

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

**February 26, 2008 – 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 December 31, 2007
  - 6.3 Approval of *SamCERA's* Small Cap Core Investment Management Agreement with Jennison Associates
  - 6.4 Approval to Transition Assets from the SSgA Russell 2000 Index Fund to Jennison Associates Small Cap Equity
  - 6.5 Approval of *SamCERA's* Large Cap Structure
  - 6.6 Approval of the Investment Committee's Plan for Fiscal Year 2008/2009
  - 6.7 Acceptance of Certificate of Compliance – Julius Baer Investment Management
  - 6.8 Acceptance of Certificate of Compliance – Mondrian Investment Partners
- 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 10:04 a.m. February 26, 2008, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Ms. Jadallah, Ms. Salas for Mr. Bryan and Ms. Tashman. *Other Board Members in Attendance:* Mr. Hackleman and Mr. Murphy. *Staff:* Mr. Bailey, Mr. Clifton and Ms. Dames. *Consultants:* Mr. Meier and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** The December 31, 2007, Investment Committee meeting minutes were approved at the January 22, 2008, board meeting. The Investment Committee and Board of Retirement met simultaneously at the January meeting.
- 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* -4.17% Total Fund Return for January 2008 outperformed the Total Plan Policy Benchmark return of -4.41%. The fund's return for the trailing twelve months is -0.72%, which is 847 basis points below the Actuarial Discount

Rate, 7.75%, and 295 basis points below *SamCERA*'s Total Plan Policy Benchmark of 2.23%. The realized return continues to lose ground to both the policy return and the actuarial assumption rate for the trailing twelve-month period.

The Federal Reserve reversed course and engaged in an aggressive campaign against downside risks to growth. The funds rate was reduced by 123 basis points in total, the sharpest monthly decline in over twenty years. Volatility remained high but financial strains improved. Among the Morgan Stanley Capital International (MSCI) individual country markets, developed or emerging, only Jordan posted a positive return in January.

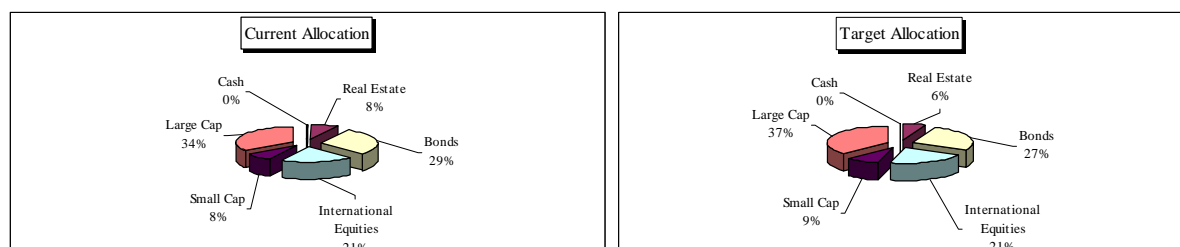
The table presented below shows the composite returns:

January 31, 2008	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,322,482,515	-6.96%	-12.08%	-6.57%	-5.04%
Equity Composite		-6.97%	-12.06%	-5.07%	-1.79%
<b>Variance</b>		<b>0.01%</b>	<b>-0.02%</b>	<b>-1.50%</b>	<b>-3.25%</b>
Fixed Income Aggregate	\$605,598,142	1.31%	2.35%	4.43%	5.97%
Fixed Income Composite		1.68%	3.80%	6.82%	8.81%
<b>Variance</b>		<b>-0.37%</b>	<b>-1.45%</b>	<b>-2.39%</b>	<b>-2.84%</b>
Real Estate Aggregate	\$164,558,417	0.00%	2.14%	5.27%	13.75%
NCREIF (one quarter lag)		0.00%	3.21%	6.88%	15.84%
<b>Variance</b>		<b>0.00%</b>	<b>-1.07%</b>	<b>-1.61%</b>	<b>-2.09%</b>
Cash Aggregate	(\$4,305,091)	0.36%	1.16%	2.33%	4.51%
91 Day Treasury Bill		0.50%	1.26%	2.52%	5.10%
<b>Variance</b>		<b>-0.14%</b>	<b>-0.10%</b>	<b>-0.19%</b>	<b>-0.59%</b>
Total Fund Returns	\$2,088,333,983	-4.17%	-7.26%	-2.72%	-0.72%
Total Plan Policy		-4.41%	-7.41%	-1.37%	2.23%
<b>Variance</b>		<b>0.24%</b>	<b>0.15%</b>	<b>-1.35%</b>	<b>-2.95%</b>

