

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

July 23, 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 Annual Review of *SamCERA's* International Equity Asset Class and Investment Managers
 - 6.2 a Annual Investment Manager Review – Julius Baer Investment Management
(Interviewed by the Investment Committee on July 23rd)
 - 6.2 b Annual Investment Manager Review – Mondrian Investment Managers
(Interviewed by the Investment Committee on July 23rd)
 - 6.3 Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook
 - 6.4 Approval of topics for Annual Investment Consultant Review – Strategic Investment Solutions
 - 6.5 Review of *SamCERA's* Investment Plan
- 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. Tashman called the Public Session of the Investment Committee of the Board of Retirement to order at 9:08 a.m. July 23, 2007, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Tashman and Ms. Salas for Mr. Hackleman. *Excused:* Mr. Bryan. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Mr. Clifton, Mr. Hood, Ms. Dames and Ms. Smith. *Consultants:* Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None. As a quorum of the committee was not present, no official meeting was held.
- 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* -0.74% Total Fund Return for June 2007 matched the Total Plan Policy Benchmark return at -0.74%. The Fund's return for the trailing twelve months is 16.58%, which is 883 basis points above the Actuarial Discount Rate, 7.75%, but 28 basis points below *SamCERA's* Total Plan Policy Benchmark of 16.86%.

The Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 5.25%. Despite improved inflation readings, the Federal Reserve remains hawkish, stating it is still their number one

concern. Policymakers expect the economy to continue to expand at a moderate pace, but whether inflation will moderate over time remains a question. Federal funds futures predict that there is a 90% probability that federal funds will stay the same through the end of the year.

The table presented below shows the composite returns.

June 30, 2007	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,410,080,947	-1.33%	5.82%	7.56%	21.48%
Equity Composite Benchmark		-1.20%	6.26%	8.31%	22.03%
Variance		-0.13%	-0.44%	-0.75%	-0.55%
Fixed Income Aggregate	\$556,654,785	-0.45%	-0.71%	0.90%	6.32%
Fixed Income Composite		-0.30%	-0.52%	0.98%	6.12%
Variance		-0.15%	-0.19%	-0.08%	0.20%
Real Estate Aggregate (2)	\$156,610,221	3.82%	3.82%	8.05%	14.36%
NCREIF (one quarter lag)		0.00%	0.00%	3.62%	12.09%
Variance		3.82%	3.82%	4.43%	2.27%
Cash Aggregate	\$3,972,141	0.39%	1.20%	2.44%	4.64%
91 Day Treasury Bill		0.39%	1.27%	2.54%	5.21%
Variance		0.00%	-0.07%	-0.10%	-0.57%
Total Fund Returns	\$2,127,318,094	-0.74%	3.87%	5.76%	16.58%
Total Plan Policy Benchmark		-0.74%	4.07%	6.07%	16.86%
Variance		0.00%	-0.20%	-0.31%	-0.28%

Performance versus Actuarial Discount Rate					
Total Fund Returns		-0.74%	3.87%	5.76%	16.58%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		-1.36%	1.99%	1.96%	8.83%

SamCERA's current asset allocation is summarized as follows:



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

Mr. Clifton then took up agenda item 6.3.

6.2 Annual Review of SamCERA's International Equity Asset Class and Investment Managers

Annual Investment Manager Review – Julius Baer Investment Management:

Mr. Clifton indicated that Julius Baer is requesting that *SamCERA* increase its maximum limit exposure to emerging markets from 20% to 35%. He said that Julius Baer has proven itself to be a top-notch manager and would be inclined to allow them to go to 35%. *SamCERA*'s other international investment manager, Mondrian Investment Managers, currently has 10% exposure to emerging markets and the benchmark is currently at 15%. Mondrian has been historically under allocated to the benchmark. In response to a question from Ms. Salas, Mr. Clifton said that permitting Julius Baer to increase its maximum emerging market exposure may result in benchmark risk. Because of the pretty dramatic out performance of emerging market stock, the EM weight in the benchmark has increased from less than 10% to 15%. Mr. Thomas said that the cap to emerging market exposure should be double-weight of the benchmark and opined that Julius Baer should be allowed the flexibility to take the risk. Mr. Thomas noted that there have been rumors that the shop might be up for sale. He also said that a concern with Julius Baer is the possibility of owning more than 10% of an individual company in the emerging market small cap space. Julius Baer would be asked to comment on these issues.

Richard Pell, Chief Investment Officer, and **Hien Nguyen**, Relationship Manager, were present at the annual review for Julius Baer Investment Management. Ms. Nguyen provided a brief organizational review and no major changes were reported. In response to concerns from the committee, Mr. Pell discussed the rumors of the shop being up for sale. In 2005, Julius Baer bought three small private Swiss banks and GAM, a fund of funds hedge fund, from UBS and UBS provided debt financing and 21% of their equity to finance the transaction. Mr. Pell opined that speculation that Julius Baer is a takeover target is nonsensical. He said that Julius Baer runs a semi-autonomous investment boutique model and watches speculation with interest. He was not able to comment on possibilities but indicated that one problem with a management buy out is that the business has grown quite considerably and that managers would have to incur a massive amount of debt to execute the buyout.

