

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

May 26, 2009 – 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 March 31, 2009
 - 6.3a Annual Investment Manager Review – Aberdeen Asset Management
(Presentation at the Board)
 - 6.3b Annual Investment Manager Review – Pyramis Global Advisors
(Interviewed by the Investment Committee at 9:30 a.m.)
 - 6.3c Annual Investment Manager Review – Western Asset Management
(Interviewed by the Investment Committee at 10:15 a.m.)
 - 6.4 Approval of Investment Management Agreement – Aberdeen Asset Management
 - 6.5 Approval of Account Structure with Pyramis Global Advisors
 - 6.6 Approval of Manager Selection & Investment Management Agreement for a Large Cap Fundamental Value Mandate
 - 6.7 Approval of Investment Management Agreement – AXA Rosenberg
 - 6.8 Approval of Investment Management Agreement – D.E. Shaw
 - 6.9 Approval of Investment Management Agreement – T. Rowe Price
 - 6.10 Approval of Investment Management Agreement – BlackRock
 - 6.11 Approval of Investment Management Agreement – The Boston Company
 - 6.12 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions
 - 6.13 Approval of Topics for Manager Review – Artio Global Investors
 - 6.14 Approval of Topics for Manager Review – Mondrian Investment Partners
 - 6.15 Educational Presentation – Future Overlay Programs
 - 6.16 Due Diligence Reports – AXA Rosenberg, T. Rowe Price, D.E. Shaw, & Aberdeen Asset Management
- 7.0 Other Business
- 8.0 Chief Investment Officer'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 9:10 a.m., May 26, 2009, 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:* Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.

- 3.0 **Approval of the Minutes:** None.
- 4.0 **Oral Communications From the Committee:** Ms. Jadallah reported that she had attended the SACRS Spring 2009 Conference which focused on the current market environment. Ms. Arnott and Mr. Wozniak reported that they had recently attended the IFEBP Investments Institute. Ms. Arnott opined that the IFEBP had very good speakers and is an organization that sponsors beneficial educational events.
- 5.0 **Oral Communications From the Public:** Ms. Salas reported that she had also attended the SACRS Spring 2009 Conference. She also said that there are discussions of imminent lay-offs in safety/probation positions.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 7.05% Total Fund Return for April 2009 underperformed the Total Plan Policy Benchmark return of 8.15%. The underperformance was primarily due to the plan's underweight to equities, which had a good month. The fund's return for the trailing twelve months is -27.23%, which is 3,498 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 168 basis points below *SamCERA's* Total Plan Policy Benchmark of -25.55%.

On April 29, the Federal Open Market Committee (FOMC) voted unanimously to keep the target federal funds rate at between 0.00% and 0.25%. Describing recent economic conditions, the FOMC said that "the pace of contraction appears to be somewhat slower" and that "household spending has shown signs of stabilizing...". However, it also noted that job losses, wealth losses, and tight credit are constraining consumer spending and that businesses are paring both their capital spending and inventories. The strength exhibited in the high-yield, CMBS, emerging market and investment-grade corporate sectors was reflective of a reduction in the fear premium that had been embedded in markets since the fall rather than the onset of a new bull market.

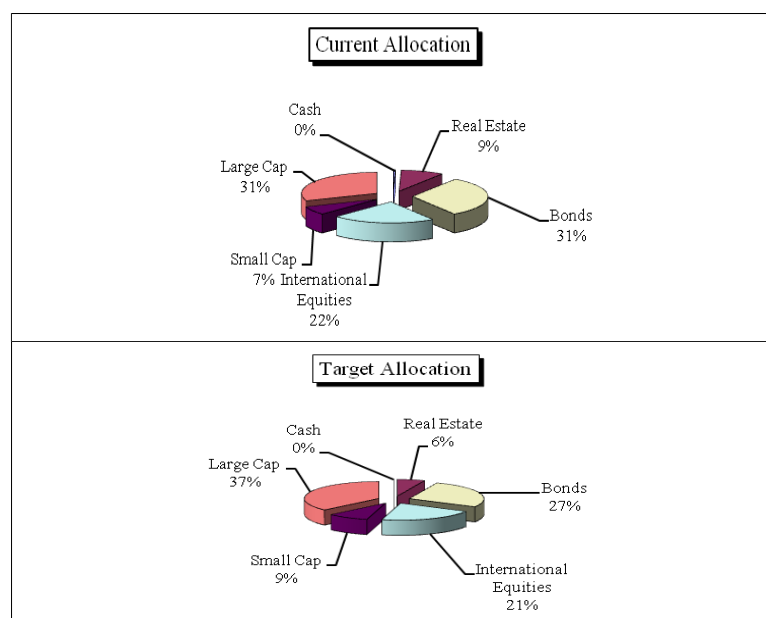
The table presented below shows the composite returns:

April 30, 2009		One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
	Market Value				
Equity Aggregate	\$913,171,516	10.91%	6.79%	-7.03%	-38.04%
Equity Composite Benchmark		11.78%	8.81%	-5.54%	-36.19%
Variance		-0.87%	-2.02%	-1.49%	-1.85%
Fixed Income Aggregate	\$478,009,242	2.43%	2.50%	5.20%	-5.45%
Fixed Income Composite Benchmark		0.48%	1.49%	7.74%	3.84%
Variance		1.95%	1.01%	-2.54%	-9.29%
Real Estate Aggregate	\$141,217,141	0.00%	-9.85%	-17.29%	-15.10%
NCREIF (one quarter lag)		0.00%	-7.33%	-15.01%	-14.68%
Variance		0.00%	-2.52%	-2.28%	-0.42%
Cash Aggregate	\$7,017,548	0.13%	0.39%	0.96%	-2.57%
91 Day Treasury Bill		0.03%	0.09%	0.18%	1.13%
Variance		0.10%	0.30%	0.78%	-3.70%
Total Fund Returns	\$1,539,415,447	7.05%	3.66%	-4.60%	-27.23%
Total Plan Policy Benchmark		8.15%	6.32%	-1.66%	-25.55%
Variance		-1.10%	-2.66%	-2.94%	-1.68%

Performance versus Actuarial Discount Rate

Total Fund Returns		7.05%	3.66%	-4.60%	-27.23%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		6.43%	1.78%	-8.40%	-34.98%

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 **Quarterly Investment Performance Analysis for Period Ended March 31, 2009:** Mr. Thomas of Strategic Investment Solutions presented the quarterly investment performance for the period ended March 31, 2009. The composite fund returned -8.4% in the first quarter of 2009 and ranked 91st among other public funds greater than \$100 million (median of -6.1%). The fund trailed its policy index (-7.7%) during this time period. Longer term, the three- and five-year returns of -8.9% (92nd percentile) and -1.5% (88th percentile), respectively, were below median among large public plans (-6.6% and -0.1%).

The BGI Russell 1000 Alpha Tilts Fund depreciated -11.3%, ranking 70th among large cap managers. Selection in Consumer Staples stocks and its intra-quarter trading hurt results. Brandes returned -21.1% and ranked in the bottom decile in the small cap value manager universe. Negative performance attribution came from its overall stock selection but primarily in the Consumer Discretionary, Info Tech and Materials sectors. Its portfolio turnover also dragged on performance. SamCERA's international investment managers, Artio Global and Mondrian's quarterly results of -15.8% and -14.1%, respectively, were below the MSCI ACWI –ex US Index (-10.6%), and ranked in the 87th and 64th percentile among the international equity managers. The INVESCO Core Real Estate-USA Fund returned -9.9% for the quarter, trailed the NCREIF (-7.3%), but still ranked in the second quartile among real estate investments. There was an overall write down of 18% on its investment carry value.

The BGI Russell 1000 Index Fund, -10.4%, ranked in the 45th percentile among large cap managers (median of -10.8%), and led its benchmark. Chartwell's return of -8.8% and Jennison's return of -10.3% both performed over the Russell 2000 Index's return of -14.9%. The Pyramis Broad Market Duration Fund gained 2.0% and ranked in the 12th percentile among core bond managers (median of 0.6%). The major contributors were positive security selection within the credit sector, allocation to TIPS, and exposure to securitized sectors such as Hybrid AMRS and ABS.

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<i>Composite Fund</i>	-8.35%	91	-30.08%	88	-8.91%	92
<i>Policy Index</i>	-7.71%	89	-28.76%	73	-7.39%	70
BGI Russell 1000 Alpha Tilts	-11.35%	70	-38.37%	66	-14.88%	80
BGI Russell 1000 Index Fund	-10.44%	45	-38.21%	64	-13.18%	55
<i>Large Cap Composite</i>	-11.15%	68	-38.23%	64	-14.46%	76
<i>Russell 1000 Index</i>	-10.45%	46	-38.27%	65	-13.24%	57
Brandes Investment Partners	-21.14%	99	-66.86%	100	-34.95%	100
Chartwell Investment Partners	-8.76%	30	-42.84%	90	-17.54%	69
Jennison Associates	-10.28%	43	-36.67%	48	N/A	N/A
<i>Small Cap Composite</i>	-11.52%	50	-45.60%	97	-22.51%	96
<i>Russell 2000 Index</i>	-14.95%	72	-37.50%	54	-16.80%	63
<i>U.S. Equity Composite</i>	-11.21%	66	-39.56%	72	-15.99%	77
Artio Global Investment	-15.82%	87	-49.06%	85	-13.97%	67
Mondrian Investment Partners	-14.10%	64	-42.54%	32	-10.30%	24
<i>International Equity Composite</i>	-14.96%	77	-45.84%	54	-12.12%	41
<i>MSCI ACWI-ex US Index Free</i>	-10.62%	26	-46.18%	57	-12.75%	50
<i>Total Equity Composite</i>	-12.62%	N/A	-41.61%	N/A	-14.99%	N/A
Aberdeen Asset Management	0.25%	66	-13.72%	97	-1.89%	97

