%</i>	<i>63</i>
INVESCO	5.07%	27				
<i>NCREIF Index</i>	<i>4.69%</i>	<i>29</i>	<i>14.52%</i>	<i>36</i>	<i>10.03%</i>	<i>44</i>
Cash Composite	0.61%	14	2.35%	11	2.41%	14
<i>91 Day T-Bill Index</i>	<i>1.48%</i>	<i>29</i>	<i>1.33%</i>	<i>34</i>	<i>1.42%</i>	<i>50</i>

INVESTMENT PERFORMANCE SUMMARY December 31, 2004

- The composite fund returned 8.5% in the fourth quarter of 2004 and ranked 26th among other public funds greater than \$100 million (median of 7.9%). The fund beat its policy index (8.1%) during this time period. Longer term, the three- and five-year returns of 7.4% (50th percentile) and 3.6% (59th percentile), respectively, were near median among large public plans (7.4% and 4.1%).
- Fourth quarter results were enhanced by the following factors:
 1. In its first full quarter, the BGI Russell 1000 Alpha Tilts Fund appreciated 10.9%, ranking 23rd among large cap managers. Its benchmark was up 9.8%. Info Tech investments and a slight

overweight to the Consumer Discretionary sector helped returns.

2. The BGI Russell 1000 Index Fund ranked in the 42nd percentile among large cap managers (median 9.5%), and matched its benchmark. The Russell 1000 Index had a return of 9.8%.
 3. The BGI Russell 2000 Index Fund was liquidated near October end to fund Brandes, Chartwell, and Goldman Sachs in small cap value, growth, and core mandates, respectively. The combined quarterly small cap return was up 15.9%, while the Russell 2000 Index grew 14.1%.
 4. The BGI US Debt Index Fund (1.0%) matched the Lehman Aggregate Index and the median core bond manager. \$100 million was transferred out of BGI to Western Asset. In its first two months, WAMCO returned 0.4% while the Lehman Aggregate was up 0.1%.
 5. Deutsche Asset (1.0%) matched the Lehman Aggregate Index (1.0%) and ranked in the 57th percentile among other core bond managers. Deutsche Asset's overweight to the lower quality credit sector, taxable municipals, and commercial mortgage-back securities were contributors to performance. The portfolio's exposure to asset-backed securities dampened performance.
 6. The INVESCO Real Estate-USA Fund returned 5.1% for the quarter, beating the NCREIF Index (4.7%) and ranking in the top third among real estate investments.
- Fourth quarter results were hindered by the following factor:
 1. Proceeds from the termination of Bank of Ireland at October end were forwarded to two new international equity managers: Julius Baer (large cap growth) and Mondrian (large cap value). Its combined quarterly return trailed its benchmark, the MSCI All Country World ex-US Free Index (14.8% vs. 15.4%), but ranked in the 43rd percentile of international equity managers.

CAPITAL MARKET REVIEW: FOURTH QUARTER 2004

ECONOMIC REVIEW

- At the end of October, the trade deficit was \$55.5 billion. For the 12 months ending October 2004, the deficit was 13.2% higher than one year prior, with imports increasing 14.2% and exports rising 12.3% over the past year. In the fourth quarter, the U.S. dollar weakened against the pound (.5220), the yen (102.7237) and the euro (.7387). This represents declines of 5.5%, 6.8% and 8.3%, respectively. At the end of the year, the US Dollar was hovering near a record low versus the Euro.
- Third quarter GDP growth advanced to 4.0% from the second quarter 2004 annual rate of 3.3%. At the end of December, the year-over-year change of the CPI was 3.3% Core CPI, excluding food and energy, was 2.3% higher than it was in December, 2003. The unemployment rate remained at 5.4% in December, unchanged from the end of the third quarter. Unemployment was 5.7% in December 2003. Retail sales advanced 2.3% in the fourth quarter and 9.8% in 2004.
- Housing starts were 1.81 million units in November, lower than in September 2004 (1.91 million) and November 2003 (2.05 million). Conventional 30-year residential mortgage rates averaged 5.67% at the end of December, 2004, down 6 basis points since December 2003.

