San Mateo County Employees' Retirement Association Investment Review

Issue

Do the San Mateo County Employees' Retirement Association's (SamCERA) investment policies and procedures meet the challenges of a volatile investment and credit environment?

Summary

SamCERA provides defined retirement benefits in the form of monthly pension payments, disability, and death benefits to its membership, which includes all permanent employees of the County of San Mateo. The SamCERA Board of Trustees and staff manage a Pension Trust Fund which must accumulate and preserve earning assets that can meet current and future obligations. SamCERA's Investment Policy prescribes diversification across asset classes that include fixed income (debt). Fixed income assets are assumed to be safer than equity because the amount and timing of income they provide is contractually fixed. Nevertheless, there is still some risk that the borrower may not fulfill the contractual obligations. Recently, such risks in fixed income investments have increased because lenders have been willing to lend to borrowers whose credit history and qualifications would not have been strong enough to satisfy traditional conservative standards.

The best-known example of lax lending is the subprime mortgage granted to a borrower whose ability to pay is questionable at best. The risks may be compounded by: (a) loan amounts which approach or exceed the property's currently appraised value, and/or (b) a scheduled change in monthly payments to unaffordable levels. In recent years, subprime mortgages have been pooled with similar mortgages, divided into portions having claims of varying priority and marketed as mortgage backed securities (MBS). These securities are given ratings by established agencies (e.g. Standard & Poor's and Moody's). Although many of the underlying mortgages may be subprime, the MBS derived from these mortgages may be rated in the investment grade range of AAA to BBB[1]. The MBS are often sold to pools that are further divided into securities generally known as Collateralized Mortgage Obligations (CMO) or Collateralized Debt Obligations (CDO)[2].

[1] See Appendix A for definitions of ratings.
[2] A CMO is backed by mortgages only; a CDO may be backed by various kinds of debt.

A pension fund such as SamCERA might buy a CDO/CMO that appears to be a top-rated investment grade bond, but is really a second order derivative of a pool of subprime mortgages. SamCERA's Investment Policy implicitly assumes that the steps in the process that create an investment grade bond have been prudent and realistic, as they were in earlier times when rating agencies could realistically assess the credit risk of straightforward bonds. SamCERA's Investment Policy relies on diversification to manage the risk/return tradeoff, and investment grade bonds are important to that diversification. Like most pension funds, SamCERA's policy guidelines include minimum average ratings and absolute minimum ratings. However, those guidelines no longer guarantee against purchases of securities backed by subprime mortgages.

SamCERA allows its fund managers broad discretion, and deliberately refrains from micromanaging them. However, SamCERA does monthly reviews of its fund managers' performance by comparing each fund's performance to a benchmark. Underperforming funds are subjected to extra scrutiny. Fund managers have been terminated for poor performance. SamCERA's policies do not directly prevent excessive exposure to subprime mortgage risk, but its fixed income fund managers were prudent and sophisticated enough to minimize such risk. While SamCERA's subprime exposure is less than one percent of its total portfolio, this emerging risk of subprime mortgage obligations is an indication that financial markets are always susceptible to creative, complicated and high-risk investments. SamCERA's ongoing performance monitoring only began addressing subprime risk in February 2007, although warnings of the potential subprime disaster were raised by state officials and academics[3] as early as 2002. Financial "innovations" have made relying solely on traditional sources of regulation and information risky. New sources of very useful information include Internet "web logs" (blogs) published by respected academics and professionals who explain complex processes and exotic securities in great detail, and often identify potential problems years in advance. (See Appendix D for a list of recommended blogs)

The Grand Jury recommends that SamCERA's management make sure their policies keep pace with innovations in financial markets and that they consider credible blogs among their information sources. They should also proactively discuss risks and opportunities with their fund managers.

[3] http://portland.indymedia.org/en/2007/08/364421.shtml

San Mateo County Employees' Retirement Association Investment Review

Issue

Do the San Mateo County Employees' Retirement Association's (SamCERA) investment policies and procedures meet the challenges of a volatile investment and credit environment?

