

## The Board of Retirement

of the San Mateo County Employees' Retirement Association  
will meet in

***SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores**

**Tuesday, August 23, 2011, at 1:00 p.m.**

**PUBLIC SESSION** – The Board will meet in Public Session at 1 p.m.

1. Call to Order, Roll Call and Miscellaneous Business
  - 1.1 Appointment of Committees
2. Oral Communications
  - 2.1 Oral Communications From the Board
  - 2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda

(Any items removed from the Consent Agenda for discussion will be inserted into the Regular Agenda and considered in the order chosen by the board chair.)

  - Disability Retirements
    - Brian Haslinger
    - Sharon Condon
    - Chas Mercurio
    - Gerardo Garcia
    - Neal Ferguson
  - Service Retirements
  - Continuances
  - Deferred Retirements
  - Member Account Refunds
  - Member Account Rollovers
  - Anticipation of Litigation – One Matter
5. Benefit & Actuarial Services
  - 5.1 Consideration of agenda items, if any, removed from the Consent Agenda
  - 5.2 Approval for the Chief Executive Officer to Contract with Medical Consultants
6. Investment Services (The Investment Committee will meet on August 23rd at 9 a.m.)
  - 6.1 Monthly Portfolio Performance Report
  - 6.2 Quarterly Investment Performance Analysis for period ended June 30, 2011
  - 6.3 Presentation on Trade Cost Analysis, Commission Recapture, and Directed Brokerage (Board Presentation)
  - 6.4 Report on *SamCERA's* Security Lending Program for the Period Ended June 30, 2011
  - 6.5 Annual Review, Revision & Reaffirmation of the Investment Committee Charter
  - 6.6 Select Finalists for International Developed Markets Growth Manager
  - 6.7 Initial Review of *SamCERA's* Redrafted Investment Policy
  - 6.8 Report on the Annual Review of *SamCERA's* Domestic and International Equity Growth Portfolios
    - 6.8 a Artio Global Investors
    - 6.8 b BlackRock Capital Management
    - 6.8 c Chartwell Investment Partners
7. Board & Management Support Services
  - 7.1 Monthly Financial Report
  - 7.2 Report on Status of the Financial Audit for the Period Ended June 30, 2011
  - 7.3 Report on Results of the Alameda Retirement Administration Survey
  - 7.4 Approval of Amendment to Member Education Agreement – Financial Knowledge Network
  - 7.5 Approval of Amendments to *SamCERA's* Conflict of Interest Code
  - 7.6 Approval of Agreement for Legal Services - Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP
  - 7.7 Discussion of Topics and Dates for a 2012 Board/Staff Retreat
  - 7.8 Amendment to Board of Retirement Regulation 4.1 Relating to “Membership”

***[Continued on page 2 – Printed 08/17/11]***

**\*Matters Set for a Time Certain:** *Times listed are approximate. In no case will any item be heard before it is scheduled.*

# Notice of Public Meeting

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- 8. Management Reports
  - 8.1 Chief Executive Officer's Report
  - 8.2 Assistant Executive Officer's Report
  - 8.3 Chief Investment Officer's Report
  - 8.4 Chief Legal Counsel's Report

CLOSED SESSION – The board may meet in closed session prior to adjournment

- C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session
- C2 Further deliberation on service-connected disability application – Neal Ferguson
- C3 Anticipated Litigation – One matter, if removed from the consent agenda

### 9. Report on Actions Taken in Closed Session

### 10. Adjournment in memory of the following deceased members:

Barrow, Robert	July 28, 2011	Assessor's Office
Clark, John	July 22, 2011	Building & Grounds
Constant, Constantine	July 18, 2011	Superior Court
Dunsmore, Margene	July 2, 2011	District Attorney's Office
Fletcher, Lindsay	July 11, 2011	Controllers
Fronberg, Raymond	July 30, 2011	Environmental Services
Ham, James	July 1, 2011	Probation
Hartnett, Lois	July 18, 2011	Beneficiary of Hartnett, Robert
Howell, James	July 14, 2011	Ben of Neta, Lora
McQueen, William	July 4, 2011	Def'd from Housekeeping
Owens, Evelyn	July 16, 2011	Superior Court
Rice, Edna	July 5, 2011	Superior Court
Washington, Nell	July 13, 2011	San Mateo Medical Center
Wider, Frederick	July 21, 2011	Sheriff's Office

A blue ink signature of David Bailey, Chief Executive Officer, is written in cursive.

David Bailey, Chief Executive Officer

Printed: 8/17/11

Be advised that the committees of the Board of Retirement are forums in which consensus may emerge. If you have an interest in a matter before a committee, you are advised to attend the committee meeting. Committee meeting times are noted on the board agenda.

IN COMPLIANCE WITH THE CALIFORNIA GOVERNMENT CODE AND THE AMERICANS WITH DISABILITIES ACT:

*SamCERA's* facilities and board and committee meetings are accessible to individuals with disabilities. Contact *SamCERA* at (650) 599-1234 at least three business days prior to the meeting if (1) you need special assistance or a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in this meeting; or (2) you have a disability and wish to receive the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting in an alternative format. Notification in advance of the meeting will enable *SamCERA* to make reasonable arrangements to ensure full accessibility to this meeting and the materials related to it.

**THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 125,**  
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD SHORES.  
Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](http://www.samcera.org)  
*Free Parking is available in all lots in the vicinity of the building.*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 1.1

TO: Board of Retirement  
FROM: David Bailey, Chief Executive Officer  
SUBJECT: Appointment of Committees



**Issue**

The board chair will make committee appointments for the 2011-12 fiscal year.

**Background**

The board chair is authorized to appoint the committees of the board pursuant to Article 1.1 of the Regulations of the Board of Retirement.

- 1.1 **Election of Chair:** At the first regular meeting in July, the Board of Retirement shall elect one of its members chair for a term of one year or until his or her successor is duly elected and qualified. The Chair shall preside at all meetings of the Board, **shall appoint all committees** [emphasis added] and shall perform all duties incidental to that office.

Standing committees of the board have been the Investment Committee and the Audit Committee.

**Staff Recommendation**

Staff recommends the chair appoint members to the Investment and Audit committees as the chair deems appropriate.

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

August 23, 2011

Agenda Item 3.0

**July 26, 2011 – Investment Committee Agenda**

**PUBLIC SESSION**

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Oral Communications From the Committee
- 4.0 Oral Communications From the Public
- 5.0 Approval of the Minutes
- 6.0 Investment Management Services - the Investment Committee Shall Review & Discuss
  - 6.1 Monthly Portfolio Performance Report
  - 6.2 Approval of Resolution Ratifying Private Equity Investment
  - 6.3 Annual Review of SamCERA's Private Equity Implementation
  - 6.4 Approve Request For Information for an International Small Cap Equity Manager Search and Identify Semi-Finalists
  - 6.5 Approve Request For Information for an Emerging Markets Equity Manager Search and Identify Semi-Finalists
  - 6.6 Annual Review of SamCERA's Domestic and International Equity Value Portfolios (Summary Report Only)
    - 6.6 a Barrow Hanley – *SamCERA's* Domestic Large Cap Value Manager
    - 6.6 b Mondrian Investment Partners – *SamCERA's* International Value Manager
    - 6.6 c The Boston Company – *SamCERA's* Domestic Small Cap Value Manager
  - 6.7 Semi-Annual Report on the Strategic Investment Solutions' Capital Market & Inflation Outlook
  - 6.8 Approval of a Trust Agreement with State Street Global Advisors for a Commodities Mandate
- 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 10:03 a.m., July 26, 2011, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Agnew, Mr. Bowler, Mr. David, and Mr. Hackleman. *Other Board Members In Attendance:* Mr. Murphy, Ms. Salas and Mr. Spinello. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames and Mr. Clifton. *Consultants:* Mr. Brody, Strategic Investment Solutions. *Public:* One. *Retirees:* None.
- 3.0 **Oral Communications From the Committee:** None.
- 4.0 **Oral Communications From the Public:** None.
- 5.0 **Approval of the Minutes:** None.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -1.06% Total Fund Return for the month outperformed the Total Plan Policy Benchmark return of -1.28%. He said that the fund's return for the trailing twelve months and twenty-four months are 23.78% and 18.16% respectively. The twelve-month period is 1603 basis points (bps) above the Actuarial Discount Rate of 7.75%. For the

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**Minutes of the Meeting of the Investment Committee**

same period the total fund return is one basis point ahead of *SamCERA's* Total Plan Policy Benchmark of 23.77%. As a reminder, Mr. Clifton said that *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation, specifically private equity, is being fully implemented. In addition, he noted that the numbers do not reflect the performance of all portfolios. As of the board meeting, performance for Angelo Gordon's PPIP, AQR's risk parity, AQR's hedge fund, Sheridan Production Partners and Invesco's core real estate portfolios had not been reported.

The table below shows the composite returns:

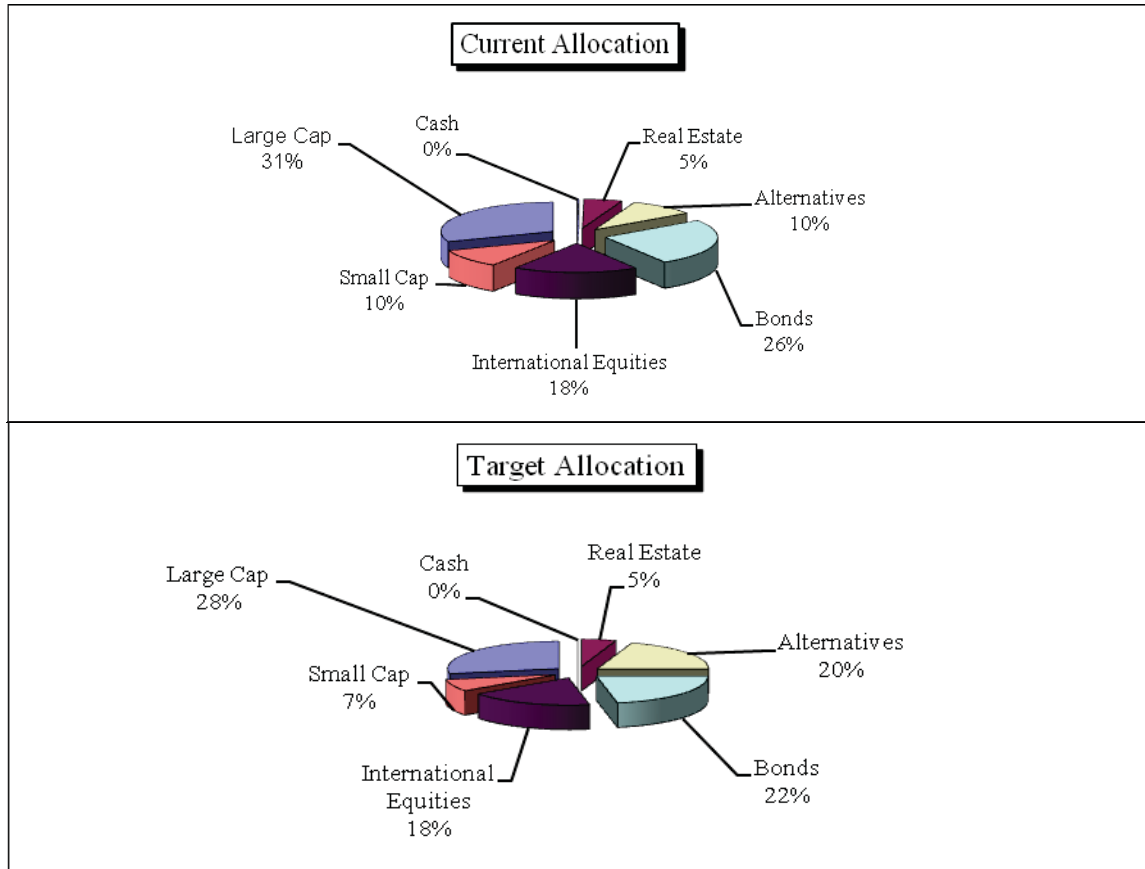
	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,356,693,053	-1.66%	0.19%	5.89%	31.84%
Equity Composite Benchmark		-1.72%	0.03%	5.59%	32.12%
<b>Variance</b>		<b>0.06%</b>	<b>0.16%</b>	<b>0.30%</b>	<b>-0.28%</b>
Private Equity Aggregate	\$3,383,419	-6.44%	-6.44%	-6.44%	N/A
Private Equity Composite		-1.55%	0.71%	7.92%	N/A
<b>Variance</b>		<b>-4.89%</b>	<b>-7.15%</b>	<b>-14.36%</b>	<b>N/A</b>
Risk Parity Aggregate	\$147,619,360	0.00%	4.77%	N/A	N/A
Risk Parity Composite Benchmark		-1.19%	0.91%	N/A	N/A
<b>Variance</b>		<b>1.19%</b>	<b>3.86%</b>	<b>N/A</b>	<b>N/A</b>
Hedge Fund Aggregate	\$70,000,000	0.00%	N/A	N/A	N/A
Hedge Fund Composite Benchmark		0.34%	N/A	N/A	N/A
<b>Variance</b>		<b>-0.34%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Fixed Income Aggregate	\$596,979,609	-0.30%	2.15%	4.41%	9.00%
Fixed Income Composite		-0.12%	2.73%	3.74%	5.03%
<b>Variance</b>		<b>-0.18%</b>	<b>-0.58%</b>	<b>0.67%</b>	<b>3.97%</b>
Real Estate Aggregate	\$126,673,968	0.00%	0.00%	3.83%	16.71%
NCREIF (one quarter lag)		0.00%	0.00%	4.01%	15.10%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>-0.18%</b>	<b>1.61%</b>
Cash Aggregate	\$5,273,628	0.06%	0.21%	0.38%	1.00%
91 Day Treasury Bill		0.01%	0.04%	0.09%	0.16%
<b>Variance</b>		<b>0.05%</b>	<b>0.17%</b>	<b>0.29%</b>	<b>0.84%</b>
Total Fund Returns	\$2,306,623,037	-1.06%	1.05%	5.61%	23.78%
Total Plan Policy Benchmark		-1.28%	0.56%	4.92%	23.77%
<b>Variance</b>		<b>0.22%</b>	<b>0.49%</b>	<b>0.69%</b>	<b>0.01%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns	\$2,306,623,037	-1.06%	1.05%	5.61%	23.78%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
<b>Variance</b>		<b>-1.68%</b>	<b>-0.83%</b>	<b>1.81%</b>	<b>16.03%</b>

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*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 Resolution Ratifying Private Equity Investment:** This agenda item was deferred to the full board meeting.
- 6.3 **Annual Review of *SamCERA's* Private Equity Implementation:** This agenda item was deferred to the full board meeting.
- 6.4 **Approve Request For Information for an International Small Cap Equity Manager Search and Identify Semi-Finalists:** Mr. Brody of Strategic Investment Solutions presented the Request for Information (RFI) for *SamCERA's* International Small Cap Equity Manager Search. He reviewed the approved manager search criteria and discussed the list of semi-finalists.

**Motion** by David, second by Agnew, carried unanimously to recommend that the board approve the RFI for the International Small Cap Equity Manager Search. **Motion** by Hackleman, second by David, carried unanimously to recommend that the board approve the list of semi-finalists for the International Small Cap Equity Manager Search.

- 6.5 **Approve Request For Information for an Emerging Markets Equity Manager Search and**

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**Identify Semi-Finalists:** Mr. Brody of Strategic Investment Solutions presented the Request for Information (RFI) for *SamCERA's* Emerging Markets Equity Manager Search. He reviewed the approved manager search criteria and discussed the list of semi-finalists. Mr. Brody said that the challenge with this investment universe is that many of the most attractive strategies are closed. He then said that from a style perspective, the product may be slightly tilted but with no extreme style biases and that SIS will request that the product include frontier markets.

The committee then discussed the level of enthusiasm and risk of overvaluation in the asset class. Mr. Brody discussed both sides to the issue and said global growth, especially in China, would be a reason to invest in this strategy.

**Motion** by David, second by Hackleman, carried unanimously to recommend that the board approve the RFI for the Emerging Markets Equity Manager Search. **Motion** by Hackleman, second by David, carried unanimously to recommend that the board approve the list of semi-finalists for the Emerging Markets Equity Manager Search.

- 6.6 **Annual Review of SamCERA's Domestic and International Equity Value Portfolios (Summary Report Only):** Mr. Clifton reminded the committee that the board had decided to delegate investment manager annual reviews to staff and consultant, with the exception of those managers that trustees request to review at the investment committee or board meeting. Mr. Clifton reported that the new investment manager annual review structure went well. Staff and consultant reviewed *SamCERA's* value managers (Barrow Hanley, Mondrian Investment Partners, and The Boston Company) on July 7<sup>th</sup>. Ms. Settles was also present for the annual reviews.
- 6.6a **Barrow Hanley – SamCERA's Domestic Large Cap Value Manager:** Mr. Clifton provided an overview of Barrow Hanley's annual review on July 7<sup>th</sup>. Mark Giambrone, Managing Director, and Matt Egenes, Director, of Barrow Hanley were present at that meeting to discuss its Diversified Large Cap Value Equity product. Mr. Egenes provided an organizational overview and reported on the status of the firm's equity buy-back from Old Mutual. Mr. Clifton then said that Mr. Giambrone discussed investment performance, positioning, and market outlook. Mr. Clifton said that Barrow Hanley's portfolio is currently above *SamCERA's* target allocation, but will be re-adjusted within the next few months with the upcoming allocations to commodities and new international mandates. This report was informational.
- 6.6b **Mondrian Investment Partners – SamCERA's International Value Manager:** Mr. Clifton provided an overview of Mondrian's annual review on July 7<sup>th</sup>. Justin Richards, Senior Vice President, of Mondrian Investment Partners was present at that meeting. Russell Mackie, Senior Portfolio Manager, and Steven Dutuat, Portfolio Manager, of Mondrian Investment Partners, and Kimberly Aspenleider, Vice President, Client Services, of Delaware Investments, attended the meeting via conference call. Mr. Richards provided an organizational overview and reported on the firm's decision to commit to purchasing the minority stake held by Hellman & Friedman. He then discussed the details of the purchase and said that employees are pleased with the news and that no personnel is leaving as a result of the transaction. Mr. Dutuat and Mr. Mackie then discussed investment performance, positioning, and market outlook. This report was informational.
- 6.6c **The Boston Company – SamCERA's Domestic Small Cap Value Manager:** Mr. Clifton provided an overview of The Boston Company's annual review on July 7<sup>th</sup>. Edward Walter, Senior Portfolio Manager, and Paul Leahy, Senior Relationship Manager, of The Boston Company were present at that meeting to discuss its U.S. Small Cap Value Equity product. Mr. Leahy provided an organizational overview and discussed its capacity for the product. Mr. Walter had then discussed investment

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performance, positioning, and market outlook. Mr. Clifton said that The Boston Company's portfolio is currently above *SamCERA*'s target allocation, but will be re-adjusted within the next few months with the upcoming allocations to commodities and new international mandates. This report was informational.

- 6.7 **Semi-Annual Report on the Strategic Investment Solutions' Capital Market & Inflation Outlook:** Mr. Brody reviewed SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns. Mr. Brody noted that there are new asset categories on the report, specifically on real assets. In response to a question from Mr. David regarding recent debt-ceiling discussions in Washington, Mr. Brody said that the political environment is not taken into account in SIS' Capital Market Outlook. No action was taken. The report was informational.
- 6.8 **Approval of a Trust Agreement with State Street Global Advisors for a Commodities Mandate:** Mr. Clifton said that he and Mr. Thomas conducted a site visit to State Street Global Advisors' offices for further due diligence. He gave a brief overview of the site visit and deemed it successful. He said that Ms. Carlson and Ms. Dames negotiated the contract with SSGA. Ms. Carlson discussed the main points of the agreement and said that negotiations went smoothly. Staff recommended that the trustees approve the trust agreement. **Motion** by David, second by Agnew, carried unanimously, to recommend that the board approve the trust agreement with State Street Global Advisors for a Commodities Mandate.
- 7.0 **Other Business:** None.
- 8.0 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon made its second capital distribution on July 25<sup>th</sup> in the amount that represents approximately 1.50% of each limited partner's paid-in capital as of June 30<sup>th</sup>. A total of approximately 6.08% of each limited partner's paid-in capital has been returned. Mr. Clifton then reported that the INVESCO Core Fund purchased a property on Park Avenue in Manhattan. The building currently represents the biggest office holding in the portfolio.
- 9.0 **Adjournment:** There being no further business, Mr. Bowler adjourned the committee at 10:54 a.m.

BENEDICT J. BOWLER, INVESTMENT COMMITTEE CHAIR



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

August 23, 2011

Agenda Item 3.0

**July 26, 2011 – Board Agenda**

**PUBLIC SESSION** – The Board will meet in Public Session at 1 p.m.

1. Call to Order and Roll Call
  - 1.1 Report from Ad Hoc Nominating Committee and Election of 2011-2012 Board Officers
  - 1.2 Appointment of Committees
2. Oral Communications
  - 2.1 Oral Communications From the Board
  - 2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda

(Any items removed from the Consent Agenda for discussion will be inserted into the Regular Agenda and considered in the order chosen by the board chair.)

  - Disability Retirements
    - Neal Ferguson
    - Dawn Alfonso
    - Loida Rodriguez
  - Deferred Retirements
  - Member Account Refunds
  - Member Account Rollovers
  - Service Retirements
  - Continuances
  - Trustee Conference Approval
5. Benefit & Actuarial Services
  - 5.1 Consideration of agenda items, if any, removed from the Consent Agenda
  - 5.2 Milliman's Triennial Investigation of Experience Report
  - 5.3 Actuarial Auditor's Findings Regarding the Investigation of Experience Report
  - 5.4 Adoption of Milliman's Investigation of Experience Report Recommendations
  - 5.5 Approval of Questions for the Annual Review of *SamCERA's* Actuarial Firm – Milliman Inc.
  - 5.6 Adopt Resolution Ratifying Plan 3 Early Retirement Adjustment Factors
6. Investment Services
  - 6.1 Monthly Portfolio Performance Report
  - 6.2 Approval of Resolution Ratifying Private Equity Investment
  - 6.3 Annual Review of *SamCERA's* Private Equity Implementation
  - 6.4 Approve Request For Information for an International Small Cap Equity Manager Search and Identify Semi-Finalists
  - 6.5 Approve Request For Information for an Emerging Markets Equity Manager Search and Identify Semi-Finalists
  - 6.6 Annual Review of *SamCERA's* Domestic and International Equity Value Portfolios (Summary Report Only)
    - 6.6 a Barrow Hanley – *SamCERA's* Domestic Large Cap Value Manager
    - 6.6 b Mondrian Investment Partners – *SamCERA's* International Value Manager
    - 6.6 c The Boston Company – *SamCERA's* Domestic Small Cap Value Manager
  - 6.7 Semi-Annual Report on the Strategic Investment Solutions' Capital Market & Inflation Outlook
  - 6.8 Approval of a Trust Agreement with State Street Global Advisors for a Commodities Mandate
7. Board & Management Support Services
  - 7.1 Monthly Financial Report
  - 7.2 Quarterly Budget Report for Period Ended June 30, 2011
  - 7.3 Approval of Topics for the Annual Independent Auditor Review – Brown Armstrong
  - 7.4 Amendment of Board Resolution Authorizing *SamCERA's* Corporate Credit Cards Through American Express Corporate Services to Add the Benefits Manager

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- 8. Management Reports
  - 8.1 Chief Executive Officer's Report
  - 8.2 Assistant Executive Officer's Report
  - 8.3 Chief Investment Officer's Report
  - 8.4 County Counsel's Report

**CLOSED SESSION** – The board will meet in closed session prior to adjournment

- C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session
- 9. Report on Actions Taken in Closed Session
- 10. Adjournment

**July 26, 2011 – Board Minutes**

0711.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1 p.m., July 26, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

**Roll Call:** Ms. Arnott, Ms. Agnew, Mr. Bowler, Mr. David, Mr. Hackleman, Ms. Salas for Ms. Kwan Lloyd, Ms. Settles and Mr. Spinello. *Excused:* Mr. Tashman. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Ms. Carlson, Mr. Hood, Ms. Dames and Mr. Clifton. *Consultants:* Mr. Brody, Mr. Shooshani and Dr. Fracchia. *Retirees:* 0, *Public:* 1.

0711.1.1 **Report from Ad Hoc Nominating Committee and Election of 2011-2012 Board Officers:** Mr. Hackleman presented the report of the Ad Hoc Nominating Committee, which consisted of Mr. Hackleman, Chair; Mr. Bowler, Ms. Arnott and Ms. Kwan Lloyd. **Motion** by Hackleman, second by Spinello, carried unanimously to retain the current slate of officers, Mr. David, Chair; Ms. Arnott, Vice Chair and Ms. Kwan Lloyd, Secretary, per *Regulation 2.5*.

0711.1.2 **Appointment of Committees:** Mr. David made no changes to committee appointments. He asked that board members relay their requests for committee appointments so he could have that input prior to making appointments at the next board meeting.

0711.2.1 **Oral Communications From the Board:** Mr. Spinello reported that he attended the SACRS Public Pension Investment Management Program at UC Berkeley Haas School of Business. He recommended that new trustees attend the Berkeley course after they attend the SACRS trustee course at Stanford and prior to the Wharton Investment Strategies and Portfolio Management Program.

0711.2.2 **Oral Communications From the Public:** None.

0711.3 **Approval of the Minutes:** **Motion** by Arnott, second by Salas, carried unanimously to approve the minutes from the June 21, 2011, board meeting, as submitted.

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0711.4 **Approval of the Consent Agenda:** Mr. David pulled the disability application of Neal Ferguson from the day's consent agenda to be taken up under closed session per the member's request. Please see agenda item 9.0 for Report on Actions Taken in Closed Session.

**Motion** by Arnott, second by Salas, carried unanimously, to approve the day's Consent Agenda, as amended, as follows:

**Disability Retirements:**

The board found that **Dawn Alfonso** is disabled from performing her usual and customary duties as a Courtroom Clerk and granted her a non-service connected disability retirement.

The board found that **Loida Rodriguez** is disabled from performing her usual and customary duties as an Office Services Supervisor and granted her a non-service connected disability retirement.

**Service Retirements:**

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Thomas, Eleftheria	October 12, 2010	Deferred from San Mateo
Resnick, Joyce	April 30, 2011	Deferred from Behavioral Health
Hassell, Chris	May 3, 2011	Deferred from Plan 3
Dirain, Gloria	May 14, 2011	Deferred from Public Health
Woods, Maria	May 18, 2011	Deferred from Human Services
Anderson, Marlys	May 23, 2011	Term Non-vested from San
Clancy, Charlene	May 26, 2011	San Mateo Medical Center
Caballero, Maria	June 1, 2011	San Mateo Medical Center
Cayas, Teresita	June 1, 2011	Human Services Agency
Ferguson, John	June 1, 2011	Deferred from Ag Commission
Knapton, Robert	June 1, 2011	Sheriff's Office
Monmiller, Charles	June 1, 2011	San Mateo Medical Center
Robelet, Linda	June 1, 2011	San Mateo Medical Center

**Continuance of Benefits:**

<b>Member Name</b>	<b>Beneficiary of:</b>
Irwin, Fred	Irwin, Winifred
Larson, Anne	Larson, Larry
Malerstein, Jean	Malerstein, Abraham

**Deferred Retirements:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Ahlberg, Lynn	G4 Vested
Clifford, Cheryl	G4 Vested
Dhillon, Ruby	G4 Vested – Auto
Lasseigne, Suzanne	G4 Vested – Auto
Prior, Marguerite	G4 Vested – Auto
Dennis, Jeremy	G4 Vested – Auto
Harrington, Michaela	G4 Vested – Auto
Cooper, Brenda	3 Vested – Auto Deferred
Cabezas, Athena	G4 Vested – Auto
Cruz-Cornejo, Raul	G4 Vested – Auto

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Dolamore, Heidi                      G4 - Recipocity  
McGuire, Kevin                      S4 - Reciprocity

**Member Account Refunds:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Anderson, Nancy	G4 Vested
Dobkins, Yolanda	G4 Non-vested
Luva, Patricia	G2 Vested
McIntosh, Sandra	G4 Vested
Orque, David	G4 Vested
Sinipata, Vika	G4 Non-vested
Wray, Martin	G4 Non-vested

<b>Member Name</b>	<b>Retirement Plan Type</b>
None.	

1107.5      **Benefit & Actuarial Services**

1107.5.1      **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:**  
Please see agenda item 9.0 for Report on Actions Taken in Closed Session.

1107.5.2      **Milliman's Triennial Investigation of Experience Report:** Nick Collier and Jennifer Sorenson of Milliman, Inc. were present to discuss the results of Milliman's Triennial Investigations of Experience Report. Through the experience report, Milliman reviewed the actuarial methods and the economic and demographic assumptions to be used in *SamCERA's* June 30, 2011, Actuarial Valuation, based on both economic and demographic data showing the experience of the membership. Milliman recommended several changes to the demographic assumptions with the most significant change being the strengthening of the mortality assumption. Milliman did not make any recommended changes to economic assumptions. Milliman also presented on the financial impact to the county and employees if the recommended changes were adopted.

No board action was taken. The report was informational.

1107.5.3      **Actuarial Auditor's Findings Regarding the Investigation of Experience Report:** Paul Angelo and Andy Yeung of The Segal Company were present to review their actuarial audit of Milliman's Investigation of Experience report. Segal made some recommendations to Milliman to improve future experience reports. Milliman incorporated nearly all of the recommendations in their current report. Others will be considered for future reports. Segal opined that Milliman's recommended changes to the demographic assumptions were reasonable based on recent plan experience.

No board action was taken. The report was informational.

1107.5.4      **Adoption of Milliman's Investigation of Experience Report Recommendations:** Mr. Collier reviewed Milliman's recommended changes to *SamCERA's* demographic assumptions, as discussed under agenda item 5.2. The recommended changes would add an estimated 0.60% of payroll to the employer contribution rate for the 2012-2013 fiscal year. The changes would also increase member contributions. All member increases would be less than 1.0% of

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pay and in most cases well less than that amount. Mr. Bailey recommended that the board approve Milliman's recommended changes.

**Motion** by Hackleman, second by Arnott, carried unanimously to adopt **Resolution 11-12-01**, approving the recommended changes to assumptions based upon Milliman's Report on Investigation of Experience July 1, 2008 - April 30, 2011, as follows:

**"WHEREAS**, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board of Retirement...shall... recommend to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in the county and district appropriations as are necessary...; and

**"WHEREAS**, the actuarial valuation of the Retirement Fund, including the adequacy of the contribution rates, is based on certain underlying assumptions; and

**"WHEREAS**, the Board instructs its actuarial firm to provide an Experience Report every third year to assess the reasonableness of the assumptions used in the valuation; and

**"WHEREAS**, the Board of Retirement has received, reviewed and accepted the "Investigation of Experience July 1, 2008 – April 30, 2011" report prepared by Milliman, Inc., setting forth recommendations to make amend certain assumptions to be used by Milliman when it prepares its June 30, 2011, actuarial valuation; and

**"WHEREAS**, the Board has reviewed the recommendations and finds it to be in the best interest of the members, retirees and beneficiaries of the Retirement System to adopt certain changes to the assumptions used by its actuary, Milliman, Inc. when performing its actuarial valuation:

*"Therefore, be it*

**"RESOLVED**, the Board adopts all demographic and economic assumptions, as recommended in the Milliman, Inc. "Investigation of Experience July 1, 2008 – April 30, 2011," report which shall be used by Milliman, Inc when performing its actuarial valuation and which include but are not limited to the assumptions cited in the tables listed below:

- "Death while Active -- Reduce rates for males (Tables A-6-A-11)
- Retirement -- Reduce rates (Table A-6-A-11)
- Disability -- Increase rates for general members (Tables A-6-A-11)
- Termination -- Reduce rates (Tables A-6-A-11)
- Probability of Refund -- Reduce rates for safety members (Table A-4)
- Mortality -- Reduce rates (increase life expectancies) for healthy Retirees and increase rates for retirees with disabilities (Tables A-2 –A-3)
- Reciprocity -- Reduce rates for general members; increase rates for safety members (Page A-7)"

1107.5.5 **Approval of Questions for the Annual Review of SamCERA's Actuarial Firm – Milliman Inc.:** Mr. Clifton presented the list of topics for Milliman's annual review, which will be held

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on September 27, 2011. Mr. Clifton requested that trustees complete the evaluation form and submit it to staff as soon as possible. Ms. Agnew would like Milliman to discuss its inflation assumption during the review.

**Motion** by Salas, second by Settles, carried unanimously to approve the list of topics for the Milliman actuarial firm's annual review.

1107.5.6 **Adopt Resolution Ratifying Plan 3 Early Retirement Adjustment Factors:** Mr. Bailey said that this agenda item was a housekeeping matter. General Plan 3 Early Retirement Adjustments (ERA) factors were revised in September 2008 based on the 2008 Investigation of Experience study and updated mortality assumptions. However, the ERA factors were not formally adopted by the board. Mr. Bailey requested that the board ratify the actions of staff in 2008 to implement Plan 3 ERA factors, retroactively, in accordance with actuarial recommendations.

**Motion** by Hackleman, second by Bowler, carried unanimously to adopt Resolution 11-1-02, approving the revised General Plan 3 Early Retirement Adjustment Factors Retroactive to September 22, 2008, as follows:

**“Whereas**, Government Code §31453 mandates that “...an actuarial valuation shall be made...at intervals not to exceed three years. The valuation shall be conducted under the supervision of an actuary and shall cover the mortality, service, and compensation experience of the members and beneficiaries...”; and

**“WHEREAS**, the Board instructs its actuarial firm to provide an Experience Report every third year to assess the reasonableness of the assumptions used in the valuation; and

**“WHEREAS**, the Board of Retirement received, reviewed and accepted the “Investigation of Experience July 1, 2005 – April 30, 2008” report prepared by Milliman, Inc., setting forth recommendations to amend certain assumptions to be used by Milliman in preparation of its June 30, 2008, actuarial valuation; and

**“WHEREAS**, Section 31497.3(f) defines a table of early retirement factors to be used to determine actuarially equivalent factors; and this table is to be updated in accordance with the interest and mortality tables adopted by the Board; and

**“WHEREAS**, the Board finds the implementation of actuarially determined early retirement factors for Plan 3 retirements in accordance with the demographic assumptions of the 2008 Investigation of Experience to be in the best interest of the members, retirees and beneficiaries of the Retirement System:

“Therefore, be it

**“Resolved** that the board hereby ratifies General Plan 3 Early Retirement Adjustment factors retroactive to September 22, 2008, as recommended by Milliman, Inc., based on the revised mortality assumptions included in the *Investigation of Experience* study report dated August 18, 2008, and adopted by the board on August 26, 2008, and in accordance with the following table:

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Age	2008 Revised ERA Factor	Prior ERA Factor
55	0.40	0.39
56	0.43	0.43
57	0.47	0.47
58	0.52	0.51
59	0.57	0.56
60	0.62	0.61
61	0.68	0.67
62	0.75	0.74
63	0.82	0.82
64	0.91	0.90"

1107.6 **Investment Services**

1107.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -1.06% Total Fund Return for the month outperformed the Total Plan Policy Benchmark return of -1.28%. He said that the fund's return for the trailing twelve months and twenty-four months are 23.78% and 18.16% respectively. The twelve-month period is 1603 basis points (bps) above the Actuarial Discount Rate of 7.75%. For the same period the total fund return is one basis point ahead of *SamCERA's* Total Plan Policy Benchmark of 23.77%. As a reminder, Mr. Clifton said that *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation, specifically private equity, is being fully implemented. In addition, he noted that the numbers do not reflect the performance of all portfolios. As of the board meeting, performance for Angelo Gordon's PPIP, AQR's risk parity, AQR's hedge fund, Sheridan Production Partners and Invesco's core real estate portfolios had not been reported.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	942,866,145	-1.94%	34.14%	2.04%
<i>International Equity</i>	413,826,908	-1.01%	26.81%	2.37%
Total Equity	\$1,356,693,053	-1.66%	31.84%	2.09%
Private Equity	3,383,419	-6.44%	N/A	N/A
Risk Parity	147,619,360	0.00%	N/A	N/A
Hedge Fund	70,000,000	0.00%	N/A	N/A
Fixed Income	596,979,609	-0.30%	9.00%	6.64%
Real Estate Aggregate	126,673,968	0.00%	16.71%	-1.16%
Cash Equivalents	5,273,628	0.06%	1.00%	1.50%
<b>TOTAL FUND</b>	<b>\$2,306,623,037</b>	<b>-1.06%</b>	<b>23.78%</b>	<b>3.43%</b>
<i>Benchmark</i>		-1.28%	23.77%	4.74%

\* Total Time-Weighted Rate of Return

1107.6.2 **Approval of Resolution Ratifying Private Equity Investment:** Faraz Shooshani of SIS was present to discuss a private equity investment with Regiment Capital Special Situations Fund V, L.P., which has a strategy of investing primarily in dislocations in the credit market. Mr. Shooshani then described the strategy in further detail, summarized the opportunities in the

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space and discussed SIS' analysis of Regiment Capital. He then answered several questions from trustees on the strategy as well as fee structure.

Due to the timing requirements of the investment, staff submitted an executed agreement and made the first capital contribution on July 15<sup>th</sup>. Staff recommended that the board ratify the agreement.

**Motion** by Hackleman, second by Bowler, carried unanimously to adopt **Resolution 11-12-03**, authorizing (1) the board chair to execute an agreement with Regiment Capital Special Situations Fund V, L.P. for Private Equity Investment Management Services and (2) authorizing the Chief Investment Officer to take all actions necessary to initiate, implement and monitor the agreement, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“**WHEREAS**, Government Code §31595 vests in the Board *" . . . exclusive control of the investment of the employees retirement fund."*; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *" . . . in connection with administration of the Board's investment program . . . "*; and

“**WHEREAS**, in August 2010, the Board completed an asset-liability study, which designated 8.0% of the total portfolio to be allocated to private equity investments opportunities; and

“**WHEREAS**, the Board's agreement with Strategic Investment Solutions (“*SIS*”) delegates to *SIS* discretion to source and perform due diligence for private equity investment opportunities; and

“**WHEREAS**, the Board delegated to staff and legal counsel full discretionary authority for all tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“**WHEREAS**, the board approved a multi-year private equity implementation plan and charged *SIS* and staff to begin executing that plan; and

“**WHEREAS**, in June 2011, *SIS* presented to *SamCERA* their due diligence for the Regiment Capital Special Situations Fund V, L.P. and staff reviewed and prepared the required documentation to subscribe to the investment. Therefore, be it

“**RESOLVED** that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required documentation on behalf of the Board that has been approved by staff and counsel. Be it further

“**RESOLVED** that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation and hereby authorizes the Chief Investment Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the investment agreement and this resolution.”



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1107.6.3 **Annual Review of *SamCERA's* Private Equity Implementation:** Mr. Shooshani of Strategic Investment Solutions provided an annual review of *SamCERA's* private equity program. He reviewed private equity investment sub-classes, implementation approaches, and the implementation road map developed for *SamCERA*. He then discussed where *SamCERA* is in the implementation of the private equity allocation and where the association is headed regarding future investments.

1107.6.4 **Approve Request For Information for an International Small Cap Equity Manager Search and Identify Semi-Finalists:** Mr. Clifton reported that the Investment Committee reviewed the approved manager search criteria, RFI and discussed the list of semi-finalists for the International Small Cap Equity Manager search with Mr. Brody. He said that the committee recommended board approval. Staff might request that the board meet over two days in October in order to accommodate the number of finalists scheduled for interview for both the International Small Cap Equity Manager Search under this agenda item and the Emerging Markets Equity Manager Search under agenda item 6.5.

**Motion** by Salas, second by Spinello, carried unanimously to approve the Request for Information and list of semi-finalists for the International Small Cap Equity Manager Search.

1107.6.5 **Approve Request For Information for an Emerging Markets Equity Manager Search and Identify Semi-Finalists:** Mr. Clifton reported that the Investment Committee reviewed the approved manager search criteria, RFI and discussed the list of semi-finalists for the Emerging Markets Equity Manager search with Mr. Brody. He said that the committee recommended board approval.

**Motion** by Spinello, second by Bowler, carried unanimously to approve the Request for Information and list of semi-finalists for the Emerging Markets Equity Manager Search.

1107.6.6 **Annual Review of *SamCERA's* Domestic and International Equity Value Portfolios (Summary Report Only):** Mr. Clifton reported that the new investment manager annual review structure went well. Staff and consultant reviewed *SamCERA's* value managers (Barrow Hanley, Mondrian Investment Partners, and The Boston Company) on July 7<sup>th</sup>. Ms. Settles was also present for the annual reviews.

1107.6.6a **Barrow Hanley – *SamCERA's* Domestic Large Cap Value Manager:** Mr. Clifton provided an overview of Barrow Hanley's annual review on July 7<sup>th</sup>. Mark Giambrone, Managing Director, and Matt Egenes, Director, of Barrow Hanley were present at that meeting to discuss its Diversified Large Cap Value Equity product. Mr. Egenes provided an organizational overview and reported on the status of the firm's equity buy-back from Old Mutual. Mr. Clifton then said that Mr. Giambrone discussed investment performance, positioning, and market outlook. Mr. Clifton said that Barrow Hanley's portfolio is currently above *SamCERA's* target allocation, but will be re-adjusted within the next few months with the upcoming allocations to commodities and new international mandates. This report was informational.

1107.6.6b **Mondrian Investment Partners – *SamCERA's* International Value Manager:** Mr. Clifton provided an overview of Mondrian's annual review on July 7<sup>th</sup>. Justin Richards, Senior Vice President, of Mondrian Investment Partners was present at that meeting. Russell Mackie, Senior Portfolio Manager, and Steven Dutuat, Portfolio Manager, of Mondrian Investment

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Partners, and Kimberly Aspenleider, Vice President, Client Services, of Delaware Investments, attended the meeting via conference call. Mr. Richards provided an organizational overview and reported on the firm's decision to commit to purchasing the minority stake held by Hellman & Friedman. He then discussed the details of the purchase and said that employees are pleased with the news and that no personnel is leaving as a result of the transaction. Mr. Dutuat and Mr. Mackie then discussed investment performance, positioning, and market outlook. This report was informational.

1107.6.6c **The Boston Company – *SamCERA's* Domestic Small Cap Value Manager:** Mr. Clifton provided an overview of The Boston Company's annual review on July 7<sup>th</sup>. Edward Walter, Senior Portfolio Manager, and Paul Leahy, Senior Relationship Manager, of The Boston Company were present at that meeting to discuss its U.S. Small Cap Value Equity product. Mr. Leahy provided an organizational overview and discussed its capacity for the product. Mr. Walter had then discussed investment performance, positioning, and market outlook. Mr. Clifton said that The Boston Company's portfolio is currently above *SamCERA's* target allocation, but will be re-adjusted within the next few months with the upcoming allocations to commodities and new international mandates. This report was informational.

1107.6.7 **Semi-Annual Report on the Strategic Investment Solutions' Capital Market & Inflation Outlook:** Mr. Brody reviewed SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns. Mr. Brody noted that there are new asset categories on the report, specifically on real assets. In response to a question from Mr. David regarding recent debt-ceiling discussions in Washington, Mr. Brody said that the political environment is not taken into account into SIS' Capital Market Outlook. No action was taken. The report was informational.

1107.6.8 **Approval of a Trust Agreement with State Street Global Advisors for a Commodities Mandate:** Mr. Clifton said that he and Mr. Thomas conducted a site visit to State Street Global Advisors' offices for further due diligence. He gave a brief overview of the site visit and deemed it successful. He said that Ms. Carlson and Ms. Dames negotiated the contract with SSGA. Ms. Carlson discussed the main points of the agreement and said that negotiations went smoothly. Staff recommended that the trustees approve the trust agreement.

**Motion** by Settles, second by Agnew, carried unanimously to adopt **Resolution 11-12-04**, approving the trust agreement with State Street Global Advisors for a Commodities Mandate, as follows:

“**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with *"plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"*; and

“**WHEREAS**, Government Code §31595 vests in the Board *" . . . exclusive control of the investment of the employees retirement fund."*; and

“**WHEREAS**, Government Code §31596.1 (d) authorizes the Board to retain investment managers *" . . . in connection with administration of the Board's investment program . . . "*; and

“**WHEREAS**, in August 2010, the Board completed an asset-liability study, which designated 3.0% of the total portfolio to be allocated to commodities investment opportunities; and

“**WHEREAS**, the Board delegated to staff and legal counsel full discretionary authority for all

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tasks required in the preparation of documentation necessary to effectuate an alternative investment; and

“**WHEREAS**, on May 24, 2011, the Board considered proposals from nine firms for investment management services under a commodities mandate. Gresham Investment Management, Cargill Risk Management, INVESCO and State Street Global Advisors were invited to participate in interview at the June board meeting; and

“**WHEREAS**, on June 21, 2011, the Board interviewed representatives from the four finalists, selecting State Street Global Advisors for the mandate to be funded with approximately \$75 million; Therefore, be it

“**RESOLVED** that the Board hereby authorizes the board chair, vice-chair or if neither is available, the Chief Executive Officer to execute all required documentation on behalf of the Board that has been approved by staff and counsel. Be it further

“**RESOLVED** that the Board hereby designates the Chief Investment Officer as its designee to perform those functions so identified in the investment documentation and hereby authorizes the Chief Investment Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the investment agreement and this resolution.”

1107.7 **Board & Management Support Services**

1107.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of June 30, 2011, totaled \$2,309,049,708. Net assets decreased by approximately \$30.1 million, month over month, primarily due to market depreciation.

1107.7.2 **Quarterly Budget Report for Period Ended June 30, 2011:** Mr. Clifton reported the preliminary Fourth Quarter Budget Reports. He said that with 100% of the fiscal year completed, administrative expenditures to date represent 70.9% of the appropriations. The Salaries & Benefits, Services & Supplies and Capital Assets are all under budget.

***SamCERA*'s Administrative Budget**

	<b>ADOPTED BUDGET</b>	<b>YTD Preliminary</b>
Salaries & Benefits	\$2,640,000	\$2,353,184
Services & Supplies	\$2,343,000	\$1,179,602
Capital Assets	\$ 000	\$ 000
Total	\$4,983,000	\$3,532,786

This Asset Management Budget encompasses *SamCERA*'s in-house expenditures, which are incurred when managing the association's assets. It currently includes the salaries and benefits of the Chief Investment Officer, Retirement Investment Analyst and a percentage of the salaries and benefits of the Chief Executive Officer, Assistant Executive Officer, and Finance Officer. It also includes overhead related to support of the investment functions. The Asset Management Budget is as follows:

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***SamCERA's Asset Management Budget***

	<b>ADOPTED BUDGET</b>	<b>YTD Preliminary</b>
Salaries & Benefits	\$ 550,000	\$ 486,626
Services & Supplies	\$ 430,700	\$ 209,126
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	<u>\$ 980,700</u>	<u>\$ 695,752</u>

All professional services expenditures are on target in accordance with the budget appropriations. As of June, 30, 2011, the preliminary aggregate professional services fee is approximately 37.7 basis points.

- 1107.7.3 **Approval of Topics for the Annual Independent Auditor Review – Brown Armstrong:** Ms. Wong presented the list of topics for Brown Armstrong’s independent auditor’s review which will be held on October 25, 2011. Ms. Wong asked that trustees complete the evaluation form and submit it to staff as soon as possible.

**Motion** by Salas, second by Spinello, carried unanimously to approve the list of topics for Brown Armstrong’s annual review.

- 1107.7.4 **Amendment of Board Resolution Authorizing *SamCERA's* Corporate Credit Cards Through American Express Corporate Services to Add the Benefits Manager:** Ms. Wong said that in 2003, the board had authorized the CEO, AEO and CIO to hold public sector corporate credit cards in *SamCERA's* name for the purposes business expenditures. She reported that due to the routing purchases made by the Benefits Manager in relation to Board meeting expenses and certain office supplies, it was appropriate that the Benefits Manager also hold a corporate credit card for the purpose of *SamCERA's* business expenditures. The existing combined credit limit of *SamCERA* will not be increased. Ms. Wong also proposed additional amendments to Resolution 08-09-03, “American Express Corporate Services Resolution,” to include meetings and miscellaneous office supplies as approved business expenditures.

**Motion** by Settles, second by Spinello, carried unanimously to approve the amendments to **Resolution 08-09-03**, including the addition of the Benefits Manager as an authorized *SamCERA* credit card holder, as follows:

**“WHEREAS**, Article XVI 1 § 7(a) of the Constitution of the State of California states in part that *the retirement board...shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system...; &*

**“WHEREAS**, Government Code §31580.2 vests authority in the Board of Retirement to *...annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund; &*

**“WHEREAS**, the Board, by motion unanimously adopted March 25, 2003, authorized the Chief Executive Officer, Assistant Executive Officer and Chief Investment Officer to hold public sector corporate credit cards; &

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“Now, therefore, be it

“**RESOLVED**, that the Chief Executive Officer is hereby authorized to enter into and maintain a credit card agreement with American Express Corporate Services or its issuance agent for a credit line not to exceed \$50,000 and to provide said entity with specimen signatures for those who will receive credit cards. Be it further

“**RESOLVED**, that the Chief Executive Officer, the Assistant Executive Officer, Chief Investment Officer and the Benefits Manager are hereby authorized to borrow on behalf of *SamCERA* such sums for such times and upon such terms as each deems advisable and to execute in the name of *SamCERA* notes, drafts or agreements for repayment of any sums so borrowed pursuant to the terms of said credit card agreement. Be it further

“**RESOLVED**, that the Chief Executive Officer, the Assistant Executive Officer, Chief Investment Officer, and the Benefits Manager are hereby ordered to limit their use of said credit card agreement to the following business expenditures: meetings, education, conference, travel, miscellaneous office supplies, and disaster recovery. Be it further

“**RESOLVED**, that *SamCERA* will be and shall remain liable for all amounts owing to the card issuer pursuant to the terms of said credit card agreement. Be it further

“**RESOLVED**, that the terms of this resolution shall continue in force until express written notice of its rescission or modification has been received by said entity. Be it further

“**RESOLVED**, that the Board hereby names the Chief Executive Officer as its designee to perform those functions so identified in the credit card agreement with said entity and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement, approve payments and monitor the agreement with said entity.”

1107.8 **Management Reports**

1107.8.1 **Chief Executive Officer’s Report:** Mr. Bailey reported on the status of a public records request from the LA Times. He then said that Brown Armstrong is requesting information from trustees that seems similar to the information provided on the Form 700. Andrew Paulden of Brown Armstrong said he will modify the request.

Mr. Bailey said he delivered the commencement address at the CALAPRS Management Academy for the second year in a row. Three of *SamCERA*’s managers have attended the academy, Mr. Hood, Ms. Smith and, most recently, Mr. Ali. Mr. Bailey then reported that *SamCERA* has received its 15<sup>th</sup> consecutive outstanding achievement award from the GFOA for the June 30, 2010, Comprehensive Annual Financial Report. *SamCERA* also received its 8<sup>th</sup> consecutive GFOA award for the Popular Annual Financial Report.

Mr. Bailey said he had an additional report to make after agenda item 8.4. Mr. David then took up agenda item 8.2.

Following agenda item 8.4, with all trustees present for roll call present, except Ms. Arnott, Mr. Bailey provided an update on the recruitment of *SamCERA*’s Executive Secretary position which is currently vacant.

Mr. David then took up agenda item 10.0.

1107.8.2 **Assistant Executive Officer’s Report:** Mr. Hood provided a status update on *SamCERA*’s

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office expansion. He also reported on the implementation of the recently negotiated new retirement tiers, including an update on the new programming in PensionGold and revised communications for new employees.

Mr. Hood then discussed a contract amendment with Financial Knowledge Network. Staff had a meeting with the County's training department and discussed the possibility of making the classes available to not only county employees but local cities, as well. The addition of city employees is cost neutral. Financial Knowledge Network is okay with the amendment to the contract, which is expiring later this year.

Finally, Mr. Hood said that the results of the Alameda survey are now available. He will present the results at the next meeting.

1107.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon made its second capital distribution on July 25<sup>th</sup> in the amount that represents approximately 1.50% of each limited partner's paid-in capital as of June 30<sup>th</sup>. A total of approximately 6.08% of each limited partner's paid-in capital has been returned. Mr. Clifton then reported that the INVESCO Core Fund purchased a property on Park Avenue in Manhattan. The building currently represents the biggest office holding in the portfolio.

1107.8.4 **Chief Legal Counsel Report:** Ms. Carlson reported that since she is now a *SamCERA* employee, the contract with Hanson Bridgett, tax counsel, should be directly with the Board of Retirement and not County Counsel. She will bring back a revised contract at a future board meeting. Ms. Carlson then briefly discussed ethics training and will distribute certificates to those trustees that have completed the mandatory training hours on ethics. Lastly, she said that staff is revamping *SamCERA's* Conflict of Interest Code, refining who is designated and the categories of disclosure. A revised version of the code has been drafted and will be brought back to the board for approval.

1107.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. David took the board meeting into closed session, with all trustees present for roll call in attendance. The board met in closed session to discuss the disability application of Neal Ferguson. Mr. Ferguson was present for the discussion via tele-conference.

The board referred the disability of application of Neal Ferguson to a hearing officer.

Mr. David adjourned the closed session and took up agenda item 6.1.

1107.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 4:28 p.m., in memory of the following deceased members:

Oskea, Kathleen	June 5, 2011	Probation
Estes, Jack	June 8, 2011	Assessor
Sherman, Marcia	June 8, 2011	Beneficiary of Sherman, Fred
Swinehart, Mary	June 8, 2011	Beneficiary of Swinehart, William
Vanderford, Mary	June 11, 2011	Library
Larson, Larry	June 12, 2011	Sheriff's Office
Malerstein, Abraham	June 12, 2011	Mental Health
Gretter, William	June 15, 2011	Beneficiary of Gretter, Rita

AL DAVID, CHAIR

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 4.0 (a)

To: Board of Retirement

From: Gladys Smith, Retirement Benefits Manager



Subject: Approval of Consent Agenda

*ALL ITEMS ON THE CONSENT AGENDA ARE APPROVED BY ONE ROLL CALL MOTION UNLESS A REQUEST IS MADE BY A BOARD MEMBER THAT AN ITEM BE WITHDRAWN OR TRANSFERRED TO THE REGULAR AGENDA. ANY ITEM ON THE REGULAR AGENDA MAY BE TRANSFERRED TO THE CONSENT AGENDA.*

**Disability Retirements**

1. Board finds that **Sharon Condon** is (1) able to perform her duties as a Fiscal Office Services Supervisor and (2) deny her application for a service-connected disability retirement.
2. Board finds that **Gerardo Garcia** is (1) unable to perform his duties as a Patient Services Assistant II, (2) find that his disability is not service-connected, and (3) deny his application for a service-connected disability retirement.
3. Board finds that **Brian Haslinger** is (1) permanently unable to perform his duties as a Deputy Sheriff, (2) finds the heart presumption contained in Government Code section 31720.5 applies, (3) and further finds that there is not sufficient evidence to rebut the presumption and (4) grant his application for a service-connected disability retirement.
4. Board finds that **Chas Mercurio** is (1) unable to perform her duties as a Financial Services Manager II, (2) find that her disability is not service-connected and (3) deny her application for a service-connected disability retirement.

**Service Retirements**

1. The Board ratifies the actions as listed below for the following members regarding service retirements:

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Klemish, Mary	June 2, 2011	San Mateo Medical Center
Shek, William	June 4, 2011	Ag Commission Sealer
Fonseca, Anthony	June 6, 2011	Deferred from Sheriff's Office
Dorn, Martha	June 11, 2011	San Mateo Medical Center
Len Wai, Diana	June 11, 2011	San Mateo Medical Center

Barile, Maureen	June 18, 2011	Library
Hassell, Mark	June 18, 2011	Deferred from Plan 3
Dobson, Clive	June 25, 2011	Human Services Agency
Diadula, Nelson	June 30, 2011	Superior Court
Coddington, Kay	June 30, 2011	Superior Court
Skucas, John	June 30, 2011	Superior Court
Smolen, Steve	June 30, 2011	Superior Court
Congdon, Patrick	July 1, 2011	Deferred from Parks Dept
Fuentes, Louie	July 1, 2011	Sheriff's Office
Longworth, Teresa	July 1, 2011	Deferred from Sheriff's Office
Taumoepeau, Leafa	July 1, 2011	Behavioral Health

### **Continuances**

The Board ratifies the actions as listed below for the following members regarding continuances:

<b>Survivor's Name</b>	<b>Beneficiary of:</b>
Clark, Leslie	Clark, John
Constant, Kaliope	Constant, Constantine
Fletcher, Ellen	Fletcher, Lindsay

### **Deferred Retirements**

The Board ratifies the actions as listed below for the following members regarding deferred retirements:

<b>Member Name</b>	<b>Retirement Plan Type</b>
Hernandez, Christeta R.	G4 Vested
Lee, Michele P.	G4 Vested
Shukla, Jagruti	G4 Vested
Galassi, Patrick A.	G2/3 Vested
Feasel, Christopher J.	G4 Vested
Bonar, Michael N.	G4 Vested
Thompson, Dayna E.	G2 Vested
Dulal, Abul K.	G4 Non-vested
Bourland, Beau J.	G4 - Reciprocity



### **Member Account Refunds**

The Board ratifies the actions as listed below for the following members regarding refunds:

<b>Member Name</b>	<b>Retirement Plan Type</b>
Couch, Alan	G4 Non-vested
Debbs, Louis	QDRO of Debbs, Josephine
Duignan, Padriac	G4 Non-vested
Khoshabian, Rensen	G4 Non-vested
Mekathikom, Theeraputh	G4 Non-vested
Orozco, Anel	G4 Vested
Pacheco, Veronica	G4 Vested
Shurtleff, Margaret	G4 Non-vested
Whittinghill, John	G4 Non-vested

### **Member Account Rollovers**

The Board ratifies the actions as listed below for the following members regarding rollovers:


<b>Member Name</b>	<b>Retirement Plan Type</b>
Aarhus, Jennifer	G4 Non-vested
Cocchi, Marie	G4 Non-vested
Dau, Birgitt	G4 Non-vested
Feirman, Lawrence	QDRO of Feirman, Nina
Nakagawa, Karen	G2 Vested
Pedersen, Scott	G4 Non-vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 4.0/C3

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer 

SUBJECT: Further Deliberation on Service-Connected Disability Application – Neal Ferguson

**Recommendation**

Staff recommends the board continue its deliberation regarding the disability application of Neal Ferguson.

**Background**

The disability application of Mr. Ferguson was part of the July 2011 agenda. Staff asks that the board deliberate further on this matter and will provide an oral report at the August meeting.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 5.2

To: Board of Retirement  
From: David Bailey, Chief Executive Officer  
Subject: Interim Agreement for Medical Advisor Services



**RECOMMENDATION:**

Authorize the Chief Executive Officer to execute agreements for interim Medical Advisory services for amounts payable up to \$50,000.

**BACKGROUND:**

Section 31530 of the '37 Act provides that the County Health Officer shall advise the board on medical matters and, if requested by the board, shall attend its meetings. Historically, the County Health Officer delegated this duty to a member of the Health Services or Medical Center Staff. Most recently, these services were provided by Dr. Charles Fracchia, an employee of Health Services, who reviewed the material contained in disability applications and advised the board in regards to these matters. *SamCERA* reimbursed Health Services for Dr. Fracchia's time.

**DISCUSSION:**

Dr. Fracchia has determined to stop providing medical advisory services for *SamCERA*. Staff has discussed this with Dr. Scott Morrow, the County's Health Officer. Dr. Morrow is attempting to find potential candidates as a successor to Dr. Fracchia. In addition, staff has been in contact with other '37 Act systems for potential candidates.

The process to find a medical advisor for the board will take some time. In the interim, there are pending applications that need to be reviewed by a doctor in order to prepare recommendations to the board. Section 31732 authorizes the board to secure such medical, investigatory and other services as is necessary.

Staff is recommending that the Chief Executive Officer be authorized to enter into an agreement with one or more medical professionals to assist in the processing of the disability applications until a successor advisor (or advisors) is recommended and approved by the board. Any interim agreement would be for up to a year with a total amount payable of \$50,000.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

*RESOLUTION 11-12-*

RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE  
AGREEMENTS FOR INTERIM MEDICAL ADVISORY SERVICES  
FOR AMOUNTS PAYABLE UP \$50,000

**WHEREAS**, Government Code § 31732 authorizes the board to secure such medical, investigatory and other services as is necessary; and

**WHEREAS**, this board has determined that it is necessary to secure the services of a new medical advisor for the purposes of reviewing disability applications submitted by members; and

**WHEREAS**, as this board has further determined that the Chief Executive Officer should secure such medical advisor services as is needed on an interim basis until the new medical advisor or medical advisors are selected by the board; now, therefore, be it

**RESOLVED**, that the Chief Executive Officer is hereby authorized to execute agreements as he deems necessary for interim medical advisory services for amounts payable up \$50,000.

## Investment Committee

of the San Mateo County Employees' Retirement Association  
will meet in  
**100 Marine Parkway, Suite 125, Redwood Shores**  
**Tuesday, August 23, 2011, at 9:00 a.m.**

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Oral Communications From the Committee
- 4.0 Oral Communications From the Public
- 5.0 Approval of the Minutes
- 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 June 30, 2011
  - 6.3 Presentation on Trade Cost Analysis, Commission Recapture, and Directed Brokerage (Board Presentation)
  - 6.4 Report on *SamCERA's* Security Lending Program for the Period Ended June 30, 2011
  - 6.5 Annual Review, Revision & Reaffirmation of the Investment Committee Charter
  - 6.6 Select Finalists for International Developed Markets Growth Manager
  - 6.7 Initial Review of *SamCERA's* Redrafted Investment Policy
  - 6.8 Report on the Annual Review of *SamCERA's* Domestic and International Equity Growth Portfolios
    - 6.8 a Artio Global Investors
    - 6.8 b BlackRock Capital Management
    - 6.8 c Chartwell Investment Partners
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment



Gary Clifton, Chief Investment Officer

Printed: 8/17/11

**Be advised that the committees of the Board of Retirement  
are forums in which consensus may emerge.  
If you have an interest in a matter before a committee,  
you are advised to attend the committee meeting.  
Committee meeting times are noted on the board agenda.**

IN COMPLIANCE WITH THE CALIFORNIA GOVERNMENT CODE AND THE AMERICANS WITH DISABILITIES ACT:

*SamCERA's* facilities and board and committee meetings are accessible to individuals with disabilities. Contact David Bailey at (650) 363-4930 at least three business days prior to the meeting, if (1) you need special assistance or a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in this meeting; or (2) you have a disability and wish to receive the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting in an alternative format. Notification in advance of the meeting will enable *SamCERA* to make reasonable arrangements to ensure full accessibility to this meeting and the materials related to it.

# Notice of a Public Meetings

## Page 2 of 2



**THE COMMITTEE MEETS IN 100 MARINE PARKWAY, SUITE 125,**  
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD SHORES.  
Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](http://www.samcera.org)  
*Free Parking is available in all lots in the vicinity of the building.*

**SamCERA**  
**100 Marine Parkway, Suite 125**  
**Redwood Shores, CA 94065**

*How to Find Us:*

**From Northbound 101** take the Ralston/ Marine World Parkway exit. Drive East on Marine Parkway toward the Bay.

**From Southbound 101** take the Ralston/ Marine World Parkway exit. Drive East over the freeway on Marine Parkway toward the Bay.

**From El Camino Real**, turn East toward the Bay on Ralston and drive over the freeway on Marine Parkway. (Ralston becomes Marine Parkway at 101.)

Twin Dolphin Drive is two stoplights beyond the freeway. The "Shores Center" sign on the lawn is located in front of our new home.

Continue on Marine Parkway one block beyond Twin Dolphin to Lagoon Drive. Note the 100 Marine granite monument with *SamCERA* logo near curb as you approach Lagoon Drive.

**From Marine Parkway turn Right on Lagoon Drive and then immediately take the next two Right turns into our parking lot.**

Park in the **Visitor spaces** on the Marine Parkway side of our building near the North Entrance.

*SamCERA* is in Suite 125 on the first floor, on your left just inside the North Entrance on the Marine Parkway side of the building.

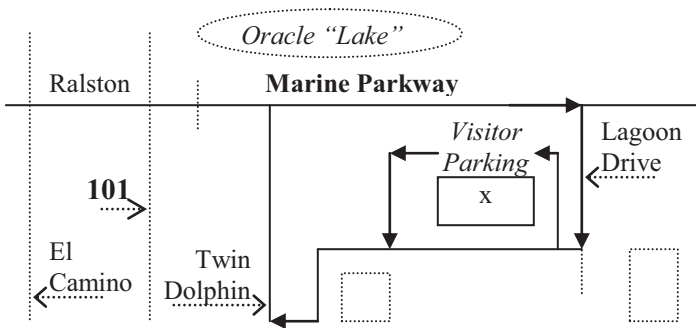
*SamCERA's* Telephone Number: (650) 599-1234

From a County Extension: Dial 1234

From Outside the 650 Area Code: (800) 339-0761

Web Site: [www.samcera.org](http://www.samcera.org)

*Our Office is Open Monday thru Thursday from 7:00 a.m. until 6:00 p.m.*



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Monthly Portfolio Performance Report for the Period Ending **July 31, 2011**

COMMENT: *SamCERA's* -0.40% Total Fund Return for the month outperformed the Total Plan Policy Benchmark return of -0.74%.

The fund's return for the trailing twelve months and twenty-four months are 17.83% and 14.64% respectively. The twelve-month period is 1008 basis points (bps) above the Actuarial Discount Rate of 7.75%. For the same period the total fund return is 97 basis point ahead of *SamCERA's* Total Plan Policy Benchmark of 16.86%. As a reminder, *SamCERA* should expect to underperform the Total Plan Policy Benchmark in the initial stages of its private equity implementation. In addition, the above portfolio returns do not reflect the performance of all portfolios. As of this writing, monthly performance for Angelo Gordon's PPIP, AQR's risk parity, AQR's hedge fund, various private equity and Invesco's core real estate portfolios have not been reported.

Uncertainty and a lack of confidence in policymakers continued to weigh on global financial markets in July. U.S. officials struggled in their efforts to extend the federal debt ceiling and avert the risk of potential default while European Union (EU) officials continued to search for a unified plan to stem the debt crisis in Europe. Recent economic data were softer in most advanced and some emerging economies, raising concerns that the global recovery may be faltering. It appears that the recovery remains on track in most economies. One should expect the emerging markets to continue leading an uneven global recovery.

Global equity indexes declined in July while most global bond markets performed well. Most commodities rose during the month, particularly gold, silver and Brent crude oil. The U.S. dollar was broadly weaker as concerns grew over the looming August 2 debt-ceiling deadline set by the Treasury Department. Reflecting the period's increased volatility, yields in most government bond markets declined, with U.S. 10-year Treasury yields falling from 3.18% to finish the month at 2.82%. Most spread sectors failed to keep up with the strong performance of U.S. Treasuries, and emerging-market sovereign credit spreads and high-yield corporate credit spreads widened moderately during the month.

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Below is an overview of the investment manager performance for selected periods:

Portfolio	Trailing One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
BlackRock Russell 1000	-2.17%	-4.90%	1.65%	20.74%
D.E. Shaw Investment Management, LLC	-1.33%	-3.38%	2.67%	21.23%
T. Rowe Price Associates	-1.74%	-4.45%	1.67%	20.24%
Barrow, Hanley, Mewhinney & Strauss	-4.75%	-6.89%	0.18%	18.93%
BlackRock Capital Management, Inc.	-1.32%	-5.42%	0.02%	23.55%
Large Cap Aggregate	-2.39%	-5.20%	1.10%	20.87%
The Boston Company	-3.20%	-8.19%	0.07%	15.62%
Chartwell Investment Partners	-2.73%	-6.93%	7.54%	34.88%
Jennison Associates	-3.78%	-6.53%	4.32%	30.07%
Small Cap Aggregate	-3.39%	-6.99%	4.19%	27.85%
Artio Global Investors	-0.81%	-5.59%	1.68%	16.12%
Mondrian Investment Partners	-1.05%	-3.77%	3.24%	16.59%
International Aggregate	-0.93%	-4.68%	2.46%	16.36%
Total Equity	-2.12%	-5.36%	1.96%	20.44%
Aberdeen Asset Management	1.72%	2.27%	4.67%	7.32%
Angelo Gordon	0.00%	-5.59%	-3.61%	23.72%
Brigade Capital Management	0.97%	1.34%	4.52%	12.51%
Brown Brothers Harriman	3.91%	5.36%	9.72%	11.57%
Franklin Templeton	10.81%	10.08%	20.45%	N/A
Pyramis Global Advisors	1.61%	2.46%	4.74%	6.47%
Western Asset Management	1.52%	2.29%	4.46%	7.84%
Total Fixed Income	3.16%	3.22%	6.94%	10.70%
Private Equity (1)	0.00%	-5.15%	-77.15%	N/A
AQR's Global Risk Premium (Risk Parity)	0.00%	-1.11%	N/A	N/A
AQR's Delta Fund (Hedge Fund)	0.00%	N/A	N/A	N/A
SSgA/SSARIS Commodity	0.00%	N/A	N/A	N/A
Total Alternative Investments	N/A	N/A	N/A	N/A
Invesco Realty Advisors	0.00%	6.93%	11.03%	24.80%
Cash	0.07%	0.25%	0.43%	1.02%
Total Portfolio	-0.40%	-2.16%	4.07%	17.83%

(1) As month end, *SamCERA* has committed to four private equity investments totaling \$60 million.



## San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending July 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>DOMESTIC EQUITY</b>													
BLACKROCK RUSSELL 1000 INDEX FUND	114,742,042	-2.17	-4.90	1.65	-2.17	20.74	17.63	3.41	-0.28	2.88	3.17	8.21	04/01/1995
DE SHAW INVESTMENT MGT, LLC	110,510,825	-1.33	-3.38	2.67	-1.33	21.23	17.67					17.67	08/01/2009
<i>RUSSELL 1000</i>		-2.17	-4.91	1.62	-2.17	20.68	17.55	3.33	-0.35	2.80	3.13		
T. ROWE PRICE ASSOCIATES	108,345,268	-1.74	-4.45	1.67	-1.74	20.24	16.34					16.34	08/01/2009
<i>S&amp;P 500</i>		-2.03	-4.76	1.46	-2.03	19.65	16.71					16.71	
BARROW HANLEY	164,412,436	-4.75	-6.89	0.18	-4.75	18.93	16.81					16.81	08/01/2009
<i>RUSSELL 1000 VALUE</i>		-3.32	-6.30	0.14	-3.32	16.76	16.07					16.07	
BLACKROCK	169,188,147	-1.32	-5.42	0.02	-1.32	23.55	18.62					18.62	08/01/2009
<i>RUSSELL 1000 GROWTH</i>		-1.00	-3.48	3.14	-1.00	24.76	19.07					19.07	
LARGE CAP AGGREGATE	667,198,718	-2.39	-5.20	1.10	-2.39	20.87	17.00	2.23	-1.20	1.53	2.80	7.99	04/01/1995
<i>RUSSELL 1000</i>		-2.17	-4.91	1.62	-2.17	20.68	17.55	3.33	-0.35	2.80	3.13	8.19	
BOSTON COMPANY ASSET MGT, LLC	48,329,878	-3.20	-8.19	0.07	-3.20	15.62	17.51					17.51	08/01/2009
<i>RUSSELL 2000 VALUE</i>		-3.31	-7.37	0.29	-3.31	18.55	19.33					19.33	
CHARTWELL INVESTMENT MGMT	58,885,611	-2.73	-6.93	7.54	-2.73	34.88	28.33	6.11	3.16	6.43		6.67	12/01/2004
<i>RUSSELL 2000 GROWTH</i>		-3.92	-7.81	4.92	-3.92	29.32	22.85	6.10	3.55	6.08		5.81	
JENNISON ASSOCIATES	119,366,865	-3.78	-6.53	4.32	-3.78	30.07	27.00	8.82				8.60	04/01/2008
SMALL CAP AGGREGATE	226,582,354	-3.39	-6.99	4.19	-3.39	27.85	25.10	5.55	-0.22	1.51	4.81	5.11	07/01/1999
<i>RUSSELL 2000</i>		-3.61	-7.60	2.63	-3.61	23.92	21.14	5.17	2.07	4.00	6.47	6.06	
DOMESTIC EQUITY AGGREGATE	893,781,073	-2.64	-5.64	1.74	-2.64	22.30	18.62	2.96	-0.94	1.59	3.24	7.21	07/01/1995
<i>SAMCERA DOMESTIC EQUITY BENCHMA</i>		-2.50	-5.53	1.86	-2.50	21.31	18.30	3.75	0.18	3.09	3.85		

## San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending July 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>INTERNATIONAL EQUITY</b>													
ARTIO GLOBAL INVESTOR	202,309,107	-0.81	-5.59	1.68	-0.81	16.12	10.82	-4.19	-5.97	0.51		5.67	12/01/2004
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		-0.56	-4.52	3.38	-0.56	20.35	15.66	0.44	-1.05	4.23		7.77	
MONDRIAN INVESTMENT PARTNERS	207,668,626	-1.05	-3.77	3.24	-1.05	16.59	12.41	0.64	-2.11	2.94		7.08	12/01/2004
<i>MSCI ACWI EX US VALUE (GROSS)</i>		-2.11	-6.34	0.05	-2.11	15.32	12.14	1.27	-2.55	3.01		7.27	
TOTAL INTERNATIONAL EQUITY	409,977,733	-0.93	-4.68	2.46	-0.93	16.36	11.62	-1.76	-4.03	1.74	5.70	6.29	10/01/1996
<i>MSCI AC WORLD ex US (GROSS)</i>		-1.33	-5.43	1.71	-1.33	17.86	13.92	0.88	-1.77	3.65	8.02	6.14	
TOTAL EQUITY AGGREGATE	1,303,758,806	-2.12	-5.36	1.96	-2.12	20.44	16.36	1.57	-1.83	1.62	3.80	7.17	04/01/1995
<i>SAMCERA TOTAL EQUITY BENCHMARK</i>		-2.10	-5.49	1.82	-2.10	20.21	16.94	2.93	-0.34	3.26	4.85		
<b>PRIVATE EQUITY</b>													
ABRYO ADVANCED SEC II LP	2,803,387	-0.06			-0.06							-12.35	06/01/2011
REGIMENT CAPITAL FUND	2,525,306												07/01/2011
SHERIDAN PRODUCTION PARTNERS	1,381,000	0.00	-5.15	-77.15	0.00							-90.40	11/01/2010
<i>RUSSELL 3000 + 3%</i>		-2.04	-4.42	3.21	-2.04							14.08	
TOTAL PRIVATE EQUITY	6,709,693	-0.02	-8.89	-78.05	-0.02							-90.78	11/01/2010
<i>PRIVATE EQUITY BENCHMARK</i>		-2.04	-4.42	3.21	-2.04								
<b>RISK PARITY</b>													
AQR GLOBAL RISK PREM III LP	145,620,720	0.00	-1.11		0.00							4.02	03/01/2011
TOTAL RISK PARITY	145,620,720	0.00	-1.11		0.00							4.02	03/01/2011
<i>RISK PARITY BENCHMARK</i>		-0.74	-2.08	2.75	-0.74								

## San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending July 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>HEDGE FUND</b>													
AQR DELTA FUND II, L.P.	69,986,280	0.00			0.00							-0.02	06/01/2011
<i>LIBOR + 4%</i>		<i>0.34</i>			<i>0.34</i>							<i>0.69</i>	
HEDGE FUND COMPOSITE	69,986,280	0.00			0.00							-0.02	06/01/2011
<i>LIBOR + 4%</i>		<i>0.34</i>			<i>0.34</i>							<i>0.69</i>	
<b>COMMODITIES</b>													
SSGA MULTISOURCE ACT COMM NL	75,000,000												07/01/2011
TOTAL COMMODITIES	75,000,000												07/01/2011
<i>DJ-UBS COMMODITY</i>		<i>2.96</i>			<i>2.96</i>							<i>2.96</i>	
<b>DOMESTIC FIXED INCOME</b>													
ABERDEEN ASSET MANAGEMENT	124,451,036	1.72	2.27	4.67	1.72	7.32	10.83	6.36	4.72	5.00	5.23	6.09	06/01/2000
ANGELO GORDON GECC PPI FUND	38,254,361	0.00	-5.59	-3.61	0.00	23.72						24.97	12/01/2009
PYRAMIS GLOBAL ADVISORS	114,907,900	1.61	2.46	4.74	1.61	6.47	9.57	9.13	7.38	6.92		6.46	02/01/2006
WESTERN ASSET MGMT	118,137,616	1.52	2.29	4.46	1.52	7.84	11.83	9.85	7.16	6.73		5.86	11/01/2004
<i>BC AGGREGATE</i>		<i>1.59</i>	<i>2.61</i>	<i>4.23</i>	<i>1.59</i>	<i>4.44</i>	<i>6.65</i>	<i>7.05</i>	<i>6.82</i>	<i>6.57</i>	<i>5.68</i>		
BRIGADE CAPITAL MANAGEMENT	50,627,880	0.97	1.34	4.52	0.97	12.51						12.51	08/01/2010
<i>BC BA INTERMEDIATE HIGH YIELD INDEX</i>		<i>1.38</i>	<i>1.41</i>	<i>4.22</i>	<i>1.38</i>	<i>11.25</i>						<i>11.25</i>	
BROWN BROTHERS HARRIMAN & CO	50,443,961	3.91	5.36	9.72	3.91	11.57						11.57	08/01/2010
<i>BARCLAYS US TIPS INDEX</i>		<i>4.05</i>	<i>5.20</i>	<i>9.97</i>	<i>4.05</i>	<i>11.99</i>						<i>11.99</i>	

## San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending July 31, 2011



STATE STREET

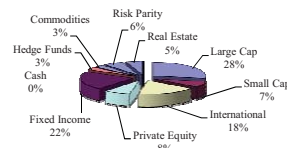
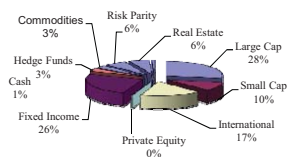
	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>INTERNATIONAL FIXED INCOME</b>													
FRANKLIN TEMPLETON INVESTMENTS	107,015,760	10.81	10.08	20.45	10.81							17.66	01/01/2011
<i>BC MULTIVERSE</i>		2.02	2.00	6.29	2.02							6.55	
<b>TOTAL FIXED INCOME</b>													
TOTAL FIXED INCOME AGGREGATE	603,838,513	3.16	3.22	6.94	3.16	10.70	12.62	9.69	7.33	6.95	6.11	6.29	01/01/1996
<i>SAMCERA TOTAL FIXED INCOME BENCH</i>		2.22	3.04	5.83	2.22	6.23	7.56	7.65	7.28	6.93	5.86	5.97	
<b>REAL ESTATE</b>													
INVESCO REAL ESTATE	135,475,106	0.00	6.93	11.03	0.00	24.80	7.57	-6.71	-3.09	0.18		5.54	10/01/2004
TOTAL REAL ESTATE AGGREGATE	135,475,106	0.00	6.93	11.03	0.00	24.80	7.57	-6.71	-3.09	0.18	6.87	7.48	01/01/1997
<i>SAMCERA NCREIF NFI ODCE EW (Gross)</i>		0.00	4.58	8.78	0.00	20.37	5.42	-7.09	-3.25	0.54	6.12	7.33	
<b>CASH EQUIVALENTS</b>													
SAMCERA GENERAL ACCOUNT	98,206	0.00	0.27	0.33	0.00	0.44	0.33	0.60	1.43	2.24	2.26	2.84	07/01/1999
SAMCERA TREASURY & LAIF	20,802,862	0.07	0.30	0.54	0.07	1.15	1.05	-0.59	0.54	1.30	2.22	3.47	07/01/1994
TOTAL CASH AGGREGATE	20,901,068	0.07	0.25	0.43	0.07	1.02	0.94	-0.30	0.72	1.45	2.17	2.73	07/01/1999
<i>91 DAY T-BILL</i>		-0.01	0.01	0.07	-0.01	0.14	0.15	0.36	1.11	1.91	2.09	2.69	
<b>TOTAL FUND</b>													
TOTAL FUND	2,361,290,186	-0.40	-2.16	4.07	-0.40	17.83	14.64	3.52	0.91	3.27	5.03	6.43	01/01/1996
<i>SAMCERA TOTAL PLAN POLICY BENCHM</i>		-0.74	-2.71	3.19	-0.74	16.86	14.14	4.33	2.12	4.57	5.58	6.63	
<i>ACTUARIAL DISCOUNT RATE</i>		0.62	1.88	3.80	0.62	7.75	7.75	7.75	7.75	7.75	7.92		

San Mateo County Employees' Retirement Association  
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Actual versus Target Allocation

Portfolio	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target *		
BlackRock Russell 1000	\$114,742,042	4.86%	6.50%	-1.64%	±3%
D.E. Shaw Investment Management, LLC	\$110,510,825	4.68%	4.25%	0.43%	±3%
T. Rowe Price Associates	\$108,345,268	4.59%	4.25%	0.34%	±3%
Barrow, Hanley, Mewhinney & Strauss	\$164,412,436	6.96%	6.50%	0.46%	±3%
BlackRock Capital Management, Inc.	\$169,188,147	7.16%	6.50%	0.66%	±3%
<b>Large Cap Aggregate</b>	<b>\$667,198,718</b>	<b>28.25%</b>	<b>28.00%</b>	<b>0.25%</b>	
The Boston Company	\$48,329,878	2.05%	1.75%	0.30%	±3%
Chartwell Investment Partners	\$58,885,611	2.49%	1.75%	0.74%	±3%
Jennison Associates	\$119,366,865	5.05%	3.50%	1.55%	±3%
<b>Small Cap Aggregate</b>	<b>\$226,582,354</b>	<b>9.60%</b>	<b>7.00%</b>	<b>2.60%</b>	
Artio Global Investors	\$202,310,342	8.57%	9.00%	-0.43%	±3%
Mondrian Investment Partners	\$207,662,615	8.79%	9.00%	-0.21%	±3%
<b>International Aggregate</b>	<b>\$409,972,957</b>	<b>17.36%</b>	<b>18.00%</b>	<b>-0.64%</b>	±3%
<b>Total Equity</b>	<b>\$1,303,754,029</b>	<b>55.21%</b>	<b>53.00%</b>	<b>2.21%</b>	
Aberdeen Asset Management	\$124,451,036	5.27%	3.75%	1.52%	±2%
Angelo Gordon	\$38,254,361	1.62%	1.63%	0.00%	±2%
Brigade Capital Management	\$50,627,880	2.14%	1.63%	0.52%	±2%
Brown Brothers Harriman	\$50,443,961	2.14%	3.00%	-0.86%	±2%
Franklin Templeton	\$107,033,001	4.53%	4.50%	0.03%	±2%
Pyramis Global Advisors	\$114,907,900	4.87%	3.75%	1.12%	±2%
Western Asset Management Company	\$118,137,616	5.00%	3.75%	1.25%	±2%
<b>Total Fixed Income</b>	<b>\$603,855,754</b>	<b>25.57%</b>	<b>22.00%</b>	<b>3.57%</b>	
Private Equity	\$6,784,693	0.29%	8.00%	-7.71%	N/A
AQR Global Risk Premium	\$145,620,720	6.17%	6.00%	0.17%	N/A
AQR Delta Fund (Hedge Fund)	\$69,986,280	2.96%	3.00%	-0.04%	N/A
SSGA/SSARIS Multisource Commodities	\$75,000,000	3.18%	3.00%	0.18%	N/A
<b>Alternative Investments</b>	<b>\$297,391,693</b>	<b>12.59%</b>	<b>20.00%</b>	<b>-7.41%</b>	
INVESCO Realty Advisors	\$135,475,106	5.74%	5.00%	0.74%	±2%
Cash	\$20,901,068	0.89%	0.00%	0.89%	
<b>Total</b>	<b>\$2,361,377,651</b>	<b>100.00%</b>	<b>100.00%</b>		

\* *SamCERA* is in the process of implementing alternative asset allocations. As the allocation is being implemented, the actual versus target returns and target allocations will be impacted.



