

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

November 27, 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 Quarterly Investment Performance Analysis for Period Ended September 30, 2007
 - 6.3 Approval of Amendment to Western Asset Management's Investment Management Agreement
 - 6.4 Acceptance of Certification of Compliance – Pyramis Management Trust Company
 - 6.5 Acceptance of Certification of Compliance – Aberdeen Asset Management
 - 6.6 Acceptance of Certification of Compliance – Western Asset Management
 - 6.7 Approval of Amendments to *SamCERA's Investment Plan* Parts Three and Four
 - 6.8 Review 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. November 27, 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 and Alternates in Attendance:* Mr. Murphy, Ms. Salas, Ms. Stuart and Mr. Wozniak. *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 October 23, 2007, Investment Committee meeting, as submitted.
- 4.0 **Oral Communications From the Committee:** Mr. Bryan reported that he attended the INVESCO Client Conference and Advisory Committee meeting earlier in the month. He found the conference very beneficial and educational. Mr. Clifton also attended the conference and said that the conference was a great way to conduct due diligence with senior management from INVESCO. Mr. Clifton also reported that he attended the SACRS conference.
- 5.0 **Oral Communications From the Public:** None.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 2.04% Total Fund Return for October 2007 underperformed the Total Plan Policy Benchmark return of 2.32%. The fund's

return for the trailing twelve months is 11.79%, which is 404 basis points above the Actuarial Discount Rate, 7.75%, but 321 basis points below *SamCERA's* Total Plan Policy Benchmark of 15.00%. The spread between the actual return and the policy benchmark return continues to widen.

The Federal Reserve decided to again lower its target funds rate by 25 basis points to 4.50%, in order to calm markets and take preventive action against the possibility that bond market turmoil could drive the economy into recession. October was a volatile month, but finished on a positive note. The MSCI ACWI ex US was up 5.58% followed by the Russell 2000 up 2.87%. Large cap equities lagged the other equities, but were up 1.74%.

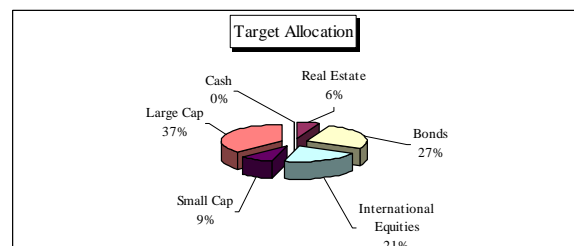
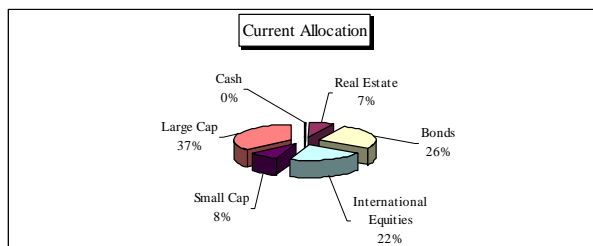
The table presented below shows the composite returns:

October 31, 2007	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,504,199,348	2.85%	6.28%	3.95%	14.66%
Equity Composite Benchmark		2.80%	7.95%	7.03%	18.10%
Variance		0.05%	-1.67%	-3.08%	-3.44%
Fixed Income Aggregate	\$591,690,702	0.62%	2.03%	1.33%	4.24%
Fixed Income Composite		0.90%	2.91%	2.68%	5.38%
Variance		-0.28%	-0.88%	-1.35%	-1.14%
Real Estate Aggregate	\$161,281,147	0.00%	3.07%	7.01%	15.06%
NCREIF (one quarter lag)		0.00%	3.56%	8.31%	17.30%
Variance		0.00%	-0.49%	-1.30%	-2.24%
Cash Aggregate	\$7,086,624	0.38%	1.15%	2.10%	4.54%
91 Day Treasury Bill		0.30%	1.24%	2.48%	5.13%
Variance		0.08%	-0.09%	-0.38%	-0.59%
Total Fund Returns	\$2,264,257,821	2.04%	4.89%	3.49%	11.79%
Total Plan Policy Benchmark		2.32%	6.53%	6.51%	15.00%
Variance		-0.28%	-1.64%	-3.02%	-3.21%

Performance versus Actuarial Discount Rate

Total Fund Returns		2.04%	4.89%	3.49%	11.79%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		1.42%	3.01%	-0.31%	4.04%

SamCERA's current asset allocation is summarized as follows:



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

Quarterly Investment Performance Analysis for Period Ended September 30, 2007: Mr.