Pyramis Global Advisors	2.01%	12	-2.07%	72	2.56%	81
Western Asset Management	0.26%	66	-6.74%	87	0.50%	89
<i>U.S. Fixed Income Composite</i>	<i>0.86%</i>	<i>42</i>	<i>-7.57%</i>	<i>74</i>	<i>0.40%</i>	<i>78</i>
<i>BC Aggregate Index</i>	<i>0.12%</i>	<i>66</i>	<i>3.13%</i>	<i>29</i>	<i>5.78%</i>	<i>33</i>
INVESCO Core Fund	-9.85%	41	-15.10%	35	3.40%	36
<i>Real Estate Composite</i>	<i>-9.85%</i>	<i>41</i>	<i>-15.10%</i>	<i>35</i>	<i>3.40%</i>	<i>36</i>
<i>NCREIF Index</i>	<i>-7.33%</i>	<i>37</i>	<i>-14.68%</i>	<i>34</i>	<i>4.16%</i>	<i>33</i>
<i>Cash Composite</i>	<i>0.41%</i>	<i>14</i>	<i>-2.46%</i>	<i>95</i>	<i>2.06%</i>	<i>96</i>
<i>91 Day T-Bill Index</i>	<i>0.05%</i>	<i>84</i>	<i>1.21%</i>	<i>79</i>	<i>3.63%</i>	<i>68</i>

6.3a **Annual Investment Manager Review – Aberdeen Asset Management:** This agenda item was presented at the full board meeting.

6.3b **Annual Investment Manager Review – Pyramis Global Advisors:** Chris Pariseault, Fixed Income Investment Director, was present for Pyramis Global Advisors’ annual review.

Mr. Pariseault noted that Chris Sullivan, formerly of Goldman Sachs Asset Management, will become Pyramis’ Head of Fixed Income on June 1st. He also noted that Pyramis has added personnel, on a net basis.

Mr. Pariseault then performed an overview of the portfolio’s performance. The one-year performance as of March 31, 2009, trailed the benchmark by 520 basis points. However, first quarter returns outperformed the benchmark by 189 basis points. The portfolio outperformed its benchmark for the quarter led by an overweight to non-Treasury sectors. An overweight to credit, specifically REITS, utilities and communications was additive to the portfolio. An out of benchmark allocation to TIPS also helped the portfolio as inflation breakeven spreads widened. An overweight to Financials (banking and insurance) and an overweight to CMBS, despite a strong March rally in the sector, hindered returns. He then discussed the portfolio’s positioning and answered trustee questions.

Mr. Pariseault then discussed the current commingled account structure with Pryamis Global Advisors and the three notices sent to the board concerning the Pyramis Global Trust for Employee Benefits Plan. In response to trustees’ concerns regarding the restriction on withdrawals, Mr. Pariseault said that the restriction was set in place to protect investors in the fund and would have no effect on liquidity for *SamCERA*. He stated that creating a separate account might pose more liquidity issues than a commingled account.

6.3c **Annual Investment Manager Review – Western Asset Management:** Joseph Carieri, Client Service Executive, and Don Plotsky, Head of Product Development, were present for Western Asset Management’s annual review.

Mr. Plotsky performed an overview of the portfolio’s investment performance. The one-year performance as of March 31, 2009, trailed the Barclays Capital U.S. Aggregate Index by 1,000 basis points. Mr. Plotsky then discussed the attribution analysis, stating that issue and sector selection were the main detractors from returns. He then reviewed the portfolio’s sector and credit quality allocation and provided mortgage-backed sector and non-agency mortgage sub-sector analysis. Mr. Plotsky also reviewed the estimated impact of non-agency MBS on the portfolio.

6.4 **Approval of Investment Management Agreement – Aberdeen Asset Management:** Mr. Clifton presented the Investment Management Agreement between *SamCERA* and Aberdeen Asset Management, Inc. The Investment Committee unanimously recommended that the board authorize the

chair to execute the IMA with Aberdeen Asset Management.

