

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

April 24, 2007 – Investment Committee Agenda

PUBLIC SESSION – The committee met in Public Session at 11 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 Introduction & Approval of Manager Structure for Fixed Income Modeling
 - 6.3 Acceptance of Implementation Report covering the Domestic Large Cap and International Equity Structures
- 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 11:02 a.m. April 24, 2007 in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Mr. Bryan, Ms. Colson, Ms. Salas for Mr. Hackleman, and Ms. Tashman. *Other Board Members in Attendance:* Ms. Arnott and Ms. Stuart. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Ms. Jadallah and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* One.
- 3.0 **Approval of the Minutes: Motion** by Salas, second by Tashman, carried unanimously to approve the minutes of the March 26, 2007, Investment Committee meeting as submitted.
- 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 March 31, 2007. *SamCERA's* 1.13% Total Fund Return for March 2007 outperformed the Total Plan Policy Benchmark return of 0.95%. The Fund's return for the trailing twelve months is 11.76%, which is 401 basis points above the Actuarial Discount Rate, 7.75%, and 71 basis points above *SamCERA's* Total Plan Policy Benchmark of 11.05%.

The Federal Reserve continues to hold interest rates steady at 5.25%. The main concern remains elevated inflation rates. The Federal Open Market Committee (FOMC) minutes address "the risk that inflation will fail to moderate as expected." Combined with recent problems in the sub-prime mortgage market, economists have raised fears the housing market slowdown could cause a widespread economic downturn. Geopolitical tensions between Iran and the UK over the captivity of 15 British soldiers by the Iranian military drove oil prices higher.

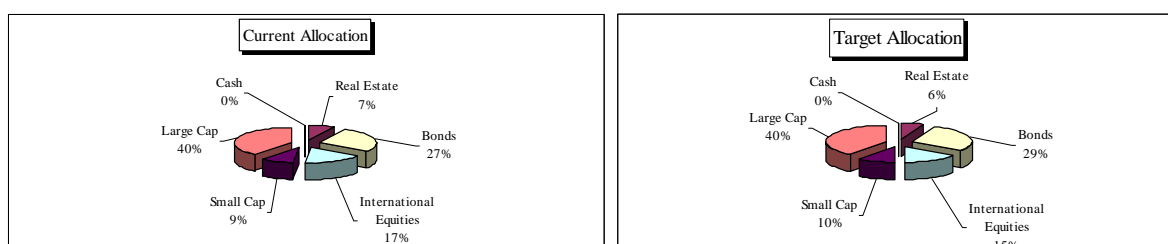
The table presented below shows the composite returns.

March 31, 2007		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,349,966,527	1.31%	1.65%	10.10%	13.31%
Equity Composite Benchmark		1.45%	1.93%	10.32%	12.85%
Variance		-0.14%	-0.28%	-0.22%	0.46%
Fixed Income Aggregate	\$560,621,760	-0.02%	1.62%	3.06%	7.18%
Fixed Income Composite		0.00%	1.50%	2.76%	6.59%
Variance		-0.02%	0.12%	0.30%	0.59%
Real Estate Aggregate	\$150,985,934	4.07%	4.07%	7.52%	17.63%
NCREIF (one quarter lag)		0.00%	0.00%	4.51%	12.52%
Variance		4.07%	4.07%	3.01%	5.11%
Cash Aggregate	\$2,866,281	0.39%	1.22%	2.35%	4.52%
91 Day Treasury Bill		0.45%	1.25%	2.52%	5.08%
Variance		-0.06%	-0.03%	-0.17%	-0.56%
Total Fund Returns	\$2,064,440,503	1.13%	1.81%	7.92%	11.76%
Total Plan Policy Benchmark		0.95%	1.70%	7.76%	11.05%
Variance		0.18%	0.11%	0.16%	0.71%

Performance versus Actuarial Discount Rate

Total Fund Returns		1.13%	1.81%	7.92%	11.76%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.81%
Variance		0.51%	-0.07%	4.12%	3.95%

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 **Introduction & Approval of Manager Structure for Fixed Income Modeling:** Ms. Jadallah from Strategic Investment Solutions introduced the fixed income manager structure modeling. The fixed income portfolio has been enhanced twice in the last four years. She indicated that SamCERA's current structure with three complementary managers: Aberdeen Asset Management (Core), Pyramis Global Advisors (Enhanced) and Western Asset Management (Core-Plus), has been functioning well and that the return to risk tradeoff to a new structure alternative is not compelling.

Ms. Jadallah reviewed the manager attributes modeled in the fixed income manager structure. She then reviewed *SamCERA*'s current structure and one alternative structure, as follows:

Current portfolio: 33.3% Core, 33.3% Enhanced Index, 33.3% Core-Plus
Alternative 1: 33.3% Core-Plus, 33.3% Core-Plus, 33.3% Core-Plus

The alternative portfolio increases expected alpha from 0.48% to 0.78% with an increase in active risk from 0.66% to 1.49%. This structure results in a significant reduction in the information ratio from 0.73% to 0.53%.

Motion by Colson, second by Bryan, carried unanimously to recommend to the board to maintain *SamCERA*'s current fixed income structure.

SamCERA's fixed income managers will be present in May for their annual reviews. The committee requested that staff ask the managers to discuss whether or not there are certain investment restrictions *SamCERA* has imposed on their portfolios that they may consider a hindrance to their mandate.

6.3

Acceptance of Implementation Report covering the Domestic Large Cap and International Equity Structures: Mr. Clifton reported that staff is in the process of implementing *SamCERA*'s new manager structure and rebalancing its portfolio in compliance with the new asset allocation adopted by the board on January 23, 2007, as follows:

Asset Class	Former	Adopted
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	8.23	8.13
Expected Risk	11.74	11.24

At the March meeting, the board adopted a large cap equity manager structure of 80% in BGI's Russell 1000 Alpha Tilts Fund and 20% in BGI's Russell 1000 Index Fund. The board did not change the current international equity manager structure of 50% in active core growth and 50% active core value, however, pursuant to the new asset allocation; the board increased the international equity exposure by an additional 6% (from 15% to 21%).

In compliance with the new changes, Mr. Clifton reported that ~\$280 million will be taken from BGI's Russell 1000 Index Fund in April. \$200 million of the assets will be transferred to BGI's Russell 1000 Alpha Tilts Fund, \$40 million to Julius Baer Investment Management and \$40 million to Mondrian Investment Partners. The Russell 1000 Index Fund will be underweight in May and June in anticipation of an approximate \$100 million from the County in July for its 2007/2008 pre-paid contributions. The prepayment will be allocated to the Russell 1000 Index Fund as well as *SamCERA*'s fixed income managers in accordance with *SamCERA*'s adopted target asset allocation.

Without objection, the Investment Committee accepted the report.

- 7.0 **Other Business:** None
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that Barclays Bank, of which BGI is a subsidiary, reported that it intends to purchase ABN AMRO. Mr. Clifton also said that staff is currently in the process of researching various analytical investment software programs to allow staff to better monitor its managers. Staff is currently researching software offered by Evestment Alliance, Zephyr, Informa and PerTrac.
- 9.0 **Adjournment:** There being no further business, Mr. Bryan adjourned the committee at 11:25 a.m.