

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

September 26, 2005 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 8:30 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 Annual Review: Julius Baer Investment Management
 - 6.3 Annual Review: Mondrian Investment Partners
 - 6.4 Approval of Finalists for Manager Search – Domestic Fixed Income Enhanced Product
- 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 8:30 a.m. September 26, 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:* None. *Alternate Board Member:* None. *Staff:* Mr. Bailey and Mr. Clifton. *Consultant:* Ms. Jadallah. *Public:* None. *Retirees:* None.
- 3.0 Approval of the Minutes:** The August 23, 2005, investment committee minutes were approved as presented.

Action: Motion by Tashman second by Bryon, carried unanimously to approve the Investment Committee's minutes for the August 23, 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* 0.28% Total Fund Return for August 2005 slightly outperformed the Total Plan Policy Benchmark return of 0.22%. The Fund's Fiscal Year to Date return, 2.87%, is 158 basis points ahead of the Actuarial Discount Rate, 1.29%, and 16 basis points ahead of *SamCERA's* Total Plan Policy Benchmark of 2.71%.

The U. S. equity market fell slightly in August as investors feared that escalating energy prices would constrain consumer spending and hurt overall economic growth in late 2005. The yield on the 10-yr Treasury broke above 4.40% for the first time since April and crude oil (WTI) rose above \$65 per barrel for the first time in history. Although interest rates eventually eased at the end of the month,

the steady climb in oil prices continued to dampen investor sentiment. Fed Chairman Greenspan added to anxiety late in August by suggesting that investors were taking too much risk and implying that the U. S. housing market appeared overdone. Concerns about the economic and market outlook intensified during the last week of the month as Hurricane Katrina ravaged the southeastern United States, damaging oil rigs and refineries in the Gulf of Mexico and pushing oil futures above \$70 per barrel.

The table presented below shows the composite returns.

August 31, 2005		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,159,849,770	-0.14%	5.43%	3.98%	19.81%
Equity Composite Benchmark		-0.23%	5.31%	3.85%	18.79%
Variance		0.09%	0.12%	0.13%	1.02%
Fixed Income Aggregate	\$488,956,997	1.33%	1.24%	3.18%	5.06%
Fixed Income Composite Benchmark		1.28%	0.91%	2.85%	4.15%
Variance		0.05%	0.33%	0.33%	0.91%
Real Estate Aggregate (1)	\$59,252,519	0.00%	4.19%	9.83%	21.76%
NCREIF (one quarter lag)		0.00%	5.34%	9.04%	18.02%
Variance		0.00%	-1.15%	0.79%	3.74%
Cash Aggregate	\$336,261	0.32%	0.83%	1.52%	3.23%
91 Day Treasury Bill		0.29%	0.76%	1.49%	2.44%
Variance		0.03%	0.07%	0.03%	0.79%
Total Fund Returns	\$1,708,395,546	0.28%	4.05%	3.84%	15.18%
Total Plan Policy Benchmark		0.22%	4.05%	3.93%	14.47%
Variance		0.06%	0.00%	-0.09%	0.71%

Performance versus SamCERA's Actuarial Discount Rate

Total Fund Returns		0.28%	4.05%	3.84%	15.18%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		-0.36%	2.11%	-0.08%	7.18%

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

6.2 Annual Review: Julius Baer Investment Management

SamCERA's investment manager reviews are held at the board meetings. The investment committee analyzes the review materials and may discuss areas of concern. Questions raised by the committee will be conveyed at the board meeting.

The committee briefly discussed annual review materials submitted to the board. Mr. Clifton noted Julius Baer wishes SamCERA to increase the percentage of the portfolio that may be invested in emerging markets and the percentage of the portfolio that may be held in cash. Julius Baer will be asked to provide arguments in favor of both recommendations.

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

6.3 Annual Review: Mondrian Investment Partners

SamCERA's investment manager reviews are held at the board meetings. The investment committee analyzes the review materials and may discuss areas of concern. Questions raised by the committee will be conveyed at the board meeting.

The committee briefly discussed annual review materials submitted to the board. The committee suggested asking for Mondrian's view on emerging markets and what would be an appropriate percentage of the portfolio to be held in emerging markets

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

6.4 Approval of Finalists for Manager Search – Domestic Fixed Income Enhanced Product

In July 2005, upon the advice of the investment committee, the retirement board reviewed the association's domestic fixed income manager structure. The full board opined to restructure the fixed income allocation. One third of the total bond portfolio, which is in an index mandate, will be replaced by an enhanced index mandate. Strategic Investment Solutions was directed to conduct a search and provide six or fewer semi-finalists for the enhanced index mandate. The committee's goal is to select two finalists that will be invited to interview with the Board of Retirement at the October 25th meeting.

SIS used the following board approved screening steps to select the semi-finalists.

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. (8 products left)
7. Initial quantitative cuts – exclude managers with tracking error too high or low, low relative information ratios, inadequate alpha. (6 products left)
8. Remaining managers after discussion with the investment committee and board.

The six semi-finalists reviewed by the committee were Baird Advisors, Barclays Global Investors, BlackRock, Fidelity Management Trust Company, Lehman Brothers Asset Management, and Smith Breeden Associates. SIS and committee worked through the pros and cons of each semi-finalist. After a thorough discussion the committee wished to recommend that the board invite Fidelity Management Trust Company and Lehman Brothers Asset Management to interview for the fixed income enhanced index mandate. The committee will also advise the board that it found Black Rock and Barclays Global Advisors as good candidates. Either would be an acceptable choice should the board wish to interview three candidates.

Action: Motion by Hackleman, second by Tashman, carried unanimously to recommend to the

Board of Retirement that it invite Fidelity Management Trust Company and Lehman Brothers Asset Management to appear before the board on October 25, 2005, to interview for the fixed income enhanced index mandate. The committee will advise the board that it found Black Rock and Barclays Global Advisors as good candidates. Either would be an acceptable choice should the board wish to interview three candidates.

7.0 Other Business:

8.0 Investment & Finance Manager's Report:

9.0 Adjournment: The committee adjourned at 10:25 a.m.