

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

**April 21, 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 Report on the Transition of Assets to Jennison Associates Small Cap Equity Portfolio
  - 6.3 Educational Presentation – 130/30 Investment Strategies
  - 6.4 Review of *SamCERA's* Large Cap Manager Structure
  - 6.5 Discussion of Strategic Plan Asset Management Projects
- 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 10:28 a.m. April 21, 2008, in Franklin Templeton Investments, Building 920, Room A, One Franklin Parkway, San Mateo, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Ms. Jadallah, Ms. Salas (dep. 10:43 a.m., ret. 12:08 p.m.) and Ms. Tashman. *Other Board Members in Attendance:* Mr. Murphy and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Meier and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** None.
- 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* Total Fund Return of -0.87% for March 2008 underperformed the Total Plan Policy Benchmark return of -0.57%. The fund's return for the trailing twelve months is -3.38%, which is 1,113 basis points below the Actuarial Discount Rate, 7.75%, and 346 basis points below *SamCERA's* Total Plan Policy Benchmark of 0.08%. The realized return continues to lose ground to both the policy return and the actuarial assumption rate for the trailing twelve-month period.

March was a month of extraordinary intervention in the financial markets by the Federal Reserve. The Federal Reserve Bank of New York stepped in to assist when, due to the liquidity crisis, Bear Stearns flirted with bankruptcy and was acquired by JPMorgan Chase. The Fed stepped up efforts to counter the

rising tide of fear by cutting the federal funds rate by 75 basis points (bps), cutting the discount rate by 100 bps and announcing a number of new lending facilities targeted directly at strained credit conditions.

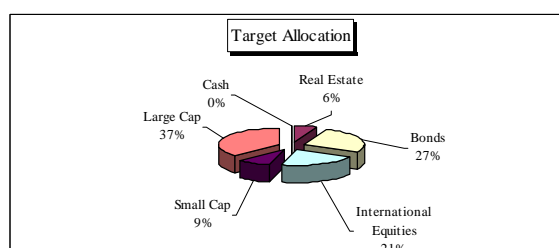
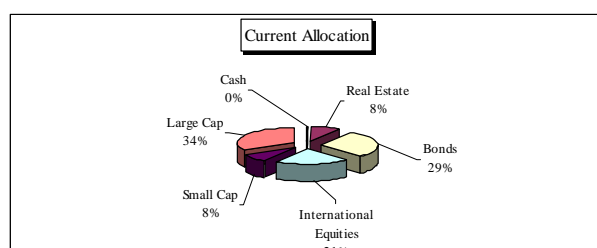
The table presented below shows the composite returns:

March 31, 2008	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,266,029,042	-0.81%	-9.19%	-11.74%	-7.16%
Equity Composite		-0.85%	-9.41%	-11.96%	-4.74%
<b>Variance</b>		<b>0.04%</b>	<b>0.22%</b>	<b>0.22%</b>	<b>-2.42%</b>
Fixed Income Aggregate	\$593,208,956	-1.24%	-0.76%	0.88%	2.15%
Fixed Income Composite		0.34%	2.17%	5.23%	7.67%
<b>Variance</b>		<b>-1.58%</b>	<b>-2.93%</b>	<b>-4.35%</b>	<b>-5.52%</b>
Real Estate Aggregate	\$164,558,417	0.00%	0.00%	2.14%	9.30%
NCREIF (one quarter lag)		0.00%	0.00%	3.21%	11.79%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>-1.07%</b>	<b>-2.49%</b>
Cash Aggregate	\$8,844,333	0.25%	0.90%	2.09%	4.27%
91 Day Treasury Bill		0.23%	0.88%	1.95%	4.62%
<b>Variance</b>		<b>0.02%</b>	<b>0.02%</b>	<b>0.14%</b>	<b>-0.35%</b>
Total Fund Returns	\$2,032,640,747	-0.87%	-6.18%	-7.35%	-3.38%
Total Plan Policy		-0.57%	-5.74%	-6.40%	0.08%
<b>Variance</b>		<b>-0.30%</b>	<b>-0.44%</b>	<b>-0.95%</b>	<b>-3.46%</b>

#### Performance versus Actuarial Discount Rate

Total Fund Returns		-0.87%	-6.18%	-7.35%	-3.38%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-1.49%</b>	<b>-8.06%</b>	<b>-11.15%</b>	<b>-11.13%</b>

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 **Report on the Transition of Assets to Jennison Associates Small Cap Equity Portfolio:** Mr. Clifton provided a post transition report from State Street Global Markets, which gave an analysis of the transition from the State Street Global Advisors' Russell 2000 Index to the Jennison Small Cap Core Portfolio. The total cost of the transition was 65.62 basis points. In response to a question from Ms. Tashman, Mr. Clifton stated that the cost was slightly higher than the estimated cost in the pre-trade analysis, however was still within a one standard deviation event. State Street Global Markets completed most of the trading

within one and a half days.