San Mateo County Employees' Retirement Associatio  
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Change in Portfolio Market Value by Manager

Portfolio	Current Month	Prior Month	% Change (1)	Prior Year	% Change (1)
BlackRock Russell 1000	\$114,742,042	\$142,028,817	-19.2%	\$224,895,646	-49.0%
D.E. Shaw Investment Management, LLC	\$110,510,825	\$112,003,896	-1.3%	\$91,158,530	21.2%
T. Rowe Price Associates	\$108,345,268	\$110,260,680	-1.7%	\$90,104,458	20.2%
Barrow, Hanley, Mewhinney & Strauss	\$164,412,436	\$172,604,722	-4.7%	\$138,246,645	18.9%
BlackRock Capital Management, Inc.	\$169,188,147	\$171,445,737	-1.3%	\$136,937,535	23.6%
<b>Large Cap Aggregate</b>	<b>\$667,198,718</b>	<b>\$708,343,852</b>	<b>-5.8%</b>	<b>\$681,342,814</b>	<b>-2.1%</b>
The Boston Company	\$48,329,878	\$49,925,577	-3.2%	\$41,802,246	15.6%
Chartwell Investment Partners	\$58,885,611	\$60,535,796	-2.7%	\$43,656,457	34.9%
Jennison Associates	\$119,366,865	\$124,060,920	-3.8%	\$91,772,152	30.1%
<b>Small Cap Aggregate</b>	<b>\$226,582,354</b>	<b>\$234,522,293</b>	<b>-3.4%</b>	<b>\$177,230,855</b>	<b>27.8%</b>
Artio Global Investors	\$202,310,342	\$203,962,765	-0.8%	\$191,154,036	5.8%
Mondrian Investment Partners	\$207,662,615	\$209,864,143	-1.0%	\$194,892,656	6.6%
<b>International Aggregate</b>	<b>\$409,972,957</b>	<b>\$413,826,908</b>	<b>-0.9%</b>	<b>\$386,046,692</b>	<b>6.2%</b>
<b>Total Equity</b>	<b>\$1,303,754,029</b>	<b>\$1,356,693,053</b>	<b>-3.9%</b>	<b>\$1,244,620,361</b>	<b>4.8%</b>
Aberdeen Asset Management	\$124,451,036	\$122,345,880	1.7%	\$140,455,917	-11.4%
Angelo Gordon	\$38,254,361	\$40,337,951	-5.2%	\$25,103,453	N/A
Brigade Capital Management	\$50,627,880	\$50,141,745	N/A	\$45,000,000	N/A
Brown Brothers Harriman	\$50,443,961	\$48,545,233	N/A	\$45,211,648	N/A
Franklin Templeton	\$107,033,001	\$106,143,892	N/A	\$0	N/A
Pyramis Global Advisors	\$114,907,900	\$113,091,422	1.6%	\$167,140,936	-31.3%
Western Asset Management Company	\$118,137,616	\$116,373,486	1.5%	\$173,125,797	-31.8%
<b>Total Fixed Income</b>	<b>\$603,855,754</b>	<b>\$596,979,609</b>	<b>1.2%</b>	<b>\$596,037,751</b>	<b>1.3%</b>
Private Equity	\$6,784,693	\$3,383,419	100.5%	\$0	N/A
Risk Parity	\$145,620,720	\$147,619,360	-1.4%	\$0	N/A
Hedge Funds	\$69,986,280	\$70,000,000	0.0%	\$0	N/A
Comodities	\$75,000,000	\$0	N/A	\$0	N/A
<b>Alternative Investments</b>	<b>\$297,391,693</b>	<b>\$221,002,779</b>	<b>34.6%</b>	<b>\$0</b>	<b>N/A</b>
INVESCO Realty Advisors	\$135,475,106	\$126,673,968	6.9%	\$109,210,472	N/A
<b>Cash</b>	<b>\$20,901,068</b>	<b>\$5,273,628</b>	<b>296.3%</b>	<b>\$26,775,704</b>	<b>-21.9%</b>
<b>Total</b>	<b>\$2,361,377,651</b>	<b>\$2,306,623,037</b>	<b>2.4%</b>	<b>\$1,976,644,287</b>	<b>19.5%</b>

Change in Asset Allocation by Asset Class

	Current Month	Prior Month	Absolute Change	Prior Year	Absolute Change
Total Equity	55.2%	58.8%	-3.6%	63.0%	-7.8%
Total Fixed Income	25.6%	25.9%	-0.3%	30.2%	-4.6%
Alternative Investments	12.6%	9.6%	3.0%	0.0%	12.6%
Real Estate	5.7%	5.5%	0.2%	5.5%	0.2%
Cash	0.9%	0.2%	0.7%	1.4%	-0.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	

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Aggregate Performance

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date (1)	Two Years	Three Years	Five Years	Ten Years
						One Months				
Equity Aggregate	\$1,303,754,029	-2.12%	-5.36%	1.96%	20.44%	-2.12%	16.36%	1.57%	1.62%	3.80%
Equity Composite Benchmark		-2.10%	-5.49%	1.82%	20.21%	2.10%	16.94%	2.93%	3.26%	4.85%
<b>Variance</b>		<b>-0.02%</b>	<b>0.13%</b>	<b>0.14%</b>	<b>0.23%</b>	<b>-4.22%</b>	<b>-0.58%</b>	<b>-1.36%</b>	<b>-1.64%</b>	<b>-1.05%</b>
Private Equity Aggregate	\$6,784,693	-0.02%	-5.15%	-77.15%	N/A	-0.02%	N/A	N/A	N/A	N/A
Private Equity Composite Benchmark		-2.04%	-4.42%	3.21%	N/A	-2.04%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>2.02%</b>	<b>-0.73%</b>	<b>-80.36%</b>	<b>N/A</b>	<b>2.02%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Risk Parity Aggregate	\$145,620,720	0.00%	-1.11%	N/A	N/A	0.00%	N/A	N/A	N/A	N/A
Risk Parity Benchmark (60/40 Portfolio)		-0.74%	-2.08%	N/A	N/A	-0.74%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>0.74%</b>	<b>0.97%</b>	<b>N/A</b>	<b>N/A</b>	<b>0.74%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Hedge Fund Aggregate	\$69,986,280	0.00%	N/A	N/A	N/A	0.00%	N/A	N/A	N/A	N/A
Hedge Fund Benchmark (LIBOR + 4%)		0.34%	N/A	N/A	N/A	0.34%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>-0.34%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-0.34%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Commodities	\$75,000,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DJ - UBS Commodity Benchmark		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Fixed Income Aggregate	\$603,855,754	3.16%	3.22%	6.94%	10.70%	3.16%	12.62%	9.69%	6.95%	6.11%
Fixed Income Composite Benchmark		2.22%	3.04%	5.83%	6.23%	2.22%	7.56%	7.65%	6.93%	5.86%
<b>Variance</b>		<b>0.94%</b>	<b>0.18%</b>	<b>1.11%</b>	<b>4.47%</b>	<b>0.94%</b>	<b>5.06%</b>	<b>2.04%</b>	<b>0.02%</b>	<b>0.25%</b>
Real Estate Aggregate (2)	\$135,475,106	0.00%	6.93%	11.03%	24.80%	0.00%	7.57%	-6.71%	0.18%	6.87%
NCREIF NFI ODCE EW (Gross)		0.00%	4.58%	8.78%	20.37%	0.00%	5.42%	-7.09%	0.54%	6.12%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>2.25%</b>	<b>4.43%</b>	<b>0.00%</b>	<b>2.15%</b>	<b>0.38%</b>	<b>-0.36%</b>	<b>0.75%</b>
Cash Aggregate	\$20,901,068	0.07%	0.25%	0.43%	1.02%	0.07%	0.94%	-0.30%	1.45%	2.17%
91 Day Treasury Bill		-0.01%	0.01%	0.07%	0.14%	-0.01%	0.15%	0.36%	1.91%	2.09%
<b>Variance</b>		<b>0.08%</b>	<b>0.24%</b>	<b>0.36%</b>	<b>0.88%</b>	<b>0.08%</b>	<b>0.79%</b>	<b>-0.66%</b>	<b>-0.46%</b>	<b>0.08%</b>
Total Fund Returns	\$2,361,377,651	-0.40%	-2.16%	4.07%	17.83%	-0.40%	14.64%	3.52%	3.27%	5.03%
Total Plan Policy Benchmark		-0.74%	-2.71%	3.19%	16.86%	-0.74%	14.14%	4.33%	4.57%	5.58%
<b>Variance</b>		<b>0.34%</b>	<b>0.55%</b>	<b>0.88%</b>	<b>0.97%</b>	<b>0.34%</b>	<b>0.50%</b>	<b>-0.81%</b>	<b>-1.30%</b>	<b>-0.55%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns	\$2,361,377,651	-0.40%	-2.16%	4.07%	17.83%	-0.40%	14.64%	3.52%	3.27%	5.03%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%	0.62%	7.75%	7.75%	7.75%	7.92%
<b>Variance</b>		<b>-1.02%</b>	<b>-4.04%</b>	<b>0.27%</b>	<b>10.08%</b>	<b>-1.02%</b>	<b>6.89%</b>	<b>-4.23%</b>	<b>-4.48%</b>	<b>-2.89%</b>

(1) SamCERA's Fiscal Year is 7/1 through 6/30

(2) The Real Estate Aggregate prior to 12/99 includes REIT returns

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Manager & Benchmark Performance

Manager Performance

Portfolio	(1)					One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date One Months						
BlackRock Russell 1000	-2.17%	-4.90%	1.65%	20.74%	-2.17%	20.74%	17.63%	3.41%	-0.28%	2.88%	3.17%
D.E. Shaw Investment Management, LLC	-1.33%	-3.38%	2.67%	21.23%	-1.33%	21.23%	17.67%	N/A	N/A	N/A	N/A
T. Rowe Price Associates	-1.74%	-4.45%	1.67%	20.24%	-1.74%	20.24%	16.34%	N/A	N/A	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	-4.75%	-6.89%	0.18%	18.93%	-4.75%	18.93%	16.81%	N/A	N/A	N/A	N/A
BlackRock Capital Management, Inc.	-1.32%	-5.42%	0.02%	23.55%	-1.32%	23.55%	18.62%	N/A	N/A	N/A	N/A
<b>Large Cap Aggregate</b>	<b>-2.39%</b>	<b>-5.20%</b>	<b>1.10%</b>	<b>20.87%</b>	<b>-2.39%</b>	<b>20.87%</b>	<b>17.00%</b>	<b>2.23%</b>	<b>-1.20%</b>	<b>1.53%</b>	<b>2.80%</b>
The Boston Company	-3.20%	-8.19%	0.07%	15.62%	-3.20%	15.62%	17.51%	N/A	N/A	N/A	N/A
Chartwell Investment Partners	-2.73%	-6.93%	7.54%	34.88%	-2.73%	34.88%	28.33%	6.11%	3.16%	6.43%	N/A
Jennison Associates	-3.78%	-6.53%	4.32%	30.07%	-3.78%	30.07%	27.00%	8.82%	N/A	N/A	N/A
<b>Small Cap Aggregate</b>	<b>-3.39%</b>	<b>-6.99%</b>	<b>4.19%</b>	<b>27.85%</b>	<b>-3.39%</b>	<b>27.85%</b>	<b>25.10%</b>	<b>5.55%</b>	<b>-0.22%</b>	<b>1.51%</b>	<b>4.81%</b>
Artio Global Investors	-0.81%	-5.59%	1.68%	16.12%	-0.81%	16.12%	10.82%	-4.19%	-5.97%	0.51%	N/A
Mondrian Investment Partners	-1.05%	-3.77%	3.24%	16.59%	-1.05%	16.59%	12.41%	0.64%	-2.11%	2.94%	N/A
<b>International Aggregate</b>	<b>-0.93%</b>	<b>-4.68%</b>	<b>2.46%</b>	<b>16.36%</b>	<b>0.93%</b>	<b>16.36%</b>	<b>11.62%</b>	<b>-1.76%</b>	<b>-4.03%</b>	<b>1.74%</b>	<b>5.70%</b>
<b>Total Equity</b>	<b>-2.12%</b>	<b>-5.36%</b>	<b>1.96%</b>	<b>20.44%</b>	<b>-2.12%</b>	<b>20.44%</b>	<b>16.36%</b>	<b>1.57%</b>	<b>-1.83%</b>	<b>1.62%</b>	<b>3.80%</b>
Aberdeen Asset Management	1.72%	2.27%	4.67%	7.32%	1.72%	7.32%	10.83%	6.36%	4.72%	5.00%	5.23%
Angelo Gordon	0.00%	-5.59%	-3.61%	23.72%	0.00%	23.72%	N/A	N/A	N/A	N/A	N/A
Brigade Capital Management	0.97%	1.34%	4.52%	12.51%	0.97%	12.51%	N/A	N/A	N/A	N/A	N/A
Brown Brothers Harriman	3.91%	5.36%	9.72%	11.57%	3.91%	11.57%	N/A	N/A	N/A	N/A	N/A
Franklin Templeton	10.81%	10.08%	20.45%	N/A	10.81%	N/A	N/A	N/A	N/A	N/A	N/A
Pyramis Global Advisors	1.61%	2.46%	4.74%	6.47%	1.61%	6.47%	9.57%	9.13%	7.38%	6.92%	N/A
Western Asset Management Company	1.52%	2.29%	4.46%	7.84%	1.52%	7.84%	11.83%	9.85%	7.16%	6.73%	N/A
<b>Total Fixed Income</b>	<b>3.16%</b>	<b>3.22%</b>	<b>6.94%</b>	<b>10.70%</b>	<b>3.16%</b>	<b>10.70%</b>	<b>12.62%</b>	<b>9.69%</b>	<b>7.33%</b>	<b>6.95%</b>	<b>6.11%</b>
Private Equity	0.00%	-5.15%	-7.15%	N/A	0.00%	N/A	N/A	N/A	N/A	N/A	N/A
Risk Parity	0.00%	-1.11%	N/A	N/A	0.00%	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	0.00%	N/A	N/A	N/A	0.00%	N/A	N/A	N/A	N/A	N/A	N/A
Comodities	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Alternative Investments</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
INVESCO Realty Advisors	0.00%	6.93%	11.03%	24.80%	0.00%	24.80%	7.57%	-6.71%	-3.09%	0.18%	6.87%
Cash	0.07%	0.25%	0.43%	1.02%	0.07%	1.02%	0.94%	-0.30%	0.72%	1.45%	2.17%
<b>Total</b>	<b>-0.40%</b>	<b>-2.16%</b>	<b>4.07%</b>	<b>17.83%</b>	<b>-0.40%</b>	<b>17.83%</b>	<b>14.64%</b>	<b>3.52%</b>	<b>0.91%</b>	<b>3.27%</b>	<b>5.03%</b>

Benchmark Performance

Russell 1000	-2.17%	-4.91%	1.62%	20.68%	-2.17%	20.68%	17.55%	3.33%	-0.35%	2.80%	3.13%
S&P 500	-2.03%	-4.76%	1.46%	19.63%	-2.03%	19.65%	16.71%	N/A	N/A	N/A	N/A
Russell 1000 Value	-3.32%	-6.30%	0.14%	16.76%	-3.32%	16.76%	16.07%	N/A	N/A	N/A	N/A
Russell 1000 Growth	-1.00%	-3.48%	3.14%	24.76%	-1.00%	24.76%	19.07%	N/A	N/A	N/A	N/A
Russell 2000	-3.61%	-7.60%	2.63%	23.92%	-3.61%	23.92%	21.14%	5.17%	2.07%	4.00%	6.47%
Russell 2000 Value	-3.31%	-7.37%	0.29%	18.55%	-3.31%	18.55%	19.33%	N/A	N/A	N/A	N/A
Russell 2000 Growth	-3.92%	-7.81%	4.92%	29.32%	-3.92%	29.32%	22.85%	6.10%	3.55%	6.08%	N/A
MSCI ACWI ex US (Gross)	-1.33%	-5.43%	1.71%	17.86%	-1.33%	17.86%	13.92%	0.88%	-1.77%	3.65%	8.02%
MSCI ACWI ex US Growth (Gross)	-0.56%	-4.52%	3.38%	20.35%	-0.56%	20.35%	15.66%	0.44%	-1.05%	4.23%	N/A
MSCI ACWI ex US Value (Gross)	-2.11%	-6.34%	0.05%	15.32%	-2.11%	15.32%	12.14%	1.27%	-2.55%	3.01%	N/A
Russell 3000 + 3% (Private Equity)	-2.04%	-4.42%	3.21%	N/A	-2.04%	N/A	N/A	N/A	N/A	N/A	N/A
60% Russell 3000 / 40% Barclays Aggregate (Risk Parity)	-0.74%	-2.08%	2.75%	N/A	-0.74%	N/A	N/A	N/A	N/A	N/A	N/A
LIBOR +4% (Hedge Fund)	0.34%	N/A	N/A	N/A	3.40%	N/A	N/A	N/A	N/A	N/A	N/A
DJ - UBS Commodities Index	2.96%	N/A	N/A	N/A	2.96%	N/A	N/A	N/A	N/A	N/A	N/A
Barclays Capital Aggregate	1.59%	2.61%	4.23%	4.44%	1.59%	4.44%	6.65%	7.05%	6.82%	6.57%	5.68%
Barclays U.S. TIPS Index	4.05%	5.20%	9.97%	11.99%	4.05%	11.99%	N/A	N/A	N/A	N/A	N/A
BC BA Intermediate High Yield Index	1.38%	1.41%	4.22%	11.25%	1.38%	11.25%	N/A	N/A	N/A	N/A	N/A
Barclays Capital Multiverse Index	2.02%	2.00%	6.29%	N/A	2.02%	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF NFI ODCE EW (Gross)	0.00%	4.58%	8.78%	20.37%	0.00%	20.37%	5.42%	-7.09%	-3.25%	0.54%	6.12%
91 Day Treasury Bill	-0.01%	0.01%	0.07%	0.14%	-0.01%	0.14%	0.15%	0.36%	1.11%	1.91%	2.09%
SamCERA Plan Policy Benchmark	-0.74%	-2.71%	3.19%	16.86%	-0.74%	16.86%	14.14%	4.33%	2.12%	4.57%	5.58%
SamCERA Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	0.62%	7.75%	7.75%	7.75%	7.75%	7.75%	7.92%

(1) SamCERA Fiscal Year is 7/1 through 6/30  
 (2) Refer to page 13 for benchmark details



San Mateo County Employees' Retirement Association  
Monthly Performance Review  
Period Ending July 31, 2011

Realized & Unrealized Gain / (Loss)

Portfolio	Beginning	(1)	Contributions/ (Withdrawals) for the FYTD	Ending	Prior Years	FYTD	Ending
	Book Balance As of 07/01/2011	Realized Gain / (Loss) for the FYTD		Book Balance As of 07/31/2011	Accumulated Unrealized Gains / (Loss)	Unrealized Gains / (Loss)	Market Value As of 07/31/2011
BlackRock Russell 1000	\$116,239,675.42	4,747,118	(25,000,000)	\$95,986,793.01	\$25,789,141	(\$7,033,893)	\$114,742,042
D.E. Shaw Investment Management LLC	\$104,437,429.03	824,280		\$105,261,708.80	\$7,566,467	(\$2,317,351)	\$110,510,825
T. Rowe Price Associates	\$90,671,733.96	453,385		\$91,125,119.32	\$19,588,947	(\$2,368,797)	\$108,345,268
Barrow Hanley	\$137,062,910.95	721,369		\$137,784,279.85	\$35,541,811	(\$8,913,655)	\$164,412,436
BlackRock	\$137,507,026.05	887,682		\$138,394,708.48	\$33,938,711	(\$3,145,272)	\$169,188,147
The Boston Company	\$42,422,535.09	94,844		\$42,517,379.38	\$7,503,042	(\$1,690,544)	\$48,329,878
Chartwell Investment Partners	\$49,714,955.60	731,791		\$50,446,746.38	\$10,820,841	(\$2,381,976)	\$58,885,611
Jennison Associates	\$96,873,436.26	666,138		\$97,539,574.46	\$27,187,483	(\$5,360,192)	\$119,366,865
Artio Global Investors	\$176,118,388.38	(335,898)		\$175,782,490.35	\$27,844,377	(\$1,316,525)	\$202,310,342
Mondrian Investment Partners	\$199,643,052.25	7,577		\$199,650,629.65	\$10,221,090	(\$2,209,105)	\$207,662,615
Aberdeen Asset Management	\$121,263,066.81	514,578		\$121,777,644.95	\$1,082,815	\$1,590,576	\$124,451,036
Angelo Gordon	\$30,056,249.00		(472,500)	\$29,583,749.00	\$8,809,096	(\$138,484)	\$38,254,361
Bridage Capital Management	\$45,000,000.00			\$45,000,000.00	\$5,141,745	\$486,135	\$50,627,880
Brown Brothers Harriman	\$47,586,488.24	314,269		\$47,900,757.34	\$958,745	\$1,584,458	\$50,443,961
Franklin Templeton Investments	\$102,493,815.00	748,007		\$103,241,822.28	\$3,650,077	\$141,102	\$107,033,001
Pyramis Global Advisors	\$81,745,258.37			\$81,745,258.37	\$31,162,641	\$2,000,000	\$114,907,900
Western Asset Management Company	\$116,975,047.04	686,155		\$117,661,202.22	(\$601,561)	\$1,077,975	\$118,137,616
Private Equity (Sheridan & ABRV)	\$3,327,419.00	814,203	2,643,071	\$6,784,692.61	\$0	\$0	\$6,784,693
AQR's Global Risk Premium	\$140,000,000.00			\$140,000,000.00	\$0	\$5,620,720	\$145,620,720
AQR's Delta Fund (Hedge Fund)	\$70,000,000.00			\$70,000,000.00	\$0	(\$13,720)	\$69,986,280
Comodities	\$0.00		75,000,000	\$75,000,000.00	\$0	\$0.00	\$75,000,000
INVESCO Core US Real Estate Fund	\$136,831,829.92			\$136,831,829.92	\$0	(\$1,356,724)	\$135,475,106
Cash	\$5,273,627.54			\$20,901,068.45	\$0	\$0	\$20,901,068
<b>Total</b>	<b>\$2,051,243,943.91</b>	<b>\$11,875,498.92</b>	<b>\$52,170,571.08</b>	<b>\$2,130,917,454.82</b>	<b>\$256,205,466.60</b>	<b>-\$25,745,271.02</b>	<b>\$2,361,377,650.40</b>

(1) SamCERA's Fiscal Year is 7/1 through 6/30

San Mateo County Employees' Retirement Association  
 Monthly Performance Review  
 Period Ending July 31, 2011

Cash Flows and Fiscal Year to Date Return

Portfolio	Beginning Market Value Balance As of 07/01/2011	(1) Earnings / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Market Value Balance As of 07/31/2011	Fiscal Year to Date Return (Portfolio)	Fiscal Year to Date Return (Benchmark)
BlackRock Russell 1000	\$116,239,675	\$4,747,118	-\$25,000,000	\$95,986,793	-2.17%	-2.17%
D.E. Shaw Investment Management, LLC	\$104,437,429	\$824,280	\$0	\$105,261,709	-1.33%	-2.17%
T. Rowe Price Associates	\$90,671,734	\$453,385	\$0	\$91,125,119	-1.74%	-2.03%
Barrow, Hanley, Mewhinney & Strauss	\$137,062,911	\$721,369	\$0	\$137,784,280	-4.75%	-3.32%
BlackRock Capital Management, Inc.	\$137,507,026	\$887,682	\$0	\$138,394,708	-1.32%	-1.00%
The Boston Company	\$42,422,535	\$94,844	\$0	\$42,517,379	-3.20%	-3.31%
Chartwell Investment Partners	\$49,714,956	\$731,791	\$0	\$50,446,746	-2.73%	-3.92%
Jennison Associates	\$96,873,436	\$666,138	\$0	\$97,539,574	-3.78%	-3.61%
Artio Global Investors	\$176,118,388	-\$335,898	\$0	\$175,782,490	-0.81%	-0.56%
Mondrian Investment Partners	\$199,643,052	\$7,577	\$0	\$199,650,630	-1.05%	#REF!
Aberdeen Asset Management	\$121,263,067	\$514,578	\$0	\$121,777,645	1.72%	1.59%
Angelo Gordon	\$30,056,249	\$0	-\$472,500	\$29,583,749	0.00%	1.38%
Brigade Capital Management	\$45,000,000	\$0	\$0	\$45,000,000	0.97%	1.38%
Brown Brothers Harriman	\$47,586,488	\$314,269	\$0	\$47,900,757	3.91%	4.05%
Franklin Templeton	\$102,493,815	\$748,007	\$0	\$103,241,822	10.81%	N/A
Pyramis Global Advisors	\$81,745,258	\$0	\$0	\$81,745,258	1.61%	1.59%
Western Asset Management Company	\$116,975,047	\$686,155	\$0	\$117,661,202	1.52%	1.59%
Private Equity	\$3,327,419	\$814,203	\$2,643,071	\$6,784,693	0.00%	N/A
AQR Global Risk Premium	\$140,000,000	\$0	\$0	\$140,000,000	0.00%	N/A
AQR Delta Fund (Hedge Fund)	\$70,000,000	\$0	\$0	\$70,000,000	0.00%	N/A
SSGA/SSARIS Multisource Commodities	\$0	\$0	\$75,000,000	\$75,000,000	N/A	N/A
INVESCO Realty Advisors	\$136,831,830	\$0	\$0	\$136,831,830	0.00%	0.00%
Cash	\$5,273,628	\$0	\$0	\$5,273,628	0.07%	-0.01%
<b>Total</b>	<b>\$2,051,243,944</b>	<b>\$11,875,499</b>	<b>\$52,170,571</b>	<b>\$2,115,290,014</b>	<b>-0.40%</b>	<b>-0.74%</b>

(1) SamCERA's Fiscal Year is 7/1 through 6/30

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending July 31, 2011

Professional Services Fees

Investment Management Fees	Market Value As of 07/31/2011	For the Quarter Ending				Fiscal Year 2010 / 2011	Estimated Annual Fee (1)
		Estimated 9/30/2010	12/31/2010	3/31/2011	6/30/2011		
BlackRock Russell 1000	\$ 114,742,041.61	\$5,600				\$5,600	\$95,000
D.E. Shaw Investment Management, LLC	\$ 110,510,824.72	\$46,500				\$46,500	\$475,000
T. Rowe Price Associates	\$ 108,345,268.45	\$31,600				\$31,600	\$350,000
Barrow, Hanley, Mewhinney & Strauss	\$ 164,412,436.05	\$30,900				\$30,900	\$650,000
BlackRock Capital Management, Inc.	\$ 169,188,147.35	\$64,700				\$64,700	\$675,000
The Boston Company	\$ 48,329,877.65	\$34,300				\$34,300	\$375,000
Chartwell Investment Partners	\$ 58,885,611.39	\$36,800				\$36,800	\$350,000
Jennison Associates	\$ 119,366,865.35	\$76,400				\$76,400	\$775,000
Artio Global Investors	\$ 202,310,342.01	\$82,200				\$82,200	\$975,000
Mondrian Investment Partners	\$ 207,662,614.84	\$32,400				\$32,400	\$50,000
Aberdeen Asset Management	\$ 124,451,035.55	\$27,600				\$27,600	\$375,000
Angelo Gordon	\$ 38,254,361.24	N/A				N/A	\$350,000
Brigade Capital Management	\$ 50,627,880.00	N/A				N/A	\$225,000
Brown Brothers Harriman	\$ 50,443,960.56	\$6,300				\$6,300	\$75,000
Franklin Templeton	\$ 107,033,001.16	\$35,100				\$35,100	N/A
Pyramis Global Advisors	\$ 114,907,899.63	\$16,900				\$16,900	\$275,000
Western Asset Management Company	\$ 118,137,616.14	\$27,300				\$27,300	\$425,000
Private Equity	\$ 6,784,692.61	N/A				N/A	N/A
AQR' Global Risk Premium (Risk Parity)	\$ 145,620,720.00	N/A				N/A	N/A
AQR's Delta Fund (Hedge Fund)	\$ 69,986,280.00	N/A				N/A	N/A
Ssga/SSARIS Commodities	\$ 75,000,000.00	N/A				N/A	N/A
INVESCO Realty Advisors	\$ 135,475,106.00	\$51,900				\$51,900	\$650,000
Sub-Total	\$2,340,476,582	\$606,500	\$0	\$0	\$0	\$606,500	\$7,145,000
<b>Investment Consultant Fees</b>							
Strategic Investment Solutions		\$33,333				\$33,333	\$400,000
<b>Global Custodian Fees</b>							
State Street Bank & Trust		\$18,000				\$18,000	\$125,000
<b>Actuarial Consultant Fees</b>							
Milliman, Inc.		\$32,750				\$32,750	\$60,000
Sub-Total		\$84,083	\$0	\$0	\$0	\$84,083	\$585,000
<b>Total</b>		<b>\$690,583</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$690,583</b>	<b>\$7,730,000</b>

**San Mateo County  
Benchmark History**

<b>Total Plan Policy</b>	<b>1/1/2011</b>	<b>10/1/2010</b>	<b>1/1/2009</b>	<b>5/1/2007</b>	<b>6/1/2000</b>	<b>3/1/1999</b>	<b>9/1/1998</b>	<b>7/1/1996</b>
Russell 1000	27.0%	28.0%	37%	37%	40%	22%	20%	20%
Russell 2000	8.0%	7.0%	9%	9%	10%	15%	15%	15%
S&P 500								5%
Russell 1000 Value						5%	5%	
MSCI ACWI -ex US	18.0%	18.0%	21%	21%	15%			
MSCI EAFE						20%	20%	20%
Barclays Aggregate	11.0%	12.9%	27%	27%	29%	25%	21%	21%
Barclays BBB	3.3%	1.6%						
Barclays TIPS	3.3%	3.0%						
Barclays Multiverse	4.4%	4.5%						
Citigroup Non-US WGBI unhedged						5%	9%	9%
NCREIF ODCE	5.0%	5.0%	6%					
NCREIF Property				6%	6%			
Citigroup 10 Yr Treasury + 2%						8%	10%	10%
Russell 3000 + 3%	8.0%	8.0%						
60% Russell 3000/40% Barclays Agg	6.0%	6.0%						
LIBOR + 4%	3.0%	3.0%						
DJ UBS Commodity	3.0%	3.0%						
	100.0%	100.0%	100%	100%	100%	100%	100%	100%
<b>US Equity</b>	<b>1/1/2011</b>	<b>6/1/2000</b>	<b>3/1/1999</b>	<b>9/1/1998</b>	<b>7/1/1996</b>	<b>1/1/1995</b>		
Russell 1000	77%	80%	52%	50.0%	50.0%	69%		
Russell 2000	23%	20%	36%	37.5%	37.5%	14%		
S&P 500					12.5%	17%		
Russell 1000 Value			12%	12.5%				
	100%	100%	100%	100.0%	100.0%	100%		
<b>International Equity</b>	<b>6/1/2000</b>	<b>1/1/1996</b>						
MSCI ACWI -ex US	100%							
MSCI EAFE		100%						
	100%	100%						
<b>Total Equity</b>	<b>10/1/2010</b>	<b>5/1/2007</b>	<b>6/1/2000</b>	<b>3/1/1999</b>	<b>9/1/1998</b>	<b>1/1/1996</b>		
Russell 1000	50.9%	55.2%	61.5%	35.5%	33.3%	33.3%		
Russell 2000	15.1%	13.5%	15.4%	24.2%	25.0%	25.0%		
S&P 500						8.4%		
Russell 1000 Value				8.0%	8.4%			
MSCI ACWI -ex US	34.0%	31.3%	23.1%					
MSCI EAFE				32.3%	33.3%	33.3%		
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
<b>US Fixed Income</b>	<b>1/1/2011</b>	<b>10/1/2010</b>	<b>7/1/1996</b>					
Barclays Aggregate	62.4%	73.7%	100%					
Barclays BBB	18.8%	9.1%						
Barclays TIPS	18.8%	17.2%						
	100.0%	100.0%	100%					
<b>Global Fixed Income</b>	<b>10/1/2010</b>							
Barclays Multiverse	100%							
<b>Total Fixed Income</b>	<b>1/1/2011</b>	<b>10/1/2010</b>	<b>6/1/2000</b>	<b>3/1/1999</b>	<b>7/1/1996</b>			
Barclays Aggregate	50%	58.6%	100%	83.3%	70%			
Barclays BBB	15%	7.3%						
Barclays TIPS	15%	13.6%						
Barclays Multiverse	20%	20.5%						
Citigroup Non-US WGBI unhedged				16.7%	30%			
	100%	100.0%	100%	100.0%	100%			
<b>Real Estate</b>	<b>1/1/2009</b>	<b>6/1/2000</b>	<b>7/1/1996</b>					
NCREIF ODCE	100%							
NCREIF Property		100%						
Citigroup 10 Yr Treasury + 2%			100%					
<b>Private Equity</b>	<b>10/1/2010</b>							
Russell 3000 + 3%	100%							
<b>Risk Parity</b>	<b>10/1/2010</b>							
Russell 3000	60%							
Barclays Aggregate	40%							
	100%							
<b>Hedge Fund</b>	<b>10/1/2010</b>							
LIBOR + 4%	100%							
<b>Commodities</b>	<b>10/1/2010</b>							
DJ UBS Commodity	100%							

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Board of Retirement**

August 23, 2011

Agenda Item 6.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Quarterly Investment Performance Analysis for the period ended June 30, 2011

STAFF RECOMMENDATION: Staff recommends the board review and accept Strategic Investment Solutions' Quarterly Performance Report for the period ended June 30, 2011.

COMMENT: Below are selected summary details from Strategic Investment Solutions' Quarterly Performance Report. **Patrick Thomas & Jonathan Brody** will present the entire report to the board and will be available for questions.

**INVESTMENT PERFORMANCE SUMMARY**  
June 30, 2011

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<i>Composite Fund</i>	1.21%	47	23.92%	15	3.26%	75
<i>Policy Index</i>	0.80%	81	24.06%	14	4.28%	55
BlackRock Russell 1000 Index Fund	0.14%	38	32.00%	26	3.76%	38
D.E. Shaw	1.02%	18	30.46%	68	N/A	N/A
<i>Russell 1000 Index</i>	0.12%	42	31.93%	27	3.68%	40
T. Rowe Price	0.18%	34	30.42	69	N/A	N/A
<i>S&amp;P 500 Index</i>	0.10%	58	30.69	58	N/A	N/A
Barrow Hanley	1.04%	15	33.98%	11	N/A	N/A
<i>Russell 1000 Value Index</i>	-0.50%	61	28.94%	66	N/A	N/A
BlackRock	-1.60%	89	33.96%	61	N/A	N/A
<i>Russell 1000 Growth Index</i>	0.76%	53	35.01%	51	N/A	N/A
<i>Large Cap Composite</i>	0.07%	60	32.35%	37	2.76%	74
<i>Russell 1000 Index</i>	0.12%	50	31.93%	42	3.68%	49
Jennison Associates	-0.20%	21	43.13%	9	10.24%	33
<i>Russell 2000 Index</i>	-1.61%	63	37.41%	44	7.77%	71
The Boston Company	-4.10%	77	26.40%	77	N/A	N/A
<i>Russell 2000 Value Index</i>	-2.65%	50	31.35%	60	N/A	N/A
Chartwell Investment Partners	-1.47%	78	49.87%	20	7.20%	79
<i>Russell 2000 Growth Index</i>	-0.59%	66	43.50%	47	8.35%	69
<i>Small Cap Composite</i>	-1.38%	59	40.80%	37	6.98%	80
<i>Russell 2000 Index</i>	-1.61%	66	37.41%	60	7.77%	72
<i>U.S. Equity Composite</i>	-0.28%	61	34.14%	48	3.67%	67
Artio Global Investors	-0.37%	89	24.87%	91	-5.31%	96
<i>MSCI ACWI-ex US Growth Index</i>	1.06%	63	31.07%	42	-0.79%	66
Mondrian Investment Partners	2.94%	20	28.76%	69	0.32%	50
<i>MSCI ACWI-ex US Value Index</i>	0.15%	81	29.39%	65	0.98%	42
<i>International Equity Composite</i>	1.28%	56	26.81%	80	-2.50%	83
<i>MSCI ACWI-ex US Index Free</i>	0.61%	75	30.27%	52	0.11%	53
<i>Total Equity Composite</i>	0.19%	38	31.84%	61	1.80%	89

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
Aberdeen Asset Management	2.03%	72	6.60%	20	5.12%	96
Angelo Gordon GECC PPI Fund	-4.30%	N/A	25.92%	N/A	N/A	N/A
Pyramis Global Advisors	2.38%	21	6.05%	29	8.46%	25
Western Asset Management	2.22%	48	7.93%	7	8.62%	22
<i>BC Aggregate Index</i>	<i>2.29%</i>	<i>35</i>	<i>3.90%</i>	<i>78</i>	<i>6.46%</i>	<i>73</i>
Brigade Capital Management	1.49%	N/A	N/A	N/A	N/A	N/A
<i>BC BBB Credit</i>	<i>2.74%</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Brown Brothers Harriman	3.71%	28	N/A	N/A	N/A	N/A
<i>BC U.S. TIPS</i>	<i>3.66%</i>	<i>29</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Franklin Templeton Investments	2.67%	52	N/A	N/A	N/A	N/A
<i>BC Multiverse</i>	<i>3.04%</i>	<i>35</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Total Fixed Income Composite</i>	<i>1.90%</i>	<i>59</i>	<i>8.68%</i>	<i>25</i>	<i>8.05%</i>	<i>44</i>
<i>Total Fixed Income Index</i>	<i>2.73%</i>	<i>18</i>	<i>5.03%</i>	<i>57</i>	<i>6.84%</i>	<i>59</i>
ABRY II	N/A	N/A	N/A	N/A	N/A	N/A
ABRY VII	N/A	N/A	N/A	N/A	N/A	N/A
Regiment Capital	N/A	N/A	N/A	N/A	N/A	N/A
Sheridan Partners	N/A	N/A	N/A	N/A	N/A	N/A
<i>Total Private Equity Composite</i>	<i>-8.10%</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Total Private Equity Index</i>	<i>0.71%</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
AQR Delta Fund	N/A	N/A	N/A	N/A	N/A	N/A
<i>Total Hedge Fund Index</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
AQR Risk Parity	3.35%	N/A	N/A	N/A	N/A	N/A
<i>Total Risk Parity Index</i>	<i>0.91%</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
INVESCO Core Fund	6.93%	12	24.80%	30	-6.71%	40
<i>Real Estate Composite</i>	<i>6.93%</i>	<i>12</i>	<i>24.80%</i>	<i>30</i>	<i>-6.71%</i>	<i>40</i>
<i>NCREIF ODCE – Equal Weight</i>	<i>4.58%</i>	<i>30</i>	<i>20.37%</i>	<i>41</i>	<i>-7.09%</i>	<i>41</i>
State Street General Account	0.30%	11	0.46%	21	0.68%	37
San Mateo County Treasury Account	0.30%	11	1.17%	13	-0.53%	98
<i>Cash Composite</i>	<i>0.25%</i>	<i>12</i>	<i>1.04%</i>	<i>14</i>	<i>-0.24%</i>	<i>98</i>
<i>91 Day T-Bill Index</i>	<i>0.04%</i>	<i>39</i>	<i>0.16%</i>	<i>47</i>	<i>0.42%</i>	<i>73</i>

## INVESTMENT PERFORMANCE SUMMARY

□ The composite fund returned 1.2% in the second quarter of 2011 and ranked 47th among other public funds greater than \$100 million (median of 1.2%). It beat the policy index return of 0.8%. The one year return of 23.9% was behind the policy index return of 24.1% and ranked in 15th percentile of the universe. Longer term, the three and five-year returns of 3.3% (75th percentile) and 3.5% (95th percentile), respectively, were below median among large public plans (4.4% and 4.8%).

□ Second quarter results were enhanced by the following factors:

1. The BlackRock Russell 1000 Index Fund, 0.1%, ranked in the 38th percentile among large cap core managers (median of 0.1%), and matched its benchmark.
2. DE Shaw's return of 1.0% ranked in the top quartile among large cap core managers (median 0.1%), and was ahead of its benchmark, the Russell 1000 Index (0.1%). Investments in the Info Tech and Financials sectors lifted quarterly results.

3. T Rowe Price (0.2%) slightly led the S&P 500 Index (0.1%) and its peer median of 0.1%. Security selection in the Financials sector helped performance.
4. Barrow Hanley's return of 1.0% was in front of the Russell 1000 Value Index (-0.5%) and ranked in the top quartile among large cap value managers (median of -0.3%). The portfolio was primarily helped by its security selection in the Financials (American Express, Discover Financial) and Energy (Spectra Energy, BP) sectors.
5. Jennison (-0.2%) ranked in the 21st percentile among its small cap core peers (median of -1.2%) and led its benchmark. The Russell 2000 Index returned -1.6%. Above par Info Tech (Netgear) and Energy (Carrizo Oil & Gas) investments were contributors to relative performance.
6. Mondrian returned 2.9% and beat the MSCI AC World -ex US Value Index (0.1%) and ranked in the 20<sup>th</sup> percentile among its peers. The portfolio was boosted by its underweights to Canada and emerging markets and overweight to France. Stock selection in Japan, Singapore and the UK also were beneficial.
7. The Pyramis Broad Market Duration Fund gained 2.4% and ranked in the 21st percentile among core bond managers (median of 2.2%). The Barclays Aggregate Index was up 2.3% for the quarter. Efforts to reduce overall risk levels in the portfolio, as well as its corporate issue selection, proved beneficial.
8. Brown Brothers Harriman gained 3.7% and matched the Barclays US TIPS Index. An underweight of TIPS at the auction points and tactical use of nominal bonds added to performance during the quarter.
9. The INVESCO Core Real Estate-USA Fund returned 6.9% for the quarter, positioned below the NCREIF ODCE (4.6%), and ranked in the top quartile among real estate investments. There was an overall unleveraged gross write up of \$168.0 million or 4.2%.
10. In its first full quarter performance, risk parity manager AQR was up 3.4% while its custom benchmark was up 0.9%. Hedge fund strategy AQR Delta Fund II was funded May-end.
11. The Treasury and LAIF account added 0.3% during the quarter. The 91-Day T-Bill returned 0.0% during the same time period.

□ Second quarter results were hindered by the following factors:

1. BlackRock-US Equity (-1.6%) lagged the Russell 1000 Growth Index (0.8%), and the median large growth manager (0.8%). It ranked in the bottom quartile among its peers. BlackRock was hurt by its Consumer Discretionary (Walt Disney, Ford Motor), Info Tech (Mircron Technology, Juniper Networks) and Industrials (Manpower, Terex) investments.
2. The Boston Company returned -4.1%, versus -2.6% for the Russell 2000 Value Index, and ranked in the 78<sup>th</sup> percentile among its peers (median -2.6%). Negative attribution was derived from stock selection in the Financials (Piper Jaffray, Southwest Bancorp) and Consumer Discretionary (Big 5 Sporting Goods, Skechers USA) sectors.

3. Chartwell lost more value, -1.5%, than the Russell 2000 Growth Index, -0.6%. Chartwell ranked in 78<sup>th</sup> percentile among small cap growth managers (median of 0.3%). Negative alpha was mainly derived from its stock selection in the Healthcare (Accretive Health, AMN Healthcare Services), Info Tech (Success Factors, DemandTec) and Industrials (KForce, Atlas Air Worldwide) sectors.
4. The Artio Global quarterly result of -0.4% was below the MSCI ACWI -ex US Growth Index (1.1%), and ranked in the 89th percentile among international equity managers. Artio's stock selection in the developed market materials and healthcare sectors and in Taiwan, plus its overweight to Russia, detracted from performance.
5. Aberdeen Asset (2.0%) lagged the Barclays Aggregate Index (2.3%) and ranked below the median core bond manager (2.2%). Aberdeen holdings in non-Agency and commercial MBS stalled relative performance.
6. Western Asset Management's quarter was below par. It carried a return of 2.2% and ranked with the core bond manager median of 2.2%. The Barclays Aggregate Index returned 2.3%. Its non-agency issues, modest overweight to the corporate sector and unfavorable yield curve contributed to negative performance alpha.
7. The Angelo Gordon GECC PPIP Fund depreciated 4.3% while the Barclays Aggregate was up 2.3%. The Fund carries approximately 46% RMBS and 54% CMBS assets.
8. The intermediate high yield manager, Brigade Capital, trailed its benchmark, the Barclays BBB Credit Index (1.5% vs. 2.7%).
9. Franklin Templeton appreciated 2.7% and ranked in the third quartile among global bond managers. The Barclays Multiverse Index was up 3.0%. A net-negative exposure to the euro against currencies from peripheral European economies (Swedish krona, Hungarian forint) and to the Japanese yen detracted from absolute performance.
10. Private Equity investments depreciated 8.1%. The Russell 3000 + 3% Index was up 0.7%.

#### GENERAL COMMENTS

The world economy showed resiliency with overall modest growth through the second quarter. The markets reacted negatively to often-contradictory economic indicators and the ensuing heightened volatility, experiencing a steady slide through most of the quarter. In addition to social unrest in Greece, the second quarter witnessed continued supply chain issues as a result of the earthquake in Japan. Oil continued to appreciate due to lingering concerns of unrest in Libya. The political unrest spurred a surprise decision by the International Energy Agency to release 60 million barrels of oil from the Strategic Petroleum Reserve. Finally, on June 23, the Greek parliament passed a \$41 billion austerity measure triggering the implementation of a \$120 billion bailout from the EU and consequently a late quarter rally, erasing many of the second quarter's earlier losses.

In addition to global pressures, the domestic markets also shrugged off floods, droughts, and the growing political pressures of handling the current deficits, to hold the S&P 500 to a 0.1% return in the second quarter. New home sales remain at all-time lows, but housing prices are stabilizing, indicating positive signs of recovery. Unemployment news was discouraging. Unemployment



numbers spiked again this quarter, rising 0.3% to 9.1% at end June. The 9.1% level is still down from year-end 2010 when unemployment hit 9.4.

At its most recent meeting, the Federal Reserve kept the federal funds target rate range unchanged at 0% to 0.25% due to low inflation and elevated rates of unemployment. The Federal Reserve ended its quantitative easing strategy on June 30 completing the purchase of \$600 billion of Treasury securities but decided to continue its existing policy of reinvesting principle payments from security holdings.

At the June 7<sup>th</sup> International Monetary conference in Atlanta on the U.S. Economic Outlook, Federal Reserve Chairman Ben Bernanke hinted at further economic turbulence due to cuts in state and local governments stating, “Developments in the public sector also help determine the pace of recovery. Here, too, the picture is one of relative weakness. Fiscally constrained state and local governments continue to cut spending and employment. Moreover, the impetus provided to the growth of final demand by federal fiscal policies continues to wane.”

For the period ending 6/30/11, the one quarter returns for, respectively the NAREIT Equity Index and the NCREIF Property index (one quarter lag), were 3.63% and 3.36%; one year, 33.58% and 16.03%; three years, 5.25% and -3.63%; and five years, 2.53% and 3.45%.

In the United States, as construction loans are the worst performing loans on banks' books, it will most likely be a long period of time before lending returns for speculative construction projects. With real estate supply still relatively low, even moderate job growth should lead to strong fundamentals. Compared to low interest rates, REITs' relatively high (and in some cases growing) dividends remain attractive. That being said, REITs are trading close to fair value.

Outside of the United States, sovereign debt concerns continued to influence investors, with Greece being the focal point. In Asia, many of the markets are seeing upward trends in their rents, with China and Singapore leading.



SAN MATEO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION

**Quarterly Performance Report**

June 30, 2011

STRATEGIC INVESTMENT SOLUTIONS, INC.

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333 Bush Street, Suite 2000  
San Francisco, CA 94104  
(415) 362-3484

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

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# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

The world economy showed resiliency with overall modest growth through the second quarter. The markets reacted negatively to often-contradictory economic indicators and the ensuing heightened volatility, experiencing a steady slide through most of the quarter. In addition to social unrest in Greece, the second quarter witnessed continued supply chain issues as a result of the earthquake in Japan. Oil continued to appreciate due to lingering concerns of unrest in Libya. The political unrest spurred a surprise decision by the International Energy Agency to release 60 million barrels of oil from the Strategic Petroleum Reserve. Finally, on June 23, the Greek parliament passed a \$41 billion austerity measure triggering the implementation of a \$120 billion bailout from the EU and consequently a late quarter rally, erasing many of the second quarter's earlier losses.

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Outside of the United States, Europe is dominated by concerns about sovereign debts continued to influence investors, with Greece the focal point. In Asia, many of the markets are seeing upward trends in their rents, with China and Singapore leading.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Second Quarter 2011

### Executive Performance Summary

- The composite fund returned 1.2% in the second quarter of 2011 and ranked 47<sup>th</sup> among other public funds greater than \$100 million (median of 1.2%). It beat the policy index return of 0.8%. The one year return of 23.9% was behind the policy index return of 24.1% and ranked in 15<sup>th</sup> percentile of the universe. Longer term, the three and five-year returns of 3.3% (75<sup>th</sup> percentile) and 3.5% (95<sup>th</sup> percentile), respectively, were below median among large public plans (4.4% and 4.8%).
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## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Second Quarter 2011

### Executive Performance Summary

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## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Second Quarter 2011

### Executive Performance Summary

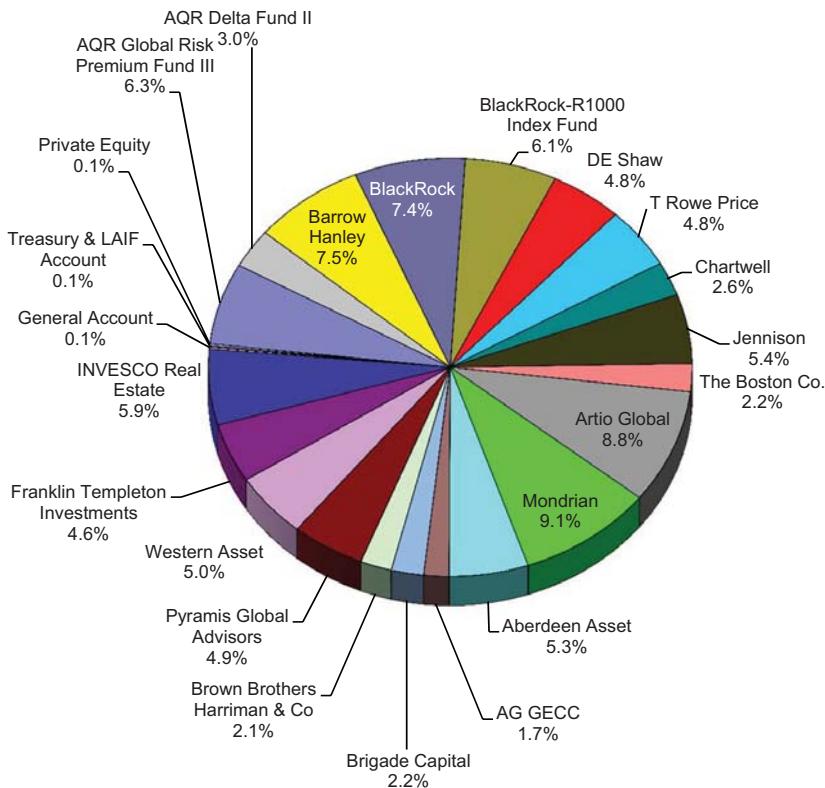
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# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Manager Allocation Analysis – Total Fund

### CURRENT ALLOCATION BY MANAGER



Manager	Market Value	%
Barrow Hanley	172,604,722	7.5%
BlackRock	171,445,737	7.4%
BlackRock-R1000 Index Fund	142,028,817	6.1%
DE Shaw	112,003,896	4.8%
T Rowe Price	110,260,681	4.8%
Chartwell	60,535,796	2.6%
Jennison	124,060,920	5.4%
The Boston Co.	49,925,577	2.2%
Artio Global	203,962,766	8.8%
Mondrian	209,864,143	9.1%
Aberdeen Asset	122,345,881	5.3%
AG GECC	38,865,334	1.7%
Brigade Capital	50,141,745	2.2%
Brown Brothers Harriman & Co	48,545,233	2.1%
Pyramis Global Advisors	113,091,422	4.9%
Western Asset	116,373,486	5.0%
Franklin Templeton Investments	106,143,892	4.6%
INVESTCO Real Estate	135,475,106	5.9%
General Account	2,996,013	0.1%
Treasury & LAIF Account	2,481,720	0.1%
Private Equity	3,458,420	0.1%
AQR Global Risk Premium Fund III	145,620,698	6.3%
AQR Delta Fund II	69,986,272	3.0%
<b>Total</b>	<b>2,312,218,277</b>	<b>100.0%</b>

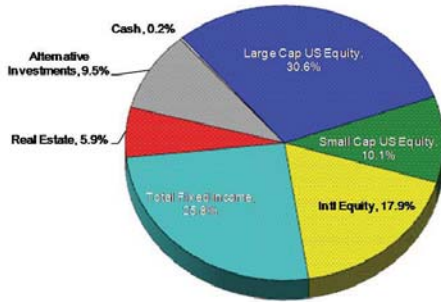


# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

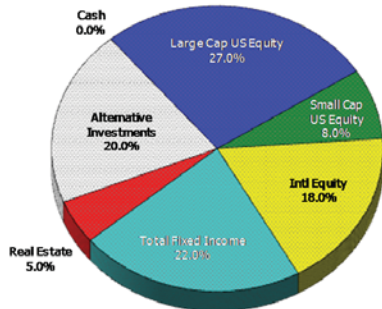
## Allocation By Manager Type Analysis

**CURRENT ALLOCATION BY MANAGER TYPE**



Asset Allocation	Market Value	%
Large Cap US Equity	708,343,853	30.6%
Small Cap US Equity	234,522,293	10.1%
Intl Equity	413,826,909	17.9%
Total Fixed Income	595,506,993	25.8%
Real Estate	135,475,106	5.9%
Alternative Investments	219,065,390	9.5%
Cash	5,477,733	0.2%
<b>Total</b>	<b>2,312,218,277</b>	<b>100.0%</b>

**TARGET ALLOCATION BY MANAGER TYPE**

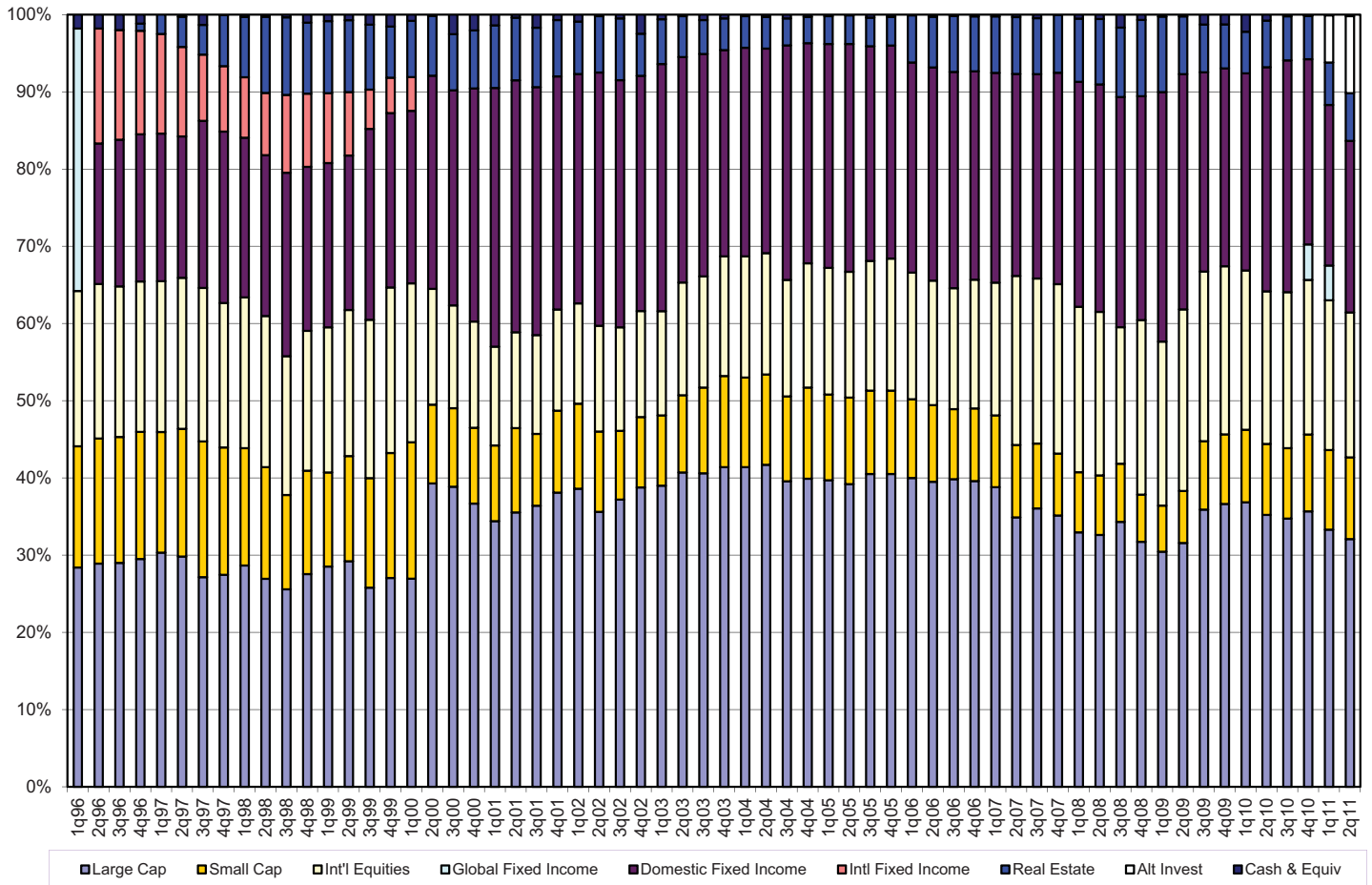


Asset Allocation	Target	Actual	Diff
Large Cap US Equity	27.0%	30.6%	3.6%
Small Cap US Equity	8.0%	10.1%	2.1%
Intl Equity	18.0%	17.9%	-0.1%
Total Fixed Income	22.0%	25.8%	3.8%
Real Estate	5.0%	5.9%	0.9%
Alternative Investments	20.0%	9.5%	-10.5%
Cash	0.0%	0.2%	0.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

## Actual Historical Quarterly Asset Allocation



# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

## Performance Summary

	1 QTR		CALENDAR YTD		FISCAL YTD		2 YEAR		3 YEAR		5 YEAR	
	RETURN	RANK*	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
<b>TOTAL FUND</b>												
<b>SAMCERA COMPOSITE FUND</b>	1.21	47	5.74	32	23.92	15	18.23	33	3.26	75	3.45	95
Policy Index <sup>1</sup>	0.80	81	5.17	59	24.06	14	18.05	37	4.28	55	4.79	51
Public Fund >\$100 Million Median	1.20		5.35		21.58		17.50		4.40		4.80	
<b>US EQUITY</b>												
<b>LARGE CAP</b>												
BlackRock-R1000 Index Fund	0.14	38	6.40	35	32.00	26	23.38	31	3.76	38	3.38	41
D.E. Shaw	1.02	18	6.32	40	30.46	68						
Russell 1000 Index	0.12	42	6.37	37	31.93	27	23.30	33	3.68	40	3.30	44
T. Rowe Price	0.18	34	6.01	68	30.42	69						
S&P 500 Index	0.10	58	6.02	66	30.69	58						
Barrow Hanley	1.04	15	8.84	12	33.98	11						
Russell 1000 Value Index	-0.50	61	5.92	72	28.94	66						
BlackRock	-1.60	89	2.74	97	33.96	61						
Russell 1000 Growth Index	0.76	53	6.83	45	35.01	51						
<b>LARGE CAP COMPOSITE</b>	0.07	60	6.03	59	32.35	37	22.59	53	2.76	74	2.12	80
Russell 1000 Index	0.12	50	6.37	46	31.93	42	23.30	43	3.68	49	3.30	53
Large Cap Median	0.12		6.21		31.24		22.87		3.64		3.39	
<b>SMALL CAP</b>												
Jennison	-0.20	21	8.93	14	43.13	9	34.71	8	10.24	33		
Russell 2000 Index	-1.61	63	6.21	63	37.41	44	29.20	58	7.77	71		
The Boston Company	-4.10	77	3.29	69	26.40	77						
Russell 2000 Value Index	-2.65	50	3.77	63	31.35	60						
Chartwell	-1.47	78	12.42	22	49.87	20	35.18	23	7.20	79	5.53	75
Russell 2000 Growth Index	-0.59	66	8.59	64	43.50	47	30.10	66	8.35	69	5.80	71
<b>SMALL CAP COMPOSITE</b>	-1.38	59	8.54	36	40.80	37	33.02	26	6.98	80	1.31	98
Russell 2000 Index	-1.61	66	6.21	68	37.41	60	29.20	63	7.77	72	4.08	81
Small Cap Median	-0.94		7.70		38.76		30.38		9.56		6.17	
<b>US EQUITY COMPOSITE</b>	-0.28	61	6.59	50	34.14	48	24.65	52	3.67	67	2.04	89
80% Russell 1000/20% Russell 2000 <sup>2</sup>	-0.28	61	6.35	55	33.06	53	24.53	53	4.56	57	3.51	64
US Equity Median	0.06		6.57		33.54		24.98		5.31		4.40	

\* Ranking: 1 is best, 100 is worst. Total Fund and US Managers are ranked against their appropriate peer (style) group. Asset Class composites are ranked against asset class universes.

<sup>1</sup> As of 10/1/10, the Policy Index is 28% Russell 1000/7% Russell 2000/18% MSCI ACWI -ex US/12.9% BC Aggregate/1.6% BC BBB/3% BC Tips/4.5% BC Multiverse/5% NCREIF NFI ODCE EIW/8% Russell 3000 + 3%/6% (60% Russell 3000/40% BC Aggregate)

<sup>2</sup> 3% Libor +4%/3% DJ UBS Commodity

<sup>2</sup> See Appendix for Benchmark History.

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

## Performance Summary

	1 QTR		CALENDAR YTD		FISCAL YTD		2 YEAR		3 YEAR		5 YEAR	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
<b>INTERNATIONAL EQUITY</b>												
Artio Global	-0.37	89	1.81	92	24.87	91	16.55	84	-5.31	96	1.08	92
MSCI ACWI -ex US Growth Index	1.06	63	3.43	73	31.07	42	21.14	34	-0.79	66	4.48	34
MSCI ACWI -ex US Index	0.61	75	4.11	65	30.27	52	20.18	43	0.11	53	4.14	39
Mondrian	2.94	20	6.84	18	28.76	69	17.52	71	0.32	50	3.62	49
MSCI ACWI -ex US Value Index	0.15	81	4.81	55	29.39	65	19.16	55	0.98	42	3.75	46
MSCI ACWI -ex US Index	0.61	75	4.11	65	30.27	52	20.18	43	0.11	53	4.14	39
<b>INTERNATIONAL EQUITY COMPOSITE</b>												
MSCI ACWI -ex US Index <sup>2</sup>	0.61	75	4.11	65	30.27	52	20.18	43	0.11	53	4.14	39
MSCI EAFE Before Tax Index	1.83	43	5.35	43	30.93	44	18.01	66	-1.30	72	1.96	79
International Equity Median	1.63		4.98		30.45		19.59		0.26		3.55	
<b>TOTAL EQUITY COMPOSITE</b>												
Total Equity Index <sup>2</sup>	0.19	38	5.89	73	31.84	61	22.25	80	1.80	89	2.09	88
Total Equity Index <sup>2</sup>	0.03	52	5.59	77	32.12	59	23.16	66	3.23	78	3.67	61
<b>FIXED INCOME<sup>5</sup></b>												
CORE												
Aberdeen Asset	2.03	72	3.59	16	6.60	20	12.07	9	5.12	96	4.92	98
Pyramis Global Advisors	2.38	21	3.44	22	6.05	29	10.19	21	8.46	25	6.88	56
Western Asset	2.22	48	3.65	14	7.93	7	13.04	6	8.62	22	6.73	61
BC Aggregate Index	2.29	35	2.72	66	3.90	78	6.66	78	6.46	73	6.52	74
Core Fixed Income Median	2.21		2.98		4.89		8.42		7.30		6.99	
CREDIT												
Angelo Gordon GECC PPI Fund <sup>3</sup>	-4.30		1.07		25.92							
BC Aggregate Index	2.29		2.72		3.90							
Brigade Capital Management	1.49		5.91									
BC BBB Credit	2.74		4.07									
TIPS												
Brown Brothers Harriman	3.71	28										
BC U.S. Tips	3.66	29										
GLOBAL												
Franklin Templeton Investments <sup>4</sup>	2.67	52	6.02	11								
BC Multiverse	3.04	35	4.44	62								
Global Fixed Income Median	2.74		4.72									

<sup>2</sup> See Appendix for Benchmark History.

<sup>3</sup> Funded 11/6/09, return reported net of management fees.

<sup>4</sup> Franklin Templeton Investments funded in December 2010

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

## Performance Summary

	1 QTR		CALENDAR YTD		FISCAL YTD		2 YEAR		3 YEAR		5 YEAR	
	RETURN	RANK*	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
<b>TOTAL FIXED INCOME COMPOSITE</b>	1.90	59	4.12	26	8.68	25	12.76	28	8.05	44	6.56	65
<i>Total Fixed Index<sup>2</sup></i>	2.73	18	3.74	30	5.03	57	7.24	68	6.84	59	6.75	60
<i>US Fixed Index<sup>2</sup></i>	2.63	19	3.56	34	4.84	59	7.14	69	6.78	60	6.71	61
<i>Global Fixed Index<sup>2</sup></i>	3.04	14	4.44	24								
<i>US Fixed Income Median</i>	2.00		3.11		5.66		9.23		7.53		7.10	
<b>REAL ESTATE</b>												
INVESCO Real Estate	6.93	12	11.03	22	24.80	30	7.57	31	-6.71	40	0.18	44
<b>REAL ESTATE COMPOSITE</b>	6.93	12	11.03	22	24.80	30	7.57	31	-6.71	40	0.18	44
<i>NCREIF NFI ODCE EW Index<sup>2</sup></i>	4.58	30	8.78	41	20.37	41	5.42	45	-7.09	41	0.54	41
<i>Real Estate Median</i>	3.39		7.32		18.50		4.18		-8.79		-0.51	
<b>PRIVATE EQUITY<sup>5</sup></b>	-8.10		-84.22									
<i>Russell 3000 + 3%</i>	0.71		7.92									
<b>RISK PARITY</b>												
AQR Global Risk Premium Fund III <sup>6</sup>	3.35											
<i>Risk Parity Index<sup>2</sup></i>	0.91											
<b>HEDGE</b>												
AQR Delta Fund II <sup>7</sup>												
<b>CASH</b>												
General Account	0.30	11	0.34	15	0.46	21	0.34	32	0.68	37	2.33	34
Treasury & LAIF	0.30	11	0.55	13	1.17	13	1.05	15	-0.53	98	1.35	95
<b>CASH COMPOSITE</b>	0.25	12	0.42	14	1.04	14	0.95	16	-0.24	98	1.51	94
<i>91 Day T-Bill</i>	0.04	39	0.09	40	0.16	47	0.16	55	0.42	73	2.00	73
<i>Cash Median</i>	0.02		0.05		0.15		0.18		0.57		2.19	

<sup>2</sup> See Appendix for Benchmark History. As of 10/1/10 the benchmark is NCREIF NFI ODCE EW, benchmark is linked to NCREIF Property Index.

