

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

**October 28, 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 Discussion Regarding Events in the Credit/Financial Markets from Inception to Bailout  
(*Presentation at the Board*)
  - 6.3 Reaffirmation of *SamCERA's* Rebalancing Policy
  - 6.4 Annual Investment Manager Review – Barclays Global Investors  
(*Interviewed by the Investment Committee at 9 a.m.*)
  - 6.5 Educational Presentation – Overview of Real Estate Investing – Presented by INVESCO
  - 6.6 Annual Investment Manager Review – INVESCO Realty Advisors  
(*Interviewed by the Board*)
  - 6.7 Approval of Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search
  - 6.8 Approval of Semi-Finalist List for a Large Cap Domestic Equity Growth Manager Search
  - 6.9 Approval of the Criteria and Schedule for *SamCERA's* Large Cap Domestic Equity Value Manager Search
  - 6.10 Approval of the Criteria and Schedule for *SamCERA's* Small Cap Domestic Equity Value Manager Search
- 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 9:08 a.m., October 28, 2008, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Arnott for Mr. Buffington, Mr. Bowler, Ms. Jadallah, and Mr. Wozniak. *Other Board Members in Attendance:* Mr. Murphy and Ms. Tashman. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Meier and Mr. Thomas, Strategic Investment Solutions. *Public:* One. *Retirees:* None.
- 3.0 **Approval of the Minutes:** Ms. Arnott submitted the following correction to the September 23, 2008, Investment Committee meeting minutes: 6.3 L5: "Mr. Thomas said that the large cape equity growth search..."

**Motion** by Arnott, second by Wozniak, carried unanimously to approve the minutes of the September 23, 2008, 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 reported that *SamCERA's* -8.03% Total Fund Return for September 2008 underperformed the Total Plan Policy Benchmark return of -7.75%. The fund's return for the trailing twelve months is -16.53%, which is 2,428 basis points below the Actuarial Discount Rate, 7.75%, and 149 basis points below *SamCERA's* Total Plan Policy Benchmark of -15.04%.

Building tension in the financial system over the past 15 months resulted in a climactic series of events in September that will be the focus of debate for decades. Fannie Mae and Freddie Mac, the government's off-balance sheet agencies at the heart of the mortgage industry, were nationalized and officially converted into the government's primary instrument for resuscitating the ailing housing market. Lehman Brothers failed and was later picked apart by Barclays. Merrill Lynch was taken over by Bank of America and Wachovia was to be taken over by Citigroup or Wells Fargo. JPMorgan Chase absorbed Washington Mutual, which was briefly taken into FDIC receivership and will go down in the books as the largest bank failure to date. In an early preview of the new emerging financial architecture, Goldman Sachs and Morgan Stanley filed for bank holding company charters shortly after the collapse of Lehman Brothers, ending the era of independent investment banks. As the month concluded, equity markets see-sawed and short-term lending froze in anticipation over whether Congress would approve the Treasury's \$700 billion Troubled Asset Relief Program (TARP).

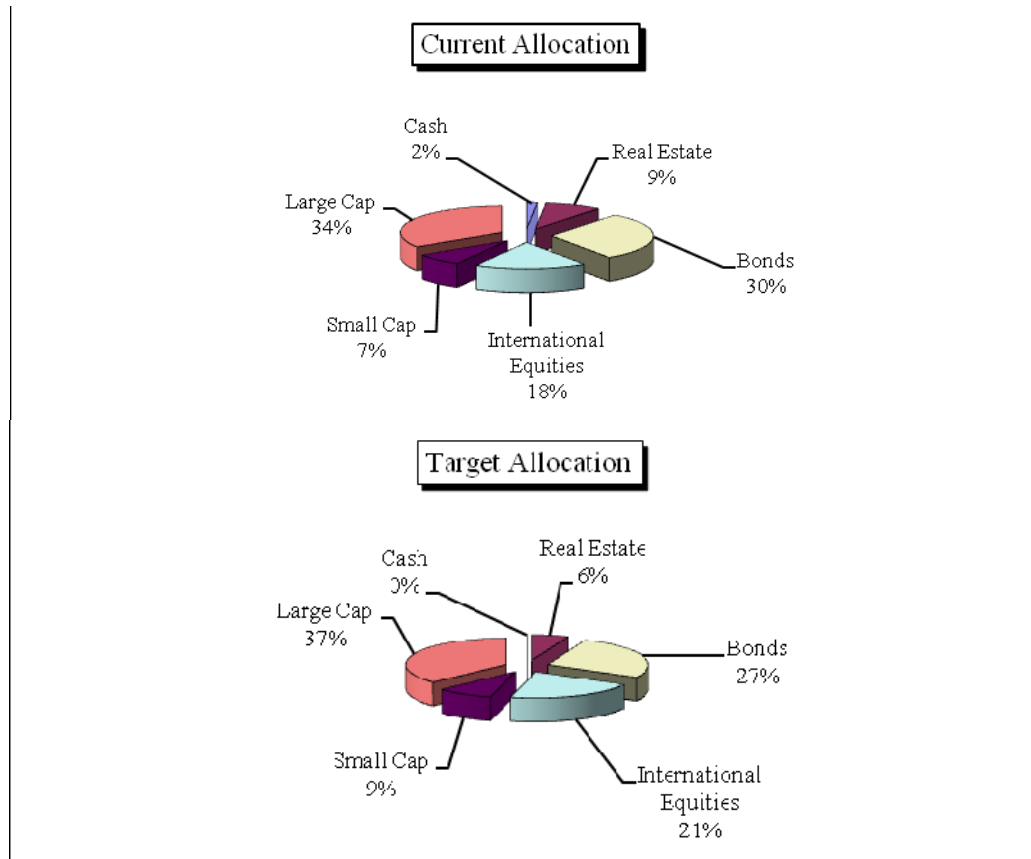
The table presented below shows the composite returns:

September 30, 2008	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,133,409,308	-11.52%	-13.18%	-14.39%	-24.45%
Equity Composite		-10.55%	-11.13%	-12.25%	-22.75%
<b>Variance</b>		<b>-0.97%</b>	<b>-2.05%</b>	<b>-2.14%</b>	<b>-1.70%</b>
Fixed Income Aggregate	\$566,635,226	-3.16%	-4.10%	-4.50%	-3.64%
Fixed Income Composite		-1.34%	-0.49%	-1.50%	3.65%
<b>Variance</b>		<b>-1.82%</b>	<b>-3.61%</b>	<b>-3.00%</b>	<b>-7.29%</b>
Real Estate Aggregate	\$171,049,910	0.73%	0.73%	2.64%	6.18%
NCREIF (one quarter lag)		0.00%	0.00%	0.56%	5.45%
<b>Variance</b>		<b>0.73%</b>	<b>0.73%</b>	<b>2.08%</b>	<b>0.73%</b>
Cash Aggregate	\$31,963,904	0.32%	0.80%	1.50%	3.62%
91 Day Treasury Bill		0.30%	0.63%	0.94%	2.90%
<b>Variance</b>		<b>0.02%</b>	<b>0.17%</b>	<b>0.56%</b>	<b>0.72%</b>
Total Fund Returns	\$1,903,058,348	-8.03%	9.25%	-10.01%	-16.53%
Total Plan Policy		-7.75%	-8.45%	-9.32%	-15.04%
<b>Variance</b>		<b>-0.28%</b>	<b>17.70%</b>	<b>-0.69%</b>	<b>-1.49%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns		-8.03%	9.25%	-10.01%	-16.53%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-8.65%</b>	<b>7.37%</b>	<b>-13.81%</b>	<b>-24.28%</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 **Discussion Regarding Events in the Credit/Financial Markets from Inception to Bailout:** This agenda item was presented at the full board meeting.
- 6.3 **Reaffirmation of *SamCERA*'s Rebalancing Policy:** Mr. Clifton said that recent market activity has moved three of *SamCERA*'s BGI Russell 1000 Alpha Tilts, Pyramis Global Advisors and INVESCO Realty Advisors' portfolios that are outside of their rebalancing ranges. To review *SamCERA*'s rebalancing, he introduced Benjamin Lazarus of the Clifton Group Investment Management Company, a custom overlay provider. Mr. Lazarus discussed alternate approaches to rebalancing and implementation strategies. He differentiated between passive and active rebalancing and discussed the various market factors involved in active rebalancing. Mr. Lazarus also provided an overview of the risks involved in rebalancing and the various controls that can mitigate risk. Mr. Clifton discussed two active rebalancing programs that some 1937 Act counties are implementing. Mr. Thomas opined that *SamCERA*'s disciplined rebalancing policy has worked well for the fund and did not believe that active rebalancing would be beneficial for system at this time. The committee agreed with Mr. Thomas' recommendation to maintain its strict rebalancing policy. Mr. Clifton reported that the INVESCO Core Fund currently has a twelve to eighteen month redemption queue. The committee recommended that staff place *SamCERA*'s name in the queue. The committee also recommended that staff rebalance out of fixed income into international equities. With regards to the

under-allocation in the BGI Russell 1000 Alpha Tilts, the committee wished to discuss the matter further with the firm during their annual review under agenda item 6.4.