Background

The 2007-2008 San Mateo County Civil Grand Jury (Grand Jury) has examined the investment policies of SamCERA, especially as they relate to fixed income securities. SamCERA provides defined retirement, disability, and death benefits to its membership, which includes all permanent employees of the County of San Mateo and the San Mateo County Mosquito Abatement District, vested former employees who elected deferred retirement, and all current retirees and their eligible survivors and beneficiaries. As of June 30, 2007, SamCERA had 5,539 active members, 3,694 retired members, and 1,151 inactive vested members. SamCERA's defined benefit plan has a Pension Trust Fund (Fund) managed by its Board of Trustees and staff. The Fund must accumulate and preserve earning assets sufficient to meet current and future obligations. As of June 30, 2007, the Fund totaled approximately $2.2 billion, versus an Actuarial Accrued Liability of about $2.5 billion.[4]

SamCERA's stated goals for the Pension Trust Fund are:

- "To prudently manage the assets and appropriately fund the actuarial liabilities of the Retirement System, so as to minimize the costs to our County, while assuring our ability to pay all earned benefits."
- "To constantly improve the effectiveness of our services and the efficiency of our operations."

These goals are especially challenging in the current financial environment. In addition to conventional stocks and bonds, the current financial market includes several complex types of investments that involve the bundling of many individual debt obligations, including mortgages. The quality of the debt represented by these bundled investments is not easy to determine. As discussed below, the uncertainty about what is represented by some of these investments, plus changes in lending practices, have led to increased risk to investors, including funds like SamCERA's.

[4] http://www.samcera.org/reports.html

Loans have been made readily available to borrowers whose creditworthiness is questionable. Lax credit standards have been in effect for several years in home mortgage lending, allowing issuance of many mortgages now known as "subprime." While the term subprime originally referred to the borrowers' credit history, the U.S. Department of Housing and Urban Development (HUD) includes two other types of mortgage in its definition of subprime: 1) "Alt A" mortgages granted to borrowers who have prime credit histories, but cannot document all of the underwriting information (e.g., income) in their application, and 2) mortgages with high loan-to-value (LTV) ratios (some as high as 150%).[5]

Change in funding sources for mortgages in general, especially for subprime mortgages, has also taken place. Traditionally, depository institutions such as banks and savings and loans would originate mortgages and hold them. Recently, the more conservative institutions have kept the highest quality mortgages and sold the rest to investment banks, who pool them. These pools are often categorized into tranches (claims of varying seniority (priority) to the mortgage payments). These tranches become mortgage backed securities (MBS). They are rated by established agencies such as Standard & Poor's and Moody's. The tranches with the most senior claims in case of default or late payment may be given the top rating of AAA[6], even when the entire pool is composed of subprime loans. Some of these structured securities may then be sold into a secondary pool that is categorized further into tranches commonly known as Collateralized Mortgage Obligations (CMO) or Collateralized Debt Obligations (CDO)[7]. The secondary pools may be composed mainly of the lower tranches (rated BBB or lower) of primary pools, yet the most senior CDO/CMO tranche may have a rating of AAA, if for no other reason than the protection from losses which may be suffered by the lower tranches. After the recent wave of ratings downgrades[8] , the SEC[9] and the rating agencies are questioning how CDO/CMO tranches backed by low quality subprime mortgages came to be assigned investment grade ratings.

Many subprime mortgages underlying CDOs/CMOs are for properties that were over-priced at the height of the housing market, so subsequent price declines in many areas took property values below the principal amounts of the mortgages. Many borrowers will be unable to pay their mortgages, especially if they have adjustable rates that are reset higher. Distress sales will likely drive prices even lower, further worsening lenders' losses. Delinquencies and defaults are exceeding projections by lenders, rating agencies, and investors. In short, credit standards were too lax throughout the chain. Some experts believe the magnitude of the problem could not have been foreseen, but academics and state officials were warning of potential disaster as early as 2002. They were ignored by Wall Street and Federal regulators[10].

[5] http://www.huduser.org/publications/hsgfin/subprime.html
[6] See Appendix A for an explanation of ratings.
[7] A CDO may be backed by various kinds of debt; a CMO is backed solely by mortgages.
[8] http://www.marketwatch.com/news/story/sp-moodys-signal-growing-subprime/story.aspx?guid=%7BCB3BF07B%2DBCAA%2D4F55%2DAEF5%2DF9C22E5D4570%7D
[9] http://www.marketwatch.com/news/story/sec-investigating-ratings-mortgage-backed-securities/story.aspx?guid=%7B6568F817%2D0A2D%2D4B4D%2D9954%2DA6F11059002F%7D
[10] http://portland.indymedia.org/en/2007/08/364421.shtml

For purposes of this report, the important point to be taken from the above discussion is that CDOs and CMOs can be sold as investment grade securities to investors, such as pension funds that have conservative investment guidelines like those of SamCERA. The lack of transparency of structured fixed income products makes it important that SamCERA take extra care to avoid overly risky, but high-yielding, investments.

