

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

August 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 Annual Review, Revision, & Reaffirmation of the Investment Committee Charter
 - 6.3 Quarterly Investment Performance Analysis for the Period Ended June 30, 2008
 - 6.4 Annual Review of *SamCERA's* Small Cap Equity Asset Class and Investment Managers
 - 6.4 a Annual Investment Manager Review – Chartwell Investment Partners
(Interviewed by the Board)
 - 6.4 b Annual Investment Manager Review – Jennison Associates
(Interviewed by the Investment Committee at 9 a.m.)
 - 6.4 c Annual Investment Manager Review – Brandes Investment Partners
(Interviewed by the Investment Committee at 9 a.m.)
 - 6.5 Approval of Semi-Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search
 - 6.6 Approval of the Criteria and Schedule for *SamCERA's* Large Cap Domestic Equity 130/30 Manager Search
 - 6.7 Approval of Topics for Annual Investment Manager Review – Barclays Global Investors
 - 6.8 Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors
- 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 a.m., August 26, 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, Ms. Tashman and Mr. Wozniak. *Other Board Members in Attendance:* Ms. Kwan Lloyd, Mr. Murphy, Ms. Salas and Ms. Stuart. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** **Motion** by Arnott, second by Wozniak, carried unanimously to approve the minutes of the July 22, 2008, Investment Committee meeting, as submitted. Ms. Tashman requested that staff increase the size of the asset allocation charts in the future.
- 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 -1.16% Total Fund Return for July 2008 underperformed the Total Plan Policy Benchmark return of -0.87%. The fund's return for the trailing twelve months is -6.55%, which is 1,430 basis points below the Actuarial Discount Rate, 7.75%, and 233 basis points below *SamCERA*'s Total Plan Policy Benchmark of -4.22%.

In July, the government took another step toward supporting the weakened financial system. The crisis, which broke just over a year ago, claimed another victim, IndyMac Bank. That news broke just as investors were questioning the solvency of Fannie Mae and Freddie Mac. However, even with the legislation, home prices continued to depreciate and delinquency rates continued to rise. On a positive note, oil prices and all commodities began to give back prior price gains. The U.S. dollar also gained somewhat against most major currencies.

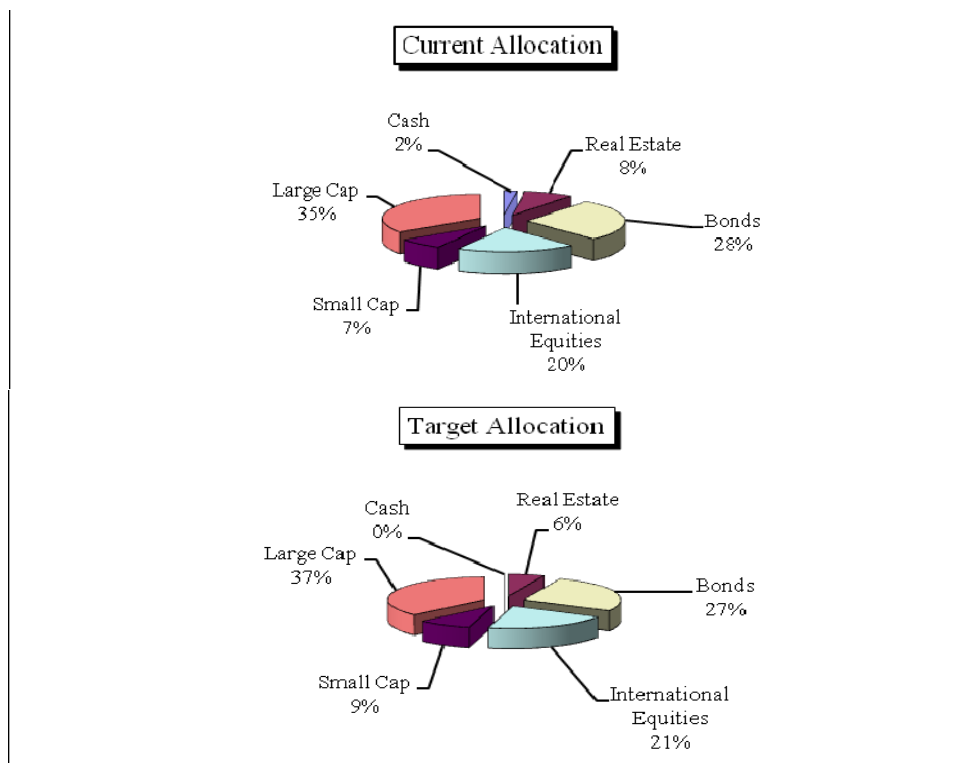
The table presented below shows the composite returns:

July 31, 2008	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,286,590,839	-1.45%	-7.03%	-5.15%	-11.38%
Equity Composite		-0.97%	-7.05%	-4.79%	-9.61%
Variance		-0.48%	0.02%	-0.36%	-1.77%
Fixed Income Aggregate	\$583,179,915	-1.30%	-1.85%	-3.70%	0.56%
Fixed Income Composite		-0.08%	-0.89%	-0.63%	6.15%
Variance		-1.22%	-0.96%	-3.07%	-5.59%
Real Estate Aggregate	\$169,974,878	0.00%	1.90%	3.34%	8.65%
NCREIF (one quarter lag)		0.00%	0.56%	2.17%	9.20%
Variance		0.00%	1.34%	1.17%	-0.55%
Cash Aggregate	\$43,485,084	0.25%	0.70%	1.49%	3.85%
91 Day Treasury Bill		0.18%	0.38%	0.87%	3.41%
Variance		0.07%	0.32%	0.62%	0.44%
Total Fund Returns	\$2,083,230,716	-1.16%	-4.70%	-3.93%	-6.55%
Total Plan Policy		-0.87%	-5.12%	-3.08%	-4.22%
Variance		-0.29%	0.42%	-0.85%	-2.33%

Performance versus Actuarial Discount Rate

Total Fund Returns		-1.16%	-4.70%	-3.93%	-6.55%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		-1.78%	-6.58%	-7.73%	-14.30%

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, Revision, & Reaffirmation of the Investment Committee Charter:** Mr. Clifton presented the Investment Committee Charter for trustees. He stated that the committee will be analyzing risk tolerance more in depth. He then requested suggested amendments to the charter. Hearing none, **without objection**, Ms. Jadallah accepted the report.
- 6.3 **Quarterly Investment Performance Analysis for the Period Ended June 30, 2008:** Mr. Thomas and Mr. Brody of Strategic Investment Solutions presented the quarterly investment performance for the period ended June 30, 2008. The composite fund returned -0.8% in the second quarter of 2008 and ranked 60th among other public funds greater than \$100 million (median of -0.8%). The fund beat its policy index (-1.0%) during this time period. Longer term, the three and five-year returns of 6.0% (74th percentile) and 8.7% (64th percentile), respectively, were below median among large public plans (6.9% and 9.2%).

Brandes returned -14.8% and ranked in the bottom percentile in the small cap value manager universe. The Russell 2000 Index returned 0.6%. Negative performance attribution primarily came from its overall stock selection, especially in the Consumer Discretionary, Materials and Industrial sectors, and its triple-weight in Consumer Discretionary investments. Mondrian returned -3.7%, lagged the MSCI AC World –ex US Index (-0.9%) and ranked in the 75th percentile among its peers. Mondrian's negative performance alpha was derived from its lack of Canadian exposure, underweight position in Brazil and overweight position in the Netherlands, Spain and Russia.

The Association's fixed income managers significantly improved during the quarter. Aberdeen Asset (0.1%) led the Lehman Aggregate Index (-1.0%) and ranked above the median core bond manager (-0.9%). The Pyramis Broad Market Duration Fund returned -0.7% and ranked just above its core bond peer median of -0.9%. Western Asset Management's quarter was above par. It carried a return of -0.6% and ranked above the core bond manager median of -0.9%.

Ms. Jadallah then took up agenda item 6.4c.

6.4 **Annual Review of *SamCERA*'s Small Cap Equity Asset Class and Investment Managers:**

6.4a **Annual Investment Manager Review – Chartwell Investment Partners:** The investment manager review for Chartwell Investment Partners will be conducted at the board meeting.

6.4b **Annual Investment Manager Review – Jennison Associates:** Daniel Nichols, Vice President, was present for Jennison's investment manager review. He reported that Jennison will soft-close its small cap product at \$2 billion. The current assets under management are \$1.9 billion. Mr. Nichols then described the members of the small cap team. He stated that Hilary Frisch, CFA, Research Analyst, recently replaced a member who left for a competitive firm. Ms. Frisch covers the Technology sector. Mr. Nichols then provided a brief overview of portfolio performance and portfolio sector allocation. As of June 30, 2008, the portfolio outperformed its benchmark. Relative performance was driven by strong stock selection and underweight position in the Financials sector. Weak stock selection in Health Care and Information Technology were the greatest detractors from relative performance. In absolute terms, the portfolio's Energy holdings performed the best, while Consumer Discretionary was weak. In terms of sector allocation, the portfolio was overweight in the Telecommunication Services sector and underweight in the Information Technology and Financials sector. Mr. Nichols then responded to trustee questions.

