

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

May 21, 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 March 31, 2007
 - 6.3 Annual Review of *SamCERA's* Fixed Income Asset Class and Investment Managers
 - 6.3 a Annual Investment Manager Review – Aberdeen Asset Management
(Interviewed By The Investment Committee on May 21st)
 - 6.3 b Annual Investment Manager Review – Western Asset Management
(Interviewed By The Investment Committee on May 21st)
 - 6.3 c Annual Investment Manager Review – Pyramis Global Advisors
(Interviewed By The Board)
 - 6.4 Approval of Topics for Manager Review – Julius Baer Investment Management
 - 6.5 Approval of Topics for Manager Review – Mondrian Investment Partners
 - 6.6 Acceptance of Certification of Compliance – Small Capitalized Domestic Equities
(Brandes Investment Partners & Chartwell Investment Partners)
 - 6.7 Acceptance of Certification of Compliance – Indexed & Enhanced Indexed Domestic Equities
(Barclays Global Investors & Goldman Sachs Asset Management)
 - 6.8 Approval of Topics for Manager Review – INVESCO, Brandes, & Chartwell
- 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 9:12 a.m. May 21, 2007, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Mr. Bryan (arr. 9:37 a.m.), Mr. Hackleman and Ms. Tashman. *Excused:* Ms. Colson. *Other Board Members in Attendance:* Mr. Murphy. *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 Tashman, second by Hackleman, carried unanimously to approve the minutes of the April 24, 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 April 30, 2007. *SamCERA's* 2.82% Total Fund Return for April 2007 outperformed the Total Plan Policy Benchmark return of 2.71%. The Fund's return for the trailing twelve months is 12.99%, which is 520 basis points above the Actuarial Discount Rate, 7.75%, and 4 basis points above *SamCERA's* Total Plan Policy Benchmark of 12.95%.

World equity markets rallied each week in April amid limited signs of global macroeconomic stress and little concern on the part of major central banks. Investor's concerns over mounting stagflation pressures hanging over U.S. markets were somewhat eased by economic news toward the end of the month, specifically the first quarter Gross Domestic Product (GDP) numbers.

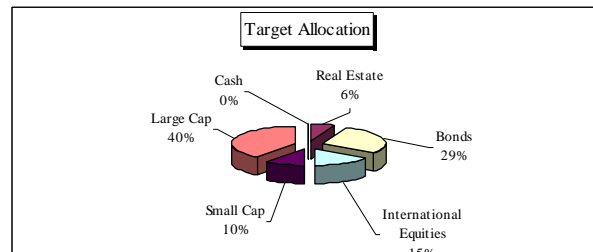
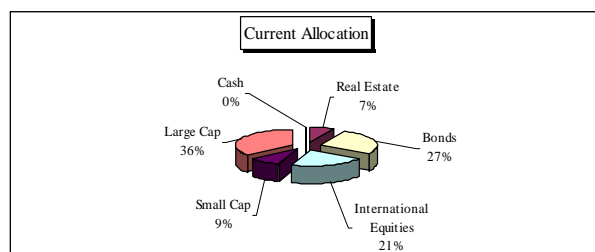
The table presented below shows the composite returns.

April 30, 2007	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,404,219,673	4.09%	3.91%	10.31%	14.93%
Equity Composite Benchmark		3.93%	4.35%	10.34%	15.07%
Variance		0.16%	-0.44%	-0.03%	-0.14%
Fixed Income Aggregate	\$563,673,032	0.54%	2.17%	2.87%	7.89%
Fixed Income Composite		0.54%	2.09%	2.64%	7.36%
Variance		0.00%	0.08%	0.23%	0.53%
Real Estate Aggregate (2)	\$150,985,934	0.00%	4.07%	7.52%	17.63%
NCREIF (one quarter lag)		0.00%	3.62%	8.29%	16.59%
Variance		0.00%	0.45%	-0.77%	1.04%
Cash Aggregate	(\$1,521,129)	0.40%	1.18%	2.39%	4.58%
91 Day Treasury Bill		0.44%	1.28%	2.58%	5.16%
Variance		-0.04%	-0.10%	-0.19%	-0.58%
Total Fund Returns	\$2,117,357,510	2.82%	3.44%	8.03%	12.99%
Total Plan Policy Benchmark		2.71%	3.67%	7.97%	12.95%
Variance		0.11%	-0.23%	0.06%	0.04%

