

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

**November 19, 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 September 30, 2009
  - 6.3 Manager Interviews – Fixed Income – Treasury Inflation Protected Securities (TIPS) Mandate
    - 6.3a Brown Brothers Harriman & Company – Inflation Indexed Securities
    - 6.3b Standish Mellon Asset Management Company, LLC – US TIPS
    - 6.3c Wellington Asset Management, LLP - TIPS
  - 6.4 Approval of Criteria for an Investment Manager Search – Credit Opportunities
  - 6.5 Approval of Authorization to Rescind Capital Redemption Order with INVESCO
  - 6.6 Report on 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:** Ms. Jadallah called the Public Session of the Investment Committee of the Board of Retirement to order at 10:08 a.m., November 19, 2009, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Mr. David and Ms. Jadallah. *Excused:* Mr. Buffington and Mr. Bowler. *Other Board Members in Attendance:* Mr. Murphy, Ms. Agnew, Mr. Spinello and Mr. Tashman. *Staff:* Mr. Bailey, Ms. Dames and Mr. Hood. *Consultants:* Mr. Thomas. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** Due to the lack of a quorum present, the approval of the minutes was deferred to the next Investment Committee meeting.
- 4.0 **Oral Communications From the Committee:** Mr. David reported that he attended the SACRS Fall Conference and found that it was very informative. Ms. Jadallah reported that a due diligence trip will be scheduled for January to conduct site visits for *SamCERA's* (1) fixed income manager, Aberdeen Asset Management, (2) PPIP's manager, Angelo Gordon, and (3) the finalist in the TIPS manager search.
- 5.0 **Oral Communications From the Public:** None.
- 6.1 **Monthly Portfolio Performance Report:** Ms. Jadallah reported that *SamCERA's* -1.35% Total Fund Return for October 2009 outperformed the Total Plan Policy Benchmark return of -1.55%. The outperformance is primarily due to the small cap equity and fixed income portfolios. Both portfolios

substantially outperformed their benchmarks. The fund's return for the trailing twelve months is 10.08%, which is 233 basis points (bps) above the Actuarial Discount Rate, 7.75%, and 450 basis points below SamCERA's Total Plan Policy Benchmark of 14.58%.

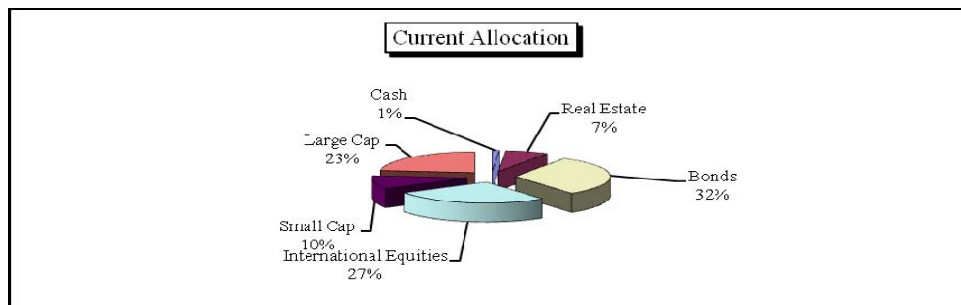
The table below shows the composite returns:

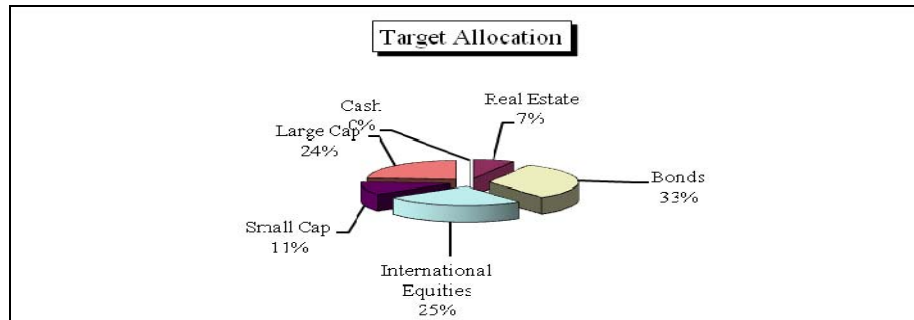
	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,220,435,95	5.04%	6.93%	19.52%	29.01%
Equity Composite Benchmark		4.77%	6.62%	18.86%	31.42%
<b>Variance</b>		<b>0.27%</b>	<b>0.31%</b>	<b>0.66%</b>	<b>-2.41%</b>
Fixed Income Aggregate	\$474,015,153	1.12%	4.63%	12.11%	23.11%
Fixed Income Composite		1.29%	2.86%	6.21%	11.63%
<b>Variance</b>		<b>-0.17%</b>	<b>1.77%</b>	<b>5.90%</b>	<b>11.48%</b>
Real Estate Aggregate	\$110,601,490	0.00%	-7.07%	-21.73%	-35.26%
NCREIF (one quarter lag)		0.00%	-3.32%	-8.35%	-22.11%
<b>Variance</b>		<b>0.00%</b>	<b>-3.75%</b>	<b>-13.38%</b>	<b>-13.15%</b>
Cash Aggregate	\$19,001,811	0.05%	0.17%	0.57%	1.51%
91 Day Treasury Bill		0.01%	0.06%	0.11%	0.20%
<b>Variance</b>		<b>0.04%</b>	<b>0.11%</b>	<b>0.46%</b>	<b>1.31%</b>
Total Fund Returns	\$1,824,054,41	3.61%	5.27%	13.42%	19.94%
Total Plan Policy Benchmark		3.42%	5.06%	14.34%	23.68%
<b>Variance</b>		<b>0.19%</b>	<b>0.21%</b>	<b>-0.92%</b>	<b>-3.74%</b>