EQUITY MARKETS REVIEW

- The major U.S. equity indices posted large positive returns for the fourth quarter, with the Russell 2000 Growth experiencing the biggest gain at 15.1%. The Dow Jones Industrial Average gained 7.6%. The broader market represented by the S&P 500 increased by 9.2%. All ten major economic sectors were up in the fourth quarter. The best-performing sector was Information Technology (+14.0%). For the trailing 12-month period, Energy was the best-performing sector, returning

31.0%. Healthcare was the weakest performer for the same period (+1.4%).

- Among large capitalization stocks, value outperformed growth during the quarter, with the Russell 1000 Value (R1000V) adding 10.4% vs. the Russell 1000 Growth (R1000G) climbing 9.2%. Among smaller capitalization stocks, growth outperformed value, with the R2000G adding 15.1% vs. the R2000V, which rose 13.2%. Small stocks remain ahead of large stocks for the trailing 12-month period, with the Russell 2000 returning 18.3% and Russell 1000 returning 11.4%.
- International equity indices had a very strong quarter, reversing some of the losses from the third quarter. All of the major benchmarks returned double digits for the year with MSCI All Country World –ex US index up 15.4% and 21.4% for the quarter and year, respectively.

FIXED INCOME MARKETS REVIEW

- The Federal Reserve increased the Fed Funds rate by a total of 50 basis points in the fourth quarter, bringing the rate to 2.25%. The continued increases in the short-term rates by the Federal are expected to continue in 2005 as part of its strategy to ward off inflation and keep the economy in check. The yield curve increased in the fourth quarter for the periods up to ten years, while the longer term maturities were downward. The slope diminished as the two-year to 10-year spread declined from 242 basis points to 115 basis points. The yield spread of AA-rated 10-year industrial bonds to treasuries was 55 basis points, as of December 31, and 7 basis points higher than December 31, 2003.
- During the fourth quarter, all the major bond indices showed positive returns. The Lehman Aggregate Bond Index (LAB) posted a 1.0% gain and the Citigroup World Government Bond (CWGB) Index rose 8.5%. Lehman Mortgage Backed (LBMB) Index ended the quarter 1.3% higher. High yield corporates, as measured by the Citigroup High Yield (CHY) Index, gained 4.7% For the trailing 12 months as of the end of Q4, the LAB Index was up 4.3%, the CWGB Index 10.4%, LBMB Index 4.7% and the CHY Index 10.8%

REAL ESTATE MARKETS REVIEW

- REITs continued to do well in 2004; in the fourth quarter, the NAREIT Equity Index had a total return of 15.2%. For the year ending December 31, 2004, the index's total return was 31.6%. Some of the property sectors that did well were regional malls (up 45%), shopping centers (up 36.3%), apartments (up 34.7%), industrial (up 34.1%), and hotels (up 32.7%).
- There are arguments that the five year run may be coming to an end – factors discussed include currency fluctuations, rising interest rates, slow job growth, and higher energy costs. According to Green Street Advisors, REITs are trading, on average, at a 12% premium to their underlying property values.

Action: Motion by Bryon, second by Tashman, for the Investment Committee to accept Strategic Investment Solutions' quarterly investment performance report and will recommend that the Board of Retirement accept the report.

- 6.4 Annual Investment Manager Review – Barclays Global Investors.** In response to *SamCERA's* questionnaire, Barclays Global Investors states that there have been no significant changes to the organizational structure of BGI in the past year. BGI continues to grow and leverage its existing index business while targeting BGI's fixed income strategies, exchange traded funds and long/short strategies for additional growth. The only significant change to *SamCERA's* portfolio management team was the addition of Craig Tann, Client Relationship Associate. Ms. Patricia C. Dunn continues

to serve the firm in a non-executive capacity as vice-chairman, with special focus on corporate governance activities. They also discussed Ms. Dunn's involvement with Hewlett-Packard. The SEC last examined BGI in 1999. There are no open issues.

