

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

January 24, 2006 – Investment Committee Agenda

PUBLIC SESSION – The Committee met in Public Session at 9:00 a.m.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services of the Investment Committee Shall Review & Discuss
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Annual Investment Manager Review – Goldman Sachs Asset Management
 - 6.3 Review of *SamCERA's* Security Lending Policy
 - 6.4 Review of *SamCERA's* Investment Management Agreement (IMA)
- 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, vice chair, called the Public Session of the Investment Committee of the Board of Retirement to order at 9:00 a.m., January 24, 2006 in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores.
- 2.0 Roll Call:** Mr. Bryan, Ms. Colson (excused), Mr. Hackleman and Ms. Tashman. *Other Board Members in Attendance:* Ms. Salas & Ms. Stuart. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Strategic Investment Solutions – Ms. Jadallah; County Counsel – Ms. Carlson. *Retirees:* One, *County:* None.
- 3.0 Approval of the Minutes:** None.
- 4.0 Oral Communications From the Committee:** None.
- 5.0 Oral Communications From the Public:** None.
- 6.1 Monthly Portfolio Performance Report:** Mr. Clifton presented the Preliminary Monthly Performance Report for the period ending December 31, 2005. He stated that *SamCERA's* 1.10% Total Fund Return for December 2005 underperformed the Total Plan Policy return of 1.27%. The Fund's Fiscal Year to Date return, 6.04%, is 224 basis points above the Actuarial Discount Rate, 3.80%, and one basis point behind *SamCERA's* Total Plan Policy Benchmark of 6.05%.

As expected the Federal Reserve raised its funds rate target to 4.25% in December, making its thirteenth consecutive increase. The move was widely expected, so most market interest rates were little changed on the month. Most economic indicators released during the month reflected a continuation of healthy growth. Crude oil was little changed, but natural gas rose to new highs on continued supply shortages. Commodity prices generally moved higher.

The table presented below shows the composite returns.

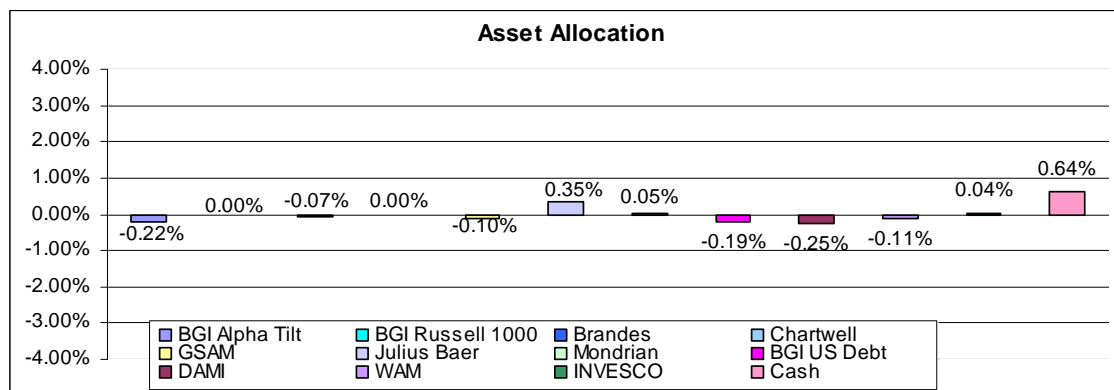
| December 31, 2005 | Market Value | One Month | Trailing Three Months | Trailing Six Months | Trailing Twelve Months |
|-----------------------------|-----------------|---------------|-----------------------|---------------------|------------------------|
| Equity Aggregate | \$1,192,780,467 | 0.02% | 2.32% | 6.56% | 6.73% |
| Equity Composite Benchmark | | 0.02% | 1.93% | 6.11% | 5.96% |
| Variance | | 0.00% | 0.39% | 0.45% | 0.77% |
| Fixed Income Aggregate | \$315,808,188 | 1.03% | 0.68% | 0.27% | 3.32% |
| Fixed Income Composite | | 0.95% | 0.59% | -0.08% | 2.43% |
| Variance | | 0.08% | 0.09% | 0.35% | 0.89% |
| Real Estate Aggregate (2) | \$65,291,540 | 2.68% | 2.68% | 10.14% | 20.98% |
| NCREIF (one quarter lag) | | 4.44% | 4.44% | 9.08% | 18.93% |
| Variance | | -1.76% | -1.76% | 1.06% | 2.05% |
| Cash Aggregate | \$169,173,172 | 0.14% | 0.82% | 1.65% | 3.51% |
| 91 Day Treasury Bill | | 0.32% | 0.92% | 1.75% | 3.07% |
| Variance | | -0.18% | -0.10% | -0.10% | 0.44% |
| Total Fund Returns | \$1,743,053,368 | 1.10% | 1.98% | 6.04% | 7.56% |
| Total Plan Policy Benchmark | | 1.27% | 2.09% | 6.05% | 7.43% |
| Variance | | -0.17% | -0.11% | -0.01% | 0.13% |