#### Performance versus Actuarial Discount Rate

Total Fund Returns		-4.17%	-7.26%	-2.72%	-0.72%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-4.79%</b>	<b>-9.14%</b>	<b>-6.52%</b>	<b>-8.47%</b>

*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 December 31, 2007:** Mr. Thomas presented the quarterly investment performance report for the period ended December 31, 2007. The composite fund returned -1.3% in the fourth quarter of 2007 and ranked 80<sup>th</sup> among other public funds greater than \$100 million (median of -0.8%). The fund trailed its policy index (-0.9%) during this time period. Longer term, the three- and five-year returns of 9.1% (69<sup>th</sup> percentile) and 12.2% (52<sup>nd</sup> percentile), respectively, were near median among large public plans (9.6% and 12.4%).

Summary details from Strategic Investment Solutions' quarterly performance report for the period ended December 31, 2007, are as follows:

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<b>Composite Fund</b>	-1.25%	80	4.84%	96	9.06%	69
<i>Policy Index</i>	-0.90%	57	8.00%	56	9.88%	40
BGI Russell 1000 Alpha Tilts	-4.46%	74	-0.03%	87	8.28%	79
BGI Russell 1000 Index Fund	-3.32%	49	5.85%	48	9.14%	53
<i>Large Cap Composite</i>	-4.22%	72	1.13%	79	8.11%	81
<i>Russell 1000 Index</i>	-3.22%	49	5.77%	48	9.08%	54
Brandes Investment Partners	-12.53%	99	-23.58%	100	-5.73%	100
Chartwell Investment Partners	-0.07%	8	13.85%	13	11.46%	17
<i>Small Cap Composite</i>	-6.22%	66	-8.94%	87	2.40%	97
<i>Russell 2000 Index</i>	-4.58%	44	-1.56%	70	6.80%	71
<i>U.S. Equity Composite</i>	-4.60%	68	-0.84%	84	6.97%	84
Julius Baer Asset Management	1.52%	11	17.63%	29	22.16%	13
Mondrian Investment Partners	0.29%	31	13.82%	42	19.48%	41
<i>International Equity Composite</i>	0.91%	25	15.73%	37	20.83%	33
<i>MSCI ACWI-ex US Index Free</i>	-0.62%	52	17.12%	32	20.37%	35
<i>Total Equity Composite</i>	-2.81%	N/A	3.93%	N/A	10.54%	N/A
Aberdeen Asset Management	1.68%	89	5.53%	84	4.50%	75
Pyramis Global Advisors	1.43%	94	3.93%	97	N/A	N/A
Western Asset Management	1.83%	86	4.31%	95	4.71%	48
<i>U.S. Fixed Income Composite</i>	1.65%	69	4.60%	81	4.30%	83
<i>Lehman Aggregate Index</i>	3.00%	31	6.97%	43	4.56%	63
INVESCO Core Fund	2.14%	27	13.75%	54	17.96%	36
<i>Real Estate Composite</i>	2.14%	27	13.75%	54	17.95%	37
<i>NCREIF Index</i>	3.21%	14	15.84%	40	17.48%	38
<i>Cash Composite</i>	1.17%	50	4.60%	79	4.11%	72
<i>91 Day T-Bill Index</i>	1.05%	70	5.00%	57	4.30%	55

One of the biggest detractors to performance for the quarter was the BGI Russell 1000 Alpha Tilts which depreciated 4.5%, ranking 74<sup>th</sup> among large cap managers. Its benchmark was down 3.2%. Selection in Consumer Discretionary and Financials stocks hurt returns. Brandes' return of -12.5% ranked in the bottom percentile in the small cap value manager universe. Negative performance attribution primarily came from stock selection in the Info Tech and Material sectors, as well as intra-quarter trading. Mr. Thomas also reported that SamCERA's fixed income managers also underperformed during the quarter and hindered fourth quarter results. On a positive note, Mr.