Investigation

The Grand Jury interviewed members of SamCERA's Board and staff. Grand Jurors also attended a SamCERA Board meeting and reviewed numerous documents, some specific to SamCERA, and some more general public information about the financial environment. Among the official documents reviewed were SamCERA's Investment Policy, Comprehensive Annual Financial Report, Monthly Performance Reports, Investment Management Agreements and meeting agendas and minutes.

The web sites of neighboring counties (Alameda, Contra Costa, and Marin) having retirement plans similar to that of San Mateo County were also reviewed. None of the other counties' websites provides as much information as SamCERA's. Importantly, only SamCERA posts its Investment Policy.

Findings

Governance and Management

SamCERA is governed by a nine-member Board of Retirement (Board), composed of the County Treasurer, four trustees appointed by the Board of Supervisors and four trustees elected from the membership. Included among the Board's duties is the mandate to assure SamCERA's actuarial soundness and the prudent investment of the assets of the Fund. The Board's effectiveness is enhanced by formal financial education programs funded by SamCERA.

SamCERA staff advises in the management of the Fund, but does not govern. The CEO has ample experience in pension fund management. The Investment & Finance Manager is a seasoned financial professional. The staff benefits from a continuing education program. The Grand Jury found the staff to be diligent, candid, thoughtful, and cooperative.

SamCERA's Board and staff are advised by an investment consultant in regard to strategy, performance evaluation, and selection of fund managers. Many public pension funds engage a consultant for this purpose. SamCERA's current consultant is Strategic Investment Solutions (SIS).

The Board's conduct is prudent and conscientious. Important issues are raised and discussed rationally. Stakeholders' concerns are heard and considered. The Grand Jury noted the transparency and responsiveness of SamCERA's governance and management.

Investment Policy

SamCERA's investment decisions are guided by a formal Investment Policy (Policy), formerly known as the Investment Plan. This Policy is being amended by the staff and Board. The last review of the entire Policy was in May 2005. SamCERA's investment philosophy, as stated in the Policy document, has remained essentially unchanged since 1994. The section dealing with investment philosophy follows:

1. *The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio.*
2. *Therefore, the Retirement Fund should be invested across the spectrum of institutional grade Asset Classes.*
3. *The board acknowledges that the Asset Allocation targets reflect a long-term view of the market.*
4. *The board acknowledges that professional management of the Retirement Fund is expected to add value to the portfolio, by capitalizing on inefficiencies in the markets.*
5. *The board takes responsibility for allocating across asset classes and across styles within asset classes, but does not substitute its judgment for the professional judgment of those managers it retains.*
6. *The board believes that interest, dividends and capital appreciation must be pursued and captured, if the Actuarial Funding Objectives of the Retirement Fund are to be achieved.*
7. *The board is not a market-timer (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses and opportunity costs.*
8. *The board views Short-term Cash Equivalents as insignificant contributors to Real Returns in the long run.*
9. *The board is responsible for keeping the lines of communication open and the Investment Plan on target.*

Many pension funds share SamCERA's emphasis on diversification and institutional grade asset classes. In addition to the usual statements of goals and philosophy, SamCERA's Policy includes guidelines and limits in terms of asset allocation and bond ratings. SamCERA specifies further guidelines in the Investment Management Agreement with each fund manager, and it monitors the performance of each fund frequently.

In light of the fact that CDOs/CMOs twice removed from subprime mortgages have still received investment grade ratings, SamCERA's rating requirements may not be sufficiently restrictive. The current rating requirements may depend too much on the prudence and acumen of the rating agencies.

Procedures

One of SamCERA's more important procedures is the preparation of a Monthly Portfolio Performance Report (Report) by the Investment & Finance Manager. This Report compares (a) the actual performance of the total Fund with its policy benchmark and the actuarial discount rate, and (b) the actual performance of the twelve component funds that comprise the total Fund with their asset-class benchmarks. The Report also compares returns reported by fund managers with the corresponding returns as calculated by the custodial bank holding the funds; if a significant variance is found, it must be reconciled. With data quality assured, the Report continues to explain the performance of the various funds in terms of their asset holdings vis-à-vis their markets. The Report is as much a review of the efficacy of the fund manager's decisions as it is a review of financial performance. (See Appendix B for excerpts from the latest Performance Report.)