Performance versus Actuarial Discount Rate

Total Fund Returns		2.82%	3.44%	8.03%	12.99%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.79%
Variance		2.20%	1.56%	4.23%	5.20%

SamCERA's current asset allocation is summarized as follows:



Mr. Clifton reported that the BGI alpha tilts product has not been performing well in the past three months. *SamCERA* had recently increased the allocation of large cap assets to BGI's Russell 1000 Alpha Tilts product pursuant to the board's newly adopted investment manager large cap structure (75% BGI Russell 1000 Alpha Tilts, 25% BGI Russell 1000 Index). Ms. Jadallah said that, similar to Goldman Sachs Asset Management's small cap core product, some of BGI's stock selections detracting from performance have not been properly captured by the quantitative model during the quarter. In response to a question from Mr. Hackleman concerning GSAM's underperformance the past several quarters, Ms. Jadallah opined that the board should perform a serious evaluation of GSAM if trustees still do not feel comfortable with the firm's performance at its 3-years since inception mark later in the fall.

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

6.2 **Quarterly Investment Performance Analysis for Period Ended March 31, 2007:** Mr. Thomas and Ms. Jadallah of Strategic Investment Solutions were present at the Investment Committee and conducted an extensive review of the quarterly investment performance report. The composite fund returned 1.8% in the first quarter of 2007 and ranked 84th among public funds greater than \$100 million (median of 2.2%). The fund trailed its policy index (1.9%) during this time period but during a quarter with very tight dispersion. Longer term, the three and five-year returns of 11.1% (38th percentile) and 9.3% (47th percentile), respectively, were above median among large public plans (10.7% and 9.2%).

Mr. Thomas stated that one of the biggest issues for the quarter was the slowing down of the housing market resulting from the concern of sub-prime mortgage loans. High oil prices were also an issue during the quarter and there was a greater attention to risk due to the concern over the slowing of the economy.

Despite BGI's poor performance for the quarter, Mr. Thomas noted its respectable 38% return since inception in September 2004. He also noted the underperformance in the small cap asset class.

Ms. Jadallah then reviewed *SamCERA*'s various asset classes in detail, focusing on each manager's style, contributing and detracting factors for performance return, and summary statistics. Regarding the underperformance of *SamCERA*'s quantitative managers, Mr. Thomas stated that quantitative factors tend to have a value tilt and value companies have been behaving quite unusually lately.

Ms. Tashman noted the volatility of Brandes' 1 and 2-year returns, ranking in the 10th percentile vs. 92nd percentile, respectively. For the quarter, IT and chemicals detracted from Brandes' return. The real driver for the portfolio remains the auto components sector which resulted in mixed performances. Some of the very best performers for the portfolio were in this sector. Ms. Jadallah opined that Brandes' large holdings in the auto component sector seem to be performing significantly better. She stated that Brandes' investment management style requires a five-year holding period before a proper judgment can be made regarding the firm's total performance.

Mr. Thomas reported that Barry Dennis of Strategic Investment Solutions will be present at the board meeting to discuss Ms. Jadallah's departure from the firm. SIS is currently in the process of searching for Ms. Jadallah's replacement. Ms. Jadallah thanked the committee for the opportunity to have worked with *SamCERA* for such a long period and said she enjoyed her time working with trustees and staff.

6.3 **Annual Review of *SamCERA*'s Fixed Income Asset Class and Investment Managers**

- 6.3 a **Annual Investment Manager Review – Aberdeen Asset Management:** Christopher Gagnier, Senior Portfolio Manager, and Boris Karol, Portfolio Manager were present at the Investment Committee for Aberdeen Asset Management's annual review. Mr. Karol provided a brief organizational overview of Aberdeen Asset Management. Mr. Gagnier reported that Aberdeen Asset Management has entered into an agreement to purchase the Australian business of Deutsche Asset Management and is due to settle in July 2007. The business has approximately AUS\$11 billion. It is a completely Australian domiciled-business and is mostly in fixed income. Aberdeen is very familiar with the Australian team. Aberdeen's London fixed income team has worked very closely with the group. Mr. Gagnier said that the acquisition was a great fit with London's global team and will allow Aberdeen to strengthen their Asian fixed income business.

Regarding *SamCERA*'s current investment manager guidelines, Mr. Gagnier did not recommend any loosening of restrictions and opined that the guidelines are more than broad enough to implement Aberdeen's strategy.

