

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

December 13, 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 Post Transition Report on Core Small Cap Assets
 - 6.3 Selection of Finalists for *SamCERA's* Small Cap Core Mandate
- 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 8:30 a.m. December 13, 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 (arr. 8:31 a.m.) and Ms. Tashman. *Other Board Members and Alternates in Attendance:* Mr. Murphy and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton, Mr. Hood and Ms. Dames. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** Ms. Arnott submitted the following correction to the November 27, 2007, Investment Committee Minutes: 6.7 L3: "...editorial correction to the document."

Motion by Bryan, second by Arnott, carried unanimously to approve the minutes of the November 27, 2007, Investment Committee meeting, as amended.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** None.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton provided the committee with an abbreviated monthly portfolio performance report for the period ending November 30, 2007. Due to the early schedule of the December Investment Committee meeting, investment performance data for the month of November 2007 have not yet been fully published. Based on preliminary custodial reports, Mr. Clifton noted that the Association's one-year total fund return is now trailing the actuarial discount rate by approximately 120 basis points.

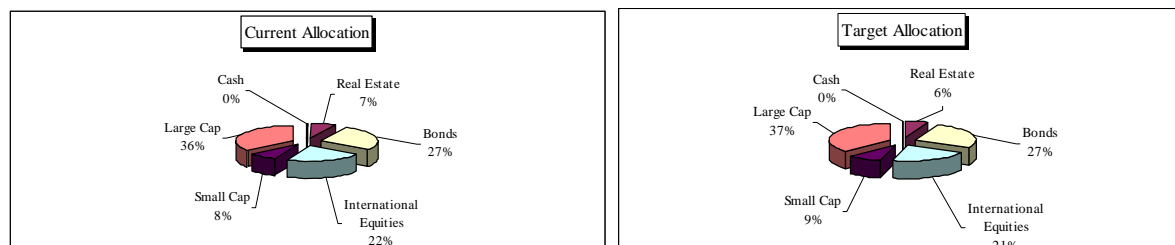
The table presented below shows the composite returns:

November 30, 2007		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
	Market Value				
Equity Aggregate	\$1,433,607,453	-4.69%	1.75%	-3.83%	6.65%
Equity Composite Benchmark		-4.76%	1.96%	-1.50%	9.67%
Variance		0.07%	-0.21%	-2.33%	-3.02%
Fixed Income Aggregate	\$598,163,307	1.14%	2.64%	3.31%	4.10%
Fixed Income Composite		1.80%	3.49%	5.32%	6.05%
Variance		-0.66%	-0.85%	-2.01%	-1.95%
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	\$4,045,725	0.37%	1.14%	2.08%	4.55%
91 Day Treasury Bill		0.47%	1.15%	2.51%	5.17%
Variance		-0.10%	-0.01%	-0.43%	-0.62%
Total Fund Returns	\$2,197,097,631	-2.81%	2.09%	-1.18%	6.56%
Total Plan Policy Benchmark		-2.68%	2.94%	1.55%	9.72%
Variance		-0.13%	-0.85%	-2.73%	-3.16%

Performance versus Actuarial Discount Rate

Total Fund Returns		-2.81%	2.09%	-1.18%	6.56%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		-3.43%	0.21%	-4.98%	-1.19%

SamCERA's current asset allocation is summarized as follows:



Mr. Clifton provided the committee with a letter from Brandes Investment Partners. The letter reminded the committee that Brandes maintains a Graham & Dodd investment philosophy which involves reviewing and potentially purchasing unpopular and out-of-favor companies that has resulted in its volatility. The letter also reminded the Investment Committee of the recent bankruptcies that have occurred in the portfolio. Looking forward, Brandes provided details of the most relevant sector allocations currently in the portfolio and opined that it may take 2 years or longer for fundamentals to return to normal levels in some of the industries but that their process will meet SamCERA's performance expectations in the future.

Mr. Thomas noted that Brandes had performed well in the past two weeks, returning 200 basis points over benchmark. He also stated that Brandes has taken a position in Countrywide.

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

report.

- 6.2 **Acceptance of Post Transition Report on Core Small Cap Assets:** Mr. Clifton provided the Investment Committee with a post transition report on small cap core assets. State Street Global Markets, LLC performed the transition of assets from Goldman Sachs Asset Management's small cap core portfolio to State Street Global Advisors' Russell 200 Index fund. He stated that the transition performed very smoothly and quickly. Following the board's direction at the November 27, 2007, board meeting, the transition of assets was 99% completed on Friday, November 30th and settled by Wednesday, December 5th. He commended State Street for their transition management performance and compared it to BGI's transition performance of large cap assets that occurred earlier in the year. State Street's implementation shortfall was 23 basis points which fell between the mean (14 bps) and a one standard-deviation event (36 bps) on the pre-trade analysis. BGI's implementation shortfall was 22 basis points. Mr. Clifton then provided a brief trading analysis of the transition.
- 6.3 **Selection of Finalists for *SamCERA*'s Small Cap Core Mandate:** Patrick Thomas and Jonathan Brody of Strategic Investment Solutions were present to discuss the list of semi-finalists for the Association's small cap core mandate. Per the request of Ms. Tashman, Mr. Thomas gave a brief overview of *SamCERA*'s small cap manager structure.

Below are the small cap managers and products that were under consideration:

Investment Manager	Product
1) Clarivest Asset Management	Small Cap Core
2) Delaware Investments	Small Cap Core
3) Jennison Associates	Small Cap Equity
4) JPMorgan	U.S. Structured Small Cap
5) Quantitative Management Associates	Small Cap Quantitative Equity
6) State Street Global Advisors	U.S. Small Cap Index Plus
7) TAMRO Capital Partners	Small Cap
8) Wellington Management	Small Cap Intersection

Mr. Brody then provided a thorough overview of each of the eight semi-finalists, stating each firm product's pros and cons, and answered several Investment Committee members' qualitative and quantitative questions. He also explained and discussed the various tracking errors, downside and upside capture ratios, and other relevant statistics for the committee. Mr. Clifton and Ms. Tashman discussed possibly re-opening manager structure questions and hiring two firms for the small cap core mandate. Mr. Bryan and Mr. Thomas stated that they preferred only one manager for the mandate.

The committee **recommended** that the board interview the following four finalists at the January 22, 2008, board meeting, for *SamCERA*'s small cap core mandate: (1) Clarivest Asset Management, (2) Jennison Associates, (3) Quantitative Management Associates, and (4) TAMRO Capital Partners. The board and committee will be scheduled to meet at 8 a.m. to be able to conduct all four interviews. Each finalist will be allotted forty-five minutes to interview and encouraged to send its senior management to the interview.

- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that Steve Ilott, Head of Fixed Income at Aberdeen Asset Management will be departing the firm in March. Mr. Ilott will be

handing over the fixed income business to Gary Bartlett in January. Mr. Bartlett is head of the group's Philadelphia fixed income operation and chief executive of Aberdeen's U.S. business.

9.0 **Adjournment:** There being no further business, Ms. Tashman adjourned the meeting at 10:35 a.m.

EMILY TASHMAN, CHAIR