SamCERA consciously avoids micromanagement of its fund managers, but scrutinizes asset selection and performance versus established benchmarks. SamCERA is not hesitant to terminate fund managers for poor performance relative to SamCERA's established benchmarks. Its standard Investment Management Agreement allows SamCERA to terminate the Agreement on 30 day notice. (See Appendix C for the definition of underperformance.) Terminations of fund managers for underperformance occurred in 1999 and 2004. New managers are chosen via a process that emphasizes objective criteria. Given the level of discretion SamCERA allows its fund managers, the vigilance demonstrated by SamCERA's procedures is appropriate and necessary.

Portfolio Holdings

In keeping with its policy of diversification across asset classes and geography, SamCERA's portfolio is divided among four aggregates[11] defined by security type and location (domestic/international). The domestic fixed income aggregate comprises approximately 27 percent of the total portfolio, divided roughly equally among three fund managers, who have anticipated subprime problems and mitigated risk by holding only highly-rated CDO/CMO tranches (AAA and AA). SamCERA's subprime exposure is less than one percent of its $2.2 billion portfolio.

Alternate Sources of Information

As noted above, warnings of the potential subprime disaster were raised as early as 2002, by state officials and academics, but these warnings were generally ignored by the mainstream media and federal regulators. Warnings of subprime problems, excessive liquidity and overuse of leverage, were still not in the public eye by 2005, but were being discussed seriously on several Internet "blogs" (web logs). Of course all blogs are not equal, but the best ones are published by respected academics and professionals. Many such blogs are updated daily with analyses of the latest news and data. Blogs also

[11] Plus real estate and cash. See Appendix B.

incorporate forums (comments sections) where anyone can discuss the current issues. The best blogs attract highly qualified commentators to their forums.

Conclusions

SamCERA's Investment Policy implicitly assumes that all the actors in the process which creates an investment grade bond have been prudent and realistic. That assumption was made at a time when lenders took fiduciary responsibility seriously and rating agencies could readily and realistically assess the credit risk of a straightforward bond. Since then, the credit environment has changed for the worse.

SamCERA's Investment Policy relies on diversification across institutional grade asset classes for management of the risk/return tradeoff. Traditionally, investment grade bonds are a mainstay of the fixed income asset class. Subprime-backed securities, e.g. CMOs, can have the appearance of investment grade bonds so that policy guidelines, like SamCERA's, that include minimum average ratings and absolute minimum ratings, do not necessarily prevent purchases of securities backed by subprime mortgages. Nevertheless, SamCERA's exposure to subprime mortgages is less than one percent of its portfolio.

The Grand Jury concludes that SamCERA's investment policies and procedures meet the challenges of a traditional investment environment. However, in light of the current subprime market debacle, SamCERA's management is challenged to be even more forward-looking and to seek guidance from a wider variety of sources. In these days of globalization and rapid financial "innovation," reliance on traditional sources of regulation and information may be risky. SamCERA's already good management could be even better if it were more forward-looking. While the monthly performance reviews are thorough and timely, they look at only the recent past. They cannot see the future. Blogs like those mentioned above could prove to be valuable sources of information augmenting more traditional sources. (See Appendix D for a list of sources.)

Recommendations

The Grand Jury recommends that SamCERA's Board of Trustees:

1. Broaden their sources of information regarding financial developments and trends, and be prepared to discuss and question the latest financial "innovations" and risk management philosophies with their investment consultant and fund managers. (Some information sources are listed in Appendix D.)
2. Review their Investment Policy annually, and revise it when there are significant changes in the investment and credit environment.

Appendix A: Standard and Poor's credit ratings[12]

Standard & Poor's Long-Term Issue Credit Ratings are based, in varying degrees, on the following considerations:

- *Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;*
- *Nature of and provisions of the obligation;*
- *Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.*
- *Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)*

AAA

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB, B, CCC, CC, and C

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

[12] http://www2.standardandpoors.com/portal/site/sp/en/us/page.article/2,1,1,4,1148449204344.html#ID207