<sup>5</sup> Private Equity funded in December 2010

<sup>6</sup> AQR Global Risk Premium Fund III funded in March 2011

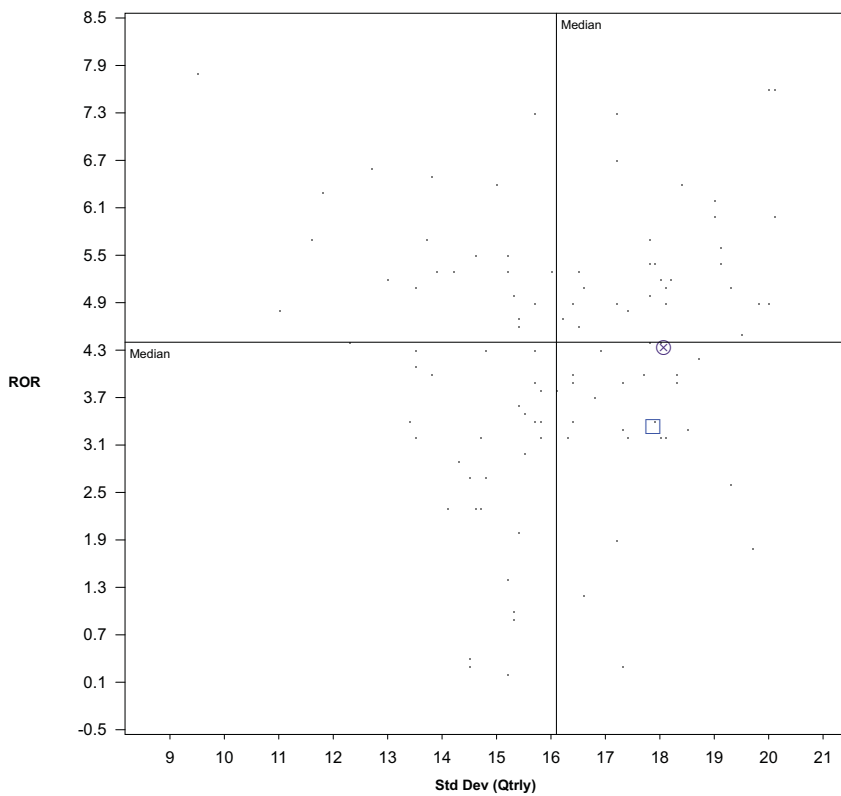
<sup>7</sup> AQR Delta Fund II funded in May 2011

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

PUBLIC FUNDS > \$100 MILLION

Period Ending June 30, 2011

## Risk vs. Return - 3 Year



NAME	Return	Standard Deviation	Sharpe Ratio
□ SamCERA Composite	3.3 75	17.9 77	0.2 80
⊗ Plan Policy Index	4.3 55	18.1 81	0.2 63
Median	4.4	16.1	0.3

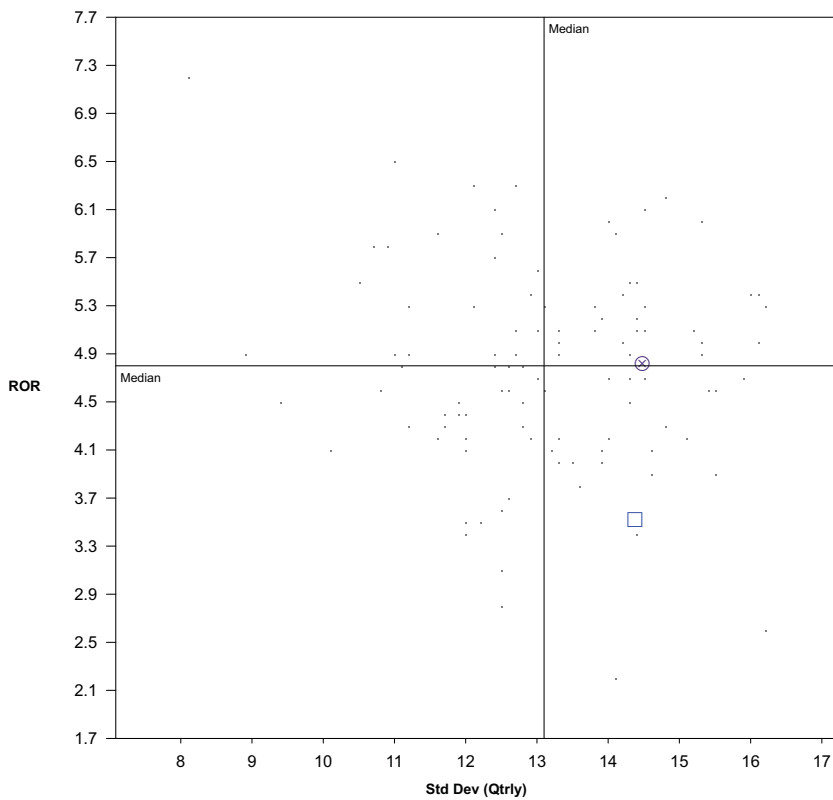
\* Standard deviation is based on quarterly returns

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

PUBLIC FUNDS > \$100 MILLION

Period Ending June 30, 2011

## Risk vs. Return - 5 Year



NAME	Return	Standard Deviation	Sharpe Ratio
□ SamCERA Composite	3.5 95	14.4 78	0.1 94
⊗ Plan Policy Index	4.8 51	14.5 81	0.2 66
Median	4.8	13.1	0.2

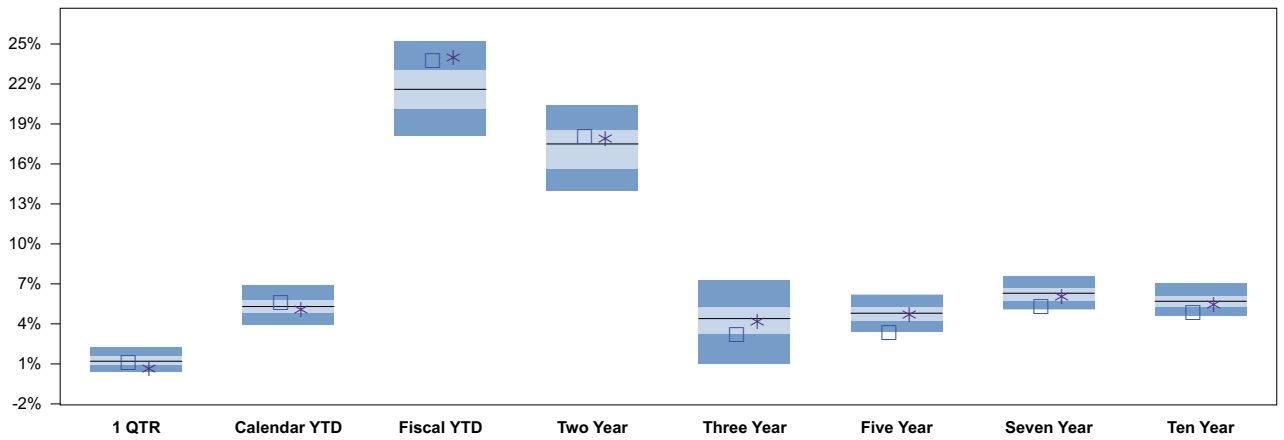
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

PUBLIC FUNDS > \$100 MILLION

Periods Ending June 30, 2011

### Total Returns



	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
□ SamCERA Composite	1.2	47	5.7	32	23.9	15	18.2	33	3.3	75	3.5	95	5.4	88	5.0	86
* Plan Policy Index	0.8	81	5.2	59	24.1	14	18.0	37	4.3	55	4.8	51	6.2	52	5.6	56
Median	1.2		5.3		21.6		17.5		4.4		4.8		6.3		5.7	

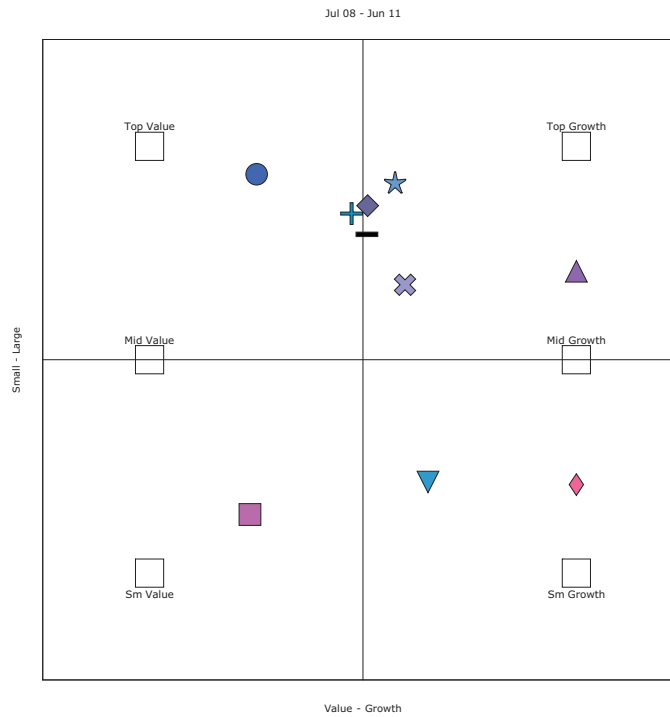


# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

3 Years Ending June 30, 2011

## Returns Based Style Analysis - US Equity Composite

### US Equity Style Map



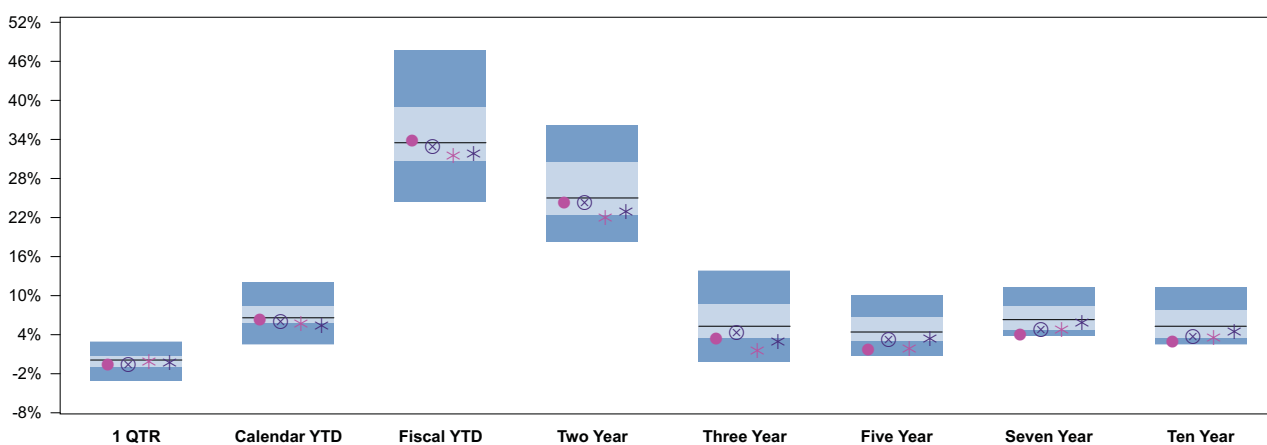
Legend			
● Barrow Hanley	◆ BlackRock R1000 Index Fund	▲ BlackRock	■ The Boston Company
◇ Chartwell	+ D.E. Shaw	▼ Jennison Associates	★ T. Rowe Price
⊗ SamCERA US Equity Composite	■ Russell 3000 Index		

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds

Periods Ending June 30, 2011

### Total Returns



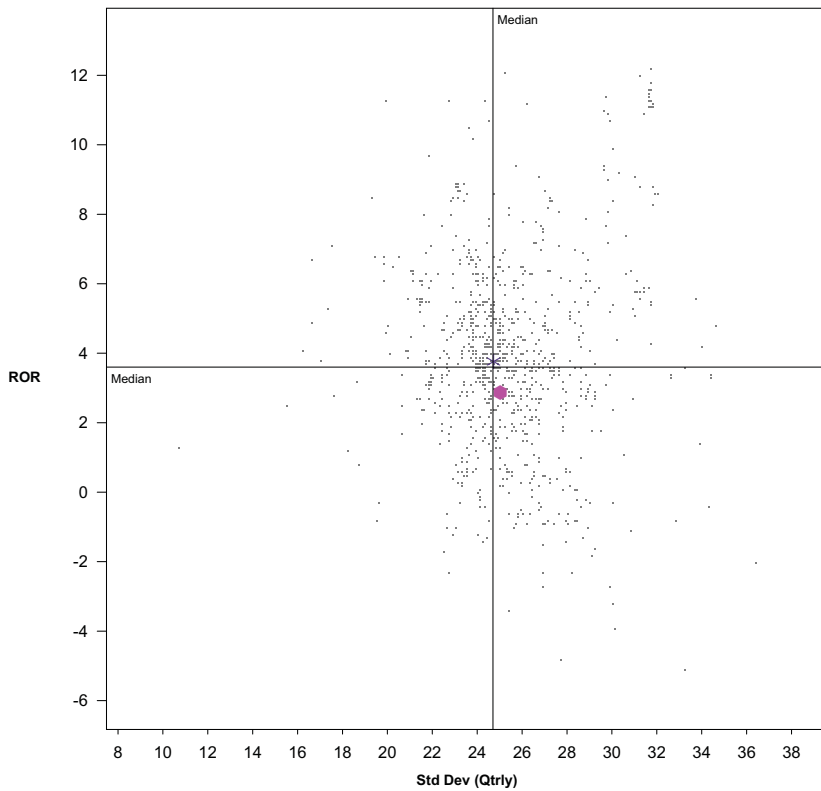
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
● US Equity	-0.3	61	6.6	50	34.1	48	24.7	52	3.7	67	2.0	89	4.3	87	3.3	77
⊗ US Equity Index	-0.3	61	6.3	55	33.1	53	24.5	53	4.6	57	3.5	64	5.1	68	3.9	68
* Total Equity	0.2	38	5.9	73	31.8	61	22.3	80	1.8	89	2.1	88	5.0	70	3.8	69
* Total Equity Index	0.0	52	5.6	77	32.1	59	23.2	66	3.2	78	3.7	61	6.1	54	4.8	56
Median	0.1		6.6		33.5		25.0		5.3		4.4		6.3		5.3	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Cap

Period Ending June 30, 2011

### Risk vs. Return - 3 Year



NAME	Return	Standard Deviation	Sharpe Ratio
● Large Cap	2.8 74	25.1 58	0.1 73
* RUSSELL 1000	3.7 49	24.8 52	0.1 49
Median	3.6	24.7	0.1

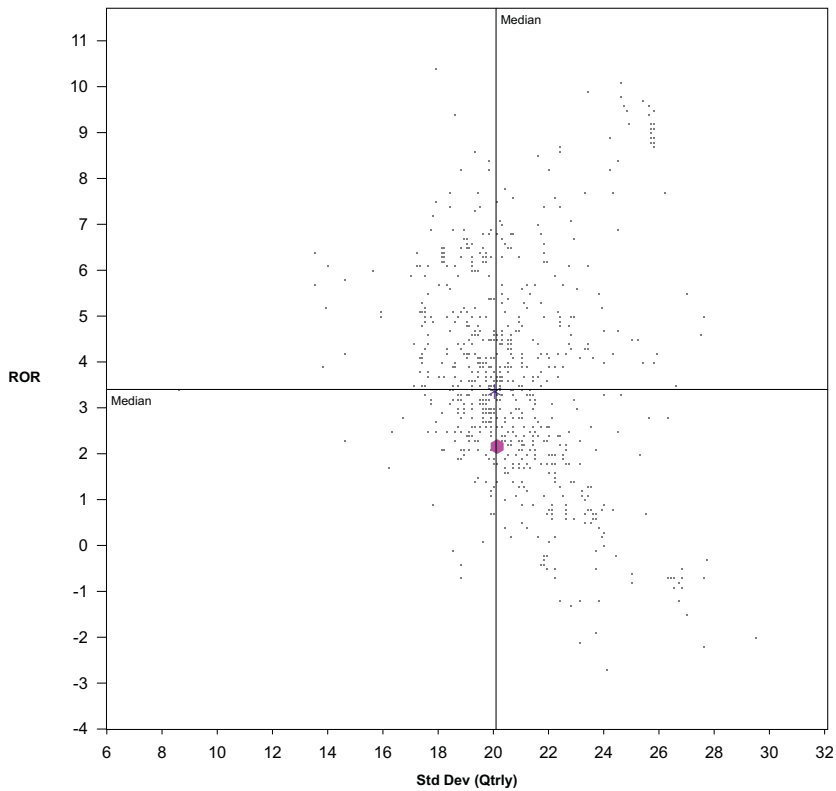
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Cap

Period Ending June 30, 2011

### Risk vs. Return - 5 Year



NAME	Return	Standard Deviation	Sharpe Ratio
● Large Cap	2.1 80	20.2 53	0.0 81
* RUSSELL 1000	3.3 53	20.1 49	0.1 53
Median	3.4	20.1	0.1

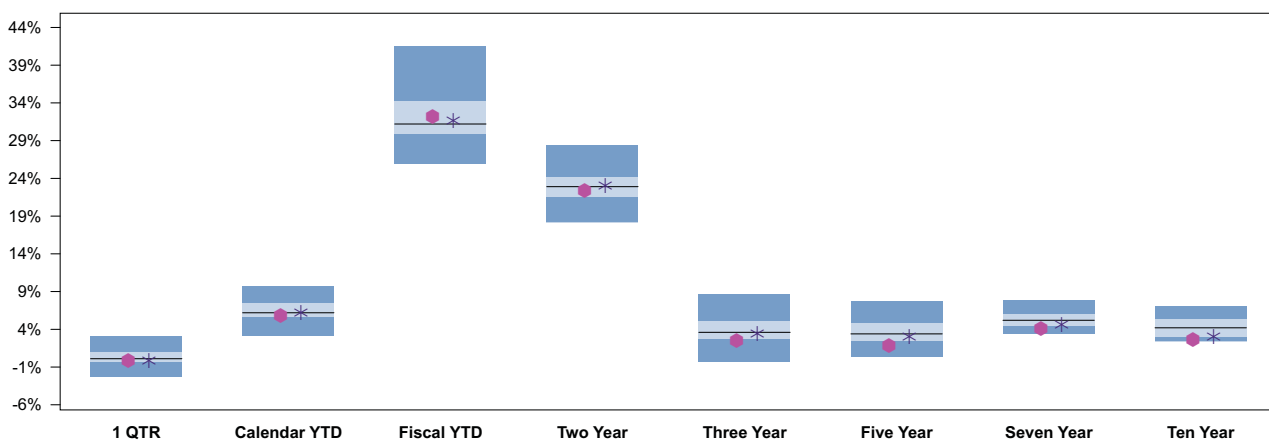
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Cap

Periods Ending June 30, 2011

### Total Returns



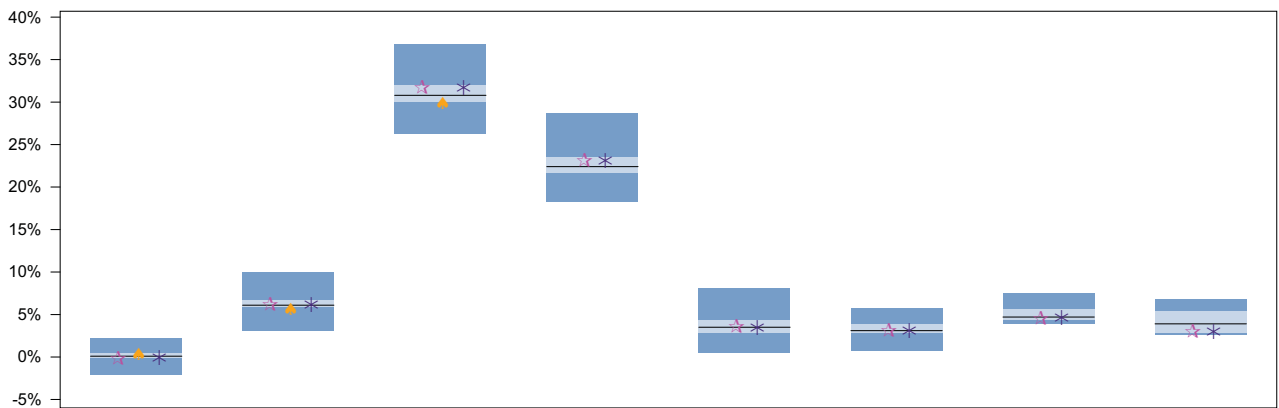
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
● Large Cap	0.1	60	6.0	59	32.4	37	22.6	53	2.8	74	2.1	80	4.3	77	2.9	75
* RUSSELL 1000	0.1	50	6.4	46	31.9	42	23.3	43	3.7	49	3.3	53	4.8	62	3.2	71
Median	0.1		6.2		31.2		22.9		3.6		3.4		5.2		4.2	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Core

Periods Ending June 30, 2011

### Total Returns



	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
☆ BlackRock-R1000 Index	0.1	38	6.4	35	32.0	26	23.4	31	3.8	38	3.4	41	4.8	45	3.3	63
▲ DE Shaw	1.0	18	6.3	40	30.5	68										
* RUSSELL 1000	0.1	42	6.4	37	31.9	27	23.3	33	3.7	40	3.3	44	4.8	49	3.2	63
Median	0.1		6.1		30.8		22.4		3.5		3.1		4.7		3.9	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – BlackRock-R1000 Index Fund

Portfolio Characteristics		
	Portfolio	Russell 1000
Total Number of Securities	985	
Average Market Cap (000's)	79,799,704	79,712,509
Median Market Cap (000's)	5,880,270	5,880,270
P/E Ratio	16.74	16.74
Dividend Yield	1.84	1.84
Beta	1.01	1.01
Price/Book Ratio	3.55	3.55
Return on Equity	18.95	18.96
Earnings Growth - 5 Years	5.63	5.64

Ten Largest Holdings		
Name	\$	Weight
EXXON MOBIL CORP	4,078,339	2.9
APPLE INC	3,157,938	2.3
INTL BUSINESS MACHINES CORP	2,113,843	1.5
CHEVRON CORP	2,103,179	1.5
GENERAL ELECTRIC CO	2,034,871	1.5
MICROSOFTCORP	1,962,874	1.4
AT+T INC	1,892,356	1.4
JOHNSON +JOHNSON	1,855,029	1.3
PROCTER +GAMBLE CO/THE	1,805,197	1.3
PFIZER INC	1,655,860	1.2

Ten Best Performers	
Name	Return
NATIONAL SEMICONDUCTOR CORP	71.6
LEVEL 3 COMMUNICATIONS INC	66.0
BIOGEN IDEC INC	45.7
HERBALIFELTD	42.2
SOUTHERN UNION CO	40.9
GREEN MOUNTAIN COFFEE ROASTE	38.1
CARPENTERTECHNOLOGY	35.5
HANSEN NATURAL CORP	34.4
TEMPUR PEDIC INTERNATIONAL	33.9
SIRIUS XMRADIO INC	31.9

Ten Worst Performers	
Name	Return
COMMUNITYHEALTH SYSTEMS INC	-35.8
LENDER PROCESSING SERVICES	-34.8
MICRON TECHNOLOGY INC	-34.7
MEMC ELECTRONIC MATERIALS	-34.2
CLEARWIRECORP CLASS A	-32.4
FOREST OILCORP	-29.4
CIENA CORP	-29.2
SKYWORKS SOLUTIONS INC	-29.1
DREAMWORKSANIMATION SKG A	-28.0
CREE RESEARCH INC	-27.2

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

BlackRock-R1000 Index Fund

Benchmark: RUSSELL 1000

Quarter Ending June 30, 2011

### Equity Performance Attribution

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
<a href="#">BlackRock-R1000 Index</a>									
CONSUMER DISCRETIONARY	11.3	11.3	0.0	3.5	3.6	-0.0	0.00	-0.01	-0.01
CONSUMER STAPLES	9.0	9.0	0.0	5.5	5.4	0.1	0.00	0.01	0.01
ENERGY	12.7	12.7	-0.0	-4.9	-5.0	0.0	0.00	0.00	0.01
FINANCIALS	15.8	15.9	-0.1	-4.7	-5.3	0.5	0.00	0.09	0.09
HEALTH CARE	10.9	10.9	0.0	7.2	7.2	-0.0	0.00	-0.01	-0.01
INDUSTRIALS	11.8	11.8	0.0	-1.1	-1.1	0.0	-0.01	0.01	0.00
INFORMATION TECHNOLOGY	17.9	17.9	-0.0	-1.0	-1.0	-0.0	0.00	-0.00	-0.00
MATERIALS	4.1	4.1	-0.0	-0.9	-1.0	0.0	0.00	0.00	0.00
TELECOMMUNICATION SERVICES	2.9	2.9	-0.0	2.2	2.1	0.1	-0.01	0.00	-0.01
UTILITIES	3.4	3.4	-0.0	5.6	5.6	0.0	-0.01	0.00	-0.01
TOTAL	100.0	100.0	0.0	0.2	0.2	0.1	-0.02	0.09	0.07

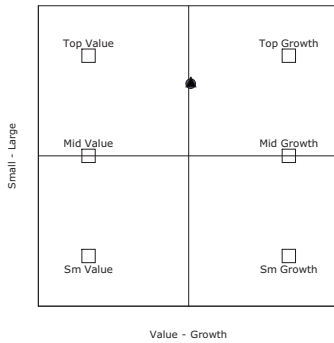


**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - BlackRock R1000 Index Fund**

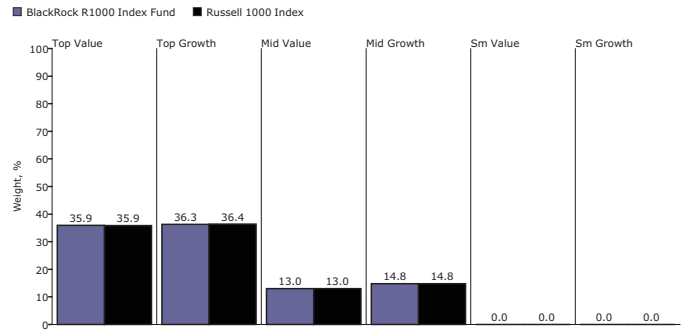
**US Equity Style Map**

Jul 08 - Jun 11



**US Equity Style Exposures**

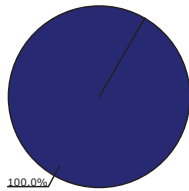
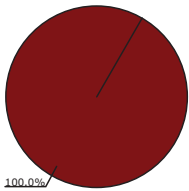
Jul 08 - Jun 11



**R-Squared (Style Analysis)**

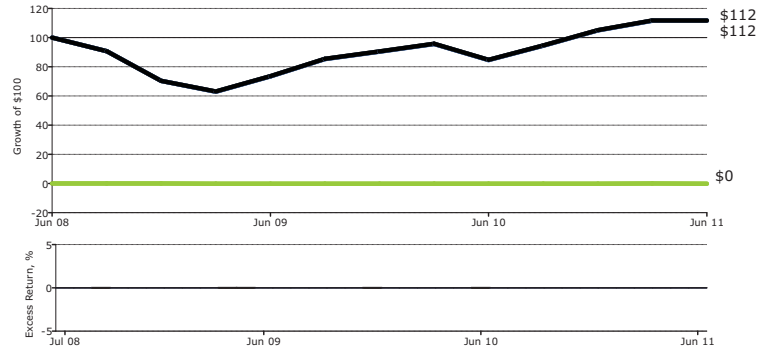
Jul 08 - Jun 11

■ Style R-Squared      ■ Benchmark R-Squared



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

- ▲ Russell 1000 Index
- BlackRock R1000 Index Fund
- Total
- Selection
- Style

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – D.E. Shaw

Portfolio Characteristics		
	Portfolio	Russell 1000
Total Number of Securities	536	
Average Market Cap (000's)	78,854,655	79,712,509
Median Market Cap (000's)	5,291,005	5,880,270
P/E Ratio	17.50	16.74
Dividend Yield	1.61	1.84
Beta	0.99	1.01
Price/Book Ratio	3.57	3.55
Return on Equity	17.95	18.96
Earnings Growth - 5 Years	5.89	5.64

Ten Largest Holdings		
Name	\$	Weight
EXXON MOBIL CORP	4,158,518	3.7
APPLE INC	3,054,597	2.7
JPMORGAN CHASE + CO	2,935,398	2.6
WELLS FARGO + CO	2,794,776	2.5
CONOCOPHILLIPS	2,654,207	2.4
PHILIP MORRIS INTERNATIONAL	2,230,118	2.0
PFIZER INC	2,163,000	1.9
PROCTER +GAMBLE CO/THE	1,913,457	1.7
MICROSOFTCORP	1,713,400	1.5
DEVON ENERGY CORPORATION	1,710,177	1.5

Ten Best Performers	
Name	Return
NATIONAL SEMICONDUCTOR CORP	71.6
LEVEL 3 COMMUNICATIONS INC	66.0
BIOGEN IDEC INC	45.7
PHARMASSETINC	42.5
CARDIOVASCULAR SYSTEMS INC	34.4
ULTA SALONCOSMETICS + FRAGR	34.2
TEMPUR PEDIC INTERNATIONAL	33.9
COPA HOLDINGS SA CLASS A	29.8
RALCORP HOLDINGS INC	26.5
CASH AMERICA INTL INC	25.8

Ten Worst Performers	
Name	Return
TOREADOR RESOURCES CORP	-65.6
NORTH AMERICAN ENERGY PARTNE	-37.9
PETROLEUMDEVELOPMENT CORP	-37.7
BON TON STORES INC/THE	-37.0
LENDER PROCESSING SERVICES	-34.8
GEORGIA GULF CORP	-34.8
MICRON TECHNOLOGY INC	-34.7
POWERWAVETECHNOLOGIES INC	-34.6
AMERICAN REPROGRAPHICS CO	-31.7
FOREST OILCORP	-29.4

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

DE Shaw

Benchmark: RUSSELL 1000

Quarter Ending June 30, 2011

**Equity Performance Attribution**

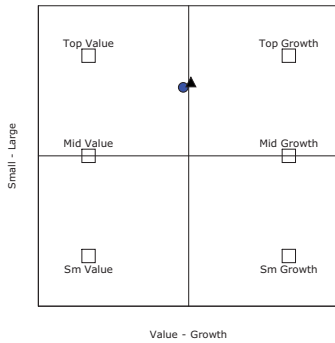
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
DE Shaw									
COMMINGLED FUND	0.5	0.0	0.5	-	-	-	-0.00	0.00	-0.00
CONSUMER DISCRETIONARY	12.9	11.3	1.6	4.2	3.6	0.6	0.05	0.08	0.14
CONSUMER STAPLES	6.4	9.0	-2.6	4.7	5.4	-0.8	-0.14	-0.05	-0.19
ENERGY	12.3	12.7	-0.4	-6.1	-5.0	-1.2	0.02	-0.15	-0.13
FINANCIALS	19.2	15.9	3.3	-2.3	-5.3	3.0	-0.19	0.58	0.40
HEALTH CARE	11.7	10.9	0.8	6.3	7.2	-0.9	0.06	-0.11	-0.06
INDUSTRIALS	10.2	11.8	-1.6	-1.2	-1.1	-0.1	0.02	-0.01	0.01
INFORMATION TECHNOLOGY	18.2	17.9	0.3	3.3	-1.0	4.3	-0.01	0.78	0.77
MATERIALS	1.7	4.1	-2.5	-3.7	-1.0	-2.7	0.03	-0.05	-0.02
RIGHTS / WARRANTS	0.0	0.0	0.0	-	-	-	-0.00	0.00	-0.00
TELECOMMUNICATION SERVICES	3.6	2.9	0.7	4.1	2.1	2.0	0.01	0.07	0.09
UTILITIES	3.2	3.4	-0.2	4.3	5.6	-1.3	-0.01	-0.05	-0.06
TOTAL	100.0	100.0	0.0	1.1	0.2	0.9	-0.17	1.10	0.93

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - D.E. Shaw**

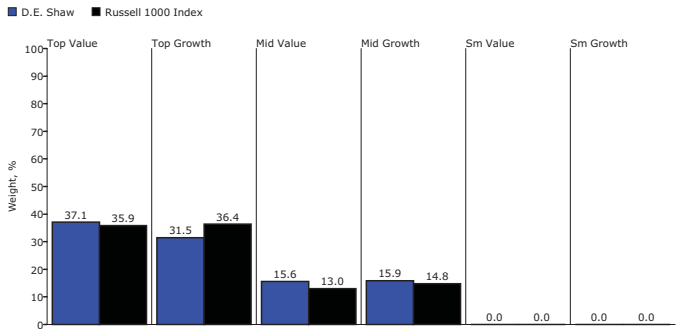
**US Equity Style Map**

Jul 08 - Jun 11



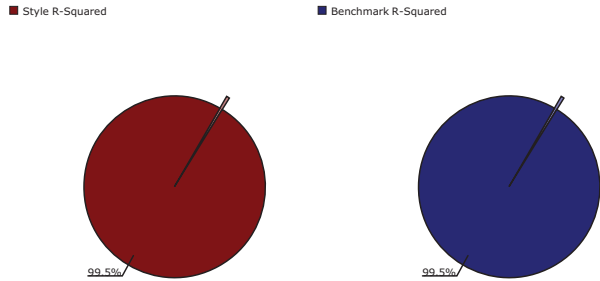
**US Equity Style Exposures**

Jul 08 - Jun 11



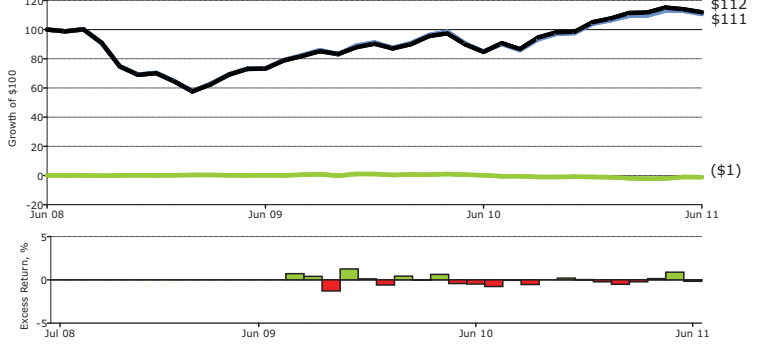
**R-Squared (Style Analysis)**

Jul 08 - Jun 11



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

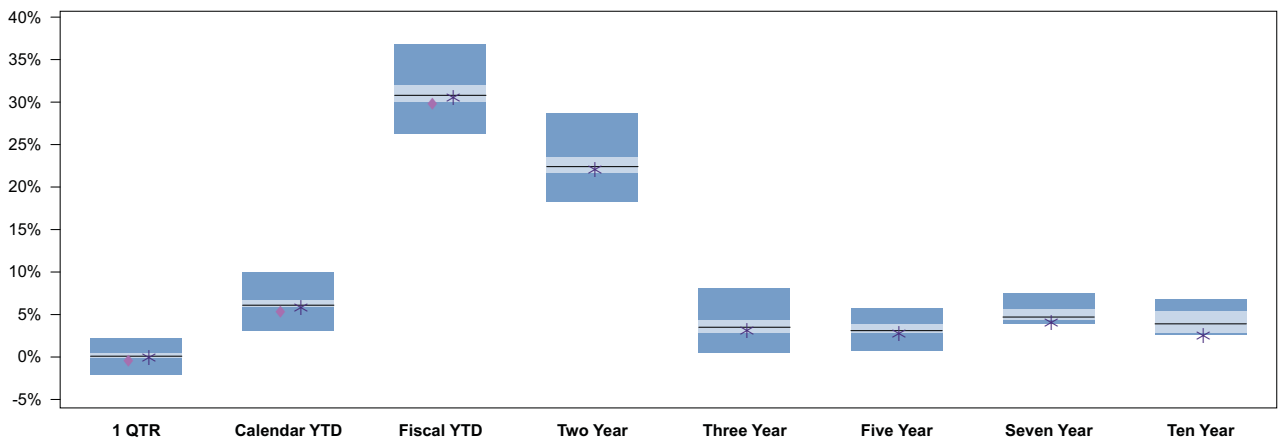
- ▲ Russell 1000 Index
- D.E. Shaw
- Total
- Selection
- Style

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Core

Periods Ending June 30, 2011

### Total Returns



	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
◆ T Rowe Price	0.2 34	6.0 68	30.4 69					
* S&P 500	0.1 58	6.0 66	30.7 58	22.3 64	3.3 64	2.9 69	4.2 88	2.7 90
Median	0.1	6.1	30.8	22.4	3.5	3.1	4.7	3.9

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – T. Rowe Price

Portfolio Characteristics		
	Portfolio	S&P 500
Total Number of Securities	280	
Average Market Cap (000's)	93,037,082	90,920,230
Median Market Cap (000's)	17,219,540	12,069,145
P/E Ratio	16.22	16.58
Dividend Yield	1.78	1.95
Beta	1.01	1.00
Price/Book Ratio	3.56	3.52
Return on Equity	19.82	19.66
Earnings Growth - 5 Years	5.21	5.06

Ten Largest Holdings			Ten Best Performers		Ten Worst Performers	
Name	\$	Weight	Name	Return	Name	Return
EXXON MOBIL CORP	3,940,908	3.6	BIOGEN IDEC INC	45.7	MICRON TECHNOLOGY INC	-34.7
APPLE INC	2,920,329	2.7	COACH INC	23.3	LAMAR ADVERTISING CO A	-25.9
MICROSOFTCORP	2,594,800	2.4	CONSTELLATION ENERGY GROUP	22.7	JUNIPER NETWORKS INC	-25.1
AT+T INC	2,471,967	2.3	MACY S INC	21.0	MCDERMOTTINTL INC	-22.0
CHEVRON CORP	2,139,072	2.0	BED BATH +BEYOND INC	20.9	CIMAREX ENERGY CO	-21.9
PROCTER +GAMBLE CO/THE	1,977,027	1.8	ELECTRONICARTS INC	20.8	COMPUTER SCIENCES CORP	-21.7
GENERAL ELECTRIC CO	1,814,332	1.7	FIRSTENERGY CORP	20.6	GAP INC/THE	-19.7
INTL BUSINESS MACHINES CORP	1,732,655	1.6	MASTERCARDINC CLASS A	19.8	FOSTER WHEELER AG	-19.2
JPMORGAN CHASE + CO	1,674,446	1.5	NIKE INCL B	19.3	PEABODY ENERGY CORP	-18.0
JOHNSON +JOHNSON	1,669,652	1.5	ALLERGAN INC	17.3	FIRST SOLAR INC	-17.8

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

T Rowe Price

Benchmark: S&P 500

Quarter Ending June 30, 2011

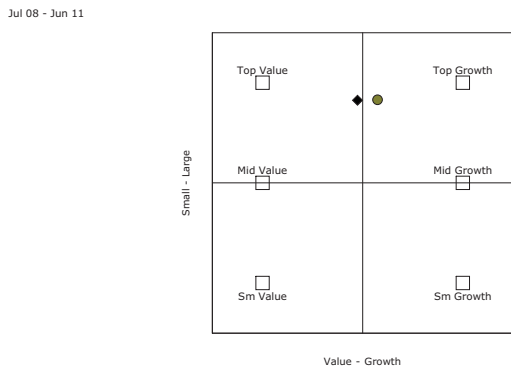
### Equity Performance Attribution

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
<i>T Rowe Price</i>									
CONSUMER DISCRETIONARY	11.9	10.7	1.3	4.1	3.5	0.6	0.04	0.08	0.13
CONSUMER STAPLES	9.1	9.9	-0.8	4.9	5.0	-0.1	-0.05	-0.01	-0.06
ENERGY	13.3	13.2	0.1	-4.7	-4.6	-0.2	-0.02	-0.03	-0.05
FINANCIALS	15.5	15.8	-0.3	-4.7	-6.0	1.4	0.02	0.21	0.23
HEALTH CARE	11.1	10.8	0.2	6.9	7.8	-0.9	0.02	-0.11	-0.09
INDUSTRIALS	11.8	11.5	0.4	-0.8	-0.7	-0.0	-0.01	-0.01	-0.03
INFORMATION TECHNOLOGY	18.1	18.2	-0.0	-1.2	-1.2	-0.1	0.00	-0.01	-0.01
MATERIALS	3.2	3.6	-0.4	-3.0	-0.9	-2.1	0.00	-0.06	-0.06
TELECOMMUNICATION SERVICES	3.0	3.0	-0.0	4.0	2.1	1.9	-0.01	0.06	0.04
UTILITIES	2.9	3.2	-0.4	7.7	6.2	1.5	-0.03	0.04	0.01
TOTAL	100.0	100.0	0.0	0.3	0.2	0.2	-0.04	0.17	0.12

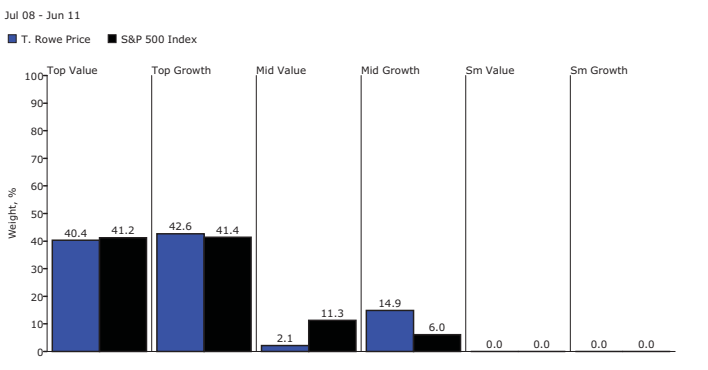
**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - T. Rowe Price**

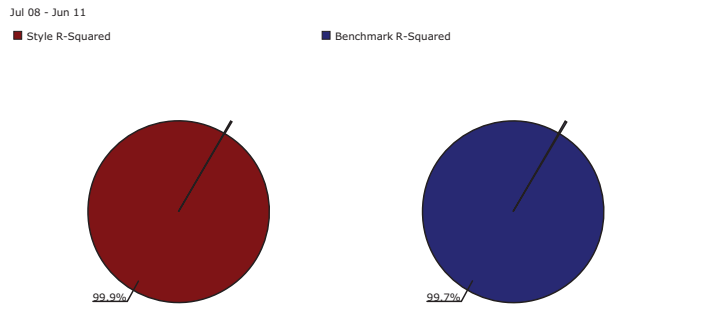
**US Equity Style Map**



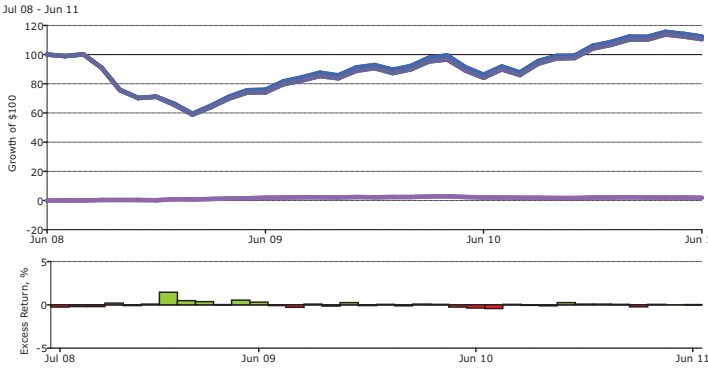
**US Equity Style Exposures**



**R-Squared (Style Analysis)**



**Cumulative Total, Style & Selection Return**



**Legend**

- ▲ S&P 500 Index
- T. Rowe Price
- Total
- Selection
- Style

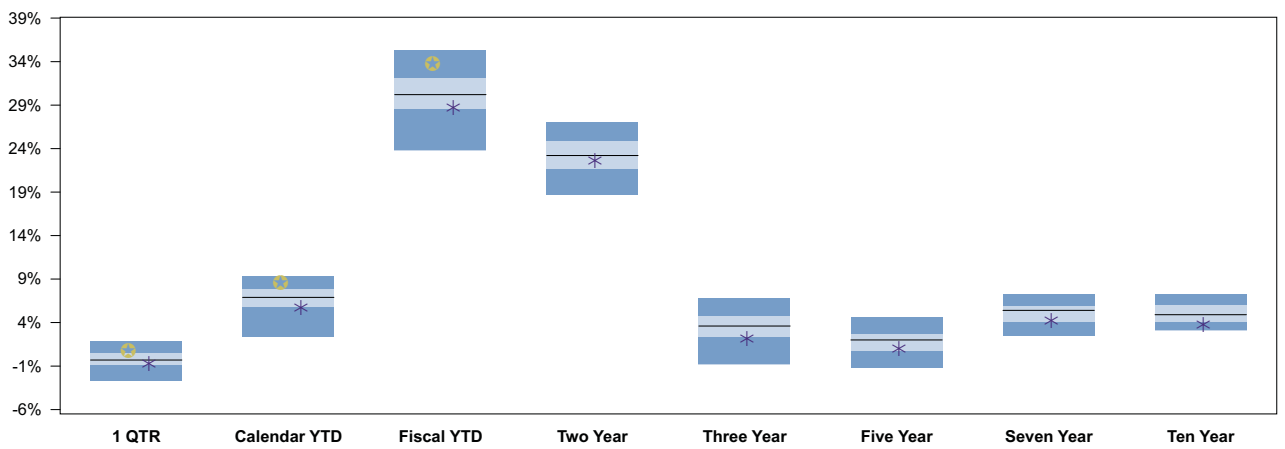


## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Value

Periods Ending June 30, 2011

### Total Returns



	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
⊕ Barrow Hanley	1.0	15	8.8	12	34.0	11										
* RUSSELL 1000 VALUE	-0.5	61	5.9	72	28.9	66	22.8	57	2.3	76	1.2	69	4.4	74	4.0	77
Median	-0.3		6.9		30.2		23.2		3.6		2.0		5.4		4.9	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – Barrow Hanley

Portfolio Characteristics		
	Portfolio	Russell 1000 Value
Total Number of Securities	88	
Average Market Cap (000's)	51,267,376	74,361,053
Median Market Cap (000's)	18,253,010	5,153,430
P/E Ratio	15.56	14.48
Dividend Yield	2.35	2.25
Beta	1.10	1.09
Price/Book Ratio	2.52	1.89
Return on Equity	16.01	12.73
Earnings Growth - 5 Years	(0.33)	(1.64)

Ten Largest Holdings		
Name	\$	Weight
STANLEY BLACK + DECKER INC	5,108,345	3.0
CAPITAL ONE FINANCIAL CORP	5,011,990	3.0
SLM CORP	3,721,734	2.2
UNITEDHEALTH GROUP INC	3,528,072	2.1
L 3 COMMUNICATIONS HOLDINGS	3,506,745	2.1
WELLPOINTINC	3,324,094	2.0
CONOCOPHILLIPS	3,323,398	2.0
PNC FINANCIAL SERVICES GROUP	3,236,823	1.9
OCCIDENTALPETROLEUM CORP	3,079,584	1.8
BP PLC	3,047,152	1.8

Ten Best Performers	
Name	Return
SANOFI AVENTIS ADR	19.5
CIGNA CORP	16.1
LORILLARDINC	15.9
AMERICAN EXPRESS CO	15.2
UNITEDHEALTH GROUP INC	14.5
COVENTRY HEALTH CARE INC	14.4
JOHNSON + JOHNSON	13.3
WELLPOINTINC	13.2
L 3 COMMUNICATIONS HOLDINGS	12.3
GOODRICH CORP	12.0

Ten Worst Performers	
Name	Return
COMPUTER SCIENCES CORP	-21.7
BANK OF AMERICA CORP	-17.7
NEWELL RUBBERMAID INC	-17.1
APPLIED MATERIALS INC	-16.2
MASCO CORP	-13.1
NEW YORK COMMUNITY BANCORP	-11.8
CORNING INC	-11.8
WELLS FARGO + CO	-11.1
HEWLETT PACKARD CO	-10.8
JPMORGAN CHASE + CO	-10.7

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Barrow Hanley

Benchmark: RUSSELL 1000 VALUE

Quarter Ending June 30, 2011

### Equity Performance Attribution

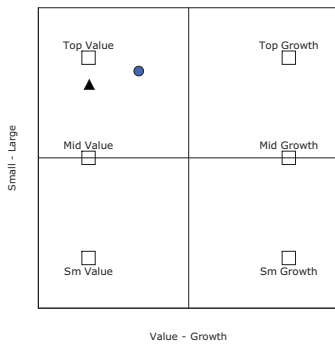
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
Barrow Hanley									
CONSUMER DISCRETIONARY	9.5	8.0	1.5	-0.3	1.5	-1.8	0.03	-0.20	-0.17
CONSUMER STAPLES	7.7	9.2	-1.5	6.8	5.4	1.4	-0.10	0.11	0.00
ENERGY	12.7	13.6	-0.9	-2.4	-5.4	3.0	0.04	0.39	0.43
FINANCIALS	23.2	27.1	-3.9	-1.6	-6.3	4.7	0.24	1.10	1.34
HEALTH CARE	14.1	12.3	1.8	10.1	9.5	0.6	0.18	0.11	0.28
INDUSTRIALS	14.1	9.5	4.5	1.6	-1.2	2.8	-0.05	0.42	0.37
INFORMATION TECHNOLOGY	11.3	5.2	6.1	-3.1	-2.3	-0.8	-0.13	-0.12	-0.25
MATERIALS	2.1	3.2	-1.1	-8.2	-3.5	-4.7	0.03	-0.11	-0.07
TELECOMMUNICATION SERVICES	1.7	5.1	-3.4	-0.7	2.3	-3.0	-0.11	-0.05	-0.16
UTILITIES	3.6	6.7	-3.1	5.7	5.6	0.1	-0.21	0.00	-0.20
TOTAL	100.0	100.0	0.0	1.2	-0.4	1.6	-0.09	1.66	1.57

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - Barrow Hanley**

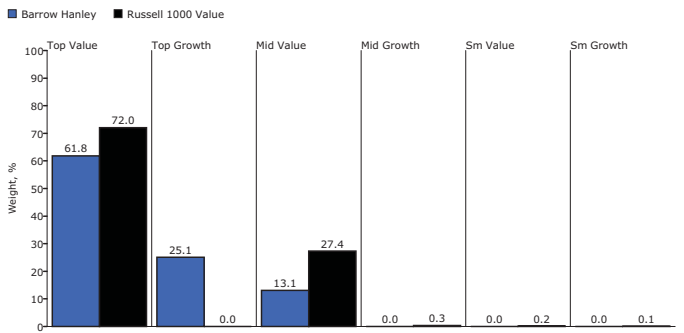
**US Equity Style Map**

Jul 08 - Jun 11



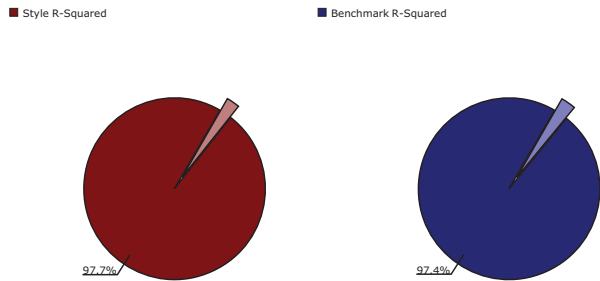
**US Equity Style Exposures**

Jul 08 - Jun 11



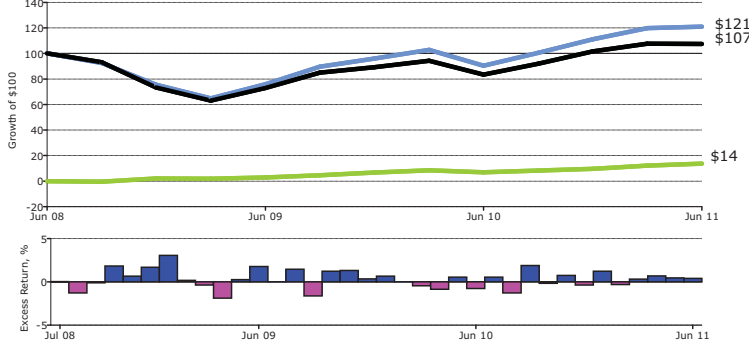
**R-Squared (Style Analysis)**

Jul 08 - Jun 11



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

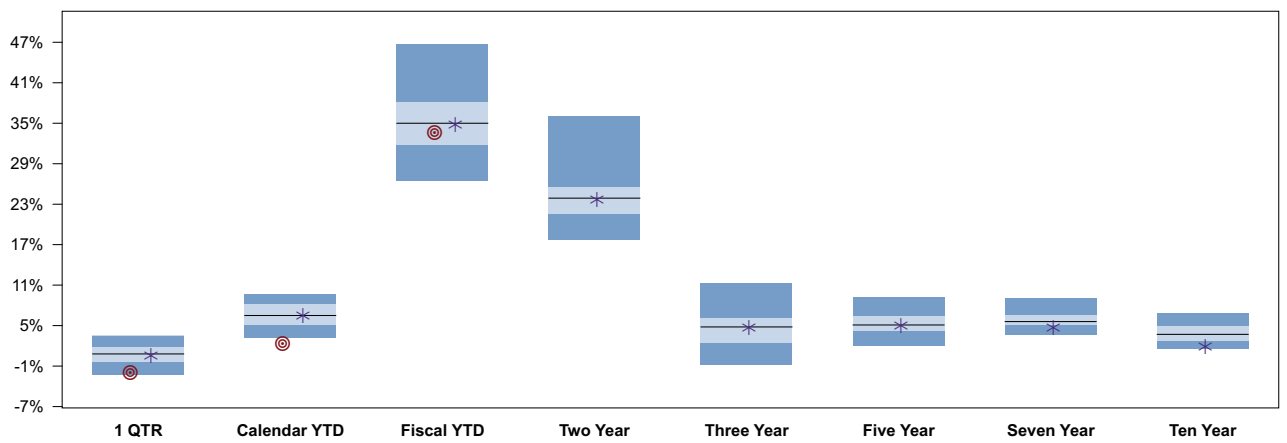
- ▲ Russell 1000 Value
- Barrow Hanley
- Total
- Selection
- Style

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Large Growth

Periods Ending June 30, 2011

### Total Returns



	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
● BlackRock	-1.6 89	2.7 97	34.0 61					
* RUSSELL 1000 GROWTH	0.8 53	6.8 45	35.0 51	23.9 51	5.0 48	5.3 46	4.9 80	2.2 88
Median	0.8	6.5	35.0	23.9	4.8	5.1	5.6	3.7

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – BlackRock

Portfolio Characteristics		
	Portfolio	Russell 1000 Growth
Total Number of Securities	68	
Average Market Cap (000's)	72,281,582	85,174,964
Median Market Cap (000's)	23,313,675	6,622,260
P/E Ratio	21.26	19.58
Dividend Yield	0.96	1.43
Beta	1.04	0.93
Price/Book Ratio	5.36	5.25
Return on Equity	19.19	25.31
Earnings Growth - 5 Years	12.15	12.93

Ten Largest Holdings		
Name	\$	Weight
APPLE INC	10,540,038	6.3
QUALCOMM INC	7,632,576	4.5
BOEING CO/THE	5,611,287	3.3
PROCTER +GAMBLE CO/THE	5,053,815	3.0
SCHLUMBERGER LTD	5,019,840	3.0
DANAHER CORP	4,906,874	2.9
AMAZON.COMINC	4,723,719	2.8
ORACLE CORP	4,722,585	2.8
COCA COLACO/THE	4,064,316	2.4
FREEPORT MCMORAN COPPER	3,623,650	2.2

Ten Best Performers	
Name	Return
VMWARE INCCLASS A	22.9
ALLERGAN INC	17.3
AMAZON.COMINC	13.5
MOODY S CORP	13.5
SALESFORCE.COM INC	11.5
CHECK POINT SOFTWARE TECH	11.4
ACCENTUREPLC CL A	10.8
CERNER CORP	9.9
NETAPP INC	9.6
COVANCE INC	8.5

Ten Worst Performers	
Name	Return
MICRON TECHNOLOGY INC	-34.7
JUNIPER NETWORKS INC	-25.1
TEREX CORP	-23.2
VERIFONE SYSTEMS INC	-19.3
JEFFERIESGROUP INC	-18.0
BROADCOM CORP CL A	-14.4
MANPOWER INC	-14.1
GOOGLE INCL A	-13.6
COGNIZANTTECH SOLUTIONS A	-9.9
WALT DISNEY CO/THE	-9.4

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

BlackRock

Benchmark: RUSSELL 1000 GROWTH

Quarter Ending June 30, 2011

**Equity Performance Attribution**

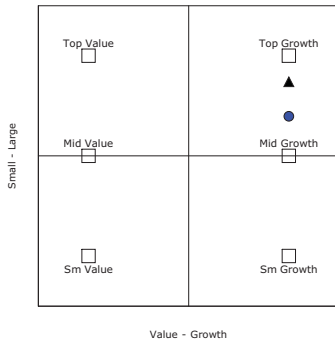
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
<b>BlackRock</b>									
CONSUMER DISCRETIONARY	15.6	14.6	1.1	1.5	4.7	-3.2	0.04	-0.50	-0.46
CONSUMER STAPLES	6.8	8.8	-2.0	1.6	5.5	-3.9	-0.09	-0.27	-0.36
ENERGY	9.2	11.8	-2.6	-4.9	-4.4	-0.4	0.14	-0.04	0.09
FINANCIALS	2.3	4.8	-2.5	2.4	0.2	2.2	0.01	0.06	0.07
HEALTH CARE	9.9	9.5	0.4	3.0	4.2	-1.2	0.02	-0.12	-0.11
INDUSTRIALS	15.9	14.0	1.9	-3.9	-1.0	-2.9	-0.03	-0.47	-0.50
INFORMATION TECHNOLOGY	35.8	30.4	5.4	-1.9	-0.7	-1.1	-0.08	-0.41	-0.49
MATERIALS	2.4	5.0	-2.7	-1.0	0.7	-1.7	0.00	-0.04	-0.04
TELECOMMUNICATION SERVICES	2.1	0.8	1.2	-0.8	0.8	-1.6	0.00	-0.04	-0.03
UTILITIES	0.0	0.2	-0.2	-	3.9	-	-0.01	0.00	-0.01
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>-1.1</b>	<b>0.7</b>	<b>-1.8</b>	<b>0.00</b>	<b>-1.82</b>	<b>-1.82</b>

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - BlackRock**

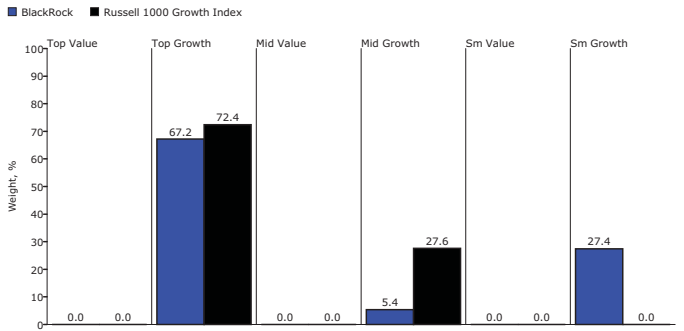
**US Equity Style Map**

Jul 08 - Jun 11



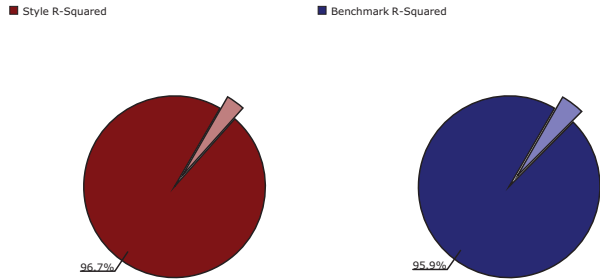
**US Equity Style Exposures**

Jul 08 - Jun 11



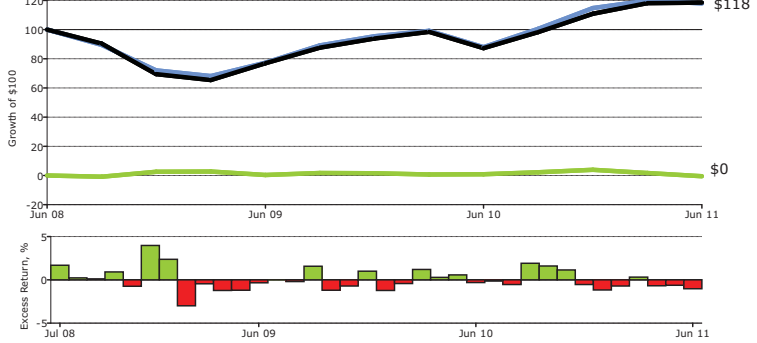
**R-Squared (Style Analysis)**

Jul 08 - Jun 11



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

- ▲ Russell 1000 Growth Index
- BlackRock
- Total
- Style
- Selection

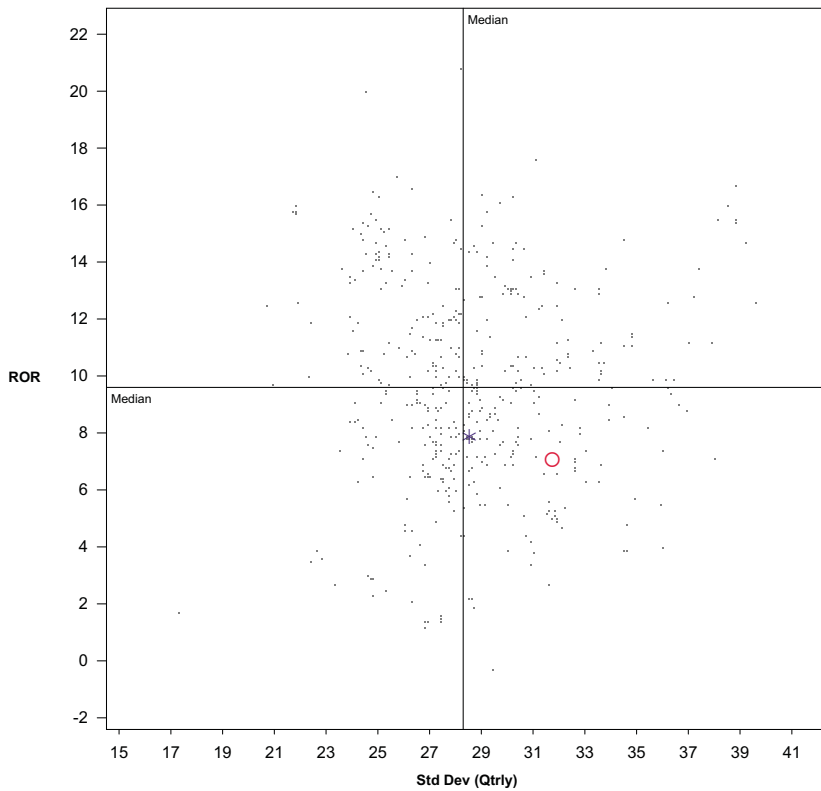


## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Cap

Period Ending June 30, 2011

### Risk vs. Return - 3 Year



NAME	Return	Standard Deviation	Sharpe Ratio
○ Small Cap	7.0 80	31.8 84	0.2 84
* RUSSELL 2000	7.8 72	28.6 56	0.3 73
Median	9.6	28.3	0.3

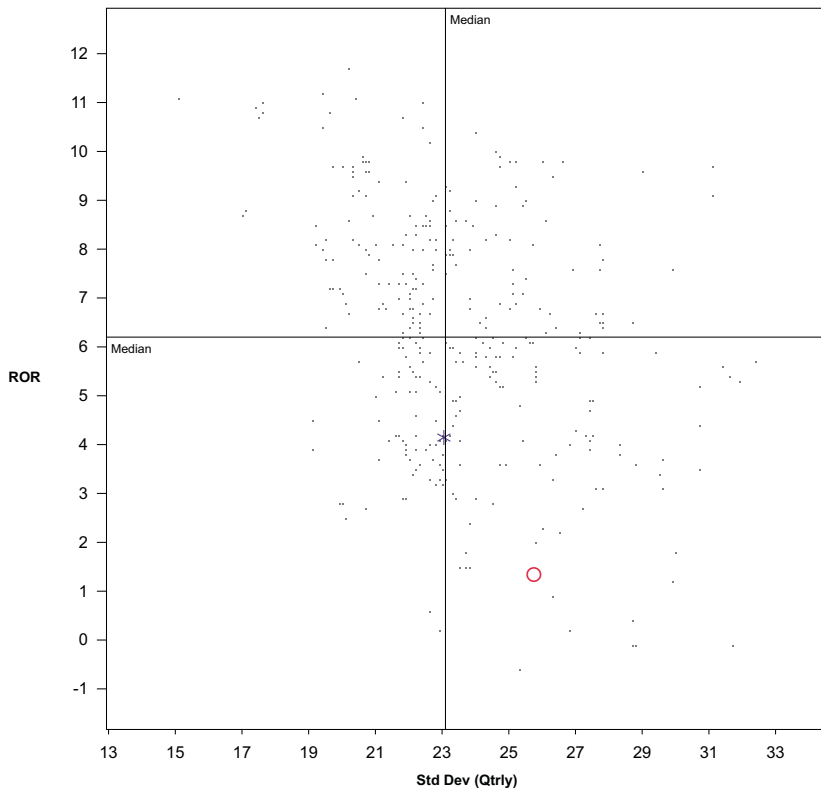
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Cap

Period Ending June 30, 2011

### Risk vs. Return - 5 Year



NAME	Return	Standard Deviation	Sharpe Ratio
○ Small Cap	1.3 98	25.8 79	-0.0 97
* RUSSELL 2000	4.1 81	23.1 50	0.1 79
Median	6.2	23.1	0.2

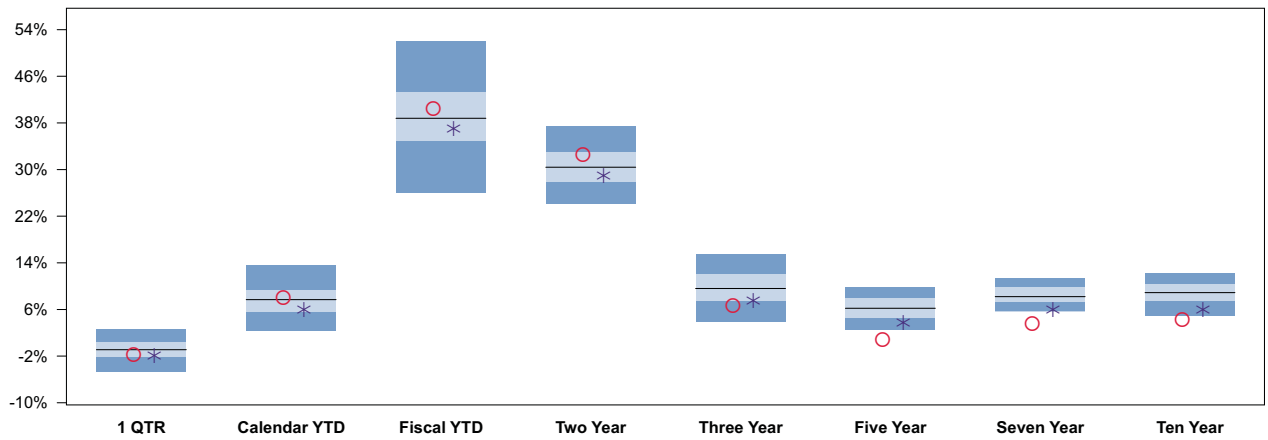
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Cap

Periods Ending June 30, 2011

### Total Returns



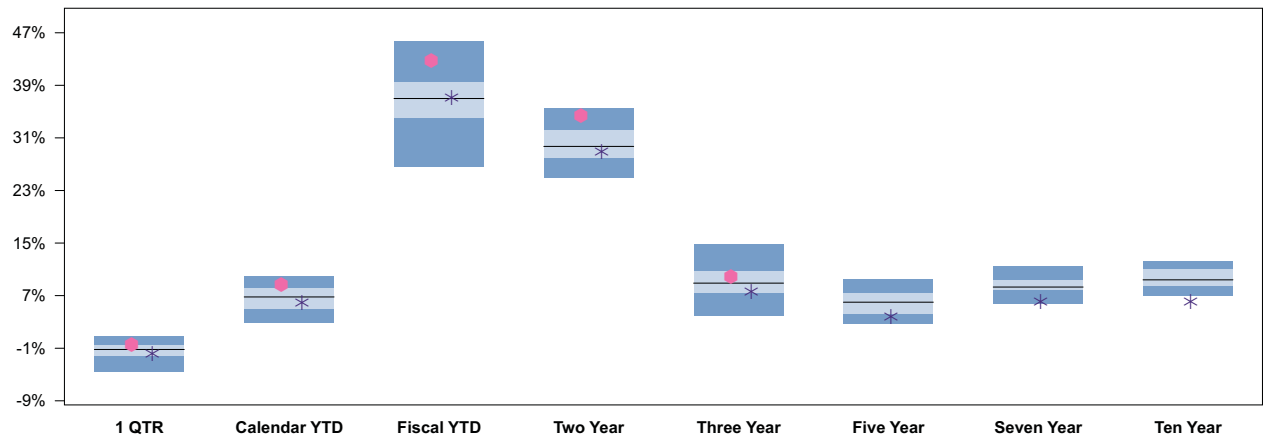
	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
○ Small Cap	-1.4 59	8.5 36	40.8 37	33.0 26	7.0 80	1.3 98	3.9 99	4.6 96
* RUSSELL 2000	-1.6 66	6.2 68	37.4 60	29.2 63	7.8 72	4.1 81	6.3 92	6.3 91
Median	-0.9	7.7	38.8	30.4	9.6	6.2	8.2	8.9

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Core

Periods Ending June 30, 2011

### Total Returns



	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
● Jennison	-0.2 21	8.9 14	43.1 9	34.7 8	10.2 33			
* RUSSELL 2000	-1.6 63	6.2 63	37.4 44	29.2 58	7.8 71	4.1 80	6.3 93	6.3 99
Median	-1.2	6.8	37.0	29.7	8.9	6.0	8.3	9.4

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – Jennison

Portfolio Characteristics		
	Portfolio	Russell 2000
Total Number of Securities	125	
Average Market Cap (000's)	2,037,260	1,289,145
Median Market Cap (000's)	1,832,680	544,720
P/E Ratio	21.42	18.43
Dividend Yield	0.92	1.21
Beta	1.14	1.15
Price/Book Ratio	3.79	3.09
Return on Equity	14.11	9.60
Earnings Growth - 5 Years	13.88	5.36

Ten Largest Holdings		
Name	\$	Weight
NETGEAR INC	2,168,468	1.8
DRESSER RAND GROUP INC	2,154,193	1.8
ANIXTER INTERNATIONAL INC	2,063,829	1.7
WHITE MOUNTAINS INSURANCE GP	1,946,601	1.6
RBC BEARINGS INC	1,942,790	1.6
CORPORATEEXECUTIVE BOARD CO	1,797,420	1.5
AIR METHODS CORP	1,787,631	1.5
HEARTLANDEXPRESS INC	1,777,998	1.5
RUDDICK CORP	1,743,690	1.4
TEXAS ROADHOUSE INC	1,715,256	1.4

Ten Best Performers	
Name	Return
NETGEAR INC	34.8
CALIPER LIFE SCIENCES INC	20.0
BANK OF THE OZARKS	19.6
MAP PHARMACEUTICALS INC	15.8
WHITE MOUNTAINS INSURANCE GP	15.4
DARLING INTERNATIONAL INC	15.2
RUDDICK CORP	13.2
CARRIZO OIL + GAS INC	13.0
NTELOS HOLDINGS CORP	12.5
EXPRESS INC	11.6

Ten Worst Performers	
Name	Return
OCLARO INC	-41.6
MERU NETWORKS INC	-40.9
RESOURCECONNECTION INC	-37.7
MEMC ELECTRONIC MATERIALS	-34.2
U S GOLD CORP	-31.7
FINISAR CORPORATION	-26.7
GREAT LAKES DREDGE + DOCK CO	-26.6
JANUS CAPITAL GROUP INC	-24.0
BIG LOTS INC	-23.7
ALPHA NATURAL RESOURCES INC	-23.5

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Jennison

Benchmark: RUSSELL 2000

Quarter Ending June 30, 2011

### Equity Performance Attribution

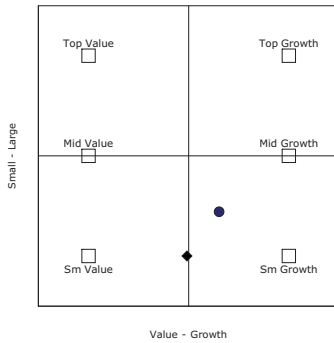
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
Jennison									
CONSUMER DISCRETIONARY	12.8	13.3	-0.5	-0.3	1.0	-1.3	-0.01	-0.17	-0.18
CONSUMER STAPLES	4.9	2.9	2.0	5.7	6.8	-1.1	0.17	-0.06	0.11
ENERGY	6.5	5.8	0.6	3.2	-7.2	10.5	-0.04	0.68	0.64
FINANCIALS	19.4	21.6	-2.2	-1.6	-2.5	0.9	0.03	0.17	0.20
HEALTH CARE	11.6	11.9	-0.3	3.8	4.6	-0.8	-0.02	-0.09	-0.11
INDUSTRIALS	18.0	16.4	1.6	-1.9	-3.8	1.9	-0.04	0.35	0.31
INFORMATION TECHNOLOGY	16.4	17.6	-1.2	1.0	-3.4	4.4	0.02	0.73	0.75
MATERIALS	5.7	6.2	-0.6	-15.5	-3.8	-11.7	0.01	-0.67	-0.65
TELECOMMUNICATION SERVICES	4.7	1.2	3.6	5.1	7.8	-2.7	0.33	-0.13	0.20
UTILITIES	0.0	3.1	-3.1	-	2.6	-	-0.12	0.00	-0.12
TOTAL	100.0	100.0	0.0	-0.2	-1.4	1.1	0.33	0.82	1.15

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - Jennison**

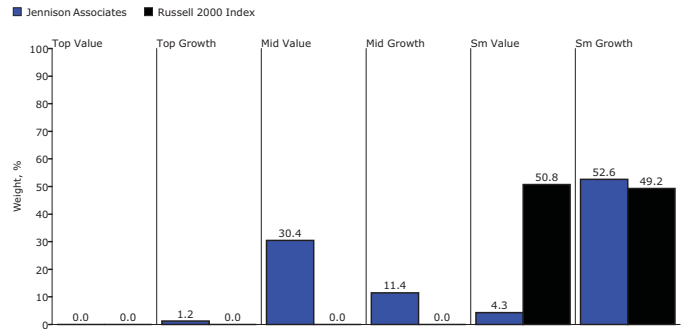
**US Equity Style Map**

Jul 08 - Jun 11



**US Equity Style Exposures**

Jul 08 - Jun 11

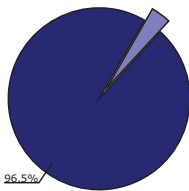
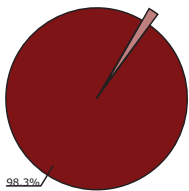


**R-Squared (Style Analysis)**

Jul 08 - Jun 11

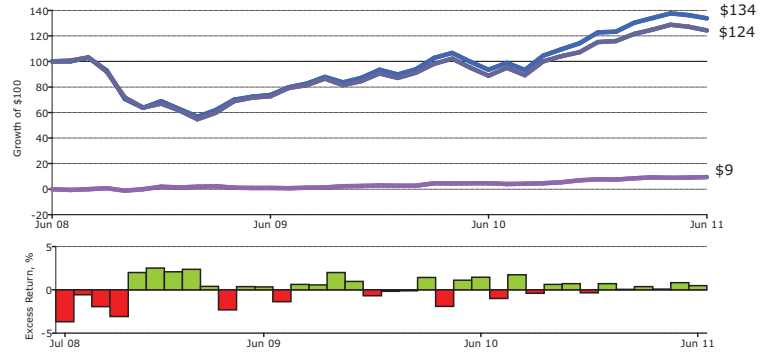
■ Style R-Squared

■ Benchmark R-Squared



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

▲ Russell 2000 Index ● Jennison Associates

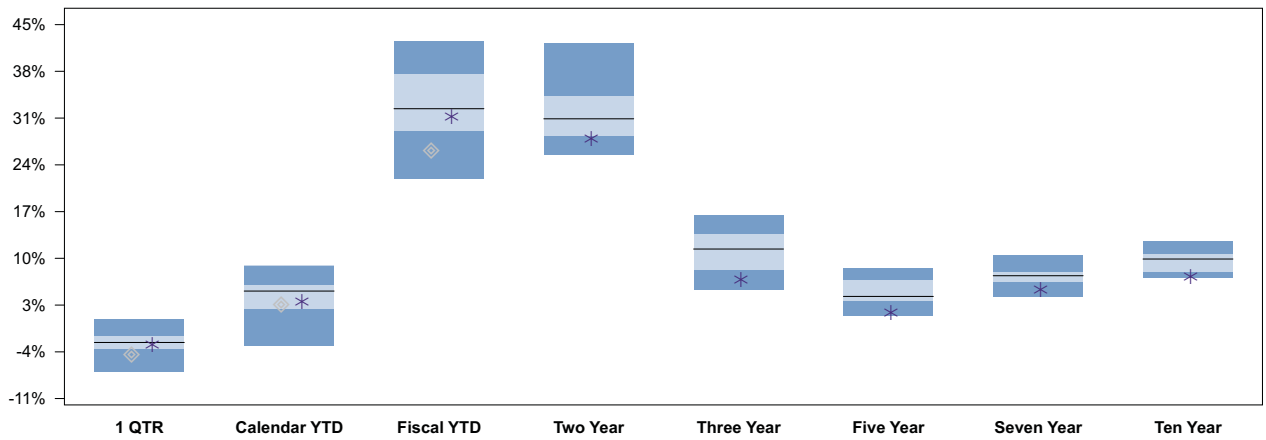
■ Total ■ Style  
■ Selection

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Value

Periods Ending June 30, 2011

### Total Returns



	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
◆ The Boston Co	-4.1 78	3.3 70	26.4 78	28.2 77	7.1 82	2.2 92	5.6 90	7.5 87
* RUSSELL 2000 VALUE	-2.6 51	3.8 64	31.4 63	28.2 77	7.1 82	2.2 92	5.6 90	7.5 87
Median	-2.6	5.1	32.4	30.9	11.4	4.3	7.4	9.9



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – The Boston Company

Portfolio Characteristics		
	Portfolio	Russell 2000 Value
Total Number of Securities	140	
Average Market Cap (000's)	1,722,023	1,122,111
Median Market Cap (000's)	1,412,220	467,225
P/E Ratio	18.65	14.83
Dividend Yield	1.32	1.84
Beta	1.17	1.27
Price/Book Ratio	2.08	1.36
Return on Equity	7.59	7.03
Earnings Growth - 5 Years	(4.89)	(1.66)

Ten Largest Holdings		
Name	\$	Weight
BRINK S CO/THE	686,090	1.4
CARPENTERTECHNOLOGY	684,085	1.4
STERIS CORP	660,772	1.3
HAEMONETICS CORP/MASS	657,861	1.3
CLEAN HARBORS INC	652,540	1.3
SVB FINANCIAL GROUP	635,314	1.3
BIOMED REALTY TRUST INC	619,720	1.3
TIDEWATERINC	611,820	1.2
BJ S WHOLESALE CLUB INC	601,683	1.2
MEDNAX INC	597,011	1.2

Ten Best Performers	
Name	Return
CARPENTERTECHNOLOGY	35.5
NETGEAR INC	34.8
SPARTAN STORES INC	32.5
HEALTHSPRING INC	23.4
FLOWERS FOODS INC	22.3
FOOT LOCKER INC	21.5
WINN DIXIESTORES INC	18.4
ASPEN TECHNOLOGY INC	14.6
CASEY S GENERAL STORES INC	13.2
PNM RESOURCES INC	13.2

Ten Worst Performers	
Name	Return
GLOBAL INDUSTRIES LTD	-44.0
BIG 5 SPORTING GOODS CORP	-33.5
SOUTHWESTBANCORP INC/OKLA	-31.0
PIPER JAFFRAY COS	-30.5
COEUR D ALENE MINES CORP	-30.3
SKECHERS USA INC CL A	-29.5
COMFORT SYSTEMS USA INC	-24.2
NETSCOUT SYSTEMS INC	-23.5
INVESTMENTTECHNOLOGY GROUP	-22.9
LOUISIANAPACIFIC CORP	-22.5

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

The Boston Co

Benchmark: RUSSELL 2000 VALUE

Quarter Ending June 30, 2011

**Equity Performance Attribution**

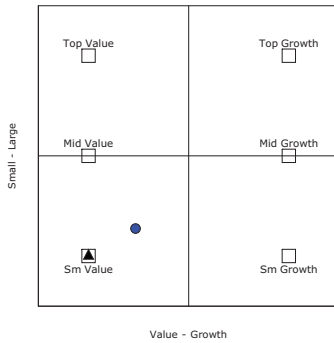
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
<i>The Boston Co</i>									
CONSUMER DISCRETIONARY	13.8	10.0	3.8	-5.6	-1.1	-4.5	0.05	-0.63	-0.59
CONSUMER STAPLES	3.5	2.9	0.5	15.9	2.2	13.7	0.02	0.48	0.50
ENERGY	9.6	6.9	2.7	-8.3	-6.2	-2.1	-0.11	-0.21	-0.32
FINANCIALS	28.0	36.9	-8.9	-8.1	-2.5	-5.6	0.02	-1.60	-1.58
HEALTH CARE	9.5	5.6	3.9	3.2	5.2	-2.0	0.30	-0.20	0.10
INDUSTRIALS	16.0	14.3	1.7	-5.4	-5.2	-0.2	-0.05	-0.04	-0.09
INFORMATION TECHNOLOGY	9.8	9.3	0.6	-7.0	-4.5	-2.5	-0.01	-0.25	-0.27
MATERIALS	4.3	7.3	-3.0	-4.2	-4.2	0.0	0.06	0.00	0.06
TELECOMMUNICATION SERVICES	0.3	0.6	-0.3	-23.8	15.8	-39.6	-0.06	-0.13	-0.19
UTILITIES	5.1	6.1	-1.0	5.1	3.1	2.1	-0.06	0.10	0.05
TOTAL	100.0	100.0	0.0	-4.5	-2.3	-2.3	0.16	-2.48	-2.32

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - The Boston Company**

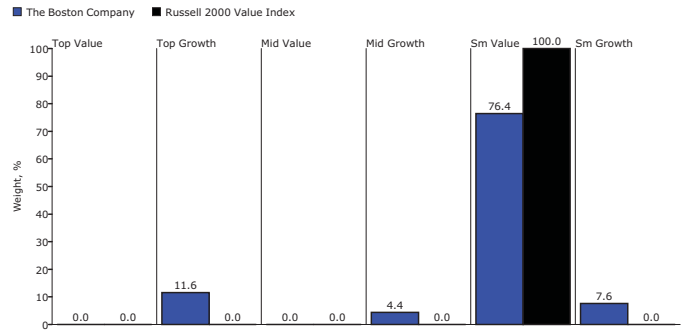
**US Equity Style Map**

Jul 08 - Jun 11



**US Equity Style Exposures**

Jul 08 - Jun 11

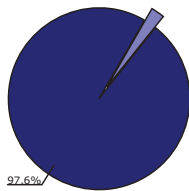
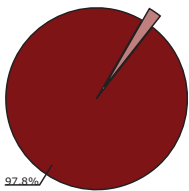


**R-Squared (Style Analysis)**

Jul 08 - Jun 11

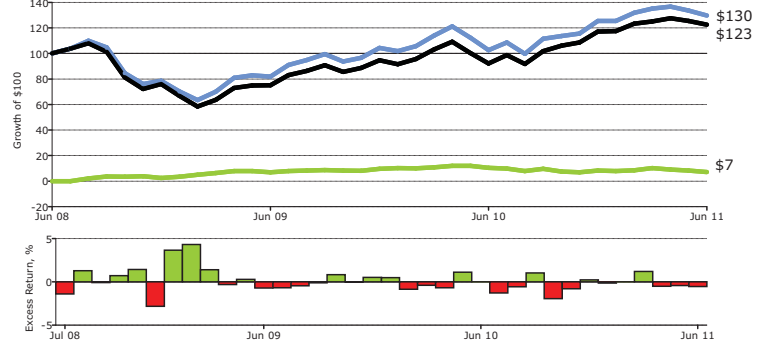
■ Style R-Squared

■ Benchmark R-Squared



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

▲ Russell 2000 Index    ● The Boston Company

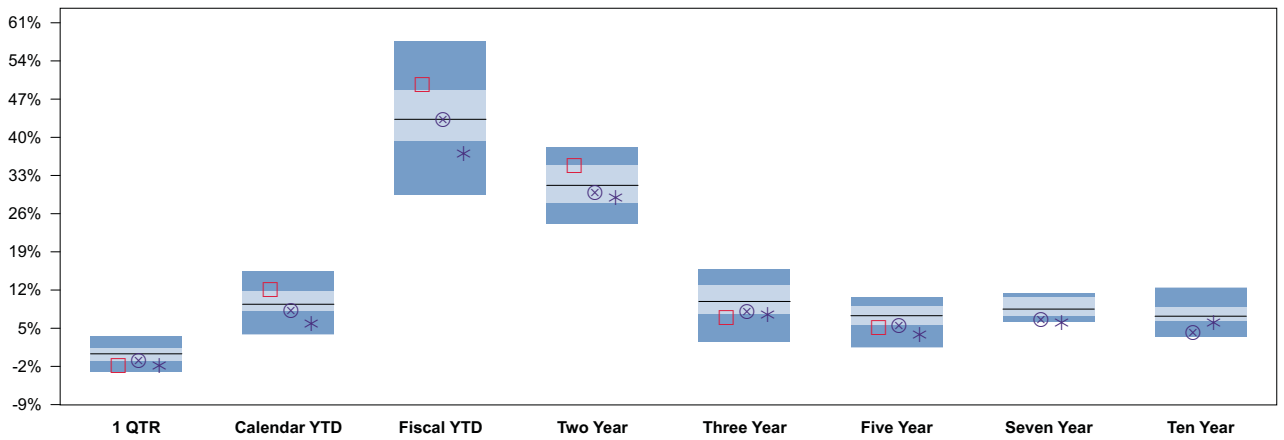
■ Total    ■ Style  
■ Selection

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Equity Funds - Small Growth

Periods Ending June 30, 2011

### Total Returns



	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
□ Chartwell	-1.5 78	12.4 22	49.9 20	35.2 23	7.2 79	5.5 75		
⊗ RUSSELL 2000 GROWTH	-0.6 66	8.6 64	43.5 47	30.1 66	8.4 69	5.8 71	6.8 85	4.6 89
* RUSSELL 2000	-1.6 81	6.2 86	37.4 85	29.2 70	7.8 72	4.1 90	6.3 95	6.3 77
Median	0.3	9.4	43.3	31.2	9.9	7.3	8.5	7.2

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – Chartwell

Portfolio Characteristics		
	Portfolio	Russell 2000 Growth
Total Number of Securities	79	
Average Market Cap (000's)	1,882,686	1,454,094
Median Market Cap (000's)	1,445,280	641,600
P/E Ratio	28.45	24.06
Dividend Yield	0.15	0.59
Beta	1.07	1.03
Price/Book Ratio	4.69	4.80
Return on Equity	15.72	12.15
Earnings Growth - 5 Years	7.00	13.09

Ten Largest Holdings		
Name	\$	Weight
EXPRESS INC	1,915,239	3.2
KFORCE INC	1,541,151	2.6
HFF INC CLASS A	1,536,509	2.6
CHEESECAKEFACTORY INC/THE	1,472,037	2.5
ROBBINS +MYERS INC	1,362,209	2.3
CARDTRONICS INC	1,347,203	2.3
CYPRESS SEMICONDUCTOR CORP	1,339,853	2.3
UNITED RENTALS INC	1,310,005	2.2
CLEAN HARBORS INC	1,249,325	2.1
SIRONA DENTAL SYSTEMS INC	1,247,850	2.1

Ten Best Performers	
Name	Return
QUESTCOR PHARMACEUTICALS	67.2
DOMINO S PIZZA INC	36.9
ULTA SALONCOSMETICS + FRAGR	34.2
FOSSIL INC	25.7
CEPHEID INC	23.6
STEVEN MADDEN LTD	19.9
ANCESTRY.COM INC	16.7
KEY ENERGYSERVICES INC	15.8
CARDTRONICS INC	15.2
ROBBINS +MYERS INC	15.0

Ten Worst Performers	
Name	Return
SKILLED HEALTHCARE GROU CL A	-34.3
DEMANDTECINC	-30.9
KFORCE INC	-28.5
SUCCESSFACTORS INC	-24.8
ISTA PHARMACEUTICALS INC.	-24.5
UNITED RENTALS INC	-23.7
VERIFONE SYSTEMS INC	-19.3
SOTHEBY S	-17.2
NARA BANCORP INC	-15.5
ATLAS AIRWORLDWIDE HOLDINGS	-14.6

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Chartwell

Benchmark: RUSSELL 2000 GROWTH

Quarter Ending June 30, 2011

### Equity Performance Attribution

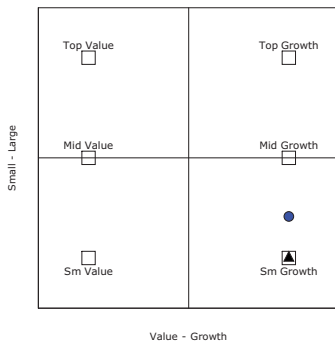
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Buy / Hold	Index	Difference	Allocation	Selection	Total
Chartwell									
CONSUMER DISCRETIONARY	20.8	16.4	4.4	3.3	2.2	1.1	0.12	0.23	0.34
CONSUMER STAPLES	0.0	2.9	-2.9	-	11.3	-	-0.35	0.00	-0.35
ENERGY	3.3	4.8	-1.5	-4.7	-8.6	3.9	0.13	0.13	0.25
FINANCIALS	11.4	7.1	4.3	-1.5	-2.4	1.0	-0.09	0.12	0.02
HEALTH CARE	18.4	17.8	0.6	2.6	4.4	-1.8	0.03	-0.34	-0.31
INDUSTRIALS	14.3	18.5	-4.2	-5.1	-2.8	-2.3	0.10	-0.34	-0.24
INFORMATION TECHNOLOGY	27.7	25.5	2.2	-4.3	-3.0	-1.3	-0.06	-0.38	-0.44
MATERIALS	1.9	5.2	-3.3	-10.0	-3.2	-6.8	0.09	-0.13	-0.04
TELECOMMUNICATION SERVICES	2.2	1.7	0.5	-1.4	5.0	-6.4	0.03	-0.14	-0.12
UTILITIES	0.0	0.2	-0.2	-	-12.6	-	0.02	0.00	0.02
TOTAL	100.0	100.0	0.0	-1.3	-0.5	-0.8	0.01	-0.86	-0.84