Thomas said that *SamCERA*'s international equity managers, Julius Baer and Mondrian, each outperformed the MSCI AC World –ex US Index and ranked in the 11<sup>th</sup> and 31<sup>st</sup> percentile among its peers, respectively. Small cap growth manager, Chartwell, also performed extremely well during the quarter.

Mr. Meier of Strategic Investment Solutions provided an overview of his several due diligence visits to BGI's offices. He also answered trustee questions and concerns regarding the disparity between the Russell 1000 Alpha Tilts return and that of its benchmark and the product's larger risk. He opined that quant products are still a viable long-term strategy. In a response to a question from the committee, Mr. Meier said that BGI has been losing client accounts and that one SIS client has terminated its contract with BGI, however, for diversification reasons.

Mr. Thomas then discussed the underperformance of *SamCERA*'s fixed income managers. He noted that there has been a tremendous event in spread bonds, however, SIS is still very comfortable with *SamCERA*'s current fixed income manager structure and felt that the portfolio is being handled by very good managers. Mr. Clifton said that he will request the fixed income managers to form an educational panel at the May meeting of the Investment Committee prior to the manager's annual review scheduled for later that afternoon at the full board. Ms. Tashman asked SIS to include a fixed income sector allocation breakdown of *SamCERA*'s composite fixed income portfolio to attain a better understanding of its total sector exposure.

Mr. Clifton reported that Julius Baer Investment Management will be IPO'd by its parent company, Julius Baer Americas Ltd. The IPO is scheduled for later this year. The portfolio managers at JBIM maintain a thirty percent ownership and are able to sell twenty percent of their shares each year for five years.

### 6.3

**Approval of *SamCERA*'s Small Cap Core Investment Management Agreement with Jennison Associates:** Mr. Clifton reported that he and Mr. Thomas of Strategic Investment Solutions performed an on site visit to Jennison Associates in their New York City offices on Wednesday, February 20, 2008. The purpose of the meeting was to validate the findings of *SamCERA*'s manager search process and to gather the information necessary to ensure Jennison's suitability for the small cap core investment mandate. Jennison was selected as the finalist in *SamCERA*'s small cap core search to replace Goldman Sachs Asset Management, pending successful negotiation of a management agreement and a satisfactory on-site visit. Both Mr. Clifton and Mr. Thomas reported that they were very impressed with Jennison as an organization. They confirmed that Jennison's Small Cap Core group is deep and well resourced for a small cap team. Mr. Thomas noted that the organization subsidizes the small cap core team through its allocation of the general profit pool. He also added that Prudential's ownership was not a big negative for Jennison and that the possibility of a spin-out appears fairly low. Mr. Thomas then expressed his slight concern with Jennison's asset size. He advised that the board should monitor Jennison's asset growth to ensure that total product assets remain close to \$2 billion.

**Motion** by Salas, second by Jadallah, carried unanimously to recommend that the Board of Retirement adopt **Resolution 07-08-12**, authorizing the Chair to execute the Investment Management Agreement with Jennison Associates for *SamCERA*'s small cap core mandate, as follows:

**“WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

**“WHEREAS**, Government Code §31595 vests in the Board *"... exclusive control of the investment of*

*the employees retirement fund.*"; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers “. . . *in connection with administration of the Board's investment program* . . . ”; and

“**WHEREAS**, on January 22, 2008, the Board considered proposals from and interviewed four firms for investment management services under a small cap core mandate--Clarivest Asset Management, Jennison Associates, Quantitative Management Associates, and TAMRO Capital Partners—and selected Jennison Associates for a small cap core mandate to be funded with approximately \$75 million;

“**WHEREAS**, an Investment Management Agreement has been approved by County Counsel as to form and the Investment & Finance Manager has recommended approval of the Agreement. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Jennison Associates for a term of three years. The Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Jennison Associates to manage the assets of the retirement fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

“**RESOLVED** that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with *SamCERA's* internal controls. Be it further

“**RESOLVED** that the Board hereby authorizes the Chair, to execute the Agreement on behalf of the Board. Be it further

“**RESOLVED** that the Board hereby designates the Investment & Finance Manager as its designee to perform those functions so identified in the Agreement and hereby authorizes the Investment & Finance Manager to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the contract.”