Thomas of Strategic Investment Solutions presented the quarterly investment performance report for the period ended September 30, 2007. He noted that *SamCERA*'s portfolio performed poorly during the quarter. The composite fund returned 0.4% in the third quarter of 2007 and ranked 96th among other public funds greater than \$100 million (median of 2.2%). The fund also trailed its policy index (2.5%) during this time period. Longer term, the three and five-year returns of 12.5% (65th percentile) and 13.6% (52nd percentile), respectively, were near median among large public plans (12.8% and 13.7%).

Summary details from Strategic Investment Solutions' quarterly performance report for the period ended September 30, 2007, is as follows:

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	0.39%	96	12.54%	88	12.55%	65
<i>Policy Index</i>	2.46%	37	15.47%	48	13.12%	39
BGI Russell 1000 Alpha Tilts	-0.53%	79	11.18%	94	13.79%	53
BGI Russell 1000 Index Fund	2.00%	51	16.98%	40	13.83%	52
<i>Large Cap Composite</i>	-0.26%	76	12.56%	88	13.33%	61
<i>Russell 1000 Index</i>	1.98%	51	16.90%	41	13.77%	54
Brandes Investment Partners	-16.53%	100	-2.05%	99	N/A	N/A
Chartwell Investment Partners	2.80%	15	25.05%	14	N/A	N/A
Goldman Sachs Asset Management	-8.52%	95	0.13%	98	N/A	N/A
<i>Small Cap Composite</i>	-7.51%	90	5.95%	94	9.88%	96
<i>Russell 2000 Index</i>	-3.09%	62	12.35%	74	13.36%	74
<i>U.S. Equity Composite</i>	-1.72%	74	11.29%	86	12.70%	80
Julius Baer Asset Management	1.95%	50	31.70%	17	N/A	N/A
Mondrian Investment Partners	1.87%	51	25.62%	54	N/A	N/A
<i>International Equity Composite</i>	1.91%	50	28.61%	35	26.14%	35
<i>MSCI ACWI-ex US Index Free</i>	4.69%	20	31.06%	21	26.52%	25
<i>Total Equity Composite</i>	-0.56%	N/A	15.82%	N/A	15.99%	N/A
Aberdeen Asset Management	2.36%	81	5.15%	65	4.25%	37
Pyramis Global Advisors	1.57%	98	3.72%	99	N/A	N/A
Western Asset Management	1.99%	93	4.18%	97	N/A	N/A
<i>U.S. Fixed Income Composite</i>	1.98%	71	4.36%	89	4.07%	61
<i>Lehman Aggregate Index</i>	2.84%	42	5.14%	68	3.86%	79
INVESCO Core Fund	3.07%	46	15.06%	58	19.08%	39
<i>Real Estate Composite</i>	3.07%	46	15.06%	58	18.82%	41
<i>NCREIF Index</i>	3.56%	38	17.30%	46	18.03%	47
<i>Cash Composite</i>	1.16%	75	4.54%	85	3.91%	67
<i>91 Day T-Bill Index</i>	1.34%	33	5.22%	53	4.11%	50

Mr. Thomas noted that active management, overall, hurt the portfolio during the quarter. He mentioned that *SamCERA*'s two low-risk active managers, Pyramis Global Advisors and BGI, underperformed their respective benchmarks. He also noted that *SamCERA*'s decision to increase its asset allocation to international equities from 15% to 21% earlier in the year has proven to be a good move. However, the decision to increase its allocation to the BGI Russell 1000 Alpha Tilts product

away from the BGI Russell 1000 Index portfolio has detracted from performance.

Ms. Tashman expressed concern regarding *SamCERA*'s two quant managers, BGI and Goldman Sachs. Mr. Thomas said that institutional investors with quant managers are re-evaluating the risks associated with these quant strategies. He recommended that the investment committee review *SamCERA*'s current manager structure specifically analyzing risk, following a site visit to BGI. He partially attributed BGI Russell 1000 Alpha Tilts' underperformance to its previous success which thereby led to the strategy's replication and hurt the portfolio.

The committee then discussed the review of *SamCERA*'s small cap structure. After extensive discussion, Ms. Tashman opined that it would be prudent to terminate *SamCERA*'s contract with Goldman Sachs Asset Management immediately and transfer the funds to a Russell 2000 Index fund while the board searches for GSAM's replacement. The committee expressed that they are no longer confident in Goldman Sachs' small cap core quant model. The committee has discussed its concerns regarding GSAM for two years. She also opined that it would be best to transfer the monies out of GSAM's portfolio by December 1st, to avoid an expected large rush of redemptions before the end of the year. Mr. Thomas stated that SIS would not be opposed to the idea and that the transition will cost the association an approximate 20 basis points of the GSAM portfolio. The committee **recommends** that the board approve the termination of the Goldman Sachs Investment Management Agreement and transition the assets to an interim Russell 2000 Index provider.

