

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

February 27, 2007 – Investment Committee Agenda

PUBLIC SESSION – The committee met in Public Session at 9 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 December 31, 2006
 - 6.3 Introduction & Approval of Manager Structure for U.S. Equity Modeling
 - 6.4 Approval to Redeploy Assets within the Large Capitalization Equity Category
 - 6.5 Approval of the Investment Committee's Plan for Fiscal Year 2007/2008
- 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. Hackleman called the Public Session of the Investment Committee of the Board of Retirement to order at 9:06 a.m. February 27, 2007, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Mr. Bryan, Mr. Hackleman and Ms. Tashman. *Other Board Members or Alternates in Attendance:* Mr. Murphy, Ms. Stuart (arr. 9:42 a.m.) and Mr. Wozniak (arr. 9:21 a.m.). *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Ms. Jadallah and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* 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 monthly portfolio performance report for the period ending January 31, 2007. *SamCERA's* 1.20% Total Fund Return for January 2007 outperformed the Total Plan Policy Benchmark of 0.98%. The Fund's return for the trailing twelve months is 12.81%, which is 496 basis points above the Actuarial Discount Rate of 7.75% and 85 basis points above *SamCERA's* Total Plan Policy Benchmark of 11.96%.

Interest rates fell last month as economic news suggested the economy was not as strong as many had thought. Concerns about the sub-prime mortgage market and a China-led flight to quality raised concerns about future growth prospects. The Chinese government taking measures to control the pace of stock market gains, coupled with sluggish economic news out of the United States, also provided impetus for profit taking in the developed and emerging equity markets in the final days of February.

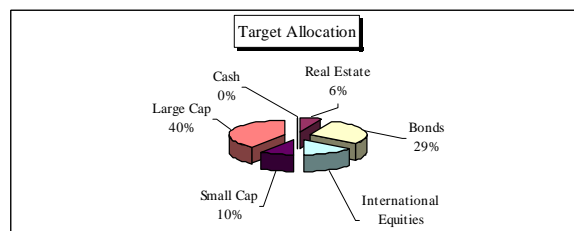
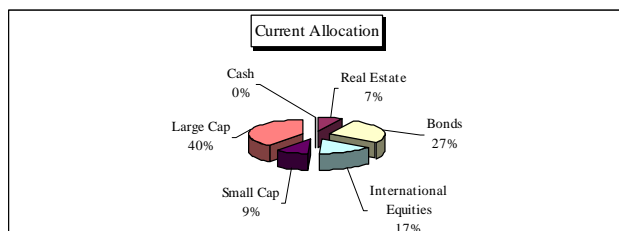
The table presented below shows the composite returns.

December 31, 2006	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,342,919,205	1.75%	8.31%	12.94%	19.35%
Equity Composite Benchmark		1.56%	8.23%	12.66%	18.61%
Variance		0.19%	0.08%	0.28%	0.74%
Fixed Income Aggregate	\$551,676,898	-0.59%	1.42%	5.37%	4.98%
Fixed Income Composite		-0.58%	1.24%	5.09%	4.33%
Variance		-0.01%	0.18%	0.28%	0.65%
Real Estate Aggregate (2)	\$145,481,597	3.32%	3.32%	5.84%	19.24%
NCREIF (one quarter lag)		4.51%	4.51%	8.18%	16.59%
Variance		-1.19%	-1.19%	-2.34%	2.65%
Cash Aggregate	\$2,592,542	0.38%	1.11%	2.14%	4.21%
91 Day Treasury Bill		0.44%	1.26%	2.60%	4.85%
Variance		-0.06%	-0.15%	-0.46%	-0.64%
Total Fund Returns	\$2,042,670,242	1.21%	5.99%	10.23%	15.04%
Total Plan Policy Benchmark		1.12%	5.96%	10.18%	14.27%
Variance		0.09%	0.03%	0.05%	0.77%

Performance versus Actuarial Discount Rate

Total Fund Returns		1.21%	5.99%	10.23%	15.04%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.87%
Variance		0.59%	4.11%	6.43%	7.17%

SamCERA's current asset allocation is summarized as follows:



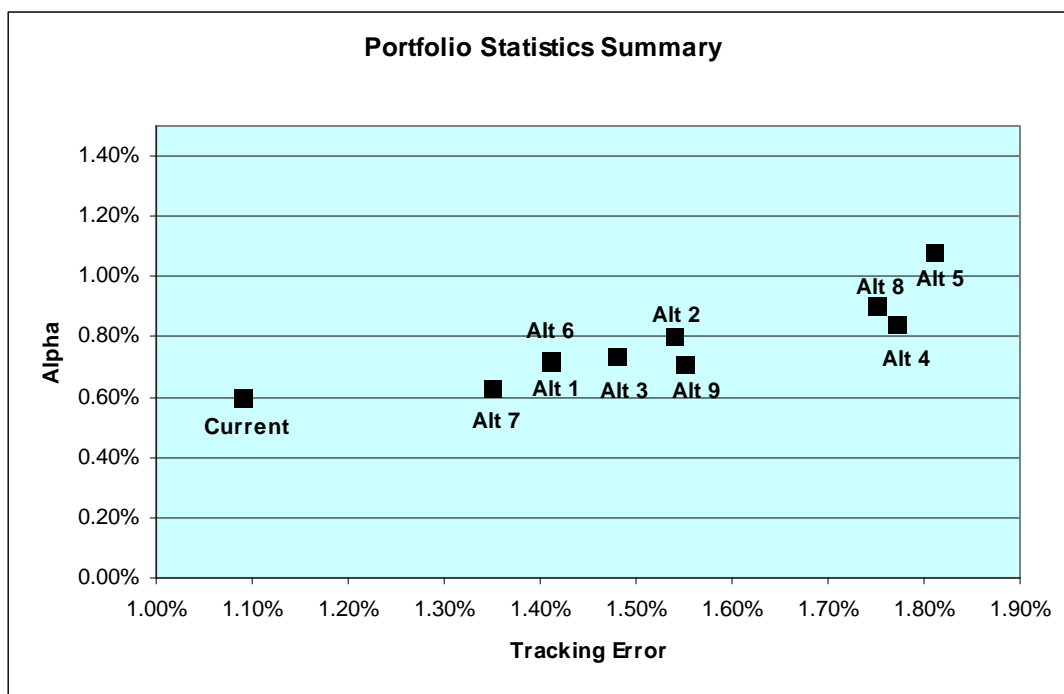
Action: No action is required. The Monthly Portfolio Performance Report is an informational report.