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**  
3 Years Ending June 30, 2011

**Returns Based Style Analysis - Chartwell**

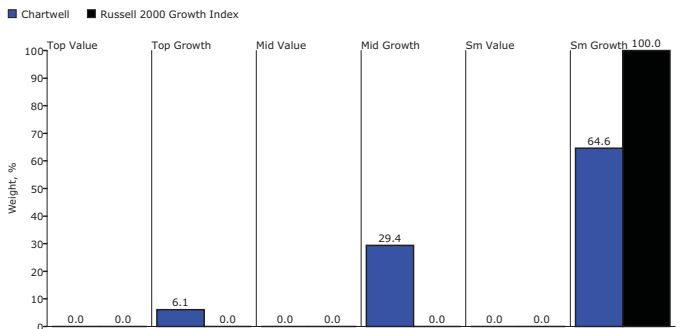
**US Equity Style Map**

Jul 08 - Jun 11



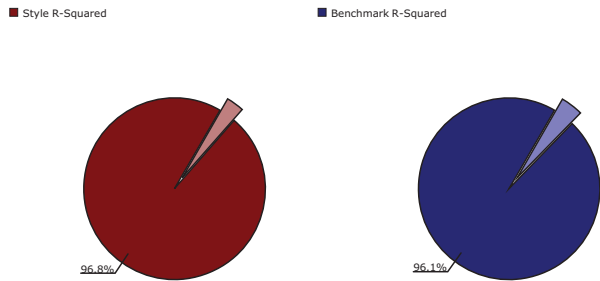
**US Equity Style Exposures**

Jul 08 - Jun 11



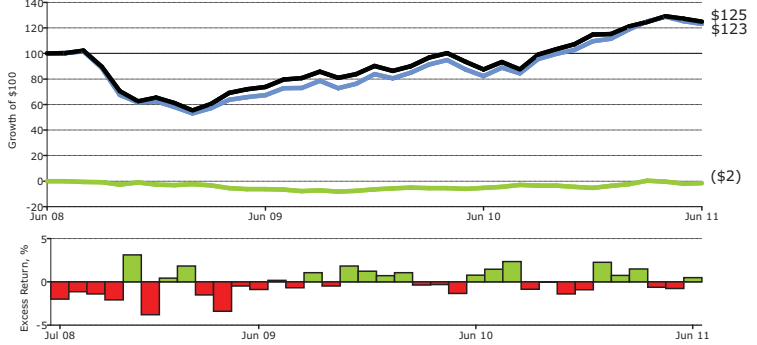
**R-Squared (Style Analysis)**

Jul 08 - Jun 11



**Cumulative Total, Style & Selection Return**

Jul 08 - Jun 11



**Legend**

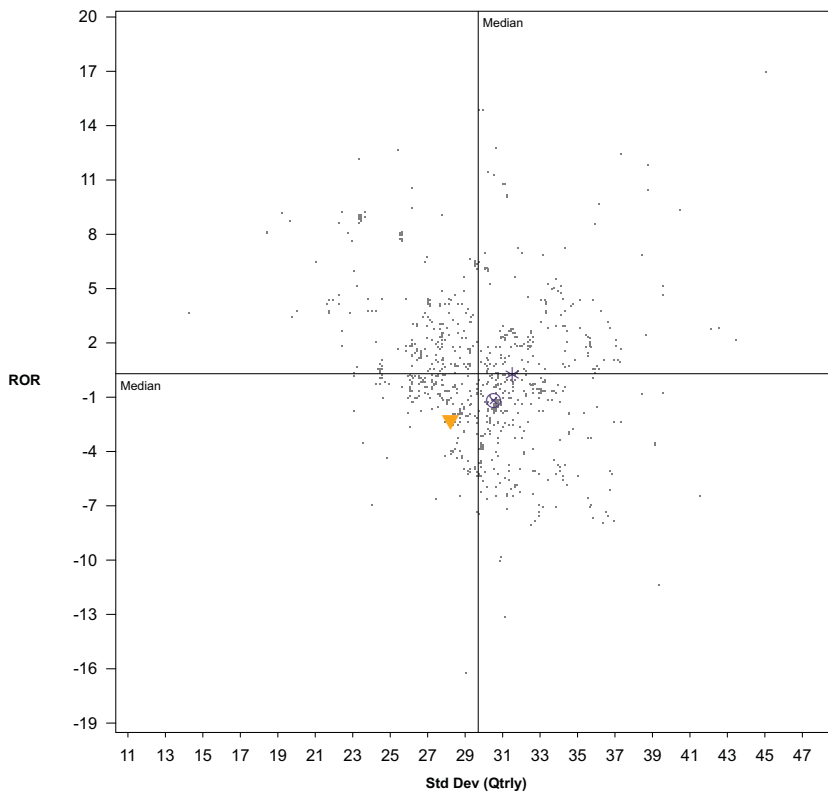
- ▲ Russell 2000 Growth Index
- Chartwell
- Total
- Selection
- Style

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Intl Equity Developed Mkt Funds

Period Ending June 30, 2011

### Risk vs. Return - 3 Year



NAME	Return	Standard Deviation	Sharpe Ratio
▼ Intl Equity	-2.5 83	28.3 35	-0.1 83
* Intl Equity Index	0.1 53	31.6 76	-0.0 52
⊗ MSCI EAFE (GROSS)	-1.3 72	30.6 63	-0.1 72
Median	0.3	29.7	-0.0

\* Standard deviation is based on quarterly returns

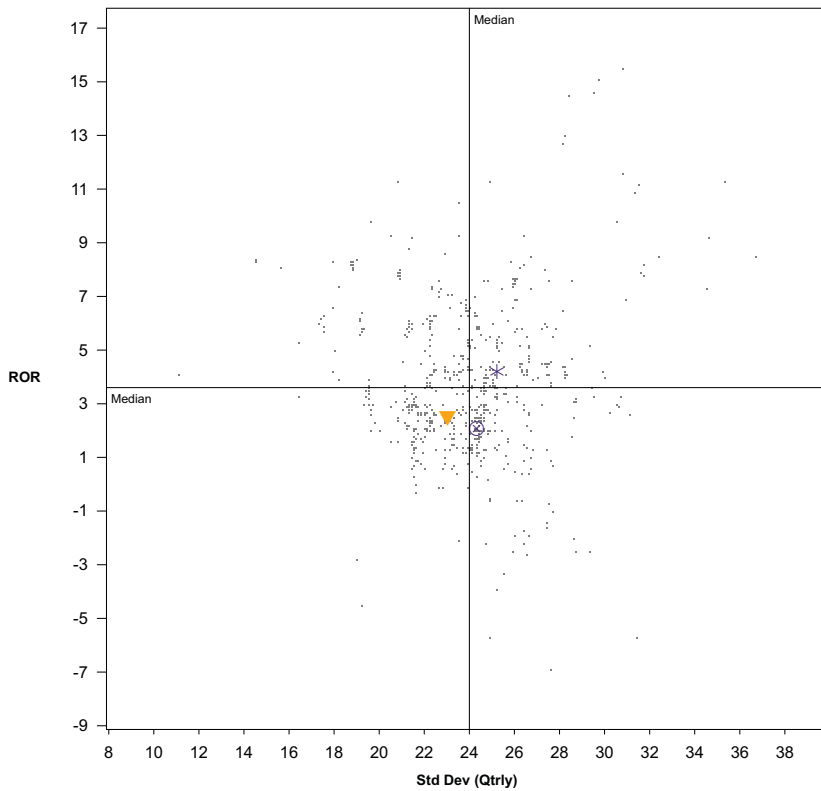


## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Intl Equity Developed Mkt Funds

Period Ending June 30, 2011

### Risk vs. Return - 5 Year



NAME	Return	Standard Deviation	Sharpe Ratio
▼ Intl Equity	2.4 72	23.1 39	0.0 73
* Intl Equity Index	4.1 39	25.3 77	0.1 41
⊗ MSCI EAFE (GROSS)	2.0 79	24.4 63	-0.0 79
Median	3.6	24.0	0.1

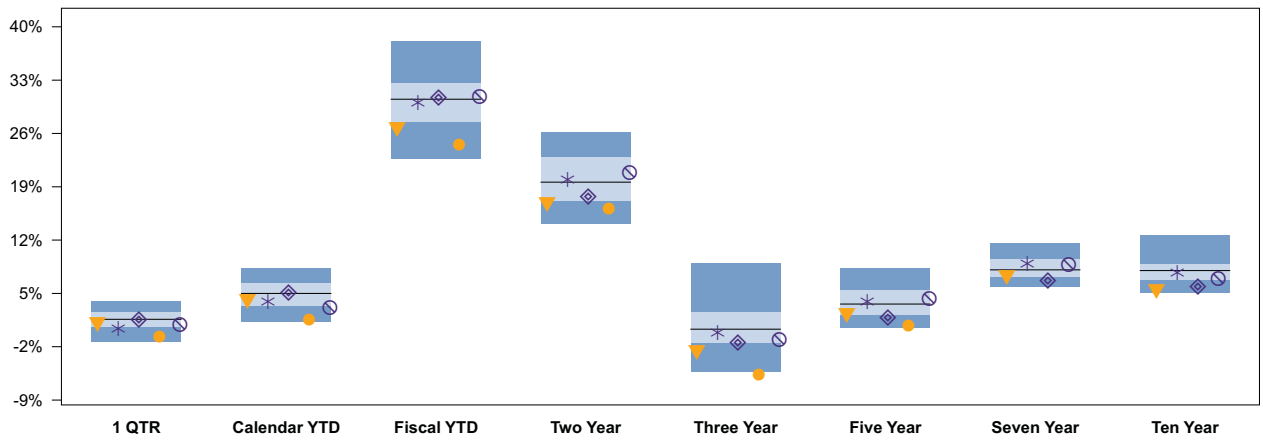
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Intl Equity Developed Mkt Funds

Periods Ending June 30, 2011

### Total Returns



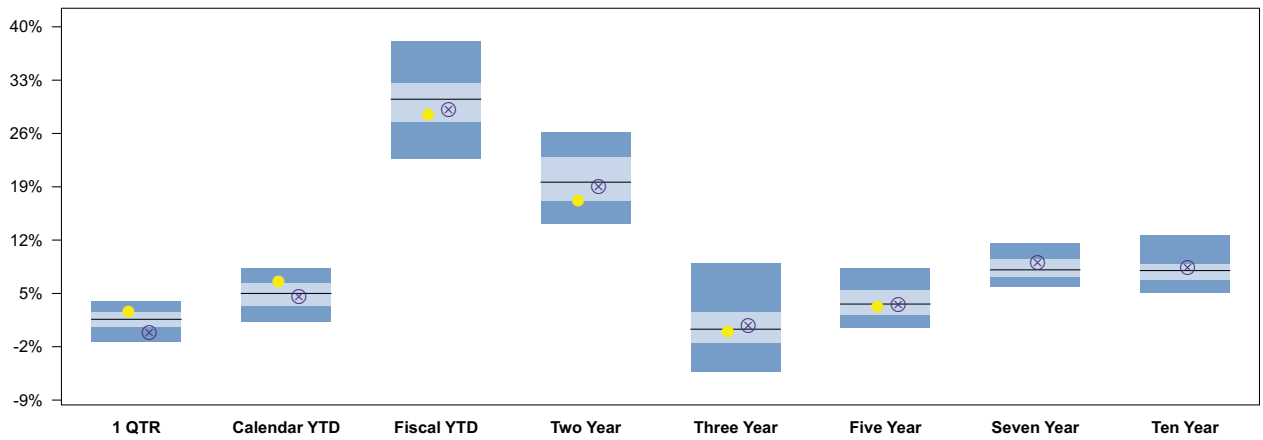
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
▼ Intl Equity	1.3	56	4.3	62	26.8	80	17.0	76	-2.5	83	2.4	72	7.4	68	5.6	93
* Intl Equity Index	0.6	75	4.1	65	30.3	52	20.2	43	0.1	53	4.1	39	9.1	35	7.9	51
◆ MSCI EAFE (GROSS)	1.8	43	5.3	43	30.9	44	18.0	66	-1.3	72	2.0	79	6.9	78	6.1	84
● Artio	-0.4	89	1.8	92	24.9	91	16.5	84	-5.3	96	1.1	92				
○ MSCI ACWI XUS GROWTH	1.1	63	3.4	73	31.1	42	21.1	34	-0.8	66	4.5	34	9.0	36	7.2	67
Median	1.6		5.0		30.5		19.6		0.3		3.6		8.1		8.0	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Intl Equity Developed Mkt Funds

Periods Ending June 30, 2011

### Total Returns



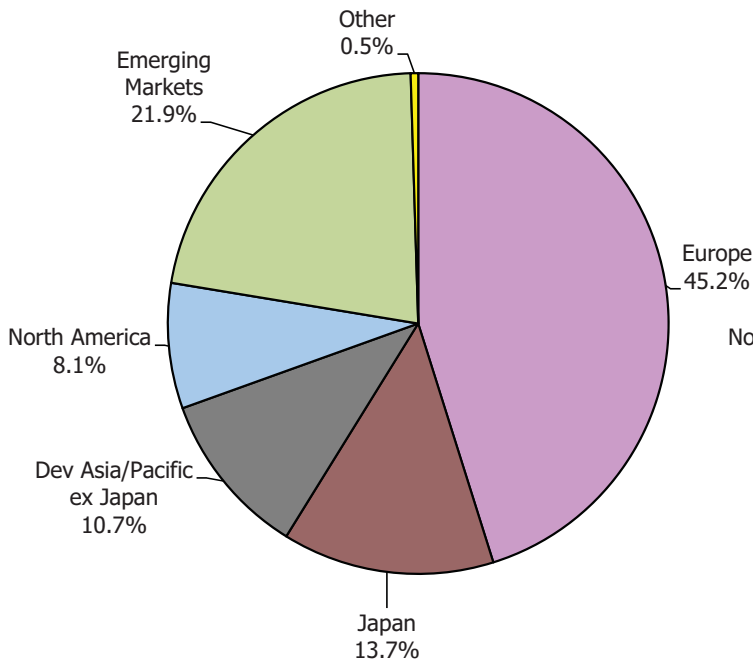
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
● Mondrian	2.9	20	6.8	18	28.8	69	17.5	71	0.3	50	3.6	49				
⊗ MSCI ACWI EX US VALUE (	0.1	81	4.8	55	29.4	65	19.2	55	1.0	42	3.7	46	9.2	34	8.6	34
Median	1.6		5.0		30.5		19.6		0.3		3.6		8.1		8.0	

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

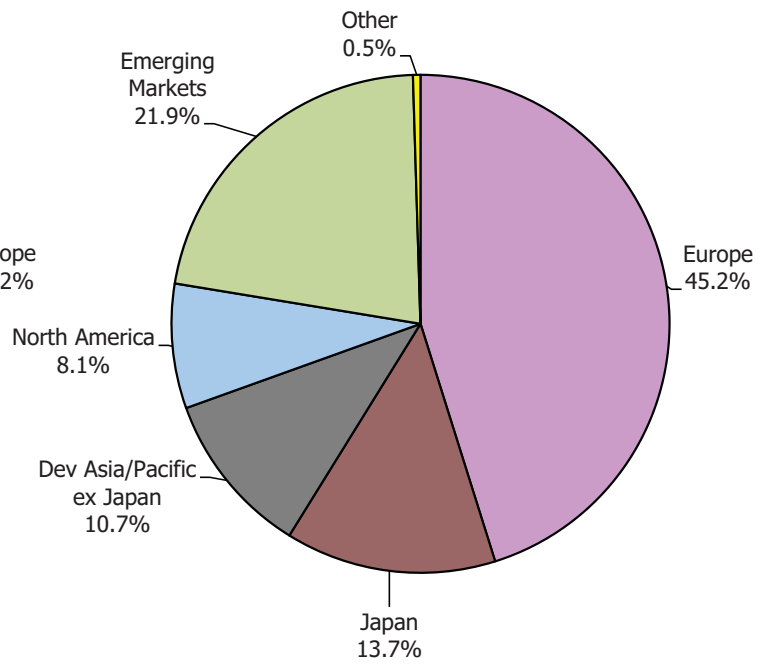
As of June 30, 2011

## International Equity Portfolio Regional Weights

MSCI ACWI ex USA INDEX



INTERNATIONAL EQUITY COMPOSITE



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – Artio Global Investors

Portfolio Characteristics		
	Portfolio	MSCI ACWI ex-US
No. of Securities	175	1,869
Wgt. Avg. Market Cap (billion)	37	52
Price to Book Ratio	2.2	1.7
Return on Equity	19.3%	18.4%

Ten Largest Holdings*		Ten Best Performers		Ten Worst Performers	
Name	Weight	Name	Return	Name	Return
HTC Corp.	3.3	Celltrion Inc.	0.2	HTC Corp.	-0.5
Sberbank	2.6	Volkswagen AG (Pfd Non-Vtg)	0.2	Hypermarcas S/A	-0.3
Hang Lung Properties Ltd.	2.0	Fraport AG	0.2	Li & Fung Ltd.	-0.2
Fraport AG	1.9	Larsen And Toubro Ltd Gdr Reg S	0.2	Suncor Energy Inc.	-0.2
BG Group PLC	1.9	LVMH Moet Hennessy Louis Vuitton	0.1	Lloyds Banking Group PLC	-0.2
BHP Billiton PLC	1.9	Fresenius SE	0.1	China Yurun Food Group Ltd.	-0.2
Larsen And Toubro Ltd Gdr Reg S	1.5	MAp Group	0.1	BG Group PLC	-0.2
Royal Dutch Shell PLC (CL A)	1.5	Belle International Holdings Ltd.	0.1	Jsc Vtb Bank Spon Gdr Reg S	-0.2
Jsc Vtb Bank Spon Gdr Reg S	1.5	Uni-Charm Corp.	0.1	Barrick Gold Corp.	-0.1
Suncor Energy Inc.	1.5	Hyundai Motor Co. Ltd.	0.1	Hang Lung Properties Ltd.	-0.1

\* Excludes the following ETF and futures positions (if applicable) within top ten holdings: iShares MSCI India Index Fund1.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Artio

Index: MSCI ACWI EX US NET SECURITY

June 30, 2011

### GLOBAL EQUITY SECTOR ALLOCATION

	BEGINNING WTS			ENDING WTS		
	Fund	Index	Difference	Fund	Index	Difference
Artio						
CONSUMER DISCRETIONARY	17.1	9.3	7.9	19.8	9.8	10.0
CONSUMER STAPLES	6.6	7.8	-1.2	6.9	8.3	-1.4
ENERGY	10.6	11.2	-0.6	10.3	10.5	-0.2
FINANCIALS	16.2	24.9	-8.6	15.9	24.6	-8.7
HEALTH CARE	9.0	5.3	3.7	9.4	5.9	3.5
INDUSTRIALS	15.1	11.4	3.7	15.1	11.4	3.7
INFORMATION TECHNOLOGY	6.6	6.2	0.4	4.8	6.0	-1.2
MATERIALS	14.2	13.8	0.4	15.2	13.7	1.5
PRIVATE PLACEMENT				0.2	0.0	0.2
RIGHTS / WARRANTS	0.0	0.0	-0.0			
TELECOMMUNICATION SERVICES	2.3	5.8	-3.5	1.9	5.7	-3.8
UTILITIES	2.2	4.3	-2.1	0.6	4.2	-3.6
TOTAL	100.0	100.0	0.0	100.0	100.0	0.0

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Artio

Index: MSCI AC WORLD ex US (GROSS)

Quarter Ending June 30, 2011

### GLOBAL ATTRIBUTION - BASE RETURNS

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
Artio									
EUROPE	46.0	44.4	1.6	0.8	2.9	-2.0	0.04	-0.95	-0.92
AUSTRIA	1.2	0.2	0.9	3.7	2.1	1.6	0.01	0.02	0.03
BELGIUM	0.0	0.6	-0.6		3.1		-0.02	-0.00	-0.02
DENMARK	2.0	0.7	1.3	-2.0	-6.4	4.8	-0.09	0.09	0.00
EURO	0.1	0.0	0.1				-0.00	0.00	-0.00
FINLAND	1.2	0.7	0.4	-12.2	-6.8	-5.7	-0.03	-0.06	-0.09
FRANCE	5.5	6.9	-1.4	8.2	5.2	2.8	-0.07	0.16	0.10
GERMANY	7.8	5.8	1.9	9.5	7.0	2.3	0.12	0.19	0.31
GREECE	0.4	0.2	0.3	0.6	-16.2	20.1	-0.04	0.08	0.03
IRELAND	1.5	0.2	1.3	-7.3	7.6	-13.8	0.09	-0.22	-0.13
ITALY	1.8	2.0	-0.2	-6.5	-1.8	-4.8	0.00	-0.09	-0.08
LUXEMBOURG	0.4	0.0	0.4	4.8			-0.00	0.02	0.02
NETHERLANDS	2.6	1.8	0.7	-6.8	-4.2	-2.7	-0.04	-0.07	-0.10
NORWAY	0.4	0.6	-0.3	-27.9	-1.1	-27.1	0.00	-0.10	-0.10
PORTUGAL	0.2	0.2	-0.0	16.7	1.5	14.9	-0.00	0.02	0.02
SPAIN	0.0	2.4	-2.4	-0.7	2.1	-2.7	-0.04	-0.00	-0.04
SWEDEN	1.6	2.2	-0.6	7.0	0.8	6.2	-0.00	0.10	0.10
SWITZERLAND	4.0	5.3	-1.3	-0.5	7.3	-7.3	-0.08	-0.32	-0.40
UNITED KINGDOM	15.5	14.4	1.1	-2.3	1.7	-4.0	0.01	-0.63	-0.62
PACIFIC	18.7	22.8	-4.1	-0.5	0.0	-0.5	0.02	-0.10	-0.07
AUSTRALIA	2.3	6.0	-3.7	0.8	-0.6	1.3	0.04	0.03	0.07
HONG KONG	7.4	1.9	5.5	0.0	-1.0	1.0	-0.09	0.07	-0.01
JAPAN	9.1	13.8	-4.7	-1.3	0.2	-1.5	0.02	-0.13	-0.11
NEW ZEALAND	0.0	0.1	-0.1		11.4		-0.01	-0.00	-0.01
SINGAPORE	0.0	1.1	-1.1		2.0		-0.02	-0.00	-0.02

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Artio

Index: MSCI AC WORLD ex US (GROSS)

Quarter Ending June 30, 2011

### GLOBAL ATTRIBUTION - BASE RETURNS

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
NORTH AMERICA	6.9	8.4	-1.5	-8.6	-4.6	-4.2	0.08	-0.28	-0.20
CANADA	5.9	8.4	-2.5	-8.6	-4.6	-4.2	0.13	-0.24	-0.11
UNITED STATES	1.0	0.0	1.0				-0.01	0.00	-0.01
EMERGING MARKETS	27.9	23.9	4.0	-0.2	-1.1	0.9	-0.07	0.24	0.18
BRAZIL	2.5	3.8	-1.3	-18.5	-4.0	-15.0	0.06	-0.37	-0.31
BULGARIA	0.2	0.0	0.2	1.2			-0.00	0.00	0.00
CHILE	0.0	0.4	-0.4		8.8		-0.03	-0.00	-0.03
CHINA	4.5	4.2	0.3	26.9	-1.7	29.2	-0.01	1.29	1.28
COLOMBIA	0.0	0.2	-0.2		5.9		-0.01	-0.00	-0.01
CZECH REPUBLIC	0.9	0.1	0.8	-0.2	6.3	-6.1	0.05	-0.06	-0.01
EGYPT	0.0	0.1	-0.1		-1.1		0.00	-0.00	0.00
HUNGARY	0.0	0.1	-0.1		1.7		-0.00	-0.00	-0.00
INDIA	3.5	1.8	1.7	2.4	-3.6	6.1	-0.07	0.20	0.13
INDONESIA	0.0	0.6	-0.6	7.1	8.0	-0.8	-0.04	-0.00	-0.04
KOREA, REPUBLIC OF	1.9	3.4	-1.5	11.4	0.9	10.4	-0.00	0.20	0.20
MALAYSIA	0.0	0.7	-0.7		3.5		-0.02	-0.00	-0.02
MEXICO	0.9	1.1	-0.2	9.4	-0.5	10.0	0.00	0.09	0.09
MOROCCO	0.0	0.0	-0.0		-1.2		0.00	-0.00	0.00
PERU	0.0	0.1	-0.1		-15.2		0.02	-0.00	0.02
PHILIPPINES	0.0	0.1	-0.1		3.3		-0.00	-0.00	-0.01
POLAND	0.1	0.4	-0.3	-7.9	4.2	-11.5	-0.01	-0.01	-0.02
ROMANIA	0.0	0.0	0.0				-0.00	0.00	-0.00
RUSSIA	9.1	1.7	7.3	-7.5	-5.4	-2.3	-0.43	-0.20	-0.63
SOUTH AFRICA	1.2	1.8	-0.6	1.3	-2.0	3.3	0.02	0.04	0.05
TAIWAN	3.2	2.6	0.6	-16.0	1.7	-17.4	0.01	-0.57	-0.56



**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

Artio

Index: MSCI AC WORLD ex US (GROSS)

Quarter Ending June 30, 2011

**GLOBAL ATTRIBUTION - BASE RETURNS**

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
THAILAND	0.0	0.4	-0.4		-1.9		0.01	-0.00	0.01
TURKEY	0.0	0.3	-0.3		-3.9		0.01	-0.00	0.01
OTHER	0.6	0.5	0.1	-3.4	-5.1	1.7	-0.00	0.01	0.01
ISRAEL	0.6	0.5	0.1	-3.4	-5.1	1.7	-0.00	0.01	0.01
TOTAL	100.0	100.0	0.0	-0.3	0.6	-0.9	0.07	-1.07	-1.01

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Quarter Ending June 30, 2011

### Equity Only Summary Statistics – Mondrian

#### Portfolio Characteristics

	Portfolio	MSCI ACWI ex-US
No. of Securities	125 +	1,869
Wgt. Avg. Market Cap (billion)	34 ++	52
Price to Book Ratio	1.7	1.7
Return on Equity	12.7%	18.4%

+ Includes 75 stocks held in the DPT Emerging Markets Fund.

++ Including holdings within the DPT Emerging Markets Fund, the average for the developed market stocks only is 51.582 billion.

#### Ten Largest Holdings

Name	Weight
Unilever	2.6
Sanofi	2.6
Seven & I	2.5
GlaxoSmithKline	2.5
Novartis	2.5
Iberdrola	2.5
Total	2.4
Royal Dutch Shell A	2.4
Telefonica	2.3
Canon	2.3

#### Ten Best Performers

Name	Return
TELECOM CORP OF NZ	34.5
JARDINE MATHESON	28.7
SANOFI	19.6
TREND MICRO INC	15.3
KDDI CORP	15.0
GLAXOSMITHKLINE	13.7
NOVARTIS AG	12.3
UTD O/S BANK	10.2
CANON INC	9.6
COMPASS GROUP	8.6

#### Ten Worst Performers

Name	Return
BG GROUP	-8.2
CARREFOUR	-7.4
AMP LIMITED	-6.8
RWE AG	-5.1
SOCIETE GENERALE	-4.9
HOYA CORP	-4.1
TEVA PHARMACEUTICALS	-3.5
ZURICH FINL SVCS	-3.0
ING GROEP NV	-2.9
VODAFONE GROUP	-2.8

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

Mondrian

Index: MSCI ACWI EX US VALUE SECURITY LEVEL

June 30, 2011

**GLOBAL EQUITY SECTOR ALLOCATION**

	BEGINNING WTS			ENDING WTS		
	Fund	Index	Difference	Fund	Index	Difference
Mondrian						
COMMINGLED FUND	0.0	0.0	0.0	0.0	0.0	0.0
CONSUMER DISCRETIONARY	5.2	6.7	-1.5	5.4	7.3	-1.8
CONSUMER STAPLES	17.1	2.0	15.1	16.3	2.7	13.6
ENERGY	12.8	15.1	-2.3	12.1	13.2	-1.1
FINANCIALS	15.2	35.4	-20.2	16.1	35.1	-19.0
HEALTH CARE	12.3	5.8	6.5	13.3	6.5	6.8
INDUSTRIALS	7.7	6.8	0.9	7.2	6.9	0.3
INFORMATION TECHNOLOGY	4.1	3.5	0.6	5.0	3.9	1.0
MATERIALS	2.0	9.3	-7.3	2.3	8.7	-6.4
RIGHTS / WARRANTS				0.0	0.0	0.0
TELECOMMUNICATION SERVICES	16.3	9.1	7.2	15.4	9.2	6.1
UTILITIES	7.3	6.3	0.9	7.0	6.5	0.5
TOTAL	100.0	100.0	0.0	100.0	100.0	0.0

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Mondrian

Index: MSCI ACWI EX US VALUE (GROSS)

Quarter Ending June 30, 2011

### GLOBAL ATTRIBUTION - BASE RETURNS

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
<b>Mondrian</b>									
EUROPE	53.4	44.1	9.4	1.2	1.9	-0.7	0.16	-0.39	-0.23
AUSTRIA	0.0	0.3	-0.3		-1.8		0.01	-0.00	0.01
BELGIUM	0.0	0.6	-0.6	-50.0	5.1	-52.4	-0.03	-0.01	-0.04
DENMARK	0.0	0.2	-0.2		-7.0		0.02	0.00	0.02
EURO	0.0	0.0	0.0				-0.00	0.00	-0.00
FINLAND	0.0	0.9	-0.9		-11.3		0.10	0.00	0.10
FRANCE	13.0	8.6	4.4	1.1	3.9	-2.7	0.16	-0.38	-0.21
GERMANY	4.2	6.3	-2.1	-0.3	5.8	-5.7	-0.11	-0.26	-0.38
GREECE	0.0	0.3	-0.3		-20.8		0.07	-0.00	0.07
IRELAND	0.0	0.2	-0.2		-5.0		0.01	0.00	0.01
ITALY	3.9	2.7	1.3	-2.5	-1.1	-1.3	-0.02	-0.07	-0.08
NETHERLANDS	4.7	1.6	3.1	0.3	-5.2	5.8	-0.16	0.26	0.10
NORWAY	0.0	0.8	-0.8		-2.0		0.02	0.00	0.02
PORTUGAL	0.0	0.2	-0.2		-8.3		0.01	0.00	0.01
SPAIN	5.7	4.0	1.7	-0.2	1.2	-1.4	0.02	-0.09	-0.08
SWEDEN	0.0	1.8	-1.8		-1.0		0.02	-0.00	0.02
SWITZERLAND	3.6	3.5	0.1	-1.0	3.2	-4.1	0.00	-0.17	-0.16
UNITED KINGDOM	18.3	12.2	6.1	3.5	2.5	0.9	0.14	0.17	0.32
PACIFIC	26.1	22.6	3.5	3.2	0.6	2.6	0.01	0.68	0.70
AUSTRALIA	5.8	5.9	-0.1	1.0	0.7	0.3	-0.00	0.02	0.02
HONG KONG	1.9	1.7	0.2	4.4	-0.4	4.8	-0.00	0.10	0.10
JAPAN	14.8	13.7	1.0	1.4	0.2	1.2	-0.00	0.19	0.18
NEW ZEALAND	0.5	0.1	0.4	24.3	16.5	6.7	0.07	0.04	0.11
SINGAPORE	3.2	1.2	2.0	11.3	4.8	6.2	0.09	0.21	0.30

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Mondrian

Index: MSCI ACWI EX US VALUE (GROSS)

Quarter Ending June 30, 2011

### GLOBAL ATTRIBUTION - BASE RETURNS

	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
NORTH AMERICA	1.7	8.5	-6.7	8.8	-3.2	12.5	0.23	0.21	0.44
CANADA	1.1	8.5	-7.4	8.8	-3.2	12.5	0.25	0.13	0.38
UNITED STATES	0.7	0.0	0.7				-0.00	0.00	-0.00
EMERGING MARKETS	18.5	24.3	-5.8	-0.4	-1.9	1.5	0.12	0.28	0.40
BRAZIL	3.7	4.1	-0.5	0.9	-7.5	9.1	0.03	0.31	0.34
CHILE	0.5	0.4	0.1	14.3	10.6	3.4	0.01	0.02	0.04
CHINA	2.7	4.3	-1.5	-1.9	-2.9	1.0	0.05	0.03	0.07
COLOMBIA	0.1	0.2	-0.0	7.1	7.2	-0.1	-0.00	-0.01	-0.01
CZECH REPUBLIC	0.0	0.1	-0.1	3.0	8.2	-4.9	-0.01	-0.01	-0.02
EGYPT	0.1	0.1	-0.0	-16.0	-6.4	-10.2	0.00	-0.01	-0.01
HUNGARY	0.0	0.1	-0.1		4.9		-0.01	-0.01	-0.02
INDIA	1.2	1.8	-0.5	-12.9	-4.9	-8.4	0.03	-0.11	-0.08
INDONESIA	0.8	0.6	0.2	7.1	7.3	-0.2	0.02	-0.02	-0.00
KAZAKHSTAN	0.2	0.0	0.2	-7.8			-0.00	-0.02	-0.02
KOREA, REPUBLIC OF	1.4	3.3	-1.9	3.7	0.2	3.5	-0.00	0.05	0.05
MALAYSIA	0.2	0.7	-0.4	4.9	4.0	0.8	-0.02	0.00	-0.02
MEXICO	1.0	1.1	-0.0	-3.6	-0.9	-2.7	0.00	-0.04	-0.04
MOROCCO	0.0	0.0	-0.0		1.4		-0.00	-0.01	-0.01
PERU	0.3	0.1	0.2	-16.3	-14.3	-2.3	-0.03	-0.02	-0.05
PHILIPPINES	0.3	0.1	0.2	1.0	3.9	-2.8	0.01	-0.02	-0.02
POLAND	0.2	0.4	-0.3	2.3	7.1	-4.5	-0.02	-0.02	-0.04
RUSSIA	0.8	1.9	-1.1	-8.9	-6.9	-2.2	0.08	-0.03	0.05
SOUTH AFRICA	1.2	1.8	-0.6	-0.6	-2.8	2.3	0.02	0.03	0.04
TAIWAN	1.9	2.6	-0.7	8.5	4.0	4.3	-0.03	0.08	0.06
THAILAND	0.8	0.4	0.4	-4.2	-1.5	-2.7	-0.01	-0.04	-0.04
TURKEY	1.0	0.3	0.7	-2.9	-4.3	1.4	-0.03	0.02	-0.01

**SAN MATEO COUNTY EMPLOYEES' RET ASSOC**

Mondrian

Index: MSCI ACWI EX US VALUE (GROSS)

Quarter Ending June 30, 2011

**GLOBAL ATTRIBUTION - BASE RETURNS**

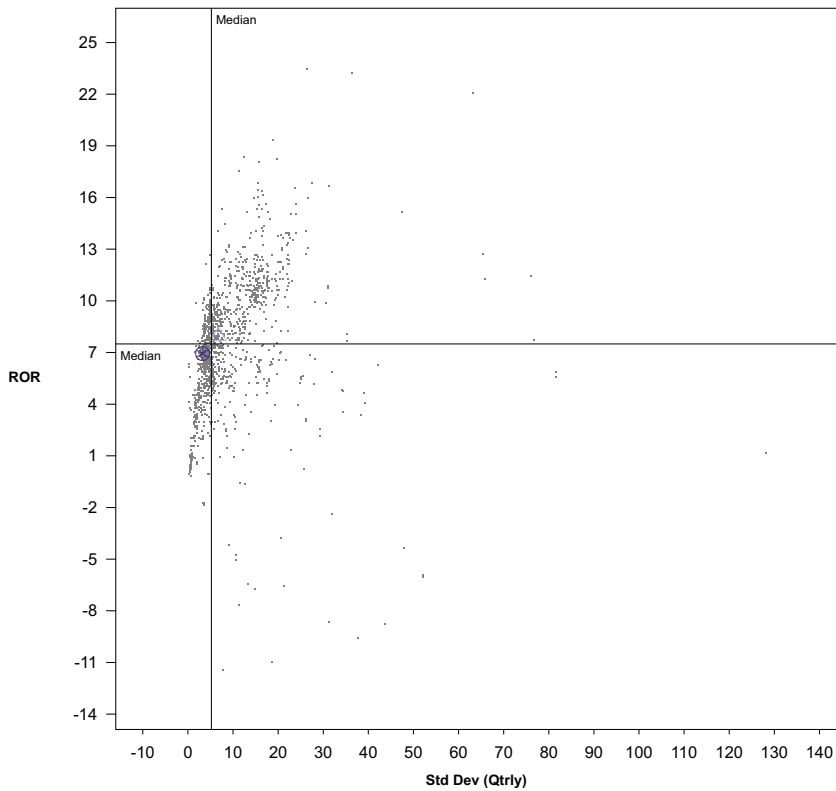
	BEGINNING WTS			BASE RETURNS			VALUE ADDED		
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total
OTHER	0.0	0.6	-0.6		-5.4		0.03	0.00	0.03
ISRAEL	0.0	0.6	-0.6		-5.4		0.03	0.00	0.03
Unclassified	0.2	0.0	0.2				-0.00	0.00	-0.00
Unclassified	0.2	0.0	0.2				-0.00	0.00	-0.00
TOTAL	100.0	100.0	0.0	1.5	0.2	1.3	0.56	0.79	1.35

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Fixed Income Funds

Period Ending June 30, 2011

### Risk vs. Return - 3 Year



	Return	Standard Deviation	Sharpe Ratio
△ Total Fixed Inc	8.0 44	7.1 63	1.1 59
* Total Fixed Index	6.8 59	3.6 21	1.8 23
⊗ US Fixed Index	6.8 60	3.6 21	1.8 25
Median	7.5	5.2	1.2

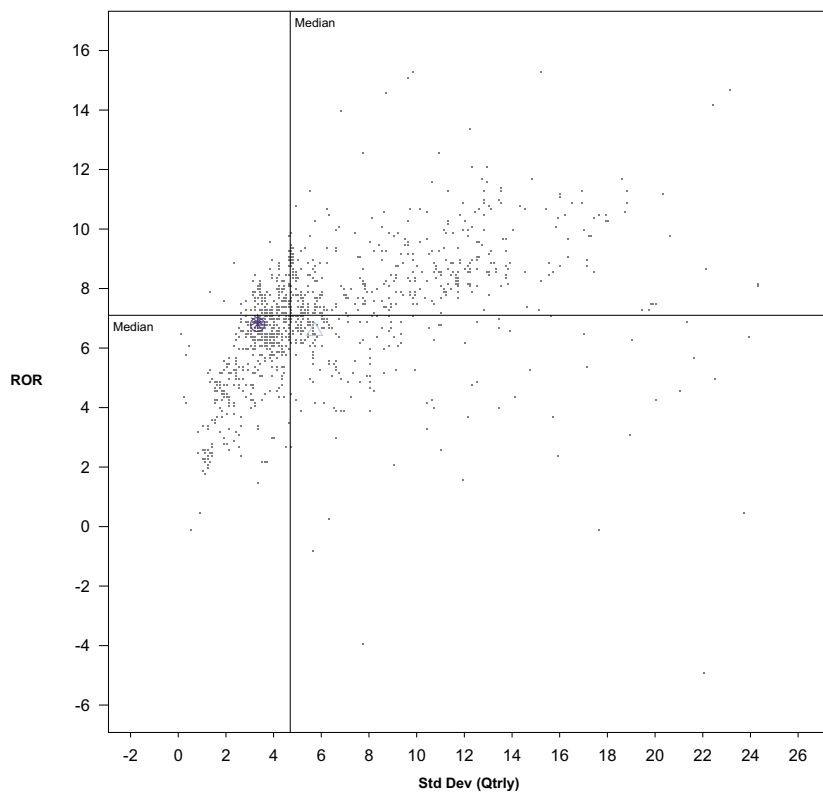
\* Standard deviation is based on quarterly returns

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Fixed Income Funds

Period Ending June 30, 2011

### Risk vs. Return - 5 Year



NAME	Return	Standard Deviation	Sharpe Ratio
△ Total Fixed Inc	6.6 65	5.8 67	0.8 68
* Total Fixed Index	6.8 60	3.4 23	1.4 26
⊗ US Fixed Index	6.7 61	3.4 23	1.4 27
Median	7.1	4.7	1.1

\* Standard deviation is based on quarterly returns

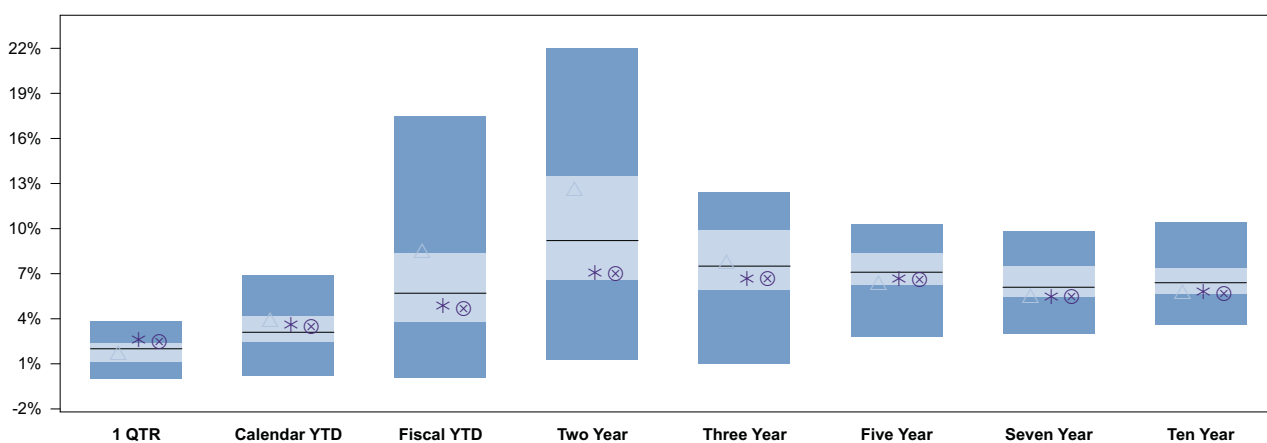


## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Fixed Income Funds

Periods Ending June 30, 2011

### Total Returns



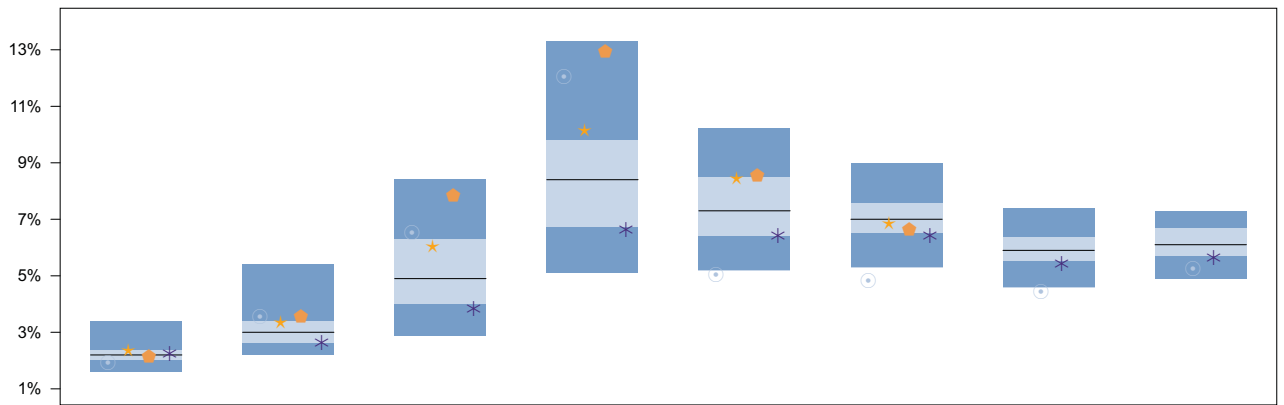
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
△ Total Fixed Inc	1.9	59	4.1	26	8.7	25	12.8	28	8.0	44	6.6	65	5.7	62	6.0	61
* Total Fixed Index	2.7	18	3.7	30	5.0	57	7.2	68	6.8	59	6.8	60	5.6	65	5.9	68
⊗ US Fixed Index	2.6	19	3.6	34	4.8	59	7.1	69	6.8	60	6.7	61	5.6	65	5.8	68
Median	2.0		3.1		5.7		9.2		7.5		7.1		6.1		6.4	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

US Fixed Income Funds - Core

Periods Ending June 30, 2011

### Total Returns



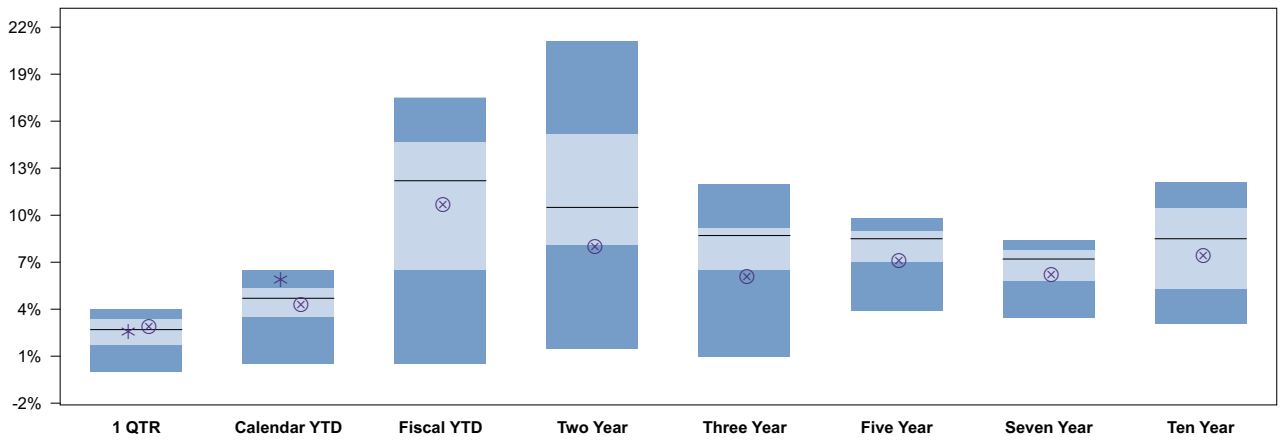
	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
○ Aberdeen	2.0	72	3.6	16	6.6	20	12.1	9	5.1	96	4.9	98	4.5	98	5.3	93
★ Pyramis	2.4	21	3.4	22	6.1	29	10.2	21	8.5	25	6.9	56				
◆ Western Asset	2.2	48	3.6	14	7.9	7	13.0	6	8.6	22	6.7	61				
* BC AGGREGATE	2.3	35	2.7	66	3.9	78	6.7	78	6.5	73	6.5	74	5.5	80	5.7	73
Median	2.2		3.0		4.9		8.4		7.3		7.0		5.9		6.1	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Global Fixed Income Funds

Periods Ending June 30, 2011

### Total Returns

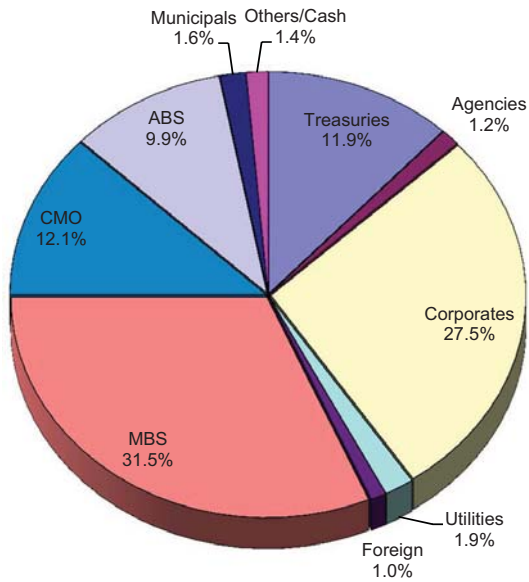


	1 QTR	Calendar YTD	Fiscal YTD	Two Year	Three Year	Five Year	Seven Year	Ten Year
* Franklin Templeton Investm	2.7 52	6.0 11						
⊗ BC MULTIVERSE	3.0 35	4.4 62	10.8 62	8.1 74	6.2 78	7.2 73	6.3 69	7.5 59
Median	2.7	4.7	12.2	10.5	8.7	8.5	7.2	8.5

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Fixed Income Sector Allocation – US Fixed Income Composite



Sector*	Account Weight	BC Aggregate Weight	Difference
Treasuries	11.9%	32.9%	-21.0%
Agencies	1.2%	6.3%	-5.0%
Corporates	27.5%	17.6%	9.8%
Utilities	1.9%	2.2%	-0.3%
Foreign	1.0%	5.2%	-4.2%
MBS	31.5%	33.3%	-1.7%
CMO	12.1%	0.0%	12.1%
ABS	9.9%	2.6%	7.4%
Municipals	1.6%	0.0%	1.6%
Others/Cash	1.4%	0.0%	1.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

\* Sector excludes Angelo Gordon GECC PPI Fund, Brigade Capital Management, Brown Brothers Harriman

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Bond Summary Statistics – US Fixed Income Composite

Portfolio Characteristics*		Portfolio
Total Number of Securities		
Total Market Value	\$	351,810,789
Current Coupon		4.68
Yield to Maturity		3.83
Average Life		7.33
Duration		4.93
Quality		AA-

BC Aggregate
4.28
2.84
7.34
5.19
AA2

Yield to Maturity	
Range	% Held
0.0 - 5.0	n/a
5.0 - 7.0	n/a
7.0 - 9.0	n/a
9.0 - 11.0	n/a
11.0 - 13.0	n/a
13.0+	n/a
Unclassified	n/a

Average Life	
Range	% Held
0.0 - 1.0	4.1
1.0 - 3.0	12.6
3.0 - 5.0	23.3
5.0 - 10.0	35.4
10.0 - 20.0	8.5
20.0+	15.8
Unclassified	0.2

Duration	
Range	% Held
0.0 - 1.0	19.5
1.0 - 3.0	17.5
3.0 - 5.0	25.6
5.0 - 7.0	20.9
7.0 - 10.0	8.2
10.0+	10.0
Unclassified	-1.6

Quality	
Range	% Held
Govt (10)	35.3
Aaa (10)	25.8
Aa (9)	5.8
A (8)	11.0
Baa (7)	13.3
Below Baa (6-1)	6.8
Other	2.1

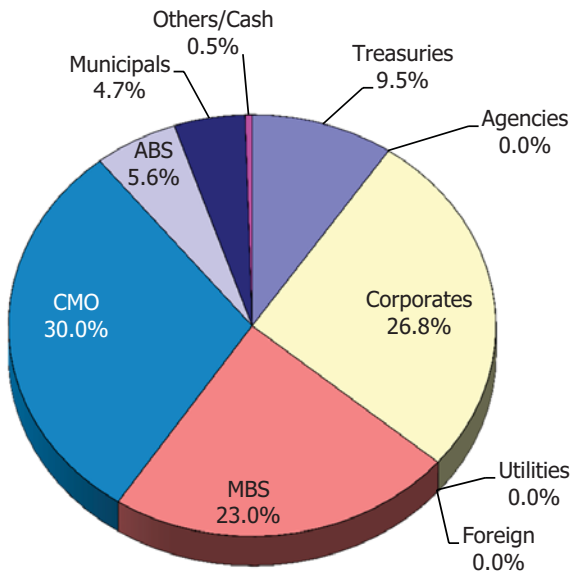
Coupon	
Range	% Held
0.0 - 5.0	58.0
5.0 - 7.0	34.3
7.0 - 9.0	6.4
9.0 - 11.0	1.3
11.0 - 13.0	0.0
13.0+	0.0
Unclassified	0.0

\* Characteristics excludes Angelo Gordon GECC PPI Fund, Brigade Capital Management, Brown Brothers Harriman

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Fixed Income Sector Allocation – Aberdeen Asset



Sector	Account Weight	BC Aggregate Weight	Difference
Treasuries	9.5%	32.9%	-23.4%
Agencies	0.0%	6.3%	-6.3%
Corporates	26.8%	17.6%	9.1%
Utilities	0.0%	2.2%	-2.2%
Foreign	0.0%	5.2%	-5.2%
MBS	23.0%	33.3%	-10.2%
CMO	30.0%	0.0%	30.0%
ABS	5.6%	2.6%	3.0%
Municipals	4.7%	0.0%	4.7%
Others/Cash	0.5%	0.0%	0.5%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Bond Summary Statistics – Aberdeen Asset

Portfolio Characteristics		Portfolio
Total Number of Securities		281
Total Market Value	\$	122,345,881
Current Coupon		5.03
Yield to Maturity		3.98
Average Life		7.45
Duration		4.97
Quality		AA-

BC Aggregate
4.28
2.84
7.34
5.19
AA2

Yield to Maturity	
Range	% Held
0.0 - 5.0	n/a
5.0 - 7.0	n/a
7.0 - 9.0	n/a
9.0 - 11.0	n/a
11.0 - 13.0	n/a
13.0+	n/a
Unclassified	n/a

Average Life	
Range	% Held
0.0 - 1.0	1.0
1.0 - 3.0	18.5
3.0 - 5.0	33.9
5.0 - 10.0	32.5
10.0 - 20.0	13.6
20.0+	0.0
Unclassified	0.5

Duration	
Range	% Held
0.0 - 1.0	16.1
1.0 - 3.0	16.2
3.0 - 5.0	30.1
5.0 - 7.0	15.0
7.0 - 10.0	11.9
10.0+	10.3
Unclassified	0.5

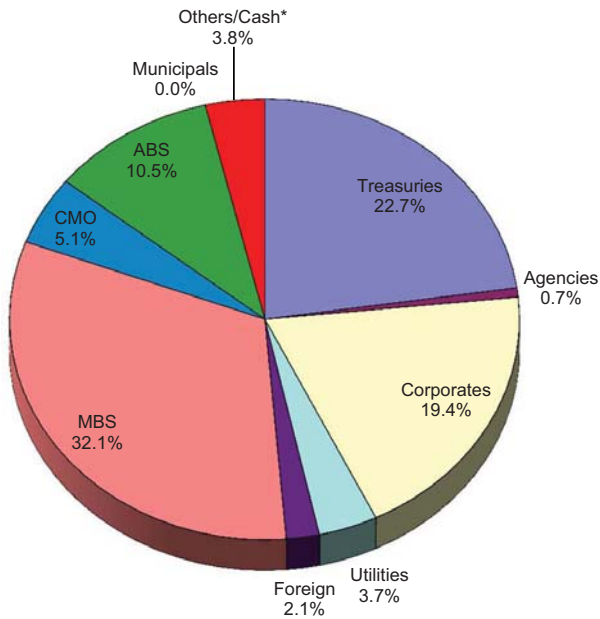
Quality	
Range	% Held
Govt (10)	0.0
Aaa (10)	58.1
Aa (9)	7.9
A (8)	12.6
Baa (7)	16.0
Below Baa (6-1)	5.4
Other	0.0

Coupon	
Range	% Held
0.0 - 5.0	75.0
5.0 - 7.0	17.5
7.0 - 9.0	5.8
9.0 - 11.0	1.7
11.0 - 13.0	0.0
13.0+	0.0
Unclassified	0.0

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Fixed Income Sector Allocation – Pyramis Broad Market Duration Pool



Sector	Account Weight	BC Aggregate Weight	Difference
Treasuries	22.7%	32.9%	-10.2%
Agencies	0.7%	6.3%	-5.6%
Corporates	19.4%	17.6%	1.8%
Utilities	3.7%	2.2%	1.6%
Foreign	2.1%	5.2%	-3.1%
MBS	32.1%	33.3%	-1.2%
CMO	5.1%	0.0%	5.1%
ABS	10.5%	2.6%	7.9%
Municipals	0.0%	0.0%	0.0%
Others/Cash*	3.8%	0.0%	3.8%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

\* May include Derivatives, Futures, Swaps, Credit Default Swaps, Total Return Swaps or Currency Contracts.



# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Bond Summary Statistics – Pyramis Broad Market Duration Pool

Portfolio Characteristics		Portfolio	BC Aggregate
Total Number of Securities			
Total Market Value	\$	113,091,422	
Current Coupon		4.23	4.28
Yield to Maturity		3.36	2.84
Average Life		6.94	7.34
Duration		4.95	5.19
Quality		n/a	AA2

Yield to Maturity	
Range	% Held
0.0 - 5.0	n/a
5.0 - 7.0	n/a
7.0 - 9.0	n/a
9.0 - 11.0	n/a
11.0 - 13.0	n/a
13.0+	n/a
Unclassified	n/a

Average Life	
Range	% Held
0.0 - 1.0	7.1
1.0 - 3.0	9.2
3.0 - 5.0	10.7
5.0 - 10.0	27.1
10.0 - 20.0	5.3
20.0+	40.7
Unclassified	0.0

Duration	
Range	% Held
0.0 - 1.0	19.0
1.0 - 3.0	20.4
3.0 - 5.0	27.0
5.0 - 7.0	23.7
7.0 - 10.0	7.5
10.0+	7.9
Unclassified	-5.5

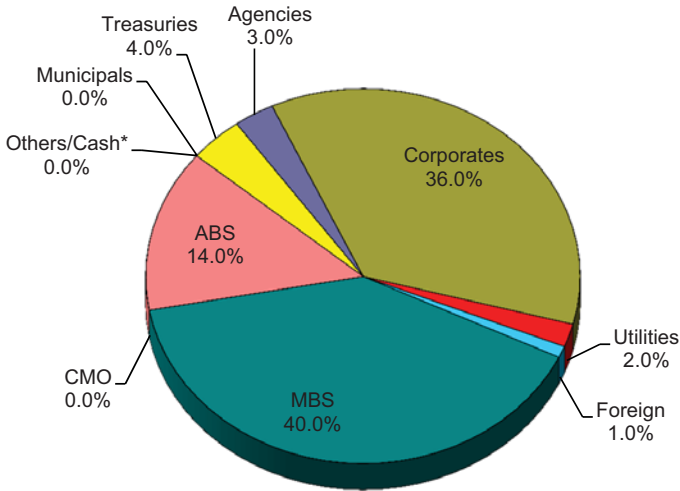
Quality	
Range	% Held
Govt (10)	58.3
Aaa (10)	8.3
Aa (9)	2.3
A (8)	7.1
Baa (7)	13.6
Below Baa (6-1)	3.9
Other	6.5

Coupon	
Range	% Held
0.0 - 5.0	53.7
5.0 - 7.0	41.6
7.0 - 9.0	4.1
9.0 - 11.0	0.7
11.0 - 13.0	0.0
13.0+	0.0
Unclassified	0.0

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Fixed Income Sector Allocation – Western Asset



Sector	Account Weight	BC Aggregate Weight	Difference
Treasuries	4.0%	32.9%	-28.8%
Agencies	3.0%	6.3%	-3.3%
Corporates	36.0%	17.6%	18.4%
Utilities	2.0%	2.2%	-0.2%
Foreign	1.0%	5.2%	-4.2%
MBS	40.0%	33.3%	6.7%
CMO	0.0%	0.0%	0.0%
ABS	14.0%	2.6%	11.4%
Municipals	0.0%	0.0%	0.0%
Others/Cash*	0.0%	0.0%	0.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.1%</b>

\* Commingled funds (2.2% Western Asset Floating Rate High Income Fund LLC, 2.0% Western Asset Opportunistic Intl Invest Grade Sec Portfolio LLC, 3.4% Western Asset Opportunistic US High Yield LLC, -2.7% Short Term Securities)

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Bond Summary Statistics – Western Asset

Portfolio Characteristics		Portfolio
Total Number of Securities		375
Total Market Value	\$	116,373,486
Current Coupon		4.75
Yield to Maturity		4.12
Average Life		7.59
Duration		4.88
Quality		A1/AA-

BC Aggregate
4.28
2.84
7.34
5.19
AA2

Yield to Maturity	
Range	% Held
0.0 - 5.0	n/a
5.0 - 7.0	n/a
7.0 - 9.0	n/a
9.0 - 11.0	n/a
11.0 - 13.0	n/a
13.0+	n/a
Unclassified	n/a

Average Life	
Range	% Held
0.0 - 1.0	4.6
1.0 - 3.0	9.8
3.0 - 5.0	24.4
5.0 - 10.0	46.7
10.0 - 20.0	6.3
20.0+	8.2
Unclassified	0.0

Duration	
Range	% Held
0.0 - 1.0	23.5
1.0 - 3.0	16.1
3.0 - 5.0	19.4
5.0 - 7.0	24.4
7.0 - 10.0	4.9
10.0+	11.8
Unclassified	0.0

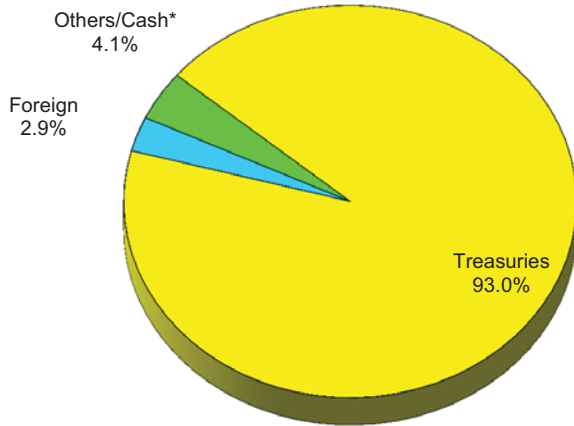
Quality	
Range	% Held
Govt (10)	50.0
Aaa (10)	9.0
Aa (9)	7.0
A (8)	13.0
Baa (7)	10.0
Below Baa (6-1)	11.0
Other	0.0

Coupon	
Range	% Held
0.0 - 5.0	44.3
5.0 - 7.0	44.8
7.0 - 9.0	9.1
9.0 - 10.0	1.7
10.0+	0.2
Unclassified	0.0

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Fixed Income Sector Allocation – Brown Brothers Harriman



Sector	Account Weight	ML TIPS INDEX	Difference
Treasuries	93.0%	100.0%	-7.0%
Agencies	0.0%	0.0%	0.0%
Corporates	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%
Foreign	2.9%	0.0%	2.9%
MBS	0.0%	0.0%	0.0%
CMO	0.0%	0.0%	0.0%
ABS	0.0%	0.0%	0.0%
Municipals	0.0%	0.0%	0.0%
Others/Cash*	4.1%	0.0%	4.1%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

\* May include Derivatives, Futures, Swaps, Credit Default Swaps, Total Return Swaps or Currency Contracts.

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Bond Summary Statistics – Brown Brothers Harriman

Portfolio Characteristics		Portfolio
Total Number of Securities		12
Total Market Value	\$	48,545,233
Current Coupon		2.31
Yield to Maturity		0.30
Average Life		
Duration		7.56
Quality		AAA

ML TIPS
31
2.03
0.25
7.91
AAA

Yield to Maturity	
Range	% Held
0.0 - 5.0	100.0
5.0 - 7.0	n/a
7.0 - 9.0	n/a
9.0 - 11.0	n/a
11.0 - 13.0	n/a
13.0+	n/a
Unclassified	n/a

Average Life	
Range	% Held
0.0 - 3.0	14.5
3.0 - 5.0	19.8
5.0 - 8.0	22.3
8.0 - 10.0	9.1
10.0 - 15.0	22.2
15.0+	12.2
Unclassified	0.0

Duration	
Range	% Held
0.0 - 3.0	10.5
3.0 - 5.0	19.8
5.0 - 8.0	28.1
8.0 - 10.0	3.2
10.0 - 15.0	27.7
15.0+	6.8
Unclassified	0.0

Quality	
Range	% Held
Govt (10)	93.0
Aaa (10)	2.9
Aa (9)	0.0
A (8)	0.0
Baa (7)	0.0
Below Baa (6-1)	0.0
Other	4.1

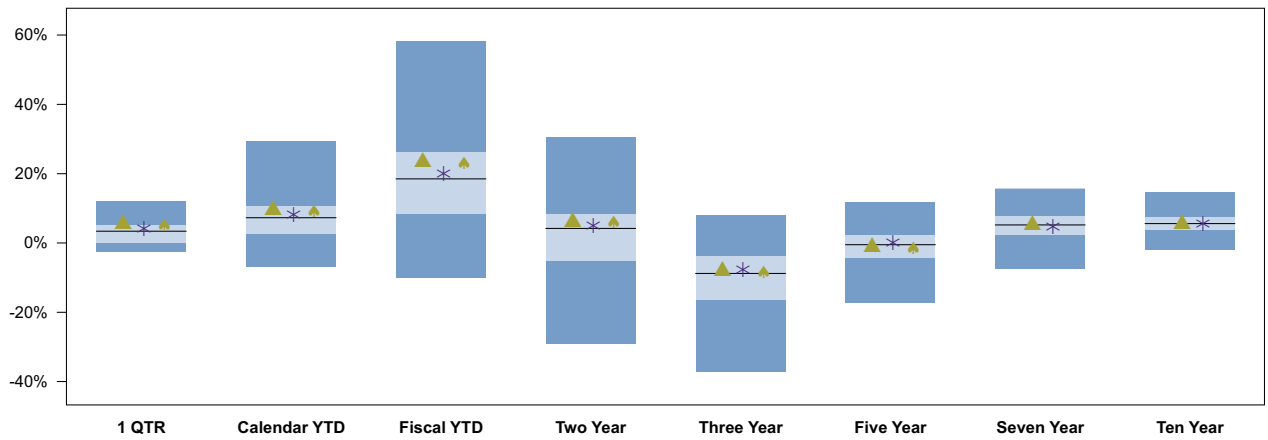
Coupon	
Range	% Held
0.0 - 5.0	100.0
5.0 - 7.0	0.0
7.0 - 9.0	0.0
9.0 - 11.0	0.0
11.0 - 13.0	0.0
13.0+	0.0
Unclassified	0.0

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Real Estate Funds

Periods Ending June 30, 2011

### Total Returns

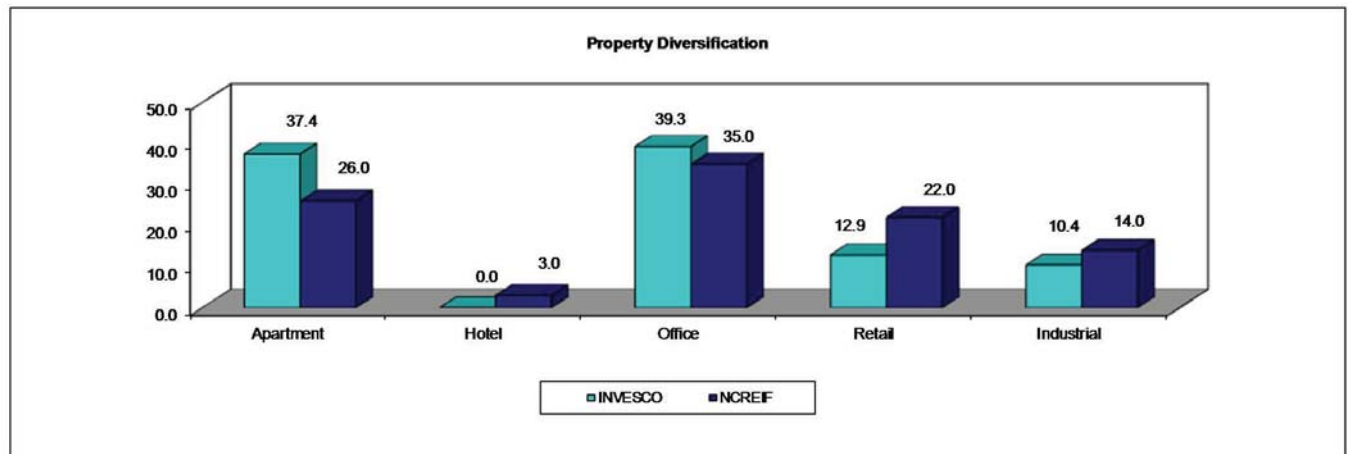
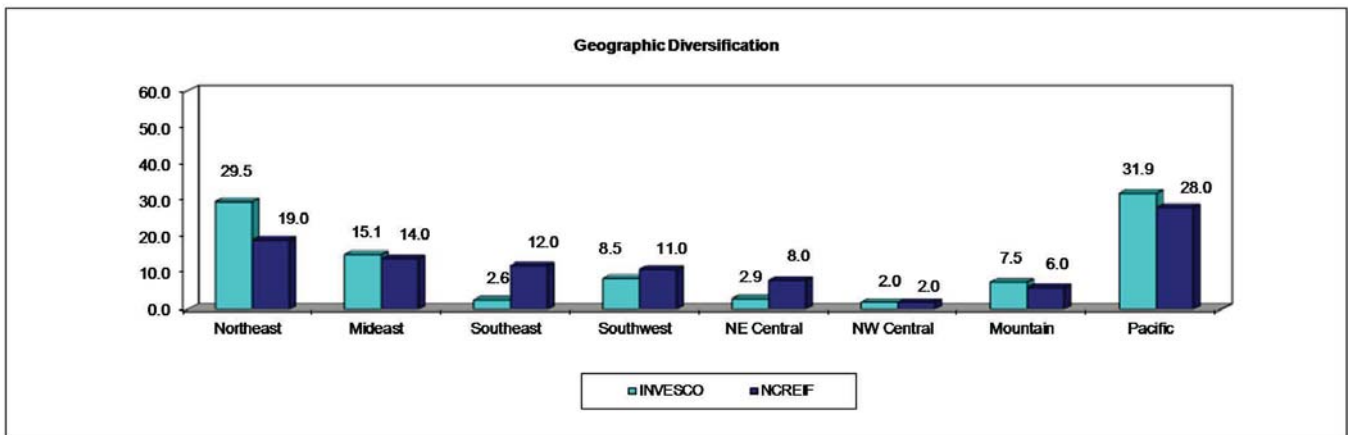


	1 QTR		Calendar YTD		Fiscal YTD		Two Year		Three Year		Five Year		Seven Year		Ten Year	
▲ Real Estate	6.9	12	11.0	22	24.8	30	7.6	31	-6.7	40	0.2	44	6.5	35	6.9	34
* Real Estate Index	4.6	30	8.8	41	20.4	41	5.4	45	-7.1	41	0.5	41	5.3	50	6.1	46
◆ Invesco RE	6.9	12	11.0	22	24.8	30	7.6	31	-6.7	40	0.2	44				
Median	3.4		7.3		18.5		4.2		-8.8		-0.5		5.2		5.6	

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Real Estate Diversification Analysis – INVESCO Core Real Estate



# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Second Quarter 2011

# Real Estate Valuation Analysis

## Real Estate Valuation Analysis – INVESCO Core Real Estate

Property Name	MSA	Prior Quarter Carry Value	Current Quarter Carry Value	Net Market Value	Date Added to Fund	Last Valuation Date	SanCERA ownership as of 06/30/2011 (4.49%)
<b>APARTMENTS</b>							
Boca Colony	W Palm Bch - Boca R FL	\$20,400,000	\$21,100,000	\$21,100,000	2004	June-11	\$947,877
Seneca Village	Portland-Vancouver-OR-WA	\$31,200,000	\$34,700,000	\$34,700,000	2004	June-11	\$1,258,830
Grandville at the Commons	South Kingstown, RI	\$39,700,000	\$43,400,000	\$43,400,000	3005	June-11	\$1,949,785
Village Place	FL - Lauderdale, FL	\$0	\$0	\$0	3005	Sold 4Q10	\$0
Vivings at Palm Bay	Palm Bay, FL	\$0	\$0	\$0	3005	Sold 3Q10	\$0
Broadstone at Foothills	San Bernardino, CA	\$23,100,000	\$25,300,000	\$25,300,000	1006	June-11	\$1,136,626
Stoneridge	Pleasanton, CA	\$126,800,000	\$131,000,000	\$131,000,000	4006	June-11	\$5,885,296
Kimberly Woods	San Jose, CA	\$50,700,000	\$51,600,000	\$53,450,000	4006	June-11	\$1,992,624
Blurring Parc Apartments	Chandler-Knoxville, NJ	\$87,300,000	\$87,300,000	\$87,300,000	2007	June-11	\$3,924,033
Millington at Merrill Creek	Everett, WA	\$54,400,000	\$55,700,000	\$55,700,000	2007	June-11	\$2,924,374
The Residences at Stevens Pond	Boston MA - NH	\$72,600,000	\$75,700,000	\$75,700,000	4007	June-11	\$3,400,893
Milestone Apt. Portfolio	Various States - South	\$230,100,000	\$236,450,000	\$72,022,395	2006	June-11	\$3,235,673
Holland Portfolio	Seattle - Belle - Eve WA	\$247,244,183	\$254,160,702	\$84,993,515	4007	June-11	\$3,816,412
Village Crossing at Chino Hills	Riverside, CA	\$70,200,000	\$71,600,000	\$28,901,089	1006	June-11	\$1,295,408
Metropolitan at Peninsula City	Arlington, VA	\$134,500,000	\$144,600,000	\$85,470,232	3010	June-11	\$3,884,755
Ladd Tower	Portland, OR	\$86,900,000	\$82,600,000	\$52,600,000	4010	June-11	\$4,160,141
Legacy Fountain Plaza	San Jose, CA	\$92,000,000	\$96,200,000	\$96,200,000	1011	June-11	\$4,321,874
The Elektra	New York, NY	\$102,500,000	\$127,000,000	\$53,301,657	1011	June-11	\$2,391,626
		<b>\$1,485,244,183</b>	<b>\$1,548,130,702</b>	<b>\$1,024,138,688</b>			<b>\$46,010,387</b>
<b>INDUSTRIAL</b>							
Oris Street	Boston MA - NH	\$13,600,000	\$12,500,000	\$12,500,000	2004	June-11	\$561,574
Aljone	San Diego, CA	\$25,200,000	\$26,500,000	\$26,500,000	2004	June-11	\$1,190,537
Garland Gateway East	Dallas TX	\$9,000,000	\$9,800,000	\$9,800,000	2004	June-11	\$440,274
Gateway Business Park	Dallas TX	\$8,200,000	\$8,600,000	\$8,600,000	2004	June-11	\$386,363
Hayward A-E	Oakland CA	\$29,300,000	\$31,800,000	\$31,800,000	3007	June-11	\$1,426,644
Rayward FK & N	Oakland CA	\$43,300,000	\$46,500,000	\$46,500,000	3004	June-11	\$2,089,056
Lackman	Kansas City MO-KS	\$17,900,000	\$18,100,000	\$18,100,000	2004	June-11	\$813,159
Auburn Warehouse	Auburn, WA	\$0	\$0	\$0	4005	Sold 1Q11	\$0
VIP Holdings II	Chicago, IL	\$0	\$0	\$0	2006	Sold 3Q10	\$0
Cross roads Industrial	Kansas City MO-KS	\$7,800,000	\$7,800,000	\$7,800,000	1006	June-11	\$154,815
Oakesdale Commerce Center	Seattle - Belle - Eve WA	\$31,100,000	\$32,700,000	\$32,700,000	1006	June-11	\$1,469,078
South Bay Industrial	Los Angeles, CA	\$65,700,000	\$66,700,000	\$66,700,000	4006	June-11	\$2,956,559
VIP Holdings I	Chicago, IL	\$69,791,312	\$69,269,477	\$18,281,754	2006	June-11	\$821,325
Tempe Commerce	Phoenix - Mesa AZ	\$43,800,000	\$43,800,000	\$43,800,000	4007	June-11	\$2,291,222
Steeplechase 95 International Business Park	Capitol Heights, MD	\$21,540,000	\$21,500,000	\$21,500,000	1011	June-11	\$970,400
Airport Trade Center II & V	Dallas, TX	\$26,200,000	\$27,800,000	\$27,800,000	1011	June-11	\$1,248,941
		<b>\$410,131,312</b>	<b>\$430,769,477</b>	<b>\$379,781,754</b>			<b>\$17,062,047</b>
<b>OFFICE</b>							
Highland Bank Building	Minn - St Paul MN-WI	\$0	\$0	\$0	2004	Sold 4Q10	\$0
55 Cambridge	Boston MA - NH	\$110,700,000	\$113,400,000	\$56,880,263	4006	June-11	\$2,555,398
One Liberty	Boston MA - NH	\$36,100,000	\$36,600,000	\$36,600,000	2007	June-11	\$1,644,289
Ganey Center II	Scottsdale - AZ	\$24,400,000	\$24,600,000	\$24,600,000	3007	June-11	\$1,105,178
Valencia Town Center	Valencia, CA	\$125,200,000	\$126,200,000	\$126,200,000	3007	June-11	\$6,188,911
Park Ten Plaza	Houston, TX	\$24,300,000	\$25,800,000	\$25,800,000	1005	June-11	\$1,159,089
Westport Corporate Center	Fairfield County, CT	\$16,000,000	\$16,100,000	\$16,100,000	4007	June-11	\$723,307
Frankster Towers	San Francisco, CA	\$59,501,809	\$69,828,549	\$22,450,853	1006	June-11	\$1,053,551
The Executive Building	Washington DC	\$131,000,000	\$138,000,000	\$138,000,000	2008	June-11	\$6,193,778
Brill Building	New York, NY	\$62,370,000	\$67,815,000	\$27,679,546	4007	June-11	\$1,243,529
TD Brookline Plaza	Brookline, MA	\$114,500,000	\$116,900,000	\$116,900,000	2010	June-11	\$5,251,841
1111 Pennsylvania Avenue	Washington, D.C.	\$242,000,000	\$252,100,000	\$252,100,000	4010	June-11	\$11,325,826
1900 Lantier	Denver, CO	\$204,334,947	\$215,000,000	\$215,000,000	1011	June-11	\$9,693,074
230 Park Avenue	New York, NY	\$0	\$413,100,000	\$234,600,000	2011	June-11	\$10,539,622
		<b>\$1,152,906,756</b>	<b>\$1,625,443,569</b>	<b>\$1,303,910,662</b>			<b>\$48,039,771</b>
<b>BETA IL</b>							
Broadway at Surf	Chicago, IL	\$22,900,000	\$23,400,000	\$23,400,000	2004	June-11	\$1,051,267
Carragetown Marketplace	Boston MA - NH	\$19,500,000	\$19,700,000	\$19,700,000	2004	June-11	\$885,041
Chandler Pavilions	Phoenix - Mesa AZ	\$18,400,000	\$18,400,000	\$18,400,000	2004	June-11	\$826,637
Matthews Township	Charlotte - G - RH NC-SC	\$21,800,000	\$21,800,000	\$21,800,000	2004	June-11	\$979,385
Windward Commons	Atlanta, GA	\$19,400,000	\$19,900,000	\$19,900,000	2004	June-11	\$949,100
Summit Heights	Fontana, CA	\$34,500,000	\$33,800,000	\$33,800,000	3005	June-11	\$1,518,496
Clyline at Tenley	Washington, D.C.	\$45,000,000	\$45,200,000	\$45,200,000	4005	June-11	\$2,030,652
Ridgeway Hall	Minnetonka, MN	\$28,400,000	\$29,600,000	\$18,100,000	4005	June-11	\$813,159
The Beacon Retail	San Francisco, CA	\$35,500,000	\$36,900,000	\$36,900,000	1006	June-11	\$1,657,767
The Beacon Garage	San Francisco, CA	\$24,800,000	\$25,700,000	\$25,700,000	1006	June-11	\$1,154,596
Oak Brook Court	Chicago, IL	\$28,200,000	\$28,200,000	\$28,200,000	4007	June-11	\$1,266,911
Hawthorne Plaza	Overland Park, KS	\$27,400,000	\$26,800,000	\$15,409,525	4007	June-11	\$692,287
Sunshine State Portfolio	Various - FL	\$51,200,000	\$51,500,000	\$51,500,000	4007	June-11	\$2,313,688
The Loop	Boston MA - NH	\$97,000,000	\$91,800,000	\$91,800,000	1008	June-11	\$4,124,200
Westbank Marketplace	Austin, TX	\$42,200,000	\$43,600,000	\$18,661,296	3010	June-11	\$838,376
910 Lincoln Road	Miami, FL	\$15,900,000	\$16,700,000	\$16,700,000	4010	June-11	\$750,263
		<b>\$522,100,000</b>	<b>\$532,000,000</b>	<b>\$484,170,821</b>			<b>\$21,751,822</b>
<b>Portfolio Total</b>		<b>\$3,570,382,251</b>	<b>\$4,136,343,748</b>	<b>\$3,192,002,125</b>			<b>\$132,864,027</b>



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Investment Strategy Summaries

#### Aberdeen Asset Management – Core Fixed Income

Aberdeen Asset Management's approach is bottom up, looking for relative value among specific issues. The Core Fixed Income investment process is duration neutral and relies on credit exposure as the primary means of adding value. Fundamental credit research requires knowledge of the underlying credit and identification of pricing inefficiencies uncovered through proprietary research. They focus on high quality issues, maintaining an average AA quality in the portfolio. The investment process also stresses a detailed knowledge of a bond's structure, in particular options and prepayment characteristics. The bond selection process typically identifies securities with more predictable cash flows. Yield curve positioning is diversified, and bets along the yield curve tend to be modest. The bottom up process can lead to heavy sector concentrations, particularly in corporates. The process incorporates the use of taxable municipal securities which is unusual among US fixed income managers.