BGI espouses a *Total Performance Management* investment philosophy of "managing risk, return and cost." On February 28th, BGI managed 49.5% of SamCERA's portfolio at market in the following asset classes:

The committee briefly reviewed BGI's response to SamCERA's questionnaire and Compliance Certification Statement. Mr. Lewis noted that the BGI response on items that had anything to do with BGI were evasive, such as succession planning, profitability, and other company related questions. He asked that staff mention this at the interview. There was a brief discussion regarding Ms. Dunn's role and differing opinions on how that role had been described in previous correspondence. There were no additional concerns that were raised by the responses.

ASSET CLASS	PERCENT OF PORTFOLIO	BOOK VALUE	MARKET VALUE	TRAILING TWELVE MONTH RETURN	ANNUALIZED RISK
Russell 1000 Alpha Tilts *	20.5%	\$291.00	\$329.0	13.05%	7.83%
Russell 1000 Index Fund	19.5%	\$217.9	\$312.3	7.52%	15.71%
US Debt Index Fund	9.5%	\$106.7	\$152.2	2.44%	3.70%
TOTAL (in millions)	49.5%	\$615.6	\$793.5		

Action: No action was required on this agenda item.

Mr. Lewis requested that the committee address items out of order. He wished to discuss 6.9 "Introduction of Amendments to Part Three & Four of SamCERA's Investment Plan," specifically the real estate section before preceding to 6.5 "Approval of Real Estate Funding - INVESCO Core Real Estate - U.S.A., LLC." Without objection the items were discussed out of order.

6.9 Introduction of Amendments to Part Three & Four of SamCERA's Investment Plan. Mr. Lewis referred to item 6.5 and the board's desire to look at SamCERA's long term strategy toward real estate with regards to getting a second manager. He suggested forming an ad hoc committee to address real estate. The ad hoc committee would recommend, to the Investment Committee, amendments to the real estate section of SamCERA's *Investment Plan*. He reiterated that the investment consultant states it does not have real estate expertise. He believes that expertise may be found on the board. Mr. Bryon offered that the board should seek expert advice through an independent source. There may be a real or perceived conflict on the board.

Mr. Lewis consulted with Mr. Clifton regarding the future timing of the real estate implementation and Investment Plan should an ad hoc committee be established. Mr. Clifton reminded the committee that the real estate section was recently amended. He believes the section as currently written allows the board to implement alternate real estate structures. In addition the section could be amended at any time. It would not be a hardship on SamCERA to delay amendments to Parts Three and Four for another month. Without object the introduction of amendments to Part Three and Part Four of SamCERA's *Investment Plan* will be held over until April. The committee did not make a determination regarding an ad hoc committee.

Action: Without objection the Investment Committee will recommend to the Board of Retirement that the review of Parts Three and Four of *SamCERA's Investment Plan* be held over for one month.

6.5 Approval of Real Estate Funding - INVESCO Core Real Estate – U.S.A., LLC.

Mr. Clifton reported that on February 22, 2005, the board reviewed the real estate allocation, including a brief review of product by manager, type and availability. The board opined that it wished to bring the real estate allocation to full funding as soon as possible. Most real estate funds reported queues lasting several quarters. INVESCO Core Real Estate had no queue. The board instructed staff to discuss at the March board meeting the steps required to invest in INVESCO's Core Fund. It is the Boards desire to be fully allocated to real estate.

He went on to report, should SamCERA provide a capital contribution of \$40,000,000 to INVESCO, the real estate allocation would be approximately 6.0%. INVESCO reports there are currently no signed subscription agreements in its queue. However, it is working with a few potential investors on documentation and expects up to \$200 million could be signed within the next week or two, but nothing is certain regarding timing. If SamCERA is first in the queue, INVESCO would likely call the funds in the second quarter. If, worst case, SamCERA's \$40 million is behind \$200 million of other commitments, INVESCO would expect to call SamCERA's funds between the 3rd quarter of 2005 and 1st quarter of 2006, based on their projected investment pace. INVESCO invested \$120 million in the first quarter.

