

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

**August 23, 2005 – Investment Committee Agenda**

**PUBLIC SESSION** – The Committee met in Public Session at 10:15 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 June 30, 2005
  - 6.3 Semi-Annual Capital Market & Inflation Assumption Review (held over from May 2005)
  - 6.4 Approval of Criteria for Manager Search – Domestic Fixed Income Enhanced Product
  - 6.5 Annual Review: INVESCO Realty Advisors
  - 6.6 Educational Presentation on Real Estate
  - 6.7 Approval of Topics for Manager Review – Brandes Investment Partners
  - 6.8 Approval of Topics for Manager Review – Chartwell Investment Partners
  - 6.9 Approval of Topics for Manager Review – Goldman Sachs Asset Management
  - 6.10 Approval of Extension of INVESCO Core Real Estate U.S.A., LLC Subscription Period
- 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 10:15 a.m. August 23, 2005, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan, Ms. Colson (excused), Mr. Hackleman, and Ms. Tashman. *Board Members in Attendance:* Ms. Salas and Ms. Stuart. *Alternate Board Member:* None. *Staff:* Mr. Bailey and Mr. Clifton. *Consultant:* Mr. Thomas & John Meier. *Actuary:* Ira Summer *Public:* None. *Retirees:* None.
- 3.0 Approval of the Minutes:** There was no investment committee meeting on July 26, 2005. The investment services agenda items were heard at the board meeting.  
  
**Action: None required.**
- 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* 2.58% Total Fund Return for July 2005 outperformed the Total Plan Policy Benchmark return of 2.48%. The Fund's Fiscal Year to Date return, 2.58%, is 194 basis points ahead of the Actuarial Discount Rate, 0.64%,

and 10 basis points ahead of *SamCERA's* Total Plan Policy Benchmark at 2.48%.

The U.S. equity market advanced in July on growing investor optimism that the economy was entering a stage of strong growth and well contained inflation. In July, inflation pressures softened as core consumer prices (excluding food and energy) rose only slightly. Investors were also encouraged by better than expected earnings growth expectations. In a slight contradiction, the bond markets experienced higher yields as the market viewed signs of unexpectedly strong growth, especially in manufacturing and capital goods orders, and revised upward its expectations of future Fed tightening.

The table presented below shows the composite returns.

July 31, 2005		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,111,471,692	4.31%	9.45%	7.23%	20.28%
Equity Composite Benchmark		4.22%	9.07%	6.98%	19.55%
<b>Variance</b>		<b>0.09%</b>	<b>0.38%</b>	<b>0.25%</b>	<b>0.73%</b>
Fixed Income Aggregate	\$467,548,241	-0.71%	0.99%	1.45%	5.62%
Fixed Income Composite Benchmark		-0.91%	0.71%	0.95%	4.79%
<b>Variance</b>		<b>0.20%</b>	<b>0.28%</b>	<b>0.50%</b>	<b>0.83%</b>
Real Estate Aggregate (1)	\$59,252,513	0.00%	4.19%	9.83%	22.56%
NCREIF (one quarter lag)		0.00%	5.34%	9.04%	18.02%
<b>Variance</b>		<b>0.00%</b>	<b>-1.15%</b>	<b>0.79%</b>	<b>4.54%</b>
Cash Aggregate	\$71,166,211	0.25%	0.75%	1.86%	3.10%
91 Day Treasury Bill		0.24%	0.73%	1.36%	2.27%
<b>Variance</b>		<b>0.01%</b>	<b>0.02%</b>	<b>0.50%</b>	<b>0.83%</b>
Total Fund Returns	\$1,709,438,658	2.58%	6.61%	5.52%	15.72%
Total Plan Policy Benchmark		2.48%	6.40%	5.40%	15.15%
<b>Variance</b>		<b>0.10%</b>	<b>0.21%</b>	<b>0.12%</b>	<b>0.57%</b>

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		2.58%	6.61%	5.52%	15.72%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
<b>Variance</b>		<b>1.94%</b>	<b>4.67%</b>	<b>1.60%</b>	<b>7.72%</b>

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

- 6.2 **Strategic Investment Solutions' Quarterly Investment Performance Analysis for the period ending June 30, 2005.** Mr. Thomas presented Strategic Investment Solutions' investment performance report for the period ended June 30, 2005. Summary details from Strategic Investment Solutions' quarterly performance report may be found below.