#### Angelo, Gordon & Co. – AG GECC Public-Private Investment Fund, L.P. (PPIP)

Angelo, Gordon (AG) and GE Capital Corporation (GECC) jointly manage this fund, which targets investments in legacy non-Agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) originally rated AAA. The strategy is primarily long-term buy-and-hold, although tactical trading based on more short-term technical factors is also incorporated. The allocation between RMBS and CMBS is flexible and will be managed opportunistically, although the initial focus is expected to be on RMBS. The fund utilizes up to 2:1 leverage (i.e., assets: equity) provided by the US Treasury under the Public-Private Investment Program (PPIP). The fund, structured as a closed-end private partnership, has a term of 8 years with two potential 1-year extensions and no early withdrawal rights. Annual distributions of up to 8% may be made, pending cash flow realizations from the underlying securities and scheduled repayment of the UST leverage facility. AG/GECC's approach utilizes top-down analysis to project macroeconomic factors (e.g., unemployment, interest rates), real estate prices and trends, default frequencies, recovery rates, etc. In addition, detailed bottom-up analysis covering the underlying collateral, loan originator, loan servicer and structural features (e.g., cash flow hierarchy, covenants) is conducted on each individual security in the investment universe. In addition to absolute value considerations, an assessment of relative value is made between the various sectors (e.g., RMBS vs. CMBS, Alt-A RMBS vs. Subprime RMBS) as well as individual securities within the same sector. Extensive stress testing and scenario analysis is also performed to determine worst-case loss if the underlying collateral pool (i.e., mortgages) suffers a high number of defaults and/or severe loss severities, the goal being to purchase securities with a significant margin of safety.

#### AQR – Hedge

The AQR DELTA Fund aims to deliver efficient exposure to a well-diversified portfolio of hedge fund strategies, including Convertible Arbitrage, Event Driven, Fixed Income Relative Value, Equity Market Neutral, Long/Short Equity, Dedicated Short Bias, Global Macro, Managed Futures, and Emerging Markets. The Delta Fund's approach is to capture and deliver the "hedge fund risk premiums" that explain much of the returns of each of these strategies by building bottom-up positions in each strategy. AQR's research has demonstrated that many hedge funds use similar strategies to generate returns. These strategies are often well-known, widely understood and share common exposures. AQR's experience and research suggests much of the insight underlying these strategies - as well as a meaningful portion of their returns - can be captured using a dynamic, disciplined investment approach. Just as the equity risk premium can explain a large portion of the returns from equity investing, hedge fund risk premiums can explain the returns from hedge fund investing. Importantly, while compensation for equity risk is dependent on economic growth, hedge fund risk premiums are largely unrelated to economic activity, and thus provide attractive diversification properties.

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### Investment Strategy Summaries

#### AQR – Risk Parity

The objective of Global Risk Parity (GRP) is to generate excess returns from a risk diversified portfolio of asset exposures. AQR believes that its approach maximizes the diversification benefit across a broad range of economic environments. For many institutional portfolios, equity risk has historically been the predominant risk and the source of most return expectations since equities offer higher expected returns to compensate for their high risk. Investor preference for and concentration in equities has been driven by their expected return needs, which cannot be satisfied in a well-diversified un-levered portfolio. GRP is a diversified portfolio that can be scaled to similar levels of risk as a portfolio concentrated in equities, but with a higher expected return resulting from diversification across asset class risk. The approach helps do away with the compromise of concentrating in high risk assets to meet high return needs. Consistent with portfolio theory, the GRP strategy is designed to maximize diversification across a broad spectrum of liquid global risk premia to create a portfolio with higher expected risk-adjusted returns. Research shows that risk-adjusted returns across asset classes are similar over the long-term. Since realized risk-adjusted returns across asset classes are similar, AQR expects a portfolio that is diversified equally by risk to perform better. The Global Risk Premium strategy aims to deliver efficient market exposure across four broad asset classes in a risk balanced fashion.

#### Artio Global Investors – International Equity

Artio's investment philosophy is that a well diversified international equity portfolio provides better risk-adjusted returns than a concentrated portfolio. Overall, the approach can be characterized as flexible with regard to style, market cap, country and sector weightings, and cash exposure; but disciplined with regard to security diversification. The investment process is based on fundamental assessment of companies, sectors and macroeconomic influences on regions and countries. The process is both top down and bottom up. In emerging countries and, to some degree in Japan, investment ideas are driven by the team's view of factors such as GDP growth rates, political issues, interest rates and currencies. However, in the developed markets, traditional fundamental security analysis and industry analysis are the primary drivers of stock selection. The analysts employ multiple valuation metrics depending on what is most appropriate for a given sector. They also consider growth factors at a country, industry and stock level. The portfolio typically invests 5%-15% in emerging markets and 10% in smaller capitalization stocks but at any given time the exposure to these asset classes can vary substantially. While the managers do not entirely ignore the benchmark, country and sector weightings can also diverge quite sharply from the index. The main risk control is diversification at the security level with the number of portfolio holdings at approximately 300 names. This product is closed to new investors.

#### Barrow Hanley – Diversified Large Cap Value

Barrow Hanley takes a bottom up value approach to equity investing. They seek to buy stocks that exhibit all three of the following characteristics: price/earnings and price/book ratios below the market, and dividend yield above the market (with the S&P 500 representing the market). Their view is that a portfolio that emphasizes low price/book and high dividend yield stocks will provide some protection in down markets and participation in improving economic cycles. In addition to their basic valuation criteria, Barrow Hanley is also looking for profitable companies with earnings growth greater than the market. After the quantitative screening process, Barrow Hanley's equity research team conducts qualitative analysis of candidate investments. This involves forecasting ROE 5-years out and treating this forecast as the basis for earnings, book value and dividend yield projections for the same five year period. These projections are used as inputs into a dividend discount model and relative return model. Stocks that appear to be attractively valued according to both of these models comprise the firm's buy list. The portfolio managers construct the portfolio with 70-90 of the buy list names. Securities are weighted approximately equally, with core positions in the range of 1.5%. Sector weightings are limited to 35% (at cost) and industry weightings are limited to 15%. Stocks are generally held for three to four years, resulting in average turnover of 25% - 35%.

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### Investment Strategy Summaries

#### BlackRock – Russell 1000 Index

BlackRock uses a full replication approach. They hold each stock in the same proportion in which it is represented in the Russell 1000 Index. BGI monitors the funds daily to ensure that additions and deletions to the Russell 1000, mergers and acquisitions, restructurings and other capitalization changes are made to the fund in such a way to minimize tracking error and transactions costs.

#### BlackRock – Fundamental Large Cap Growth

BlackRock US Fundamental Large Cap Growth's investment philosophy is that fundamental research can generate stock specific insights that can be used to create alpha in client portfolios. The approach is to employ bottom-up stock selection to construct portfolios of two types of companies, those with stable growth and those with accelerating earnings. The universe is composed of stocks with market capitalizations above \$2 billion and daily trading volume above \$20 million. BlackRock describes this approach to large cap growth investing as disciplined but flexible. They do not employ a hard and fast mathematical formula or rigid set of criteria. Rather, the team focuses on developing an investment thesis for each stock that they purchase based on a catalyst and a fundamental assessment. Stable growth holdings exhibit the following characteristics: consistent earnings growth over 3- to 5-years, sustainable competitive advantages, strong management with proven ability to execute, and attractive relative and absolute valuation. Opportunistic holdings exhibit earnings momentum, above consensus earnings and a catalyst for a near term surprise. Risk monitoring is the responsibility of the investment team and also BlackRock's Risk & Quantitative analysis group, which leverages BlackRock Solutions, the firm's risk analytics platform. At the portfolio level, risk is viewed as deviation from the benchmark, i.e. tracking error. The portfolio holds 60-80 stocks with positions generally limited to 5% at cost unless they comprise more than 3% of the benchmark. Sectors are kept with 10 percentage points of the benchmark weighting.

#### The Boston Company – Small Cap Index

The Boston Company's approach to small cap value investing is to conduct bottom-up fundamental research in an effort to add value through security selection. The investment process seeks to identify the stocks of companies which have compelling valuations and business fundamentals, as well as a catalyst for positive change. The appropriate valuation metrics for an individual company can vary depending on industry. Ideas are generated from company meetings, industry contacts and team's internal research. The universe of domestic small-cap equity securities is quantitatively screened for valuation, business health and earnings revisions. In addition, they also screen/track operating income and EBITDA estimate revisions. Once candidates for investment are identified, individual stock weights are determined by portfolio risk, liquidity, and analyst conviction. Normally, portfolios will contain between 120-150 holdings (from a short list of 500 securities), with a maximum individual security weighting of 5%, though most are less than 3%. Securities will typically be in the \$100 million - \$2 billion market cap range at time of purchase. Generally, sector exposure is limited to no more than 2X the index weight with a maximum overweight of 10 percentage points and a maximum underweight of half that of the index. The goal is for portfolios to be close to fully invested at all times, with cash typically below 5%. Any stock down 20% from the purchase price is reviewed. In addition, portfolios are reviewed on a regular basis for unintended risk. Positions are sold when any one of the three investment criteria (valuation, fundamentals, catalyst) breaks down.

#### Brigade – Opportunistic Credit

Opportunistic Credit is a fundamental, bottom-up strategy focused on high yield corporate bonds and bank loans with tactical allocations to structured securities, convertibles and other sectors of the bond markets as they become attractive on a relative value basis. While performing credits represent the majority, Brigade will invest up to 35% of the portfolio in distressed securities and restructuring situations if these types of opportunities are attractive on a risk-adjusted basis and the timing is right with respect to the credit cycle. The portfolio is comprised of mostly North American issuers, but they are not restricted geographically and expect to have a moderate allocation to Europe over time. Although the portfolio is generally long-only, Brigade has the ability to implement a limited amount of tactical macro hedges.

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### Investment Strategy Summaries

#### [Brown Brothers Harriman – Inflation Indexed Securities](#)

BBH manages TIPS using three main types of strategies: Fundamental, Technical and Opportunistic. The Fundamental bucket has two sub-strategies, real yield duration and real yield curve slope vs. nominal yield curve slope. The Technical strategies consist of yield curve roll-down, auction cycle trading, seasonal vs. non-seasonal CPI and security selection/option value analysis. Finally, nominal Treasuries vs. TIPS, sector relative value (i.e., corporate or Agency inflation-linked bonds) and non-Dollar inflation-linked bonds make up the Opportunistic group. Real yield duration is held to +/- 1 year vs. the benchmark and the portfolio has a limited allocation to non-index securities, typically 5-10% with a maximum of 20% (including nominal Treasuries).

#### [Chartwell Investment Partners – Small Cap Growth](#)

Chartwell's Small Cap Growth product strives to hold stocks with strong fundamentals that are best positioned for rapid growth. These businesses typically demonstrate strong increases in earnings per share. Chartwell invests in these securities with an intermediate time horizon in mind. They initiate investments opportunistically and when stocks are attractively valued. Chartwell focuses on high growth companies that lie in the middle of the momentum and growth at a reasonable price continuum, and construct Small Cap Growth portfolios with fairly low tracking errors. Portfolios contain 50-70 stocks with market capitalizations between \$200 million and \$2.5 billion at purchase. Meetings with management are an important part of the investment process. This product is closed to new investors.

#### [D.E. Shaw – Broad Market Core Enhanced Plus Strategy](#)

The D. E. Shaw group believes that there exist some market inefficiencies that may be identified through quantitative analysis, advanced technology, and the insight of practitioners. Identifying these inefficiencies involves a process of hypothesis formulation, testing, and validation. Importantly, to avoid data-mining, the hypothesis formulation precedes the analysis of the historical data. D.E. Shaw's Structured Equity strategies rely largely on quantitative and computational investment techniques developed by the D. E. Shaw over the last 19 years in the course of research conducted for purposes of managing the firm's hedge funds. Although the D.E. Shaw's long-only assets under management are comparatively modest, the firm's hedge fund assets are substantial, as are the resources devoted to quantitative research and portfolio management. D.E. Shaw's investment process involves a suite of quantitative models, each designed to capitalize on a distinct and uncorrelated set of market inefficiencies. Some of these models are technical in nature and involve price and volume inputs. Other models rely on fundamental data, such as figures gleaned from corporate balance sheets or income statements. Still others, again quantitative, anticipate or react to a particular corporate event or set of events. These models typically operate with forecast horizons of a few weeks to many months. The ability to trade on shorter-term signals distinguishes D.E. Shaw from many of its long only enhanced index peers. Portfolio construction involves the use of a proprietary optimizer which runs dynamically throughout the trading day. The portfolio will generally hold 300-500 securities. Over- and under-weighting of sectors and industries relative to the benchmark will be quite modest, with the intention that most of the alpha be generated by security selection.

#### [Franklin Templeton Investments – Global Fixed Income](#)

Franklin Templeton manages the global bond mandate in an unconstrained fashion using a top-down, fundamental framework. In the short term and on a country-by-country basis there are often inefficiencies in global bond and currency markets, however, over the longer term the market will generally price to fundamentals. Thus, FT focuses on fundamental research to identify long-term opportunities and uses short-term market inefficiencies to build positions in such investments. The investment and portfolio construction process begins with the determination of the Fund's or institutional client's investment objectives, resulting in a set of risk-return parameters and exposure limits within which the portfolio is managed. Next the firm's global economic outlook for the industrialized countries is developed, with a focus on interest rate and exchange rate forecasts. The portfolio's interest rate outlook is a function of global general equilibrium macroeconomic analysis as well as country-specific research. Macroeconomic conditions in the G-3 economies are analyzed first, primarily with respect to how current and projected growth and inflation dynamics are expected to influence monetary policy. This analysis is then extended out to the rest of the industrialized countries (G-13) as well as emerging markets, which results in broad targets for

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establish specific country weights and duration targets based on risk-adjusted expected total return measured in the portfolio's base currency. Analysis of emerging markets includes sovereign credit analysis along with greater emphasis on capital flows, inter-market dynamics and trends in the level of risk aversion in the market.

#### [INVESCO Realty Advisors – INVESCO Core Equity, LLC](#)

SamCERA is a founding member of INVESCO's open end Core Equity real estate fund and rolled its separate account properties into the fund. INVESCO Core Equity, LLC (the "Fund") is a perpetual life, open-end vehicle which invests in a diversified portfolio of institutional quality office, retail, industrial and multifamily residential real estate assets. The Fund buys core properties that are located within the United States, typically requiring an investment of \$10 million or more. The portfolio cannot be more than 30% leveraged.

#### [Jennison Associates – US Small Cap](#)

Jennison's approach is based on the premise that bottom up fundamental research can add significant value by uncovering inefficiencies in the small cap asset class. They seek out companies that they believe have attractive valuations, and should experience superior earnings growth on an intermediate term basis. In addition, Jennison looks for companies with the following attributes: strong competitive position, quality management team, demonstrated growth in sales and earnings, balance sheet flexibility and strength. The portfolio contains 110-135 stocks with a maximum position size of 4%, with actual positions rarely exceeding 2.5%. Industry weights are normally limited to 20% and sector weights are typically within 5%-7% of the benchmark, though they may be higher. Positions are scaled to reflect market cap and trading volume. According to Jennison, their expected tracking error is 6%-8%, but historically it has been lower. They seek to add 3%-4% of excess return over a market cycle.

#### [Mondrian Investment Partners – International Equity](#)

Mondrian is a value-oriented, defensive manager whose investment philosophy is based on the principle that investments must be evaluated for their fundamental long-term value. The firm's philosophy involves three stated investment objectives: 1) provide a rate of return meaningfully greater than the client's domestic rate of inflation, 2) structure client portfolios that preserve capital during protracted international market declines, and 3) provide portfolio performance that is less volatile than benchmark indices and other international managers. Mondrian applies typical value screening criteria to a universe of 1,500 stocks, from which 500 are selected for more detailed work. Through fundamental research, and the deliberations of the Investment Committee, the universe is further reduced to a list of 150 stocks. The investment team conducts detailed fundamental analysis on the remaining stocks, a process which includes applying the firm's dividend discount model consistently across all markets and industries. Mondrian also uses a purchasing power parity model to give an accurate currency comparison of the value of the stocks under consideration. The firm will only consider buying stocks in countries with good investor protection practices and relatively simple repatriation procedures. A computer based optimization program is employed in the portfolio construction process. Mondrian's portfolio holds 80-125 issues.

#### [Pyramis Global Advisors – Broad Market Duration Commingled Pool](#)

Pyramis' Broad Market Duration (BMD) investment strategy seeks to achieve absolute and risk-adjusted returns in excess of the BC U.S. Aggregate Index, focusing its investments in US Treasuries, agencies, investment grade corporate bonds, mortgage-backed and asset-backed securities. The BMD commingled pool can also hold small, opportunistic positions in out-of-benchmark securities, such as inflation-linked bonds. The investable universe includes all US dollar denominated, investment grade debt securities. The BMD investment approach emphasizes issuer and sector valuation and individual security selection. Through the integration of fundamental and quantitative research and trading, the BMD strategy is implemented in a team environment. Risk management technology is utilized to explicitly quantify benchmark exposures on a daily basis, and Pyramis uses the same analytical framework to assess both index and portfolio risk. Tracking error should range between 40 and 60 basis points per annum over the benchmark, and stringent portfolio construction risk control rules are strictly adhered to.

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#### [T. Rowe Price – U.S. Structured Research Strategy](#)

T. Rowe Price believes that fundamental, bottom-up stock selection performed by specialized research analysts can produce more consistent alpha than quantitative approaches using computer models. T. Rowe Price's U.S. Structured Research Strategy is an enhanced index strategy that combines fundamental security selection with risk controls designed to neutralize sector and industry bets relative to the S&P 500 Index. As a low tracking error enhanced index strategy, U.S. Structured Research is relatively unusual in relying exclusively on fundamental analyst research and employing neither a quantitative model nor an optimization process. The portfolio is managed by 30+ sector analysts responsible for selecting stocks within their areas of expertise. Each analyst determines relative industry weights and timing of trades within their coverage universe. They seek to add value through deviations from index weights, stock avoidance, and selecting stocks not held in the index. The analysts' aggregate buy and sell decisions result in a 250- to 300-stock portfolio with industry-, sector-, style-, and capitalization-characteristics quite close to the benchmark. Relative to the S&P 500, sector exposures range +/- 150 basis points, industry exposures range +/- 100 basis points, and the maximum active position size will typically range +/- 100 basis points around the benchmark weight. For stocks representing more than 3% of the S&P 500 Index, active position sizes can range +/- 150 basis points.

#### [Western Asset Management – U.S. Core Full Discretion](#)

Western Asset's investment philosophy has three key components. First, as sector rotators, the firm seeks out long term value by fundamentally analyzing all sectors of the fixed income market. Second, Western employs multiple strategies, proportioned so that no single adverse market event would have an overwhelming negative impact on performance. The third component of the investment philosophy is opportunistic trading. Western Asset adds value with opportunistic trades that attempt to exploit market inefficiencies. Non-US investment grade sovereigns, high yield and emerging market debt securities are used opportunistically in this approach. Western uses a team approach to portfolio management with duration, term structure, and sector allocation decisions developed by the Investment Strategy Group. The Research Group employs these determinations as they look for issues and issuers that are appropriate for the firm's eligible universe. Factors such as relative credit strength, liquidity, issue structure, event risk, covenant protection, and market valuation are central to its inquiries. Throughout this process, the Portfolio Management Group provides both teams with a picture of key capital markets. The Portfolio Management Group is also responsible for portfolio structuring and implementation. The U.S. Core Full Discretion portfolio holds between 40-60 issues and can hold up to 20% in high yield and 20% in non-US exposure. The portfolio's 10% maximum weight in emerging debt securities is counted towards the 20% maximum non-US exposure.

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## Policy Index History

### Total Plan Policy Benchmark

	As of:							
	1/1/2011	10/1/2010	1/1/2009	5/1/2007	6/1/2000	3/1/1999	9/1/1998	7/1/1996
Russell 1000	27.0%	28.0%	37.0%	37.0%	40.0%	22.0%	20.0%	20.0%
S & P 500	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%
Russell 1000 Value	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	0.0%
Russell 2000	8.0%	7.0%	9.0%	9.0%	10.0%	15.0%	15.0%	15.0%
MSCI AC World ex-US	18.0%	18.0%	21.0%	21.0%	15.0%	0.0%	0.0%	0.0%
MSCI EAFE	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%	20.0%	20.0%
Barclays Aggregate	11.0%	12.9%	27.0%	27.0%	29.0%	25.0%	21.0%	21.0%
Barclays BBB	3.3%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Barclays Tips	3.3%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Barclays Multiverse	4.4%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Citigroup Non-US WGBI unhedged	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	9.0%	9.0%
NCREIF NFI ODCE EW	5.0%	5.0%	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NCREIF Property	0.0%	0.0%	0.0%	6.0%	6.0%	0.0%	0.0%	0.0%
10 YR Treasury plus 200 basis points	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	10.0%	10.0%
Russell 3000 + 300 basis points	8.0%	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
60% Russell 3000/40% BC Aggregate	6.0%	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Libor + 400 basis points	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dow Jones UBS Commodity	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100%	100%	100%	100%	100%	100%	100%	100%

### Total Equity Benchmark

	As of:					
	10/1/2010	5/1/2007	6/1/2000	3/1/1999	9/1/1998	1/1/1996
Russell 1000	50.9%	55.2%	61.5%	35.5%	33.3%	33.3%
S & P 500	0.0%	0.0%	0.0%	0.0%	0.0%	8.4%
Russell 1000 Value	0.0%	0.0%	0.0%	8.0%	8.3%	0.0%
Russell 2000	15.1%	13.5%	15.4%	24.2%	25.0%	25.0%
MSCI AC World ex-US	34.0%	31.3%	23.1%	0.0%	0.0%	0.0%
MSCI EAFE	0.0%	0.0%	0.0%	32.3%	33.3%	33.3%
	100%	100%	100%	100%	100%	100%

### Domestic Equity Benchmark

	As of:					
	1/1/2011	6/1/2000	3/1/1999	9/1/1998	7/1/1996	1/1/1995
Russell 1000	77.00%	80.00%	52.00%	50.00%	50.00%	69.00%
S & P 500	0.00%	0.00%	0.00%	0.00%	12.50%	17.00%
Russell 1000 Value	0.00%	0.00%	12.00%	12.50%	0.00%	0.00%
Russell 2000	23.00%	20.00%	36.00%	37.50%	37.50%	14.00%
	100%	100%	100%	100%	100%	100%

### International Equity Benchmark

	As of:	
	6/1/2000	1/1/1996
MSCI AC World ex-US	100%	0%
MSCI EAFE	0%	100%

### Total Fixed Income Benchmark

	As of:				
	1/1/2011	10/1/2010	6/1/2000	3/1/1999	7/1/1996
Barclays Aggregate	50.00%	58.60%	100.00%	83.33%	70.00%
Barclays BBB	15.00%	7.30%	0.00%	0.00%	0.00%
Barclays Tips	15.00%	13.60%	0.00%	0.00%	0.00%
Barclays Multiverse	20.00%	20.50%	0.00%	0.00%	0.00%
Citigroup Non-US WGBI unhedged	0.00%	0.00%	0.00%	16.67%	30.00%
	100.0%	100.0%	100.0%	100.0%	100.0%

### Domestic Fixed Income Benchmark

	As of:		
	1/1/2011	10/1/2010	7/1/1996
Barclays Aggregate	62.40%	73.70%	100.00%
Barclays BBB	18.80%	9.10%	0.00%
Barclays Tips	18.80%	17.20%	0.00%
	100.0%	100.0%	100.0%

### International Fixed Income Benchmark

	As of:	
	10/1/2010	
Barclays Multiverse	100.00%	

### SamCERA's Real Estate Benchmark

	As of:		
	1/1/2009	6/1/2000	7/1/1996
NCREIF NFI ODCE EW (Gross)	100%	0%	0%
NCREIF Property Index	0%	100%	0%
10 YR Treasury plus 200 basis points	0%	0%	100%

### Alternative Investment Benchmark

	As of:	
	10/1/2010	
Russell 3000 + 300 basis points	100%	
60% Russell 3000/40% BC Aggregate	100%	
Libor + 400 basis points	100%	
Dow Jones UBS Commodity	100%	

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Fee Schedules

#### BlackRock-R1000 Index Fund

First \$1 million:	0.324% per annum
Next \$1 million:	0.288% per annum
Next \$3 million:	0.0865% per annum
Next \$45 million:	0.072% per annum
Next \$50 million:	0.0465% per annum
Balance of fund:	0.0215% per annum

Marginal pricing will apply. The Board receives the benefit of asset aggregation across funds when invested in more than one commingled fund. The Board pays the top of the fee schedules on the first fund, moving down the graduated fee structure for additional funds.

#### Aberdeen Asset Management

First \$25 million:	0.38% per annum
Next \$100 million:	0.30% per annum
Next \$500 million:	0.20% per annum
Thereafter:	0.18% per annum

#### Pyramis Global Advisors

First \$50 million:	0.20% per annum
Next \$100 million:	0.18% per annum

Next \$200 million:	0.10% per annum
Thereafter	0.09% per annum

#### Chartwell Investment Partners

On all assets:	0.75% per annum
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#### Jennison Associates

First \$50 million:	0.90% per annum
Next \$50 million:	0.70% per annum
Balance of fund:	0.60% per annum

#### Artio Global Investors

First \$20 million:	0.80% per annum
Next \$20 million:	0.60% per annum
Next \$60 million:	0.50% per annum
Thereafter:	0.40% per annum

#### Mondrian Investment Partners

First \$20 million:	1.00% per annum
Thereafter:	0.33% per annum
For Assets Over \$190 Million	
First \$50 million:	1.00% per annum
Next \$150 million:	0.19% per annum
Thereafter	0.33% per annum

Fees received by Delaware Mgmt. Co. for the DPT Emerging

Markets Fund in connection with SamCERA assets invested therein shall be deducted from the above schedule



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Fee Schedules

#### Western Asset Management

First \$100 million:	0.30% per annum
Balance of fund:	0.15% per annum

#### Barrow, Hanley, Mewhinney & Strauss

First \$15 million	0.75% per annum
Next \$10 million	0.55% per annum
Next \$75 million	0.45% per annum
Next \$100 million	0.35% per annum
Next \$800 million	0.25% per annum
Over \$1 billion	0.15% per annum

#### T. Rowe Price Associates

First \$50 million	0.40% per annum
Next \$50 million	0.35% per annum
When assets exceed \$100 million	0.35% on all assets
When assets exceed \$200 million	0.30% on all assets

#### The Boston Company Asset Management

First \$25 million	0.90% per annum
Thereafter:	0.80% per annum

#### Angelo Gordon

0.20% per annum of the lesser of (a) US Treasury's Capital Commitment as of the last day of the period and (b) the US Treasury Interest Value as of the last day of the period.

Thereafter 0.30% per annum

#### INVESCO

On Property Assets: 7.0% of NOI  
The property portfolio is on a performance basis.

#### BlackRock Capital Management

First \$50 million	0.55% per annum
Next \$50 million	0.45% per annum
Next \$100 million	0.40% per annum
Thereafter:	0.30% per annum

#### D.E. Shaw Investment Management

First \$100 million	0.51% per annum
Next \$100 million	0.46% per annum
Thereafter:	0.41% per annum

#### Brown Brother Harriman

On All Assets: 0.15% per annum

#### Brigade Capital Management

On All Assets: 0.80% per annum

#### Franklin Templeton Investment

First \$50 million	0.45% per annum
Next \$50 million	0.35% per annum

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

### Performance Summary - Gross and Net of Fees

		<u>1 QTR</u>	<u>CALENDAR YTD</u>	<u>FISCAL YTD</u>	<u>2 YEAR</u>	<u>3 YEAR</u>	<u>5 YEAR</u>
<b>US Equity</b>							
<b>Large Cap</b>							
BlackRock-R1000 Index Fund	gross	0.14%	6.40%	32.00%	23.38%	3.76%	3.38%
	net	0.11%	6.36%	31.91%	23.32%	3.70%	3.31%
D.E. Shaw	gross	1.02%	6.32%	30.46%			
	net	0.89%	6.05%	29.81%			
<i>Russell 1000 Index</i>		<i>0.12%</i>	<i>6.37%</i>	<i>31.93%</i>	<i>23.30%</i>	<i>3.68%</i>	<i>3.30%</i>
T Rowe Price	gross	0.18%	6.01%	30.42%			
	net	0.09%	5.82%	29.95%			
<i>S&amp;P 500 Index</i>		<i>0.10%</i>	<i>6.02%</i>	<i>30.69%</i>			
Barrow Hanley	gross	1.04%	8.84%	33.98%			
	net	0.93%	8.60%	33.39%			
<i>Russell 1000 Value Index</i>		<i>-0.50%</i>	<i>5.92%</i>	<i>28.94%</i>			
BlackRock	gross	-1.60%	2.74%	33.96%			
	net	-1.71%	2.50%	33.36%			
<i>Russell 1000 Growth Index</i>		<i>0.76%</i>	<i>6.83%</i>	<i>35.01%</i>			
<b>Small Cap</b>							
Jennison	gross	-0.20%	8.93%	43.13%	34.71%	10.24%	
	net	-0.39%	8.52%	42.32%	33.79%	9.41%	
<i>Russell 2000 Index</i>		<i>-1.61%</i>	<i>6.21%</i>	<i>37.41%</i>	<i>29.20%</i>	<i>7.77%</i>	
The Boston Company	gross	-4.10%	3.29%	26.40%			
	net	-4.31%	2.86%	25.36%			
<i>Russell 2000 Value Index</i>		<i>-2.65%</i>	<i>3.77%</i>	<i>31.35%</i>			
Chartwell	gross	-1.47%	12.42%	49.87%	35.18%	7.20%	5.53%
	net	-1.66%	12.01%	48.79%	34.20%	6.42%	4.74%
<i>Russell 2000 Growth Index</i>		<i>-0.59%</i>	<i>8.59%</i>	<i>43.50%</i>	<i>30.10%</i>	<i>8.35%</i>	<i>5.80%</i>

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

### Performance Summary - Gross and Net of Fees

			<u>CALENDAR</u>					
			<u>1 QTR</u>	<u>YTD</u>	<u>FISCAL YTD</u>	<u>2 YEAR</u>	<u>3 YEAR</u>	<u>5 YEAR</u>
<b>International Equity</b>								
Artio Global	gross		-0.37%	1.81%	24.87%	16.55%	-5.31%	1.08%
	net		-0.50%	1.56%	24.26%	15.99%	-5.79%	0.58%
		<i>MSCI ACWI -ex US Growth Index</i>	<i>1.06%</i>	<i>3.43%</i>	<i>31.07%</i>	<i>21.14%</i>	<i>-0.79%</i>	<i>4.48%</i>
Mondrian	gross		2.94%	6.84%	28.76%	17.52%	0.32%	3.62%
	net		2.94%	6.79%	28.55%	17.28%	0.08%	3.35%
		<i>MSCI ACWI -ex US Value Index</i>	<i>0.15%</i>	<i>4.81%</i>	<i>29.39%</i>	<i>19.16%</i>	<i>0.98%</i>	<i>3.75%</i>
<b>US Fixed Income</b>								
Aberdeen Asset	gross		2.03%	3.59%	6.60%	12.07%	5.12%	4.92%
	net		1.96%	3.45%	6.30%	11.78%	4.84%	4.65%
Pyramis	gross		2.38%	3.44%	6.05%	10.19%	8.46%	6.88%
	net		2.34%	3.34%	5.87%	10.02%	8.29%	6.72%
Western Asset	gross		2.22%	3.65%	7.93%	13.04%	8.62%	6.73%
	net		2.15%	3.50%	7.66%	12.77%	8.36%	6.47%
		<i>BC Aggregate Index</i>	<i>2.29%</i>	<i>2.72%</i>	<i>3.90%</i>	<i>6.66%</i>	<i>6.46%</i>	<i>6.52%</i>
AG GECC	net		-4.30%	1.07%	25.92%			
Brigade Capital Management	gross		1.49%	5.91%				
	net		1.29%	5.59%				
		<i>BC BBB Credit</i>	<i>2.74%</i>	<i>4.07%</i>				
Brown Brothers Harriman	gross		3.71%	5.78%				
	net		3.67%	5.70%				
		<i>BC U.S. Tips Index</i>	<i>3.66%</i>	<i>5.81%</i>				
Franklin Templeton Investments	gross		2.67%	6.02%				
	net		2.57%	5.82%				
		<i>BC Multiverse</i>	<i>3.04%</i>	<i>4.44%</i>				

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

Periods Ending June 30, 2011

### Performance Summary - Gross and Net of Fees

		<u>1 QTR</u>	<u>CALENDAR YTD</u>	<u>FISCAL YTD</u>	<u>2 YEAR</u>	<u>3 YEAR</u>	<u>5 YEAR</u>
<b>Real Estate</b>							
INVESCO Real Estate	gross	6.93%	11.03%	24.80%	7.57%	-6.71%	0.18%
	net	6.80%	10.76%	24.17%	6.97%	-7.21%	-0.34%
	<i>NCREIF NFI ODCE EW Index<sup>1</sup></i>	<i>4.58%</i>	<i>8.78%</i>	<i>20.37%</i>	<i>5.42%</i>	<i>-7.09%</i>	<i>0.54%</i>
<b>Private Equity</b>							
Private Equity	net	-8.10%	-84.22%				
	<i>Russell 3000 + 3%</i>	<i>0.71%</i>	<i>7.92%</i>				
<b>Risk Parity</b>							
AQR Global Risk Premium Fund III	net	3.35%					
	<i>Risk Parity Index<sup>1</sup></i>	<i>0.91%</i>					

<sup>1</sup> See Appendix for Benchmark History.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

### Manager Compliance Checklist

MANAGER	INDEX OUTPERFORMANCE						DATABASE BENCHMARK			MANAGER MEETING INVESTMENT PERFORMANCE EXPECTATIONS
	AFTER FEE VS. INDEX		BEFORE FEE VS. INDEX		RISK ADJUSTED (SHARPE RATIO)		MEDIAN			
	3 YEARS	5 YEARS	3 YEARS	5 YEARS	3 YEARS	5 YEARS	2 YEARS	3 YEARS	5 YEARS	
<b>BLACKROCK- R1000 INDEX FUND</b> Benchmark: R1000 Index	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
<b>CHARTWELL</b> Benchmark: R2000 Index	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO
<b>JENNISON</b> Benchmark: R2000 Index	YES	N/A	YES	N/A	YES	N/A	YES	YES	N/A	YES
<b>ARTIO GLOBAL</b> Benchmark: MSCI ACWI -ex US Index	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
<b>MONDRIAN</b> Benchmark: MSCI ACWI -ex US Index	NO	NO	NO	NO	NO	YES	NO	YES	YES	YES
<b>ABERDEEN ASSET</b> Benchmark: BC Aggregate	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO
<b>PYRAMIS GLOBAL ADVISORS</b> Benchmark: BC Aggregate	YES	YES	YES	YES	NO	NO	YES	YES	NO	YES
<b>WESTERN ASSET</b> Benchmark: BC Aggregate	YES	NO	YES	YES	NO	NO	YES	NO	NO	YES
<b>INVESCO REAL ESTATE</b> Benchmark: NCREIF Property Index	NO	NO	NO	NO	N/A	N/A	YES	YES	YES	YES

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Manager Performance Comparison

	Apr	May	Jun	2nd Qtr. 2011	Difference	1st Qtr. 2011	Difference	4th Qtr. 2010	Difference	3rd Qtr. 2010	Difference
SIS/SSB	3.01%	-1.07%	-1.74%	0.13%		6.25%		11.20%		11.56%	
BlackRock-R1000 Fund	3.01%	-1.07%	-1.74%	0.13%	0.00%	6.25%	0.00%	11.20%	0.00%	11.56%	0.00%
Russell 1000 Index	3.01%	-1.07%	-1.75%	0.12%		6.24%		11.20%		11.56%	
SIS/SSB	3.16%	-0.18%	-1.90%	1.02%		5.25%		11.43%		10.13%	
D.E. Shaw	3.16%	-0.18%	-1.90%	1.02%	0.00%	5.26%	0.00%	11.42%	0.01%	10.13%	0.00%
Russell 1000 Index	3.01%	-1.07%	-1.75%	0.12%		6.24%		11.20%		11.56%	
SIS/SSB	3.02%	-1.14%	-1.64%	0.18%		5.82%		10.99%		10.84%	
T. Rowe Price	3.02%	-1.14%	-1.64%	0.17%	0.01%	5.81%	0.01%	10.99%	0.00%	10.84%	0.00%
S&P 500 Index	2.96%	-1.13%	-1.67%	0.10%		5.92%		10.74%		11.30%	
SIS/SSB	3.36%	-0.61%	-1.65%	1.03%		7.72%		10.79%		11.11%	
Barrow Hanley	3.35%	-0.61%	-1.63%	1.05%	-0.01%	7.72%	0.00%	10.77%	0.02%	11.13%	-0.02%
Russell 1000 Value Index	2.66%	-1.06%	-2.05%	-0.51%		6.46%		10.54%		10.13%	
SIS/SSB	2.67%	-1.73%	-2.47%	-1.60%		4.40%		14.25%		14.14%	
BlackRock	2.67%	-1.73%	-2.47%	-1.60%	0.00%	4.40%	0.00%	14.25%	0.00%	14.14%	0.00%
Russell 1000 Growth Index	3.35%	-1.09%	-1.43%	0.76%		6.03%		11.84%		13.00%	
SIS/SSB	2.73%	-1.05%	-1.82%	-0.20%		9.15%		17.41%		11.92%	
Jennison	2.74%	-1.05%	-1.73%	-0.10%	-0.10%	9.16%	-0.02%	17.27%	0.14%	11.92%	0.00%
Russell 2000 Index	2.64%	-1.87%	-2.31%	-1.61%		7.94%		16.25%		11.29%	
SIS/SSB	1.12%	-2.21%	-3.01%	-4.09%		7.71%		12.55%		8.71%	
The Boston Company	1.12%	-2.21%	-3.01%	-4.10%	0.01%	7.69%	0.02%	12.55%	0.00%	8.71%	0.00%
Russell 2000 Value Index	1.62%	-1.79%	-2.46%	-2.65%		6.60%		15.36%		9.72%	
SIS/SSB	2.98%	-2.72%	-1.64%	-1.46%		14.11%		14.55%		16.39%	
Chartwell	3.00%	-2.72%	-1.64%	-1.44%	-0.02%	14.09%	0.02%	14.55%	0.00%	16.37%	0.02%
Russell 2000 Growth Index	3.60%	-1.95%	-2.14%	-0.59%		9.24%		17.11%		12.82%	

# SAN MATEO COUNTY EMPLOYEES' RET ASSOC

As of June 30, 2011

## Manager Performance Comparison

	Apr	May	Jun	2nd Qtr. 2011	Difference	2nd Qtr. 2011	Difference	1st Qtr. 2011	Difference	4th Qtr. 2010	Difference
SIS/SSB	4.67%	-3.96%	-0.90%	-0.38%		2.19%		6.27%		15.41%	
Artio Global	4.73%	-3.93%	-0.96%	-0.35%	-0.03%	2.03%	0.16%	6.37%	-0.10%	15.39%	0.02%
MSCI ACWI -ex US Growth Index	5.25%	-2.34%	-1.68%	1.06%		2.35%		8.18%		17.14%	
SIS/SSB	5.85%	-1.65%	-1.12%	2.94%		3.79%		3.69%		16.23%	
Mondrian	5.83%	-1.66%	-1.14%	2.89%	0.05%	3.79%	-0.01%	1.89%	1.81%	16.25%	-0.02%
MSCI ACWI -ex US Value Index	4.67%	-3.21%	-1.15%	0.15%		4.65%		6.26%		16.17%	
SIS/SSB	1.48%	1.25%	-0.70%	2.03%		1.53%		-0.55%		3.49%	
Aberdeen Asset	1.49%	1.23%	-0.70%	2.02%	0.01%	1.57%	-0.04%	-0.52%	-0.03%	3.50%	-0.01%
BC Aggregate Index	1.27%	1.31%	-0.29%	2.30%		0.42%		-1.29%		2.49%	
SIS/SSB	1.36%	-2.01%	-3.65%	-4.30%		5.61%		12.10%		11.15%	
AG PPI Fund	1.36%	-2.01%	-3.65%	-4.30%	0.00%	5.61%	0.00%	12.10%	0.00%	11.15%	0.00%
BC Aggregate Index	1.27%	1.31%	-0.29%	2.30%		0.42%		-1.29%		2.49%	
SIS/SSB	1.53%	1.26%	-0.41%	2.39%		1.03%		-0.53%		3.08%	
Pyramis	1.53%	1.26%	-0.41%	2.39%	0.00%	1.02%	0.01%	-0.53%	0.00%	3.08%	0.00%
BC Aggregate Index	1.27%	1.31%	-0.29%	2.30%		0.42%		-1.29%		2.49%	
SIS/SSB	1.12%	0.44%	-0.07%	1.49%		4.36%		3.15%			
Brigade Capital	1.16%	0.37%	-0.09%	1.44%	0.05%	4.19%	0.17%	3.36%	-0.21%		
BC BBB Credit	1.81%	1.66%	-0.74%	2.73%		1.30%		-1.62%			
SIS/SSB	2.28%	0.54%	0.85%	3.71%		1.99%		-1.26%			
Brown Brothers Harriman	2.30%	0.54%	0.84%	3.72%	-0.01%	1.99%	0.00%	-1.26%	0.00%		
BC U.S. Tips	2.51%	0.31%	0.81%	3.66%		2.06%		-0.65%			
SIS/SSB	1.45%	1.22%	-0.46%	2.22%		1.40%		-0.09%		4.22%	
Western Asset	1.42%	1.25%	-0.49%	2.18%	0.03%	1.52%	-0.12%	0.27%	-0.37%	4.00%	0.22%
BC Aggregate Index	1.27%	1.31%	-0.29%	2.30%		0.42%		-1.29%		2.49%	
SIS	3.36%	-0.38%	-0.28%	2.68%		3.26%					
Franklin Templeton Investments	3.50%	-0.43%	-0.23%	2.82%	-0.14%	3.20%	0.06%				
BC Multiverse	3.07%	-0.08%	0.05%	3.04%		1.37%					
SIS/SSB				6.93%		3.83%		4.62%		7.44%	
INVESCO Real Estate				6.93%	0.00%	3.83%	0.00%	4.62%	0.00%	7.44%	0.00%
NCREIF NFI ODCE EW Index				4.58%		4.01%		4.86%		5.53%	

# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

### MARKET SUMMARY

#### Equity Markets

U.S.	QTR	1 Year	3 Year
S&P 500	0.1	30.7	3.3
Dow Jones Industrial Average	1.4	30.4	6.1
NASDAQ Composite	-0.3	31.5	6.5
Russell 1000	0.1	31.9	3.7
Russell 2000	-1.6	37.4	7.8
Russell 3000	0.0	32.4	4.0
Russell Micro Cap	-3.5	32.7	6.5
Non-U.S.			
MSCI EAFE (Net)	1.6	30.4	-1.8
MSCI Emerging Markets (Net)	-1.1	27.8	4.2
MSCI All Country World ex U.S.	0.4	29.7	-0.3

Through a quarter filled with downward pressures, global markets held their ground as only 3 of the 17 markets tracked in this "Market Environment" report experienced negative returns. Riskier mandates, including the MSCI emerging markets, Russell 2000 and Russell microcap all contracted, losing -1.1%, -1.6% and -3.5%, respectively. Meanwhile domestic large cap and developed non-U.S. indices all held their ground or were slightly positive. The Dow Jones Industrial Average led the way in the U.S. with a 1.4% return, while the developed non-U.S. (MSCI EAFE) returned 1.6%. Over the trailing 12 months, all equity indices experienced strong returns ranging from 27.8% and 37.4%.

Fixed Income markets saw greater returns in the second quarter but could not compete with equity markets over the trailing 12 months. Domestic bond markets advanced between 1.1% and 2.3% this quarter, while the Citigroup non-U.S. WGBI soared 3.7%. Over the past year, the Barclays Capital High Yield Index had the greatest return in fixed income markets, advancing 15.6%, while the Citigroup Non-U.S. World Government Bond Index nearly kept pace returning 13.9%. Comparatively less risky domestic fixed income securities returned between 3.7% and 4.8% over the last 12 months.

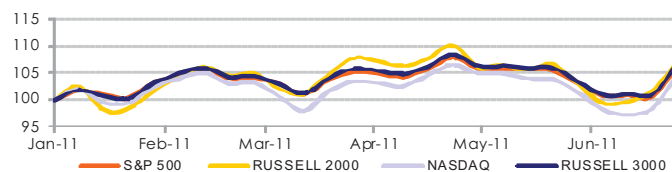
#### Bond Markets

U.S.	QTR	1 Year	3 Year
Barclays Capital Aggregate	2.3	3.9	6.5
Barclays Capital Gov/Credit	2.3	3.7	6.2
Barclays Capital Universal	2.2	4.8	6.7
Barclays Capital Corp. High Yield	1.1	15.6	12.7
Non-U.S.			
CG Non-U.S. World Govt.	3.7	13.9	6.2

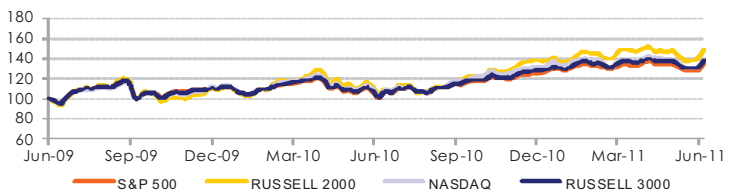
#### Non-Public Markets

As of March 31, 2011	QTR	1 Year	3 Year
NCREIF Property	3.4	16.0	-3.6
State Street Private Equity Index	5.6	21.9	1.4

Equity Index - Year to Date Growth Rate



Equity Index - 2-Year Growth Rate





# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

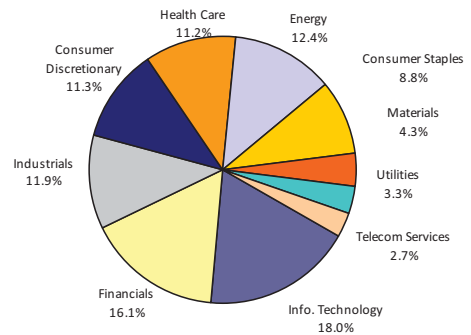
### DOMESTIC MARKETS

#### Domestic Equity - Russell 3000

The Russell 3000 Index finished the second quarter virtually unchanged - losing only three basis points. Performance was mixed with five sectors losing ground and five gaining. The greatest contributors to performance were the Health Care, Consumer Staples and Consumer Discretionary sectors, comprising 32.3% of the index and contributing a gain of 1.7%. Those advances were countered by the Financial, Energy, and Industrial sectors, which account for 39.3% of the index and lost 1.6%.

For the trailing 12 months, all sectors of the Russell 3000 Index reported double-digit positive returns. Gains in the Energy, Information Technology and Consumer Discretionary sectors accounted for nearly half of 32.4% index returns.

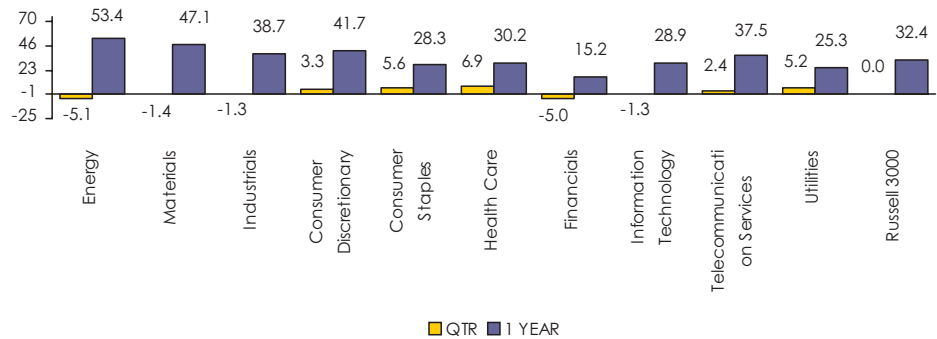
#### Ending Sector Weights



#### Sector Returns (%)

#### Characteristics

Div. Yield (%)	1.8
P/B Ratio	2.21
P/E Ratio	17.0
Fundamental Beta	1.02
Market Cap \$(MM)	72,500



#### Contribution to Return

Qtr.	-0.6	-0.1	-0.2	0.4	0.5	0.8	-0.8	-0.2	0.1	0.2
1 Yr.	5.7	2.0	4.5	4.7	2.6	3.6	2.5	5.2	1.0	0.9

# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

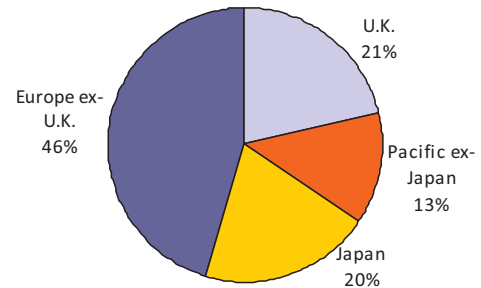
### INTERNATIONAL MARKETS

#### International Equity—MSCI EAFE (Net)

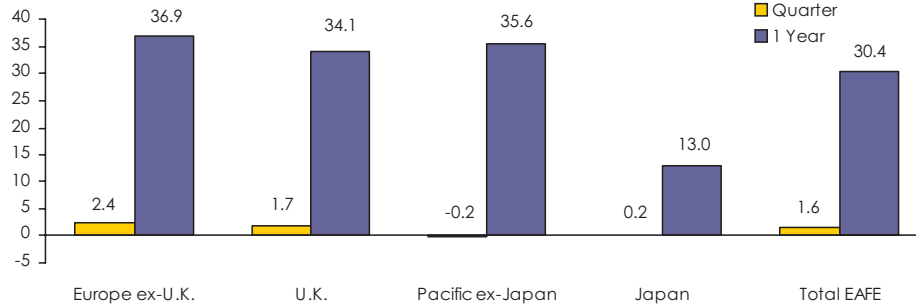
Buoyed by a weak dollar and strong performance during April (May and June combined to lose -4.2%), the MSCI EAFE Index was positive for the fourth consecutive quarter. The index actually lost -0.8% in local currency terms, however, converting back to dollars resulted in a gain of 1.6% for the quarter. Despite the 16.5% loss in Greece, the Europe ex-U.K. region was the largest contributor to performance.

Over the trailing 12 months, the MSCI EAFE Index returned 30.4% as every country in the index produced positive returns. The two largest markets, Japan and U.K, which account for 41% of the index, contributed a third of overall performance.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr.	1.1	0.4	-0.0	0.0	
1 Yr.	16.1	7.2	4.6	2.8	

# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

### INTERNATIONAL MARKETS

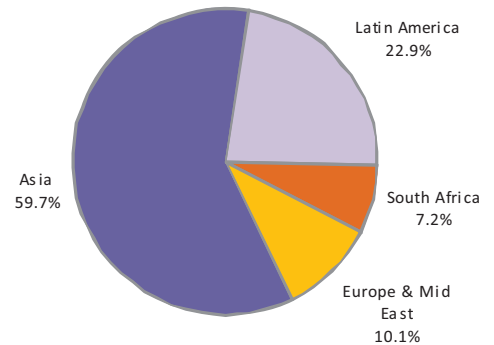
#### Emerging Markets Equity - MSCI EM (Net)

The MSCI Emerging Markets Index contracted in the second quarter, declining -1.1% due, in part, to fears of inflation. Over the last 12 months, however, the index posted strong gains, rising 27.8%.

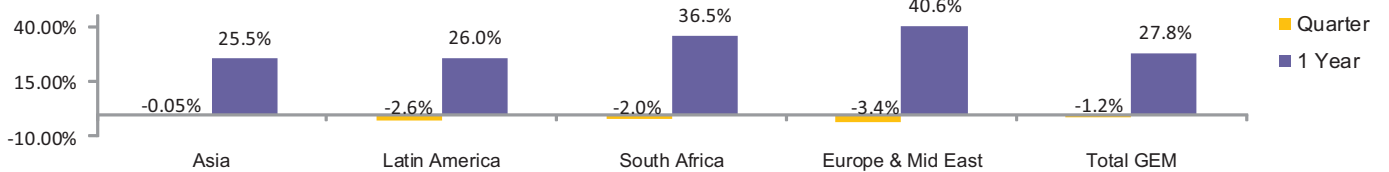
European-domiciled securities made the greatest contribution to return during the quarter. Key contributors were the Czech Republic and Poland which returned 5.6% and 3.9%, respectively. The largest emerging markets, China and Brazil (which represent nearly a third of the index) cooled during the quarter losing 1.9% and 4.1%, respectively.

Over the last 12 months, every country in the index (with the exception of Egypt) gained in value, and the average country return was 31.9%. Key contributors included Korea and Thailand, each returning 43%.

Ending Regional Weights (%)



Regional Returns (%)



Contribution to Return:

	Asia	Latin America	South Africa	Europe & Mid East	Total GEM
Qtr.	0.0	-0.6	-0.1	-0.4	
1 Yr.	15.0	5.9	2.6	4.2	

# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

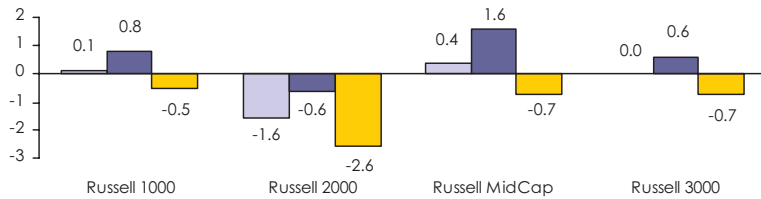
### EQUITY BY STYLE & CAPITALIZATION

#### Style & Capitalization Returns

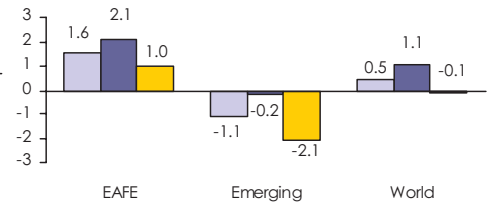
In U.S. markets, large cap securities significantly outperformed small caps during the quarter. The Russell 1000 Index returned 0.1%, outperforming the Russell 2000 Index by 1.7%. Along style lines, the growth components of the Russell indices generated the greatest performance for the quarter and the trailing 1-year period. For the 1-year ended June, the Russell 1000 Growth Index returned 35% compared to 28.9% for the Russell 1000 Value Index. The Russell 2000 Growth Index generated the greatest gains for the year, advancing 43.5%.

Outside the U.S., similar trends were apparent with growth outpacing value for both the quarter and trailing 1-year periods. Both the MSCI EAFE Growth and MSCI World Growth indices exceeded the returns of their value equivalent by more than 1% for quarter. The difference was more dramatic in non-developed markets where the MSCI EM Growth Index outperformed the MSCI EM Value Index by almost 2%. For the 1-year period, the MSCI World Growth Index registered the strongest return of 32.5%, outperforming the MSCI World Value Index by 4%.

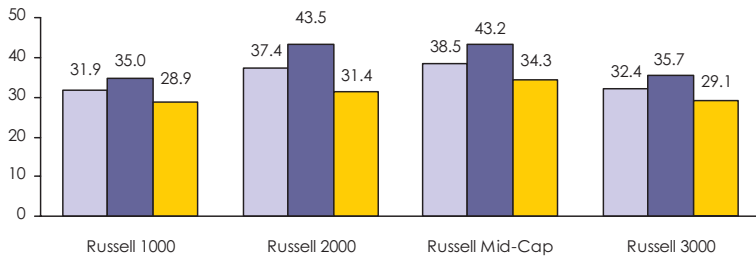
Russell U.S. Style Returns Quarter



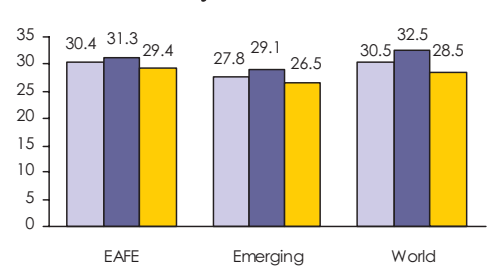
MSCI Non-U.S. Style Returns Quarter



Russell U.S. Style Returns - 1 Year



MSCI Non-U.S. Style Returns - 1 Year



Core Growth Value

# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

### CURRENCY AND BOND MARKETS

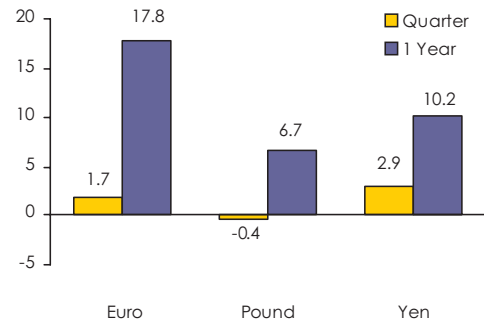
#### Currency Markets

In the April 7<sup>th</sup> meeting in Frankfurt, the President of the ECB, Jean-Claude Trichet, announced that key lending rates, which were at historic lows, would be raised 25 basis points to 1.25%. This signaled the first rate hike in nearly three years. Trichet believes that Europe faces significant inflation risks despite the economic difficulties (primarily isolated to Portugal, Greece and Ireland). During the quarter, speculation continued that Europe would see a second rate hike in the third quarter of 2011.

The U.S. Federal Reserve kept its key lending rates at historic lows to support further economic recovery.

The Euro continued to surge against the dollar in the second quarter gaining 1.7%, while the U.S. dollar stabilized against the British pound gaining four basis points. Over the past year, the Euro has gained 17.8%, while the British pound has gained 6.7%. Meanwhile versus the Yen, the dollar continued its fall shedding another 2.9% and 10.2% over the past 12 months.

Currency Returns (%)

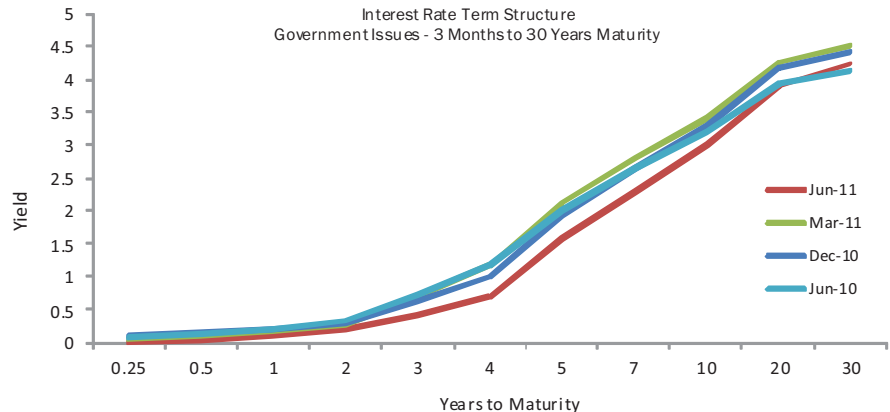


#### Yield Curve

Yields on the 30 year nominal treasury securities decreased during the second quarter and are still below the levels at which they ended 2010.

In the June 22<sup>nd</sup> press release, the Federal Open Market Committee left federal funds rate at 0 to 0.25% stating that they "anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

Interest Rate Term Structure  
Government Issues - 3 Months to 30 Years Maturity



# SAN MATEO COUNTY EMPLOYEES'S RET ASSOC

Second Quarter 2011

## Capital Market Review

### BOND MARKETS

#### U.S. Bond Market Returns - Barclays Capital Aggregate

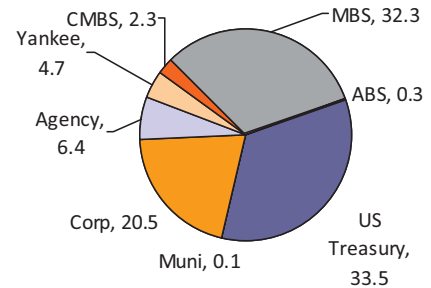
The Barclays Capital Aggregate Bond Index gained 2.3% in the second quarter and advanced 3.9% over the past year.

All sectors were positive for the quarter and trailing 12 months. Yankee Bonds led the way returning 3.2% during the quarter. CMBS and Yankee bonds delivered the strongest returns for the year.

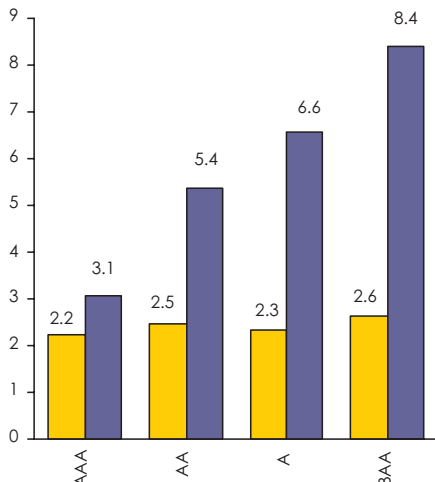
Longer duration bonds delivered the greatest returns for the quarter. Over the trailing 12 months, medium duration instruments generally delivered the best returns.

Bonds across all quality spectrums had similar performance during the quarter, returning between 2.2 and 2.6%. Over the last year however, lower rated bonds have outperformed, with BAA-rated issues returning 8.4%

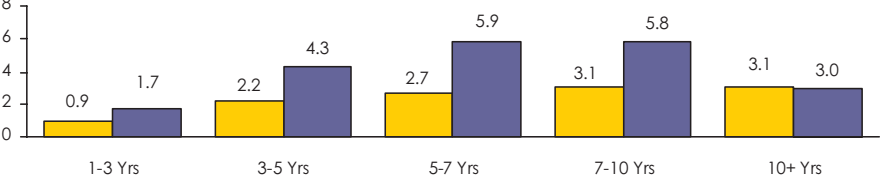
Sector Weights (%)



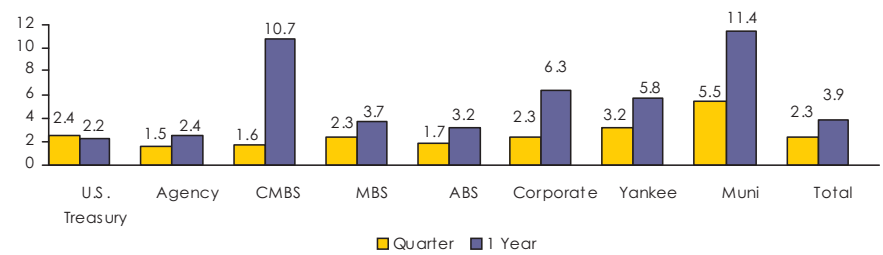
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Performance Report Glossary

TERM	CATEGORY	DEFINITION
91 Day T-Bill	Index	Composed of 91 day term treasury bills issued by the U.S. Government. Typically used as a benchmark for short-term investments.
Active Management Value Added	Equity	The value added to a portfolio by active management over a passive index investment. In equity performance attribution, it refers to the difference between the equity only and buy & hold return, representing the value added to the equity portfolio from the transactions occurring during the quarter.
Active Return	General	The difference between the manager's return and the benchmark's return. The active return reflects the manager's added value over the benchmark.
Allocation Index	General	Illustrates how the fund's actual asset allocation would have performed if it were invested in passive indices. The prior month's actual asset allocation from the composite fund is multiplied by the index returns for each manager's benchmark on a monthly basis to obtain the allocation index return for the quarter.
Alpha	General	The difference between the actual performance of the fund and the performance which should have been achieved given the market's performance and the fund's risk posture.
Annualized Rate of Return	General	The constant return needed each year of the period in question to provide the amount of wealth gained by the end of the period.
Average Market Capitalization	Equity	The position weighted average of all the securities' market capitalizations in the portfolio.
Average Maturity	Fixed Income	Market value-weighted average time to stated maturity for all securities in the portfolio.
Beta	Equity	The sensitivity of the rate of return of a portfolio or security to market fluctuations. A beta of .95 means that on average when the market moves X%, the portfolio (or security) will move X% * .95.
Buy & Hold Return	Equity	The return on the portfolio assuming the equity positions which were held at the beginning of the quarter were held throughout the quarter.
Citigroup Non-US World Gov't Bond Index	Index	This index is market value weighted and composed of the available market for domestic Government bonds in nine countries. It includes all fixed-rate bonds with a remaining maturity of one year or longer and with amounts outstanding of at least the equivalent of US \$25 million.
Composite Fund	General	A composite consisting of all of the plan's portfolios. Returns are calculated by aggregating each manager's market value and transactions.
Core Fixed Income Manager	Fixed Income	Core fixed income managers have a duration ranging from 80-120% of the Lehman Aggregate and focus on sector or individual bond selection to create portfolios.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Performance Report Glossary

TERM	CATEGORY	DEFINITION
Core Equity Managers	Equity	Core equity managers buy a mixture of value and growth stocks, without any strong style biases apparent. The most common benchmark is the S&P 500 Index.
Corporate Plan Universe	General	A total plan universe comprised of all Corporate Defined Benefit and VEBA plans in the ICC database. There are approximately 400 plans in this universe.
Country Selection	International	The excess performance that can be attributed to country allocation decisions.
Current Coupon	Fixed Income	Current annual income generated by the total portfolio.
Domestic Equity Composite	General	A composite consisting of all the fund's equity portfolios with U.S. equity mandates. Returns are calculated by aggregating each manager's market value and transactions.
Domestic Fixed Composite	General	A composite consisting of all the fund's fixed income portfolios with U.S. fixed income mandates. Returns are calculated by aggregating each manager's market value and transactions.
Duration	Fixed Income	A measure of a bond or bond portfolio's responsiveness to changes in interest rates, determined by the size and timing of future cash flows (interest, principal, and pre-payment of principal).
Endowment/Foundation Universe	General	A total plan universe comprised of all Endowment and Foundations in the ICC database. There are approximately 270 plans in this universe.
Equity Only Return	Equity	The total return of the equity positions in the portfolio.
Equity Segment Yield	Equity	The dividend yield of the entire equity portfolio.
Explicit Currency	International	The portion of the international portfolio performance attribution due to intentional currency hedging.
Five Year Earnings Growth	Equity	Represents the smoothed earnings growth rate of a firm (or portfolio) over the past 20 quarters.
Growth Equity Managers	Equity	Growth managers buy companies that are expected to have above average long-term growth earnings relative to the price of the stock. These stocks are usually selling at high price/book, high price/earning ratios.
High Yield Fixed Income Manager	Fixed Income	High yield managers invest in lower quality, higher yielding issues; generally companies who are experiencing financial difficulty or have limited financing means.
ICC	General	The State Street Bank/Independent Consultants Cooperative is formed by State Street Bank (formerly Deutsche Bank) and sixteen independent consulting firms. As a member of the SSB/ICC, SIS uses the SSB/ICC software and database to provide performance measurement and analytical service to plan sponsors.
Implicit Currency	International	The portion of the international portfolio performance attribution due to the currency implicit in the country allocation compared to the benchmark's currency allocation.
Interest Rate Anticipator Fixed Income Manager	Fixed Income	Interest rate anticipators attempt to add value primarily through interest rate forecasting and adjusting the duration of the portfolio to respond favorably to the expected change in interest rates.



## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Performance Report Glossary

TERM	CATEGORY	DEFINITION
Intermediate Fixed Income Manager	Fixed Income	Intermediate fixed income managers invest in high quality issues with a duration that is 40-80% of the Lehman Aggregate.
International Equity Composite	International	A composite consists of all the fund's international equity managers. Returns are weighted by each manager's market value within the fund.
Lehman Aggregate Index	Index	Measures the total return of all major sectors of the domestic, taxable bond market (approx. 5400 fixed income securities). The index contains all the investment grade issues in the Lehman Brothers Government/Corporate and the Lehman Brothers Mortgage-Backed Securities Indexes.
Lehman Government/Credit Index	Index	A composite index consisting of all publicly issued, fixed rate, non-convertible, domestic debt of the U.S. government and domestic debt of the three major corporate classifications. The index is market capitalization weighted, and mortgages are excluded.
Long Fixed Income Manager	Fixed Income	Managers with portfolios having a duration greater than 120% of the Lehman Aggregate Bond Index.
Market Value	Equity	What the market is willing to pay for a specific amount of a security (or portfolio of securities). This is determined by multiplying the latest price of each stock (or bond) by the number of shares held.
Maturity - Return Decomposition	Fixed Income	Represents the amount of active return due to the spreads of different maturities of the same issue.
Median	General	Represents the fund (or manager) where half the universe has a higher return than the fund (or manager), and half has lower returns. By definition the median is the 50th percentile.
MSCI All Country World Index (ACWI) -ex US	Index	Composed of stocks of major non-US companies within the developed markets of Europe and Asia, 10% of the index is emerging markets. This index excludes all US issues.
MSCI EAFE	Index	Composed of approximately the top 60% of market capitalization of the stock exchanges of Europe, Australia, New Zealand and the Far East. The index is market capitalization weighted using U.S. dollars.
NCREIF (National Council of Real Estate Investment Fiduciaries National Property index)	Index	Composed of 2,231 investment grade, non-agricultural properties, including wholly-owned and joint venture investment of existing properties. All properties have been acquired on behalf of tax-exempt institutions and are held in a fiduciary environment.
Price/Earnings Ratio	Equity	The dollar price of a company divided by annual earnings per common share. The P/E ratio reflects the anticipated future earnings growth and is market capitalization weighted.
Policy Index	General	Represents the fund's asset allocation policy. Returns are calculated using index returns weighted by policy allocations.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Performance Report Glossary

TERM	CATEGORY	DEFINITION
Price/Book Ratio	Equity	The relationship between a security's valuation by the market and the book value of assets reported. In terms of a portfolio, it is the market capitalization weighted value of all the securities within the portfolio.
Public Funds Universe	General	A total plan universe comprised of all State and Local government run pension plans in the ICC database. There are approximately 250 plans in this universe.
Quality	Fixed Income	Measures the market value weighted credit quality of the portfolio.
R-Squared	General	Indicates the proportion of the portfolio's returns that can be explained by its beta.
Return on Equity (ROE)	Equity	The earnings per share of a firm divided by the firm's book value per share. It is the return on the equity capital of a business. In terms of a portfolio, it is the market capitalization weighted ROE of all the securities within the portfolio.
Return Ranking	General	The percentile ranking of the return. For example, if a fund's (manager's) return rank is 5 then 5% of the funds in the universe had higher returns and 95% of the funds had lower returns.
Russell 1000 Equity Index	Index	The largest 1000 stocks of the Russell 3000 Index, representing approximately 92% of the total market capitalization of the Russell 3000 Index. The average market capitalization is approximately \$3.8 billion. The smallest company in the index has an approximate market capitalization of \$1350.8 million.
Russell 2000 Equity Index	Index	The smallest 2000 stocks of the Russell 3000 Index. The average market capitalization for this index is approximately \$900 million.
Russell 3000 Equity Index	Index	The largest 3000 common stocks of U.S. domiciled companies, with market capitalization adjustments for cross ownership and large private holdings.
Sector - Risk Decomposition	Fixed Income	Represents the amount of active risk within the fixed income portfolio attributable to investments in different sectors.
Security Selection	International	The effect the actual securities (net of country and currency attribution) have on a manager's performance compared to its benchmark.
Sharpe Ratio (Reward/Variability Ratio)	General	Measures the added return per unit of risk. Mathematically, it is the excess return of a portfolio divided by the standard deviation of the portfolio returns.
Short Fixed Income Manager	Fixed Income	Usually "cash" managers, the portfolio duration should be 0-40% of the Lehman Aggregate Bond Index.
Specific - Return Decomposition	Fixed Income	Represents the active return of the portfolio that cannot be explained by sector, rating, maturity, time or term. This return is specific to the bond itself.
Specific - Risk Decomposition	Fixed Income	Represents the active risk of the portfolio that cannot be explained by sector, rating, or term. This risk is specific to the bond itself.

## SAN MATEO COUNTY EMPLOYEES' RET ASSOC

### Performance Report Glossary

TERM	CATEGORY	DEFINITION
S&P 500 (Standard & Poor's 500 Index)	Index	A composite index of 400 industrial, 40 financial, 40 utility and 20 transportation common stocks. The index is capitalization-weighted, so larger companies have a greater impact on the index.
Standard Deviation (Risk) Ranking	General	The percentile ranking of the risk inherent in the funds returns (standard deviation of the returns). For example, if the fund's rank is 5 then 5% of the funds in the universe have higher standard deviations (less risk) than the fund and 95% have lower.
Standard Deviation of Return (Risk)	General	Measures the range within which an actual return may deviate from the expected rate of return over a defined time period, or the amount of risk that you incur to achieve the expected return.
Term - Return Decomposition	Fixed Income	Represents the active return due to the term structure of fixed income instruments. It looks at the active return gained due to the cash flow structure of the portfolio and any interest rate movements.
Term - Risk Decomposition	Fixed Income	Represents the risk inherent in the portfolio due to the term structure of the underlying fixed income instruments. It looks at the active risk exposure due to the cash flow structure of the portfolio and any interest rate movements.
Time-Return Decomposition	Fixed Income	Represents the active return due to cash flows at different points on the term structure of a fixed income instrument.
Total Currency	International	The portion of the international portfolio performance attribution due to the total currency effect (implicit and explicit) of the portfolio.
Total Performance Attribution	International	The difference between the portfolio total return and the benchmark total return. It is the sum of attribution due to country selection, implicit currency, explicit currency, security selection and other.
Total Fund	General	A plan sponsor's composite portfolio. A plan sponsor may be defined as a corporate plan, public fund, trust, endowment, foundation, 401(k), Taft-Hartley, health & welfare, etc.
Total Fund Universe	Total Fund	This universe is an aggregation of institutional custodial data submitted by the ICC, selected regional banks, and the ICC consulting firms. The total fund universe contains an estimated 1,550 accounts. Specialty total fund universes are subset universes containing a plan sponsor type and/or size.
Total Rate of Return	General	Incorporates both realized and unrealized capital gains and losses, as well as total earnings from interest and dividends on a fund or plan.
Value Equity Managers	Equity	Value managers buy companies that are under-priced relative to the equity market in general. These stocks usually sell at low price/book and low price/earning ratios.
Yield to Maturity	Fixed Income	The rate of return that would be earned if all coupon payments on a bond held to maturity could be reinvested at the same rate as the coupon of the bond.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.3

To: Board of Retirement

*Lilibeth Dames*

From: Lilibeth Dames, Investment Analyst

Subject: Presentation on Trade Cost Analysis, Commission Recapture, and Directed Brokerage

STAFF RECOMMENDATION: Staff recommends that the board participate in Zeno Consulting Group's educational presentation on Transaction Costs and Directed Brokerage. At the conclusion of the presentation, staff recommends that the board direct staff to come back to the board with an agreement between the Board of Retirement and Zeno Consulting Group to conduct a one-time trade cost analysis.

COMMENT: **Vinod Pakianathan**, Senior Consultant, and **Brian Greene**, Senior Vice President, of Zeno Consulting Group, will present an educational overview of trading costs and directed brokerage. They will discuss how to measure trading costs and the value of trade cost analysis for institutional investors.

A potential step resulting from trade cost analysis is an implementation of a directed brokerage program. Zeno will also present on directed brokerage and its fiduciary implications. Their final discussion will provide insight on how to ensure prudent directed brokerage and how to effectively monitor the program.



## **San Mateo County Employee's Retirement Association**

**Transaction Costs and Directed Brokerage**  
**August 23<sup>rd</sup>, 2011**





## Agenda

Tab A: Trading Costs Primer

Tab B: The Value of Trade Cost Analysis

Tab C: Directed Brokerage Primer

Tab D: Directed Brokerage: Fiduciary Implications

Tab E: What's At Stake







## Trading Costs

*What are they, how do we calculate and benchmark them?*

## ZENO's Philosophy on Meaningful TCA:

As prudent fiduciaries, more than ever before, plan sponsors should understand their managers' trading process, what they pay to execute trades, whether they obtained best execution, and it's impact on performance.

*The easiest route to the top quartile of performance  
is to be in the bottom quartile of expenses.*

Jack Bogle

ZENO Consulting Group, Inc. is a consulting firm, **not a broker**, that specializes in helping large institutional clients proactively monitor, and manage, their asset manager's trading processes.

*All analytical thought is a function of math, logic, and ethics -  
but math and logic must be subordinate to ethics.*

Zeno of Citium c.335-c.263 B.C. (paraphrased)

## Transaction Costs: A common sense definition

*The loss of asset value associated with Buying and Selling securities in your portfolio.*

### How to Measure Transaction Costs

Value before the transaction	\$X
Value after the transaction	– \$Y
<hr/>	
Cost to complete the trade.	\$X - \$Y

*Nothing tricky here. Simple arithmetic.*



## Where Do Trading Costs Affect a Fund? *(Potential Risk and Drag on Performance)*

- Special Programs Including Directed Brokerage
- External Manager's Periodic Trading Activity
- Manager Searches: Hiring and Firing Managers
- Manager Transitions
- Foreign Exchange: Trade Settlement and Currency Repatriation
- Other Asset Classes



## Interesting concepts, but how much money are we really talking about?

- **The answer is not as simple as it may seem.**
- **Different parties define trading costs differently:**
  - Portfolio Managers view each investment idea as a unique event (which may entail multiple orders to give their Traders over several days).
  - Traders view each **order** they receive from a Portfolio Manager as a unique event (which may entail multiple trades to give to brokers over several days).
  - Brokers view each **trade** they receive from a Trader as a unique event.
- **Each party's view is appropriate - given their responsibilities.**

## For Plan Sponsors, trade cost analysis should reflect the needs of the Plan Sponsor

*If there's a reason for plan sponsors to monitor trading costs (other than as a legal CYA), its to understand the impact those costs have on the returns of their Funds.*

### Common Sense Definition:

*The loss of asset value, incurred by your Fund, as a result of a manager building or unwinding a position in their portfolio.*

- Whether it takes 1, 3, or 10 days for a manager to sell a certain number of shares, if the shares were selling for \$X when trading began, and the manager ultimately sold all the shares at an average price of \$Y per share, then the Fund paid \$X-Y. This is called "implementation shortfall."
- Defining costs as Implementation Shortfall on the total decision size, is consistent with how we calculate overall Fund performance, and helps Fund fiduciaries better understand the true impact trading has on their Fund.

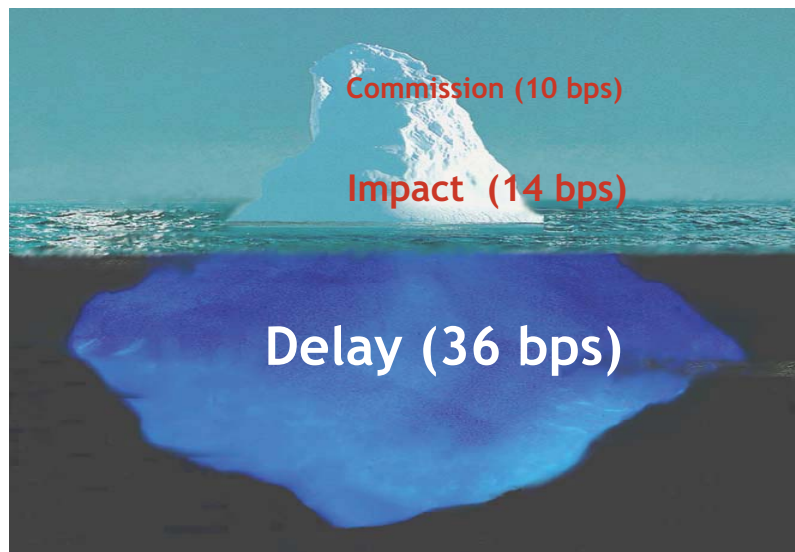


## Trading Costs are often the Fund's largest expense!

- When measured correctly (i.e. as the loss of asset value incurred by the Fund as a result of a manager building or unwinding a position), one-way trading costs average around 60 bp.
- Keep in mind, because most managers are not allowed to hold large cash positions, if they want to buy a security, they typically have to sell something first.
- Round-trip trading costs therefore average about 120 bp.

