

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

October 23, 2007 – Investment Committee Agenda

PUBLIC SESSION

- 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 Acceptance of Strategic Investment Solutions' Report on *SamCERA's* Small Cap Manager Structure
 - 6.3 Annual Investment Manager Review – INVESCO Realty Advisor
(Interviewed by the Investment Committee)
 - 6.4 Annual Investment Manager Review – Barclays Global Investors
(Interviewed by the Board)
 - 6.5 Approval of *SamCERA's Investment Policy* Parts One and Two
 - 6.6 Acceptance of Amendments to *SamCERA's Investment Plan* Parts Three and Four
 - 6.7 Introduction of Amendments to Appendix A-F and the Glossary of *SamCERA's Investment Policy*
- 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 10 a.m. October 23, 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. *Other Board Members in Attendance:* Ms. Salas and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes: Motion** by Bryan, second by Arnott, carried unanimously to approve the minutes of the September 25, 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 reported that *SamCERA's* 2.95% Total Fund Return for September 2007 underperformed the Total Plan Policy Benchmark return of 3.16%. The fund's return for the trailing twelve months is 12.54%, which is 479 basis points above the Actuarial Discount Rate, 7.75%, but 269 basis points below *SamCERA's* Total Plan Policy Benchmark of 15.23%. The spread between the actual return and the policy benchmark return continues to widen.

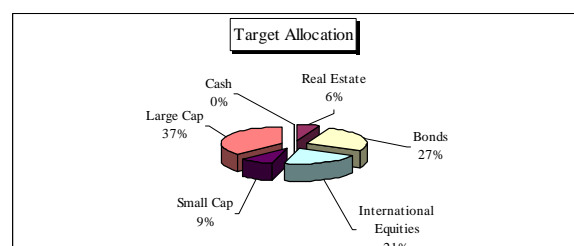
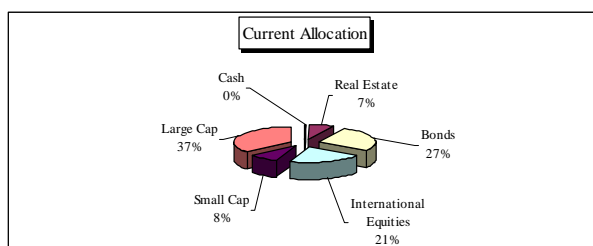
Fear was gradually replaced by some hope in September, as the Federal Reserve lowered its target funds rate from 5.25% to 4.75% in an attempt to calm markets and take preventative action against the possibility that mortgage market turmoil could lead to a recession.

| September 30, 2007 | Market Value | One Month | Trailing Three Months | Trailing Six Months | Trailing Twelve Months |
|-----------------------------|-----------------|---------------|-----------------------|---------------------|------------------------|
| Equity Aggregate | \$1,462,553,197 | 3.81% | -0.56% | 5.20% | 15.82% |
| Equity Composite Benchmark | | 4.14% | 1.84% | 8.21% | 19.38% |
| Variance | | -0.33% | -2.40% | -3.01% | -3.56% |
| Fixed Income Aggregate | \$588,054,758 | 0.86% | 1.98% | 1.26% | 4.36% |
| Fixed Income Composite | | 0.76% | 2.84% | 2.31% | 5.14% |
| Variance | | 0.10% | -0.86% | -1.05% | -0.78% |
| Real Estate Aggregate | \$156,610,221 | 3.10% | 3.10% | 7.04% | 15.09% |
| NCREIF (one quarter lag) | | 0.00% | 0.00% | 4.59% | 0.00% |
| Variance | | 3.10% | 3.10% | 2.45% | 15.09% |
| Cash Aggregate | \$10,273,127 | 0.38% | 1.16% | 2.13% | 4.54% |
| 91 Day Treasury Bill | | 0.38% | 1.34% | 2.63% | 5.22% |
| Variance | | 0.00% | -0.18% | -0.50% | -0.68% |
| Total Fund Returns | \$2,217,491,303 | 2.94% | 0.38% | 4.27% | 12.53% |
| Total Plan Policy Benchmark | | 0.00% | 0.00% | 0.00% | 0.00% |
| Variance | | 2.94% | 0.38% | 4.27% | 12.53% |

Performance versus Actuarial Discount Rate

| | | | | | |
|-------------------------|--|--------------|---------------|--------------|--------------|
| Total Fund Returns | | 2.94% | 0.38% | 4.27% | 12.53% |
| Actuarial Discount Rate | | 0.62% | 1.88% | 3.80% | 7.75% |
| Variance | | 2.32% | -1.50% | 0.47% | 4.78% |