- 6.2 **Quarterly Investment Performance Analysis for Period Ended December 31, 2006:** Mr. Clifton reported that Mr. Thomas and Ms. Jadallah conducted an extensive review of the quarterly investment performance report at the investment committee level. The composite fund returned 5.99% for the quarter and ranked 35th amongst its peers. The fund matched its policy index (6.0%) during this time period. Longer term, the three and five-year returns of 11.4% (30th percentile) and 8.9% (46th percentile), respectively, were above median among large public plans (10.9% and 8.8%).

Introduction & Approval of Manager Structure for U.S. Equity Modeling: Ms. Jadallah and Mr. Thomas reviewed *SamCERA*'s current asset allocation and manager structure. They went over the guiding principles for the study as well as the various areas which will be explored during the manager structure analysis.

As the first step in the study, the committee reviewed *SamCERA*'s current U.S. equity structure. SIS then presented several alternatives to the structure for U.S. equity modeling. The alternatives presented were as follows with an accompanying chart illustrating the alternatives' position in the risk/reward space:

- I) 75% BGI Alpha Tilts, 25% BGI R1000 Index
- II) 75% BGI Alpha Tilts, 20% BGI R1000 Index, 5% BGI 120/20 (current small cap structure)
- III) 80% BGI Alpha Tilts, 20% BGI R1000 Index (current small cap structure)
- IV) 100% BGI Alpha Tilts (current small cap structure)
- V) 50% BGI Alpha Tilts, 25% Active Value, 25% Active Growth (current small cap structure)
- VI) 75% BGI Alpha Tilts, 25% BGI R1000 Index (generic small cap index substitute)
- VII) 75% BGI Alpha Tilts, 25% BGI R1000 Index (50% R2000 index in small cap)
- VIII) 75% BGI Alpha Tilts, 20% BGI R1000 Index (100% actively managed small cap structure)
- IX) 50% BGI Alpha Tilts, 25% BGI R1000 Index, 25% RAFI Index (current small cap structure)



Ms. Jadallah and Mr. Thomas extensively reviewed each of the alternatives, including its style risks, active risks, risks to benchmark, alpha and information ratio. Mr. Thomas also noted that all of the alternatives presented lie below SIS' client tracking error average (2% - 2.5%). All alternatives with the exception of VII provide sufficient risk to enable the goal of 75 – 130 bps of alpha without exposing the plan to undue risk. Alternatives IV, V and VIII increase risk to the benchmark versus the current U.S. structure meaningfully. Portfolios II, V, VI, VII and IX would require the addition of new managers.

Following extensive discussion, the committee recommended that no changes be made to its current small cap structure which eliminated alternatives VI- VIII. Alternative IX, with the RAFI, was also

eliminated due to its large style risk. SIS recommended to leave at least a 20% allocation in the Russell 1000 Index which eliminated Alternative IV. The committee will discuss the benefits of active large cap growth and value cap as well as the 120/20 structure at next month's meeting.

- 6.4 **Approval to Redeploy Assets within the Large Capitalization Equity Category:** This agenda item was deferred to a future board meeting following the conclusion of *SamCERA*'s U.S. equity manager structure analysis.
- 6.5 **Approval of the Investment Committee's Plan for Fiscal Year 2007/2008:** Mr. Clifton provided the schedule and strategic objectives for *SamCERA*'s Investment Committee for the upcoming fiscal year. He asked the committee members if it was possible to change the March committee meeting from Tuesday, March 27th at 9 a.m. to Monday, March 26th at 1 p.m. Without objection, the committee permitted the schedule change.
- 7.0 **Other Business:** None
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that there has been a change in Brandes' small cap investment committee. The change is normal as the committee members are on an eighteen to twenty-four month rotation. The change will have no impact on *SamCERA*. He also stated that State Street Bank & Trust is attempting to acquire BGI's back-office operations. On a similar note, Ms. Tashman requested that staff provide additional information regarding the outsourcing of Aberdeen Asset Management's back-office operations to BNP Paribas.
- 9.0 **Adjournment:** There being no further business, Mr. Hackleman adjourned the committee at 12:10 p.m.