

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

April 26, 2005 – 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 Monthly Portfolio Performance Report
 - 6.2 Approval of Amendment to Julius Baer's Investment Management Agreement
 - 6.3 Approval of Shareholder Written Consent Form
 - 6.4 Approval of Investment Committee Plan for Fiscal Year 2005/2006
 - 6.5 Approval of Amendments to Part One & Part Two of *SamCERA's Investment Plan*
 - 6.6 Introduction of Amendments to Part Three & Four of *SamCERA's Investment Plan*
 - 6.7 Introduction to Review of SamCERA's Investment Management Agreement (IMA)
 - 6.8 Approval of Topics for Deutsche Asset Management's Annual Review
 - 6.9 Approval of Topics for Western Asset Management's Annual Review
- 7.0 Other Business
- 8.0 Investment & Finance Manager's Report
- 9.0 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 a.m. April 26, 2005, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.

2.0 Roll Call: Mr. Bryan, Mr. Lewis (excused), Ms. Salas, and Ms. Tashman. *Board Members in Attendance:* Bette Stuart. *Alternate Board Member:* None. *Staff:* Mr. Bailey and Mr. Clifton. *Consultant:* Ms. Jadallah. *Public:* None. *Retirees:* None.

3.0 Approval of the Minutes: The March 22, 2005, investment committee minutes were approved as presented.

Action: Motion by Salas, second by Tashman, carried unanimously to approve the Investment Committee's minutes for the March 22, 2005, meeting.

4.0 Oral Communications From the Committee: None.

5.0 Oral Communications From the Public: None.

6.1 Monthly Portfolio Performance Report. Mr. Clifton reported that *SamCERA's* -1.50% Total Fund Return for March 2005 under-performed the Total Plan Policy Benchmark return of -1.19%. The Fund's Fiscal Year to Date return, 7.48%, is 154 basis points ahead of the Actuarial Discount Rate, 5.94%, and 21 basis points ahead of *SamCERA's* Total Plan Policy Benchmark at 7.27%.

The table presented below shows the composite returns

March 31, 2005		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,060,295,271	-1.99%	-1.49%	10.62%	9.70%
Equity Composite Benchmark		-2.04%	-1.92%	9.60%	9.01%
Variance		0.05%	0.43%	1.02%	0.69%
Fixed Income Aggregate	\$456,681,322	-0.54%	-0.07%	0.93%	1.86%
Fixed Income Composite Benchmark		-0.51%	-0.47%	4.48%	1.16%
Variance		-0.03%	0.40%	-3.55%	0.70%
Real Estate Aggregate (1)	\$57,079,121	5.41%	5.41%	10.07%	20.45%
NCREIF (one quarter lag)		3.51%	3.51%	8.33%	15.55%
Variance		1.90%	1.90%	1.74%	4.90%
Cash Aggregate	\$1,964,577	0.22%	1.10%	1.72%	2.84%
91 Day Treasury Bill		0.24%	0.57%	1.06%	1.67%
Variance		-0.02%	0.53%	0.66%	1.17%
Total Fund Returns	\$1,576,020,290	-1.31%	-0.83%	7.63%	7.79%
Total Plan Policy Benchmark		-1.26%	-1.15%	6.89%	7.18%
Variance		-0.05%	0.32%	0.74%	0.61%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		-1.31%	-0.83%	7.63%	7.79%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		-1.95%	-2.77%	3.71%	-0.21%

Action: No action is required. The Monthly Portfolio Performance Report is an informational report.

- 6.2 Approval of Amendment to Julius Baer's Investment Management Agreement.** Mr. Clifton reported that 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 5% of the outstanding capital stock of a corporation. Under Exhibit C, Section D, Investment Limitation, of the current Investment Management Agreement (IMA) between the board and Julius Baer Investment Management (JBIM) one limitation reads, *"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 offers that it finds exceptional value in some of the smaller Eastern/Central European Markets. Their firm sees a positive shift in sentiment towards that region by global investors. JBIM also sees an increase in the depth and liquidity in these markets. Some of the smaller stocks in those markets will benefit disproportionately from this trend.

