



**MARK CHURCH**  
MEMBER, BOARD OF SUPERVISORS SAN MATEO COUNTY

October 24, 2008

Re: Lehman Brothers Investment

Dear Investment Pool Participant:

As the Chair of the San Mateo County Board of Supervisors' Finance and Operations Committee, I want to assure you of our deep concern over the investment losses that have come about due to the collapse of Lehman Brothers.

My colleague on the Finance and Operations Committee, Supervisor Rich Gordon, and I have begun a comprehensive process of reviewing and revising the County's Investment Policy in order to minimize risks, create greater diversification and improve the safety and stability of pooled funds. An important part of this process is to obtain input from all organizations entrusting funds to the County Investment Pool.

We want to personally invite you to the next Finance and Operations Committee meeting, scheduled for 2 p.m. on Tuesday, November 4, in the Board Chambers of the County Government Center at 400 County Center in Redwood City. The County Investment Policy will be on the agenda and your concerns will be of utmost importance. Enclosed is a copy of the Investment Policy, with preliminary changes, for your review. We also want to encourage you to submit your input to us in advance of the meeting so that we may have sufficient time to review your suggestions. Any revisions to the Investment Policy recommended by the Committee will be referred to the full Board of Supervisors for final approval.

There are two major revisions we are planning to discuss which will be of interest to you. The first change would limit amounts invested with each issuer for certain types of securities (e.g., commercial paper/floating rate notes or corporate bonds and medium term notes including asset-backed bonds) to 2% of the Pooled Fund. The current limit is 10%, which is the limit specified by state law, but given the devastating collapse of Lehman Brothers and the fact that the County Investment Pool maintained 5.9% of its value in that company, we feel this is a prudent first step.

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The second proposal is to contract with a third-party financial advisor or advisors to (1) review the events and analyses that led to the decisions to invest in and hold the Lehman securities, and determine whether investments were at all times in conformance with the Investment Policy, (2) assist in revising and incorporating best practices in the current Investment Policy and thereafter annually review and recommend changes to the Investment Policy, and (3) assist the Treasurer and the Treasury Oversight Committee in monitoring ongoing investments. Specifically, the financial advisor would assist the Treasury Oversight Committee in carrying out its statutory role of evaluating general strategies and monitoring pool investment results, economic outlook, portfolio diversification, maturity structure and potential risks to the funds. The financial advisor would review monthly investment reports and participate in Treasury Oversight Committee meetings. In addition, the financial advisor would consult directly with the County Treasurer and Assistant County Treasurer on individual investment decisions. The financial advisor would provide an independent perspective.

Our timeline is to select the financial advisor(s) sometime in December. The County Manager's Office is forming a working group with representatives from the schools, cities, special districts, and county to serve on the selection committee. A comprehensive review of investment policies, including your own comments, will provide the advisor with additional suggestions for improvement of the Investment Policy.

Our goal is to establish a more thoroughly transparent relationship between all of the County entities involved in the investment process and the agencies investing in the County Investment Pool. I also want to let you know that the County is pursuing every possible avenue, including financial assistance from the federal government, which could lead to recapturing some of the value of the lost investments. The County has also hired bankruptcy counsel to file and pursue the Investment Pool's claim in bankruptcy court. While the bankruptcy proceedings may take more than a year to complete, it is expected that some return on the assets will be obtained. The bankruptcy proceedings will be monitored closely, and I have asked County Counsel to provide periodic reports to all schools districts and other members of the Investment Pool.

Lastly, I have requested County Counsel to agendize in closed session for the next Board of Supervisors' meeting on October 28 a discussion of initiating a lawsuit against Lehman's officers and directors. Such an action would involve retaining outside counsel and, if successful, could result in recovery of monies to offset losses as a result of the Lehman bankruptcy.

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I want to assure you that we intend to do everything possible within our legal means to recoup taxpayers' dollars, to create a much-improved Investment Policy to avoid similar losses in the future, to promote transparency so that all investors are fully informed and engaged in the process, and to create a system of checks and balances to safeguard and protect the Investment Pool through the monitoring of ongoing investments by an outside professional advisor.

I look forward to receiving your input and seeing you at the November 4 meeting of the Finance and Operations Committee. Together we can learn how this situation came to pass and make appropriate changes to the Investment Policy so that it never happens again.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Church". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark Church

C:   Members, Board of Supervisors  
      John Maltbie, County Manager  
      Mike Murphy, County Counsel  
      Lee Buffington, Treasurer  
      Members, Investment Pool Oversight Committee