

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

May 23, 2005 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 10:03 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 Quarterly Investment Performance Analysis for period ended March 31, 2005
 - 6.3 Adoption of Part One & Part Two of SamCERA's Investment Plan
 - 6.4 Acceptance of Amendments to Part Three & Four of SamCERA's Investment Plan
 - 6.5 Introduction of Amendment to Appendix A-E and Glossary of SamCERA's Investment Plan
 - 6.6 Annual Review: Deutsche Asset Management (approximately 9:45 a.m. May 24th)
 - 6.7 Annual Review: Western Asset Management (approximately 10:45 a.m. May 24th)
 - 6.8 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions
 - 6.9 Approval of Topics for Custodian Review – State Street Bank & Trust
 - 6.10 Approval of Second Amendment (Revolving Credit Facility) to INVESCO Core Real Estate – USA
- 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. Lewis called the Public Session of the Investment Committee of the Board of Retirement to order at 10:03 a.m. May 23, 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:* Ms. Stuart (10:25). *Alternate Board Member:* None. *Staff:* Mr. Bailey and Mr. Clifton. *Consultant:* Mr. Thomas. *Public:* None. *Retirees:* One.
- 3.0 Approval of the Minutes:** The April 26, 2005, Investment Committee minutes were approved as presented.

Action: Motion by Bryan, second by Tashman, carried unanimously to approve the Investment Committee's minutes for the April 26, 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 *SamCERA's* -1.57% Total Fund Return for April 2005 under-performed the Total Plan Policy Benchmark return of -1.29%. The Fund's Fiscal Year to Date return, 5.99%, is 63 basis points behind the Actuarial Discount Rate, 6.62%, and 18 basis points ahead of *SamCERA's* Total Plan Policy Benchmark at 5.81%.

In response to Ms. Tashman's question, Mr. Clifton noted that SamCERA's cash is held in interest bearing accounts such as the county pooled funds or swept into the custodian's short term interest fund (STIF). Although SamCERA has a zero allocation to cash, there is always a residual cash balance. This balance is tracked against the 91 day Treasury Bill and historically has outperformed by greater than 50bp.

The committee engaged in an extensive discuss regarding the recent underperformance of its small cap value manager. Mr. Clifton noted that while several holdings experienced negative performance over the trailing three months, a few stocks, specifically Winn-Dixie Stores, Visteon, Delta Air Lines, and Maytag Corporation, can explain the difference between the portfolio and the index. The committee is aware that implicit in the manager's deep value style is the probability some companies may encounter difficulties, and may even file for bankruptcy, but the potential long-term success of the portfolio is underpinned by expectation that the gains from the shares that appreciate will, over time, outweigh any losses from shares that decline in this way. The committee concluded the blips in underperformance or performance may stimulate discussions, but a manager's performance is evaluated over a longer time horizon.

The table presented below shows the composite returns.

April 30, 2005		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,070,158,031	-2.94%	-2.03%	4.97%	9.01%
Equity Composite Benchmark		-2.58%	-1.92%	4.57%	9.04%
Variance		-0.36%	-0.11%	0.40%	-0.03%
Fixed Income Aggregate	\$462,975,022	1.38%	0.46%	1.54%	5.80%
Fixed Income Composite Benchmark		1.35%	0.24%	0.98%	5.26%
Variance		0.03%	0.22%	0.56%	0.54%
Real Estate Aggregate (1)	\$57,079,121	0.00%	5.41%	10.58%	20.16%
NCREIF (one quarter lag)		0.00%	3.51%	8.33%	15.55%
Variance		0.00%	1.90%	2.25%	4.61%
Cash Aggregate	\$7,534,982	0.23%	1.11%	1.77%	2.90%
91 Day Treasury Bill		0.23%	0.63%	1.15%	1.81%
Variance		0.00%	0.48%	0.62%	1.09%
Total Fund Returns	\$1,597,747,156	-1.57%	-1.02%	4.15%	8.51%
Total Plan Policy Benchmark		-1.29%	-0.94%	3.84%	8.46%
Variance		-0.28%	-0.08%	0.31%	0.05%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		-1.57%	-1.02%	4.15%	8.51%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		-2.21%	-2.96%	0.23%	0.51%

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

6.2 Strategic Investment Solutions' Quarterly Investment Performance Analysis for the period ending March 31, 2005. Mr. Thomas presented Strategic Investment Solutions' investment performance report for the period ended March 31, 2005. This presentation included a thorough review of the reference materials contained in the appendix. Summary details from Strategic Investment Solutions' quarterly performance report may be found below.