Appendix B: Excerpts from recent SamCERA Performance Report

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending September 30, 2007

Actual versus Target Allocation

Portfolio	Market Value	Allocation Current	Allocation Target	Percentage Off Target	Rebalance Range
Barclays Global Investors R1 Alpha Tilts	$648,838,767	29.26%	29.60%	-0.34%	±3%
Barclays Global Investors Russell 1000	$152,266,944	6.87%	7.40%	-0.53%	±3%
Large Cap Aggregate	$801,105,711	36.13%	37.00%	-0.87%	
Brandes Investment Partners	$43,384,807	1.96%	2.25%	-0.29%	±3%
Chartwell Investment Partners	$56,317,559	2.54%	2.25%	0.29%	±3%
Goldman Sachs Asset Management	$86,968,467	3.92%	4.50%	-0.58%	±3%
Small Cap Aggregat	$186,670,833	8.42%	9.00%	-0.58%	
Julius Baer Investment Management	$238,233,079	10.74%	10.50%	0.24%	±3%
Mondrian Investment Partners	$236,543,573	10.67%	10.50%	0.17%	±3%
International Aggregate	$474,776,653	21.41%	21.00%	0.41%	±3%
Total Equity	$1,462,553,197	65.96%	67.00%	-1.04%	
Pyramis Global Advisors *	$194,678,396	8.78%	9.00%	-0.22%	±2%
Aberdeen Asset Management	$197,162,651	8.89%	9.00%	-0.11%	±2%
Western Asset Management Company	$196,213,711	8.85%	9.00%	-0.15%	±2%
Total Fixed Income	$588,054,758	26.52%	27.00%	-0.48%	
INVESCO Realty Advisors	$156,610,221	7.06%	6.00%	1.06%	±2%
Cash	$10,273,127	0.46%	0.00%	0.46%	
Total	$2,217,491,303	100%	100%		

* Formerly Fidelity Management Trust Company

San Mateo County Employees' Retirement Association

Monthly Performance Review
Period Ending September 30, 2007

Manager & Benchmark Performance

Manager Performance

Portfolio	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	(1) Fiscal Year to Date Three Months
Barclays Global Investors R1 Alpha Tilts	3.23%	-0.53%	4.19%	11.18%	-0.53%
Barclays Global Investors Russell 1000	3.83%	2.00%	8.05%	16.99%	2.00%
Large Cap Aggregate	3.34%	-0.26%	4.74%	12.56%	-0.26%
Brandes Investment Partners	-2.07%	-16.53%	-13.30%	-2.05%	-16.53%
Chartwell Investment Partners	5.29%	2.80%	12.24%	25.05%	2.80%
Goldman Sachs Asset Management	2.08%	-8.52%	-7.39%	0.13%	-8.52%
Small Cap Aggregate	2.02%	-7.51%	-3.84%	5.95%	-7.51%
Julius Baer Investment Management	6.04%	1.95%	11.13%	31.70%	1.95%
Mondrian Investment Partners	4.65%	1.87%	9.38%	25.62%	1.87%
International Aggregate	5.34%	1.91%	10.26%	28.61%	1.91%
Total Equity	3.81%	-0.56%	5.20%	15.82%	-0.56%
Pyramis Global Advisors	0.87%	1.57%	0.87%	3.72%	1.57%
Aberdeen Asset Management	0.65%	2.36%	1.93%	5.15%	2.36%
Western Asset Management	1.07%	1.99%	0.96%	4.18%	1.99%
Total Fixed Income (2)	0.86%	1.98%	1.26%	4.36%	1.98%
INVESCO Realty Advisors	3.10%	3.10%	7.04%	15.09%	3.10%
Cash	0.38%	1.16%	2.13%	4.54%	1.16%
Total Portfolio	2.94%	0.38%	4.27%	12.53%	0.38%

Benchmark Performance

Russell 1000	3.82%	1.98%	7.99%	16.90%	1.98%
Russell 2000	1.72%	-3.09%	1.19%	12.35%	-3.09%
MSCI ACWI	6.62%	4.69%	13.50%	31.06%	4.69%
Lehman Brothers Aggregate	0.76%	2.84%	2.31%	5.14%	2.84%
NCREIF	0.00%	0.00%	4.59%	13.26%	0.00%
91 Day Treasury Bill	0.38%	1.34%	2.63%	5.22%	1.34%
SamCERA Plan Policy Benchmark	3.16%	2.25%	6.70%	15.23%	2.25%
SamCERA Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	1.88%

(1) SamCERA's Fiscal Year is 7/1 through 6/30
(2) Benchmark for Fixed Income is Lehman Brothers Aggregate