**For Plan Sponsors, trading costs average about -60bp each way (-120bp round trip)!**

*Do you know what you really paid to buy and sell your securities?*

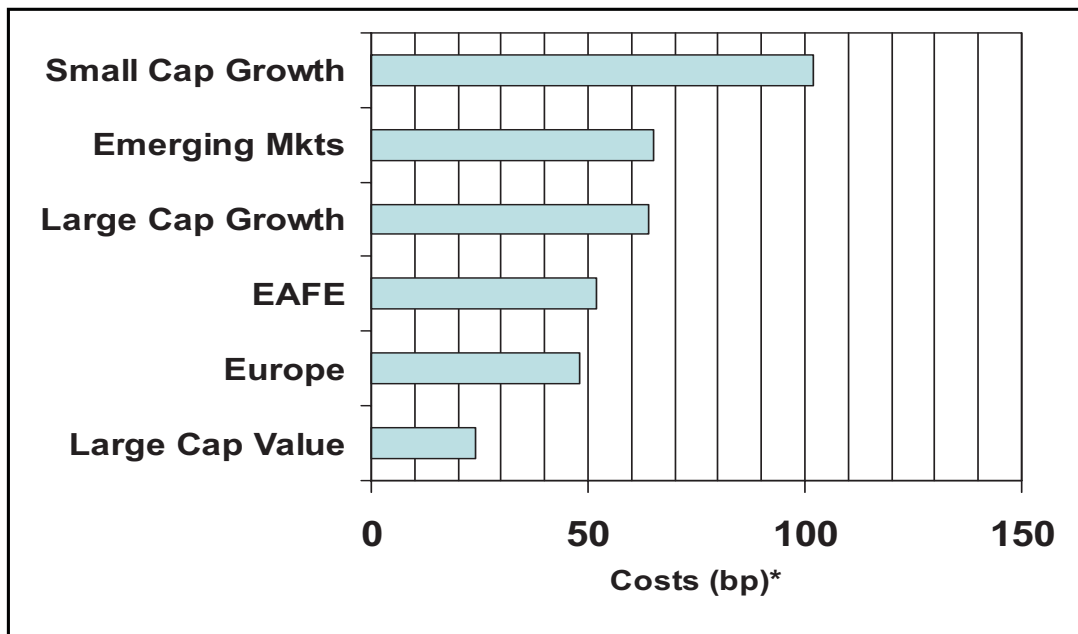


Zeno Trade Cost Universe for four quarters ending 4Q09





## International Icebergs: A Universal Phenomenon



\* Zeno 1Q11 Universe median costs

## Let's put this into dollars and cents.

Fund Value	\$1,000,000,000
60% Commitment to Active Equities	\$600,000,000
80% Equity turnover	\$480,000,000
<i>(Double for both buying and selling)</i>	\$960,000,000
One-way -60 bp Transaction cost	-\$5,760,000
<b>Impact on return of Active Equities . . . .</b>	<b>-0.96%</b>

***Transaction costs are often the largest expense of the fund!***

## Putting Costs Into Context

- Once you calculate the loss of asset value, you now know what the manager paid in trading costs.
- But that's all you know.
- You don't know whether you should be upset, satisfied, or happy with the trading costs paid by your manager.
- To answer that question, you need a benchmark to juxtapose again those costs, and help put them into context...

## **This Requires a Meaningful Benchmark** *(i.e. Were the costs you paid reasonable?)*

Zeno employs a three-tier process:

### **Tier 1**

We utilize the industry standard Implementation Shortfall model to calculate what a fund's absolute costs are.

### **Tier 2**

We then compare those absolute costs to a meaningful Implementation Shortfall benchmark, that takes into account the decision/trades' difficulty. (e.g. trading 10,000 shares of a stock is easier than trading 100,000 shares).

### **Tier 3**

We then rank each Fund and Manager against their Peer Group Universes for: total costs, execution efficiency, brokerage efficiency, and commissions.



## Additional Benchmarks

*Viewing each trade in the context of Multiple benchmarks puts trading results and activity in the proper context, thereby meeting the Fund's needs.*

### Benchmarks in Reports:

- ZENO compiles and maintains proprietary benchmarks on commissions, market impact and total costs.
- ZENO includes several market impact benchmarks (e.g. T-1, VWAP, T+1) that help provide 'color' into market conditions at the time your trades are executed.

### Benchmarks Accessible via in Online Tools:

- Customizable benchmarks numbering over 100+ which clients can use to provide additional context to trading.
- ZENO drill-down facility provides infinite number of views and screens to cut and slice your trade data.



## Why Transaction Cost Analysis Is Important

Some observations; as “food for thought” ...

- Traditional investment products becoming a commodity.
- Loss of investor confidence in ability to understand/manage risks associated with more exotic vehicles.
- Historically, the processes by which investment ideas are implemented, has often been neglected.
- Preservation of asset value - through heretofore ignored oversight of manager trading, can help maximize Fund returns!

***The easiest route to the top quartile of performance is to  
be in the bottom quartile of expense.***

**Jack Bogle**



## Value of Trade Cost Analysis by Plan Sponsors



- Managers typically between 1 - 1½ % in round-trip trading costs (from fund assets) up front
- If a plan sponsor has \$1 billion in equities with outside managers, this can translate into over \$12 million spent annually\* - *before any returns*.
- This is often the single largest expense of the fund (greater even than asset management fees!)
- Responsibility for monitoring execution quality resides ultimately with the fund.
- Meaningful oversight helps fully understand manager performance (along with stock specific returns, sector and market influence etc.), *and* can help control excessive costs, thereby improving fund returns.

\* Assuming turnover rates of 80%





## Fact: Fiduciaries Have Legal Obligations (regardless of adverse interests)

*ERISA Technical Release 86-1 requires plan sponsors “to monitor the investment manager to assure that the manager has secured best execution...and to assure that the commissions paid on such transactions are reasonable....”*

DOL Form 5500 - Schedule C, was amended in October 2007. Beginning in 2009, ERISA plans must provide additional information on brokerage commissions/fees, as well as asset manager soft-dollar purchases.

In UK/Europe, FSA, HM Treasury, MiFID, IMA/NAPF require oversight of trade costs and that best execution to be communicated to/with pension schemes





**Myth:**

**Plan Sponsors don't need to worry about trade costs, because managers will always trade as efficiently as possible (in order to maximize performance).**

## Inconvenient Truth:

*Some managers' trade costs are dramatically worse than their peers. Why is that?*

Total Trading Costs (one way) *				
	Small Cap Growth	Small Cap Value	Large Cap Growth	Large Cap Value
25 <sup>th</sup> Percentile (Least Expensive)	-92 bp	+1 bp	-28 bp	+14 bp
50 <sup>th</sup> Percentile	-186 bp	-79 bp	-108 bp	-38 bp
75 <sup>th</sup> Percentile (Most Expensive)	-299 bp	-163 bp	-186 bp	-106 bp
Difference Between 25 <sup>th</sup> and 75 <sup>th</sup> Total Trading Costs	207 bp	164 bp	158 bp	120 bp

\* Zeno Consulting Group 1 Year Total Cost Ranking Universes as of 9/30/09

## Understanding the true impact of costs

Which **Large Cap Growth** manager should be most concerned about their Trading Costs?\*

	Manager 1	Manager 2	Manager 3	Manager 4	S&P500 Index Manager
Commissions (bp)	12	4	8	11	1
Total Costs (bp)	97	46	90	120	16
Costs x Turnover (bp)	65	35	134	46	4
<u>Costs x Turnover</u> Gross Returns	4%	18%	31%	4%	½%

### Observations

Manager 3 has problems with costs, turnover, and investment ideas.

Manager 2 has low costs, but with a disproportionate impact on performance due to weaker ideas.

Manager 1 has high costs but with less impact on performance due to very strong ideas.

Manager 4 has highest costs with less impact on performance due to low turnover rate and strong ideas.

***All of the active managers have a huge cost hurdle relative to the passive index manager!***

\* Based on annual performance ending 2Q10.



## Fact: Trading interests aren't always aligned

Why? Don't all managers want to minimize costs (so as to maximize returns)?

- Asset Managers have multiple clients, which can create competing pressures (e.g. directed brokerage, soft dollars, wrap fees etc.)
- Asset Managers may compensate trading personnel in ways that incentivize practices adverse to a particular client.
- Asset Managers are in the business of “gathering assets,” as well as picking good stocks - which may lead to AUM issues.
- Some managers devote more resources to trading than others.

**For all these reasons, opportunities exist for concerned Asset Owners to become the “squeaky wheel”...**

## Best Practices in Transaction Cost Oversight

### Meaningful oversight programs enable clients to ask the “right” questions, and become “the squeaky wheel.”

- Satisfies legal obligation, as fiduciaries, to monitor your managers (and their brokers) for Best Execution, and ensure interests are aligned.
- Provides critical transparency, substantive due diligence, and insight into what your managers are doing with Fund assets (*“What you don’t know, can hurt you!”*)
- Investment Managers who know they are being watched, tend to pay more attention themselves (“Hawthorn Effect”).
- Helps control excessive trade costs (often the single largest expense of the fund!)
- Funds should assure themselves that their account is being treated at least as favorably as every other account.
- Funds should assure themselves that Commission Recapture and Portfolio Transitions are working as intended.



## What is Directed Brokerage?

## AIMR Definition

### Directed Brokerage

***An arrangement whereby a Client directs that trades for its account be executed through a specific Broker in exchange for which the Client receives a benefit in addition to execution services. Client-Directed Brokerage Arrangements include rebates, commission banking, and commission recapture programs through which the Broker provides the Client with cash or services or pays certain obligations of the Client. A Client may also direct the use of limited lists of brokers—not for the purpose of reducing Brokerage costs but to effect various other goals (e.g., increased diversity by using minority-owned brokers or geographical concentration).***



## Directed Brokerage Defined

An arrangement whereby a client directs that trades for its account be executed through a specific Broker in exchange for which the client may receive benefits in addition to execution services.

Client-Directed Brokerage Arrangements include rebates, commission banking, and commission recapture programs through which the Broker provides the Client with cash or services or pays certain obligations of the Client.

A Client may also direct the use of limited lists of brokers—not for the purpose of reducing Brokerage costs but to effect various other goals (e.g., increased diversity by using minority-owned brokers or geographical concentration).



## Commissions are a Fund Asset

Because Brokerage is an asset of the Client, not the Investment Manager, the practice of Client-Directed Brokerage does not violate any investment manager fiduciary duty per se.

However...

*Investment Managers must not use Brokerage from a client account to pay for a product or service purchased under a different client's Directed Brokerage Arrangement.*

Furthermore, Directed Brokerage Arrangements do not permit managers to neglect their responsibilities to negotiate commissions and seek Best Execution.

## Directed Brokerage is not Soft Dollars/CSAs

**Soft Dollar and Commission Sharing Arrangements** - refers to an arrangement under which an investment manager obtains products or services other than execution of securities transactions from or through a Broker in exchange for the direction by the investment manager of client brokerage transactions to the Broker.





# Fiduciary Implications



## Benefits of Directed Brokerage and the Pitfalls That May Compromise “Best Execution”

### Benefits

- Commission Rebates
- Services
- Increased Control
- Perceived Social Gain

### Pitfalls

- Unanticipated costs
- Loss of performance
- Increased fiduciary responsibility



**Question:**

***Can Directed Brokerage be done  
consistent with “Best Execution?”***

**Answer:**

**Yes!**



**Question:**

***Is Directed Brokerage done  
consistent with “Best Execution?”***

**Answer:**

**Sometimes ....**



## Previous Zeno Studies Have Shown:

- Directed trades cost 10.3 ¢/sh more than Non-Directed trades (in excess Delay costs), while saving 3.0 ¢/sh in recaptured commissions.
- Directed broker trades tend to lag their cost benchmarks by more than non-directed broker trades.
- Higher directed trade costs were primarily with growth/momentum style managers (minimal differences existed with large cap value style managers).
- As a result of sequencing, directed trades lose out on stock price appreciation.



## Where do Directed Brokerage Programs Fall Down?

- Directed Brokers Fail to Provide “Best Execution”
- Managers alter otherwise efficient trade strategies to accommodate direction requests.



## Market Conditions Dictate the Success of Directed Brokerage Programs

### Where Direction Works

- Reasonable order sizes (25-50% of the daily trade volume).
- Large Capitalization Companies
- Exchange-Listed Companies
- During Quiet Markets (not a lot of adverse price momentum)

### Where Direction Hurts

- Large Order Sizes (over several days volume)
- Small Capitalization Companies
- Adverse Price Momentum
- Growth managers whose trade style is to “add-on.”

## Rules of Thumb to Ensure Prudent Directed Brokerage Programs

- Limit direction targets to a reasonable portion of each manager's commissions and/or trade activity (generally 10-30% or no target at all).
- Devise manager-specific targets based on investment style (i.e. Large Cap Value styles can handle direction better than Small Cap Growth).
- Choose directed brokers carefully, and in consultation with managers.
- Encourage the use of "step outs" as opposed to "sequencing."
- Review manager soft-dollar purchases to ascertain value of services paid with commissions (which are otherwise available for direction).
- Monitor managers to ensure compliance with Fund policies and verify that the Fund is receiving "Best Execution."
- Tweak the program (if necessary) to maximize value to Fund

## Zeno's Oversight Program: A Three Step Process

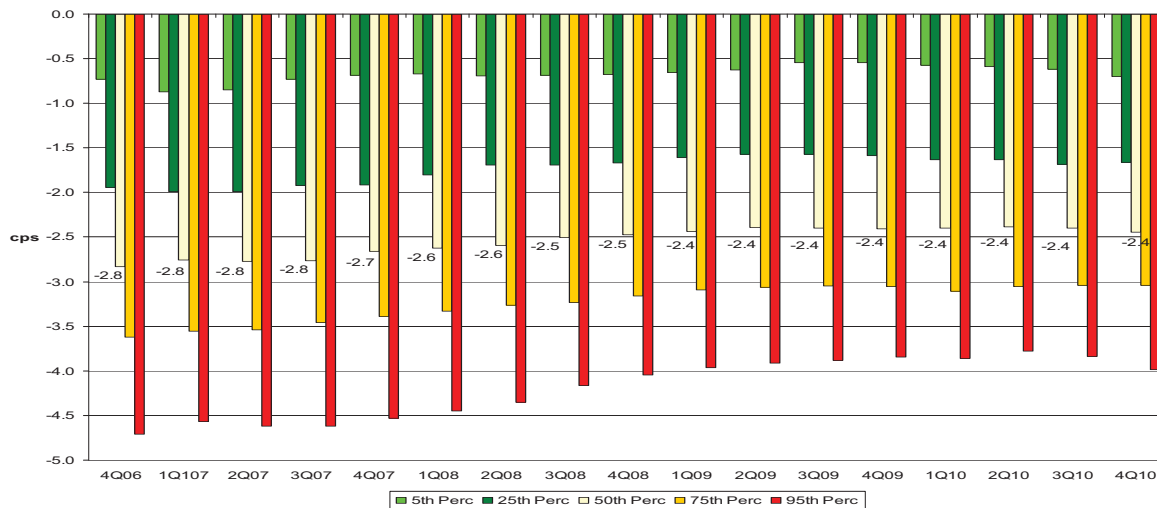
*Satisfy fiduciary obligations to monitor, achieve deeper understanding of (and comfort with) manager trade processes, better manage and control excessive costs, and custom due-diligence/research on an as needed basis.*

- **Step One: Quantitative review of report analytics**  
*Top-down approach maximizes staff time and resources. Basic metrics reviewed:*
  - Review Aggregate Fund costs, benchmark, ranking, commissions, brokers, traded returns
  - Identify individual managers driving: costs, commission rates, and broker usage
  - Review individual managers' costs, benchmark, ranking, commissions, brokers, traded returns
  - Review any other items of specific interest to your Fund
  
- **Step Two: Consultative communication and follow-up with managers**  
*Engage managers in focused meaningful discussions*  
*Intended to ensure manager's awareness, and gain comfort in their process*
  - In general, share manager-specific pages (in the spirit of open communication)
  - Where appropriate, identify "Significant Issues" that warrant follow-up
  - Schedule calls with relevant managers to discuss the "Significant Issues"
  
- **Step Three: Client-specific due-diligence and/or research projects**
  - Web-enabled, secure, drill-down facility enables detailed trade and market analysis
  - *Client-Support Center* provides ongoing technical and basic analytical support
  - Senior Consultant available for in-depth research projects





## Client Commission Trends in Domestic Markets (Commissions in cents per share)



- Median US commission rates dropped a quarter of a penny over two plus years. But have remained stable since.
- The spread from the 95<sup>th</sup> to the 5<sup>th</sup> percentile narrowed marginally through the early part of 2008, but have since stabilized at 2.4 cps.
- Market forces, combined with falling asset values, have put pressure on commission rates. New low-touch execution venues are more prevalent today. High touch venues command higher rates.

## Designing an Effective Program: *Manager Summary*

Manager Name	Manager Style	Average Commissions From Zeno Universe (cps)**	Average Turnover Rates**	Average Annual Commissions Dollars*
T Rowe Price	Large Cap	1.75	40%	\$71,000
Barrow Hanley	Large Value	2.70	17%	\$73,000
Blackrock	Large Growth	3.00	110%	\$527,370
Boston Company	Small Value	2.50	75%	\$87,750
Chartwell	Small Growth	3.45	130%	\$250,900
Jennison	Small Cap	3.90	60%	\$268,800

\*SAMCERA Market Value In May, 2011 \* Turnover / Avg Stock Price \* Commission Rate

\*\* Zeno Universe Figures: Averages over calendar year 2010 for similar Strategies run by same Manager



## Designing an Effective Program: *Manager Summary*

Manager Name	Manager Style	Average Commissions From Zeno Universe (bp)**	Average Turnover Rates**	Average Annual Commissions Dollars*
Artio Global	Global Ex US	12 bp	156%	\$770,500
Mondrian Investments	Global Ex US Value	7.6 bp	25%	\$80,650

\*SAMCERA Market Value In May, 2011 \* Turnover \* Commission Rate

\*\* Zeno Universe Figures: Averages over calendar year 2010 for Similar Strategies run by same Manager

## Where Do Trading Costs Affect a Fund? *(Potential Risk and Drag on Performance)*

- Special Programs Including Directed Brokerage
- External Manager's Periodic Trading Activity
- Manager Searches: Hiring and Firing Managers
- Manager Transitions
- Foreign Exchange: Trade Settlement and Currency Repatriation
- Other Asset Classes



## Grand Conclusion



More than ever before, as prudent fiduciaries, Plan Sponsors should understand their managers' trading process, what they pay to execute trades, whether they obtain best execution, and the impact on performance.

- The CFA Institute defines Best Execution as: ***The Trading Process Most Likely to maximize the Value of Client Portfolios***
- In today's environment, cost efficiency increasingly defines winners and losers.
- Meaningful trade cost analysis may offer improved risk-free performance!

***All analytical thought is a function of math, logic, and ethics –  
but math and logic must be subordinate to ethics.***

Zeno of Citium c.335-c.263 B.C. (paraphrased)



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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.4

To: Board of Retirement



From: Lilibeth Dames, Investment Analyst

SUBJECT: Report on *SamCERA's* Security Lending Program for the Period Ended June 30, 2011

STAFF RECOMMENDATION: Staff recommends that the board review and accept the attached security lending report for the fiscal year ending June 30, 2011. This is the first of what will become a quarterly report on security lending.

BACKGROUND: At the April 25, 2006, Investment Committee meeting, trustees received an educational overview of security lending and estimates of security lending revenue that may be available for *SamCERA*. The presentation and discussions were well received by the committee and the board.

Several operational questions were resolved, including the selection of the cash investment vehicle. The board reviewed State Street's Navigator Security Lending Prime Portfolio, Quality D Investment Fund, and Quality A Investment Fund. State Street informed the committee that the vast majority of their clients use the Quality D Investment Fund. The board opined that it preferred to renew security lending using the shorter maturity, "more conservative" Navigator Security Lending Prime Portfolio. State Street and *SamCERA* agreed to a security lending split of 70/30, subject to a gross income threshold. The board instructed staff to move forward and initiate negotiations for a security lending agreement between *SamCERA* and State Street Bank, which was approved at the September 2006, board meeting. State Street commenced *SamCERA's* security lending program on July 1, 2007.

DISCUSSION: Unlike many other security lending collateral pools, the Navigator Security Lending Prime Portfolio pool did not suffer appreciable declines in NAV during the 2008 global financial crisis and did not drop below \$1.00.

*SamCERA's* acceptable collateral can be in the form of (1) cash, (2) securities issued or guaranteed by the US government or its agencies, and (3) sovereign debt. The security lending program requires 102% domestic and 105% international collateralization. Collateral is marked to market on a daily basis.

In the four years since inception, *SamCERA's* security lending program has earned \$4,523,376 for the association. In the fiscal year ended June 30, 2011, the program earned \$530,310 for *SamCERA*.

# SamCERA Securities Lending Report

For the fiscal year ending June 30, 2011

## Summary Earnings

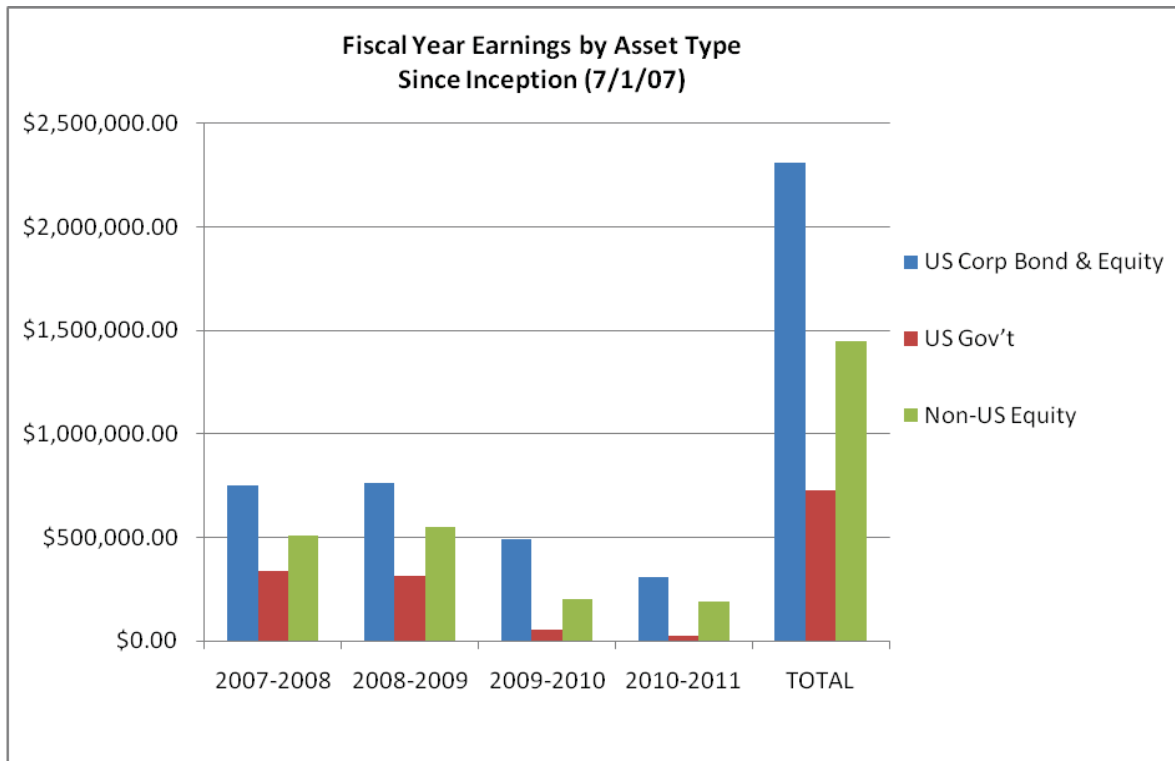
SamCERA's securities lending program earned \$530,310 for fiscal year ending June 30, 2011. The program has earned \$4.5 million since its inception on July 1, 2007. During its peak in fiscal year 2008-2009, the average monthly earning was \$135,940. Currently, the program is yielding an average of \$44,193 in securities lending income. This is a 67% relative decrease in average monthly earnings.

### Fiscal Year 2010-2011 Earnings for SamCERA

Period Ending	US Corp Bond & Equity	US Gov't	Non-US Equity	Reinvested Earnings	Other Earnings	Monthly Earnings
July 2010	\$20,243	\$1,586	\$2,296	\$18	\$3,273	\$27,416
August 2010	\$24,726	\$1,309	\$6,803	\$11	\$ -	\$32,849
September 2010	\$30,045	\$2,303	\$20,049	\$10	\$ -	\$52,407
October 2010	\$30,786	\$2,548	\$2,025	\$9	\$ 495	\$35,863
November 2010	\$28,243	\$1,906	\$23,929	\$7	\$ (56)	\$54,030
December 2010	\$28,606	\$5,071	\$7,078	\$8	\$ 921	\$41,684
January 2011	\$22,758	\$1,798	\$1,821	\$7	\$ -	\$26,384
February 2011	\$18,416	\$1,402	\$1,772	\$4	\$ -	\$21,594
March 2011	\$20,156	\$1,239	\$2,493	\$5	\$ -	\$23,893
April 2011	\$25,297	\$1,505	\$5,544	\$4	\$2,795	\$35,145
May 2011	\$28,695	\$1,762	\$73,591	\$4	\$14	\$104,066
June 2011	\$29,233	\$1,479	\$44,268	\$ -	\$ -	\$74,980
<b>TOTAL</b>	<b>\$307,204</b>	<b>\$23,908</b>	<b>\$191,669</b>	<b>\$87</b>	<b>\$7,442</b>	<b>\$530,311</b>

### Since Inception Earnings for SamCERA (July 1, 2007)

Fiscal Year	Annual Earnings	Average Monthly Earnings
2007-2008	\$1,618,854	\$134,904
2008-2009	\$1,631,275	\$135,940
2009-2010	\$742,936	\$61,911
2010-2011	\$530,311	\$44,193
<b>TOTAL</b>	<b>\$ 4,523,376</b>	



Securities lending loan volumes are significantly lower than the peak figures seen previously. Estimates show that industry-wide loan volumes peaked as high as \$5 trillion in early-2008; today, they are down to about \$2.5 trillion. Much of that run-off occurred in the fourth quarter of 2008 and early part of 2009, in line with *SamCERA*'s peak earnings. Since then, volumes have declined showing that borrowers looked to rapidly deleverage themselves. Demand has also been subdued to a decreased amount of market participants due to defaults and mergers, curtailed activity among private equity and hedge funds, and short selling restrictions in several countries. There has also been a measureable shift from volume lending to value lending.

Today's environment for borrower demand and value generation may feel subdued, but that is coming off of a period when earnings were otherwise boosted by a worldwide economy featuring heavy doses of leverage. Demand from the borrower community has remained steady, giving investors an opportunity to continue profitably lending their securities. As the wave of global de-leveraging and de-risking has taken place, today's securities lending results are more moderate — yet more in line with historic norms. Institutional lenders that had previously suspended their program in light of the global financial crisis have re-instated their securities lending program. Most lenders, however, are not making changes to their program in terms of increasing securities lending risk in order to achieve the income they had previously attained. Several lenders are showing more interest in a "back to basics" approach, reinvesting cash collateral in more standard, shorter duration guidelines, similar to 2a-7 funds. It is worthy to note that *SamCERA*'s collateral pool, State Street's Navigator Prime Portfolio, has always been a registered 2(a)-7 money market fund, and is the most conservative of State Street's collateral reinvestment pools. The pool did not suffer appreciable declines in NAV during the global financial crisis and did not drop below \$1.00.

## ***SamCERA's Collateral Reinvestment Pool:*** **State Street Navigator Securities Lending Prime Portfolio**

### **Fund Objectives:**

The State Street Navigator Securities Lending Prime Portfolio is a registered money market fund that operates in compliance with the requirements of Rule 2a-7 under the Investment Company Act of 1940. The Prime Portfolio seeks to (i) maximize current income to the extent consistent with the preservation of capital and liquidity and (ii) maintain a stable \$1.00 per share net asset value by investing in dollar-denominated securities that qualify as “eligible securities” within the meaning of Rule 2a-7 of the 1940 Act.

### **Fund Guidelines:**

The Prime Portfolio will invest in a variety of high quality U.S. dollar-denominated instruments, including:

- ❖ U.S. Government Securities
- ❖ instruments of U.S. and foreign banks, including certificates of deposit, bankers' acceptances and time deposits (including Eurodollar certificates of deposit)
- ❖ corporate debt obligations, including commercial paper of U.S. and foreign companies
- ❖ variable amount master demand notes
- ❖ debt obligations of foreign instruments and foreign government subdivisions and their agencies and instrumentalities and supranational organizations
- ❖ repurchase agreements
- ❖ mortgage-backed securities
- ❖ asset-backed securities; and
- ❖ floating-rate notes, medium term notes and master term notes

All investments will qualify at the time of acquisition as “eligible securities” within the meaning of Rule 2a-7 under the 1940 Act.

Among its investment guidelines, the Prime Portfolio may invest more than 25% of its assets in the banking industry. The Prime Portfolio may invest up to 50% of its assets in U.S. dollar-denominated instruments issued by foreign branches of foreign banks. The Prime Portfolio may invest up to 25% of its total assets in zero coupon securities called STRIPS, which are separately traded interest and principal components of U.S. Treasury securities.



*As of 6/30/2011*

**Distribution by Sector:**

CD	54.78%
Repo	26.44
CP	6.98
Bank Note	4.83
TD	4.26
ABCP	2.70

**Liquidity Schedule**

Next Business Day	32.91%
1 Week Liquidity	34.54
2-30 Days Liquidity	9.16
31-60 Days Liquidity	21.34
61-90 Days Liquidity	13.26
90 Day Liquidity	76.67
91-120 Days Liquidity	5.12
121-150 Days Liquidity	3.005
151- 180 Days Liquidity	1.62
181-270 Days Liquidity	4.76
271-360 Days Liquidity	7.96
12-15 Month Liquidity	0.85
>15 Month Liquidity	0.00

**Fund Characteristics:**

1-Day Yield (360 Basis)	0.22%
Shares Outstanding (M)	24,633
Floating Rate %	24.27
% Foreign Issuers	22.66
WAM	31.00
Avg Life – Final Maturity	71.00
Unit Price	1.0001

**Distribution by Index**

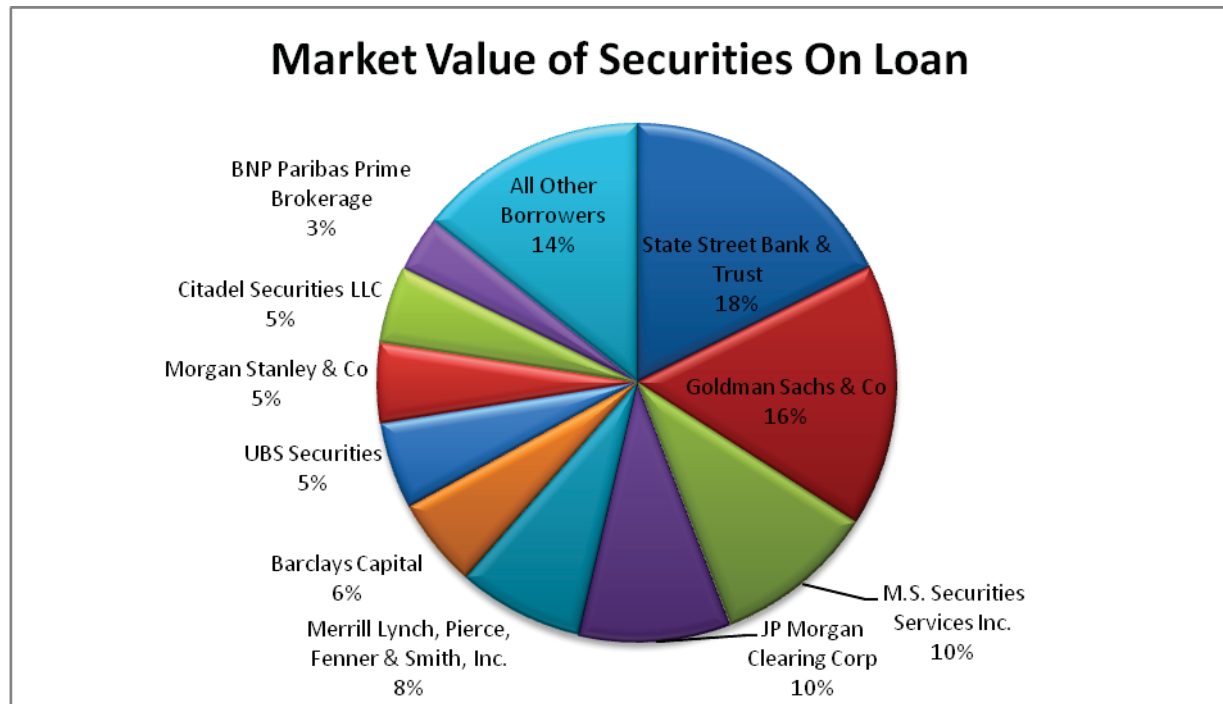
FED FUNDS	0.83%
1MO LIBOR	18.37
3 MOS LIBOR	5.08
PRIME	0.00

## SamCERA Borrower Summary

SamCERA’s lending program has a diversified universe of borrowers in order to eliminate concentration risk. Attached you will find an approved borrower’s list as of June 2011.

### Borrower Exposure: Top 10 Borrowers

June 30, 2011



### Market Values of Total Securities On Loan

June 30, 2011

Asset	Cash Collateral	Non-Cash Collateral	TOTAL
US Corporate Bond	\$10,705,810	\$96,536	\$10,802,346
US Government	\$7,276,322	\$ -	\$7,276,322
US Equity	\$160,690,457	\$4,641,491	\$165,331,948
Non-US Equity	\$11,875,957	\$ -	\$11,875,957
<b>TOTAL</b>	<b>\$190,548,546</b>	<b>\$4,738,027</b>	<b>\$195,286,573</b>

## Collateral Summary

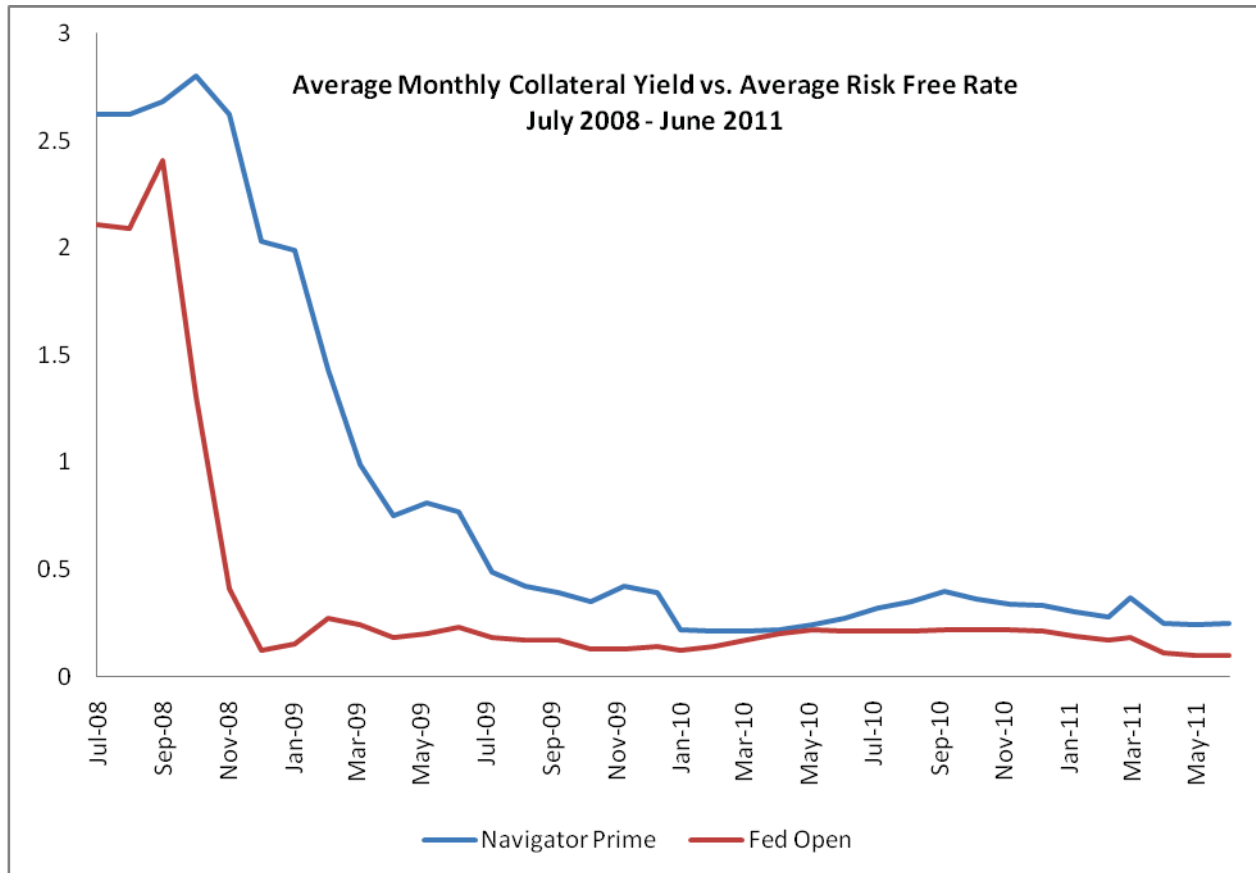
*SamCERA*'s acceptable collateral can be in the form of (1) cash, (2) securities issued or guaranteed by the US government or its agencies, and (3) sovereign debt. The program requires 102% domestic and 105% international collateralization. Collateral is marked to market on a daily basis.

## Market Values of Total Collateral Held

June 30, 2011

Asset	Cash Collateral	Non-Cash Collateral	TOTAL
US Corporate Bond & Equity	\$174,278,082	\$5,336,490	\$179,614,572
US Government	\$7,445,899	\$ -	\$7,445,899
Non-US Equity	\$12,378,410	\$ -	\$12,378,410
<b>TOTAL</b>	<b>\$194,102,391</b>	<b>\$5,336,490</b>	<b>\$199,438,881</b>

Record-low interest rates have eroded earnings from securities lending.



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.5

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Review, Revision & Reaffirmation of Investment Committee Charter

STAFF RECOMMENDATION: Staff recommends that the Investment Committee review its charter and make revisions as necessary. Should the committee reaffirm its commitment to RESOLUTION 99-00-09 (as amended), it should recommend that the board do the same.

STAFF COMMENTS: The Board of Retirement created the Investment Committee with the adoption of Resolution 99-00-09 on January 25, 2000. The board reviewed the resolution on April 24, 2001. By consensus, it directed staff to provide amended language regarding the committee's authority to advise the board on its ongoing evaluation of the Investment Consultant Structure & Performance and the ongoing evaluation of the Actuary's Economic & Asset Considerations. Sections 10.0 & 11.0 were amended into the charter on May 22, 2001. The charter was last amended on October 25, 2004. Two whereas clauses in the Preamble were eliminated. They became unnecessary do to amendments to the board's regulations.

The Investment Committee Charter is attached to this agenda item.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Investment Committee Charter as Amended**  
RESOLUTION 99-00-09

*This Resolution, adopted by the Board of Retirement (Board)  
of the San Mateo County Employees' Retirement Association (SamCERA),  
sets forth the Charter for the Board's Investment Committee.*

**WHEREAS**, Article XVI, §17 of the Constitution of the State of California as amended in 1992 to read, in pertinent part, as follows:

*Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:*

*(a) The retirement board shall have the sole and exclusive fiduciary responsibility over the assets of the ... system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets ... are trust funds and shall be held for the exclusive purposes of providing benefits to participants ... and their beneficiaries and defraying reasonable expenses of administering the system.*

*(b) The members of the retirement board ... shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.*

*(c) The members of the retirement board ... shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*

*(d) The members of the retirement board...shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.*

*(e) The retirement board..., consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the system . ; &*

**WHEREAS**, California Government Code §31595 states, as follows:

*The Board has exclusive control of the investment of the employees' retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board...; &*

**WHEREAS**, The Board of Retirement, wishes to exercise these powers as follows:

**EXERCISE OF POWERS:** *The Board shall exercise its investment, management and administrative authority and responsibility through the approval of motions recorded in public meeting &*

**WHEREAS**, the Board has adopted SamCERA's Investment Plan and amendments thereto to direct the investments of the Retirement Fund and now wishes to establish an Investment Committee to guide the future evolution of SamCERA's Investment Plan. Therefore, be it

**RESOLVED** that the Board hereby establishes a standing Investment Committee to direct the Board in its ongoing evaluation of SamCERA's Investment Plan, including but not limited to

- 1.0 CONDUCT ASSET ALLOCATION STUDIES
  - 1.1 Determine the characteristics of the Plan's liabilities in regards to the nature of Fund's cash flows
  - 1.2 Evaluate plan funded status
  - 1.3 Evaluate active & retired member demographics

- 1.4 Model plan payments for 50-70 years into future
- 1.5 Project expected contribution rates & variability
- 2.0 DEVELOP ASSET MIX ALTERNATIVES TO MEET LIABILITY REQUIREMENTS
  - 2.1 Establish allowable asset classes
  - 2.2 Determine asset class benchmarks
  - 2.3 Develop risk, return & correlation projections
- 3.0 EVALUATE EFFICIENT FRONTIER ALTERNATIVES
  - 3.1 Define risk, return and correlation
  - 3.2 Evaluate mean variance optimization
  - 3.3 Determine low risk alternatives and high risk alternatives
  - 3.4 Scale portfolios between two extremes
  - 3.5 Evaluate optimized efficient frontier
  - 3.6 Integrate optimized efficient frontier with asset-liability relationships
- 4.0 ANALYZE BOARD RISK TOLERANCE
  - 4.1 Assess risk/reward trade-offs
  - 4.2 Assess contribution rate sensitivity & variability
  - 4.3 Assess ability to exceed actuarial interest rate
  - 4.4 Assess comfort level with characteristics of specific asset mixes
- 5.0 RECOMMEND PREFERRED ASSET MIX
  - 5.1 Evaluate differences from current target
  - 5.2 Evaluate Board's willingness to implement new target asset mix
  - 5.3 Evaluate appropriateness of variance from peer public fund norms
- 6.0 RECOMMEND AMENDMENTS TO *SAMCERA'S INVESTMENT PLAN*
  - 6.1 Adjust target asset mix
  - 6.2 Introduce new benchmarks
  - 6.3 Include required asset class/portfolio modifications
- 7.0 RECOMMEND REVISIONS TO MANAGER STRUCTURE
  - 7.1 Adjust manager/style line-up as necessary
  - 7.2 Introduce new managers/asset classes
  - 7.3 Terminate managers/asset classes as necessary
  - 7.4 Establish active & passive allocation targets as appropriate
- 8.0 IMPLEMENT CHANGES TO MANAGER STRUCTURE
  - 8.1 Recommend time-line & approach to revise structure
  - 8.2 Conduct manager evaluations
  - 8.3 Establish portfolio and asset allocation rebalancing procedures
- 9.0 EVALUATE MANAGER PERFORMANCE
  - 9.1 Monitor results of managers both gross and net of investment management fees
  - 9.2 Assess consistency of portfolio decision making
  - 9.3 Evaluate organizational, ownership, personnel & other firm developments
- 10.0 RECOMMEND AND EVALUATE INVESTMENT CONSULTANT STRUCTURE & PERFORMANCE
  - 10.1 Recommend for Board determination the retention and termination of Investment Consultant(s) as necessary
  - 10.2 Define and assign special projects as warranted
  - 10.3 Monitor performance of Investment Consultant
  - 10.4 Conduct evaluations of Investment Consultants
  - 10.5 Evaluate organizational, ownership, personnel and other firm developments
- 11.0 EVALUATE & RECOMMEND REVISIONS TO THE ECONOMIC ACTUARIAL ASSUMPTIONS AND OTHER ACTUARIAL ASSET CONSIDERATIONS
  - 11.1 Evaluate the data and methodology employed by the Actuary when setting the assumptions for inflation, investment return, salary increase and when establishing the actuarial value of assets and recommend revisions as appropriate.
  - 11.2 Assure that the Consultant integrates Actuarial input with all Asset Liability Modeling Studies
  - 11.3 Evaluate the consistency of actuarial-economic and investment policies and processes

12.0 INITIATE & EVALUATE SPECIAL INVESTMENT STUDIES

13.0 UNDERTAKE OTHER WORK ASSIGNED TO IT BY THE BOARD Be it further

**RESOLVED** that the Chair may appoint the members of the Investment Committee per Regulation 2.5.1. Be it further

**RESOLVED** that the Chief Executive Officer is hereby instructed to provide the Committee with access to all appropriate County and SamCERA resources and records, so long as such access is consistent with sound fiduciary practices. Be it further

**RESOLVED** that the Chief Executive Officer is hereby authorized to provide compensation of \$100 per meeting for not more than two meetings per month to the members of the Committee eligible for such compensation, per GC§31521. Be it further

**RESOLVED** that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations, which the Investment Committee may present from time to time pursuant to the provisions of this Resolution, per Regulation 2.3.

ADOPTED by unanimous vote, January 25, 2000

AMMENDED by unanimous vote, May 22, 2001

AMMENDED by unanimous vote, October 25, 2004

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2010

Agenda Item 6.6

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

SUBJECT: Approval of Semi-Finalists for a Developed Market Large Cap Growth Mandate.

STAFF RECOMMENDATION: Staff recommends that the board review and accept the recommendation from staff and Strategic Investment Solutions to invite three finalists to interview with the board at the September meeting for a developed market large cap growth mandate.

BACKGROUND: At the April 2011 board meeting, the trustees initiated a high level review of *SamCERA's* international equity structure. The impetus for the review was the board's concern regarding performance of *SamCERA's* international equity managers. The concern more specifically was with the international growth manager, Artio Global Investors. The board directed staff to initiate an international growth manager search.

During the search discussion, SIS noted that there would be a limited number of qualified international growth managers. The growth manager opportunity set would be increased if the board constrained the growth manager search to developed markets.

At the May 24th board meeting Strategic Investment Solutions provided a draft proposal for restructuring *SamCERA's* international equity portfolio. The board adopted a structure which keeps the total international portfolio at 18.0%. The asset class is restructured into four portfolios. Those portfolio mandates and the percentage of the total portfolio are: Large Cap Value 8.0%, Large Cap Developed Market Growth 6.0%, International Small Cap 2.0%, and Emerging Market 2.0%.

Following discussion of the developed market large cap growth mandate at the June 21, 2011, board meeting, the following initial screening criteria were approved:

**INITIAL SCREENING CRITERIA:**

1. Starting Universe: It is the union of the eVestment Alliance EAFE Large Cap Growth Equity, EAFE All Cap Growth Equity, ACWI ex-US Large Cap Growth Equity and ACWI ex-US All Cap Growth Equity universes. (We are looking for EAFE and EAFE plus type strategies, but in some cases these may be classified in an ACWI ex-US universe.)
2. Product must be open to new accounts.
3. Product must have minimum assets of \$600 million as of the end of Q1 2011.
4. Product must be suitable for EAFE or EAFE plus mandate and not have ACWI ex US as stated preferred benchmark or maximum emerging market exposure above 20%.
5. Product's track record must have a minimum length of five years.
6. Performance: Product must outperform EAFE Growth index in at least 50% of available time periods (3, 5, 7 and 10 years) and outperform the custom International Growth universe median in at least 50% of available time periods (3, 5, 7 and 10 years).



7. Products may be eliminated for a range of other reasons including, but not limited to, the following: recent loss of a portfolio manager, predominantly retail assets, extreme tracking error. Products that do not pass one or more of the screens may be included on the long list.

There were eleven products in the eVestment Alliance database of Developed Markets Large Cap Growth Managers that passed through these basic filters.

Those forms and products are:

- Artisan Partners Limited Partnership: Artisan Non-U.S. Growth
- Baillie Gifford & Co: EAFE Plus Focus
- Baring Asset Management Limited: Focused International Plus Equity
- Echo Point Investment Management: International Growth Equity
- Franklin Templeton Investments: Franklin Non-US Equity
- Grantham, Mayo, Van Otterloo & Co. LLC: GMO International Growth Strategy
- Gryphon International Investment Corporation: EAFE Equities
- Henderson Global Investors: International All Cap
- Johnston Asset Management Corp: International
- Schroders: International Alpha
- Walter Scott & Partners Limited: EAFE / International

Walter Scott declined to participate in the search because they prefer to grow their Global, rather than their EAFE, strategy.

***SamCERA: Developed Market Large Cap Growth Manager Search***

**REMAINING TIMELINE:**

- August 2011:** Finish reading RFI responses and prepare summary material.  
*Deliverables:* SIS produces statistics sheet and pros and cons (bullet points) for semi finalists based on RFI responses.  
*Desired Output from the Meeting:* Select finalists for interviews.
- September 2011:** Prepare for interviews  
*Deliverables:* Search book with comparative analysis and statistics for finalist candidates.  
*Desired Output from the Meeting:* Interview finalists in San Mateo. Select manager.

COMMENT: Based on information gathered from the responses to the Request for Information, SIS, in conjunction with staff, recommends the following three candidates be invited to finalist interviews with the board at the September 2011 meeting of the Board of Retirement.

Recommended Finalists	
Baillie Gifford & Company	EAFE Plus Focus
Franklin Templeton	Franklin Non-U.S. Equity
Gryphon International Investment Corporation	EAFE Equities

# STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000  
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

## MEMORANDUM

**To:** SAMCERA Investment Committee  
**Cc:** Gary Clifton, CIO  
**From:** SIS  
**Date:** August 9, 2011  
**Subject:** International Growth Equity Search

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### Overview

Following discussion of the criteria and initial screening process for the international growth equity search at the June 26th, 2011 Board meeting, the following firms/strategies were approved to receive a Request for Information (RFI):

- Artisan Partners Limited Partnership: Artisan Non-U.S. Growth
- Baillie Gifford & Co: EAFE Plus Focus
- Baring Asset Management Limited: Focused International Plus Equity
- Echo Point Investment Management: International Growth Equity
- Franklin Templeton Investments: Franklin Non-US Equity
- Grantham, Mayo, Van Otterloo & Co. LLC: GMO International Growth Strategy
- Gryphon International Investment Corporation: EAFE Equities
- Henderson Global Investors: International All Cap
- Johnston Asset Management Corp: International
- Schroders: International Alpha
- Walter Scott & Partners Limited: EAFE / International

Walter Scott declined to participate in the search because they prefer to grow their Global, rather than their EAFE, strategy.

Based on the information gathered from the RFI responses, SIS evaluated and scored the candidates based on the following main criteria:

- *Organization (20%)*
  - Organizational Structure/Ownership
  - Organizational Stability
  - Assets/Clients/Account Growth/Account losses
  - Operations/Back Office Infrastructure
  - Client Service, Transparency & Reporting
  - Legal/Regulatory Issues

- *Investment Team (20%)*
  - Experience & Stability
  - Size & Depth of Resources
  - Compensation/Incentives/Equity Ownership
  
- *Investment Strategy (20%)*
  - Research Process/Due Diligence/Stock Selection
  - Philosophy/Style
  - Decision Making
  - Risk Management
  
- *Performance (20%)*
  - Return Premiums
  - Volatility
  - Consistency
  - Risk Adjusted
  
- *Fees/Terms (10%)*
  - Competitive fee level?
  - Separate vs. Commingled
  
- *-Additional Considerations (10%)*
  - Alignment of Interests
  - Capacity
  - Other

Subject to discussion and approval at the upcoming Board meeting, SIS recommends that the following firms be invited to make finalist presentations:

- **Baillie Gifford & Co: EAFE Plus Focus**
- **Franklin Templeton Investments: Franklin Non-US Equity**
- **Gryphon International Investment Corporation: EAFE Equities**

Section 1 summarizes our scoring of each proposed strategy. Section 2 contains firm and strategy profiles. Section 3 contains performance information.

## Artisan Partners

Date: August 2011

## Non-US Growth Strategy

Strategy Inception: January 1996

Preferred Benchmark: MSCI EAFE or EAFE Growth

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>15</b>	
Organizational Structure/Ownership		Founded in 1994, structured as autonomous investment boutiques (12 strategies), private firm with IPO planned for 15%-20% of float, only real disclosure about ownership is ADV, which does not suggest broad employee ownership
Organizational Stability		Has been stable, recent filing for IPO
Assets/Clients/Account Growth/Account losses		Firm AUM is \$63.7 bn, institutional assets have been stable, but substantial mutual fund business has been growing
Operations/Back Office Infrastructure		Artisan provides centralized operational support for its managers
Client Service, Transparency & Reporting		Nice sample client report
Legal/Regulatory Issues		Mutual fund related litigation regarding fees
<b>Investment Team (max points 20)</b>	<b>17</b>	
Experience & Stability		Experienced team, some staff turnover but PM Mark Yockey has been on strategy for 16 years
Size & Depth of Resources		Well resourced team, PM and 12 sector analysts
Compensation/Incentives/Equity Ownership		Base salary and subjective bonus tied to revenue (AUM), not to performance of strategy, equity not broadly distributed, but there may be more opportunity for equity ownership post-IPO
<b>Investment Strategy (max points 20)</b>	<b>17</b>	
Research Process/Due Diligence/Stock Selection		Fundamental, look for long term growth opportunities, thematic approach seeks to identify catalysts for change, team members travel extensively and company meetings are important
Philosophy/Style		Stock prices follow earnings, look for cases where consensus opinion is underestimating earnings growth, focus on well managed companies with dominant or growing market share, attentive to
Decision Making		Decisions are joint responsibility of team, but PM has final authority
Risk Management		Up to 20% EM but can cap at 10%, portfolio construction pays little attention to benchmark, limit 30% per country, 25% per industry, and generally 5% per security at time of purchase, 80-120 holdings
<b>Performance (max points 20)</b>	<b>12</b>	
Return Premiums		Some excess returns, but mid pack relative to the universe
Volatility		Slightly higher volatility than the benchmark, not a particularly defensive profile
Consistency		Recent rolling periods are respectable, but difficult period a few years back
Risk Adjusted		Positive information ratio over most longer periods
<b>Fees/Terms (max points 10)</b>	<b>8</b>	
Competitive fee level?		67 bps. on a \$150 mm separate account
Separate vs. Commingled		Separate account and commingled trust available
<b>Additional Considerations (max points 10)</b>	<b>6</b>	
Alignment of Interests		Bonuses tied to AUM rather than directly to performance
Capacity		Over \$18 bn in strategy and has been higher in the past (>\$29 bn), no specific capacity limit
Other		Large retail mutual fund

**TOTAL SCORE: 75 / 100**

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>20</b>	
Organizational Structure/Ownership		Firm was founded in Edinburgh, Scotland in 1908; remains headquartered in Edinburgh, but does have a small marketing office in New York; investment management is the firm's only business; firm is wholly owned by 36 partners, all of whom are active employees
Organizational Stability		Highly stable organization with long history of partnership structure; most senior employees started their careers at Baillie Gifford
Assets/Clients/Account Growth/Account losses		At \$113 bn firm assets have grown over the past few years, and are now higher than year-end 2007; Baillie Gifford's client base is primarily institutional with North American pension funds making up a significant portion of assets; the \$3.2 bn of strategy assets represents growth in the past few years; there are 10 clients in the strategy
Operations/Back Office Infrastructure		This is a large firm with more than 500 employees dedicated to operational, back-office, non-investment functions
Client Service, Transparency & Reporting		Baillie Gifford assigns specific client service staff to individual portfolio construction groups; the Focus group has two client service directors; reporting is detailed and transparent; they do state that although they will provide returns vs. EAFE Growth if requested by the client, attribution and benchmark relative analysis will be against the EAFE
Legal/Regulatory Issues		Nothing material
<b>Investment Team (max points 20)</b>	<b>18</b>	
Experience & Stability		Baillie Gifford as a firm has low staff turnover and there have been no departures or additions of investment decision makers from this group in the past 5-years; worth noting is that Baillie Gifford does sometimes move investment people to different research areas or strategies; the experience level on this team ranges from 7-years to 20-years, and all members of the team have been with the firm for their entire careers in the investment industry
Size & Depth of Resources		The firm has 54 portfolio managers and 25 research analysts; all of the investment decision makers are also analysts; the Focus Portfolio Construction Group is comprised of four managers with different geographical specialties, and two client service directors
Compensation/Incentives/Equity Ownership		One member of this portfolio construction group is a partner and shares directly in the firm's profits; investment managers receive base salary, firmwide bonus, and also performance bonus based half long term investment performance and half on the assessment of the individual's line manager
<b>Investment Strategy (max points 20)</b>	<b>18</b>	
Research Process/Due Diligence/Stock Selection		Research is organized primarily by regional teams and each member of the EAFE Focus Portfolio Construction Group is a member of a different regional team; there are also four global sector groups contributing research; Baillie Gifford conducts approximately 2000 company meetings annually both in Edinburgh and onsite; companies are evaluated on their growth opportunity relative to the average company, their ability to execute on that opportunity, and the degree to which probability of future success is already valued by the market
Philosophy/Style		Growth oriented long-term investors whose basic philosophy is that share prices ultimately follow earnings; believe that the stock market has a recurring tendency to under-appreciate the value of long-term compound growth; seek to add value through use of proprietary fundamental research to identify companies exhibiting some combination of sustained, above average growth and attractive financial
Decision Making		Ideas from the regional teams are filtered through the representative investors on the Focus Portfolio Construction Group; these representative bring recommendations largely, but not exclusively, from their respective areas to be discussed and debated by the group; in practice the group will rely heavily on the expertise of the regional specialists and their teams, but the purpose of the group is to compare the merits of investments from different geographical areas, and to ensure that investment decisions are made in a "whole portfolio context"
Risk Management		Max EM exposure of 10%, 80-120 stock portfolio; relative to benchmark countries +/- 6%, sectors +/- 6%, industries +/- 5%, stocks +/- 4%
<b>Performance (max points 20)</b>	<b>15</b>	
Return Premiums		Repectable annualized excess returns
Volatility		Volatility similar to benchmark
Consistency		Has experienced rolling periods of underperformance, but recent rolling 3-year periods good
Risk Adjusted		Low tracking error and solid information ratio
<b>Fees/Terms (max points 10)</b>	<b>10</b>	
Competitive fee level?		48 bps for a \$150 mm separate account
Separate vs. Commingled		Available for separate accounts and as an institutional mutual fund, but not a commingled fund
<b>Additional Considerations (max points 10)</b>	<b>10</b>	
Alignment of Interests		Private partnership structure, firm emphasizes performance rather than asset accumulation
Capacity		At \$3.2 billion there are no immediate capacity constraints; worth noting is that Baillie Gifford manages several international and global strategies which in aggregate amount to substantial assets; some of these strategies are closed, and the firm has a history of closing strategies
Other		Diversified moderate tracking error strategy managed by a very solid firm

**TOTAL SCORE: 91 / 100**

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>16</b>	
Organizational Structure/Ownership		Global firm with London headquarters with a history dating back to 1792; ultimate parent is Mass Mutual Life Insurance Company; 100 key employees at Barings participate in phantom equity program with share value based on Barings financial performance and a 2.5 year vesting period
Organizational Stability		Barings has been owned by Mass Mutual since 2005, prior to which it was owned by ING; the firm appears to operate as an autonomous investment entity, and they say they do not anticipate future ownership or structural changes
Assets/Clients/Account Growth/Account losses		Firm assets are >\$50 bn and close to fully recovered from 2007 peak; inflows to the strategy have been positive and assets are approaching \$4 bn, client base in US is solidly institutional
Operations/Back Office Infrastructure		Large firm deep resources devoted to operations, substantial redundancies and business continuity plans, trading desks in London and Hong Kong
Client Service, Transparency & Reporting		Baring provides institutional quality client servicing and reporting
Legal/Regulatory Issues		Nothing outstanding disclosed
<b>Investment Team (max points 20)</b>	<b>16</b>	
Experience & Stability		Lead PM David Bertocchi has 13 years experience and has been involved in this approach for 11 years, back up PM Jonathan Greenhill has been with Barings for 3 years and has 16 years of experience; this strategy has experienced turnover at the portfolio manager level, with three team members leaving since 2007, most notably Christopher Lees in 2008
Size & Depth of Resources		Resources are substantial and impressive; portfolio managers draw on well staffed global sector research platform (40 analysts in London and Hong Kong), and very seasoned seven member Strategic Policy Group for top down and macro research
Compensation/Incentives/Equity Ownership		Salary and annual bonus, which is at least 2/3 determined by analytical system tracking individuals' 1- and 3-year performance; 100 senior employees participate in phantom equity; hard to assess compensation package, but it does seem that Baring has difficulty retaining some successful teams
<b>Investment Strategy (max points 20)</b>	<b>19</b>	
Research Process/Due Diligence/Stock Selection		Approach is 80% fundamental and 20% quantitative; top down analysis of sectors, countries and themes with bottom-up stock selection and draws on broader firm resources; stock selection involves fundamental research and scoring companies on growth, management, value creation and valuation
Philosophy/Style		Believe in growth at a reasonable price, and that top down insights are a valuable source of alpha generation; look for "unrecognized growth opportunities"
Decision Making		PM David Bertocchi has responsibility for constructing model portfolio, but he selects from highly rated stocks based on aggregate stock, sector and country score
Risk Management		Max of 20% in EM, 50-60 securities, regional and sector constraints +/- 20% of index, max position size 20%, max position size is technically 10% but they generally hold approximately equally weighted 2%
<b>Performance (max points 20)</b>	<b>18</b>	
Return Premiums		Some recent weakness, but good long term excess returns
Volatility		Moderate benchmark-like volatility, with good downside capture
Consistency		Impressively consistent returns
Risk Adjusted		Positive and above median information ratio
<b>Fees/Terms (max points 10)</b>	<b>8</b>	
Competitive fee level?		66 bps on a \$150 mm separate or commingled account
Separate vs. Commingled		Both are available, but separate account has only \$20mm minimum
<b>Additional Considerations (max points 10)</b>	<b>8</b>	
Alignment of Interests		Performance based bonuses based on 1- and 3-year time horizon and phantom equity for key
Capacity		Assets are \$3.9 bn and they believe that \$10 bn is the level at which they would begin to close strategy
Other		Well articulated and differentiated investment approach, MassMutual appears to give Baring autonomy, but Baring has had issues retaining talent

**TOTAL SCORE: 85 / 100**

Asset Class:	<b>Equity</b>	Capitalization:	<b>Large</b>	Geography:	<b>Non-US</b>
Structure:	<b>Single Manager</b>	Style:	<b>Growth</b>	Sub-Focus:	<b>Developed</b>

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>15</b>	
Organizational Structure/Ownership		Firm founded in 2010 as an indirect majority owned subsidiary of Old Mutual, 30% owned by the founders of Echo Point (SamCERA manager Barrow Hanley is also majority owned by Old Mutual)
Organizational Stability		Impossible to assess stability because firm is new, PM has managed strategy for 15 years starting at 1838 Investment Advisors and then at Morgan Stanley, followed by about 3 months at INVESCO in 2010. Half the team has joined since 2008
Assets/Clients/Account Growth/Account losses		Lost some accounts through ownership changes, but have also held onto some, most assets are sub-advisory, some corporate DB but not much public at this point
Operations/Back Office Infrastructure		Old Mutual handles many administrative functions, back office operations outsourced to BNY Mellon
Client Service, Transparency & Reporting		Given number of clients they seemed well staffed with two very seasoned client/consultant people
Legal/Regulatory Issues		None
<b>Investment Team (max points 20)</b>	<b>16</b>	
Experience & Stability		Four PMs and two analysts (analysts are quite jr.) , two senior pms have 30 years of experience, the experience of the lead people is really the strength of this firm
Size & Depth of Resources		Modest resources, but single product focus, appears to be adequately resourced given the model, PMs and analysts organized by sector
Compensation/Incentives/Equity Ownership		Equity (but who owns it), salary and bonus (tied to firm profitability and individual performance), at least 25% of cash bonus will go into strategy
<b>Investment Strategy (max points 20)</b>	<b>17</b>	
Research Process/Due Diligence/Stock Selection		Proprietary screening tool trades off earnings momentum and valuation, followed by fundamental analysis, some management meetings, everything boils down to relatively simple investment thesis
Philosophy/Style		Look for market leaders, sustainable competitive advantage and quality management, balance sheet strength, look for revenue, earnings and margin growth over 3-5 years, reasonable valuation
Decision Making		Emphasis on team decision making, most decisions are unanimous, lead PM has right to override but that has been very rare
Risk Management		15% cap on emerging markets, typically 60-80 securities, sectors within 5% of EAFE, regions within 10% of EAFE, positions typically initiated at 1.25% with a 5% max position size
<b>Performance (max points 20)</b>	<b>13</b>	
Return Premiums		Weak performance over the past few years has dragged down annualized excess returns
Volatility		Higher than benchmark volatility; not a particularly defensive profile
Consistency		Until recent period, rolling returns were quite consistent
Risk Adjusted		Information ratio pulled down by recent weakness
<b>Fees/Terms (max points 10)</b>	<b>9</b>	
Competitive fee level?		65 bps for \$150 mm, negotiable
Separate vs. Commingled		Both available
<b>Additional Considerations (max points 10)</b>	<b>8</b>	
Alignment of Interests		Founders/Employees own 30% equity (distribution not disclosed), plan to have at least 25% of cash bonus invested in strategy (but no discussion of vesting or required holding period).
Capacity		\$1.6 billion in strategy, capacity of \$10 billion
Other		

**TOTAL SCORE: 78 / 100**

# Franklin Templeton

Date: August 2011

# Non-US Equity

Strategy Inception: Dec 1987

Preferred Benchmark: MSCI EAFE or EAFE Growth

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>17</b>	
Organizational Structure/Ownership		Franklin was founded in 1947 and manages \$734 bn across nine wholly owned subsidiaries, which are distinct investment platforms; the firm is headquartered in San Mateo, but has offices in 30 countries; Franklin Resources is a public company and >30% of the equity is held by members of the Johnson family; employees are eligible to participate in ESIP, but the percentage of Franklin's equity held by employees is not disclosed
Organizational Stability		Ownership structure appears to be stable; Johnson family members occupy the most senior executive positions; over the years Franklin has consistently made acquisitions as a means of building its investment management platform
Assets/Clients/Account Growth/Account losses		Although the firm has a very large retail mutual fund business, this is a purely institutional strategy; the strategy has 10 accounts and \$1.8 bn and client base appears to have been quite stable
Operations/Back Office Infrastructure		This strategy draws on Franklin Templeton's broader resources for back office operational support; Franklin Templeton Services (FTS) is the entity that provides back office operational services to Franklin Templeton and it has over 1000 employees worldwide
Client Service, Transparency & Reporting		Ample resources dedicated to client servicing and reporting
Legal/Regulatory Issues		No issues relating to Franklin Templeton Institutional LLC, which is the subsidiary under which this strategy falls
<b>Investment Team (max points 20)</b>	<b>18</b>	
Experience & Stability		This strategy and team became part of Franklin with the acquisition of Fiduciary Global Advisors in 2007; lead PMs John Remmert has been on the strategy for 9 years and has 25 years of industry experience, and Coleen Barbeau has been with the firm for 28 years and has 31 years of industry experience; the team has been quite stable with two departures and four additions in the past five
Size & Depth of Resources		There are 12 investment professionals on this New York based team who are 100% dedicated to this strategy, which is managed both as a global and Non-US portfolio; the team averages 15 years of experience and 8 years at the firm
Compensation/Incentives/Equity Ownership		PMs receive salary and bonus, which is generally about half cash and half restricted shares of Franklin Resources and mutual fund units; the primary driver of bonus is investment performance, but there are also qualitative considerations; the components of analyst compensation are similar, and it is primarily driven by the performance of investment recommendations over 1-, 3- and 5-year time periods
<b>Investment Strategy (max points 20)</b>	<b>18</b>	
Research Process/Due Diligence/Stock Selection		Global sector analysts seek to conduct deep research, with 5-10 stocks forming each analyst's primary coverage list; process is driven by analysts who focus on quality, growth and valuation; ultimately they are looking for sustainable cash flow; DCF is crucial part of modeling
Philosophy/Style		Believe in managing concentrated portfolio (40 stocks roughly equally weighted), focusing exclusively on high quality sustainable growth opportunities; strictly bottom-up growth approach
Decision Making		Decisions reflect collaborative team effort, with two lead PMs maintaining ultimate decision making authority
Risk Management		Approach to risk does not focus on benchmark, but on avoiding owning stocks with overlapping risk exposures; but Franklin also has a separate risk group overseeing portfolio; max EM of 20%, but has averaged less than 10% over the past five years; max position size of 5%; sector and country weightings are the result of bottom up stock selection and there are no formal constraints
<b>Performance (max points 20)</b>	<b>17</b>	
Return Premiums		Strong annualized excess returns
Volatility		Higher than benchmark volatility, but good downside capture
Consistency		Some volatility on a calendar year basis, but quite consistent on a rolling basis since 2004, which is when John Remmert took over portfolio
Risk Adjusted		Strong information ratio, even with relatively high tracking error
<b>Fees/Terms (max points 10)</b>	<b>10</b>	
Competitive fee level?		51 basis points for a \$150 mm separate account
Separate vs. Commingled		Both available
<b>Additional Considerations (max points 10)</b>	<b>9</b>	
Alignment of Interests		Relatively standard large firm compensation structure; team is fully dedicated to this strategy and compensation heavily tied to performance
Capacity		At \$1.8 bn in the strategy they do not anticipate capacity issues in the foreseeable future
Other		High conviction concentrated portfolio, typically buy above \$2 billion, but may have substantial midcap exposure; current leadership on this strategy took over and established this investment process in 2004

**TOTAL SCORE: 89 / 100**



Asset Class:	<b>Equity</b>	Capitalization:	<b>Large</b>	Geography:	<b>Non-US</b>
Structure:	<b>Single Manager</b>	Style:	<b>Growth</b>	Sub-Focus:	<b>Developed</b>

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>18</b>	
Organizational Structure/Ownership		Firm founded in 1977 by three partners as private investment firm to serve institutional market; each founding member continues to own more than 10%, with the balance distributed over approximately 40 employees (out of a total of 530 employees); GMO offers a wide variety of equity, fixed income and absolute return strategies
Organizational Stability		Employee owned since inception; stated commitment to remaining independent; organization appears to be stable, but there has been notable turnover of sr. executives over the past 2 years
Assets/Clients/Account Growth/Account losses		Assets remain >\$100 bn, but are down from over \$150 bn in 2007; strategy assets have been quite stable in the \$4 bn range, no new accounts gained, and only a few losses over the past few years
Operations/Back Office Infrastructure		Well resourced, larger firm with ample staff
Client Service, Transparency & Reporting		Well resourced with client service staff and sample reporting material appears comprehensive
Legal/Regulatory Issues		Various investigations, and DOL requests for information, nothing particularly surprising for a larger company with a wide range of funds and vehicle types
<b>Investment Team (max points 20)</b>	<b>18</b>	
Experience & Stability		International quantitative group headed up by Tom Hancock, who has 16 years at GMO, and a PhD from Harvard in computer science; many other members of the research group are also highly credentialed, mostly with strong quantitative backgrounds, low turnover in the investment staff, many more new hires than departures
Size & Depth of Resources		GMO has large team dedicated to quantitative portfolio management and research
Compensation/Incentives/Equity Ownership		Compensation is tied to overall firm performance, and assessment of individual's contribution; compensation not tied directly to portfolio performance
<b>Investment Strategy (max points 20)</b>	<b>15</b>	
Research Process/Due Diligence/Stock Selection		Research aims to convert fundamental investment thinking into systematic/quantitative processes, and focuses on the factors that drive markets, rather than having specialists focus on regions or sectors; although stock selection is primarily bottom up (value, quality, momentum), GMO also monitors top down valuation of groups (countries, sectors, currencies, style factors) and may tilt the portfolio based on a top down view
Philosophy/Style		GMO's philosophy is rooted in contrarianism and value investing; they look for cheap stocks of quality companies, with strong momentum; the portfolio is benchmarked specifically against a growth index
Decision Making		Buying and selling is largely model driven; the model evaluates the investment universe, buying stocks that have become attractive since last portfolio rebalance, selling stocks that have become
Risk Management		No emerging markets; portfolio does not have explicit limits, but deviation from benchmark is monitored and stated observed tracking error has been in the 2%-5% range; historically 200-400
<b>Performance (max points 20)</b>	<b>15</b>	
Return Premiums		Decent excess returns on an annualized basis
Volatility		Lower volatility than the benchmark; low downside capture
Consistency		Lagged in some strong up calendar years, but recent rolling numbers are good
Risk Adjusted		Decent information ratio
<b>Fees/Terms (max points 10)</b>	<b>8</b>	
Competitive fee level?		Separate account minimum is \$200 mm; Instl mutual fund is 59 bps in Class IV shares, which have a minimum of \$125 mm.
Separate vs. Commingled		Commingled not available; \$150 mm account would go in institutional mutual fund
<b>Additional Considerations (max points 10)</b>	<b>7</b>	
Alignment of Interests		Sr. staff has equity, bonus and compensation driven mostly by firm performance and general assessment of individual contribution; seems reasonable for quantitative platform
Capacity		Current strategy assets of \$3.9 bn and no stated limit on this specific strategy; historically GMO has been sensitive to capacity and has closed strategies
Other		Model/methodology not described in detail; other than benchmark and use of momentum factors, not a lot of explanation of what drives growth style

**TOTAL SCORE: 81 / 100**

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>17</b>	
Organizational Structure/Ownership		Gryphon was founded in 1995 and is located in Toronto; the firm's two founders, Alex Becks and Larry McManus each hold 35% of the firm's equity, and an outside entity, Gryphon Investment Counsel, Inc. (GIC) owns 30%; Gryphon is currently in the process of distributing equity to other employees which is expected to be completed in 2011.
Organizational Stability		The same three shareholders have owned Gryphon since inception; both founding partners remain the portfolio managers of the firm's strategies
Assets/Clients/Account Growth/Account losses		Firm AUM has been relatively stable over the past few years, with the exception of the market value decline in 2008; flows have been modest and most client turnover appears to have been smaller
Operations/Back Office Infrastructure		GIC provides a trading and settlement platform for Gryphon International; for a small firm, adequately resourced back office and compliance; worth noting that one of the two founding partners and portfolio managers Larry McManus (President and CEO) is also the firm's Chief Compliance Officer
Client Service, Transparency & Reporting		Sample report appears relatively standard; client service resources are relatively light and firm is located in Toronto
Legal/Regulatory Issues		None disclosed
<b>Investment Team (max points 20)</b>	<b>17</b>	
Experience & Stability		The two portfolio managers have been with the firm since its founding and both have over 35 years of industry experience; the four research analysts have an average of 16 years of experience, but two of the analysts have been hired since 2008; there have been two analyst departures since 2007
Size & Depth of Resources		This is a modest sized firm with 22 employees, including six investment professionals and two traders; the firm, however, is quite focused, managing only this strategy in a global and an ex-US version
Compensation/Incentives/Equity Ownership		The two portfolio managers have equity in the firm and therefore the profitability of the firm is the primary source of their compensation; the other investment team members receive base salary and bonus, with the bonus primarily based on the product's investment performance; the compensation structure is structured recognizing that it is a team approach
<b>Investment Strategy (max points 20)</b>	<b>18</b>	
Research Process/Due Diligence/Stock Selection		Investment team conducts fundamental research, regularly traveling and meeting with company management; they look for global or pan regional companies with strong management, strong financial position and balance sheet, and a minimum compounded earnings growth rate of 8%; the strategy avoids deep cyclicals; research is divided on a regional basis
Philosophy/Style		Growth at a reasonable price approach, with long time horizon; the investment process emphasizes bottom up stock selection; they seek to know the companies in their portfolio well; macro factors enter into stock level analysis but are not used to make top down bets
Decision Making		The decision making process is team based, but the ultimate decision is made by the two portfolio
Risk Management		Max 10% direct EM exposure (less than 5% is more typical), 35-55 stock portfolio, max 25% per sector, and a range of 30%-70% per region (Europe and Asia Pacific), security max 3% at cost 6% at market
<b>Performance (max points 20)</b>	<b>16</b>	
Return Premiums		Good excess returns, particularly in the trailing three-year period
Volatility		Slightly higher than benchmark volatility, but very good downside capture
Consistency		Has underperformed in some market environments
Risk Adjusted		Good information ratio
<b>Fees/Terms (max points 10)</b>	<b>10</b>	
Competitive fee level?		50 bps flat for accounts over \$150, tiered schedule for accounts below \$150
Separate vs. Commingled		Both available
<b>Additional Considerations (max points 10)</b>	<b>8</b>	
Alignment of Interests		70% employee owned, but current ownership limited to two founding partners; currently working on extending equity to other employees
Capacity		Assets in the EAFE strategy are \$5.8 across 275 accounts; they do not state a maximum AUM but that "Additional growth will be selective and carefully managed and will be fully supported with appropriate and ample resources."
Other		Relatively small firm managing quite substantial assets; seasoned portfolio management and leadership; avoidance of cyclical stocks and historically underweight the UK

**TOTAL SCORE: 86 / 100**

Asset Class:	Equity	Capitalization:	All	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>15</b>	
Organizational Structure/Ownership Organizational Stability Assets/Clients/Account Growth/Account losses Operations/Back Office Infrastructure Client Service, Transparency & Reporting Legal/Regulatory Issues		Publicly traded UK based firm, employees own 12% Firm founded in 1934, recent acquisitions of New Star (2009), Gartmore (2011) Firm AUM \$96.5 bn, AUM for strategy <\$1 bn, good account retention and growth Most operations outsourced to BNP Paribas Security Services, but 32 Henderson employees overseeing Well resourced Nothing unusual or of particular concern
<b>Investment Team (max points 20)</b>	<b>8</b>	
Experience & Stability  Size & Depth of Resources Compensation/Incentives/Equity Ownership		<b>Announced departure of Head of International Equity and PM, Manraj Sekhon (7/25/2011)</b> , 5-7 person team, some turnover, draw on broader resources at Henderson Moderate, but adequate size team, substantial firm resources Salary, bonus, some opportunity for revenue sharing
<b>Investment Strategy (max points 20)</b>	<b>15</b>	
Research Process/Due Diligence/Stock Selection  Philosophy/Style Decision Making Risk Management		Screen for growth, valuation and quality; conduct fundamental research and draw on regional and sector specialists Growth oriented (sustainable growth at a reasonable price), fundamental, bottom up Purchases and sales discussed by the team, but Manraj Sekhon makes final decision Sector and Regional weights within 20% of index, EM up to 20% or custom, approximately 75 names
<b>Performance (max points 20)</b>	<b>14</b>	
Return Premiums Volatility Consistency Risk Adjusted		Poor 2011 and 2008, but otherwise solid long term record Higher volatility than benchmark; not a defensive profile Good rolling excess returns Respectable information ratios
<b>Fees/Terms (max points 10)</b>	<b>8</b>	
Competitive fee level? Separate vs. Commingled		65 bps for \$150 mm (negotiable) Both available
<b>Additional Considerations (max points 10)</b>	<b>6</b>	
Alignment of Interests Capacity Other		Modest employee ownership, performance based component of compensation Ample capacity, strategy offered both as an All Cap and as a Large Cap, can manage up to \$5 bn in All Manraj's departure calls into question how to credit performance history

**TOTAL SCORE: 66 / 100**

Asset Class:	<b>Equity</b>	Capitalization:	<b>Large</b>	Geography:	<b>Non-US</b>
Structure:	<b>Single Manager</b>	Style:	<b>Growth</b>	Sub-Focus:	<b>Developed</b>

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>17</b>	
Organizational Structure/Ownership		100% employee owned firm; seven partners own equity; firm founder, Richard Johnston is the majority shareholder; plan is to continue to distribute equity to other employees; firm was founded in 1985
Organizational Stability		Firm appears to quite stable; has been independent since its founding; plan is in place with earn out to transition equity from Richard to other partners over time, so that he has an exit strategy that does not involve an outside entity taking an ownership position in the firm
Assets/Clients/Account Growth/Account losses		Firm assets are approximately \$2.4 bn and strategy assets \$1.6 bn. This represents growth over the last few years; many smaller accounts from HNW investors; current marketing efforts are focused on institutional clients
Operations/Back Office Infrastructure		Lightly resourced in this area with only a couple of staff members, but they have a full time Chief Compliance Officer
Client Service, Transparency & Reporting		One dedicated marketing client service person; sample quarterly client report appears satisfactory
Legal/Regulatory Issues		None
<b>Investment Team (max points 20)</b>	<b>14</b>	
Experience & Stability		PM Cassandra Hardman has been managing this strategy since 1997 and has more than 20 years of experience, Richard Johnston has more than 30 years of experience, 3 other investment investment professionals have a range of experience; 2 of the 5 have joined the firm in the last 5 years; there have been no departures in the last 5 years
Size & Depth of Resources		Small team; Cassandra spends 100% of her time on the strategy, Richard 50%, and the others 25% - 75%; Cassandra is clearly the key person for this strategy
Compensation/Incentives/Equity Ownership		Salary, bonus, profit sharing and relatively broad equity ownership; \$2.4 bn and 15 employees is an attractive ratio
<b>Investment Strategy (max points 20)</b>	<b>17</b>	
Research Process/Due Diligence/Stock Selection		Proprietary screen and ranking tool looks at 140 data points, ranks stocks on "price to earnings power;" research is focused on top quartile in which many stocks are quickly reject for being cheap for a reason; fundamental research focuses on financial statement analysis, evaluating management quality, assessing industry trends and competitive positioning
Philosophy/Style		Own a very select group of high-quality, well-managed companies, which dominate their industry or niche; look for strong secular predictable EPS growth (greater than 10%); style is growth, but index agnostic
Decision Making		Research and portfolio management integrated, 5 team members all have various areas of expertise; investment decisions involve group vetting and discussion; lead PM has ultimate decision making authority
Risk Management		EM up to 20%, concentrated 23-26 stock portfolio with positions in the 5% range, max 8.5% position size, minimum of 6 countries, 8 industries, maximum 25% in an industry; seek to be fully invested, but cash has been as high as 15% and currently close to 10%
<b>Performance (max points 20)</b>	<b>20</b>	
Return Premiums		Substantial excess returns on annualized basis
Volatility		Moderate volatility and low downside capture
Consistency		Weak 2010, but otherwise quite consistent on calendar and rolling 3-year basis
Risk Adjusted		Strongest information ratios in the group
<b>Fees/Terms (max points 10)</b>	<b>9</b>	
Competitive fee level?		56 bps on \$150 mm separate account.
Separate vs. Commingled		Both available
<b>Additional Considerations (max points 10)</b>	<b>7</b>	
Alignment of Interests		Independent employee owned firm; international strategy is the largest component of firm assets
Capacity		Current assets are \$1.6 bn and estimated capacity in the \$5-\$7 bn range
Other		Concentrated, low turnover, high conviction portfolio; Cassandra is clearly the key investor so a great deal of responsibility is on a single employee

**TOTAL SCORE: 84 / 100**

Asset Class:	Equity	Capitalization:	Large	Geography:	Non-US
Structure:	Single Manager	Style:	Growth	Sub-Focus:	Developed

Category	Score	Notes/Comments
<b>Organization (max points 20)</b>	<b>17</b>	
Organizational Structure/Ownership		Large global firm founded in 1804 headquartered in London with a substantial North American business; 335 portfolio managers and analysts, over 2600 employees, and offices in 25 countries; Schroders PLC is publicly traded on the LSE, 48% owned by Schroder family, employees own 5.5%, and the rest by outside investors; approximately 30% of employees received stock awards in 2010
Organizational Stability		Firm appears to be reasonably stable, but has been steadily acquiring other business over the past few years
Assets/Clients/Account Growth/Account losses		Firm assets are \$323 bn, and assets for North American clients are \$53 bn; firm AUM has grown over the past few years, particularly in the alternatives area; this Global/Intl team manages approximately \$14 bn across several strategies
Operations/Back Office Infrastructure		Large organization with deep resources dedicated to back office and operational functions
Client Service, Transparency & Reporting		Solid institutional quality reporting and resources dedicated to client service
Legal/Regulatory Issues		Nothing material
<b>Investment Team (max points 20)</b>	<b>18</b>	
Experience & Stability		The core ten member team has an average of 16 years of experience, and 11 years at Schroders; head of Global and Intl equity, effectively the lead portfolio manager, Virginie Maisonneuve, joined Schroders in 2004 and has 23 years of experience; she joined Schroders from Clay Finlay, where she was
Size & Depth of Resources		In addition to this core group of ten directly involved in the strategy, Schroders employs over 70 equity analysts in 11 countries and a team of inhouse economists and strategists
Compensation/Incentives/Equity Ownership		Investment staff receive base salary and bonus, with bonus based on quantitative metrics of performance as well as qualitative evaluation
<b>Investment Strategy (max points 20)</b>	<b>16</b>	
Research Process/Due Diligence/Stock Selection		Approach is bottom up, but incorporates thematic assessment to identify companies with long-term structural growth; team focuses on the stocks that are highly ranked by the global sector analysts; the team then conducts its own fundamental analysis looking for growth, valuation, quality and sustainable competitive advantage
Philosophy/Style		Believe that high quality, reasonably priced companies, with strong growth prospects and a sustainable competitive advantages will outperform; willingness to be contrarian and buy stocks at cyclical growth lows can give the portfolio a negative tilt to recent or historic growth; process is primarily driven by bottom up stock selection
Decision Making		Team based approach, with ultimately Virginie Maisonneuve is accountable for all decisions
Risk Management		Max 20% EM, 40-60 stock portfolio, for countries and sectors that are more than 20% of benchmark, 25% - 175% of benchmark weight, max position size 5% at purchase and 7% at market
<b>Performance (max points 20)</b>	<b>16</b>	
Return Premiums		Solid above median excess returns
Volatility		Benchmark-like volatility, but good downside capture
Consistency		A couple of weaker calendar years, but good rolling returns
Risk Adjusted		Positive and above median information ratio
<b>Fees/Terms (max points 10)</b>	<b>9</b>	
Competitive fee level?		62 bps for \$150 mm separate account
Separate vs. Commingled		Both are available
<b>Additional Considerations (max points 10)</b>	<b>7</b>	
Alignment of Interests		Mostly salary and performance driven bonus, do not disclose information about employee investment in strategies
Capacity		Assets in this strategy are \$1.7 bn and they believe they can manage up to \$12 bn, this strategy had very low assets until the 2009-2010 period, note that the team manages other related strategies such as global and more diversified international strategies
Other		Schroders international equity platform has basically been restructured with the arrival of VM in 2006; she seems to have done a good job turning things around

**TOTAL SCORE: 83 / 100**

Firm Headquarters: 875 East Wisconsin Avenue, Suite 800  
 Milwaukee, Wisconsin 53202, United States  
 Phone/Fax: 414.390.6100 / 414.390.6139  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1994  
 Firm Website: [www.artisanpartners.com](http://www.artisanpartners.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$63,671.7
<b>Total Number of Accounts:</b>	180
<b>Number of Portfolio Managers:</b>	13
<b>Number of Analysts:</b>	27
<b>% Employee Owned:</b>	---

**Contact Information**

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**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009
Total in Firm	\$63,671.7	180	Total Firmwide			\$62,665.0	\$57,454.0	\$46,726.0
Total Taxable	\$44,088.5	62	Total Taxable			\$38,238.0	\$35,283.0	\$27,759.0
Total Tax-Exempt	\$19,583.3	118	Total Tax-Exempt			\$24,427.0	\$22,171.0	\$18,967.0
Total Institutional	\$29,025.2	168	Total Institutional			\$33,939.0	\$30,986.0	\$24,101.0
Accts Gained	Number	(\$ Million)	Assets By Geographic Region & Client Domicile			Assets (\$ Million)		
Current Quarter	6	\$434.5	United States				\$58,750.5	
2010	21	\$3,072.0	Canada				\$506.2	
2009	18	\$2,150.0	United Kingdom				\$3,404.4	
			Continental Europe				\$305.3	
			Japan				\$0.0	
			Australia				\$0.0	
			Hong Kong				\$0.0	
			Singapore				\$0.0	
			Other Asia ex-Japan				\$0.0	
			Africa/Middle East				\$569.4	
			Latin America				\$0.0	
			Other				\$135.9	
Accts Lost	Number	(\$ Million)	5 Largest Accounts			Aggregate (\$ Mil)		
Current Quarter	3	\$233.7	1) Public Fund				\$1,797.3	
2010	10	\$874.0	2) Sub-Advised				\$1,547.7	
2009	16	\$588.0	3) Sub-Advised				\$1,300.1	
			4) Other				\$1,269.2	
			5) Sub-Advised				\$1,240.2	
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other			
United States	\$28,294.1	\$0.0	\$0.0	\$0.0	\$0.0			
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
EAFE	\$28,111.4	\$0.0	\$0.0	\$0.0	\$0.0			
Global	\$3,912.4	\$0.0	\$0.0	\$0.0	\$0.0			
Emerging Markets	\$3,353.8	\$0.0	\$0.0	\$0.0	\$0.0			
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			

**Ownership Information**

% Employee Owned: ---  
 % Parent Owned: ---  
 % Publicly Held: ---  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: 14.0%

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 4/1/1995  
 Performance Audited: Effective Date: \_\_\_\_\_  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil): \$25.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil): \$7.50  
 Firm Bonded: Yes Coverage (\$ Mil): ---

**Firm Background Narratives**

Artisan was founded in 1994 to provide a high value-added experience for investors. The firm believes that doing so consistently requires a singular focus on investment management and a commitment to improving on its strengths. As a result, Artisan focuses exclusively on offering sustainable, active investment strategies, run by experienced management teams supported by a disciplined operational capability. Artisan has maintained this pure investment focus for nearly 15 years.

