

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

**July 22, 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 Annual Review of *SamCERA's* International Equity Asset Class and Investment Managers
    - 6.2 a Annual Investment Manager Review – Julius Baer Investment Management  
*(Interviewed by the Investment Committee at 9 a.m.)*
    - 6.2 b Annual Investment Manager Review – Mondrian Investment Managers  
*(Interviewed by the Board)*
  - 6.3 Approval of the Criteria and Schedule for *SamCERA's* Large Cap Enhanced Index Manager Search
  - 6.4 Amendments to Jennison's Investment Management Agreement
  - 6.5 Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook
  - 6.6 Annual Review of *SamCERA's* Investment Plan
  - 6.7 Annual Investment Consultant Review – Strategic Investment Solutions
- 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. Jadallah called the Public Session of the Investment Committee of the Board of Retirement to order at 9:17 a.m., July 22, 2008, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Ms. Jadallah and Ms. Tashman. *Other Board Members in Attendance:* Mr. Murphy, Ms. Salas, Ms. Stuart and Mr. Wozniak. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* One. *Retirees:* None.
- 3.0 **Approval of the Minutes: Motion** by Tashman, second by Arnott, carried unanimously to approve the minutes of the May 27, 2008, Investment Committee meeting, as submitted.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** Mr. Murphy reported that he attended the SACRS Public Pension Investment Management Program held at U.C. Berkeley's Haas School of Business. He opined that some professors did not teach as well as others. Mr. Clifton stated that the program is still in its second year and recommends that *SamCERA* still support the program.

- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -5.04% Total Fund Return for June 2008 outperformed the Total Plan Policy Benchmark return of -5.51%. The fund's return for the trailing twelve months is -7.77%, which is 1,552 basis points below the Actuarial Discount Rate, 7.75%, and 282 basis points below *SamCERA's* Total Plan Policy Benchmark of -4.95%. The realized return continues to trail both the policy return and the actuarial assumption rate for the trailing twelve-month period.

Mr. Clifton reported that June was a disastrous month for equities. The idea that monetary policy may become more restrictive despite rising unemployment, plunging home values, and restrictive credit extension was too much for investors to stomach. Sentiment subsequently turned negative and riskier assets were being sold off. The Dow Jones lost 10.2% of its value and risk premiums on corporate debt and mortgage-backed securities widened. It was the first month for thirty-nine in which global developed markets declined each week of the month.

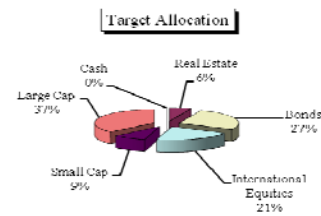
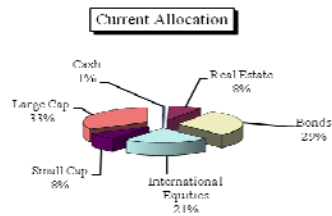
The table presented below shows the composite returns:

June 30, 2008	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,234,280,213	-7.82%	-1.34%	-10.41%	-13.41%
Equity Composite		-8.19%	-1.27%	-10.56%	-11.48%
<b>Variance</b>		<b>0.37%</b>	<b>-0.07%</b>	<b>0.15%</b>	<b>-1.93%</b>
Fixed Income Aggregate	\$590,869,150	-0.20%	-0.42%	-1.15%	2.47%
Fixed Income Composite		-0.08%	-1.02%	1.13%	7.12%
<b>Variance</b>		<b>-0.12%</b>	<b>0.60%</b>	<b>-2.28%</b>	<b>-4.65%</b>
Real Estate Aggregate	\$166,888,025	0.00%	0.00%	1.32%	6.66%
NCREIF (one quarter lag)		0.00%	0.00%	1.60%	8.59%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>-0.28%</b>	<b>-1.93%</b>
Cash Aggregate	\$11,697,802	0.23%	0.69%	1.60%	3.99%
91 Day Treasury Bill		0.18%	0.31%	1.20%	3.63%
<b>Variance</b>		<b>0.05%</b>	<b>0.38%</b>	<b>0.40%</b>	<b>0.36%</b>
Total Fund Returns	\$2,003,735,190	-5.04%	-0.95%	-6.97%	-7.77%
Total Plan Policy		-5.51%	-0.98%	-6.57%	-4.95%
<b>Variance</b>		<b>0.47%</b>	<b>0.03%</b>	<b>-0.40%</b>	<b>-2.82%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns		-5.04%	-0.95%	-6.97%	-7.77%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-5.66%</b>	<b>-2.83%</b>	<b>-10.77%</b>	<b>-15.52%</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 **Annual Review of *SamCERA*'s International Equity Asset Class and Investment Managers:**
- 6.2a **Annual Investment Manager Review – Artio Global Investors (Formerly Known as Julius Baer Investment Management (JBIM):** Brett Gallagher, Deputy Chief Investment Officer, and Melvin Lindsey, Director of Institutional Investments, of Artio Global Investors, were present for Artio Global Investors' annual review. Mr. Lindsey discussed the spinoff and name change of Julius Baer's U.S. business. On February 12, 2008, it was announced that Julius Baer Americas Inc., the parent company of Julius Baer Investment Management LLC, filed a registration statement with the SEC for a proposed initial public offering. In advance of the proposed IPO, the firm adopted their new name effective June 15, 2008. The IPO is expected to go public in late September or early October. Mr. Lindsey then discussed the incentive structure for Richard Pell, CEO and CIO and Rudolph-Riad Younes, Head of International Equities. In response to a question from Mr. Brody, Mr. Lindsey indicated that the spinoff was mutually agreed upon and mutually initiated.
- Mr. Lindsey then discussed two of *SamCERA*'s portfolio guidelines that differ from Artio Global's model portfolio: (1) *SamCERA*'s guidelines call for a maximum cash position of 10% versus 20% for the model portfolio, and (2) *SamCERA*'s guidelines state a maximum 5% exposure to 144A securities. After some discussion, Mr. Thomas recommended that the committee permit a temporary waiver to the cash limitation from 10% to 20%. SIS was against loosening the constraints on 144A securities. The Investment Committee concurred with Mr. Thomas' sentiments.
- Mr. Gallagher then provided a brief overview of *SamCERA*'s portfolio performance and Artio's key themes in its firm market outlook.
- 6.2b **Annual Investment Manager Review – Mondrian Investment Managers:** The annual review for Mondrian Investment Management was conducted at the full board meeting.
- 6.3 **Approval of the Criteria and Schedule for *SamCERA*'s Large Cap Enhanced Index Manager Search:** Mr. Brody and Mr. Thomas were present to discuss the criteria and schedule for *SamCERA*'s Large Cap Enhanced Index Manager Search. Mr. Brody reviewed the initial screening criteria for the enhanced index manager search. According to the proposed timeline, RFPs will be sent out after the August meeting and finalists will be interviewed in November. Mr. Clifton said that all large cap searches should be completed by March 2009. He requested that SIS bring a correlation matrix between investment managers.