Mr. Bryan asked Mr. Thomas to address SamCERA's fixed income structure, specifically whether the allocation to a passive investment is appropriate. Mr. Thomas stated that the plan's fixed income portfolio is equally divided between core passive, core active, and a core plus structure. This is a good structure, however, fixed income is an area where the plan could take additional risk. Ms Tashman recalled that Barclays Global Investors has a CoreActive Bond Fund, which adds approximately 50 bps of alpha with little increased risk over a significant time period. Mr. Lewis asked for SIS' opinion on the two common indexes, the Lehman Aggregate and the Lehman Universal. Mr. Thomas noted that the correct benchmark is tied to the trustee's risk tolerance. The Lehman Aggregate is composed exclusively of U.S. investment grade instruments while the Lehman Universal takes on more risk by including high yield and non-U.S. investments. To make a more difficult representative benchmark SIS sometimes constructs a hybrid benchmark (IE 70% Lehman Aggregate, 20% Solomon Non-U.S., 10% High Yield). The committee also discussed whether 29% in fixed income was the appropriate allocation. A comprehensive review of SamCERA's fixed income structure will be placed on the July agenda.

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	-0.83%	43	7.79%	27	7.03%	44
<i>Policy Index</i>	<i>-1.08%</i>	<i>59</i>	<i>7.26%</i>	<i>40</i>	<i>6.87%</i>	<i>51</i>
BGI Russell 1000 Alpha Tilts	-0.76%	32	N/A	-	N/A	-
BGI Russell 1000 Index Fund	-1.89%	54	7.30%	48	3.38%	52
<i>Large Cap Composite</i>	<i>-1.31%</i>	<i>42</i>	<i>8.53%</i>	<i>39</i>	<i>3.78%</i>	<i>46</i>
<i>Russell 1000 Index</i>	<i>-1.91%</i>	<i>55</i>	<i>7.24%</i>	<i>49</i>	<i>3.35%</i>	<i>53</i>
Goldman Sachs Asset Management	-4.26%	84	N/A	-	N/A	-
Chartwell Investment Partners	-2.85%	31	N/A	-	N/A	-
Brandes Investment Partners	-8.11%	100	N/A	-	N/A	-
<i>Small Cap Composite</i>	<i>-4.89%</i>	<i>76</i>	<i>7.72%</i>	<i>48</i>	<i>8.76%</i>	<i>55</i>
<i>Russell 2000 Index</i>	<i>-5.34%</i>	<i>81</i>	<i>5.41%</i>	<i>64</i>	<i>8.05%</i>	<i>62</i>
<i>U.S. Equity Composite</i>	<i>-2.13%</i>	<i>55</i>	<i>8.35%</i>	<i>41</i>	<i>4.73%</i>	<i>50</i>
Julius Baer Asset Management	-0.07%	63	N/A	-	N/A	-
Mondrian Investment Partners	1.29%	16	N/A	-	N/A	-
<i>International Equity Composite</i>	<i>0.58%</i>	<i>32</i>	<i>14.27%</i>	<i>55</i>	<i>8.45%</i>	<i>84</i>
<i>MSCI ACWI-ex US Index Free</i>	<i>0.33%</i>	<i>42</i>	<i>16.14%</i>	<i>34</i>	<i>13.06%</i>	<i>40</i>
<i>Total Equity Composite</i>	<i>-1.49%</i>		<i>9.70%</i>		<i>5.52%</i>	
BGI US Debt Index Fund	-0.48%	70	1.15%	65	6.06%	66
Deutsche Asset Management	0.00%	10	2.19%	22	6.72%	30
Western Asset Management	0.28%	3	N/A	-	N/A	-
<i>U.S. Fixed Income Composite</i>	<i>-0.07%</i>	<i>18</i>	<i>1.89%</i>	<i>47</i>	<i>6.42%</i>	<i>47</i>
<i>Lehman Aggregate Index</i>	<i>-0.47%</i>	<i>66</i>	<i>1.16%</i>	<i>69</i>	<i>6.00%</i>	<i>60</i>
INVESCO Core Fund	5.45%	18	N/A	-	N/A	-
<i>Real Estate Composite</i>	<i>5.41%</i>	<i>19</i>	<i>20.45%</i>	<i>16</i>	<i>14.84%</i>	<i>24</i>
<i>NCREIF Index</i>	<i>3.51%</i>	<i>36</i>	<i>15.55%</i>	<i>33</i>	<i>10.74%</i>	<i>48</i>
<i>Cash Composite</i>	<i>1.10%</i>	<i>5</i>	<i>2.84%</i>	<i>9</i>	<i>2.60%</i>	<i>12</i>
<i>91 Day T-Bill Index</i>	<i>0.57%</i>	<i>43</i>	<i>1.67%</i>	<i>31</i>	<i>1.47%</i>	<i>47</i>