**OWNERSHIP STRUCTURE:**

Artisan Partners Limited Partnership, a wholly-owned operating subsidiary of Artisan Partners Holdings LP, is an independent investment management firm controlled by Artisan Investments GP LLC, its general partner. Artisan Investments GP LLC is also wholly-owned by Artisan Partners Holdings LP. Artisan Partners Holdings LP is majority-owned by Artisan's employees.

**INVESTMENT TEAM DEVELOPMENT:**

Artisan's five investment teams manage 12 active equity strategies that are offered through a variety of investment vehicles to accommodate a broad range of client mandates. As of March 31, 2011, the *More...*

Artisan Non-U.S. Growth

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE All Cap Growth Equity  
 Marketing Contact: Tricia Leissner  
 Title: Manager, Marketing Services  
 Phone/Fax: 414.390.6120 / 414.390.6139  
 Email Address: [tara.mangelsen@artisanpartners.com](mailto:tara.mangelsen@artisanpartners.com)

Key Facts	
<b>Primary Capitalization:</b>	All Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-ND
<b>Total Product Assets:</b>	\$18,328.0
<b>Total Product Accounts:</b>	28
<b>Product Offered As:</b>	SA,CF,MF:Inst,MF:Retail
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$18,328.0	28	Separate/Segregated Assets	\$8,126.0
Total Taxable	\$9,023.0	8	Pooled/Commingled Assets	\$275.0
Total Tax-Exempt	\$9,305.0	20	Mutual Fund/Institutional Assets	\$2,516.0
Total Institutional	\$10,910.0	27	Mutual Fund/Retail Assets	\$7,411.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	1	\$136.5	0.7 %
2010	2	\$91.0	0.6 %	2010	6	\$558.0	1.5 %
2009	3	\$530.0	3.8 %	2009	2	\$95.0	0.7 %

Portfolio Characteristics

Strategy Snapshot

Preferred Benchmark: MSCI EAFE-ND  
 Primary Capitalization: All Cap  
 Primary Style Emphasis: Growth  
 Current Cash Position: 5.0 %  
 Number of Countries in Portfolio: 20  
 Approach Towards Currency Hedging: Not Used  
 % Hedged Back to Local Currency: ---  
 % Max Allowed In Emerging Markets: 20.0 %

Fundamental Characteristics

Current Number Of Holdings: 80  
 Annual Turnover (LTM): 73 %  
 Current Dividend Yield: 2.08 %  
 Current P/E (12-mo Trailing): 13.21x  
 Current P/B (12-mo Trailing): 4.29x  
 Earnings Growth (Past 5 Yrs): 6.66 %  
 Weighted Avg. Mkt Cap (Mil): \$47,283  
 Median Market Cap (Mil): \$26,561

Key Country Allocations

Canada: 3.41 %  
 France: 10.81 %  
 Germany: 14.97 %  
 Japan: 9.85 %  
 Netherlands: 3.06 %  
 Switzerland: 8.70 %  
 United Kingdom: 7.86 %  
 Emerging Markets: 10.28 %

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly

Risk Index: MSCI EAFE-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	31.81	30.36	1.45	---	---	---	---	---	---
2 Year	20.40	17.51	2.89	---	---	---	---	---	---
3 Year	-0.23	-1.77	1.54	30.12	1.54	0.97	4.60	0.34	-0.02
4 Year	-1.25	-4.06	2.81	26.65	2.93	0.98	4.93	0.57	-0.09
5 Year	4.00	1.48	2.53	24.28	2.60	0.98	4.44	0.57	0.09
6 Year	8.08	5.28	2.80	22.86	2.83	0.99	4.21	0.66	0.26
7 Year	8.57	6.44	2.13	21.83	2.17	0.99	4.02	0.53	0.29
8 Year	10.98	9.38	1.60	20.99	1.72	0.98	3.97	0.40	0.43
9 Year	8.13	7.49	0.63	23.16	0.61	1.02	4.52	0.14	0.27
10 Year	6.68	5.66	1.01	22.74	1.00	1.02	4.40	0.23	0.21
Since Inception (3/1996)	11.53	4.87	6.65	25.17	6.64	1.11	11.45	0.58	0.33

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	2.93	6.73	6.71	41.68	-45.84	20.90	26.71	17.37	19.16
Benchmark Returns:	1.56	4.98	7.75	31.78	-43.38	11.17	26.34	13.54	20.25
Excess Returns:	1.37	1.75	-1.04	9.90	-2.46	9.73	0.37	3.83	-1.08

Fee Information

Vehicle Type	Available	Min. Size (\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$50	---
Pooled/Commingled	Open	---	---
Institutional MFs	APHIX	\$1	\$0

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$200,000	\$400,000	\$550,000	\$700,000
	80 bps	80 bps	73 bps	70 bps
Pooled/Commingled	\$225,000	\$450,000	\$675,000	\$900,000
	90bps	90bps	90bps	90bps
Institutional MFs	\$245,000	\$490,000	\$735,000	\$980,000
	98 bps	98 bps	98 bps	98 bps

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	1	30	16
Research Analysts:	12	13	5
Traders:	1	17	12

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ: 0	2
	2010: 0	0
	2009: 0	2
Professionals Lost	MRQ: 0	0
	2010: 0	1
	2009: 0	0

Firm Headquarters: Calton Square, 1 Greenside Row  
Edinburgh, Scotland EH1 3AN, United Kingdom

Phone/Fax: +44 131 275 2000 / +44 131 275 3999

Registered Investment Advisor: Yes

Year Firm Founded: 1908

Firm Website: [www.bailliegifford.com](http://www.bailliegifford.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$123,532.0
<b>Total Number of Accounts:</b>	340
<b>Number of Portfolio Managers:</b>	55
<b>Number of Analysts:</b>	25
<b>% Employee Owned:</b>	100.00 %

**Contact Information**

Marketing Contact:	William Pacula	Database Contact:	Claire Matthews
Title:	Director of Marketing	Title:	Marketing Analyst
Address:	757 Third Avenue, 17th Floor	Address:	Calton Square, 1 Greenside Row
City, State, Zip Code:	New York, New York 10017-2013	City, State, Zip Code:	Edinburgh, Scotland EH1 3AN
Phone/Fax:	212 319 4637 / 212 319 4639	Phone/Fax:	44 131 275 2802 /
Email Address:	<a href="mailto:william.pacula@bailliegifford.com">william.pacula@bailliegifford.com</a>	Email Address:	<a href="mailto:claire.matthews@bailliegifford.com">claire.matthews@bailliegifford.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009		
Total in Firm	\$123,532.0	340	Total Firmwide			\$119,366.0	\$113,375.0	\$90,289.0		
Total Taxable	\$27,112.0	90	Total Taxable			\$26,617.0	\$25,209.0	\$20,899.0		
Total Tax-Exempt	\$96,419.0	250	Total Tax-Exempt			\$92,749.0	\$88,167.0	\$69,390.0		
Total Institutional	\$114,542.0	300	Total Institutional			\$110,505.0	\$104,944.0	\$83,168.0		
Accts Gained	Number	(\$ Million)	% Firm Assets			<b>Assets By Geographic Region &amp; Client Domicile</b>				
Current Quarter	11	\$1,266.0	1.1 %	United States					\$45,449.0	
2010	41	\$5,190.0	6.2 %	Canada					\$6,826.0	
2009	23	\$4,217.0	5.7 %	United Kingdom					\$48,587.0	
Accts Lost	Number	(\$ Million)	% Firm Assets			Continental Europe			\$2,367.0	
Current Quarter	0	\$0.0	0.0 %	Japan					\$5,000.0	
2010	16	\$2,720.0	3.2 %	Australia					\$6,760.0	
2009	27	\$5,375.0	7.6 %	Hong Kong					\$349.0	
<b>Assets By Type</b>				<b>Assets (\$ Million)</b>						
Equity	Fixed Inc.	Balanced	Alts	Other	Singapore					\$312.0
United States	\$689.0	\$0.0	\$0.0	\$0.0	Other Asia ex-Japan					\$1,113.0
Canada	\$0.0	\$0.0	\$0.0	\$0.0	Africa/Middle East					\$6,182.0
United Kingdom	\$6,916.0	\$4,919.0	\$14,440.0	\$0.0	Latin America					\$0.0
Europe ex-UK	\$1,305.0	\$0.0	\$0.0	\$0.0	Other					\$587.0
Australia	\$0.0	\$0.0	\$0.0	\$0.0	<b>5 Largest Accounts</b>					<b>Aggregate (\$ Mil)</b>
Japan	\$5,076.0	\$0.0	\$0.0	\$0.0	1) Sub-Advised					\$9,004.0
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	2) Other					\$4,080.0
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	3) Sovereign Wealth funds					\$3,266.0
Other Asia ex-Japan	\$266.0	\$0.0	\$0.0	\$0.0	4) Other					\$3,239.0
China	\$0.0	\$0.0	\$0.0	\$0.0	5) Other					\$2,836.0
Latin America	\$0.0	\$0.0	\$0.0	\$0.0						
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0						
EAFE	\$29,281.0	\$0.0	\$0.0	\$0.0						
Global	\$37,279.0	\$0.0	\$0.0	\$0.0						
Emerging Markets	\$13,254.0	\$0.0	\$0.0	\$0.0						
Other	\$10,108.0	\$0.0	\$0.0	\$0.0						

**Ownership Information**

% Employee Owned 100.0%

% Parent Owned ---

% Publicly Held ---

Parent Company Name \_\_\_\_\_

Total % Minority/Female Owned ---

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date 1/1/1999

Performance Audited: Effective Date \_\_\_\_\_

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Errors & Omissions Insurance: Yes Coverage (\$ Mil) \$350.00

Fiduciary Liability Insurance: Yes Coverage (\$ Mil) \$350.00

Firm Bonded: Yes Coverage (\$ Mil) ---

**Firm Background Narratives**

Baillie Gifford & Co. was founded in Edinburgh, Scotland in 1908. It is an independent investment management firm 100% owned by the partners, all of whom work full time for the firm. The firm's sole business is investment management. Baillie Gifford Overseas Limited is the vehicle through which the firm manages assets for clients based outside the UK. It is wholly owned by Baillie Gifford & Co. was established in 1983 and registered with the SEC in April 1984.



## EAFE Plus Focus

## Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE All Cap Growth Equity  
 Marketing Contact: William Pacula  
 Title: Director of Marketing  
 Phone/Fax: 212 319 4637 / 212 319 4639  
 Email Address: [william.pacula@bailliegifford.com](mailto:william.pacula@bailliegifford.com)

Key Facts	
<b>Primary Capitalization:</b>	All Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-GD
<b>Total Product Assets:</b>	\$3,187.0
<b>Total Product Accounts:</b>	10
<b>Product Offered As:</b>	SA
<b>Investment Focus:</b>	Long Only

## Asset &amp; Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$3,187.0	10	Separate/Segregated Assets	\$2,537.0
Total Taxable	\$101.0	1	Pooled/Commingled Assets	\$482.0
Total Tax-Exempt	\$3,086.0	9	Mutual Fund/Institutional Assets	\$168.0
Total Institutional	\$3,187.0	10	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	0	\$0.0	0.0 %
2010	0	\$0.0	0.0 %	2010	0	\$0.0	0.0 %
2009	1	\$19.0	1.9 %	2009	1	\$185.0	18.9 %

## Portfolio Characteristics

## Strategy Snapshot

Preferred Benchmark: MSCI EAFE-GD  
 Primary Capitalization: All Cap  
 Primary Style Emphasis: Growth  
 Current Cash Position: ---  
 Number of Countries in Portfolio: ---  
 Approach Towards Currency Hedging: Defensive  
 % Hedged Back to Local Currency: ---  
 % Max Allowed In Emerging Markets: ---

## Fundamental Characteristics

Current Number Of Holdings: ---  
 Annual Turnover (LTM): ---  
 Current Dividend Yield: ---  
 Current P/E (12-mo Trailing): ---  
 Current P/B (12-mo Trailing): ---  
 Earnings Growth (Past 5 Yrs): ---  
 Weighted Avg. Mkt Cap (Mil): \$0  
 Median Market Cap (Mil): \$0

## Key Country Allocations

Canada: ---  
 France: 4.39 %  
 Germany: 3.45 %  
 Japan: 19.81 %  
 Netherlands: ---  
 Switzerland: 10.75 %  
 United Kingdom: 19.90 %  
 Emerging Markets: 8.84 %

## Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly

Risk Index: MSCI EAFE-GD  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	33.01	30.93	2.09	---	---	---	---	---	---
2 Year	23.01	18.01	5.00	---	---	---	---	---	---
3 Year	0.89	-1.30	2.19	32.08	2.58	1.04	3.99	0.55	0.02
4 Year	-0.10	-3.59	3.49	27.81	3.94	1.03	3.60	0.97	-0.04
5 Year	4.55	1.96	2.59	25.21	2.67	1.02	3.49	0.74	0.11
6 Year	8.04	5.77	2.28	23.49	2.19	1.02	3.28	0.69	0.25
7 Year	9.09	6.92	2.16	22.14	2.09	1.01	3.18	0.68	0.31
8 Year	11.01	9.87	1.15	21.24	1.17	1.00	3.48	0.33	0.42
9 Year	8.93	7.97	0.96	22.09	1.11	0.98	3.52	0.27	0.32
10 Year	6.82	6.12	0.70	21.76	0.81	0.99	3.37	0.21	0.22
Since Inception (3/1990)	7.55	4.74	2.81	18.96	3.26	0.90	7.52	0.37	0.20

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	1.78	4.17	16.04	42.59	-44.60	15.33	24.42	16.55	18.53
Benchmark Returns:	1.83	5.35	8.21	32.46	-43.06	11.63	26.86	14.02	20.70
Excess Returns:	-0.05	-1.17	7.83	10.13	-1.54	3.70	-2.44	2.54	-2.17

## Fee Information

Vehicle Type	Available	Min. Size(\$ Mil)	Minimum Fee
Separate/Segregated	Open	---	\$300,000
Pooled/Commingled	Not Available	---	---
Institutional MFs	---	---	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$150,000	\$275,000	\$400,000	\$525,000
	60 bps	55 bps	53 bps	53 bps
Pooled/Commingled	---	---	---	---
Institutional MFs	---	---	---	---

## Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	4	12	12
Research Analysts:	0	0	0
Traders:	9	20	17

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ	0
	2010	0
	2009	0
Professionals Lost	MRQ	0
	2010	0
	2009	1

Firm Headquarters: 155 Bishopsgate  
 London, England EC2M 3XY, United Kingdom  
 Phone/Fax: 44 0 207 628 6000 / 44 0 207 638 7928  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1762  
 Firm Website: [www.baring.com](http://www.baring.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$0.0
<b>Total Number of Accounts:</b>	0
<b>Number of Portfolio Managers:</b>	---
<b>Number of Analysts:</b>	---
<b>% Employee Owned:</b>	0.00 %

**Contact Information**

Marketing Contact:	Michael Brown	Database Contact:	Gwendolyn Fritz
Title:	President	Title:	RFP Writer/Consultant Communications
Address:	470 Atlantic Avenue, Independence Wharf	Address:	Independence Wharf, 470 Atlantic Avenue
City, State, Zip Code:	Boston, Massachusetts 02210	City, State, Zip Code:	Boston, Massachusetts 02210
Phone/Fax:	6179465282 / 6179465400	Phone/Fax:	617.946.5277 / 617.946.5400
Email Address:	<a href="mailto:michael.brown@barings.com">michael.brown@barings.com</a>	Email Address:	<a href="mailto:wendy.fritz@barings.com">wendy.fritz@barings.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)	Prior QTR	YE 2010	YE 2009
Total in Firm	\$0.0	0	Total Firmwide	\$52,413.8	\$51,371.2	\$46,747.0
Total Taxable	\$0.0	0	Total Taxable	\$27,777.8	\$27,425.4	\$25,481.5
Total Tax-Exempt	\$0.0	0	Total Tax-Exempt	\$24,636.0	\$23,945.7	\$21,265.2
Total Institutional	\$0.0	0	Total Institutional	\$34,087.1	\$32,507.2	\$28,068.9

Accts Gained	Number	(\$ Million)	% Firm Assets
Current Quarter	0	\$0.0	0.0 %
2010	94	\$2,826.0	6.0 %
2009	34	\$1,212.6	0.0 %

Accts Lost	Number	(\$ Million)	% Firm Assets
Current Quarter	0	\$0.0	0.0 %
2010	20	\$1,398.0	3.0 %
2009	8	\$470.9	0.0 %

Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other
United States	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

**Assets By Geographic Region & Client Domicile**

Assets By Geographic Region & Client Domicile	Assets (\$ Million)
United States	\$0.0
Canada	\$0.0
United Kingdom	\$0.0
Continental Europe	\$0.0
Japan	\$0.0
Australia	\$0.0
Hong Kong	\$0.0
Singapore	\$0.0
Other Asia ex-Japan	\$0.0
Africa/Middle East	\$0.0
Latin America	\$0.0
Other	\$0.0

**5 Largest Accounts**

5 Largest Accounts	Aggregate (\$ Mil)
1) ---	\$---
2) ---	\$---
3) ---	\$---
4) ---	\$---
5) ---	\$---

**Ownership Information**

% Employee Owned: 0.0%  
 % Parent Owned: 100.0%  
 % Publicly Held: 0.0%  
 Parent Company Name: MassMutual  
 Total % Minority/Female Owned: 0.0%

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 7/1/1999  
 Performance Audited: Effective Date:  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil) \$30.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil) \$20.00  
 Firm Bonded: Yes Coverage (\$ Mil) \$30.00

**Firm Background Narratives**

Baring Asset Management (Barings) is a global investment management group with offices, clients and business lines spanning the world's major markets.

**History**  
 The Barings Group was founded in 1762 and established its UK asset management team in 1958. Barings was among the first to open an investment management office in the Far East over 25 years ago and launched our investment operations in the US in the late 1960s. In 1989, the asset management activities of the group were combined into one business unit -- Baring Asset Management. The Barings Group consists of Baring Asset Management Limited (BAML) and its subsidiaries including Baring International Investment Limited (BIIL) as well as Baring Asset Management LLC (BAM LLC). The Barings Group provides investment management services to clients on a global basis and has four principal companies which are located in London, Boston, Hong Kong, and Tokyo. As of March 31, 2011 the firm managed approximately US\$52.4 billion on behalf of clients located around the world.

**Ownership**  
 Baring Asset Management is a wholly-owned subsidiary of Massachusetts Mutual Life Insurance Company (MassMutual).  
 More...

Focused International Plus Equity

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE All Cap Growth Equity  
 Marketing Contact: Michael Brown  
 Title: President  
 Phone/Fax: 6179465282 / 6179465400  
 Email Address: [michael.brown@barings.com](mailto:michael.brown@barings.com)

Key Facts	
<b>Primary Capitalization:</b>	All Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-GD
<b>Total Product Assets:</b>	\$0.0
<b>Total Product Accounts:</b>	0
<b>Product Offered As:</b>	SA,CF,MF:Inst
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$0.0	0	Separate/Segregated Assets	\$0.0
Total Taxable	\$0.0	0	Pooled/Commingled Assets	\$0.0
Total Tax-Exempt	\$0.0	0	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$0.0	0	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	0	\$0.0	0.0 %
2010	20	\$378.6	0.0 %	2010	1	\$130.3	0.0 %
2009	22	\$407.8	16.5 %	2009	3	\$127.8	0.0 %

Portfolio Characteristics

Strategy Snapshot	Fundamental Characteristics	Key Country Allocations
Preferred Benchmark: MSCI EAFE-GD	Current Number Of Holdings: 60	Canada 1.30 %
Primary Capitalization: All Cap	Annual Turnover (LTM): 47 %	France: 11.95 %
Primary Style Emphasis: Growth	Current Dividend Yield: 2.40 %	Germany: 9.77 %
Current Cash Position: 3.3 %	Current P/E (12-mo Trailing): 13.17x	Japan: 20.04 %
Number of Countries in Portfolio: 17	Current P/B (12-mo Trailing): 1.87x	Netherlands: 2.01 %
Approach Towards Currency Hedging: Value Added	Earnings Growth (Past 5 Yrs): ---	Switzerland: 6.95 %
% Hedged Back to Local Currency: ---	Weighted Avg. Mkt Cap (Mil): \$25,821	United Kingdom: 23.47 %
% Max Allowed In Emerging Markets: 20.0 %	Median Market Cap (Mil): \$11,770	Emerging Markets 9.46 %

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly  
 Risk Index: MSCI EAFE-GD  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	26.32	30.93	-4.61	---	---	---	---	---	---
2 Year	18.42	18.01	0.41	---	---	---	---	---	---
3 Year	-0.94	-1.30	0.35	28.17	0.11	0.90	6.44	0.05	-0.05
4 Year	-0.29	-3.59	3.30	25.18	3.10	0.91	7.03	0.47	-0.05
5 Year	6.37	1.96	4.41	23.64	4.58	0.93	6.64	0.66	0.19
6 Year	9.80	5.77	4.03	22.28	4.30	0.94	6.26	0.64	0.34
7 Year	11.12	6.92	4.19	21.01	4.53	0.93	5.94	0.71	0.42
8 Year	13.88	9.87	4.01	20.42	4.45	0.93	5.77	0.69	0.58
9 Year	11.63	7.97	3.66	21.45	4.01	0.93	5.52	0.66	0.45
10 Year	9.85	6.12	3.73	21.07	3.99	0.94	5.31	0.70	0.37
Since Inception (9/2000)	5.40	3.00	2.40	21.49	2.56	0.96	5.47	0.44	0.14

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	2.01	5.01	9.68	39.24	-43.69	24.31	34.02	18.42	25.02
Benchmark Returns:	1.83	5.35	8.21	32.46	-43.06	11.63	26.86	14.02	20.70
Excess Returns:	0.18	-0.34	1.47	6.78	-0.64	12.67	7.16	4.41	4.33

Fee Information

Vehicle Type	Available	Min. Size (\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$20	\$190,000
Pooled/Commingled	Open	\$5	\$47,500
Institutional MFs	MOUSX	\$1	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$222,500	\$435,000	\$622,500	\$810,000
	89 bps	87 bps	83 bps	81 bps
Pooled/Commingled	\$222,500	\$435,000	\$622,500	\$810,000
	89 bps	87 bps	83 bps	81 bps
Institutional MFs	---	---	---	---

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	---	---	---
Research Analysts:	---	---	---
Traders:	---	---	---

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ 0	0
	2010 1	8
	2009 1	0
Professionals Lost	MRQ 0	0
	2010 0	3
	2009 0	0

Firm Headquarters: 100 Front Street, Suite 1230  
 West Conshohocken, Pennsylvania 19428, United States

Phone/Fax: 001.610.234.4208 /

Registered Investment Advisor: Yes

Year Firm Founded:

Firm Website: [echopointim.com](http://echopointim.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$0.0
<b>Total Number of Accounts:</b>	0
<b>Number of Portfolio Managers:</b>	---
<b>Number of Analysts:</b>	---
<b>% Employee Owned:</b>	---

## Contact Information

Marketing Contact:	Natalie Marvi-Romeo	Database Contact:	Bill Perrone
Title:	Director of Marketing & Client Service	Title:	Marketing Associate
Address:	100 Front Street, Suite 1230	Address:	100 Tower Bridge, Suite 1230
City, State, Zip Code:	West Conshohocken, Pennsylvania 19428	City, State, Zip Code:	West Conshohocken, Pennsylvania 19428
Phone/Fax:	0016102344208 /	Phone/Fax:	610-234-4215 /
Email Address:	<a href="mailto:natalie.marvi-romeo@echopointim.com">natalie.marvi-romeo@echopointim.com</a>	Email Address:	<a href="mailto:bill.perrone@echopointim.com">bill.perrone@echopointim.com</a>

## Asset & Account Information

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009	
Total in Firm	\$0.0	0	Total Firmwide			\$1,684.0	\$1,559.0	\$0.0	
Total Taxable	\$0.0	0	Total Taxable			\$753.4	\$0.0	\$0.0	
Total Tax-Exempt	\$0.0	0	Total Tax-Exempt			\$930.7	\$0.0	\$0.0	
Total Institutional	\$0.0	0	Total Institutional			\$930.8	\$0.0	\$0.0	
Accts Gained	Number	(\$ Million)	% Firm Assets			<b>Assets By Geographic Region &amp; Client Domicile</b>			
Current Quarter	0	\$0.0	0.0 %			<b>Assets (\$ Million)</b>			
2010	0	\$0.0	0.0 %			United States	\$0.0		
2009	0	\$0.0	0.0 %			Canada	\$0.0		
						United Kingdom	\$0.0		
						Continental Europe	\$0.0		
						Japan	\$0.0		
						Australia	\$0.0		
						Hong Kong	\$0.0		
						Singapore	\$0.0		
						Other Asia ex-Japan	\$0.0		
						Africa/Middle East	\$0.0		
						Latin America	\$0.0		
						Other	\$0.0		
Accts Lost	Number	(\$ Million)	% Firm Assets			<b>5 Largest Accounts</b>			
Current Quarter	0	\$0.0	0.0 %			1) ---	<b>Aggregate (\$ Mil)</b>		
2010	6	\$1,440.1	49.5 %			2) ---	\$---		
2009	0	\$0.0	0.0 %			3) ---	\$---		
						4) ---	\$---		
						5) ---	\$---		
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other				
United States	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0				

## Ownership Information

% Employee Owned: ---

% Parent Owned: ---

% Publicly Held: ---

Parent Company Name: Old Mutual (US) Holdings, Inc.

Total % Minority/Female Owned: ---

## GIPS Compliance & Insurance Information

Firm GIPS Compliant: Yes Effective Date: 10/1/2010

Performance Audited: Effective Date:

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Errors & Omissions Insurance: Yes Coverage (\$ Mil) \$20.00

Fiduciary Liability Insurance: Yes Coverage (\$ Mil) \$10.00

Firm Bonded: Yes Coverage (\$ Mil) \$10.00

## Firm Background Narratives

Echo Point is an international growth equity investment boutique, with an experienced investment team managing portfolios for institutional and sub-advisory clients in the U.S. and Canada. The investment team, led by Hans van den Berg, has consistently followed the same fundamental investment philosophy and applied the same disciplined, repeatable process since 1995. The ability to identify high-quality growth companies against a 3 to 5-year investment horizon, and to actively manage risk, has allowed Echo Point to consistently deliver strong relative performance. Past performance is not a guarantee of future results.

Located in suburban Philadelphia, Echo Point is an affiliate of Old Mutual Asset Management, a global, multi-boutique firm with nearly \$262 Billion in assets under management as of September 30, 2010. This affiliation provides Echo Point with world class infrastructure and support for all non-investment related functions.

### Their History

The Echo Point team, who worked together at Morgan Stanley and Invesco, joined Old Mutual in October 2010. As a result, they enjoy the unusual distinction of having a 15-year continuous investment track record. They are the same team in a new home, with access to the resources of Old Mutual and a name to reflect their vision: Echo Point - consistent and repeatable.

More...

International Growth Equity

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE Large Cap Growth Equity  
 Marketing Contact: Natalie Marvi-Romeo  
 Title: Director of Marketing & Client Service  
 Phone/Fax: 0016102344208 /  
 Email Address: [natalie.marvi-romeo@echopointim.com](mailto:natalie.marvi-romeo@echopointim.com)

Key Facts	
<b>Primary Capitalization:</b>	Mid-Large Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-ND
<b>Total Product Assets:</b>	\$1,367.0
<b>Total Product Accounts:</b>	6
<b>Product Offered As:</b>	SA
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$1,367.0	6	Separate/Segregated Assets	\$1,321.0
Total Taxable	\$1,277.0	3	Pooled/Commingled Assets	\$46.0
Total Tax-Exempt	\$90.0	3	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$638.0	0	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	0	\$0.0	0.0 %
2010	0	\$0.0	0.0 %	2010	7	\$1,642.9	0.0 %
2009	5	\$349.9	1.0 %	2009	2	\$34.2	0.0 %

Portfolio Characteristics

Strategy Snapshot	Fundamental Characteristics	Key Country Allocations
Preferred Benchmark: MSCI EAFE-ND	Current Number Of Holdings: 73	Canada 1.14 %
Primary Capitalization: Mid-Large Cap	Annual Turnover (LTM): 34 %	France: 8.61 %
Primary Style Emphasis: Growth	Current Dividend Yield: 2.22 %	Germany: 6.67 %
Current Cash Position: 0.6 %	Current P/E (12-mo Trailing): 4.34x	Japan: 14.51 %
Number of Countries in Portfolio: 30	Current P/B (12-mo Trailing): 0.62x	Netherlands: ---
Approach Towards Currency Hedging: Not Used	Earnings Growth (Past 5 Yrs): ---	Switzerland: 11.44 %
% Hedged Back to Local Currency: ---	Weighted Avg. Mkt Cap (Mil): \$32,434	United Kingdom: 11.44 %
% Max Allowed In Emerging Markets: 15.0 %	Median Market Cap (Mil): \$12,803	Emerging Markets 15.08 %

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly  
 Risk Index: MSCI EAFE-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	29.33	30.36	-1.02	---	---	---	---	---	---
2 Year	19.44	17.51	1.94	---	---	---	---	---	---
3 Year	-2.53	-1.77	-0.76	32.26	-0.28	1.04	5.16	-0.15	-0.09
4 Year	-3.50	-4.06	0.56	28.10	1.08	1.04	4.69	0.12	-0.16
5 Year	2.48	1.48	1.00	25.76	1.22	1.04	4.24	0.24	0.02
6 Year	6.60	5.28	1.32	24.20	1.27	1.05	4.04	0.33	0.18
7 Year	8.18	6.44	1.74	22.96	1.60	1.05	3.77	0.46	0.26
8 Year	10.90	9.38	1.53	22.11	1.26	1.04	3.58	0.43	0.40
9 Year	8.70	7.49	1.20	22.91	1.17	1.02	3.63	0.33	0.29
10 Year	6.81	5.66	1.15	22.62	1.13	1.03	3.56	0.32	0.21
Since Inception (12/1995)	7.63	5.06	2.57	21.38	2.44	1.04	3.88	0.66	0.21

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	2.56	4.76	9.40	39.58	-48.12	16.56	28.97	19.43	22.55
Benchmark Returns:	1.56	4.98	7.75	31.78	-43.38	11.17	26.34	13.54	20.25
Excess Returns:	1.00	-0.22	1.65	7.81	-4.74	5.39	2.63	5.89	2.30

Fee Information

Vehicle Type	Available	Min. Size(\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$20	---
Pooled/Commingled	Open	\$5	---
Institutional MFs	Not Available	---	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$187,500	\$362,500	\$525,000	\$675,000
	75 bps	73 bps	70 bps	68 bps
Pooled/Commingled	\$187,500	\$362,500	\$525,000	\$675,000
	75 bps	73 bps	70 bps	68 bps
Institutional MFs	---	---	---	---

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	4	30	1
Research Analysts:	2	1	1
Traders:	0	0	0

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ 0	1
	2010 0	0
	2009 0	1
Professionals Lost	MRQ 0	0
	2010 0	0
	2009 0	1

Firm Headquarters: One Franklin Parkway  
San Mateo, California 94403, United States

Phone/Fax: 650.312.2000 / 954.527.2137

Registered Investment Advisor: Yes

Year Firm Founded: 1947

Firm Website: [www.franklintempleton.com](http://www.franklintempleton.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$734,167.3
<b>Total Number of Accounts:</b>	3,164
<b>Number of Portfolio Managers:</b>	280
<b>Number of Analysts:</b>	212
<b>% Employee Owned:</b>	0.00 %

### Contact Information

Marketing Contact: Dennis Rothe  
Title: SVP  
Address: 600 Fifth Avenue,  
City, State, Zip Code: New York, New York 10020  
Phone/Fax: 203.750.8725 /  
Email Address: [drote@frk.com](mailto:drote@frk.com)

Database Contact: Sarah Burns  
Title: Supv-Global RFP Management  
Address: Las Olas Place 300 S.E. Second Street,  
City, State, Zip Code: Ft. Lauderdale, Florida 33301  
Phone/Fax: 954 527 2176 /  
Email Address: [sburns@templeton.com](mailto:sburns@templeton.com)

### Asset & Account Information

Current Totals	Assets (\$ Mil)	Accounts				Historical Assets(\$ Million)	Prior QTR	YE 2010	YE 2009	
Total in Firm	\$734,167.3	3,164				Total Firmwide	\$703,514.6	\$670,719.4	\$553,515.8	
Total Taxable	\$540,234.4	2,535				Total Taxable	\$499,514.2	\$468,050.6	\$364,090.9	
Total Tax-Exempt	\$193,933.0	629				Total Tax-Exempt	\$204,000.4	\$202,668.9	\$189,425.0	
Total Institutional	\$182,184.0	783				Total Institutional	\$178,887.3	\$171,715.7	\$155,609.0	
Accts Gained	Number	(\$ Million)	% Firm Assets		<b>Assets By Geographic Region &amp; Client Domicile</b>					
Current Quarter	19	\$2,218.2	0.3 %		<b>Assets (\$ Million)</b>					
2010	78	\$7,174.1	1.2 %		United States	\$470,312.2				
2009	50	\$3,252.7	0.8 %		Canada	\$35,083.0				
					United Kingdom	\$7,871.8				
					Continental Europe	\$161,645.7				
					Japan	\$1,129.2				
					Australia	\$6,567.9				
					Hong Kong	\$1,327.4				
					Singapore	\$787.6				
					Other Asia ex-Japan	\$2,821.5				
					Africa/Middle East	\$7,307.2				
					Latin America	\$840.0				
					Other	\$38,474.0				
Accts Lost	Number	(\$ Million)	% Firm Assets		<b>5 Largest Accounts</b>					
Current Quarter	16	\$758.8	0.1 %		<b>Aggregate (\$ Mil)</b>					
2010	55	\$4,508.6	0.8 %		1) Public Fund					
2009	71	\$4,690.0	1.2 %		2) Public Fund					
					3) Insurance					
					4) Wrap Accounts					
					5) ---					
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other					
United States	\$194,268.1	\$185,603.9	\$89,121.9	\$1,318.3	\$0.0					
Canada	\$23,640.0	\$7,118.9	\$4,324.1	\$0.0	\$0.0					
United Kingdom	\$7,111.2	\$680.1	\$0.0	\$0.0	\$0.0					
Europe ex-UK	\$58,969.6	\$92,965.8	\$3,425.3	\$714.5	\$0.0					
Australia	\$887.8	\$3,349.4	\$0.0	\$2,330.7	\$0.0					
Japan	\$508.5	\$620.6	\$0.0	\$0.0	\$0.0					
Hong Kong	\$564.3	\$614.1	\$149.0	\$0.0	\$0.0					
Singapore	\$0.0	\$787.6	\$0.0	\$0.0	\$0.0					
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0					
China	\$453.9	\$0.0	\$0.0	\$0.0	\$0.0					
Latin America	\$247.6	\$1,722.1	\$1.2	\$0.0	\$0.0					
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0					
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0					
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0					
Emerging Markets	\$12,537.6	\$9,186.8	\$2,725.1	\$19.2	\$0.0					
Other	\$21,606.0	\$6,492.3	\$21.3	\$0.0	\$0.0					

### Ownership Information

% Employee Owned: 0.0%

% Parent Owned: 34.0%

% Publicly Held: ---

Parent Company Name: \_\_\_\_\_

Total % Minority/Female Owned: ---

### GIPS Compliance & Insurance Information

Firm GIPS Compliant: Yes Effective Date: 1/1/2000

Performance Audited: Effective Date: \_\_\_\_\_

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Errors & Omissions Insurance: Yes Coverage (\$ Mil): \$100.00

Fiduciary Liability Insurance: Yes Coverage (\$ Mil): \$100.00

Firm Bonded: Yes Coverage (\$ Mil): \$90.00

### Firm Background Narratives

Having established a global footprint well in advance of the competition, Franklin Templeton is uniquely positioned to distribute its investment expertise to clients worldwide. Headquartered in San Mateo, California, the firm is a leader in global investing, offering investment products and services in over 170 countries, with offices in over 30 countries. Our strong global platform and rapidly expanding distribution channels are supported by on-the-ground research capabilities and innovative technology.

Resources, Inc. is the holding company for various subsidiaries that form the global investment management organization known as Franklin Templeton Investments. It is comprised of the following six distinct investment management platforms:

- <sup>1</sup> Franklin Equity Group (formerly Franklin Global Advisers)
- <sup>1</sup> Templeton
- <sup>1</sup> Franklin Templeton Real Asset Advisors
- <sup>1</sup> Franklin Templeton Fixed Income
- <sup>1</sup> Mutual Series
- <sup>1</sup> Darby Investments

More...

## Franklin Non-US Equity

## Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE Large Cap Growth Equity  
 Marketing Contact: Dennis Rothe  
 Title: SVP  
 Phone/Fax: 203.750.8725 /  
 Email Address: [drothe@frk.com](mailto:drothe@frk.com)

Key Facts	
<b>Primary Capitalization:</b>	Mid-Large Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-GD
<b>Total Product Assets:</b>	\$1,804.4
<b>Total Product Accounts:</b>	10
<b>Product Offered As:</b>	SA,MF;Retail
<b>Investment Focus:</b>	Long Only

## Asset &amp; Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$1,804.4	10	Separate/Segregated Assets	\$1,763.1
Total Taxable	\$45.6	1	Pooled/Commingled Assets	\$0.0
Total Tax-Exempt	\$1,758.9	9	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$1,753.6	8	Mutual Fund/Retail Assets	\$41.3

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	1	\$163.3	13.1 %	Current Quarter	0	\$0.0	0.0 %
2010	1	\$97.9	10.3 %	2010	0	\$0.0	0.0 %
2009	0	\$0.0	0.0 %	2009	1	\$21.3	2.8 %

## Portfolio Characteristics

## Strategy Snapshot

Preferred Benchmark: MSCI EAFE-GD  
 Primary Capitalization: Mid-Large Cap  
 Primary Style Emphasis: Growth  
 Current Cash Position: 3.6 %  
 Number of Countries in Portfolio: 19  
 Approach Towards Currency Hedging: Not Used  
 % Hedged Back to Local Currency: ---  
 % Max Allowed In Emerging Markets: 20.0 %

## Fundamental Characteristics

Current Number Of Holdings: 42  
 Annual Turnover (LTM): 23 %  
 Current Dividend Yield: 2.57 %  
 Current P/E (12-mo Trailing): 18.80x  
 Current P/B (12-mo Trailing): 2.88x  
 Earnings Growth (Past 5 Yrs): 14.52 %  
 Weighted Avg. Mkt Cap (Mil): \$16,260  
 Median Market Cap (Mil): \$10,379

## Key Country Allocations

Canada: 2.68 %  
 France: 4.99 %  
 Germany: 5.33 %  
 Japan: 2.87 %  
 Netherlands: 2.30 %  
 Switzerland: 12.78 %  
 United Kingdom: 21.61 %  
 Emerging Markets: 5.97 %

## Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly

Risk Index: MSCI EAFE-GD  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	31.25	30.93	0.32	---	---	---	---	---	---
2 Year	24.74	18.01	6.72	---	---	---	---	---	---
3 Year	4.43	-1.30	5.73	33.91	6.62	1.07	8.55	0.67	0.12
4 Year	1.49	-3.59	5.08	29.97	6.19	1.09	7.82	0.65	0.01
5 Year	7.53	1.96	5.57	27.38	5.85	1.09	7.13	0.78	0.21
6 Year	10.55	5.77	4.78	25.32	4.57	1.08	6.66	0.72	0.33
7 Year	10.97	6.92	4.04	23.99	3.73	1.07	6.27	0.64	0.37
8 Year	13.06	9.87	3.19	22.91	2.76	1.05	6.02	0.53	0.48
9 Year	10.16	7.97	2.19	23.61	2.13	1.02	6.16	0.36	0.35
10 Year	7.84	6.12	1.72	23.53	1.69	1.04	6.11	0.28	0.25
Since Inception (3/1988)	8.34	5.91	2.43	19.83	2.97	0.93	8.65	0.28	0.22

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	1.94	6.16	14.83	63.66	-50.32	20.82	30.35	15.88	18.63
Benchmark Returns:	1.83	5.35	8.21	32.46	-43.06	11.63	26.86	14.02	20.70
Excess Returns:	0.11	0.81	6.62	31.20	-7.27	9.19	3.49	1.86	-2.07

## Fee Information

Vehicle Type	Available	Min. Size(\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$25	---
Pooled/Commingled	Open	\$1	---
Institutional MFs	---	\$1	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$175,000	\$312,500	\$437,500	\$562,500
	70 bps	63 bps	58 bps	56 bps
Pooled/Commingled	\$187,500	\$350,000	\$500,000	\$650,000
	75 bps	70 bps	67 bps	65 bps
Institutional MFs	\$295,000	\$590,000	\$885,000	\$1,180,000
	118 bps	118 bps	118 bps	118 bps

## Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	4	25	13
Research Analysts:	8	11	6
Traders:	33	16	11

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ	0
	2010	0
	2009	0
Professionals Lost	MRQ	0
	2010	0
	2009	0

Firm Headquarters: 40 Rowes Wharf  
 Boston, Massachusetts 02110, United States  
 Phone/Fax: 617.330.7500 / 617.261.0134  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1977  
 Firm Website: [www.gmo.com](http://www.gmo.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$106,031.8
<b>Total Number of Accounts:</b>	1,461
<b>Number of Portfolio Managers:</b>	47
<b>Number of Analysts:</b>	71
<b>% Employee Owned:</b>	---

**Contact Information**

Marketing Contact: Holly Carson	Database Contact: Consultant Support
Title: Head of US Consultant Relations	Title: Consultant Relations Data Analyst
Address: 40 Rowes Wharf,	Address: 40 Rowes Wharf,
City, State, Zip Code: Boston, Massachusetts 02110	City, State, Zip Code: Boston, Massachusetts 02110
Phone/Fax: 617-330-7500 /	Phone/Fax: 617.790.5073 / 617.310.4449
Email Address: <a href="mailto:holly.carson@gmo.com">holly.carson@gmo.com</a>	Email Address: <a href="mailto:consultantsupport@gmo.com">consultantsupport@gmo.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)	Prior QTR	YE 2010	YE 2009
Total in Firm	\$106,031.8	1,461	Total Firmwide	\$108,277.2	\$106,846.4	\$106,859.2
Total Taxable	\$25,040.9	411	Total Taxable	\$25,349.4	\$25,244.4	\$24,402.5
Total Tax-Exempt	\$80,990.9	1,051	Total Tax-Exempt	\$82,927.8	\$81,602.0	\$82,456.6
Total Institutional	\$106,031.8	1,461	Total Institutional	\$108,277.2	\$106,846.4	\$106,859.2

Accts Gained	Number	(\$ Million)	% Firm Assets
Current Quarter	4	\$255.7	0.2 %
2010	83	\$3,036.9	2.9 %
2009	67	\$2,815.2	3.3 %

Accts Lost	Number	(\$ Million)	% Firm Assets
Current Quarter	23	\$1,853.3	1.7 %
2010	70	\$4,707.8	4.4 %
2009	39	\$2,981.6	3.5 %

**Assets By Geographic Region & Client Domicile**

	Assets (\$ Million)
United States	\$80,475.4
Canada	\$3,564.5
United Kingdom	\$8,476.9
Continental Europe	\$4,629.4
Japan	\$21.9
Australia	\$6,135.4
Hong Kong	\$11.3
Singapore	\$748.6
Other Asia ex-Japan	\$946.5
Africa/Middle East	\$429.2
Latin America	\$10.1
Other	\$582.7

**5 Largest Accounts**

	Aggregate (\$ Mil)
1) Sub-Advised	\$8,244.4
2) Sub-Advised	\$4,912.5
3) Public Fund	\$1,950.1
4) Public Fund	\$1,666.5
5) Public Fund	\$1,439.2

Assets By Type	Equity	Fixed Inc.	Balanced	AiTs	Other
United States	\$21,472.2	\$4,635.3	\$0.0	\$2,676.8	\$0.0
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
United Kingdom	\$2,767.9	\$0.0	\$0.0	\$0.0	\$0.0
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Australia	\$2,107.1	\$0.0	\$0.0	\$19.1	\$0.0
Japan	\$39.5	\$0.0	\$0.0	\$0.0	\$0.0
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EAFE	\$33,252.4	\$828.6	\$0.0	\$0.0	\$0.0
Global	\$8,172.3	\$341.4	\$0.0	\$0.0	\$0.0
Emerging Markets	\$16,672.9	\$3,921.2	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$1,857.5	\$0.0	\$5,627.2	\$1,640.4

**Ownership Information**

% Employee Owned: ---  
 % Parent Owned: ---  
 % Publicly Held: ---  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: ---

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 1/1/1993  
 Performance Audited: Effective Date: \_\_\_\_\_  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil) \$75.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil) \$10.00  
 Firm Bonded: Yes Coverage (\$ Mil) \$10.00

**Firm Background Narratives**

Jeremy Grantham, Richard Mayo and Eyk Van Otterloo founded GMO in 1977 as a private investment firm to serve institutional investors with superior investment performance and independent, unbiased advice and counsel. On December 31, 1979, GMO registered with the U.S. Securities and Exchange Commission as an Investment Adviser under the Investment Advisers Act of 1940, as amended. The firm began by managing traditional U.S. equity portfolios based on fundamental research. In 1981, the firm took the same value-oriented investment discipline and launched the International Active division with a focus on large cap non-U.S. equities. In 1982, GMO created the Quantitative division to augment its existing value-based investment style.

Because GMO was able to consistently provide value-added performance in specific asset classes, many of our clients requested that we allocate assets and advise them across a broad spectrum of the capital markets. The resulting asset allocation style and approach have been in place since 1988, when we began managing asset allocation accounts for our clients.

In 1993, GMO formed the Global Fixed Income and the Emerging Markets Equity teams. GMO became a Limited Liability Company in 1996.

GMO began managing alternative asset classes in 1996 with the inception of the GMO Real Estate Strategy and the GMO Emerging Country Debt Long/Short Strategy. In 1997, we augmented our alternative investment capabilities with the formation of the Renewable Resources Division. GMO currently manages a variety of absolute return strategies including a GMO hedge fund-of-funds. *More...*



GMO International Growth Strategy

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE Large Cap Growth Equity  
 Marketing Contact: Holly Carson  
 Title: Head of US Consultant Relations  
 Phone/Fax: 617-330-7500 /  
 Email Address: [holly.carson@gmo.com](mailto:holly.carson@gmo.com)

Key Facts	
<b>Primary Capitalization:</b>	Large Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE Growth-ND
<b>Total Product Assets:</b>	\$3,938.0
<b>Total Product Accounts:</b>	44
<b>Product Offered As:</b>	SA,MF:Inst
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$3,938.0	44	Separate/Segregated Assets	\$278.0
Total Taxable	\$278.0	1	Pooled/Commingled Assets	\$0.0
Total Tax-Exempt	\$3,660.0	43	Mutual Fund/Institutional Assets	\$3,660.0
Total Institutional	\$3,938.0	44	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	1	\$16.9	0.5 %
2010	0	\$0.0	0.0 %	2010	2	\$510.6	13.9 %
2009	0	\$0.0	0.0 %	2009	0	\$0.0	0.0 %

Portfolio Characteristics

Strategy Snapshot	Fundamental Characteristics	Key Country Allocations
Preferred Benchmark: MSCI EAFE Growth-ND	Current Number Of Holdings: 403	Canada 3.50 %
Primary Capitalization: Large Cap	Annual Turnover (LTM): 59 %	France: 7.60 %
Primary Style Emphasis: Growth	Current Dividend Yield: 2.80 %	Germany: 13.70 %
Current Cash Position: 1.0 %	Current P/E (12-mo Trailing): 15.90x	Japan: 18.00 %
Number of Countries in Portfolio: 22	Current P/B (12-mo Trailing): 2.30x	Netherlands: 1.90 %
Approach Towards Currency Hedging: Value Added	Earnings Growth (Past 5 Yrs): 9.70 %	Switzerland: 9.20 %
% Hedged Back to Local Currency: ---	Weighted Avg. Mkt Cap (Mil): \$46,300	United Kingdom: 25.50 %
% Max Allowed In Emerging Markets: 0.0 %	Median Market Cap (Mil): \$5,600	Emerging Markets ---

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly  
 Risk Index: MSCI EAFE Growth-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	35.65	31.25	4.40	---	---	---	---	---	---
2 Year	21.75	19.39	2.36	---	---	---	---	---	---
3 Year	1.18	-1.85	3.02	25.98	2.51	0.89	4.33	0.70	0.03
4 Year	-0.23	-2.50	2.27	22.73	1.78	0.89	3.80	0.60	-0.06
5 Year	4.55	2.51	2.04	20.93	2.03	0.90	3.57	0.57	0.13
6 Year	7.60	6.10	1.50	19.69	1.83	0.91	3.58	0.42	0.27
7 Year	8.91	6.83	2.08	18.76	2.48	0.90	3.52	0.59	0.36
8 Year	10.77	9.10	1.67	18.08	2.33	0.90	3.51	0.48	0.48
9 Year	9.41	7.06	2.35	19.09	2.75	0.90	3.47	0.68	0.39
10 Year	---	5.28	---	---	---	---	---	---	---
Since Inception (3/2002)	8.90	6.41	2.49	18.61	2.84	0.90	3.39	0.73	0.37

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	4.78	6.81	14.66	25.60	-37.86	15.11	25.39	13.93	20.85
Benchmark Returns:	2.11	4.38	12.25	29.36	-42.70	16.45	22.33	13.28	16.12
Excess Returns:	2.67	2.43	2.41	-3.76	4.84	-1.35	3.06	0.65	4.72

Fee Information

Vehicle Type	Available	Min. Size (\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$200	---
Pooled/Commingled	Not Available	---	---
Institutional MFs	GMIGX	\$10	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$187,500	\$375,000	\$525,000	\$675,000
	75 bps	75 bps	70 bps	68 bps
Pooled/Commingled	---	---	---	---
Institutional MFs	\$162,500	\$325,000	\$487,500	\$650,000
	65 bps	65 bps	65 bps	65 bps

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	15	15	12
Research Analysts:	21	10	5
Traders:	7	14	10

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ 0	2
	2010 0	1
	2009 2	4
Professionals Lost	MRQ 0	0
	2010 0	1
	2009 0	0

Firm Headquarters: 20 Bay Street, Suite 1905  
 Toronto, Ontario M5J 2N8, Canada  
 Phone/Fax: 416.364.2299 / 416.364.9067  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1995  
 Firm Website: [www.gryphonintl.com](http://www.gryphonintl.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$6,742.0
<b>Total Number of Accounts:</b>	294
<b>Number of Portfolio Managers:</b>	2
<b>Number of Analysts:</b>	4
<b>% Employee Owned:</b>	70.00 %

**Contact Information**

Marketing Contact:	Carol Sauve	Database Contact:	Pamela Wong
Title:	General Manager, Operations	Title:	Portfolio Analytics
Address:	20 Bay St, Suite 1905,	Address:	Suite 1905, 20 Bay Street
City, State, Zip Code:	Toronto, Ontario M5J 2N8	City, State, Zip Code:	Toronto, Ontario M5J 2N8
Phone/Fax:	416.364.2299 / 416.364.9067	Phone/Fax:	416.364.2299 / 416.364.9067
Email Address:	<a href="mailto:giioperations@gryphon.ca">giioperations@gryphon.ca</a>	Email Address:	<a href="mailto:pwong@gryphon.ca">pwong@gryphon.ca</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)	Prior QTR	YE 2010	YE 2009
Total in Firm	\$6,742.0	294	Total Firmwide	\$6,539.0	\$6,274.0	\$5,283.0
Total Taxable	\$586.0	98	Total Taxable	\$567.0	\$574.0	\$546.0
Total Tax-Exempt	\$6,156.0	196	Total Tax-Exempt	\$5,972.0	\$5,700.0	\$4,736.0
Total Institutional	\$6,497.0	196	Total Institutional	\$6,298.0	\$0.0	\$5,070.0

Accts Gained	Number	(\$ Million)	% Firm Assets
Current Quarter	15	\$114.7	1.8 %
2010	32	\$326.8	3.3 %
2009	23	\$245.7	7.3 %

Accts Lost	Number	(\$ Million)	% Firm Assets
Current Quarter	3	\$2.0	0.0 %
2010	25	\$174.7	2.4 %
2009	47	\$96.3	3.0 %

Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other
United States	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Assets By Geographic Region & Client Domicile	Assets (\$ Million)
United States	\$5,666.0
Canada	\$964.0
United Kingdom	\$0.0
Continental Europe	\$0.0
Japan	\$0.0
Australia	\$110.0
Hong Kong	\$0.0
Singapore	\$0.0
Other Asia ex-Japan	\$0.0
Africa/Middle East	\$0.0
Latin America	\$0.0
Other	\$2.0

5 Largest Accounts	Aggregate (\$ Mil)
1) Corporate	\$336.0
2) Public Fund	\$312.0
3) Public Fund	\$251.0
4) Public Fund	\$249.0
5) Healthcare	\$195.0

**Ownership Information**

% Employee Owned: 70.0%  
 % Parent Owned: ---  
 % Publicly Held: ---  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: ---

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 1/1/1999  
 Performance Audited: Effective Date: \_\_\_\_\_  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil): \$10.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil): ---  
 Firm Bonded: Yes Coverage (\$ Mil): \$0.50

**Firm Background Narratives**

Gryphon International Investment Corporation (GIIC) was incorporated in 1995 as a joint venture between its two principals Alexander (Alex) Becks and Lawrence (Larry) McManus and Gryphon Investment Counsel (GIC). On April 1, 1996, the firm began offering EAFE Equities to clients. In 1998, GIIC extended its product offering to include U.S. Equities, which when bundled with the EAFE Equities created a Global Equity product. The firm has grown both by assets and personnel, but the overall strategy and philosophy have remained consistent since its inception.

GIICs founding partners, Alex Becks, Chairman and CFO and Larry McManus, President, CEO, Secretary and Chief Compliance Officer each hold 35% of the GIIC voting shares, with Gryphon Investment Counsel, Inc., the related company to GIIC, holding 30%. While no changes have occurred in the owners of the firm, the percentage ownership was changed to that as described above in February 2008.

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE All Cap Growth Equity  
 Marketing Contact: Carol Sauve  
 Title: General Manager, Operations  
 Phone/Fax: 416.364.2299 / 416.364.9067  
 Email Address: [glicoperations@gryphon.ca](mailto:glicoperations@gryphon.ca)

Key Facts	
<b>Primary Capitalization:</b>	All Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-ND
<b>Total Product Assets:</b>	\$5,866.0
<b>Total Product Accounts:</b>	275
<b>Product Offered As:</b>	
<b>Investment Focus:</b>	Long Only

**Asset & Account Information**

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$5,866.0	275	Separate/Segregated Assets	\$3,020.0
Total Taxable	\$441.0	93	Pooled/Commingled Assets	\$2,846.0
Total Tax-Exempt	\$5,426.0	182	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$5,625.0	179	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	14	\$74.8	1.4 %	Current Quarter	3	\$2.0	0.0 %
2010	31	\$312.1	3.3 %	2010	24	\$152.3	2.3 %
2009	22	\$225.4	6.7 %	2009	44	\$84.7	3.2 %

**Portfolio Characteristics**

Strategy Snapshot	Fundamental Characteristics	Key Country Allocations
Preferred Benchmark: MSCI EAFE-ND	Current Number Of Holdings: 52	Canada 0.00 %
Primary Capitalization: All Cap	Annual Turnover (LTM): 11 %	France: 18.06 %
Primary Style Emphasis: Growth	Current Dividend Yield: 2.30 %	Germany: 15.31 %
Current Cash Position: 3.2 %	Current P/E (12-mo Trailing): 14.50x	Japan: 22.98 %
Number of Countries in Portfolio: 13	Current P/B (12-mo Trailing): 2.40x	Netherlands: 10.74 %
Approach Towards Currency Hedging: Not Used	Earnings Growth (Past 5 Yrs): ---	Switzerland: 7.26 %
% Hedged Back to Local Currency: ---	Weighted Avg. Mkt Cap (Mil): \$34,455	United Kingdom: 4.47 %
% Max Allowed In Emerging Markets: 10.0 %	Median Market Cap (Mil): \$8,827	Emerging Markets 4.67 %

**Performance Information**

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly  
 Risk Index: MSCI EAFE-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	31.30	30.36	0.94	---	---	---	---	---	---
2 Year	24.69	17.51	7.18	---	---	---	---	---	---
3 Year	6.27	-1.77	8.04	29.90	7.99	0.97	4.78	1.68	0.20
4 Year	1.42	-4.06	5.48	26.59	5.57	0.98	4.83	1.13	0.01
5 Year	6.49	1.48	5.02	24.11	4.99	0.97	4.60	1.09	0.19
6 Year	8.08	5.28	2.80	22.35	2.90	0.96	5.16	0.54	0.26
7 Year	9.21	6.44	2.77	20.97	2.99	0.94	5.15	0.54	0.34
8 Year	11.22	9.38	1.84	19.92	2.46	0.91	5.65	0.33	0.46
9 Year	9.90	7.49	2.41	20.88	2.84	0.91	5.44	0.44	0.38
10 Year	9.75	5.66	4.09	20.80	4.39	0.91	6.28	0.65	0.37
Since Inception (3/1999)	10.27	3.90	6.36	20.39	6.52	0.93	6.79	0.94	0.37

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	2.12	5.83	15.01	51.23	-44.13	15.85	23.61	9.93	19.35
Benchmark Returns:	1.56	4.98	7.75	31.78	-43.38	11.17	26.34	13.54	20.25
Excess Returns:	0.56	0.85	7.26	19.46	-0.75	4.68	-2.73	-3.61	-0.90

**Fee Information**

Vehicle Type	Available	Min. Size (\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$50	---
Pooled/Commingled	Open	\$3	---
Mutual Fund	---	---	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$180,000	\$330,000	\$455,000	\$580,000
	72 bps	66 bps	61 bps	58 bps
Pooled/Commingled	\$180,000	\$330,000	\$455,000	\$580,000
	72 bps	66 bps	61 bps	58 bps
Mutual Fund	---	---	---	---

**Professional Information**

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	2	37	15
Research Analysts:	4	17	4
Traders:	2	26	14

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ 0	0
	2010 0	0
	2009 0	1
Professionals Lost	MRQ 0	0
	2010 0	0
	2009 0	1

Firm Headquarters: 201 Bishopsgate  
 London, England EC2M 3AE, United Kingdom  
 Phone/Fax: +44 (0)20 7818 1818 / +44 (0)20 7818 1819  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1934  
 Firm Website: [www.henderson.com](http://www.henderson.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$0.0
<b>Total Number of Accounts:</b>	0
<b>Number of Portfolio Managers:</b>	---
<b>Number of Analysts:</b>	---
<b>% Employee Owned:</b>	13.40 %

**Contact Information**

Marketing Contact:	Nancy McNally	Database Contact:	Ricky Prior
Title:	Director of Consultant Relations	Title:	Consultant Database Associate
Address:	245 Park Avenue, 24th Floor,	Address:	201 Bishopsgate,
City, State, Zip Code:	New York, New York 10167	City, State, Zip Code:	London, England EC2M 3AE
Phone/Fax:	212-672-1973 / +1-212-792 - 4001	Phone/Fax:	+44 0207 818 2199 /
Email Address:	<a href="mailto:Nancy_McNally@hendersonna.com">Nancy_McNally@hendersonna.com</a>	Email Address:	<a href="mailto:ricky.prior@henderson.com">ricky.prior@henderson.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009
Total in Firm	\$0.0	0	Total Firmwide		\$96,901.1	\$96,457.2	\$93,386.7	
Total Taxable	\$0.0	0	Total Taxable		\$66,966.8	\$66,898.2	\$0.0	
Total Tax-Exempt	\$0.0	0	Total Tax-Exempt		\$29,934.3	\$25,559.1	\$0.0	
Total Institutional	\$0.0	0	Total Institutional		\$59,058.6	\$60,588.0	\$0.0	
Accts Gained	Number	(\$ Million)	Assets By Geographic Region & Client Domicile			Assets (\$ Million)		
Current Quarter	0	\$0.0	0.0 %	United States		\$0.0		
2010	0	\$0.0	0.0 %	Canada		\$0.0		
2009	0	\$0.0	0.0 %	United Kingdom		\$0.0		
Accts Lost	Number	(\$ Million)	Other Asia ex-Japan <td></td> <td></td> <td></td>					
Current Quarter	0	\$0.0	0.0 %	Continental Europe		\$0.0		
2010	0	\$0.0	0.0 %	Japan		\$0.0		
2009	0	\$0.0	0.0 %	Australia		\$0.0		
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other	Hong Kong		\$0.0
United States	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Singapore		\$0.0
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Other Asia ex-Japan		\$0.0
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Africa/Middle East		\$0.0
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Latin America		\$0.0
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Other		\$0.0
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	5 Largest Accounts		
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	1) ---		\$0.0
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	2) ---		\$0.0
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	3) ---		\$0.0
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	4) ---		\$0.0
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	5) ---		\$0.0
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Aggregate (\$ Mil)		
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			\$0.0
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			\$0.0
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			\$0.0
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			\$0.0

**Ownership Information**

% Employee Owned: 13.4%  
 % Parent Owned: 0.0%  
 % Publicly Held: 86.6%  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: ---

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: No Effective Date  
 Performance Audited: Effective Date  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil) \$80.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil) \$80.00  
 Firm Bonded: Yes Coverage (\$ Mil) \$80.00

**Firm Background Narratives**

Founded in 1934, Henderson Global Investors (Henderson) manages more than \$96.4 billion in assets, as of December 31 2010, and employs over 900 professionals worldwide. From its offices in Chicago, IL and Hartford, CT, Henderson Global Investors (North America) Inc. (HGINA), provides services to private real estate funds and separate accounts, fixed income vehicles, mutual funds, privately managed portfolios and international equity separately managed accounts. Overall, HGINA or its affiliates manage or oversee more than \$9.1 billion\* in assets in a variety of products for Henderson clients located in North America, including over \$2 billion\* in real estate related investments.

\* As at 30th June 2010

Henderson Global Investors refers to Henderson Group plc and its subsidiaries.

\*AUM managed or overseen by HGINA or its affiliates, including leverage. HGINA, together with its affiliates, provides services to private real estate funds and separate accounts, mutual funds, privately managed portfolios and international equity separately managed accounts.

International All Cap

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE All Cap Growth Equity  
 Marketing Contact: Nancy McNally  
 Title: Director of Consultant Relations  
 Phone/Fax: 212-672-1973 / +1-212-792 - 4001  
 Email Address: [Nancy\\_McNally@hendersonna.com](mailto:Nancy_McNally@hendersonna.com)

Key Facts	
<b>Primary Capitalization:</b>	All Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-GD
<b>Total Product Assets:</b>	\$949.1
<b>Total Product Accounts:</b>	11
<b>Product Offered As:</b>	SA,CF,MF:Inst
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$949.1	11	Separate/Segregated Assets	\$793.2
Total Taxable	\$185.6	3	Pooled/Commingled Assets	\$19.8
Total Tax-Exempt	\$763.5	8	Mutual Fund/Institutional Assets	\$136.0
Total Institutional	\$0.0	0	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	0	\$0.0	0.0 %	Current Quarter	0	\$0.0	0.0 %
2010	0	\$0.0	0.0 %	2010	0	\$0.0	0.0 %
2009	0	\$0.0	0.0 %	2009	0	\$0.0	0.0 %

Portfolio Characteristics

Strategy Snapshot	Fundamental Characteristics	Key Country Allocations
Preferred Benchmark: MSCI EAFE-GD	Current Number Of Holdings: ---	Canada: ---
Primary Capitalization: All Cap	Annual Turnover (LTM): ---	France: ---
Primary Style Emphasis: Growth	Current Dividend Yield: ---	Germany: ---
Current Cash Position: ---	Current P/E (12-mo Trailing): ---	Japan: ---
Number of Countries in Portfolio: ---	Current P/B (12-mo Trailing): ---	Netherlands: ---
Approach Towards Currency Hedging: ---	Earnings Growth (Past 5 Yrs): ---	Switzerland: ---
% Hedged Back to Local Currency: ---	Weighted Avg. Mkt Cap (Mil): \$0	United Kingdom: ---
% Max Allowed In Emerging Markets: ---	Median Market Cap (Mil): \$0	Emerging Markets: ---

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly  
 Risk Index: MSCI EAFE-GD  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	24.44	30.93	-6.48	---	---	---	---	---	---
2 Year	20.64	18.01	2.63	---	---	---	---	---	---
3 Year	-1.86	-1.30	-0.56	33.67	0.22	1.08	7.34	-0.08	-0.07
4 Year	-0.56	-3.59	3.03	29.52	4.02	1.07	7.61	0.40	-0.06
5 Year	5.27	1.96	3.31	27.32	3.70	1.08	7.48	0.44	0.12
6 Year	9.20	5.77	3.44	25.45	3.36	1.08	7.04	0.49	0.27
7 Year	9.79	6.92	2.86	24.02	2.69	1.07	6.57	0.44	0.32
8 Year	12.98	9.87	3.12	23.25	2.68	1.07	6.45	0.48	0.47
9 Year	10.64	7.97	2.66	24.12	2.49	1.05	6.17	0.43	0.36
10 Year	8.72	6.12	2.60	23.75	2.50	1.05	5.93	0.44	0.28
Since Inception (6/1997)	7.74	5.40	2.34	22.72	2.33	1.04	5.74	0.41	0.21

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	0.27	1.18	15.65	45.78	-47.71	22.88	28.64	18.97	20.50
Benchmark Returns:	1.83	5.35	8.21	32.46	-43.06	11.63	26.86	14.02	20.70
Excess Returns:	-1.56	-4.16	7.44	13.32	-4.65	11.25	1.79	4.96	-0.20

Fee Information

Vehicle Type	Available	Min. Size(\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$50	\$375,000
Pooled/Commingled	Open	\$5	\$35,000
Institutional MFs	HIEIX	\$0.10	\$1,160

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$187,500	\$375,000	\$537,500	\$700,000
	75 bps	75 bps	72 bps	70 bps
Pooled/Commingled	\$175,000	\$337,500	\$500,000	\$662,500
	70 bps	68 bps	67 bps	66 bps
Institutional MFs	\$290,000	\$580,000	\$870,000	\$1,160,000
	116 bps	116 bps	116 bps	116 bps

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	2	---	---
Research Analysts:	2	---	---
Traders:	---	---	---

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ: 0	0
	2010: 0	1
	2009: 0	0
Professionals Lost	MRQ: 0	0
	2010: 0	1
	2009: 1	0

Firm Headquarters: One Landmark Square, 20th Floor  
 Stamford, Connecticut 06901, United States  
 Phone/Fax: 203.324.4722 / 203.324.4822  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1985  
 Firm Website: [www.johnstonasset.com](http://www.johnstonasset.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$2,395.2
<b>Total Number of Accounts:</b>	387
<b>Number of Portfolio Managers:</b>	---
<b>Number of Analysts:</b>	---
<b>% Employee Owned:</b>	100.00 %

**Contact Information**

Marketing Contact:	Ann Kale	Database Contact:	Nimy Kayala
Title:	Contact	Title:	Administrator
Address:	One Landmark Square,	Address:	1 Landmark Square, 20th Floor
City, State, Zip Code:	Stamford, Connecticut 06901	City, State, Zip Code:	Stamford, Connecticut 06901
Phone/Fax:	203.324.4722 / 203.324.4822	Phone/Fax:	203-921-1163 / 203-324-4822
Email Address:	<a href="mailto:nk@johnstonasset.com">nk@johnstonasset.com</a>	Email Address:	<a href="mailto:nk@johnstonasset.com">nk@johnstonasset.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009
Total in Firm	\$2,395.2	387	Total Firmwide			\$2,254.6	\$2,044.6	\$1,508.0
Total Taxable	\$831.5	270	Total Taxable			\$754.4	\$667.2	\$546.5
Total Tax-Exempt	\$1,563.7	117	Total Tax-Exempt			\$1,500.2	\$1,377.4	\$962.3
Total Institutional	\$1,664.6	89	Total Institutional			\$1,572.7	\$1,431.7	\$0.0
Accts Gained	Number	(\$ Million)	Assets By Geographic Region & Client Domicile			Assets (\$ Million)		
Current Quarter	8	\$64.6	United States					\$2,312.3
2010	46	\$161.3	Canada					\$15.0
2009	32	\$207.1	United Kingdom					\$0.0
			Continental Europe					\$0.0
			Japan					\$0.0
			Australia					\$67.9
			Hong Kong					\$0.0
			Singapore					\$0.0
			Other Asia ex-Japan					\$0.0
			Africa/Middle East					\$0.0
			Latin America					\$0.0
			Other					\$0.0
Accts Lost	Number	(\$ Million)	5 Largest Accounts			Aggregate (\$ Mil)		
Current Quarter	5	\$4.8	1) Other					\$531.2
2010	36	\$51.0	2) Other					\$123.2
2009	86	\$166.1	3) Union/Multi-Employer					\$101.8
			4) Corporate					\$67.9
			5) Corporate					\$62.8
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other			
United States	\$2,308.5	\$4.6	\$0.0	\$0.0	\$0.0			
Canada	\$14.2	\$0.0	\$0.0	\$0.0	\$0.0			
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Australia	\$67.9	\$0.0	\$0.0	\$0.0	\$0.0			
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0			

**Ownership Information**

% Employee Owned: 100.0%  
 % Parent Owned: ---  
 % Publicly Held: ---  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: ---

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 01/01/1990  
 Performance Audited: Effective Date: \_\_\_\_\_  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil): \$10.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil): \$10.00  
 Firm Bonded: Yes Coverage (\$ Mil): ---

**Firm Background Narratives**

Johnston Asset Management (Johnston) is a boutique global equity manager based in Stamford, Connecticut. The firm manages more than \$2 billion on behalf of institutions and high net worth clients in a growth style with a value discipline.

Johnston is 100% employee owned and has been since its inception. Richard Johnston (President, CIO) is the head of the firm, and remains the majority shareholder. Cassandra Hardman (Senior Managing Director and International Portfolio Manager) is a senior partner. There five additional partners (all of whom are employees of the firm). They are: Joan Giannotti (Chief Compliance Officer), Peter Cumiskey (Managing Director, Portfolio Manager/Analyst), Julie O'Connor (Chief Operating Officer and Director of Trading), Henry Woo (Managing Director, Portfolio Manager / Analyst), and Nimy Kayala (Senior Administrator / Trading). The firm expects to continue to grow its Partner ranks with current and future staff and intends to remain independent.

Johnston is fiercely dedicated to its unique investment approach and to the boutique and independent nature of its business model. The firm's philosophy for long term investing in high quality, leading growth companies in the context of a strong value discipline has remained the guiding principle through more than two decades of successful investing.

Johnston was founded in 1985 by Richard Johnston who continues to oversee the business today. Richard started Johnston after his previous firm, Eberstadt Asset Management, was acquired for its More...