Mr. Thomas set the economic environment for the quarter when he reported:

The Federal Reserve increased the Fed Funds rate by a total of 50 basis points in May and June, bringing the rate to 3.25%. The Fed continued their strategy of controlling inflation through a "measured pace" of interest rate hikes. The yield curve flattened as short term rates increased and long term rates continued to fall.

The major U.S. equity indices posted positive returns in the quarter, with the exception of the Dow Jones Industrial Average, which posted a loss of 1.6%. □□International equities were generally down, with the exception of the MSCI Emerging Markets index. Most of the major bond indices showed positive returns. After tumbling in the first quarter of 2005, real estate (REITs) recovered in the second quarter -- partially reflecting stable interest rates and improving real estate fundamentals. Capitalization rates, driven down partially by cash

flows into real estate, were generally stable or lower.

The composite fund returned 2.3% in the second quarter of 2005 and ranked 43rd among other public funds greater than \$100 million (median of 2.2%). The fund trailed its policy index (2.5%) during this time period. Longer term, the three and five-year returns of 9.8% (37th percentile) and 3.6% (53rd percentile), respectively, were near median among large public plans (9.5% and 3.7%).

	Last Quarter		Fiscal Year-To-Date		Last Year	
	Return	Rank	Return	Rank	Return	Rank
<b>Composite Fund</b>	2.29%	43	10.15%	32	9.75%	37
<i>Policy Index</i>	2.49%	30	9.86%	38	9.80%	37
BGI Russell 1000 Alpha Tilts	2.47%	34	N/A	N/A	N/A	N/A
BGI Russell 1000 Index Fund	2.06%	45	7.98%	46	9.23%	47
<i>Large Cap Composite</i>	2.28%	38	9.45%	38	9.72%	41
<i>Russell 1000 Index</i>	2.05%	45	7.93%	47	9.19%	47
Goldman Sachs Asset Management	0.66%	95	N/A	N/A	N/A	N/A
Chartwell Investment Partners	2.18%	78	N/A	N/A	N/A	N/A
Brandes Investment Partners	3.62%	52	N/A	N/A	N/A	N/A
<i>Small Cap Composite</i>	2.49%	74	9.76%	59	12.88%	59
<i>Russell 2000 Index</i>	4.32%	36	9.45%	62	12.81%	60
<i>U.S. Equity Composite</i>	2.33%	51	9.52%	46	10.26%	52
Julius Baer Asset Management	-0.17%	41	N/A	N/A	N/A	N/A
Mondrian Investment Partners	0.84%	20	N/A	N/A	N/A	N/A
<i>International Equity Composite</i>	0.34%	28	14.73%	55	9.35%	87
<i>MSCI ACWI-ex US Index Free</i>	-0.01%	35	16.95%	26	14.08%	35
<i>Total Equity Composite</i>	1.85%	N/A	10.69%	N/A	10.03%	N/A
BGI US Debt Index Fund	3.03%	40	6.85%	62	5.80%	72
Deutsche Asset Management	2.93%	52	7.43%	30	6.48%	34
Western Asset Management	3.38%	8	N/A	N/A	N/A	N/A
<i>U.S. Fixed Income Composite</i>	3.11%	32	7.49%	40	6.21%	52
<i>Lehman Aggregate Index</i>	3.01%	40	6.80%	56	5.76%	64
INVESCO Core Fund	4.20%	44	N/A	N/A	N/A	N/A
<i>Real Estate Composite</i>	4.19%	45	23.23%	27	15.47%	25
<i>NCREIF Index</i>	5.34%	33	18.02%	40	12.08%	44
<i>Cash Composite</i>	0.72%	40	3.03%	12	2.56%	14
<i>91 Day T-Bill Index</i>	0.72%	40	2.15%	37	1.55%	46

**Action: No action is required. The Strategic Investment Solutions' performance report is informational.**

### 6.3 Semi-Annual Capital Market & Inflation Assumption Review. Strategic Investment Solutions' consultants, Patrick Thomas and John Meier, presented the semi-annual report on capital market expectations.