- 6.5 **Approval of Account Structure with Pyramis Global Advisors:** Mr. Clifton presented the topic of the account structure with Pyramis Global Advisors. Following the additional information provided during Pyramis’ annual review with Mr. Pariseault under agenda item 6.3b, the Investment Committee unanimously recommended that the board retain the current commingled account structure with Pyramis and accept the three notices concerning the Pyramis Group Trust for Employee Benefit Plans (the “Group Trust”).

- 6.6 **Approval of Manager Selection & Investment Management Agreement for a Large Cap Fundamental Value Mandate:** Mr. Clifton and Mr. Thomas provided a thorough overview of their due diligence visits to (1) Cohen & Steers Capital Management, and (2) Barrow, Hanley, Mewhinney & Strauss. Mr. Thomas reviewed Cohen & Steers’ organizational structure and investment philosophy and strategy. He said that he was impressed with Rick Helm, Portfolio Manager. Mr. Thomas then noted Cohen & Steers’ relatively short track record in this product. He added that its parent company has lost a significant amount of assets due to its REIT business and is working at or below break even. Mr. Thomas then reviewed Barrow Hanley’s organizational structure, investment philosophy and strategy. He noted Barrow Hanley’s stability, strategic discipline and consistency.

Following extensive discussion, the Investment Committee unanimously recommended that the board select Barrow, Hanley, Mewhinney & Strauss for the Association’s domestic large cap fundamental value mandate, based on both qualitative and quantitative criteria.

- 6.7 **Approval of Investment Management Agreement – AXA Rosenberg:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and AXA Rosenberg Investment Management. He reviewed the differences between the IMA and *SamCERA*’s standard boilerplate. The committee unanimously recommended that the board adopt the resolution, approving the Investment Management Agreement with AXA Rosenberg.
- 6.8 **Approval of Investment Management Agreement – D.E. Shaw:** Mr. Clifton discussed the Investment Management Agreement between the Board of Retirement and D.E. Shaw. Contract negotiations are still ongoing and a draft IMA is unavailable. The committee unanimously recommended that staff continue contract negotiations with D.E. Shaw and bring back a draft IMA to the July board meeting.
- 6.9 **Approval of Investment Management Agreement – T. Rowe Price:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and T. Rowe Price. He reviewed the differences between the IMA and *SamCERA*’s standard boilerplate. The committee unanimously recommended that the board adopt the resolution, approving the Investment Management Agreement with T. Rowe Price.
- 6.10 **Approval of Investment Management Agreement – BlackRock:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and BlackRock. He reviewed the differences between the IMA and *SamCERA*’s standard boilerplate. The committee unanimously recommended that the board adopt the resolution, approving the Investment Management Agreement with BlackRock.
- 6.11 **Approval of Investment Management Agreement – The Boston Company:** Mr. Clifton presented the Investment Management Agreement between the Board of Retirement and The Boston Company. He reviewed the differences between the IMA and *SamCERA*’s standard boilerplate. The committee unanimously recommended that the board adopt the resolution, approving the Investment Management

Agreement with The Boston Company.

- 6.12 **Approval of Topics for Investment Consultant Review – Strategic Investment Solutions:** Mr. Clifton presented a suggested list of questions for Strategic Investment Solutions’ annual review. Ms. Jadallah added questions regarding SIS’ ability to assist the association with its real estate portfolio. Mr. Clifton asked the trustees to complete the investment consultant evaluation form and submit it to him as soon as possible. Staff will then compile the board’s responses, compare them to the consultants’ responses, and provide the results for the annual review. The Investment Committee recommended that the board approve the list of topics, as amended.
- 6.13 **Approval of Topics for Manager Review – Artio Global Investors** Mr. Clifton presented the list of questions for Artio Global Investors’ annual review. There were no suggested changes to the list of topics. The committee unanimously recommended that the board approve the list of topics for Artio Global Investors.
- 6.14 **Approval of Topics for Manager Review – Mondrian Investment Partners:** Mr. Clifton presented the list of questions for Mondrian Investment Partners’ annual review. There were no suggested changes to the list of topics. The committee unanimously recommended that the board approve the list of topics for Mondrian Investment Partners.
- 6.15 **Educational Presentation – Future Overlay Programs:** This educational presentation was presented at the full board meeting.
- 6.16 **Due Diligence Reports – AXA Rosenberg, T. Rowe Price, D.E. Shaw, & Aberdeen Asset Management:** Mr. Clifton provided the due diligence reports on AXA Rosenberg, T. Rowe Price, D.E. Shaw and Aberdeen Asset Management, which were prepared by Strategic Investment Solutions. The report was informational.
- 7.0 **Other Business:** None.
- 8.0 **Chief Investment Officer’s Report:** None.
- 9.0 **Adjournment:** There being no further business, Ms. Jadallah adjourned the committee at 12:40 p.m.

MARGARET JADALLAH, CHAIR