Appendix C: SamCERA definition of underperformance[13]

9.2 UNDERPERFORMANCE IS DEFINED AS EITHER:

(a) Performance (gross of fees) below the 50th percentile for equity managers and 60th percentile for fixed income managers in a universe of the managers' peers over any rolling 8-quarter period. Below median performance on a risk adjusted basis will also be a guiding tool in the evaluation of the investment manager. Or

(b) Cumulative annualized performance (net of fees) over a three-year period below an appropriate broad market based benchmark return times 0.9, or five year return (net of fees) below the broad market based benchmark return, subject to the paragraph above which discusses interim progress toward multi-year objectives. Or

(c) Performance will be evaluated in light of the manager's stated style and discipline. Peer group manager performance will be reviewed more closely in periods where the manager's style is out of favor.

[13] Excerpt from SamCERA Investment Policy.

Appendix D: Useful web pages and other citations

Bloomberg http://www.bloomberg.com/
Possibly the most objective of the establishment sites.

Calculated Risk http://calculatedrisk.blogspot.com/
This is the most interactive of all the serious financial blogs. The timeliness of posts and quality of discussions are quite good. See *The Compleat Ubernerd* on this site for a detailed explanation of mortgage-backed securities.

Econbrowser http://www.econbrowser.com/
Hosted by two professors of economics, this is more academic than Calculated Risk, but still helpful to investors.

The Economist http://www.economist.com/
This website of the venerable print magazine has global geopolitical breadth.

FT Alphaville http://ftalphaville.ft.com/blog/
The blog of the Financial Times of London is more skeptical and irreverent than WSJ and Bloomberg.

The Institutional Risk Analyst http://us1.institutionalriskanalytics.com/pub/IRAMain.asp
This credit-risk consulting firm posts critical analysis on its website.

RGE Monitor http://www.rgemonitor.com/ (links to the free blogs are in the right sidebar) Another site hosted by professors who are firmly grounded in the real world.

The Big Picture http://bigpicture.typepad.com/
Hosted by an investment professional, this is possibly the least reverent blog which is still respected by the establishment.

Winter (Economic & Market) Watch http://wallstreetexaminer.com/blogs/winter/
Like The Big Picture, this blog is bombastic, but provides in-depth analysis.

Wall Street Technology
http://www.wallstreetandtech.com/story/showArticle.jhtml;jsessionid=E2W5INRBCNXMIQSNDLOSKH0CJUNN2JVN?articleID=201806931&pgno=1
Although the site is quite technical, this article explains rather well (in layman's terms) how presumably sophisticated investors fell into the subprime/derivative trap.

SamCERA

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February 28, 2008

Hon. Joseph C. Scott
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Scott:

This letter is the response from the Board of Retirement of the San Mateo County Employees' Retirement System (*SamCERA*) to a report from the 2007-2008 Grand Jury entitled *San Mateo County Employees' Retirement Association Investment Review*.

The Board of Retirement reviewed this response letter at its February 26, 2008, meeting and approved forwarding it to you in response to the Grand Jury report.

The board is grateful to the Grand Jury and the members who worked with the *SamCERA* staff and board members. They appreciate their courtesy as well as the diligence and commitment shown in their review of the pension system and its investments. They also appreciate the many favorable statements made about the system, the staff and the work of the board and its Investment Committee. They found the report to be thought-provoking and the report's recommendations worthy of adoption.

Specifically:

- Regarding the report's **Findings:**

  The Board of Retirement agrees with all the findings of the report.

- Regarding the report's **Recommendations**:

  Recommendation 1

  "Broaden their sources of information regarding financial developments and trends, and be prepared to discuss and question the latest financial "innovations" and risk management philosophies with their investment consultant and fund managers."

  Board of Retirement Response to Recommendation 1

  The recommendation has not yet been implemented, but will be implemented over the course of the next few months as the board and Investment Committee review and discuss appropriate additional sources of information.

Recommendation 2

"Review their Investment Policy annually, and revise it when there are significant changes in the investment and credit environment."

Board of Retirement Response to Recommendation 2

The recommendation has been implemented. The *SamCERA* board's procedure is to review all policies of the board on an annual basis. The Investment Policy will be revised when there are significant changes in the investment and credit environment.

Again, the Board of Retirement appreciates the efforts of the Grand Jury and its committee on *SamCERA* investments.

Sincerely,

David Bailey
Chief Executive Officer