- 6.4 **Annual Investment Manager Review – Barclays Global Investors:** Trey Heiskell, Client Relationship Officer/Principal, and Rhonda Vitanye, Investment Strategist/Managing Director, of Barclays Global Investors, were present for their firm’s annual investment manager review. Mr. Heiskell provided a brief organizational overview. He reported that Richard Sloan will join the Haas School of Business at UC Berkeley as a Professor of Accounting, effective April 1, 2009. Mr. Sloan will maintain an exclusive consulting relationship with BGI. Ms. Vitanye provided a performance review of the Russell 1000 Alpha Tilts portfolio. Ms. Vitanye said that the portfolio is aimed to be sector/industry neutral but its underweight to the financial sector was beneficial for the fund. She also discussed the Russell 1000 Alpha Tilts’ investment themes and its impact on the significant underperformance of the fund. Ms. Vitanye then reviewed BGI’s tactical and structural responses to risk in the current market environment and believed that the firm’s proprietary risk modeling enhancements will improve portfolio implementation.
- Mr. Clifton requested more information regarding the restrictions of partial withdrawals from BGI and its securities lending collateral investment vehicle. Mr. Heiskell assured that 90% of *SamCERA*’s assets would be available to liquidate within a day’s notice and discussed the option of buying units from the collateral pool. He did not disclose the market value of the pool. Should *SamCERA* wish to exclude new cash from securities lending, the asset management fees will be slightly higher. Mr. Thomas requested that BGI submit more information in writing regarding *SamCERA*’s possible withdrawals in the near future.
- 6.5 **Educational Presentation – Overview of Real Estate Investing – Presented by INVESCO:** This agenda item took place at the full board meeting.
- 6.6 **Annual Investment Manager Review – INVESCO Realty Advisors:** This agenda item took place at the full board meeting.
- 6.7 **Approval of Finalist List for a Large Cap Domestic Equity Enhanced Index Manager Search:** Patrick Thomas and John Meier were present to discuss the finalist list for *SamCERA*’s large cap equity enhanced index manager search. Mr. Meier discussed each of the finalists in greater detail. After extensive discussion, **motion** by Arnott, second by Wozniak, carried unanimously to recommend to the board that they interview the following five investment managers as finalists in *SamCERA*’s large cap domestic equity enhanced index manager search: (1) AXA Rosenberg Investment Management, (2) D.E. Shaw, (3) Enhanced Investment Technologies, (4) QMA (Quantitative Management) and (5) T. Rowe Price.
- 6.8 **Approval of Semi-Finalist List for a Large Cap Domestic Equity Growth Manager Search:** Mr. Thomas and Mr. Meier were present to present their findings from the quantitative and qualitative screens of the large cap growth manager search. Mr. Meier provided a brief background of each of the semi-finalists and answered trustee questions.
- Motion** by Bowler, second by Arnott, carried unanimously to recommend that the board approve the semi-finalist list for the large cap domestic equity growth manager search.
- 6.9 **Approval of the Criteria and Schedule for *SamCERA*’s Large Cap Domestic Equity Value Manager Search:** Mr. Thomas and Mr. Meier presented the selection criteria and schedule for *SamCERA*’s large cap domestic equity value manager search. The schedule is one-month behind that

of the large cap domestic equity growth manager search and is the same template as previous searches. It is being conducted in conjunction with the small cap domestic equity value manager search. **Motion** by Wozniak, second by Arnott, carried unanimously to recommend that the board approve the criteria and schedule for *SamCERA*'s large cap domestic equity value manager search.

- 6.10     **Approval of the Criteria and Schedule for *SamCERA*'s Small Cap Domestic Equity Value Manager Search:** Mr. Thomas and Mr. Meier presented the selection criteria and schedule for *SamCERA*'s small cap domestic equity value manager search. The schedule is one-month behind that of the large cap domestic equity growth manager search and is the same template as previous searches. It is being conducted in conjunction with the large cap domestic equity value manager search. The committee added the criteria to allow SIS to add back any compelling small cap managers that fail the initial screen. **Motion** by Wozniak, second by Arnott, carried unanimously to recommend that the board approve the criteria and schedule for *SamCERA*'s large cap domestic equity value manager search.
- 7.0       **Other Business:** None.
- 8.0       **Investment & Finance Manager's Report:** None.
- 9.0       **Adjournment:** There being no further business, Ms. Jadallah adjourned the committee at 12:23 p.m.

MARGARET JADALLAH, CHAIR