

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

August 22, 2006 – Investment Committee Agenda

PUBLIC SESSION – The committee met in Public Session at 10 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 - the Investment Committee Shall Review & Discuss
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Quarterly Investment Performance Analysis for Period Ended June 30, 2006
 - 6.3 Annual Review of *SamCERA's* Small Cap Equity Asset Class and Investment Managers
 - 6.3 a Annual Investment Manager Review – Brandes Investment Partners
(Interviewed By The Board)
 - 6.3 b Annual Investment Manager Review – Chartwell Investment Partners
(Interviewed By The Investment Committee)
 - 6.3 c Annual Investment Manager Review – Goldman Sachs asset Management
(To Be Interviewed With BGI As An Enhanced Index Manager In November 2006)
 - 6.4 Annual Review of *SamCERA's* Real Estate Asset Class and Investment Manager – INVESCO Realty Advisors
(Interviewed By The Investment Committee)
 - 6.5 Approval of Amendments to *SamCERA's* Investment Management Agreement
 - 6.6 Approval of Documentation for the Implementation of Security Lending
 - 6.7 Educational Presentation by Strategic Investment Solutions – Private Equity
(The Presentation will be at The Board)
- 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:** Ms. Colson called the Public Session of the Investment Committee of the Board of Retirement to order at 10:11 a.m. July 25, 2006, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 Roll Call:** Mr. Bryan, Ms. Colson and Mr. Hackleman. *Excused:* Ms. Tashman. *Other Board Members in Attendance:* Ms. Salas and Ms. Stuart. *Alternate Board Member:* None. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Ms. Carlson, County Counsel; Ms. Jadallah and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* One.
- 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 reported that *SamCERA*'s 0.52% Total Fund Return for June 2006 outperformed the Total Plan Policy Benchmark return of 0.38%. The Fund's 10.66% return for the Fiscal Year is 266 basis points above the Actuarial Discount Rate of 8.00% and 63 basis points above *SamCERA*'s Total Plan Policy Benchmark of 10.03%.

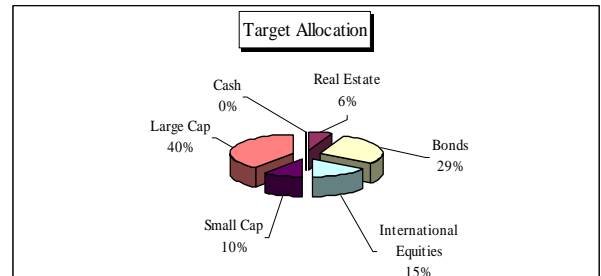
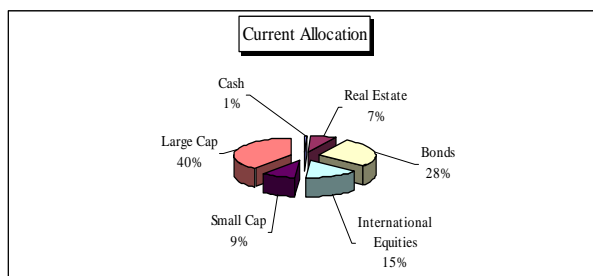
In the month of June, the Federal Reserve raised rates yet again, for the 17th straight time, to 5.25%, a boost investors had widely expected. Fed Funds futures forecast the Federal Reserve will likely raise rates again in August. The debate now centers on how high the Fed will go and whether they will overshoot as they try to contain inflation.

The table presented below shows the composite returns.

June 30, 2006	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,172,833,820	0.06%	-1.30%	5.68%	14.70%
Equity Composite Benchmark		0.16%	-1.74%	5.28%	14.25%
Variance		-0.10%	0.44%	0.40%	0.45%
Fixed Income Aggregate	\$493,937,120	0.23%	0.09%	-0.37%	-0.10%
Fixed Income Composite		0.21%	-0.08%	-0.72%	-0.81%
Variance		0.02%	0.17%	0.35%	0.71%
Real Estate Aggregate (2)	\$117,547,767	6.79%	6.79%	12.65%	24.08%
NCREIF (one quarter lag)		3.62%	3.62%	7.37%	18.23%
Variance		3.17%	3.17%	5.28%	5.85%
Cash Aggregate	\$5,073,995	0.35%	1.09%	2.03%	3.71%
91 Day Treasury Bill		0.38%	1.16%	2.19%	3.98%
Variance		-0.03%	-0.07%	-0.16%	-0.27%
Total Fund Returns	\$1,789,392,702	0.52%	-0.41%	4.36%	10.66%
Total Plan Policy Benchmark		0.38%	-0.92%	3.69%	10.03%
Variance		0.14%	0.51%	0.67%	0.63%
Performance versus Actuarial Discount Rate					
Total Fund Returns		0.52%	-0.41%	4.36%	17.46%
Actuarial Discount Rate		0.64%	1.94%	3.92%	8.00%
Variance		-0.12%	-2.35%	0.44%	9.46%

Mr. Clifton noted that BGI Russell 1000 Alpha Tilts had a relatively good year as compared to the Russell 1000 Index. Mondrian has also been performing very well the past three months. He stated that international and real estate classes had been the best performing asset classes for *SamCERA* for the fiscal year.