With the next capital call, the INVESCO Core Real Estate – USA LLC will exceed the \$500 Million Net Asset Value (NAV) hurdle for the expiration of the Founding Investor's lock-out period. SamCERA will be able to redeem shares under the standard procedures outlined in the operating agreement. Refer to the attached Section 8.2 Voluntary Redemptions, which states in part, "A Member may request redemption of some or all of its Units by delivering a redemption notice ("Redemption Notice") at least 90 days in advance to the Manager."

The committee discussed the pros and cons of fully implementing the allocation with INVESCO's Core Fund prior to determining whether manager diversification and/or product diversification was appropriate. There was concern regarding depositing monies into the fund for less than a market cycle. Ms. Tashman reminded the committee that assets for product or manager diversification could come out of INVESCO's Core Fund, asset growth, or possibly a Pension Obligation Bond.

Mr. Lewis noted that questions about manager and product diversification, source of funding, and type of product are reasons he feels justify creation of an ad hoc real estate committee. However, he suggested that the committee first move on fully allocating real estate through a \$40 million capital contribution to the INVESCO Core Real Estate – USA LLC.

Action: Motion by Bryon, second by Tashman, carried unanimously to recommend to the Board of Retirement that it adopt the following Resolution, which authorizes the Chair to execute the Subscription Documents contributing \$40 million in a capital contribution to the INVESCO Core Real Estate – USA LLC.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Adoption of INVESCO Core Real Estate – U.S.A., LLC
Short Form Subscription Agreement for New Capital Contributions

RESOLUTION 04-05-

THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), approves the Subscription Documents for New Capital Contributions to the INVESCO Core Real Estate – U.S.A., LLC.

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 September 30, 2004, the Board of Retirement executed subscription documents for the INVESCO Core Real Estate – U.S.A., LLC Fund; and

WHEREAS, In February 2005 the Board reviewed various real estate products by manager, type and availability and determined to bring SamCERA's real estate allocation to approximately full funding by contributing \$40,000,000 to the INVESCO Core Real Estate – U.S.A., LLC Fund; and

WHEREAS, County Counsel has approved the Subscription Documents as to form and the Investment and Finance Manager has recommended approval of the documents. Therefore, be it

RESOLVED that the Board hereby approves the INVESCO Core Real Estate – U.S.A., LLC Fund Subscription Documents. Be it further

RESOLVED that the Board hereby delegates full discretionary authority to the INVESCO Core Real Estate – U.S.A., LLC Fund to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of the Limited Liability Company Agreement (the “Operating Agreement”) of INVESCO Core Real Estate – U.S.A., LLC. Be it further

RESOLVED that the Board hereby approves the fees as specified in the Investment Management Fee Side Letter dated September 30, 2004, 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 Subscription Documents 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 Fund documentation 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 Fund Documents.

In response to a question from Mr. Bryon, Mr. Clifton stated that the \$40 million will be distributed via a modified rebalance of the portfolio. Modified in the respect that monies may not come from all portfolios, only those furthest from their target.

Mr. Lewis asked the committee to recommend to the board that an ad hoc committee be established to provide for education to the board on real estate options, including providing for invitation to outside presenters. The ad hoc real estate committee would report its findings and recommendations to the investment committee.

Action: Without objection the Investment Committee will recommend to the Board of Retirement that an ad hoc real estate committee, comprised of certain trustees, be appointed. Further this committee will report to the investment committee.

- 6.6 Approval of Amendment to Julius Baer's Investment Management Agreement.** The current Investment Management Agreement between the board and Julius Baer Investment Management (JBIM) was executed October 25, 2005. Section D of Exhibit C, Equity Investment Objectives, Guidelines, Restrictions and Fee Agreement, is titled Investment Limitation. Under limitations it states, *"The aggregate investment by the Investment Manager, on behalf of all of its discretionary accounts, in any one issuing corporation, shall not exceed 5 percent of the outstanding capital stock of that corporation."*

JBIM assets have grown significantly over the past several years, and as a result, the firm has taken larger positions in smaller companies across its account base in an effort to extend the same opportunities to all of its clients. As a result, JBIM built positions in stocks that exceeded the aforementioned 5% limit. These positions represent a very small part of SamCERA's portfolio.

