

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

**August 28, 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, Revision & Reaffirmation of the Investment Committee Charter
  - 6.3 Quarterly Investment Performance Analysis for period ended June 30, 2007
  - 6.4 Annual Review of *SamCERA's* Small Cap Domestic Equity Asset Class and Investment Managers
    - 6.4 a Annual Investment Manager Review – Brandes Investment Partners  
*(Interviewed by the Investment Committee on August 28<sup>th</sup>)*
    - 6.4 b Annual Investment Manager Review – Chartwell Investment Managers  
*(Interviewed by the Investment Committee on August 28<sup>th</sup>)*
    - 6.4 c Annual Investment Manager Review – Goldman Sachs Asset Management  
*(Interviewed by the Board of Retirement on August 28<sup>th</sup>)*
  - 6.5 Approval of Topics for Annual Investment Manager Review – Barclays Global Investors
  - 6.6 Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors
  - 6.7 Review of *SamCERA's* Investment Plan
  - 6.8 Annual Investment Consultant Review – Strategic Investment Solutions  
*(Interviewed by the Investment Committee on August 28<sup>th</sup>)*
- 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 9:10 a.m. August 28, 2007, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bryan, Ms. Jadallah and Ms. Tashman (arr. 9:41 a.m.).  
*Other Board Members in Attendance:* Ms. Stuart. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames.  
*Consultants:* Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes: Motion** by Arnott, second by Bryan, carried unanimously to approve the minutes of the May 21, 2007, and July 23, 2007, Investment Committee meetings 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 July 31, 2007. *SamCERA's* -2.33% Total Fund Return for July 2007 underperformed the Total Plan Policy Benchmark return of -1.59%. The Fund's return for the trailing twelve months is 13.30%, which is 555 basis points above the Actuarial Discount Rate, 7.75%, but 167 basis points below *SamCERA's* Total Plan Policy Benchmark of 14.97%. Mr. Clifton noted that *SamCERA's* two quantitative products have not been performing well which contributed to the fund's underperformance.

The dominant events of the month were an extraordinary widening of both credit and mortgage-backed spreads, coupled with a surge in implied volatility that in turn led to one of the worst performance months in years for the fixed income market. For equity markets, July started strong and ended weak. Stock prices backed up by month's end on credit concerns, persistent housing weakness, rising oil prices, and mixed corporate earnings. The concerns about sub-prime mortgages rippled throughout the globe by month-end.

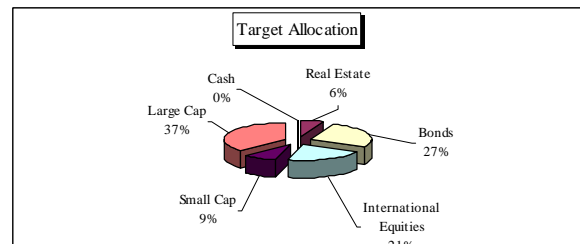
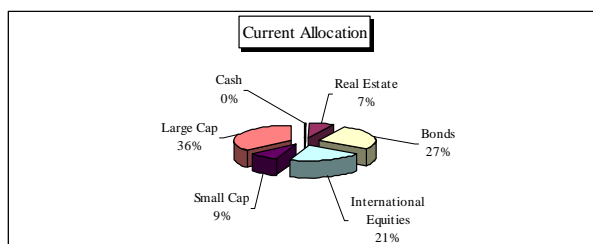
The table presented below shows the composite returns.

July 31, 2007	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,425,108,637	-3.77%	-2.19%	1.65%	16.71%
Equity Composite Benchmark		-3.02%	-0.85%	3.46%	18.50%
<b>Variance</b>		<b>-0.75%</b>	<b>-1.34%</b>	<b>-1.81%</b>	<b>-1.79%</b>
Fixed Income Aggregate	\$579,920,900	0.57%	-0.68%	1.47%	5.44%
Fixed Income Composite		0.83%	-0.23%	1.86%	5.58%
<b>Variance</b>		<b>-0.26%</b>	<b>-0.45%</b>	<b>-0.39%</b>	<b>-0.14%</b>
Real Estate Aggregate	\$156,610,221	0.00%	3.82%	8.05%	14.36%
NCREIF (one quarter lag)		0.00%	4.59%	8.38%	17.24%
<b>Variance</b>		<b>0.00%</b>	<b>-0.77%</b>	<b>-0.33%</b>	<b>-2.88%</b>
Cash Aggregate	\$7,488,029	0.39%	0.94%	2.13%	4.42%
91 Day Treasury Bill		0.39%	1.23%	2.52%	5.17%
<b>Variance</b>		<b>0.00%</b>	<b>-0.29%</b>	<b>-0.39%</b>	<b>-0.75%</b>
Total Fund Returns	\$2,169,127,787	-2.33%	-1.33%	2.06%	13.30%
Total Plan Policy Benchmark		-1.59%	-0.02%	3.65%	14.97%
<b>Variance</b>		<b>-0.74%</b>	<b>-1.31%</b>	<b>-1.59%</b>	<b>-1.67%</b>

#### Performance versus Actuarial Discount Rate

Total Fund Returns		-2.33%	-1.33%	2.06%	13.30%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-2.95%</b>	<b>-3.21%</b>	<b>-1.74%</b>	<b>5.55%</b>

*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 **Annual Review, Revision & Reaffirmation of the Investment Committee Charter:** Mr. Clifton presented Resolution 99-00-09, *SamCERA's* Investment Committee Charter. He briefly reviewed the committee's responsibilities.
- 6.3 **Quarterly Investment Performance Analysis for period ended June 30, 2007:** Mr. Thomas of Strategic Investment Solutions conducted an extensive review of the quarterly investment report. The composite fund returned 3.9% in the second quarter of 2007 and ranked 67<sup>th</sup> among other public funds greater than \$100 million (median of 4.3%). The fund trailed its policy index (4.4%) during this time period. Longer term, the three and five-year returns of 12.4% (46<sup>th</sup> percentile) and 11.3% (50<sup>th</sup> percentile), respectively, were near median among large public plans (12.3% and 11.3%).