Action: The investment performance report is informational. No action is required.

6.3 Adoption of Part One & Part Two of SamCERA's Investment Plan.

This is the third and final hearing for amendments to Part One and Part Two of SamCERA's Investment Plan. The committee reviewed the amendments made in the first and second hearings. Having no additional amendments, the committee will recommend that the board adopt the amended versions of Part One and Part Two.

Action: Motion by Bryan, second by Tashman, carried unanimously to recommend to the Board of Retirement that it adopt the amendments to Part One and Part Two of SamCERA's Investment Plan.

6.4 Acceptance of Amendments to Part Three & Four of SamCERA's Investment Plan.

This is the second of three hearings for amendments to Part Three and Part Four of SamCERA's Investment Plan. The committee reviewed and approved amendments made during the first hearing. Ms. Tashman pointed out that several items under 16.0 - Quarterly Investment Performance Reporting do not appear in the quarterly report. She noted items such as change in assets under management, client acquisition and/or retention and changes to significant personnel are reported by staff as they occur, or at a minimum, during the annual manager review. She recommends removing those items as a requirement of the quarterly report. The committee concurred.

Action: Motion by Bryan, second by Tashman, carried unanimously to recommend to the Board of Retirement that it accept the amendments to Part three and part Four of SamCERA's Investment Plan.

6.5 Introduction of Amendment to Appendix A-E and Glossary of SamCERA's Investment Plan.

The committee briefly reviewed Appendix A-E and the Glossary of SamCERA's Investment Plan. The committee recommended additions to the Investment Plan Chronology in the appendix. Staff was instructed to review a section of the appendix entitled, Evaluation of SamCERA's Risk Management Practices as Promulgated by the Risk Standards Working Group and bring back a redlined version next month. The committee discussed the evolution of the Compliance Certification Statement. The overview of the appendix finished with a brief discussion of commission recapture and soft dollar transactions.

Action: Motion by Bryan, second by Tashman, carried unanimously to recommend to the Board of Retirement that it review the proposed amendments, and recommend additional amendments as required.

6.6 Annual Review: Deutsche Asset Management.

The committee briefly discussed annual review materials submitted to the board. Nothing in the materials stood out and the committee had no special concerns.

Manager reviews are held at board meetings .

Action: The annual investment manager reviews are held at the Board of Retirement meetings. No action is required by the committee.

6.7 Annual Review: Western Asset Management

The committee briefly discussed annual review materials submitted to the board. Nothing in the materials stood out and the committee had no special concerns.

Manager reviews are held at the board meetings.