Ms. Nguyen then discussed the request to loosen up *SamCERA*'s investment guidelines by increasing the maximum limit of emerging market exposure from 20% to 35%. Mr. Pell said that within the next five to ten years, it is one of JBIM's strong beliefs that the emerging market is likely to outperform the rest of the market and that the associated risks are quite reasonable. He opined that the world is changing and that one of the biggest features of today's economy is globalization especially that of globalization of labor force. He said that the emerging markets have been beneficiaries of the increased exporting of sophisticated jobs to deep pools of educated cheap labor. Although it was difficult to generalize emerging markets, Mr. Pell stated that many countries are formulating better policies and that the developed and developing markets are not just black and white distinction. Julius Baer's largest emerging market concentration is in developing eastern Europe which is growing twice as fast as the rest of Europe from a GDP perspective. Eastern Europe has a steady reduction in risk, rising income per capita, and declining bond yield spreads versus the rest of Europe. Countries such as Poland, the Baltics and Hungary, already in the European Union, are executing business subject to EU regulations and laws. Julius Baer's unrestricted portfolios currently have an 18% exposure to eastern Europe.

Mr. Clifton then asked Mr. Pell about Julius Baer's ability to buy issues in the emerging market and some JBIM's positions in individual names that are greater than 10%. Mr. Pell stated that the cases of having more than 10% ownership in an individual name are reasonably rare. He feels confident that JBIM can assess the value of a company and that they look at the tradeoff between liquidity and expected return on investments very carefully. He stated that JBIM has to have high long-term confidence in a name (five to ten year holding period) and find the value potential to be very large.

Ms. Nguyen performed a brief portfolio overview. YTD returns are 122 bps over the ACWI, one year returns are 450 bps over the ACWI, and 350 bps over the benchmark since inception date of December 1, 2004. Mr. Pell also performed a market review. Staff will look further at removing the 5% constraint on Julius Baer in the investment of 144A's.

- 6.2 b **Annual Investment Manager Review – Mondrian Investment Managers: Hamish Parker**, Director, and **James Brecker**, Vice President, Client Service from Mondrian Investment Partners and **John C.E. Campbell**, President, Distribution and Global Institutional Services, Delaware Investments, were present for Mondrian Investment Partners' annual review.

Mr. Brecker performed a brief organizational overview. In response to a concern from the committee, Mr. Parker commented on Mondrian's exit strategy from Hellman & Friedman. He stated that they have yet to decide on a final avenue but will be in a good position whatever happens five to six years into the future. He feels that Mondrian has a sufficient amount of time to make a final decision and consider all options. Mr. Parker said that there was no tension within firm and that ownership is gradually being redistributed in a dilution process. Mondrian will update *SamCERA* regarding the issue on a regular basis.

In response to a question from Ms. Tashman, Mr. Campbell reported that Delaware Investments is clean from a client and regulatory standpoint and continues to have a healthy increase in asset growth. He said that Delaware is still pleased with its relationship with Mondrian Investment Managers.

Mr. Parker performed an overview of Mondrian's investment strategy and portfolio performance. He said that they have had good participation in upside but have shown defensive traits when markets are down which has lead to its out-performance and gain of a real rate of return. This approach is consistent with Mondrian's style characteristics.

Mondrian feels that emerging markets are less attractive than developed markets. Because of Mondrian's defensive characteristics, the emerging markets pose unnecessary downside risk.

- 6.3 **Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook:** Mr. Clifton presented an informational report on SIS' capital market and inflation outlook which is reviewed on a semi-annual basis. As an aside, Mr. Clifton said that CALAPRS has started an Investment Officers' Round Table which he attended in June. Capital market assumptions from varying consultants and retirement systems will be reviewed at future round table events.

This item was an informational report. No action was required.

- 6.4 **Approval of topics for Annual Investment Consultant Review – Strategic Investment Solutions:** Mr. Clifton presented the topics for Strategic Investment Solutions' investment consultant annual review. The committee members had no changes for the list of topics. Regarding the status of finding a replacement for Margaret Jadallah, former Director of Manager Research of SIS, Mr. Thomas said that SIS is close to making a formal announcement.

- 6.5 **Review of SamCERA's Investment Plan:** Mr. Clifton requested that the committee defer reviewing *SamCERA*'s investment plan to next month's meeting when a quorum is present and the new Investment Committee for FY 2007-2008 has been selected. The committee will thoroughly review *SamCERA*'s Investment Plan.

Mr. Clifton then took up agenda item 6.2 a.

7.0 **Other Business:** None.

8.0 **Investment & Finance Manager's Report:** None.

9.0 **Adjournment:** There being no further business, Ms. Tashman adjourned the committee at 11:43 a.m.

EMILY TASHMAN, VICE-CHAIR