- 6.4 **Approval to Transition Assets from the SSgA Russell 2000 Index Fund to Jennison Associates Small Cap Equity:** Mr. Clifton stated that State Street Global Markets will be used to transition assets from State Street Global Advisors Russell 2000 Index Fund to Jennison Associates Small Cap Equity portfolio. State Street Global Markets conducted the transition from the Goldman Sachs Asset Management Small Cap Core equity portfolio to the SSgA Russell 2000 Index Fund on November 30<sup>th</sup> and conducted it very well with such little prior notice. The target date of the new transition will be at the end of March. At the request of the Investment Committee, Mr. Clifton will provide State Street's pre-trade analysis at the March board meeting.

**Motion** by Arnott, second by Salas, carried unanimously to approve the transition of assets from the SSgA Russell 2000 Index Fund to Jennison Associates Small Cap Equity portfolio and to select State Street Global Markets to perform the transition.

- 6.5 **Approval of SamCERA's Large Cap Structure:** Mr. Thomas and Mr. Meier of Strategic Investment Solutions provided a brief overview of their report on Manager Structure: U.S. Equity Alternatives, and requested trustee direction. Mr. Thomas reminded the committee that the U.S.

Equity structure was intended to be a low to moderate risk structure, however, due to its performance, the BGI Alpha Tilts exposure indicates more risk than originally analyzed. He stated that the source of greater risk was methodological and not stylistic and that the committee must address quantitative model risk going forward. Mr. Thomas advised the committee to avoid whipsaw risk as the Alpha Tilts portfolio performance improves and to transition the portfolio over time. The goal of the manager structure analysis is to maintain a moderate risk portfolio while implementing a process of diversification.

The committee reviewed the manager structure alternatives as presented by SIS. Trustees eliminated several of the alternatives which allocated a lower amount to the Russell 1000 Index. Trustees also provided several additional alternatives to the list. Mr. Clifton also requested that a small allocation to a 130/30 product be included as an alternative. SIS will return to the committee with an amended list of large cap equity manager structures for the trustees' comment and review.

- 6.6 **Approval of the Investment Committee's Plan for Fiscal Year 2008/2009:** Mr. Clifton presented the Investment Committee Plan for Fiscal Year 2008/2009. He noted that the schedule will be amended once the committee has discussed *SamCERA's* Large Cap Structure in further detail. **Without objection**, the Investment Committee recommended that the board approve the Investment Committee's Plan for Fiscal Year 2008/2009.
- 6.7 **Acceptance of Certificate of Compliance – Julius Baer Investment Management:** Mr. Clifton presented Julius Baer Investment Management's completed Compliance Certification Statement. Mr. Clifton stated that there is nothing worthy of note in Julius Baer's CCS. **Without objection**, Ms. Tashman accepted the Compliance Certification Statement.
- 6.8 **Acceptance of Certificate of Compliance – Mondrian Investment Partners:** Mr. Clifton presented Mondrian Investment Partners' completed Compliance Certification Statement. The only item of significance in the CCS is that in November 2007 David Tilles was appointed Executive Chairman and Clive Gillmore was appointed Chief Executive Officer. Mr. Clifton stated that this transition is a natural evolution and had been planned for some years. **Without objection**, Ms. Tashman accepted the Compliance Certification Statement.
- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported on the site visit to the Association's new investment manager, Jennison Associates. He was accompanied with Mr. Thomas of SIS. He also reminded the board that Julius Baer Investment Management announced a proposed initial public offering which is scheduled for later this year. Mr. Clifton reported that he along with Ms. Dames, Investment Analyst, attended the IMN Securities Lending Conference earlier in the month. He found the conference to be very informative, especially since the Association has just begun its securities lending program in July 2007. State Street is asking to add new language to its security lending agreement. Mr. Clifton will place the amendment on the March board meeting agenda. Lastly, Mr. Clifton said that the offices of Hon. Jerry Hill of the San Mateo County Board of Supervisors has been inquiring on the Association's Iran investments. Mr. Bailey has provided a response.
- 9.0 **Adjournment:** There being no further business, Ms. Tashman adjourned the committee at 12:33 p.m.

EMILY TASHMAN, CHAIR