SamCERA's current asset allocation is summarized as follows:



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

6.2

Acceptance of Strategic Investment Solutions' Report on *SamCERA's* Small Cap Manager

Structure: Mr. Thomas and Mr. Brody of Strategic Investment Solutions presented the results of their research on *SamCERA's* small cap manager structure. Mr. Thomas gave a brief overview of the initial screening criteria which resulted in ten firms recommended by SIS to receive RFPs. The Investment Committee then reviewed the ten candidates with SIS in further detail. After extensive discussion, two of the candidates were eliminated, one due to investment style and the other due to

recent product closure. Three of the final eight small cap core candidates are quant products.

The Investment Committee **recommends** that the board accept SIS' report on *SamCERA's* small cap manager structure and send the appropriate RFPs to the final eight candidates. The committee also recommends that SIS return to the committee in December to discuss the pros and cons of the candidates and that the board conduct finalist interviews in January.

- 6.3 **Annual Investment Manager Review – INVESCO Realty Advisors:** Bill Grubbs, Portfolio Manager INVESCO Core Real Estate – U.S.A. and Max Swango, Global Partner INVESCO Real Estate, were present for INVESCO Realty Advisors' annual review. Mr. Swango provided a brief update on INVESCO's structure and organization. INVESCO's open-end core commingled fund currently has 39 investors and 19 investors in queue with a NAV of \$2.2 billion. Mr. Grubbs discussed INVESCO's House View core real estate strategy and gave an overview of the fund's major themes by property sector and risks. After discussing how the portfolio is currently positioned and why, he then reviewed the fund's performance. The fund's strategic underweight to office has led to the portfolio's underperformance over the last twelve months. The office sector has overperformed other sectors by 500 basis points. INVESCO believes that over long periods of time, office is either the best or worst over a rolling three to five year period. When office performs the worst, which is more often the case, it is the only sector that has negative rolling three to five year period returns. To maintain a more consistent return with lower volatility, INVESCO believes that an underweight to the office sector is the appropriate strategy. He indicated that the sub-prime mortgage crisis has had no material negative impact on the portfolio but has led to rising occupancies in multi-family apartments.

Mr. Grubbs also reviewed the status of the fund's queue and reviewed various acquisitions to the portfolio. Mr. Thomas expressed to Mr. Grubbs and Mr. Swango that INVESCO should use great prudence in handling the fund's queue. Mr. Grubbs assured the committee that his team is very focused and patient regarding the current capital available in the queue. In response to a question from Ms. Tashman, Mr. Grubbs opined that the fund's "sweet spot" is acquisitions that range from \$50-75 million. Also in response to Ms. Tashman, he stated that he has not seen an abnormal amount of European or Asian investors bidding on U.S. real estate due to the weakening dollar as of yet.

Ms. Tashman asked the committee whether there was any merit in discussing the diversification in the real estate asset class. Staff will come back in August or September 2008 to provide an educational presentation on the topic of real estate diversification. Ms. Tashman requested that staff bring back cash-flow projections for the upcoming years as well as information on queues in the value-added sector.

- 6.4 **Annual Investment Manager Review – Barclays Global Investors:** The board conducted the annual investment manager review for Barclays Global Investors.
- 6.5 **Approval of *SamCERA's Investment Policy Parts One and Two*:** Mr. Clifton presented the final draft of parts one and two of *SamCERA's Investment Policy*. **Motion** by Bryan, second by Jadallah, carried unanimously to recommend board approval on this version of parts one and two.
- 6.6 **Acceptance of Amendments to *SamCERA's Investment Plan Parts Three and Four*:** Mr. Clifton reviewed the amendments made to parts three and four of *SamCERA's Investment Policy*. He requested any suggested changes from the committee. The final version will be presented at the November meeting of the Board of Retirement.

- 6.7 **Introduction of Amendments to Appendix A-F and the Glossary of *SamCERA's Investment Policy*:** Mr. Clifton introduced the amendments to the appendix A-F and the glossary of *SamCERA's Investment Policy*. He discussed *SamCERA's* due diligence policy under the policy's appendix. Mr. Clifton will come back with a due diligence schedule at a future committee meeting.
- 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 11:55 a.m.

EMILY TASHMAN, CHAIR