Mr. Bryan also expressed concerns with the underperformance by *SamCERA*'s small cap value manager, Brandes Investment Partners, who returned -16.53% for the quarter and ranked in the bottom percentile (100th percentile) in the small cap value manager universe. The negative performance for this quarter was attributed primarily to stock selection in the Consumer Discretionary (Dana, Delphi Automotive, National RV), Info Tech (Sanmina-Sci) and Materials (Tronox) sectors, as well as its intra-quarter trading. Mr. Bryan has expressed that he does not feel comfortable with Brandes' volatility and recurring underperformance. Mr. Clifton reported that Brandes had lost a \$17 million corporate client as well as re-opened its product. Ms. Tashman stated that she was not disappointed in Brandes' underperformance as much as BGI and GSAM's and that Brandes requires more time before *SamCERA* can make a valid judgment.

Ms. Tashman would like the committee to focus on its concerns with Goldman Sachs Asset Management, receive more information on BGI's Russell 1000 Alpha Tilts strategy, then also review the impact on *SamCERA*'s bond portfolio with the continuing housing decline. Mr. Clifton stated that staff will organize education for trustees to analyze risks and other metrics in fixed income in February.

6.3 **Approval of Amendment to Western Asset Management's Investment Management**

Agreement: Mr. Clifton presented proposed amendments to the Investment Management Agreement between *SamCERA* and Western Asset Management Company. The board authorized the execution of WAMCO's second three-year Investment Management Agreement at the September board meeting. Following its execution, WAMCO expressed a desire to change the IMA to specifically identify affiliates, replacing Part 2, Section 2c (vii) of the agreement.

Motion by Arnott, second by Bryan, carried unanimously to recommend that the board approve the amendment to Western Asset Management's Investment Management Agreement.

Ms. Tashman then took up agenda item 6.7.

6.4 **Acceptance of Certification of Compliance – Pyramis Management Trust Company:** Mr.

Clifton presented Pyramis Management Trust Company's semi-annual Compliance Certification Statement and highlighted details from the CCS. Ms. Jadallah requested more information prior to the document's acceptance.

Ms. Jadallah then took up agenda item 6.5.

(Following the committee meeting's adjournment at 11:24 a.m., Mr. Bryan reconvened the committee at 11:35 a.m. Mr. Thomas provided the committee with the information they requested regarding changes within Pyramis Management Trust Company. **Without objection**, Mr. Bryan accepted the Certification of Compliance Statement submitted by Pyramis Management Trust Company.

Mr. Bryan re-adjourned the meeting at 11:37 a.m.)

- 6.5 **Acceptance of Certification of Compliance – Aberdeen Asset Management:** Mr. Clifton presented Aberdeen Asset Management's semi-annual Compliance Certification Statement. He highlighted the fact that Aberdeen's fixed income strategies are temporarily closed to new business based upon recent success in winning new business and, more importantly, the momentum behind the growth of the new business pipeline.

Without objection, Ms. Tashman accepted the Certification of Compliance Statement submitted by Aberdeen Asset Management.

- 6.6 **Acceptance of Certification of Compliance – Western Asset Management:** Mr. Clifton presented Western Asset Management's semi-annual Compliance Certification Statement. He provided highlights of the CCS. **Without objection**, Ms. Tashman accepted the Certification of Compliance Statement submitted by Western Asset Management.

- 6.7 **Approval of Amendments to SamCERA's Investment Plan Parts Three and Four:** Mr. Clifton presented the amendments to Parts Three and Four of *SamCERA's* Investment Policy. Ms. Arnott submitted an editorial correction the document.

Motion by Jadallah, second by Bryan, carried unanimously to approve the amendments to *SamCERA's* Investment Policy Parts Three and Four.

Ms. Tashman departed the meeting and handed the gavel to Ms. Jadallah. Ms. Jadallah then took up agenda item 6.4.

- 6.8 **Review of Amendments to Appendix A-F and the Glossary of SamCERA's Investment Policy:** Mr. Clifton reviewed the amendments to Appendix A-F and the Glossary of *SamCERA's* Investment Policy. Ms. Tashman requested that investment managers opine on the investment strategic exceptions allowed for each manager during their annual review. The board will have its final review of the Appendix A-F and the Glossary of *SamCERA's* Investment Policy at the January meeting.

- 7.0 **Other Business:** None.

- 8.0 **Investment & Finance Manager's Report:**

- 9.0 **Adjournment:** There being no further business, Ms. Tashman adjourned the committee at 11:24 a.m.

EMILY TASHMAN, CHAIR