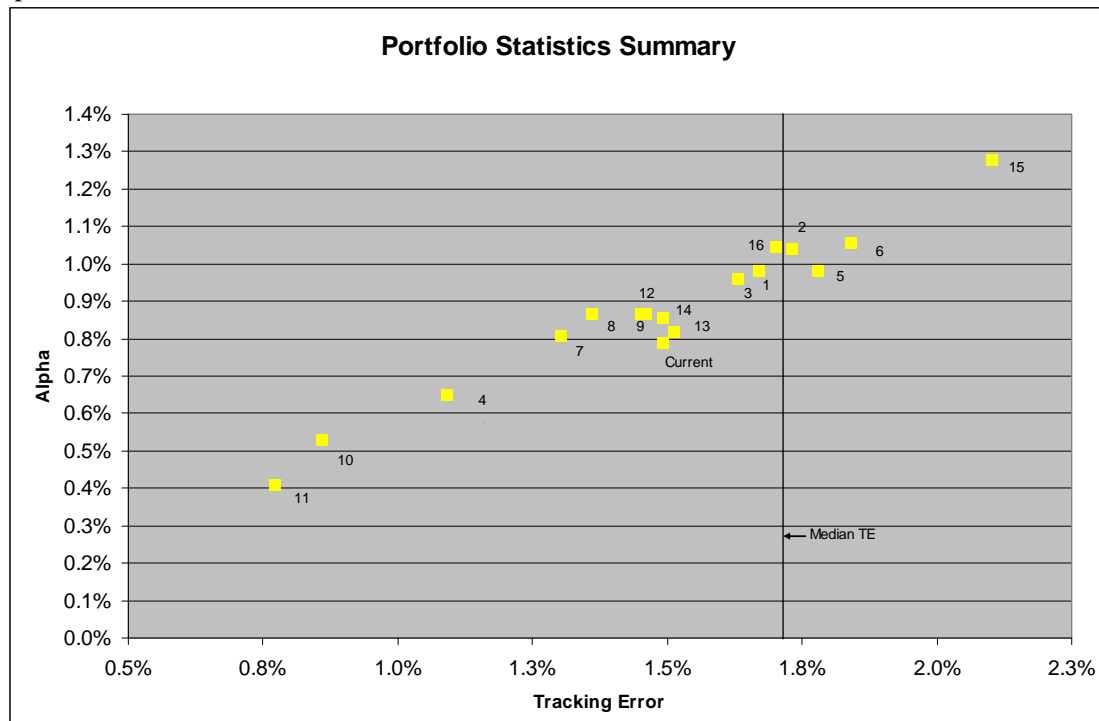
Mr. Thomas noted that the actual discreet cost of 31.26 basis points was fairly low. The total opportunity cost in this transition was 34.36 bps. He said that transition managers are always subject to market movement and have little control of opportunity costs.

Mr. Clifton reported that the total cost of both transitions (1) Goldman Sachs to State Street Global Advisors and (2) State Street Global Advisors to Jennison Associates, was approximately \$650,000. He commended SSGM for an excellent performance during the two transitions.

6.3 **Educational Presentation – 130/30 Investment Strategies:** Mr. Thomas and Mr. Meier of Strategic Investment Solutions were present to provide an educational overview of the 130/30 limited long/short strategy. Mr. Meier discussed the definition, mechanics and reasons why an investor would benefit by loosening the long-only constraints. Mr. Clifton asked about the management fee structure and the difference between commingled and separate accounts. Mr. Meier said that there is no difference between the management fees of commingled and separate accounts. He then discussed asset-based and performance-based fee structures. Mr. Thomas also mentioned that the fact that fundamental managers are now entering into 130/30 illustrates that the space is maturing which increases the amount and quality of manager selection within the space. Mr. Meier stated that 130/30 is a difference in portfolio construction rather than a difference in investment strategy. He also said that loosening the long-only constraints for investment managers will be a diversifier to the fund. SIS has performed manager searches for 130/30 managers for some of its clients.

6.4 **Review of SamCERA's Large Cap Manager Structure:** Mr. Thomas of SIS performed a review of SamCERA's U.S. Equity Manager Structure. SamCERA's current U.S. equity portfolio is: 16% BGI Alpha Tilts, 64% BGI R1000 Index, 10% Small Cap Core, 5% Small Cap Value, & 5% Small Cap Growth.

The committee reviewed the sixteen large cap alternatives that appear in the following risk/return space:



Mr. Thomas said that it would be good to implement active risk in the portfolio for diversification of sources, pushing towards the median tracking error of SIS clients. He added that *SamCERA* would benefit from process and manager diversification. Ms. Jadallah indicated her comfortable risk level as being between *SamCERA*'s current tracking error and SIS' median. She agreed that more diversification would be ideal with traditional managers, away from *SamCERA*'s current large cap quant manager. The board also discussed the possibility of adding a 130/30 large cap manager and the reactions were mixed. Ms. Tashman also wanted to emphasize that the board should not make any reactionary decisions based on the underperformance of the BGI Alpha Tilts portfolio. She wanted to ensure that the committee makes structural changes based on long-term goals.

After extensive discussion, the committee directed SIS to return to the May meeting with more information focusing on the following large cap alternatives and possibly more scenarios that appear in the similar risk/reward space:

- I) 25% BGI Alpha Tilts, 35% BGI R1000 Index, 20% LC Growth, 20% LC Value
- II) 20% BGI Alpha Tilts, 35% BGI R1000 Index, 20% LC Growth, 20% LC Value, 5% 130/30
- III) 20% BGI Alpha Tilts, 40% BGI R1000 Index, 20% LC Growth, 20% LC Value
- V) 50% BGI Alpha Tilts, 50% BGI R1000 Index
- VI) 45% BGI R1000 Index, 25% LC Growth, 25% LC Value, 5% 130/30
- XVI) 30% BGI Alpha Tilts, 30% BGI R1000 Index, 15% LC Growth, 15% LC Value, 10% 130/30

6.5 **Discussion of Strategic Plan Asset Management Projects:** Mr. Bailey presented various projects related to the Plan's assets incorporated in *SamCERA*'s Strategic Plan.

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 1:05 p.m.

EMILY TASHMAN, CHAIR