**Motion** by Tashman, second by Arnott, carried unanimously to recommend that the Board of Retirement approve SIS' criteria and schedule for *SamCERA*'s large cap enhanced index manager search.

- 6.4 **Amendments to Jennison's Investment Management Agreement:** Mr. Clifton presented Jennison's proposed amendments to its Investment Management Agreement with *SamCERA*. Notwithstanding Section 1(b)(ii) of the Investment Management Agreement, and Sections 10.3.a.2 and 18.3 of the Policy, Jennison requests that *SamCERA* acknowledge and agrees to allow them to make the following departures from the Policy:
- (i) The Investment Manager is permitted to utilize the Global Industry Classification Standard (GICS) in order to monitor the diversification of the various industries in which the Assets may be invested; and
  - (ii) The Investment Manager is permitted to vote proxies in accordance with its Proxy Voting Procedures (a copy of which can be supplied to the Board upon request), provided such procedures are not inconsistent with Section 18.1 of the Policy.
- Mr. Clifton then provided Jennison's reasons for the above departures. Following committee discussion, **motion** by Arnott, second by Tashman, carried unanimously to recommend that the Board of Retirement approve the amendments to Jennison's IMA.
- 6.5 **Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook:** Mr. Brody and Mr. Thomas reviewed SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns. No action was taken. The report was informational.
- 6.6 **Annual Review of *SamCERA*'s Investment Plan:** Mr. Clifton stated that the Investment Plan was last reviewed in January 2008. The Investment Committee's work plan calls for staff to bring a revised policy for board approval in February 2009. Between now and then, the Association will conduct an asset allocation review, based on new capital market assumptions, and be nearing the completion of its manager structure review and implementation for large cap equities.
- 6.7 **Annual Investment Consultant Review – Strategic Investment Solutions:** Mr. Brody and Mr. Thomas of SIS were present for Strategic Investment Solutions' investment consultant annual review. Mr. Thomas provided a brief presentation on the firm. He discussed the significant changes within the firm, including the departure of Margaret Jadallah, VP and Director of Manager Research, and the addition of Deborah Gallegos as Ms. Jadallah's replacement. Mr. Thomas also reported on SIS' client terminations. He attributed the terminations to corporate actions that shifted away from the defined benefit model. Mr. Thomas then answered trustee questions. Ms. Arnott requested that SIS provide the committee with current noteworthy news on a regular basis to keep the trustees well-informed.
- The committee suggested that INVESCO conduct a real estate educational presentation during their annual review in September.
- 7.0 **Other Business:** None.
- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton stated that staff will begin sending a list of investment news articles to trustees via e-mail on a monthly basis. The articles will help trustees keep apprised of current events occurring in the pension and investment environment. Mr. Clifton then reported that Aberdeen Asset Management has re-opened its fixed income product. Mr. Clifton also mentioned that Pyramis Global Advisors has hired a new CEO, Kevin Uebelein, CFA. Mr. Clifton then said that State Street will now be charging its clients 2-3 basis points for transaction fees

on ADRs. The costs were previously absorbed in dividends. Mr. Clifton also pointed out that *SamCERA* will be interviewing its small cap managers at the August Investment Committee and board meetings.

9.0      **Adjournment:** There being no further business, Ms. Jadallah adjourned the committee at 11:55 a.m.

MARGARET JADALLAH, CHAIR