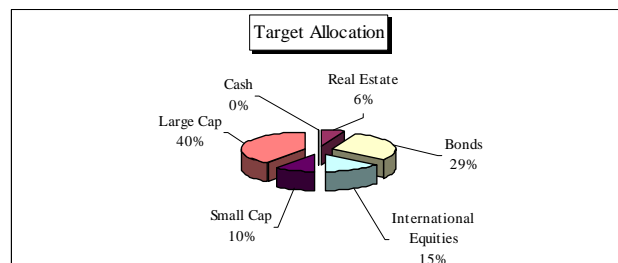
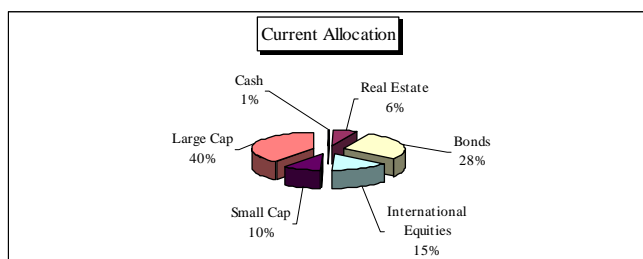
Performance versus Actuarial Discount Rate

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|-------------------------|--|--------------|--------------|--------------|---------------|
| Total Fund Returns | | 1.10% | 1.98% | 6.04% | 7.56% |
| Actuarial Discount Rate | | 0.62% | 1.88% | 3.80% | 7.87% |
| Variance | | 0.48% | 0.10% | 2.24% | -0.31% |

Mr. Clifton noted that Barclays Global Investors' US Debt Index was converted to cash on December 31, 2005 which was transferred to Fidelity Management Trust Company on January 3rd to fund SamCERA's fixed income enhanced index mandate. Orders were also given to SamCERA's other investment managers to raise various amounts of cash for portfolio rebalancing. Western Asset management and INVESCO's Core fund were provided monies in the rebalancing.

SamCERA's current allocation is summarized as follows:





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

6.2 Annual Investment Manager Review – Goldman Sachs Asset 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. Ms. Jadallah noted that GSAM's reported capacity of \$30 billion is a dramatic increase from the \$6 billion in capacity during the time of inception in December 2004. The committee noted that the issue of capacity may play a role in the 234 bp dispersion between SamCERA's separate account 12-month gross rate of return (4.45%) than that of GSAM's structured US small cap composite return (6.79%). GSAM will also be asked to provide more information regarding their research efforts to better model elements of their underperforming residual component.

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

6.3 Review of SamCERA's Security Lending Policy

Mr. Clifton stated that at the time SamCERA selected State Street Bank and Trust as the association's new custodian, it was the board's intent that the firm be permitted to perform security lending. However, prior to executing the agreement, the board had decided that the incremental value that security lending would provide the portfolio was not worth the amount of risk. With the increase in active management, the topic of security lending is now being revisited.

Mr. Clifton and Ms. Jadallah briefly discussed the pros and cons of security lending. Per State Street's report, Mr. Clifton stated that its implementation would roughly add \$500,000 to SamCERA's portfolio. He also noted that the implementation will impose a higher workload on staff.

Action: The committee requested that an educational workshop regarding security lending be scheduled on its April agenda. The workshop will educate the committee on the pros, cons, counterparty risks and workload associated with security lending.

6.4 Review of *SamCERA*'s Investment Management Agreement (IMA)

During the most recent period of new investment manager acquisitions, Mr. Clifton noted that trustees had questions regarding certain sections of *SamCERA*'s current Investment Management Agreement (IMA). The committee performed a general overview of the IMA with staff and counsel to evaluate components that requires updates or changes. The committee indicated a preference to simplify the legal terminology in the current IMA, comparing it to LACERA's IMA, which is much easier to understand. Ms. Carlson stated that she would like to change the IMA to include clearer language, directly addressing important issues such as the use of soft dollars, Most Favored Nation clauses and insurance issues.

Action: The committee directed staff and counsel to bring back an updated version of SamCERA's Investment Management Agreement at a future committee meeting.

7.0 Other Business: None

8.0 Investment & Finance Manager's Report: None.

9.0 Adjournment: There being no further business, Mr. Bryan adjourned the committee at 10:28 a.m.