#### Performance versus Actuarial Discount Rate

Total Fund Returns		3.61%	5.27%	13.42%	19.94%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>2.99%</b>	<b>3.39%</b>	<b>9.62%</b>	<b>12.19%</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 **Quarterly Investment Performance Analysis for Period Ended September 30, 2009:** Mr. Thomas of Strategic Investment Solutions presented the quarterly investment performance for the period ended September 30, 2009. The composite fund returned 12.1% in the third quarter of 2009 and ranked 31<sup>st</sup> among other public funds greater than \$100 million (median of 11.2%). The fund trailed its policy index (12.5%) during the time period. Longer term, the three and five-year returns of -3.0% (97<sup>th</sup> percentile) and 3.0% (90<sup>th</sup> percentile), respectively, were below median among large public plans (-0.5% and 4.2%).

The Large Cap Equity Composite performance trailed the Russell 1000 Index (15.1% vs. 16.1%). The BGI 1000 Alpha Tilts Fund was terminated in the third quarter. Large cap managers AXA Rosenberg, DE Shaw, T Rowe Price, and Barrow Hanley were funded.

Another hindrance to performance was Mondrian's return of 18.3%, which lagged the MSCI AC World ex-US Value Index (22.2%) and ranked in the 70<sup>th</sup> percentile among its peers. Mondrian's negative performance alpha was derived from relative under-allocation to the emerging markets Korea and Brazil plus the UK, and overweight to Japan. The portfolio also suffered from US dollar cash drag. INVESCO Core Real Estate-USA Fund's return of -7.1% for the quarter, trailed the NCREIF Index (-3.3%) but led the NCREIF ODCE (-7.4%) and ranked in the third quartile among real estate investments. There was an overall gross write down of \$154.8 million or -5.9%. The largest valuation change was experienced in the Office portfolio of -10.2%

The association's fixed income managers performed well for the quarter. Aberdeen Asset (7.9%) led the Barclays Aggregate Index (3.7%) and ranked above the median core bond manager (5.2%). Its large overweight to investment grade corporate bonds, and holdings in non-Agency residential mortgages contributed to relative performance. The Pyramis Broad Market Duration Fund gained 6.1% and ranked in the 28<sup>th</sup> percentile among core bond managers (median of 5.2%). Outperformance resulted from an overweight to the credit sector and exposure to securitized sectors such as hybrid CMBS and ABS. Western Asset Management's quarter was above par. It carried a return of 8.2% and ranked ahead of the core bond manager median of 5.2%. Carrying non-agency issues, emerging markets, TIPS and high yield bond exposure contributed to the performance of the portfolio. Its long duration position helped as overall yields decreased. Chartwell, the BGI Russell 1000 Index Fund and Artio Global also enhanced performance results in the third quarter.