The stocks in violation of the 5% limit are listed below. The percentage after the issue represents the total of SamCERA's portfolio.

ZM Duda – Poland – (0.225%)
Snieszka SA – Poland – (0.031%)
Inter Cars SA – Poland – (0.051%)
Dogan Holdings – Turkey – (0.407%)
Percentage of total portfolio is 0.714%.

JBIM sees a positive shift in sentiment towards that region by global investors and liquidity in these markets has increased. Some of the smaller stocks in those markets will benefit disproportionately from this trend. JBIM is actively researching and investing in those markets.

After a thorough discussion, the committee felt comfortable recommending to the board that JBIM be allowed to acquire more than 5% of a corporation as long as in aggregate those investments are no more than 3% of SamCERA's JBIM portfolio.

The committee will recommend the following amendment to the SAMCERA/Julius Baer Investment Management Agreement.

**AMENDMENT TO
THE INVESTMENT MANAGEMENT AGREEMENT
BETWEEN
BOARD OF RETIREMENT OF THE SAN MATEO COUNTY EMPLOYEES' RETIREMENT
ASSOCIATION
AND
JULIUS BAER INVESTMENT MANAGEMENT**

THIS AGREEMENT entered into this 25th day of October 2005, by and between the San Mateo County Employees' Retirement Association (hereinafter "*SamCERA*") and Julius Baer Investment Management LLC (hereinafter referred to as "Investment Manager"),

W I T N E S S E T H

WHEREAS, on October 25, 2005, the parties hereto entered into an agreement (hereinafter referred to as the "Original Agreement") for the furnishing of certain services by Investment Manager to *SamCERA* as set forth in that Original Agreement; and

WHEREAS, it is now the mutual desire and intent of the parties hereto to amend that Amended Agreement;

NOW, THEREFORE, IT IS HEREBY AGREED between the parties that the Original Agreement is amended as follows:

Exhibit C

Equity Investment Objectives, Guidelines, Restrictions and Fee Agreement

D. Investment Limitations

The Investment Manager shall not invest more than 5 percent at cost of the assets of *SamCERA*'s portfolio in common stock, preferred stock and other obligations of any one issuing corporation, with the exception of exchange-traded funds where the Investment Manager shall not invest more than 10% in an individual exchange-traded fund at cost.

The aggregate investment by the Investment Manager, on behalf of *SamCERA*'s portfolio, in

any one issuing corporation, shall not exceed 5 percent of the outstanding capital stock of that corporation. The Board provides an exception to this limitation. The Investment Manager may exceed the 5 percent ceiling provided that, in aggregate, those investments do not exceed 3% at cost of the assets of SamCERA's portfolio.

The following investments are prohibited:

1. Commodities and loans
2. Short sales and the use of margin accounts
3. Put and call options of any type
4. Private placements with the exception of 144A securities
5. Direct participations
6. Real Estate

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that:

1. The amendment is hereby incorporated and made a part of the Original Agreement and subject to all provisions therein.
2. All other provisions of the Original Agreement shall be binding on all the parties hereto.

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that the Agreement of October 25, 2005 be amended accordingly.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have affixed their hand on the day and year first above written.

Action: Motion by Tashman, second by Bryon, carried unanimously to recommend to the Board of Retirement that it approve the above amendment to the SamCERA/Julius Baer Investment Management.

- 6.7 Approval of Investment Committee Plan for Fiscal Year 2005/2006.** The committee reviewed the recommended Investment Committee work plan for Fiscal Year 2005/2006. The plan has been structured to arrange manager annual reviews by asset type (IE large cap equity, fixed income, etc.). Those interviews will be conducted at the board, which will result in a day-long board meeting. When a board meeting consumes the entire day, the investment committee will meet the preceding day.