The tables on the following pages show the inputs of expected risk and return.

## Capital Market Expectations

CATEGORY	EXPECTED RETURN	EXPECTED RISK
U.S. Large Cap Stocks	8.4%	15.5%
U.S. Small Cap Stocks	9.1%	22.5%
U.S. Fixed Income	4.8%	5.0%
Intl Developed Markets Stocks	8.8%	19.5%
Intl Emerging Market Stocks	9.8%	35.0%
Intl Fixed Income	4.8%	9.5%
Private Markets	11.4%	38.0%
Real Estate	6.6%	12.5%
High Yield	5.8%	8.0%
Emerging Market Debt	6.6%	13.5%
Cash	3.5%	1.3%

**Action: No action is required. The Strategic Investment Solutions' performance report is informational.**

### 6.4 Approval of Criteria for Manager Search – Domestic Fixed Income Enhanced Product.

In July 2005, the Board of Retirement reviewed *SamCERA's* domestic fixed income manager structure and opined to restructure the allocations as follows:

Current/Proposed Manager Structure	Portfolio Manager	Current Allocation (7/31/2005)	Portfolio Manager	Projected Allocation
Passive Indexed	Barclays Global Investors US Debt Index Fund	\$154,600,617	Barclays Global Investors US Debt Index Fund	\$0
Enhanced Indexed	Manager to be Selected	\$0	Manager to be Selected	\$155,849,413
Active Core	Deutsche Asset Management	\$162,562,878	Deutsche Asset Management	\$155,849,413
Active Core Plus	Western Asset Management	\$150,384,747	Western Asset Management	\$155,849,414
Total		\$467,548,241		\$467,548,241

The board employs a three-month manager selection process. During the first month, Strategic Investment Solutions (SIS) presents the allocation screening criteria, which the board reviews, amends as required and approves. In the second month, SIS provides the board with a list of semi-finalists not to exceed six. The board reviews the semifinalists and selects two or more finalists to be interviewed. In the third month, the finalists are interviewed and a successful candidate is selected. The Investment Management Agreement is negotiated and signed in the fourth month.

Strategic Investment Solutions', Patrick Thomas, presented the proposed criteria and screening steps detailed below.

SamCERA Enhanced Index Bond Search – August 2005  
Draft Screening Steps

1. Create starting universe of all Enhanced Index Bond products with tracking errors of less than 1. (36 products)
2. Pass over half available performance screens (3,5,7,10 yrs.) versus Lehman Aggregate Index. (21 products left)
3. At least \$500 million in product assets (so SamCERA would be maximum of 33% of product assets). (14 products left)
4. Minimum 3-year track record. (14 products left)
5. Tracking error consistently less than 1 (3,5,7,10 yrs.) (14 products left)
6. Initial qualitative cuts due to inappropriateness of strategy (not truly and/or consistently an enhanced index approach), noteworthy organizational or personnel change, eliminated multiple products for a single manager.
7. Initial quantitative cuts – exclude managers with tracking error too high or low, low relative information ratios, inadequate alpha.
8. Develop short list of managers after discussion with the Investment Committee and Board.

Ms. Tashman expressed concern with the criteria of a minimum of \$500 million in product assets for this mandate. SamCERA's \$150 million would be approximately a third of the product assets. The committee members concurred. Mr. Thomas indicated that the six semi-finalists should have substantially more assets under management. The committee opined that SamCERA's percentage of the assets under management should be approximately 10% in this asset category, but did not amend the \$500 million criteria.

**Action: Motion by Tashman, second by Bryan, carried unanimously to recommend to the Board of Retirement that it accept the proposed screening criteria of an enhanced index bond search.**

**6.5 Annual Review: INVESCO Realty Advisors.**

**SamCERA's investment manager reviews are held at the board meetings. The investment committee analyzes the review materials. The committee may discuss areas of concern. The investment manager will be asked to clarify those areas.**

The committee briefly discussed annual review materials submitted to the board. Mr. Bryan and Ms. Tashman noted displeasure with INVESCO's responses to SamCERA's annual questionnaire. It contains acronyms that are defined later or not defined at all. Overall it raised more questions and provided less information out of the forty pages than SamCERA's typically gets. Staff was asked to develop a real estate questionnaire. The new form should include adequate questions on appraisal methodology and portfolio diversification.