Mr. Karol reported that Aberdeen Asset Management outsourced its back-office operations to a third party provider, BNP Paribas, earlier in the year. Prior to that time, Aberdeen had an agreement with Deutsche Asset Management to continue to support them with its back-office operations which included accounting and performance measurement during the transition period out of Deutsche. The front-office trading operations, which were supported by Deutsche, are now run by Aberdeen. Mr. Karol stated that Aberdeen has created a middle-office which provides a buffer between the investment management group and BNP Paribas' operational group as another layer of oversight. A team of ten individuals conduct account reconciliation and monitor client groups to ensure the quality of services provided by BNP. Aberdeen's Singapore and London fixed income teams had also been using BNP's accounting system prior to the transition. Ms. Tashman requested that Aberdeen forward more information regarding BNP Paribas' ranking in custodial bank services.

Mr. Gagnier then performed a market and portfolio review. He discussed the various sectors and their relative weightings in *SamCERA*'s portfolio.

Ms. Tashman requested that information in the presentation contain more analysis on the specific portfolio.

- 6.3 b **Annual Investment Manager Review – Western Asset Management:** Andre Cuerington and Travis Carr were present at the Investment Committee for Western Asset Management's annual review.

Mr. Cuerington provided a brief organizational review of Western Asset Management. Mr. Carr then discussed the current flat, trendless fixed income market environment. He touched upon the housing market and the sub-prime mortgage issues. WAM has maintained a very conservative position in the sub-prime mortgage space and only has 73 bps of sub-prime exposure, exclusively AAA-rated.

Mr. Carr then compared market sector returns over the past two years. WAM has continued to scale back in the high yield and emerging market space given valuations and seeing spreads contract in those areas. He states that it is very difficult for active bond managers to find ways to add a lot of value in such a low volatility environment.

Mr. Cuerington suggested that *SamCERA* consider amending its guidelines to possibly allow WAM

to hold local currency exposure and use a commingled pool for mortgage exposures versus separate securities.

- 6.3 c **Annual Investment Manager Review – Pyramis Global Advisors:** Mr. Clifton reported that Pyramis Global Advisors will be interviewed at the board meeting.
- 6.4 **Approval of Topics for Manager Review – Julius Baer Investment Management:** Mr. Clifton presented the topics for Julius Baer Investment Management’s annual review. He stated that *SamCERA*’s international equity managers have had very strong presentations in the past. Ms. Tashman requested that the same individuals from each firm attend this year’s annual review. Pursuant to *SamCERA*’s asset/liability study, the board increased its target allocation to international equity by 5%. The committee recommended that the board allow them to perform the Julius Baer review at the investment committee level.
- 6.5 **Approval of Topics for Manager Review –Mondrian Investment Partners:** Mr. Clifton presented the topics for Mondrian Investment Partners’ annual review. Ms. Tashman also requested that the same individuals from Mondrian who attended last year’s review attend this year’s as well. The committee recommended that the board allow them to perform the Mondrian’ review at the investment committee level to allow a more in-depth interview.
- 6.6 **Acceptance of Certification of Compliance – Small Capitalized Domestic Equities (Brandes Investment Partners & Chartwell Investment Partners):** Mr. Clifton stated that *SamCERA* requests the certification of compliance statement from managers twice a year – once for their annual review and six months afterwards. He presented the CCS for Brandes Investment Partners and Chartwell Investment Partners. He found nothing worthy of mentioning in the documents. There have been no significant changes in either firm and recommended that the committee accept both certification of compliance statements.
- 6.7 **Acceptance of Certification of Compliance – Indexed & Enhanced Indexed Domestic Equities (Barclays Global Investors & Goldman Sachs Asset Management):** Mr. Clifton presented that certification of compliance statements for Barclays Global Investors and Goldman Sachs Asset Management. Other than a couple minor organizational changes for BGI, there was nothing worthy to note on either statements.
- 6.8 **Approval of Topics for Manager Review – INVESCO, Brandes, & Chartwell:** Mr. Clifton presented the topics for the annual reviews for INVESCO, Brandes Investment Partners and Chartwell Investment Partners. He stated that the three managers will be reviewed in August. . Annual reviews for *SamCERA*’s quantitative managers, Barclays Global and Goldman Sachs, were scheduled for October. Ms. Tashman requested that all three small cap managers (Goldman Sachs, Brandes and Chartwell) be conducted during the same month. The committee agreed with Ms. Tashman’s recommendation. All three small cap managers will be interviewed at the investment committee level.
- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager’s Report:** None.
- 9.0 **Adjournment:** There being no further business, Mr. Hackleman adjourned the committee at 11:53 a.m.