Staff, Strategic Investment Solutions, and Julius Baer Investment Management agree that the IMA's 5% limitation must be amended.

The Investment Committee discussed the pros and cons of the investment opportunities, risk exposure

and performance dispersion related to an exemption to the 5% ownership limitation. The committee opined to recommend the following amendment to the SamCERA/Julius Baer Investment Management Agreement.

Section D should be amended to read, *“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 entire amendment appears below:

**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 five 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 ten percent 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 five percent of the outstanding capital stock of that corporation, with the exception that such investments, in aggregate, do not exceed three percent of SamCERA's portfolio at cost.

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

- 6.3 Approval of Shareholder Written Consent Form.** Mr. Clifton reported: 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.

The board should authorize the chair to execute two California Corporation Written Consent of Shareholders. One of the consents resolves that the corporation (Hunter's Creek) 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. The other consent dissolves the Tyson's Office Center Corporation.

Action: Motion by Tashman, second by Salas, carried unanimously to recommend to the Board of Retirement that it authorize the Chair to execute Written Consents of Sole Shareholder for Tyson's Office Center, Inc. and Hunter's Creek Plaza, Inc.

- 6.4 Approval of Investment Committee Plan for Fiscal Year 2005/2006.** Mr. Clifton presented the investment committee plan for the next fiscal year. He noted that the annual manager reviews will now be grouped by asset class with multiple interviews at one meeting.

Action: Motion by Bryan, second by Tashman, carried unanimously to recommend to the Board of Retirement that it authorize the chair to execute a Written Consent of Sole Stockholder for Tyson's Office Center, Inc. and Hunter's Creek Plaza, Inc.

- 6.5 Approval of Amendments to Part One & Part Two of *SamCERA's Investment Plan*.** At the February 22, 2005, board meeting the trustees reviewed *SamCERA's Investment Plan*, Parts One and Two. Amendments to Parts One and Two were revisited in March of 2005. The committee reviewed the amended document and offered several final amendments to Part One and Part Two.

Action: Motion by Salas, second by Tashman, carried unanimously to recommend to the Board of Retirement that it adopt the amended version of *SamCERA's Investment Plan*, Parts One and Two.

- 6.6 Introduction of Amendments to Parts Three & Four of *SamCERA's Investment Plan*.** The investment committee reviewed and generated suggested amendments to Parts Three and Four of *SamCERA's Investment Plan*. A redline version of both sections, incorporating suggested amendments will be reviewed at the May Investment Committee meeting.

Action: Motion by Tashman, second by Salas, carried unanimously to recommend to the Board of Retirement that it review the amendments to Parts Three and Four and provide additional recommendations where appropriate.

- 6.7 Introduction to Review of *SamCERA's Investment Management Agreement (IMA)*.** Over the past ten years SamCERA developed and refined its boilerplate IMA. Questions regarding content and language were raised during the last round of agreement negotiations. The board opined that following the implementation of the manager structure it would be prudent to conduct a thorough review of the boilerplate agreement.

Mr. Clifton recommended that this item be held over until August or September of 2005 when the Board of Retirement will be at full strength.

Action: Motion by Salas, second by Tashman, carried unanimously to recommend to the Board of Retirement that review of SamCERA's Investment Management Agreement (IMA) be held over until Autumn of 2005.

- 6.8 Approval of Topics for Deutsche Asset Management's Annual Review.** Mr. Clifton provided the committee with the following overview of Deutsche Asset Management: Deutsche Asset Management, Inc. has a value oriented, bottom-up, issue specific, investment style. Their fixed income investment philosophy is that diligent credit analysis, bond structure evaluation and an assessment of a bond's relative value can be used to exploit inefficiencies in the non-Treasury markets. In addition they believe interest rate forecasting and sector rotation do not add value. Therefore, their team of investment professionals focuses its efforts on constructing a duration neutral portfolio of high quality securities across the yield curve. Fundamental research on the investment grade universe of securities and constant communications with the market are keys to their investment process.