Action: The annual investment manager reviews are held at the Board of Retirement meetings. No action is required by the committee.

6.8 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions

Mr. Clifton briefly explained the review process, including the review questions to be completed by Strategic Investment Solutions and the consultant evaluation to be completed by the trustees and the consultants. He noted that staff will compile the results of the evaluation and compare the trustee and consultant responses. In past years this comparison has added value to the review process.

Action: Motion by Tashman, second by Bryan, carried unanimously to recommend to the Board of Retirement that it approve the list of questions for SIS’s annual review and that it complete the consultant evaluation.

6.9 Approval of Topics for Custodian Review – State Street Bank & Trust.

Mr. Clifton provided a brief overview of SamCERA’s relationship with the custodian, State Street Bank & Trust.

Mr. Bryan observed that the trustees rarely interact with this service provider, while staff interacts daily. Mr. Lewis concurred and the committee suggested that it would be appropriate for staff to review this service provider and report back to the board. Mr. Lewis would like staff to raise questions regarding State Street’ role and its interaction with the transition manager in last October’s asset transition. Ms. Tashman would like staff to question the custodian on the current state of security lending. She suggests placing security lending on a future agenda. The board should revisit its security lending policy.

Action: Motion by Bryan, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the Investment Committee’s recommendation that staff perform the annual custodian reviews and provide the board with a report of the review.

6.10 Approval of Second Amendment (Revolving Credit Facility) to INVESCO Core Real Estate – USA

In a memorandum from INVESCO to the members of INVESCO Core Real Estate – USA, LLC, INVESCO management makes the following statements:

“The purpose of this amendment is to allow ICRE to borrow money over the 30% limit currently outlined in the limited liability company agreement on a temporary, short-term basis, and only if the borrowings in excess of 30% are equal to or less than the then outstanding funds available under currently effective subscription agreements.

“The need for this flexibility is driven by the timing differences that are very likely to occur between the closing of property acquisitions which can be required to close at various times during any particular quarter, and the call process for outstanding subscription requests that are intended to only occur at quarter-end in conjunction with the calculation of the net asset value for the fund.

“The fund is in the process of obtaining a revolving credit facility that will allow the closing of a property acquisition using 100% financing, and then subsequently payoff the credit facility using investor subscriptions at the end of the quarter. This process will provide the fund with the flexibility it needs to compete effectively for property acquisitions; however, it also will likely result in the fund temporarily going over the 30% limit on borrowed money. The proposed amendment will allow this needed flexibility. Absent any effective subscription agreements, the 30% limit remains in effect.”

Mr. Lewis found it somewhat ironic that the Fund has a need for cash, but still employs a queue where investors are not allowed entrance other than at quarter end.

Action: Motion by Bryan, second by Tashman, carried two to one (Mr. Lewis) to recommend to the Board of Retirement that it approve the Investment Committee’s recommendation, which is to authorize the Board Chair to execute the second amendment (revolving credit facility) to the INVESCO Core Real Estate LLC.

7.0 Other Business: None

8.0 Investment & Finance Manager’s Report:

- 1) **Deutsche Asset Management** – Deutsche Bank is still weighing offers for the Deutsche Asset Management’s United Kingdom business. Mr. Gagnier will address this issue at Deutsche Asset Management’s annual review during the May 24th board meeting.
- 2) **Julius Baer Investment Management** – In a press release dated May 4, 2005, Julius Baer Investment Management (JBIM) announced it has closed SamCERA’s strategy to new investors effective, May 4, 2005. This is known as a “soft close”. Under a soft close, current investors may contribute additional capital. JBIM also announced plans to build on its international strategy by launching Julius Baer International Equity Fund II. This fund will seek long-term growth of capital by investing in shares of mid and large capitalization companies internationally.
- 3) **Brandes Investment Partners** – In a letter dated April 27, 2005, Brandes Investment Partners informed SamCERA that effective October 31, 2005, Brandes will close the U.S. Small Cap strategy to new clients and to contributions from existing clients, or “hard close.”

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