Ms. Jadallah then took up agenda item 6.5.

6.4c **Annual Investment Manager Review – Brandes Investment Partners:** Michael Israel, Portfolio Manager & CFA, and Robert Gallagher, CFA, were present for Brandes' investment manager review.

Mr. Israel discussed the portfolio's performance. As of June 30, 2008, the portfolio has underperformed the benchmark 2,340 basis points for the year. It has underperformed by 1,210 basis points since inception. Performance was most negatively impacted by holdings in the Chemicals, Auto Components, Electronic Equipment & Instruments, Specialty Retail, Household Durables, and Automobile industries. Stock specific losses also contributed to the portfolio's underperformance in the trailing twelve months. Mr. Israel then reviewed the portfolio's industry exposure. The portfolio is heavily overweight in the Chemicals, Auto Components and Household Durables industries.

In response to committee questions, Mr. Israel said that *SamCERA* assets now make up one-third of the portfolio's assets. Half of the portfolio is owned by a mutual fund while the rest of assets are those of high net worth individuals. The portfolio lost a large public plan that once held \$350 million in assets. The total portfolio was \$650 million at its peak and is currently approximately \$120 million today.

Mr. Thomas said that Brandes' small cap value product is very volatile and a reasonable assessment of the portfolio requires a significant amount of time. He then opined that *SamCERA* has given Brandes enough time required to make a fair assessment of the portfolio's performance and that the Association has been very patient throughout the process. Ms. Jadallah expressed her concern that *SamCERA* is currently one-third of the small cap value product.

The committee requests that Brandes keep the Association apprised of portfolio liquidity and will re-assess the portfolio's performance on a frequent ongoing basis.

Ms. Jadallah then took up agenda item 6.4b.

- 6.5 **Approval of Semi-Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search:** Mr. Thomas and Mr. Brody presented the results of SIS findings from the quantitative and qualitative screens of large cap enhanced products. The potential candidates were presented by those benchmarked against the S&P 500 and those benchmarked against the Russell 1000. Mr. Thomas said that fundamental managers are rare in this space and that the universe is predominantly quantitative managers.

Mr. Brody provided a brief background of each of the semi-finalists and answered trustee questions.

Motion by Arnott, second by Salas, carried unanimously to recommend that the board approve the list of semi-finalists and the add-backs discussed for *SamCERA*'s large cap domestic equity enhanced index manager search.

- 6.6 **Approval of the Criteria and Schedule for *SamCERA*'s Large Cap Domestic Equity 130/30 Manager Search:** Mr. Thomas and Mr. Brody presented the selection criteria and schedule for *SamCERA*'s active extension 130/30 manager search. The schedule is one-month behind that of the large cap enhanced manager search. The selection criteria is also slightly different because of the short track records in the 130/30 universe.

Motion by Tashman, second by Jadallah, carried unanimously to recommend that the board approve the criteria and schedule for *SamCERA*'s large cap domestic equity 130/30 manager search.

- 6.7 **Approval of Topics for Annual Investment Manager Review – Barclays Global Investors:** Mr. Clifton presented the list of topics for Barclays Global Investors' annual investment manager review. Ms. Tashman recommended that staff send two questionnaires to BGI – one for the Russell 1000 Index and the other for the Russell 1000 Alpha Tilts product. **Without objection**, Ms. Jadallah approved the list of topics for BGI's annual review.

- 6.8 **Approval of Topics for Annual Investment Manager Review – INVESCO Realty Advisors:** Mr. Clifton presented the list of topics for INVESCO's annual investment manager review. INVESCO will also be conducting a real estate educational panel for trustees during the day of INVESCO's annual review. **Without objection**, Ms. Jadallah approved the list of topics for INVESCO's annual review.

- 7.0 **Other Business:** None.

- 8.0 **Investment & Finance Manager's Report:** Mr. Clifton reported that Jennison hired Hilary Frisch as a research analyst in the Technology sector. Ms. Frisch replaced a member of the team that left for a competing firm. Mr. Clifton also reported that Artio Global Investors (formerly known as Julius Baer Asset Management) conducted a self-review of trading activity and discovered some investment transactions with two brokers that were not performed at best execution. Artio will rebate the amount due to *SamCERA* as a result of this self-audit. Mr. Clifton then said that SIS will perform an educational presentation at the board level in October or November regarding alternative investments.

9.0 **Adjournment:** There being no further business, Ms. Jadallah adjourned the committee at 12:38 p.m.

MARGARET JADALLAH, CHAIR