DAMI's constraints are i) investment grade bonds only, ii) no more than 20% 144A; no more than 20% BBB, iii) duration neutral to the index, iv) no foreign currency denominated bonds, and v) ERISA eligible bonds only.

The committee reviewed the questions and recommended no changes.

Action: Motion by Salas, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the list of questions for Deutsche Asset Management's annual review.

- 6.9 Approval of Topics for Western Asset Management's Annual Review.** Mr. Clifton provided the committee with the following overview of Western Asset Management: Western Asset Management's investment philosophy has three key components: First, long term value investing, which they define as their fundamental approach. As sector rotators, the firm seeks out the greatest long term value by assiduously analyzing all sectors of the fixed income market. The second component is multiple strategies. Western Asset employs multiple strategies, proportioned so that results do not depend upon one or two opportunities, and in order that no single adverse market event would have an overwhelming negative impact on performance. This approach seeks to add incremental value over time, while reducing overall volatility. They deliberately avoid dependence upon a single market anomaly or inefficiency. The third component of the investment philosophy is opportunistic trading. Western Asset adds value with opportunistic trades that attempt to exploit market inefficiencies. Non-US investment grade sovereigns, high yield and emerging market debt securities are used opportunistically in this approach.

The committee reviewed the questions and recommended that Western include in its description of the core plus sectors: i) the sector's role in the core-plus strategy, ii) expressed as a percentage of total portfolio, what is the permissible range of that sector, and iii) where is Western in that range and where is it normally in the range.

Action: Motion by Bryan, 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.

7.0 Other Business:

- 8.0 Investment & Finance Manager's Report:** Mr. Clifton reminded the committee that some of the items in his report are being heard for the second time. The March 2005 board meeting concluded prior

to hearing the IFM's report. The items not reported last month are being provided in this report.

- 1) **Deutsche Asset Management** – Effective Monday, April 25, 2005, the Philadelphia Active Fixed Income office relocated to a new location: 1735 Market Street, 37th Floor.
- 2) **Julius Baer Investment Management** – Mr. Bailey and Mr. Thomas met with Richard Pell and Melvin Lindsay of JBIM on April 15, 2005, regarding general topics. (Mr. Clifton was out of the office.)
- 3) **INVESCO Core Real Estate Fund - USA** – Mr. Bailey and Mr. Clifton met with Mr. Swango and Mr. Grubbs on April 20, 2005, regarding the INVESCO Core Fund in general.
- 4) **INVESCO Core Real Estate Fund - USA** – A handout detailing the Advisory Committee was provided. SamCERA has indicated it wishes to participate. Mr. Bailey communicated to INVESCO that he has delegated his duty to attend the Advisor Committee to Mr. Clifton.
- 5) **Strategic Investment Solutions** – Notification was provided that The SEC completed its examination of certain books and records of SIS and no further action by SIS is required.
- 6) **Brandes** – An oral report was provided under 6.1 on the main drivers of Brandes under performance - 8.11% versus, -5.34% or a negative 277 bp. A handout on bankruptcy was provided.
- 7) **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%
- 8) **Delaware Pool Trust Proxy** – Mr. Clifton notified the Board that he voted the Delaware Pool Trust proxy. He used Institutional Shareholder Services for guidance on the vote. The following is a brief review of the issues and the vote: **Election of trustees** – A substantial majority of board members are independent outsiders. The key board committees include no interested persons. Voted for the slate of candidates. **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 the advisor to replace a sub-advisor without shareholder approval. ISS's contended that this proposal severely limits shareholder' involvement in the governance of the fund. Voted against the delegation of portfolio management decisions to the Advisor.
- 9) **Julius Baer Investment Management** – The board was notified that JBIM inadvertently built positions in stocks that exceeded the Investment Plan's 5% limit on acquisition of outstanding capital stock. JBIM first notified SamCERA in March.
- 10) **Council for Responsible Investing** – Members of the Council for Responsible Investing may visit the board in the near future regarding proxy voting. They are concerned about corporate governance and how SamCERA oversees its review.

9.0 Adjournment: The committee adjourned at 11:59 a.m.