SamCERA's current asset allocation is summarized as follows:



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

Ms. Colson then took up agenda item 6.3.

6.2 Approval of Amendments to SamCERA's Investment Management Agreement

Ms. Carlson was present to thoroughly review the proposed boilerplate Investment Management Agreement. The committee went through the IMA paragraph by paragraph, comparing the agreement with *SamCERA's* current boilerplate IMA and making appropriate suggestions for changes. The investment committee made several suggestions that will be incorporated into the agreement which will be returned at next month's board meeting for approval.

Ms. Colson then took up agenda item 7.0.

6.3 Annual Review, Revision & Reaffirmation of the Investment Committee Charter

The investment committee briefly reviewed the Investment Committee Charter and recommended no changes.

Action: By consensus, the investment committee recommends that the board reaffirm the Investment Committee Charter.

6.4 Approval of Topics for Manager Review – Julius Baer Investment Management

The committee discussed agenda item 6.4 and 6.5 together.

The investment committee discussed adding a growth style benchmark in addition to using the MSCI ACWI ex US international equity benchmark. Ms. Colson suggested a question be added to Julius Baer and Mondrian's list of review topics to include *SamCERA's* intent to benchmark the manager on a style basis and to solicit their thoughts.

Ms. Jadallah also added a question regarding a change in compliance standards.

Action: The investment committee recommends that Julius Baer's review be held at the investment committee level.

6.5 Approval of Topics for Manager Review –Mondrian Investment Partners

The committee discussed agenda item 6.4 and 6.5 together.

Action: The investment committee recommends that Mondrian's review be held at the full board level.

6.6 Annual Investment Consultant Review – Strategic Investment Solutions

Patrick Thomas and Margaret Jadallah were present at the Investment Committee to answer questions from trustees. The full investment consultant review will be held at the full board level. Mr. Clifton reviewed the performance evaluations for Strategic Investment Solutions. He stated that SIS and trustees' responses generally matched among the various areas of performance.

Ms. Colson brought up two areas of rating discrepancy in which the board had rated the consultants higher than SIS had. In terms of the effectiveness of educational presentations, Mr. Clifton noted that trustees generally feel that every board meeting in which SIS is present is educational. Ms. Jadallah indicated that SIS had internally changed vendors in the production of their reports and feels that the reports are improving.

The investment committee then discussed the rating dispersion in SIS' ability to respond to plan sponsor needs. Mr. Clifton stated that some trustees indicated that they would like SIS to articulate a concrete preference between finalists in the manager search process. Ms. Colson opined that it is not the responsibility of the investment consultants to state such a preference but that it is that of the trustees on the board. Mr. Bryan concurred with Ms. Colson and believes that the consultants have given the board very competent finalists in the past and does not expect them to take a step further by expressing a preference between finalists. Mr. Hackleman stated that it is clearly the responsibility of the trustees to ultimately select the investment manager, however, he would like to hear SIS articulate what preferences they may have which may enrich the selection discussion.

Ms. Colson noted that the board's annual educational retreat in January has not taken place the past couple of years. She suggested that the retreat be held again this January. Mr. Clifton suggested that the asset-liability study, which had been scheduled to be performed in the Spring, be moved up to September. The study is a four-month process and will be finalized by the January retreat. A manager structure study is also set to occur in September.

Mr. Hackleman asked if SIS is involved in exploring technology with *SamCERA*'s technology plan. He suggested that SIS may have recommendations for *SamCERA* staff during development of its comprehensive IT plan.

Ms. Colson then took up agenda item 6.2.

7.0 Other Business: None

8.0 Investment & Finance Manager's Report: Mr. Clifton stated that *SamCERA* had received \$95 million in pre-funded county employer contributions on July 7th. \$20 million of the amount was immediately transferred to INVESCO Core Fund as a pre-approved capital contribution. On July 28th, \$20 million will be transferred to BGI Russell 1000, \$10 million to BGI Alpha Tilts, \$10 million to each of *SamCERA*'s three fixed income managers and \$12 million will be used for *SamCERA*'s operational expenses over the next quarter. He also reported that the audit committee will be working with Andy Paulden of Brown Armstrong regarding the identification of internal controls.

9.0 Adjournment: There being no further business, Ms. Colson adjourned the committee at 12:52 p.m.