Action: Motion by Tashman, second by Bryon, carried unanimously to recommend to the Board of Retirement that it approve the Investment Committee work plan for the Fiscal Year 2005/2006.

- 6.8 Acceptance of Amendments to Part One & Part Two of *SamCERA's Investment Plan*.** The committee reviewed and approved the amendments to Part One and Part Two of *SamCERA's Investment Plan*. The amendments i) the actuarial text was reworded, striking some language and adding a discussion on the market stabilization account; ii) tables were updated regarding funding ratios, asset allocation, and expected return; and iii) the target rebalancing range was tightened.

Action: Motion by Bryon, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the Investment Committee's suggested amendments to *SamCERA's Investment Plan*.

6.9 Introduction of Amendments to Part Three & Four of *SamCERA's Investment Plan*.

This item was heard out of order. It was heard prior to item 6.5. After a discussion, the committee opined to hold the item over until April.

- 6.10 Approval of Annual Shareholder Written Consent Form.** Mr. Clifton reported that pursuant to provisions of the California General Corporation Law, SamCERA, being a sole shareholder, has certain responsibilities. Those responsibilities include but are not limited to convening an annual meeting and maintaining a corporate minute book. The Written Consent of Sole Shareholder in Lieu of Special Meeting specifies actions that shall constitute valid corporate action on behalf of the Company and shall have the same force and effect as if such action had been authorized and taken at a formal meeting. Now that Hunter's Creek and Tyson's Office Center have sold, the survival period has expired and the final tax returns have been filed, it is time to dissolve the title-holding entities and have that action inserted into the Minute Books.

Staff recommended that the committee recommend to the board that it execute the California Corporation Written Consent of Shareholders, which resolves that the Corporation (Hunter's Creek and Tyson's Office Center) be dissolved in California pursuant to the General Corporation Law and that the officers of the Corporation, and each of them, are hereby authorized and instructed to take any and all actions necessary or desirable to carry out the intent and purpose of the resolve to dissolve the Corporation.

Action: Motion by Bryon, second by Tashman, carried unanimously to recommend to the Board of Retirement that the chair be authorized to execute the Written Consent of Sole Shareholder in Lieu of Special Meeting, which dissolves SamCERA's corporations established for ownership of Hunter's Creek and Tyson's office Center.

7.0 Other Business: None

8.0 Investment & Finance Manager's Report:

Mr. Clifton reported on:

- 1) **Interest Crediting** - Interest was credited as of 12/31/2004 for contributions and interest on deposit for six months as of 6/30/2004. Pursuant to SamCERA's Interest Crediting Policy Member Reserves received interest at 3.45%
- 2) **Delaware Pool Trust Proxy** –*SamCERA's Investment Plan* delegates the voting of its proxies to the Investment Managers. Mondrian alerted staff to a possible conflict of interest should it vote the Delaware Pool Trust Proxy. Staff consulted with Institutional Shareholder Services and voted the proxy. The issues were: i) **Election of trustees** – A substantial majority of board members are

independent outsiders. The key board committees include no interested persons. Staff voted for the slate of candidates. ii) **Approve Manager of Managers Structure for the Fund** – Advisor (Delaware) would serve as “manager of managers” delegating portfolio management decisions to one or more sub-advisors. It allows advisor to replace a sub-advisor without shareholder approval. ISS’s contention is that this proposal severely limits shareholder involvement in the governance of the fund. Staff voted against the Manager of Managers Structure.

- 3) **Julius Baer Investment Management** –JBIM notified SamCERA that it inadvertently built positions in stocks that exceeded the Investment Plan’s 5% limit on acquisition of outstanding capital stock.
- 4) **Council for Responsible Investing** – The council has been in discussions with staff regarding proxy voting and corporate governance. Members representing the council may visit the board in the near future. Those members would wish to address the committee or board in the comments from the public section regarding proxy voting and corporate governance.

9.0 Adjournment: The committee adjourned at 11:20 a.m.