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<b>Composite Fund</b>	12.11%	31	-2.72%	79	-2.96%	97
<i>Policy Index</i>	<i>12.49%</i>	<i>26</i>	<i>0.57%</i>	<i>53</i>	<i>-0.45%</i>	<i>48</i>
BGI Russell 1000 Index Fund	16.08%	30	-6.06%	34	-5.02%	42
AXA Rosenberg	N/A	N/A	N/A	N/A	N/A	N/A
D.E. Shaw	N/A	N/A	N/A	N/A	N/A	N/A
T. Rowe Price	N/A	N/A	N/A	N/A	N/A	N/A
Barrow Hanley	N/A	N/A	N/A	N/A	N/A	N/A
BlackRock	N/A	N/A	N/A	N/A	N/A	N/A
<i>Large Cap Composite</i>	<i>15.09%</i>	<i>64</i>	<i>-7.50%</i>	<i>73</i>	<i>-6.79%</i>	<i>81</i>
<i>Russell 1000 Index</i>	<i>16.07%</i>	<i>38</i>	<i>-6.14%</i>	<i>49</i>	<i>-5.10%</i>	<i>50</i>
Chartwell Investment Partners	16.48%	49	-11.49%	84	-5.02%	83
Jennison Associates	19.14%	54	-5.37%	42	N/A	N/A
The Boston Company	N/A	N/A	N/A	N/A	N/A	N/A
<i>Small Cap Composite</i>	<i>19.46%</i>	<i>39</i>	<i>-10.72%</i>	<i>83</i>	<i>-10.11%</i>	<i>99</i>
<i>Russell 2000 Index</i>	<i>19.28%</i>	<i>42</i>	<i>-9.56%</i>	<i>75</i>	<i>-4.57%</i>	<i>76</i>
<i>U.S. Equity Composite</i>	<i>15.89%</i>	<i>55</i>	<i>-8.00%</i>	<i>77</i>	<i>-7.39%</i>	<i>88</i>
Artio Global Investment	-19.10%	57	-2.26%	92	-3.95%	84
Mondrian Investment Partners	18.34%	70	4.11%	51	-1.30%	38
<i>International Equity Composite</i>	<i>18.71%</i>	<i>65</i>	<i>0.94%</i>	<i>77</i>	<i>-2.60%</i>	<i>59</i>
<i>MSCI ACWI-ex US Index Free</i>	<i>19.77%</i>	<i>39</i>	<i>6.43%</i>	<i>31</i>	<i>-0.78%</i>	<i>31</i>
<i>Total Equity Composite</i>	<i>16.87%</i>	<i>N/A</i>	<i>-4.97%</i>	<i>N/A</i>	<i>-5.96%</i>	<i>N/A</i>
Aberdeen Asset Management	7.91%	13	5.36%	94	1.70%	100
Pyramis Global Advisors	6.10%	28	13.96%	37	5.49%	79
Western Asset Management	8.15%	9	14.03%	35	4.05%	93
<i>U.S. Fixed Income Composite</i>	<i>7.38%</i>	<i>32</i>	<i>11.10%</i>	<i>58</i>	<i>3.76%</i>	<i>86</i>
<i>BC Aggregate Index</i>	<i>3.74%</i>	<i>70</i>	<i>10.56%</i>	<i>64</i>	<i>6.41%</i>	<i>47</i>
INVESCO Core Fund	-7.07%	59	-35.26%	59	-7.52%	57
<i>Real Estate Composite</i>	<i>-7.07%</i>	<i>59</i>	<i>-35.26%</i>	<i>59</i>	<i>-7.52%</i>	<i>57</i>
<i>NCREIF ODCE – Equal Weight</i>	<i>-7.41%</i>	<i>66</i>	<i>-35.26%</i>	<i>58</i>	<i>-7.57%</i>	<i>58</i>
<i>Cash Composite</i>	<i>0.20%</i>	<i>21</i>	<i>1.78%</i>	<i>16</i>	<i>1.61%</i>	<i>96</i>
<i>91 Day T-Bill Index</i>	<i>0.07%</i>	<i>56</i>	<i>0.39%</i>	<i>79</i>	<i>2.82%</i>	<i>76</i>

- 6.3 **Manager Interviews – Fixed Income – Treasury Inflation Protected Securities (TIPS) Mandate:** The interviews for the TIPS mandate were conducted during the Board of Retirement meeting.
- 6.3a **Brown Brothers Harriman & Company – Inflation Indexed Securities:** This agenda item was conducted at the full board meeting.
- 6.3b **Standish Mellon Asset Management Company, LLC – US TIPS:** This agenda item was conducted at the full board meeting.
- 6.3c **Wellington Asset Management, LLP – TIPS:** This agenda item was conducted at the full board meeting.
- 6.4 **Approval of Criteria for an Investment Manager Search – Credit Opportunities:** Mr. Thomas reviewed the list of criteria for a SamCERA's credit opportunity manager search with the committee.

- 6.5     **Approval of Authorization to Rescind Capital Redemption Order with INVESCO:** As the equity markets declined in value in 2008, *SamCERA*'s real estate allocation increased as a percentage of the total portfolio and exceeded its target range. In order to rebalance *SamCERA*'s portfolio, the association placed a \$70 million capital redemption notice with the core fund. Since the association's redemption notice was put in place, the equity markets have increased in value while real estate values have been written down. *SamCERA*'s real estate allocation is now within its target ranges and there is no need to rebalance. Mr. Bailey said that staff will recommend that the board authorize staff to rescind the \$70 million capital redemption order.
- 6.6     **Report on RFP for Investment Consultant Services:** This agenda 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 10:55 a.m.

MARGARET JADALLAH, CHAIR OF THE BOARD OF RETIREMENT