

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

July 28, 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 Annual Review of *SamCERA's* International Equity Asset Class and Investment Managers
 - 6.2 Annual Investment Manager Review – Mondrian Investment Managers
 - a *(Interviewed by the Investment Committee at 10 a.m.)*
 - 6.2 Annual Investment Manager Review – Artio Investment Management
 - b *(Interviewed by the Board)*
 - 6.3 Approval of Investment Management Agreement – D.E. Shaw
 - 6.4 Approval of *SamCERA's* Fixed Income Structure
 - 6.5 Approval of Topics for Annual Manager Review – Chartwell Investment Partners
 - 6.6 Approval of Topics for Annual Manager Review – Jennison Associates
 - 6.7 Due Diligence Reports – BlackRock, Pyramis, State Street and The Boston Company
 - 6.8 Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook
 - 6.9 Annual Investment Consultant Review – Strategic Investment Solutions
- 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 10:05 a.m., July 28, 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 and Ms. Jadallah. *Excused:* Ms. Tashman. *Other Board Members in Attendance:* Mr. David, Ms. Kwan Lloyd, Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames and Mr. Hood. *Consultants:* Ms. Carlson, Chief County Counsel, Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** **Motion** by Ms. Arnott, second by Mr. Bowler, carried unanimously to approve the minutes from the May 26, 2009, Investment Committee meeting as submitted.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** Ms. Salas reported that she attended the GFOA Annual Conference in June and found the information provided at the conference very informative.

- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 0.35% Total Fund Return for June 2009 outperformed the Total Plan Policy Benchmark return of 0.15%. The outperformance is primarily due to all portfolios, with the exception of Artio Global Investors, beating their benchmark. The outperformance was dampened due to *SamCERA's* underweight to domestic equities and overweight to international equities. The fund's return for the fiscal year ended June 30 is -20.16%, which is 2,791 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 226 basis points below *SamCERA's* Total Plan Policy Benchmark of -17.90%.

Remarkably, a near record level of equity and debt was issued over the last quarter. In addition, the federal government completed its stress tests of the country's twenty-five largest bank holding companies. Beyond bolstering depleted industry capital levels the new issuance and completion of the stress tests enabled ten large financial institutions to begin repaying Troubled Asset Relief Program (TARP) funds. Whether a consequence of the swelling new supply of government issuance or an increased appetite for risk, interest rates rose for all but the shortest maturities.

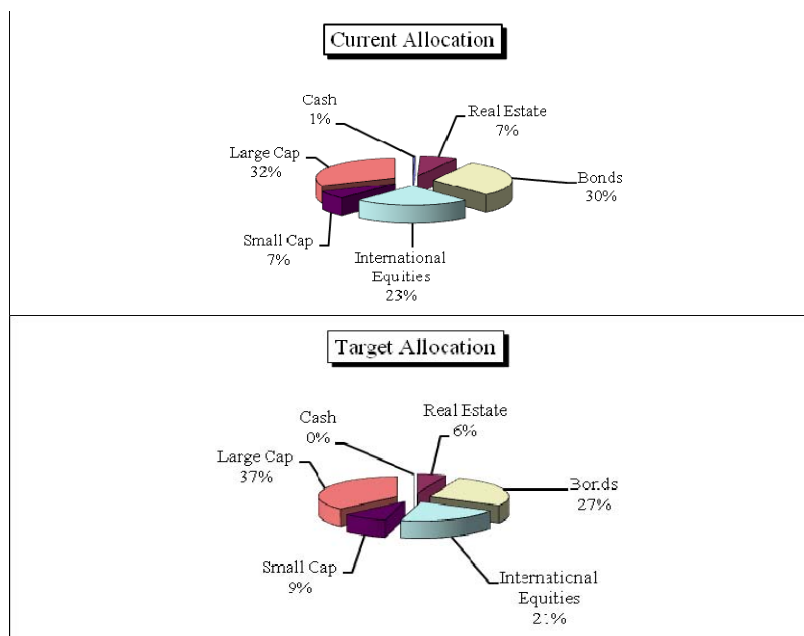
The table presented below shows the composite returns:

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$981,505,257	-0.22%	19.21%	4.16%	-29.41%
Equity Composite Benchmark		0.13%	19.79%	6.39%	-27.15%
Variance		-0.35%	-0.58%	-2.23%	-2.26%
Fixed Income Aggregate	\$483,592,201	1.64%	6.89%	7.82%	-0.78%
Fixed Income Composite		0.57%	1.78%	1.90%	6.05%
Variance		1.07%	5.11%	5.92%	-6.83%
Real Estate Aggregate	\$118,894,616	-15.78%	-15.78%	-24.07%	-29.83%
NCREIF (one quarter lag)		-5.20%	-5.20%	-12.15%	-19.57%
Variance		-10.58%	-10.58%	-11.92%	-10.26%
Cash Aggregate	\$8,468,708	0.27%	0.57%	0.98%	-2.58%
91 Day Treasury Bill		0.01%	0.05%	0.10%	0.95%
Variance		0.26%	0.52%	0.88%	-3.53%
Total Fund Returns	\$1,614,783,30	0.35%	13.23%	3.78%	-20.16%
Total Plan Policy Benchmark		0.15%	14.15%	5.36%	-17.90%
Variance		0.20%	-0.92%	-1.58%	-2.26%

Performance versus Actuarial Discount Rate

Total Fund Returns		0.35%	13.23%	3.78%	-20.16%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		-0.27%	11.35%	-0.02%	-27.91%

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 – Mondrian Investment Managers:** David Tilles, Executive Chair, and James Brecker, Senior Vice President, Client Service, were present from Mondrian Investment Partners for their annual review. Kimberly Aspenleider, Vice President, Client Services, of Delaware Investments, was also present.

Mr. Brecker provided a brief organizational review and summarized the portfolio's investment methodology, defensive characteristics and risk/return comparison.

Mr. Tilles then provided an overview of the portfolio's performance as of June 30, 2009. Year to date, the portfolio's return of 5.2% underperformed the benchmark's return of 13.9%. Positive contributors to the portfolio's performance were an overweight to the Australian dollar, an overweight to Singapore and an underweight to Materials and Telecommunication Services. Detractors from performance were an overweight to Japanese yen, an underweight to emerging markets and Canada, and an underweight to Consumer Discretionary. Mr. Tilles said that he is comfortable with how the portfolio is positioned going forward.

6.2b **Annual Investment Manager Review – Artio Investment Management:** This agenda item was presented at the full board meeting.

6.3 **Approval of Investment Management Agreement – D.E. Shaw:** Mr. Clifton presented a redline version of the boilerplate IMA between *SamCERA* and D.E. Shaw. Ms. Carlson provided the committee with background regarding the contract negotiations. There were six major amendments to the IMA. *SamCERA* will have access to the portfolio's monthly holdings, the reconciliation report with the custodian, as well as a quarterly attribution and characteristics report. *SamCERA* will not have direct access to the portfolio's transactions report. However, the report may be accessed at a site of a neutral third party. Mr. Clifton then introduced Trey Beck of D. E. Shaw, who was present to answer

the committee's questions and concerns.

After extensive discussion, the committee unanimously approved to recommend to the board to approve D.E. Shaw's IMA.

- 6.4 **Approval of *SamCERA*'s Fixed Income Structure:** Mr. Thomas provided an introduction to *SamCERA*'s review of its fixed income structure. *SamCERA*'s current fixed income allocation has 67% invested in core fixed income and 33% invested in core plus. Mr. Thomas reviewed characteristics of the current fixed income structure as well as observations about the fixed income market. Mr. Thomas discussed *SamCERA*'s ten-year quarterly fixed income returns – managers versus the aggregate index. *SamCERA*'s managers have performed relatively well against the index in the time period until the 4th quarter of 2007 when they started to severely underperformed the index. On a positive note, the managers have each outperformed the index in both quarters of 2009. Mr. Thomas then discussed possible opportunities in the fixed income market. SIS will bring forth alternatives at the next board meeting.

This report was informational. No action was taken.

- 6.5 **Approval of Topics for Annual Manager Review – Chartwell Investment Partners:** Mr. Clifton presented the topics for Chartwell Investment Partners' annual review. No changes were suggested by the committee. The committee unanimously recommended that the board approve the list of topics for Chartwell's annual review.
- 6.6 **Approval of Topics for Annual Manager Review – Jennison Associates:** Mr. Clifton presented the topics for Jennison Associates' annual review. No changes were suggested by the committee. The committee unanimously recommended that the board approve the list of topics for Jennison's annual review.
- 6.7 **Due Diligence Reports – BlackRock, Pyramis, State Street and The Boston Company:** Mr. Clifton provided the due diligence reports for BlackRock, Pyramis, State Street and The Boston Company, which were prepared by SIS. No action was taken. The reports were informational.
- 6.8 **Semi-Annual Report on Strategic Investment Solutions' Capital Market & Inflation Outlook:** 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.
- 6.9 **Annual Investment Consultant Review – Strategic Investment Solutions:** This agenda item was deferred to the full board meeting.
- 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 12:20 p.m.

MARGARET JADALLAH, CHAIR