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

**6.6 Educational Presentation on Real Estate.** Mr. Clifton provided a brief overview of the real estate presentation that will be communicated at the board meeting. The presenters will be Amy Cummings and Joel Damon of JPMorgan Chase and Asieh Mansour and Laura Gaylord of RREEF.

The presentation begins with an overview of the expanding real estate opportunity set then illustrates where those opportunities fall in the risk/reward spectrum before drilling down to specific characteristics of the options.

As they drill down, the presenters will discuss the property and return characteristics of core, value-added and opportunistic investing. After summary notations on those investment types, publicly-traded REITs will be briefly reviewed. Before the close of the discussion, the presenters will talk about the characteristics of the commingled fund structures, open and closed.

**Action: No action is required by the investment committee. The real estate educational presentation will be held at the Board of Retirement meeting.**

- 6.7 Approval of Topics for Manager Review – Brandes Investment Partners.** Mr. Clifton reported that SamCERA's small cap managers will be invited before the board on October 25, 2005. He then reviewed the questions that will be submitted to Brandes Investment Partners prior to the review. There were no suggested amendments to the questionnaire.

**Action: Motion by Hackleman, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the list of questions for the annual review.**

- 6.8 Approval of Topics for Manager Review – Chartwell Investment Partners.** Mr. Clifton reported that SamCERA's small cap managers will be invited before the board on October 25, 2005. He then reviewed the questions that will be submitted to Chartwell Investment Partners prior to the review. There were no suggested amendments to the questionnaire.

**Action: Motion by Hackleman, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the list of questions for the annual review.**

- 6.9 Approval of Topics for Manager Review – Goldman Sachs Asset Management.** Mr. Clifton reported that SamCERA's small cap managers will be invited before the board on October 25, 2005. He then reviewed the questions that will be submitted to Goldman Sachs Asset Management prior to the review. There were no suggested amendments to the questionnaire.

**Action: Motion by Hackleman, second by Tashman, carried unanimously to recommend to the Board of Retirement that it approve the list of questions for the annual review.**

- 6.10 Approval of Extension of INVESCO Core Real Estate U.S.A., LLC Subscription Period.**

Mr. Clifton reminded the committee that on March 22, 2005, the board approved a capital contribution of \$40,000,000 to the INVESCO Core Real Estate – USA LLC. At that time the \$40,000,000 contribution would approximate a full implementation of SamCERA's 6.0% allocation to real estate. The chair was authorized to execute a short form subscription document that provided for a six-month subscription period, which will expire on September 22, 2005.

The extension allows INVESCO the continued ability to pursue appropriate investments on the fund's behalf. Currently, INVESCO has eight transactions pending and in various stages of due diligence that may require

capital contributions of \$211,302,000 before the end of 2005. INVESCO expects that given the current transaction flow for the fund, all of SamCERA's unfunded commitment would be invested on either January 3, 2006, or April 3, 2006. Staff recommended an extension of the subscription period through July 6, 2006.

**Action: Motion by Bryan, second by Hackleman, carried unanimously to recommend to the Board of Retirement that it approve the investment committee's recommendation, which is to authorize the board chair to execute an extension to the subscription period for INVESCO Core Real Estate LLC.**

**7.0 Other Business:** None

**8.0 Investment & Finance Manager's Report:**

- 1) **INVESCO** – Hand out INVESCO Core Real Estate – U.S.A., LLC quarterly report
- 2) **Aberdeen Asset Management (DeAM)** – SamCERA received a letter from Aberdeen Asset management. Inc.. The letter introduces an appointment agreement. Staff is currently reviewing the draft agreement. We will bring a recommendation to the board in September.
- 3) **Mondrian** – SamCERA received a letter reminding the association that Mondrian ceased participation in soft dollar arrangements on October 1, 2004. The letter summarizes the services received during 2004. The areas are Economic Research & Forecasting, News Delivery & Data Feeds, Credit Market Information, and Databases (historic info)
- 4) ***Rebalancing*** – The committee was provided a handout detailing the implementation of the ~\$74 million in pre-paid contributions.

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