

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

**September 22, 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 Approval of *SamCERA*'s Fixed Income Structure
  - 6.3 Educational Presentation by Strategic Investment Solutions – Private Equity
  - 6.4 Approval of Request For Proposal (RFP) for Investment Consultant Services
- 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:** Mr. Bowler called the Public Session of the Investment Committee of the Board of Retirement to order at 10:04 a.m., September 22, 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, Mr. David and Ms. Jadallah. *Other Board Members in Attendance:* Ms. Stuart, Mr. Spinello, Ms. Salas and Mr. Murphy. *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 David, carried unanimously, to approve the minutes from the August 25, 2009, Investment Committee meeting, as submitted.
- 4.0 **Oral Communications From the Committee:** Mr. Bowler said that his company is a member of the PensionWest group and opined that it might be worthwhile for *SamCERA* to join the organization.
- 5.0 **Oral Communications From the Public:** Mr. Murphy, on behalf of *SamCERA* retirees, discussed an article published in the San Francisco Chronicle, entitled "Investors eye stock market bandwagon."
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*'s 2.73% Total Fund Return for August 2009 slightly outperformed the Total Plan Policy Benchmark return of 2.66%. The outperformance is attributed to performance of all portfolios. *SamCERA*'s three bond portfolios substantially outperformed the Barclays Capital Aggregate Index. The fund's return for the trailing twelve months is -13.13% which is 2,086 basis points (bps) below the Actuarial Discount Rate, 7.75%, and 303 basis points below *SamCERA*'s Total Plan Policy Benchmark of -10.10%.

He said that August was a transitional month for the performance report. It is the first month that the new

large cap managers (AXA Rosenberg, D.E. Shaw, T. Rowe Price, BlackRock, and Barrow Hanley) appeared in the report. In addition, it is the first month that the small cap value manager, The Boston Company, appears as the replacement to Brandes.

U.S. markets posted their sixth month of positive returns. A number of economic data points released this month encouraged market investors that the global decline may be ending. U.S. home sales data and durable goods orders this month pointed to a continuing warming up of economic activity while investors and consumer confidence measures showed signs of improving momentum. U.S. fixed-income markets remained buoyant in August. The Barclays Capital U.S. Aggregate Index returned +104 basis points in its sixth consecutive month of positive returns and seventh positive month since December 2008. Interest rates continued to move lower across the yield curve, despite high levels of Treasury debt issuance, strong equity market performance, and growing confidence that the recession may be about to end.

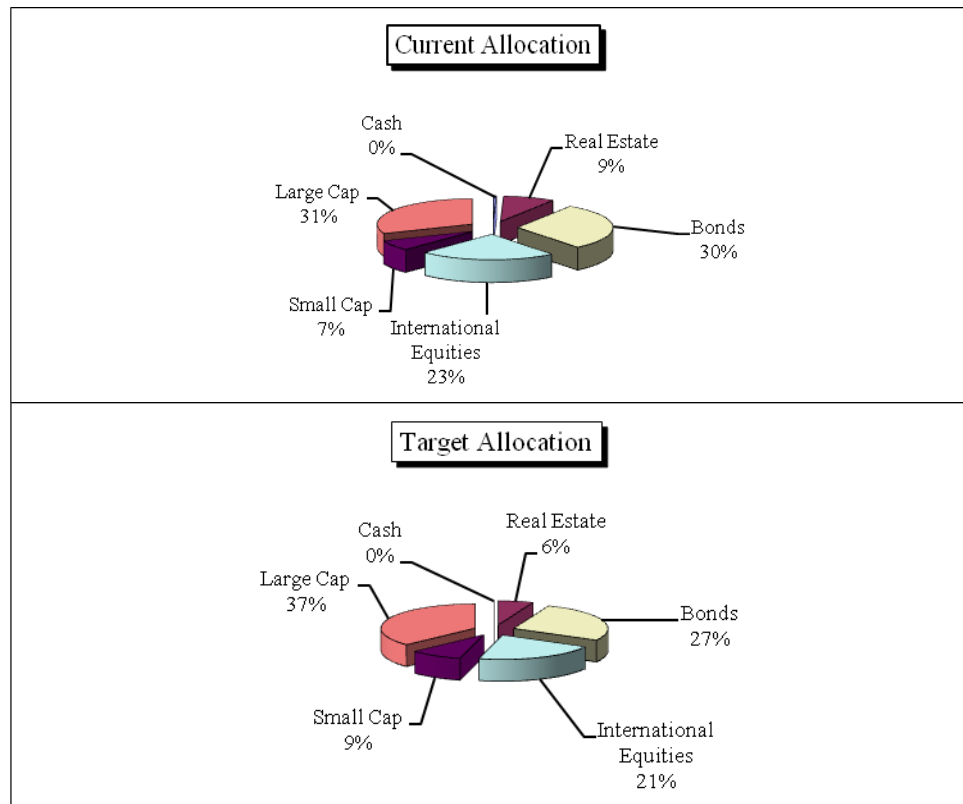
The table presented below shows the composite returns:

	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%
<b>Variance</b>		<b>-0.35%</b>	<b>-0.58%</b>	<b>-2.23%</b>	<b>-2.26%</b>
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%
<b>Variance</b>		<b>1.07%</b>	<b>5.11%</b>	<b>5.92%</b>	<b>-6.83%</b>
Real Estate Aggregate	\$141,217,141	0.00%	0.00%	-9.85%	16.68%
NCREIF (one quarter lag)		0.00%	0.00%	-7.33%	-15.16%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>-2.52%</b>	<b>31.84%</b>
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%
<b>Variance</b>		<b>0.26%</b>	<b>0.52%</b>	<b>0.88%</b>	<b>-3.53%</b>
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%
<b>Variance</b>		<b>0.20%</b>	<b>-0.92%</b>	<b>-1.58%</b>	<b>-2.26%</b>

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%
<b>Variance</b>		<b>-0.27%</b>	<b>11.35%</b>	<b>-0.02%</b>	<b>-27.91%</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 **Approval of *SamCERA*'s Fixed Income Structure:** Mr. Thomas and Mr. Maserik gave a presentation on *SamCERA*'s current fixed income structure and a comprehensive overview of the Public-Private Investment Program (PPIP).

The committee reviewed two alternative structures: Alternative A – Introduce Global, TIPS and Credit Opportunity and Alternative B – Introduce Global, TIPS, and the Credit Opportunity PPIP. Mr. Thomas highlighted each of the structure's risks, returns and expected alphas and compared them to *SamCERA*'s current fixed income structure.

Mr. Maserik conducted a thorough discussion regarding PPIP. He discussed the background of the program and its focuses. He also discussed how the U.S. Treasury selected the nine managers to participate in the Legacy Securities Program of PPIP. SIS issued each qualified PPIP manager candidate a due diligence questionnaire and reviewed the questionnaires. SIS and several plan sponsors also met with each of the nine managers at a PPIP "Summit" in New Jersey. Based on the information in the questionnaire and the PPIP Summit, SIS then evaluated and ranked the nine manager candidates on various criteria. If the board decides to add PPIP into the Association's fixed income structure, SIS and staff would evaluate the top two firms and enter a contract with the finalist. Due to the popularity of the program, the contract will be entered prior to the next board meeting. Staff will send a memo to

the board regarding which PPIP manager was selected.

Without objection, Mr. Bowler will recommend that the board adopt a blend between Alternative A and B for the Association's fixed income structure, introducing global, TIPS, credit opportunity and PPIP, and to direct staff and consultant to select one of the top two candidates discussed for PPIP and enter contract negotiations as soon as possible. Staff and consultant will provide a detailed report to the board at the next board meeting.

6.3 **Educational Presentation by Strategic Investment Solutions – Private Equity:** This presentation was conducted at the Board of Retirement meeting.

6.4 **Approval of Request For Proposal (RFP) for Investment Consultant Services:** The committee reviewed the RFP for investment consultant services. Ms. Jadallah reviewed the listing of pension investment consultants which have relationships with CALAPRS member systems and offered suggestions, narrowing down the list.

Without objection, Mr. Bowler deferred the approval of the RFP for Investment Consultant Services one more month.

7.0 **Other Business:** None.

8.0 **Chief Investment Officer's Report:** None.

9.0 **Adjournment:** There being no further business, Mr. Bowler adjourned the committee at 11:53 a.m.

BENEDICT BOWLER, CHAIR