Mr. Thomas said that Julius Baer and Chartwell performed well during the quarter. Julius Baer's 9.0% return was above the MSCI ACWI ex-US (8.4%) and ranked in the 15<sup>th</sup> percentile among international equity managers. Chartwell was up 9.2%, while the Russell 2000 Index returned 4.4%. Chartwell's return ranked in the 17<sup>th</sup> percentile among small cap growth managers.

Mr. Thomas also stated that there were some significant investment manager underperformances during the quarter. BGI and GSAM have had issues over the quarter, including during the months of July and August. BGI's Russell 1000 Alpha Tilts Fund appreciated 4.7%, ranking 85<sup>th</sup> among large cap managers. Goldman Sachs (1.2%) ranked in the 100<sup>th</sup> percentile among its small cap core peers (median of 6.0%) and was beaten by its benchmark (4.4%).

Mr., Clifton reported that both BGI and GSAM have sent letters to their clients indicating that the activity in July and August primarily caused by hedge funds de-leveraging similar positions and putting crunches on liquidity in the market. They stated that these events have driven poor returns, not their strategies overall. Mr. Thomas then reviewed the underperformances of the two quantitative products.

Mr. Bryan noted that BGI has had relatively good performance aside from the past couple of quarters, whereas GSAM has been underperforming since its inception nearly three years ago. In response to a question from Mr. Bryan, Mr. Thomas said that these managers are involved in different asset classes, however, it seems that GSAM's factors have not been working well during the entire period.

Ms. Jadallah also noted that despite the vast underperformance of GSAM's small cap product, GSAM's other products have been performing relatively well. Mr. Thomas said that the committee is scheduled to review *SamCERA's* small cap structure in January. The committee directed SIS to accelerate the process of the small cap manager structure's reassessment. SIS will return with a timeline of the process to review *SamCERA's* small cap manager structure at next month's committee meeting.

Mr. Thomas 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.

- 6.4 **Annual Review of *SamCERA*'s Small Cap Domestic Equity Asset Class and Investment Managers**
- 6.4 a **Annual Investment Manager Review – Brandes Investment Partners:** Michael Israel, Portfolio Manager, was present at the Investment Committee for the annual review of Brandes Investment Partners. Mr. Thomas noted that despite Brandes' underperformance, SIS still has confidence in the firm's ability to handle *SamCERA*'s mandate.
- Mr. Israel briefly reviewed Brandes' investment philosophy. He then thoroughly reviewed its portfolio performance. He described the drivers of the key factors in the portfolio and discussed the recent developments in the auto components sector, which makes up approximately 20% of the portfolio. Mr. Israel also reported on new names in the portfolio in the recent quarter, specifically in the homebuilders industry.
- 6.4 b **Annual Investment Manager Review – Chartwell Investment Partners:** Dave Reidinger, Principal, Portfolio Manager/Senior Analyst, and William J. Dougherty, Vice President, Client Services & Marketing, were present at the Investment Committee for the annual review of Chartwell Investment Partners.
- Mr. Reidinger provided a brief organizational update to the committee. He then reviewed Chartwell's investment philosophy and strategic process. When reviewing Chartwell's portfolio performance, Mr. Reidinger noted that the portfolio has performed 65 basis points over the index year to date. The committee noted that they have been pleased with Chartwell's performance since its inception approximately three years ago.
- 6.4 c **Annual Investment Manager Review – Goldman Sachs Asset Management:** The committee expressed concern over GSAM's underperformance. Goldman Sachs Asset Management's annual review will take place at the Board of Retirement meeting.
- 6.5 **Approval of Topics for Annual Investment Manager Review – Barclays Global Investors:** Mr. Clifton presented the list of topics for Barclays Global Investors' annual investment manager review. Ms. Jadallah requested an expansion on the question regarding the BGI Alpha Tilts model and its recent performance shortfall. BGI will be asked to fully describe its model and its utilization in other BGI products, including that of hedge funds.
- 6.6 **Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors:** Mr. Clifton presented the list of topics for INVESCO Realty Advisors' annual investment manager review. No changes were recommended to the questionnaire.
- 6.7 **Review of *SamCERA*'s Investment Plan:** Mr. Clifton presented the amendments to Plan One and Two of *SamCERA*'s Investment Plan. The Plan was updated to reflect the results of *SamCERA*'s most recent asset/liability allocation study and manager structure review. Ms. Jadallah recommended that the documented management style for one of *SamCERA*'s fixed income managers be changed from "Indexed" to "Enhanced Index". No additional changes were made.
- 6.8 **Annual Investment Consultant Review – Strategic Investment Solutions:** Patrick Thomas, Vice President, was present for the annual consultant review of Strategic Investment Solutions.
- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that SIS has hired Deborah

Gallegos as Director of Manager Research to fill the vacancy created when Ms. Jadallah left the firm a couple of months ago. Ms. Gallegos comes to SIS with more than 17 years of experience in public fund administration, investment management, and plan sponsor consulting. Mr. Clifton then stated that *SamCERA* and State Street have begun implementation of securities lending. He then reported that *SamCERA*'s quantitative managers, BGI and Goldman Sachs, have sent letters explaining their recent underperformance. Mr. Clifton also reported that INVESCO Realty Advisors sent him a letter regarding the recent sub-prime mortgage crisis. INVESCO indicates that their exposure to sub-prime is minimal and is mostly in the multi-family/apartments sector.

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

EMILY TASHMAN, CHAIR