International

Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA EAFE Large Cap Growth Equity  
 Marketing Contact: Ann E Kale  
 Title: Contact  
 Phone/Fax: 203.324.4722 / 203.324.4822  
 Email Address: [ak@johnstonasset.com](mailto:ak@johnstonasset.com)

Key Facts	
<b>Primary Capitalization:</b>	Large Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-ND
<b>Total Product Assets:</b>	\$1,648.5
<b>Total Product Accounts:</b>	248
<b>Product Offered As:</b>	SA,CF
<b>Investment Focus:</b>	Long Only

Asset & Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$1,648.5	248	Separate/Segregated Assets	\$1,648.5
Total Taxable	\$530.4	179	Pooled/Commingled Assets	\$531.2
Total Tax-Exempt	\$1,118.2	69	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$1,159.8	56	Mutual Fund/Retail Assets	\$0.0

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	6	\$32.9	2.0 %	Current Quarter	5	\$4.8	0.3 %
2010	39	\$144.2	12.2 %	2010	32	\$48.9	4.2 %
2009	29	\$201.8	17.0 %	2009	83	\$157.9	18.0 %

Portfolio Characteristics

Strategy Snapshot

Preferred Benchmark: MSCI EAFE-ND  
 Primary Capitalization: Large Cap  
 Primary Style Emphasis: Growth  
 Current Cash Position: 9.7 %  
 Number of Countries in Portfolio: 11  
 Approach Towards Currency Hedging: Not Used  
 % Hedged Back to Local Currency: ---  
 % Max Allowed In Emerging Markets: 20.0 %

Fundamental Characteristics

Current Number Of Holdings: 24  
 Annual Turnover (LTM): 30 %  
 Current Dividend Yield: 2.50 %  
 Current P/E (12-mo Trailing): 16.70x  
 Current P/B (12-mo Trailing): 2.20x  
 Earnings Growth (Past 5 Yrs): 11.00 %  
 Weighted Avg. Mkt Cap (Mil): \$0  
 Median Market Cap (Mil): \$0

Key Country Allocations

Canada: 0.00 %  
 France: 2.70 %  
 Germany: 5.50 %  
 Japan: 2.50 %  
 Netherlands: 10.10 %  
 Switzerland: 24.50 %  
 United Kingdom: 31.70 %  
 Emerging Markets: 10.10 %

Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly

Risk Index: MSCI EAFE-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	22.04	30.36	-8.32	---	---	---	---	---	---
2 Year	19.14	17.51	1.64	---	---	---	---	---	---
3 Year	5.90	-1.77	7.67	25.49	6.78	0.82	7.12	1.08	0.22
4 Year	3.98	-4.06	8.04	23.13	7.22	0.84	7.14	1.13	0.13
5 Year	9.02	1.48	7.55	21.20	7.39	0.84	6.61	1.14	0.34
6 Year	12.55	5.28	7.27	19.89	7.56	0.85	6.10	1.19	0.52
7 Year	12.45	6.44	6.01	19.08	6.49	0.85	6.00	1.00	0.54
8 Year	15.10	9.38	5.72	18.62	6.50	0.86	5.66	1.01	0.70
9 Year	13.26	7.49	5.76	20.40	6.12	0.89	5.44	1.06	0.55
10 Year	11.06	5.66	5.40	20.36	5.61	0.91	5.43	1.00	0.44
Since Inception (12/1993)	12.48	5.36	7.12	20.28	7.33	0.97	8.63	0.82	0.45

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	1.79	5.27	7.16	45.35	-35.82	22.08	32.06	20.04	18.08
Benchmark Returns:	1.56	4.98	7.75	31.78	-43.38	11.17	26.34	13.54	20.25
Excess Returns:	0.23	0.30	-0.59	13.57	7.56	10.91	5.72	6.50	-2.17

Fee Information

Vehicle Type	Available	Min. Size (\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$10	\$85,000
Pooled/Commingled	Open	\$1	\$10,000
Mutual Fund	---	---	---

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$197,500	\$360,000	\$510,000	\$660,000
	79 bps	72 bps	68 bps	66 bps
Pooled/Commingled	\$235,000	\$435,000	\$622,500	\$810,000
	94 bps	87 bps	83 bps	81 bps
Mutual Fund	---	---	---	---

Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	---	---	---
Research Analysts:	---	---	---
Traders:	---	---	---

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ: 0 2010: 0 2009: 0	0 0 0
Professionals Lost	MRQ: 0 2010: 0 2009: 0	0 0 0

Firm Headquarters: 31 Gresham Street  
 London, England EC2V 7QA, United Kingdom  
 Phone/Fax: +44 (0)20 7658 6000 /  
 Registered Investment Advisor: Yes  
 Year Firm Founded: 1804  
 Firm Website: [www.schroders.com](http://www.schroders.com)

Key Facts	
<b>Total Assets Under Management (\$ Million):</b>	\$0.0
<b>Total Number of Accounts:</b>	0
<b>Number of Portfolio Managers:</b>	---
<b>Number of Analysts:</b>	---
<b>% Employee Owned:</b>	5.50 %

**Contact Information**

Marketing Contact:	Richard Graham	Database Contact:	Rosalind Keenan
Title:	Head of UK & Ireland Consultant Relationships	Title:	Head of Consultant Relations Support
Address:	31 Gresham Street, London	Address:	31 Gresham Street,
City, State, Zip Code:	London, England EC2V 7QA	City, State, Zip Code:	London, England EC2V 7QA
Phone/Fax:	+44 (0) 20 7658 2965 /	Phone/Fax:	+44 (0) 20 7658 6297 /
Email Address:	<a href="mailto:richard.graham@schroders.com">richard.graham@schroders.com</a>	Email Address:	<a href="mailto:rosalind.keenan@schroders.com">rosalind.keenan@schroders.com</a>

**Asset & Account Information**

Current Totals	Assets (\$ Mil)	Accounts	Historical Assets(\$ Million)			Prior QTR	YE 2010	YE 2009
Total in Firm	\$0.0	0	Total Firmwide			\$322,793.7	\$307,897.2	\$239,624.0
Total Taxable	\$0.0	0	Total Taxable			\$220,741.9	\$214,019.7	\$0.0
Total Tax-Exempt	\$0.0	0	Total Tax-Exempt			\$102,051.8	\$93,877.5	\$7,577.7
Total Institutional	\$0.0	0	Total Institutional			\$193,872.0	\$183,124.7	\$123,935.0
Accts Gained	Number	(\$ Million)	% Firm Assets			Assets By Geographic Region & Client Domicile		
Current Quarter	0	\$0.0	0.0 %			Assets (\$ Million)		
2010	708	\$31,739.0	0.0 %			United States		
2009	145	\$7,521.7	4.8 %			Canada		
Accts Lost	Number	(\$ Million)	% Firm Assets			United Kingdom		
Current Quarter	0	\$0.0	0.0 %			Continental Europe		
2010	391	\$7,361.6	0.0 %			Japan		
2009	117	\$2,396.1	1.5 %			Australia		
Assets By Type	Equity	Fixed Inc.	Balanced	Alts	Other	Hong Kong		
United States	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Singapore		
Canada	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Other Asia ex-Japan		
United Kingdom	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Africa/Middle East		
Europe ex-UK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Latin America		
Australia	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Other		
Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	5 Largest Accounts		
Hong Kong	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	1) ---		
Singapore	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	2) ---		
Other Asia ex-Japan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	3) ---		
China	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	4) ---		
Latin America	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	5) ---		
Africa/Middle East	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	Aggregate (\$ Mil)		
EAFE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	1) ---		
Global	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	2) ---		
Emerging Markets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	3) ---		
Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	4) ---		
						5) ---		

**Ownership Information**

% Employee Owned: 5.5%  
 % Parent Owned: 47.8%  
 % Publicly Held: 46.7%  
 Parent Company Name: \_\_\_\_\_  
 Total % Minority/Female Owned: 0.0%

**GIPS Compliance & Insurance Information**

Firm GIPS Compliant: Yes Effective Date: 12/31/1997  
 Performance Audited: Effective Date: \_\_\_\_\_  
 Errors & Omissions Insurance: Yes Coverage (\$ Mil): \$250.00  
 Fiduciary Liability Insurance: Yes Coverage (\$ Mil): \$4.50  
 Firm Bonded: Yes Coverage (\$ Mil): \$0.50

**Firm Background Narratives**

With a history of over 200 years, Schroders is one of the largest asset managers listed on the London Stock Exchange. As at 31 December 2010, Schroders held \$322.8 billion in client assets under management worldwide, 335 investment professionals (portfolio managers and analysts) and 32 offices in 25 countries. Schroders' current levels of expertise, market presence and client assets are the result of long-term growth over many decades and we endeavour to maintain our goal to build a world class Asset Management Company that is diversified by product, by channel and by region.

The company is a purely focused asset management business offering clients tremendous breadth in locally managed products, delivered through a fully integrated global distribution platform. Schroders offer an extensive range of products and services. We manage portfolios across all asset classes, with specialist capabilities in equities, fixed income, private equity, property, hedge funds and structured products. This broad spectrum allows us to meet our clients' particular requirements for innovative products and services. The rationale behind our extensive range of products and services is our adaptability to tailor products to meet the needs of different clients according to local culture, risk appetite and regulations. We excel in the management of multi-asset portfolios, combining the best ingredients from our range of specialist components. Our clients include corporations, insurance companies, local and public authorities, charities, pension funds, high net worth individuals and retail investors.

Schroders has a unique corporate culture and philosophy that reflects the trusted heritage of the firm. Long-term thinking governs our approach to investing, building client relationships and growing our business. We believe that our strict focus on investment management ensures that the long-term interests of the company are aligned with the investment objectives of our clients and to gain access to More...



## International Alpha

## Product Snapshot

Asset Class: EAFE-Equity  
 eA Primary Universe: eA ACWI ex-US Large Cap Growth Equity  
 Marketing Contact: Kathleen Hopkins  
 Title: Consultant Research & Relations Manager  
 Phone/Fax: 212.641.3917 / 212.641.3985  
 Email Address: [kathleen.hopkins@us.schroders.com](mailto:kathleen.hopkins@us.schroders.com)

Key Facts	
<b>Primary Capitalization:</b>	Large Cap
<b>Primary Style Emphasis:</b>	Growth
<b>Preferred Benchmark:</b>	MSCI EAFE-ND
<b>Total Product Assets:</b>	\$2,206.0
<b>Total Product Accounts:</b>	8
<b>Product Offered As:</b>	SA,MF:Inst,MF:Retail
<b>Investment Focus:</b>	Long Only

## Asset &amp; Account Information

Current Totals	Assets (\$ Million)	Accounts	Assets by Vehicle Type	Assets (\$ Million)
Total in Product	\$2,206.0	8	Separate/Segregated Assets	\$690.9
Total Taxable	\$130.5	2	Pooled/Commingled Assets	\$0.0
Total Tax-Exempt	\$2,075.5	6	Mutual Fund/Institutional Assets	\$0.0
Total Institutional	\$2,133.6	7	Mutual Fund/Retail Assets	\$1,515.1

Accounts Gained	Number	(\$ Million)	% Product Assets	Assets Lost	Number	(\$ Million)	% Product Assets
Current Quarter	1	\$492.1	29.6 %	Current Quarter	0	\$0.0	0.0 %
2010	4	\$982.6	437.1 %	2010	0	\$0.0	0.0 %
2009	1	\$87.6	108.1 %	2009	0	\$0.0	0.0 %

## Portfolio Characteristics

## Strategy Snapshot

Preferred Benchmark: MSCI EAFE-ND  
 Primary Capitalization: Large Cap  
 Primary Style Emphasis: Growth  
 Current Cash Position: 0.3 %  
 Number of Countries in Portfolio: 21  
 Approach Towards Currency Hedging: Not Used  
 % Hedged Back to Local Currency: ---  
 % Max Allowed In Emerging Markets: 20.0 %

## Fundamental Characteristics

Current Number Of Holdings: 58  
 Annual Turnover (LTM): 107 %  
 Current Dividend Yield: 2.50 %  
 Current P/E (12-mo Trailing): 14.40x  
 Current P/B (12-mo Trailing): 1.70x  
 Earnings Growth (Past 5 Yrs): ---  
 Weighted Avg. Mkt Cap (Mil): \$41,601  
 Median Market Cap (Mil): \$27,627

## Key Country Allocations

Canada: 4.48 %  
 France: 12.28 %  
 Germany: 5.00 %  
 Japan: 15.32 %  
 Netherlands: 3.44 %  
 Switzerland: 7.27 %  
 United Kingdom: 20.08 %  
 Emerging Markets: 9.64 %

## Performance Information

Performance For: Separate Account Composite-Gross of Fees  
 Frequency: Quarterly

Risk Index: MSCI EAFE-ND  
 Risk-Free Index: Citigroup 3-Month T-Bill

Trailing Periods	Returns			Std Dev	Alpha	Beta	Trk Error	Info Ratio	Sharpe Ratio
	Product	Benchmark	Excess						
1 Year	34.97	30.36	4.62	---	---	---	---	---	---
2 Year	23.27	17.51	5.77	---	---	---	---	---	---
3 Year	1.85	-1.77	3.62	32.08	4.15	1.03	7.01	0.52	0.05
4 Year	-0.43	-4.06	3.63	28.14	4.24	1.03	6.27	0.58	-0.05
5 Year	4.92	1.48	3.45	25.66	3.67	1.03	5.87	0.59	0.12
6 Year	8.58	5.28	3.29	23.88	3.30	1.02	5.47	0.60	0.27
7 Year	9.82	6.44	3.38	22.72	3.31	1.02	5.13	0.66	0.34
8 Year	---	9.38	---	---	---	---	---	---	---
9 Year	---	7.49	---	---	---	---	---	---	---
10 Year	---	5.66	---	---	---	---	---	---	---
Since Inception (3/2004)	9.95	6.63	3.32	21.96	3.22	1.02	4.96	0.67	0.36

Calendar Years	MRQ	YTD	2010	2009	2008	2007	2006	2005	2004
Product Returns:	0.98	4.17	16.21	50.58	-47.92	16.11	25.65	18.07	24.54
Benchmark Returns:	1.56	4.98	7.75	31.78	-43.38	11.17	26.34	13.54	20.25
Excess Returns:	-0.58	-0.80	8.46	18.80	-4.54	4.94	-0.69	4.53	4.30

## Fee Information

Vehicle Type	Available	Min. Size(\$ Mil)	Minimum Fee
Separate/Segregated	Open	\$50	\$350,000
Pooled/Commingled	Open	\$10	\$60,000
Institutional MFs	SCIEX	\$0.25	\$2,875

Fees By Acct. Size	\$25M	\$50M	\$75M	\$100M
Separate/Segregated	\$175,000	\$350,000	\$500,000	\$650,000
	70 bps	70 bps	67 bps	65 bps
Pooled/Commingled	\$150,000	\$300,000	\$450,000	\$600,000
	60bps	60bps	60bps	60bps
Institutional MFs	\$287,500	\$575,000	\$862,500	\$1,150,000
	115 bps	115 bps	115 bps	115 bps

## Professional Information

Team Description	No.	Avg. Yrs. Exp.	Avg. Yrs. @ Firm
Portfolio Managers:	---	---	---
Research Analysts:	---	---	---
Traders:	---	---	---

Professional Turnover	Port Mgrs.	Analysts
Professionals Gained	MRQ: 0 2010: 0 2009: 0	0 1 0
Professionals Lost	MRQ: 0 2010: 0 2009: 0	0 0 1

## SamCERA - International Growth Equity

## Performance Summary Tables

Periods ending June 30, 2011

All Strategies

Artisan Partners: Non-U.S. Growth		Baillie Gifford: EAFE Plus Focus		Barings: Foc Intl Plus		Echo Point: Intl Growth Equity		Franklin Templeton: Frk Non-US Equity		GMO: Intl. Growth		MSCI EAFE Growth		MSCI EAFE		Intl Growth Cust Median	Intl Growth Cust Size
Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank		

### Total Return

3 Mos.	2.9	19	1.8	55	2.0	44	2.6	31	1.9	50	4.8	2	2.3	36	1.8	54	1.9	56
1 Yr.	31.8	55	33.0	42	26.3	86	29.3	75	31.2	62	35.7	15	31.7	57	30.9	66	32.3	56
3 Yrs.	-0.2	48	0.9	33	-1.0	55	-2.5	73	4.4	10	1.2	30	-1.5	57	-1.3	56	-0.3	56
5 Yrs.	4.0	61	4.6	48	6.4	24	2.5	77	7.5	10	4.5	51	2.9	75	2.0	80	4.5	52
7 Yrs.	8.6	59	9.1	42	11.1	16	8.2	70	11.0	20	8.9	55	7.2	85	6.9	87	8.9	47

### Excess Return

3 Mos.	1.1		-0.1		0.2		0.7		0.1		3.0		0.5				0.1	56
1 Yr.	0.9		2.1		-4.6		-1.6		0.3		4.7		0.7				1.3	56
3 Yrs.	1.1		2.2		0.4		-1.2		5.7		2.5		-0.2				1.0	56
5 Yrs.	2.1		2.6		4.4		0.5		5.6		2.6		0.9				2.6	52
7 Yrs.	1.6		2.2		4.2		1.3		4.0		2.0		0.3				2.0	47

### Excess Return vs. Universe Median

3 Mos.	1.0		-0.2		0.1		0.6		0.0		2.9		0.4		-0.1			56
1 Yr.	-0.5		0.8		-6.0		-2.9		-1.0		3.4		-0.6		-1.3			56
3 Yrs.	0.1		1.2		-0.7		-2.2		4.7		1.5		-1.2		-1.0			56
5 Yrs.	-0.5		0.0		1.8		-2.1		3.0		0.0		-1.7		-2.6			52
7 Yrs.	-0.4		0.2		2.2		-0.8		2.0		0.0		-1.7		-2.0			47

### Standard Deviation

3 Yrs.	27.1	77	27.0	73	24.1	22	27.8	90	27.1	79	22.2	6	24.6	31	25.9	51	25.8	56
5 Yrs.	22.8	81	22.5	67	21.6	48	23.4	91	22.9	87	18.7	6	20.5	18	21.5	43	21.8	52
7 Yrs.	20.3	77	20.0	68	19.7	55	20.8	92	20.5	85	17.1	7	18.4	18	19.1	31	19.5	47

### Tracking Error

3 Yrs.	5.7	44	4.1	8	7.2	68	5.3	26	8.1	84	6.7	61	3.8	3			5.9	56
5 Yrs.	5.3	46	3.9	6	7.3	89	4.8	20	6.8	77	5.5	51	3.3	1			5.5	52
7 Yrs.	4.6	31	3.4	7	6.7	92	4.2	18	6.0	77	4.9	40	2.9	1			5.0	47

### Information Ratio

3 Yrs.	0.2	48	0.5	26	0.1	55	-0.2	77	0.7	17	0.4	33	-0.1	60			0.2	56
5 Yrs.	0.4	59	0.7	30	0.6	38	0.1	77	0.8	12	0.5	50	0.3	68			0.5	52
7 Yrs.	0.4	57	0.6	27	0.6	29	0.3	68	0.7	20	0.4	50	0.1	83			0.4	47

Universe: Intl Growth Cust

Universe Rank: Green = Top Quartile Red = Bottom Quartile

## SamCERA - International Growth Equity

## Performance Summary Tables

Periods ending June 30, 2011

All Strategies

Gryphon Intl: EAFE Equities		Henderson: Intl All Cap		Johnston Asset: International		Schroders: Intl Alpha		Artio Global: International Equity		MSCI EAFE Growth		MSCI EAFE		Intl Growth Cust Median	Intl Growth Cust Size
Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank		

### Total Return

3 Mos.	2.1	39	0.3	86	1.8	57	1.0	77	-0.3	95	2.3	36	1.8	54	1.9	56
1 Yr.	31.3	59	24.4	97	22.1	100	35.0	20	25.1	95	31.7	57	30.9	66	32.3	56
3 Yrs.	6.3	1	-1.9	62	5.9	2	1.8	26	-5.0	88	-1.5	57	-1.3	56	-0.3	56
5 Yrs.	6.5	18	5.3	36	9.0	1	4.9	44	1.3	91	2.9	75	2.0	80	4.5	52
7 Yrs.	9.2	37	9.8	31	12.5	5	9.8	29	7.7	79	7.2	85	6.9	87	8.9	47

### Excess Return

3 Mos.	0.3		-1.6		-0.1		-0.9		-2.1		0.5				0.1	56
1 Yr.	0.4		-6.5		-8.9		4.0		-5.9		0.7				1.3	56
3 Yrs.	7.6		-0.6		7.2		3.1		-3.7		-0.2				1.0	56
5 Yrs.	4.5		3.3		7.1		3.0		-0.7		0.9				2.6	52
7 Yrs.	2.3		2.9		5.5		2.9		0.8		0.3				2.0	47

### Excess Return vs. Universe Median

3 Mos.	0.2		-1.7		-0.2		-1.0		-2.2		0.4		-0.1			56
1 Yr.	-0.9		-7.8		-10.2		2.7		-7.2		-0.6		-1.3			56
3 Yrs.	6.6		-1.6		6.2		2.1		-4.7		-1.2		-1.0			56
5 Yrs.	2.0		0.7		4.5		0.4		-3.3		-1.7		-2.6			52
7 Yrs.	0.3		0.9		3.5		0.9		-1.2		-1.7		-2.0			47

### Standard Deviation

3 Yrs.	25.6	44	27.6	88	22.7	8	26.0	55	24.8	31	24.6	31	25.9	51	25.8	56
5 Yrs.	21.2	36	23.2	89	19.3	10	21.7	50	21.2	34	20.5	18	21.5	43	21.8	52
7 Yrs.	18.7	22	20.7	90	17.2	9	19.3	42	19.4	44	18.4	18	19.1	31	19.5	47

### Tracking Error

3 Yrs.	5.8	46	6.8	64	6.5	57	5.6	33	5.6	39	3.8	3			5.9	56
5 Yrs.	5.2	42	6.3	65	6.2	63	5.0	26	5.2	34	3.3	1			5.5	52
7 Yrs.	4.9	44	5.7	66	5.7	68	4.5	24	4.9	42	2.9	1			5.0	47

### Information Ratio

3 Yrs.	1.3	2	-0.1	62	1.1	8	0.6	24	-0.7	91	-0.1	60			0.2	56
5 Yrs.	0.9	6	0.5	44	1.1	2	0.6	40	-0.1	91	0.3	68			0.5	52
7 Yrs.	0.5	40	0.5	35	1.0	5	0.6	24	0.2	79	0.1	83			0.4	47

Universe: Intl Growth Cust

Universe Rank: Green = Top Quartile Red = Bottom Quartile

## SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Summary Tables

All Strategies

Artisan Partners: Non-U.S. Growth		Baillie Gifford: EAFE Plus Focus		Barings: Foc Intl Plus		Echo Point: Intl Growth Equity		Franklin Templeton: Frk Non-US Equity		GMO: Intl. Growth		MSCI EAFE Growth		MSCI EAFE		Intl Growth Cust Median	Intl Growth Cust Size
Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank		

### Beta

3 Yrs.	1.0	19	1.0	13	0.9	82	1.1	8	1.0	30	0.8	95	0.9	64			1.0	56
5 Yrs.	1.0	16	1.0	18	1.0	69	1.1	6	1.0	22	0.9	95	0.9	75			1.0	52
7 Yrs.	1.0	14	1.0	16	1.0	66	1.1	5	1.0	20	0.9	92	1.0	77			1.0	47

### Alpha (CAPM)

3 Yrs.	1.1	46	2.3	31	0.2	55	-1.1	73	5.7	8	2.2	33	-0.3	57			0.9	56
5 Yrs.	2.1	61	2.6	48	4.4	24	0.5	77	5.6	10	2.6	51	0.9	75			2.6	52
7 Yrs.	1.5	68	2.0	50	4.3	16	0.9	77	3.9	22	2.6	37	0.5	83			2.0	47

### Sharpe Ratio

3 Yrs.	0.0	46	0.0	33	-0.1	55	-0.1	73	0.2	11	0.0	30	-0.1	57	-0.1	56	0.0	56
5 Yrs.	0.1	65	0.1	53	0.2	26	0.0	77	0.2	16	0.1	44	0.0	75	0.0	80	0.1	52
7 Yrs.	0.3	68	0.3	50	0.5	18	0.3	77	0.4	20	0.4	33	0.3	82	0.2	86	0.3	47

### Upside Capture Ratio

3 Yrs.	108.2	6	103.9	11	87.6	77	99.2	42	101.7	28	82.2	97	90.8	67			97.3	56
5 Yrs.	110.7	10	105.5	42	110.5	12	104.8	44	109.8	14	88.0	97	94.7	85			102.9	52
7 Yrs.	109.1	16	106.0	44	112.7	9	107.1	37	108.6	20	93.1	94	95.7	86			104.7	47

### Downside Capture Ratio

3 Yrs.	103.0	84	97.5	53	90.4	30	102.3	81	87.9	19	81.2	8	94.1	46			96.9	56
5 Yrs.	102.2	85	96.3	57	94.8	44	102.3	87	90.7	30	81.7	8	92.7	37			95.5	52
7 Yrs.	102.9	83	97.8	53	96.9	46	102.4	79	93.4	29	85.2	11	94.5	40			97.4	47

Universe: Intl Growth Cust

Universe Rank: Green = Top Quartile Red = Bottom Quartile

## SamCERA - International Growth Equity

## Performance Summary Tables

Periods ending June 30, 2011

All Strategies

Gryphon Intl: EAFE Equities		Henderson: Intl All Cap		Johnston Asset: International		Schroders: Intl Alpha		Artio Global: International Equity		MSCI EAFE Growth		MSCI EAFE		Intl Growth Cust Median	Intl Growth Cust Size
Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank		

### Beta

3 Yrs.	1.0	57	1.0	15	0.9	93	1.0	50	0.9	71	0.9	64			1.0	56
5 Yrs.	1.0	61	1.0	14	0.9	93	1.0	42	1.0	63	0.9	75			1.0	52
7 Yrs.	1.0	81	1.0	9	0.9	94	1.0	57	1.0	59	1.0	77			1.0	47

### Alpha (CAPM)

3 Yrs.	7.5	1	-0.5	60	7.0	2	3.1	28	-3.8	88	-0.3	57			0.9	56
5 Yrs.	4.5	18	3.3	36	7.1	1	3.0	44	-0.7	91	0.9	75			2.6	52
7 Yrs.	2.5	42	2.7	33	6.2	5	3.0	29	0.9	79	0.5	83			2.0	47

### Sharpe Ratio

3 Yrs.	0.2	2	-0.1	60	0.2	1	0.1	24	-0.2	90	-0.1	57	-0.1	56	0.0	56
5 Yrs.	0.2	22	0.1	42	0.4	1	0.1	46	0.0	91	0.0	75	0.0	80	0.1	52
7 Yrs.	0.4	37	0.4	44	0.6	1	0.4	31	0.3	79	0.3	82	0.2	86	0.3	47

### Upside Capture Ratio

3 Yrs.	102.6	20	101.6	31	92.6	60	98.7	46	85.2	88	90.8	67			97.3	56
5 Yrs.	99.0	65	110.7	8	99.1	63	102.9	50	96.9	75	94.7	85			102.9	52
7 Yrs.	94.3	92	111.8	11	98.4	81	104.2	55	104.7	50	95.7	86			104.7	47

### Downside Capture Ratio

3 Yrs.	84.2	10	102.4	82	77.7	6	91.8	37	98.5	59	94.1	46			96.9	56
5 Yrs.	84.9	12	98.3	69	77.0	4	93.1	40	99.6	77	92.7	37			95.5	52
7 Yrs.	85.2	14	101.0	66	77.1	5	93.3	27	101.6	70	94.5	40			97.4	47

Universe: Intl Growth Cust

Universe Rank: Green = Top Quartile Red = Bottom Quartile

# SamCERA - International Growth Equity

Periods ending June 30, 2011

Style Analysis  
All Strategies

## Style Map (Feb 03 - Jun 11)



### Legend

- Artisan Partners: Non-U.S. Growth
  - Franklin Templeton: Frk Non-US Equity
- Baillie Gifford: EAFE Plus Focus
  - GMO: Intl. Growth
- Barings: Foc Intl Plus
  - MSCI EAFE Growth
- Echo Point: Intl Growth Equity
  - ▲ MSCI EAFE

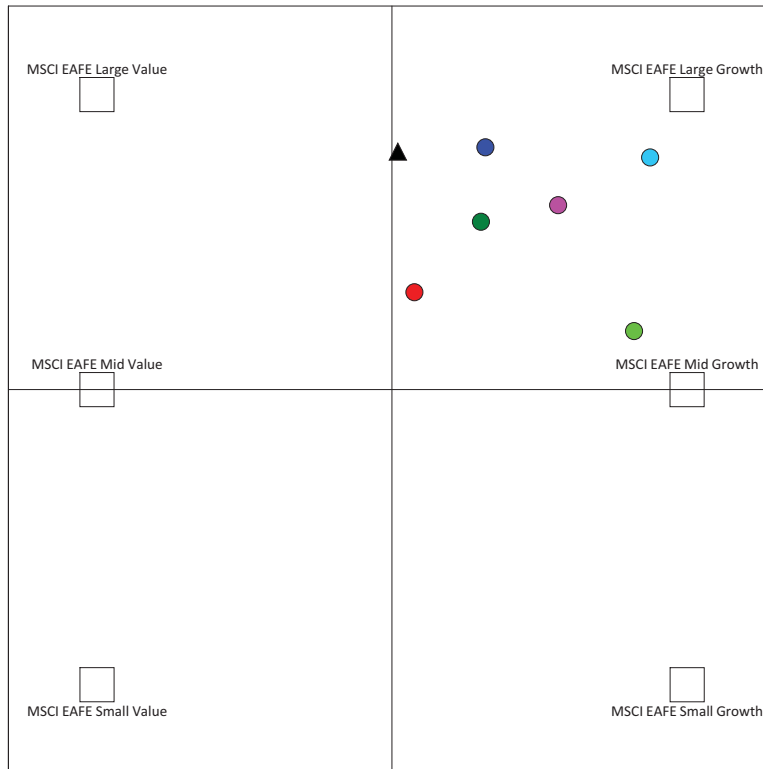
*Note: The date range displayed in style analysis charts will not match those in other charts because the system requires a certain number of returns (18 months in this study) before it can perform the first style calculation.*

# SamCERA - International Growth Equity

Periods ending June 30, 2011

Style Analysis  
All Strategies

## Style Map (Feb 03 - Jun 11)



### Legend

- Gryphon Intl: EAFE Equities
  - Artio Global: International Equity
- Henderson: Intl All Cap
  - MSCI EAFE Growth
- Johnston Asset: International
  - ▲ MSCI EAFE
- Schroders: Intl Alpha

*Note: The date range displayed in style analysis charts will not match those in other charts because the system requires a certain number of returns (18 months in this study) before it can perform the first style calculation.*

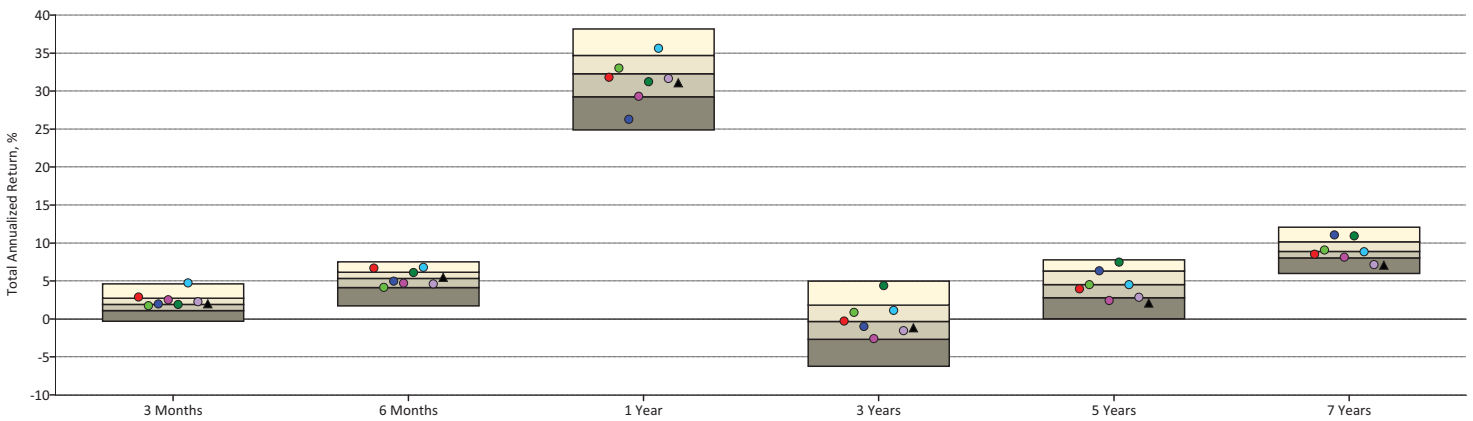
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Total Return: Trailing Periods



	Total Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Artisan Partners: Non-U.S. Growth	2.9	19	6.7	17	31.8	55	-0.2	48	4.0	61	8.6	59
Baillie Gifford: EAFE Plus Focus	1.8	55	4.2	75	33.0	42	0.9	33	4.6	48	9.1	42
Barings: Foc Intl Plus	2.0	44	5.0	55	26.3	86	-1.0	55	6.4	24	11.1	16
Echo Point: Intl Growth Equity	2.6	31	4.8	64	29.3	75	-2.5	73	2.5	77	8.2	70
Franklin Templeton: Frk Non-US Equity	1.9	50	6.2	26	31.2	62	4.4	10	7.5	10	11.0	20
GMO: Intl. Growth	4.8	2	6.8	15	35.7	15	1.2	30	4.5	51	8.9	55
MSCI EAFE Growth	2.3	36	4.7	66	31.7	57	-1.5	57	2.9	75	7.2	85
MSCI EAFE	1.8	54	5.4	51	30.9	66	-1.3	56	2.0	80	6.9	87
Intl Growth Cust Median	1.9		5.4		32.3		-0.3		4.5		8.9	
Intl Growth Cust Size	56		56		56		56		52		47	

### Legend

□ 5th to 25th Percentile	□ 25th Percentile to Median	□ Median to 75th Percentile	□ 75th to 95th Percentile	Universe: Intl Growth Cust
● Artisan Partners: Non-U.S. Growth	● Baillie Gifford: EAFE Plus Focus	● Barings: Foc Intl Plus	● Echo Point: Intl Growth Equity	Universe Rank: Green = Top Quartile Red = Bottom Quartile
● Franklin Templeton: Frk Non-US Equity	● GMO: Intl. Growth	● MSCI EAFE Growth	▲ MSCI EAFE	



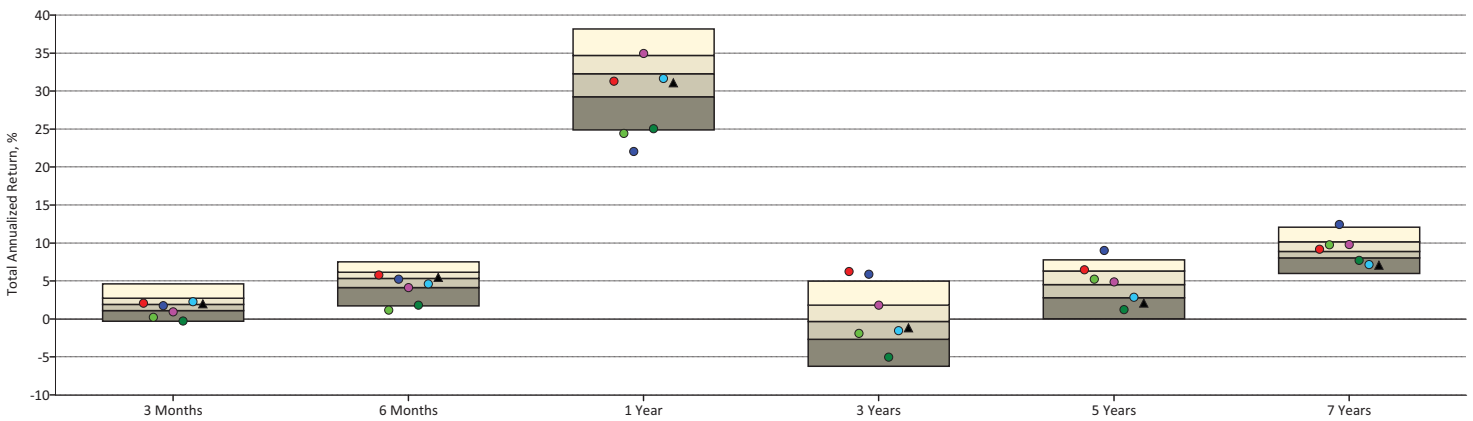
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Total Return: Trailing Periods



	Total Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Gryphon Intl: EAFE Equities	2.1	39	5.8	42	31.3	59	6.3	1	6.5	18	9.2	37
Henderson: Intl All Cap	0.3	86	1.2	99	24.4	97	-1.9	62	5.3	36	9.8	31
Johnston Asset: International	1.8	57	5.3	51	22.1	100	5.9	2	9.0	1	12.5	5
Schroders: Intl Alpha	1.0	77	4.2	77	35.0	20	1.8	26	4.9	44	9.8	29
Artio Global: International Equity	-0.3	95	1.8	95	25.1	95	-5.0	88	1.3	91	7.7	79
MSCI EAFE Growth	2.3	36	4.7	66	31.7	57	-1.5	57	2.9	75	7.2	85
MSCI EAFE	1.8	54	5.4	51	30.9	66	-1.3	56	2.0	80	6.9	87
Intl Growth Cust Median	1.9		5.4		32.3		-0.3		4.5		8.9	
Intl Growth Cust Size	56		56		56		56		52		47	

### Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Universe: Intl Growth Cust
- Gryphon Intl: EAFE Equities
- Henderson: Intl All Cap
- Johnston Asset: International
- Schroders: Intl Alpha
- Universe Rank: Green = Top Quartile Red = Bottom Quartile
- Artio Global: International Equity
- MSCI EAFE Growth
- ▲ MSCI EAFE

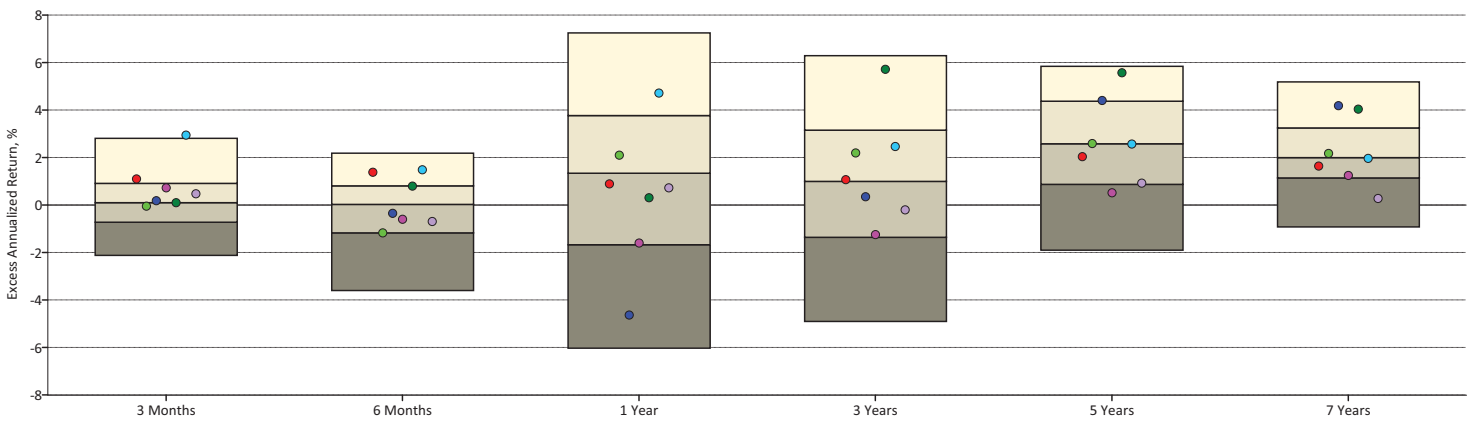
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Excess Return: Trailing Periods



	Excess Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Artisan Partners: Non-U.S. Growth	1.1	19	1.4	17	0.9	55	1.1	48	2.1	61	1.6	59
Baillie Gifford: EAFE Plus Focus	-0.1	55	-1.2	75	2.1	42	2.2	33	2.6	48	2.2	42
Barings: Foc Intl Plus	0.2	44	-0.3	55	-4.6	86	0.4	55	4.4	24	4.2	16
Echo Point: Intl Growth Equity	0.7	31	-0.6	64	-1.6	75	-1.2	73	0.5	77	1.3	70
Franklin Templeton: Frk Non-US Equity	0.1	50	0.8	26	0.3	62	5.7	10	5.6	10	4.0	20
GMO: Intl. Growth	3.0	2	1.5	15	4.7	15	2.5	30	2.6	51	2.0	55
MSCI EAFE Growth	0.5	36	-0.7	66	0.7	57	-0.2	57	0.9	75	0.3	85
Intl Growth Cust Median	0.1		0.0		1.3		1.0		2.6		2.0	
Intl Growth Cust Size	56		56		56		56		52		47	

### Legend

- 5th to 25th Percentile
  - 25th Percentile to Median
  - Median to 75th Percentile
  - 75th to 95th Percentile
  - Artisan Partners: Non-U.S. Growth
  - Baillie Gifford: EAFE Plus Focus
  - Barings: Foc Intl Plus
  - Echo Point: Intl Growth Equity
  - Franklin Templeton: Frk Non-US Equity
  - GMO: Intl. Growth
  - MSCI EAFE Growth
- Universe: Intl Growth Cust  
Universe Rank: Green = Top Quartile Red = Bottom Quartile

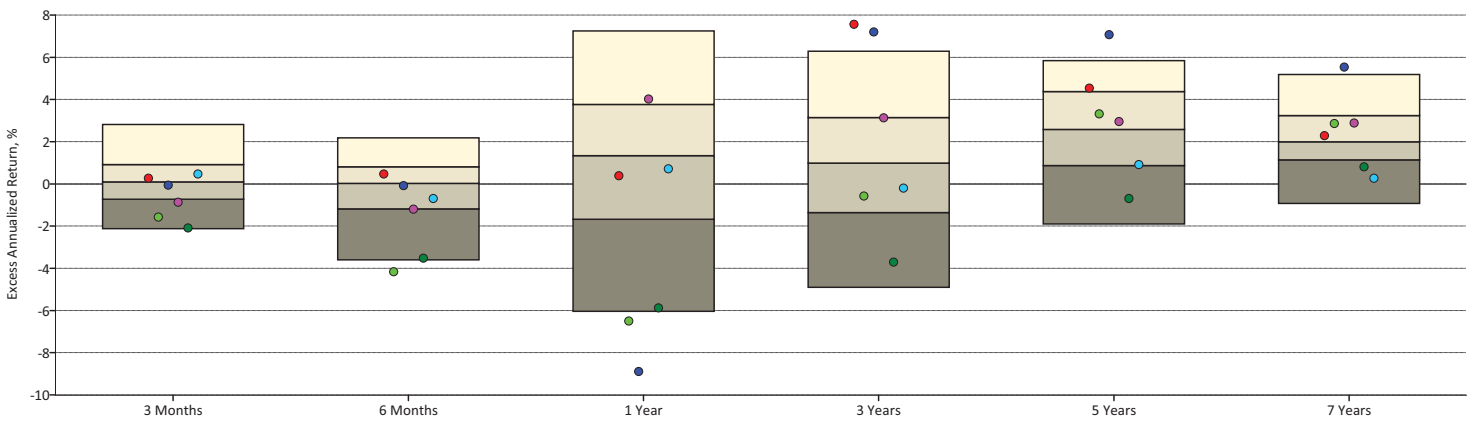
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Excess Return: Trailing Periods



	Excess Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Gryphon Intl: EAFE Equities	0.3	39	0.5	42	0.4	59	7.6	1	4.5	18	2.3	37
Henderson: Intl All Cap	-1.6	86	-4.2	99	-6.5	97	-0.6	62	3.3	36	2.9	31
Johnston Asset: International	-0.1	57	-0.1	51	-8.9	100	7.2	2	7.1	1	5.5	5
Schrodgers: Intl Alpha	-0.9	77	-1.2	77	4.0	20	3.1	26	3.0	44	2.9	29
Artio Global: International Equity	-2.1	95	-3.5	95	-5.9	95	-3.7	88	-0.7	91	0.8	79
MSCI EAFE Growth	0.5	36	-0.7	66	0.7	57	-0.2	57	0.9	75	0.3	85
Intl Growth Cust Median	0.1		0.0		1.3		1.0		2.6		2.0	
<i>Intl Growth Cust Size</i>	56		56		56		56		52		47	

### Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Universe: Intl Growth Cust
- Gryphon Intl: EAFE Equities
- Henderson: Intl All Cap
- Johnston Asset: International
- Schrodgers: Intl Alpha
- Universe Rank: Green = Top Quartile Red = Bottom Quartile
- Artio Global: International Equity
- MSCI EAFE Growth

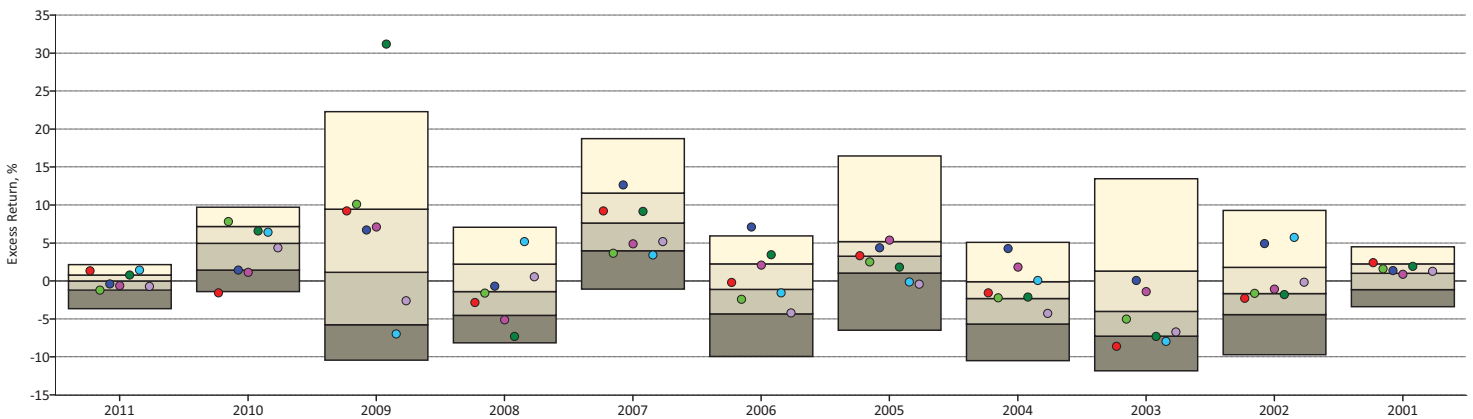
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Excess Return: Calendar Years



	Excess Return																					
	2011		2010		2009		2008		2007		2006		2005		2004		2003		2002		2001	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Artisan Partners: Non-U.S. Growth	1.4	17	-1.5	97	9.3	26	-2.8	58	9.3	37	-0.2	38	3.4	46	-1.5	36	-8.5	86	-2.2	61	2.5	24
Baillie Gifford: EAFE Plus Focus	-1.2	75	7.8	18	10.1	24	-1.5	53	3.7	77	-2.4	65	2.6	59	-2.2	49	-5.0	57	-1.6	49	1.7	41
Barings: Foc Intl Plus	-0.3	55	1.5	76	6.8	39	-0.6	45	12.7	14	7.2	3	4.4	34	4.3	9	0.1	31	5.0	12	1.4	43
Echo Point: Intl Growth Equity	-0.6	64	1.2	78	7.1	31	-5.1	82	4.9	67	2.1	27	5.4	23	1.9	21	-1.4	40	-1.0	44	0.9	54
Franklin Templeton: Frk Non-US Equity	0.8	26	6.6	33	31.2	1	-7.3	92	9.2	41	3.5	20	1.9	64	-2.1	46	-7.3	77	-1.8	52	2.0	32
GMO: Intl. Growth	1.5	15	6.5	37	-6.9	83	5.2	15	3.5	79	-1.5	59	-0.1	84	0.1	24	-7.9	82	5.8	11	n/a	n/a
MSCI EAFE Growth	-0.7	66	4.4	53	-2.6	66	0.6	34	5.2	64	-4.2	75	-0.4	86	-4.2	66	-6.7	69	-0.1	35	1.3	46
Intl Growth Cust Median	0.0		5.0		1.2		-1.4		7.7		-1.1		3.3		-2.3		-4.0		-1.6		1.1	
Intl Growth Cust Size	56		59		64		70		70		68		69		69		72		77		78	

### Legend

□ 5th to 25th Percentile	□ 25th Percentile to Median	□ Median to 75th Percentile	□ 75th to 95th Percentile	Universe: Intl Growth Cust
● Artisan Partners: Non-U.S. Growth	● Baillie Gifford: EAFE Plus Focus	● Barings: Foc Intl Plus	● Echo Point: Intl Growth Equity	Universe Rank: Green = Top Quartile Red = Bottom Quartile
● Franklin Templeton: Frk Non-US Equity	● GMO: Intl. Growth	● MSCI EAFE Growth		

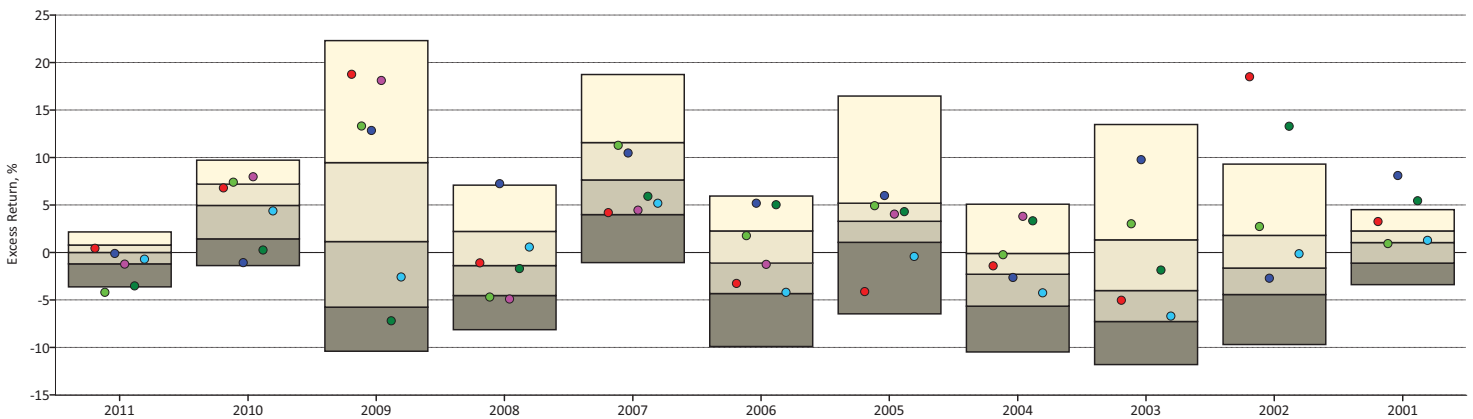
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

### Excess Return: Calendar Years



	Excess Return																					
	2011		2010		2009		2008		2007		2006		2005		2004		2003		2002		2001	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Gryphon Intl: EAFE Equities	0.5	42	6.8	32	18.8	8	-1.1	48	4.2	74	-3.2	71	-4.1	93	-1.4	34	-5.0	58	18.5	1	3.3	15
Henderson: Intl All Cap	-4.2	99	7.4	25	13.3	16	-4.7	77	11.3	31	1.8	30	5.0	30	-0.2	27	3.0	17	2.8	20	1.0	52
Johnston Asset: International	-0.1	51	-1.0	94	12.9	18	7.3	3	10.5	34	5.2	11	6.0	21	-2.6	56	9.8	9	-2.7	66	8.1	1
Schroders: Intl Alpha	-1.2	77	8.0	16	18.1	10	-4.9	80	4.5	72	-1.2	53	4.1	43	3.8	11	n/a	n/a	n/a	n/a	n/a	n/a
Artio Global: International Equity	-3.5	95	0.3	82	-7.2	85	-1.7	54	5.9	60	5.1	12	4.3	37	3.4	14	-1.8	41	13.3	2	5.5	3
MSCI EAFE Growth	-0.7	66	4.4	53	-2.6	66	0.6	34	5.2	64	-4.2	75	-0.4	86	-4.2	66	-6.7	69	-0.1	35	1.3	46
Intl Growth Cust Median	0.0		5.0		1.2		-1.4		7.7		-1.1		3.3		-2.3		-4.0		-1.6		1.1	
Intl Growth Cust Size	56		59		64		70		70		68		69		69		72		77		78	

### Legend

- 5th to 25th Percentile
  25th Percentile to Median
  Median to 75th Percentile
  75th to 95th Percentile
 Universe: Intl Growth Cust
- Gryphon Intl: EAFE Equities
 ● Henderson: Intl All Cap
 ● Johnston Asset: International
 ● Schroders: Intl Alpha
 Universe Rank: Green = Top Quartile Red = Bottom Quartile
- Artio Global: International Equity
 ● MSCI EAFE Growth

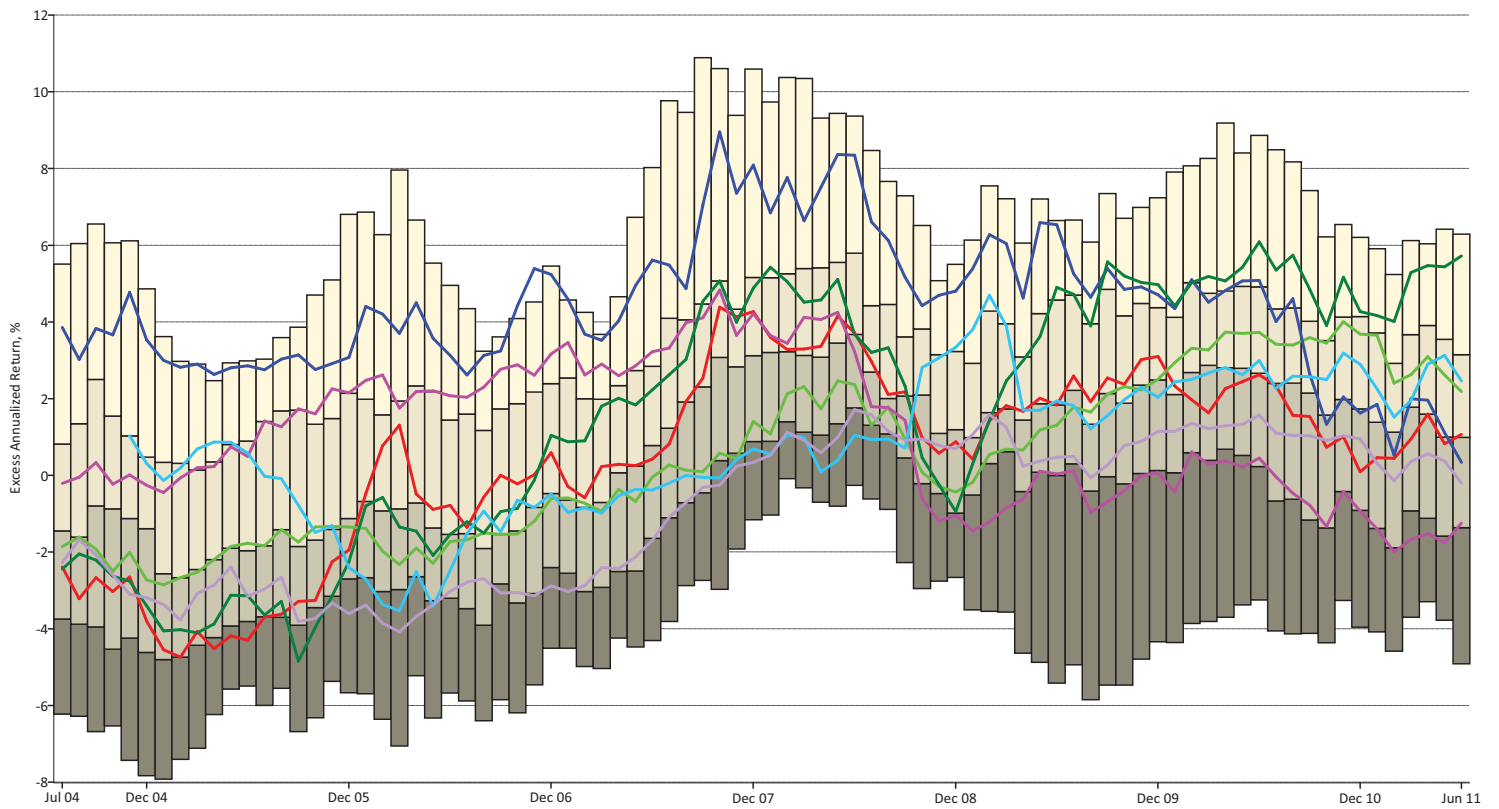
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

Excess Return: Rolling 36-month Periods (Jul 04 - Jun 11)



Legend				
□ 5th to 25th Percentile	□ 25th Percentile to Median	□ Median to 75th Percentile	■ 75th to 95th Percentile	Universe: Intl Growth Cust
■ Artisan Partners: Non-U.S. Growth	■ Baillie Gifford: EAFE Plus Focus	■ Barings: Foc Intl Plus	■ Echo Point: Intl Growth Equity	
■ Franklin Templeton: Frk Non-US Equity	■ GMO: Intl. Growth	■ MSCI EAFE Growth		

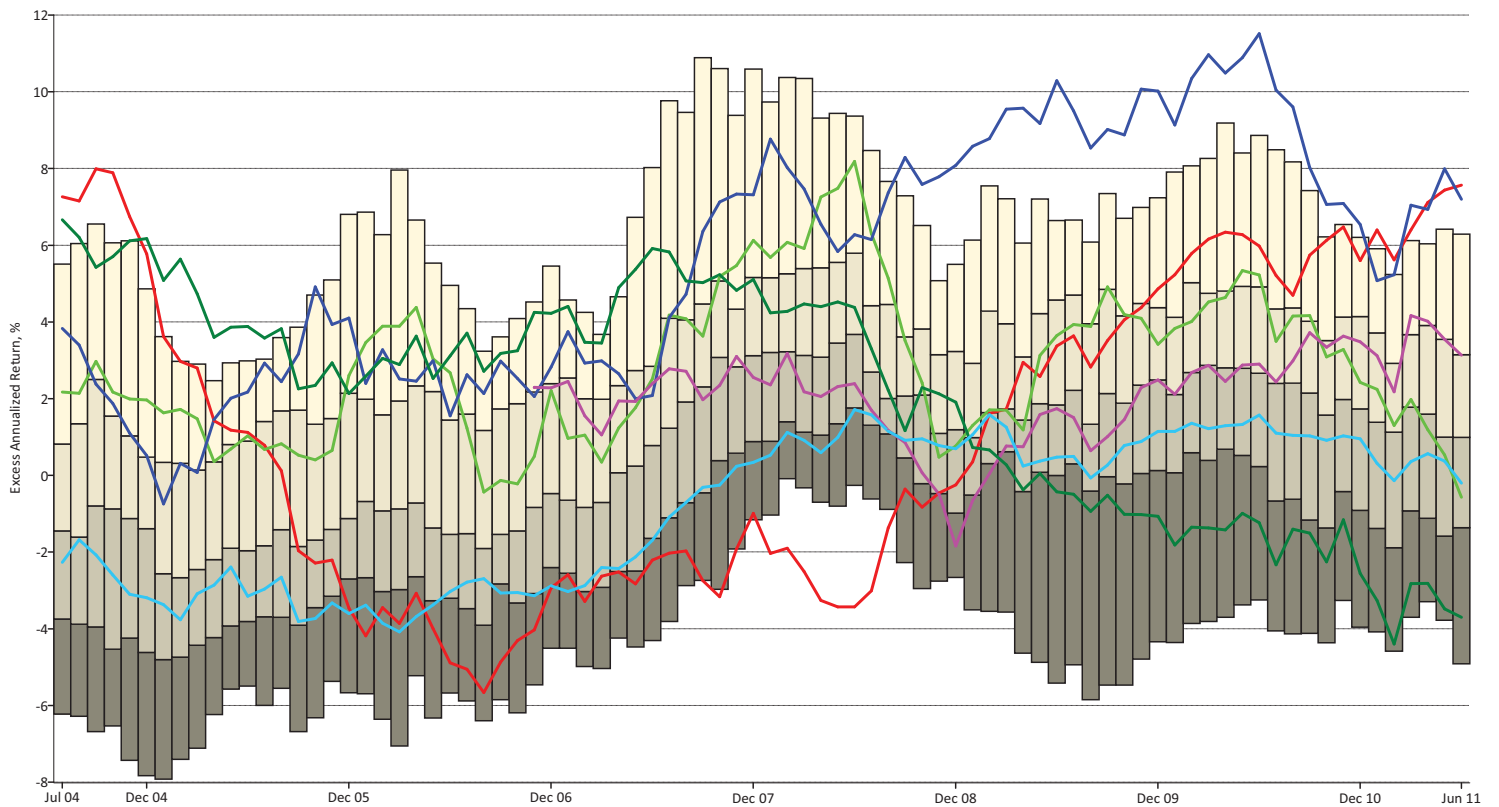
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Performance Detail

All Strategies

Excess Return: Rolling 36-month Periods (Jul 04 - Jun 11)



Legend				
□ 5th to 25th Percentile	□ 25th Percentile to Median	□ Median to 75th Percentile	■ 75th to 95th Percentile	Universe: Intl Growth Cust
■ Gryphon Intl: EAFE Equities	■ Henderson: Intl All Cap	■ Johnston Asset: International	■ Schroders: Intl Alpha	
■ Artio Global: International Equity	■ MSCI EAFE Growth			

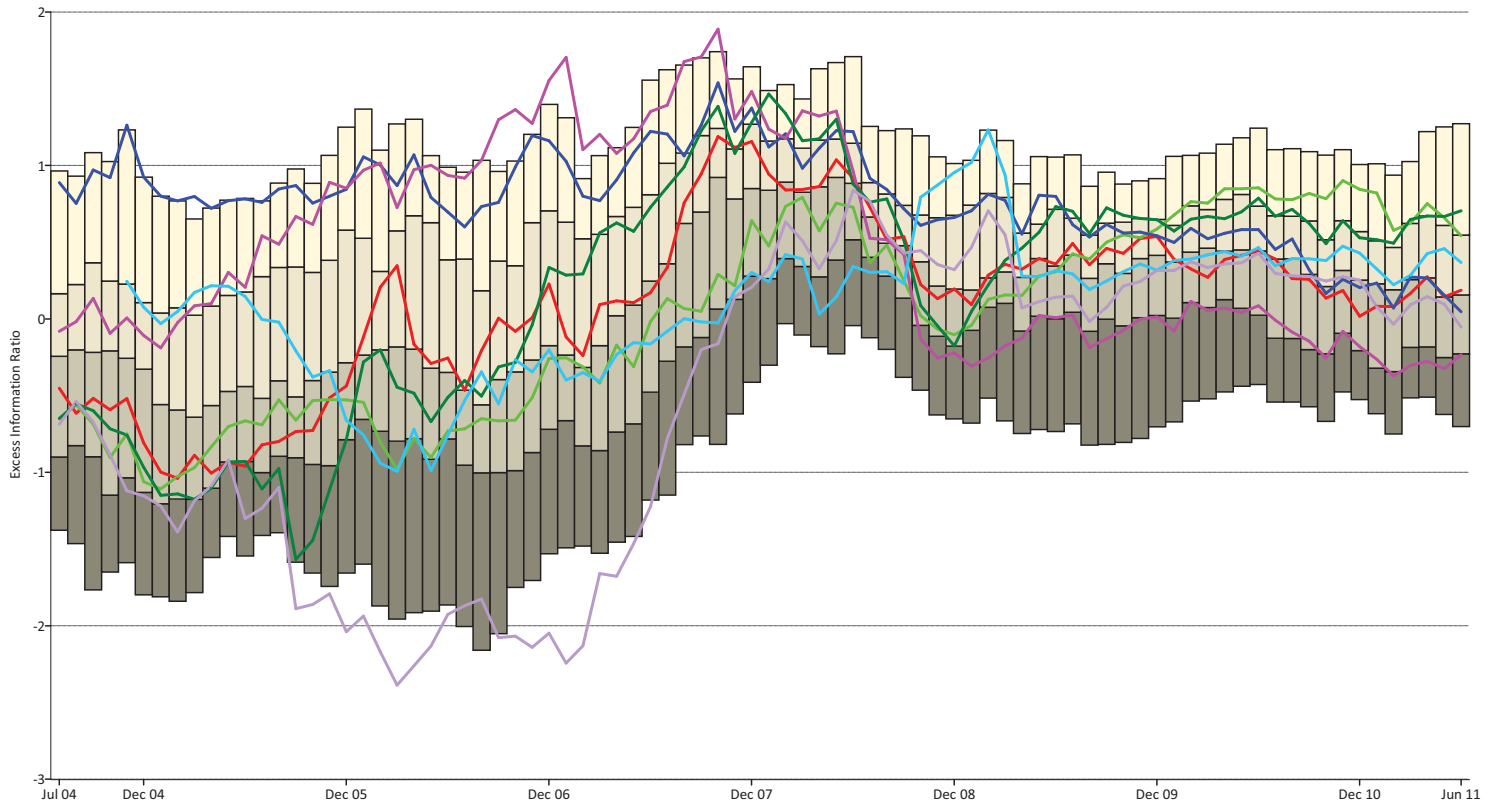
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Risk/Return Analysis

All Strategies

Information Ratio: Rolling 36-month Periods (Jul 04 - Jun 11)



Legend				
□ 5th to 25th Percentile	□ 25th Percentile to Median	□ Median to 75th Percentile	■ 75th to 95th Percentile	Universe: Intl Growth Cust
■ Artisan Partners: Non-U.S. Growth	■ Baillie Gifford: EAFE Plus Focus	■ Barings: Foc Intl Plus	■ Echo Point: Intl Growth Equity	
■ Franklin Templeton: Frk Non-US Equity	■ GMO: Intl. Growth	■ MSCI EAFE Growth		



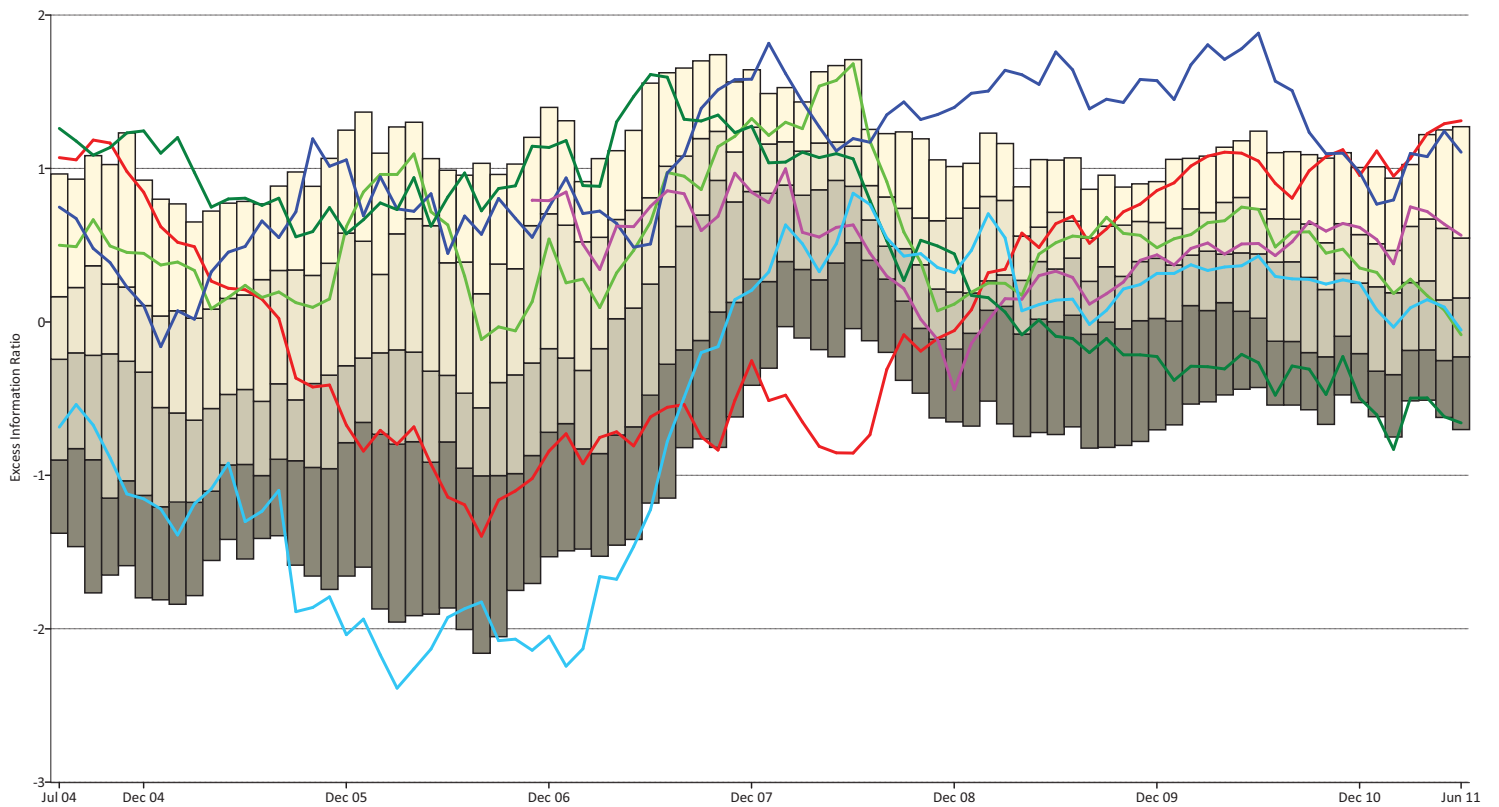
# SamCERA - International Growth Equity

Periods ending June 30, 2011

## Risk/Return Analysis

All Strategies

Information Ratio: Rolling 36-month Periods (Jul 04 - Jun 11)



### Legend

- |                                      |                             |                                 |                           |                                      |
|--------------------------------------|-----------------------------|---------------------------------|---------------------------|--------------------------------------|
| □ 5th to 25th Percentile             | □ 25th Percentile to Median | □ Median to 75th Percentile     | ■ 75th to 95th Percentile | <i>Universe:</i><br>Intl Growth Cust |
| ■ Gryphon Intl: EAFE Equities        | ■ Henderson: Intl All Cap   | ■ Johnston Asset: International | ■ Schroders: Intl Alpha   |                                      |
| ■ Artio Global: International Equity | ■ MSCI EAFE Growth          |                                 |                           |                                      |

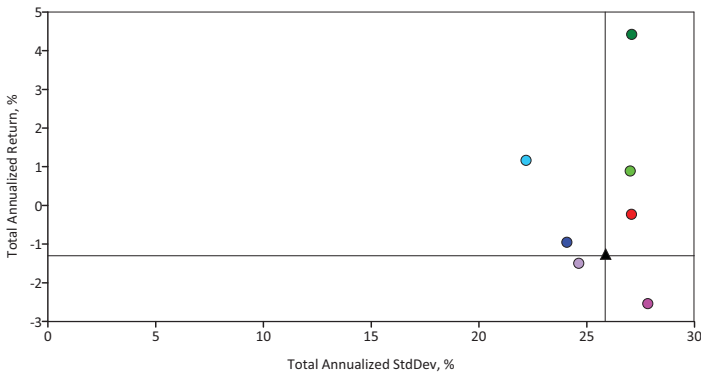
# SamCERA - International Growth Equity

Periods ending June 30, 2011

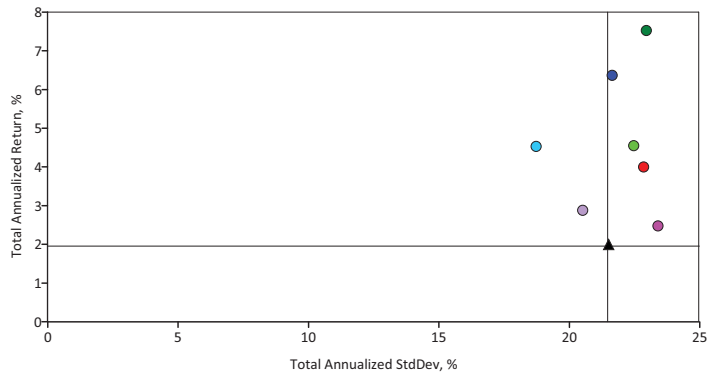
# Risk/Return Analysis

All Strategies

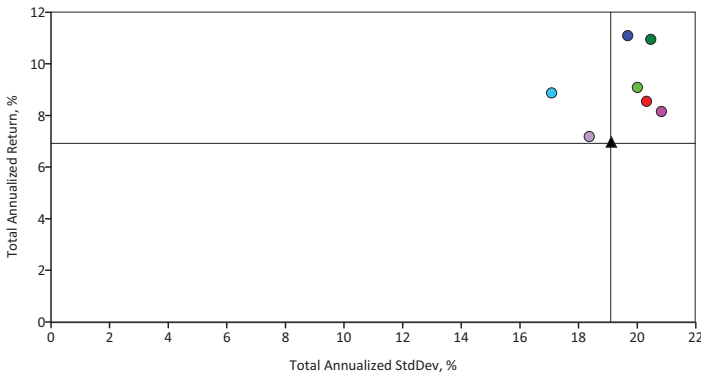
**Total Return vs. Standard Deviation: Trailing 3 Years (Jul 08 - Jun 11)**



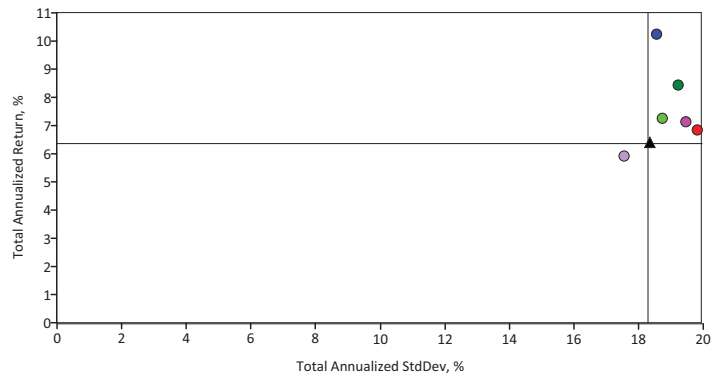
**Total Return vs. Standard Deviation: Trailing 5 Years (Jul 06 - Jun 11)**



**Total Return vs. Standard Deviation: Trailing 7 Years (Jul 04 - Jun 11)**



**Total Return vs. Standard Deviation: Trailing 10 Years (Aug 01 - Jun 11)**



Legend			
● Artisan Partners: Non-U.S. Growth	● Baillie Gifford: EAFE Plus Focus	● Barings: Foc Intl Plus	● Echo Point: Intl Growth Equity
● Franklin Templeton: Frk Non-US Equity	● GMO: Intl. Growth	● MSCI EAFE Growth	▲ MSCI EAFE

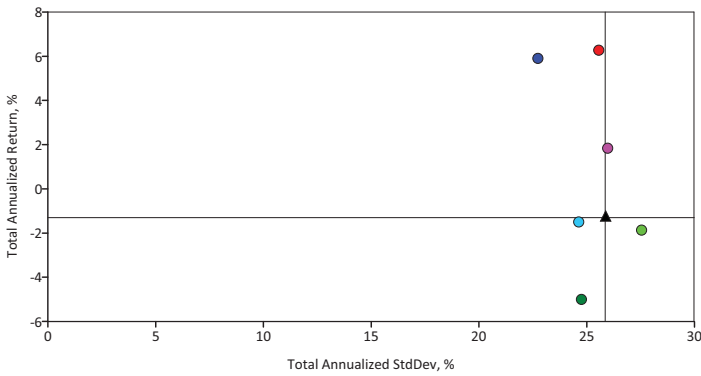
# SamCERA - International Growth Equity

Periods ending June 30, 2011

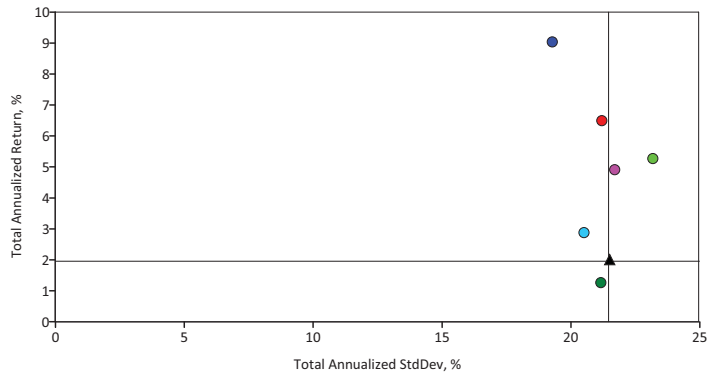
# Risk/Return Analysis

All Strategies

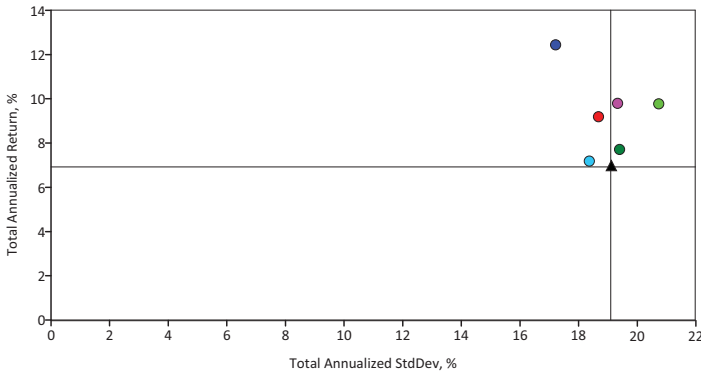
**Total Return vs. Standard Deviation: Trailing 3 Years (Jul 08 - Jun 11)**



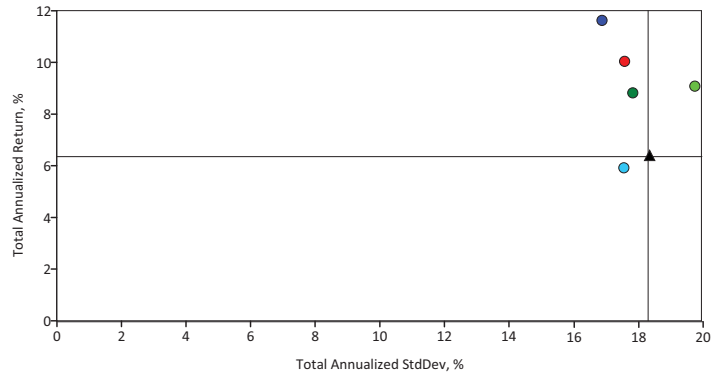
**Total Return vs. Standard Deviation: Trailing 5 Years (Jul 06 - Jun 11)**



**Total Return vs. Standard Deviation: Trailing 7 Years (Jul 04 - Jun 11)**



**Total Return vs. Standard Deviation: Trailing 10 Years (Aug 01 - Jun 11)**



Legend			
● Gryphon Intl: EAFE Equities	● Henderson: Intl All Cap	● Johnston Asset: International	● Schroders: Intl Alpha
● Artio Global: International Equity	● MSCI EAFE Growth	▲ MSCI EAFE	

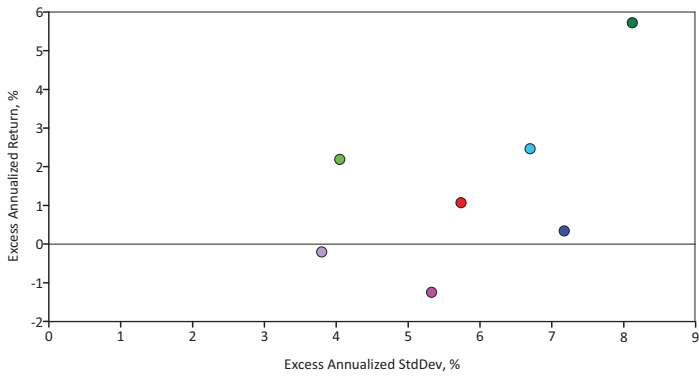
# SamCERA - International Growth Equity

Periods ending June 30, 2011

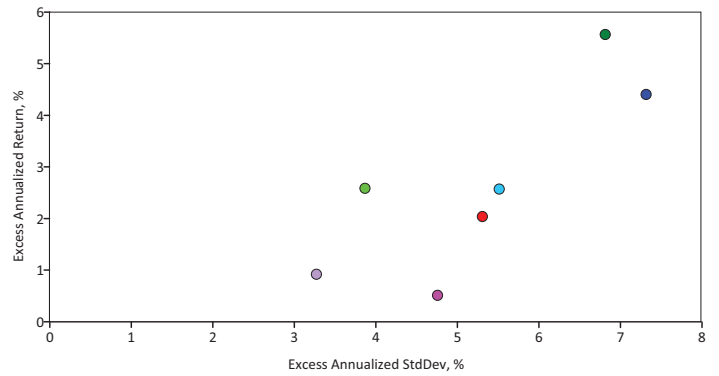
## Risk/Return Analysis

All Strategies

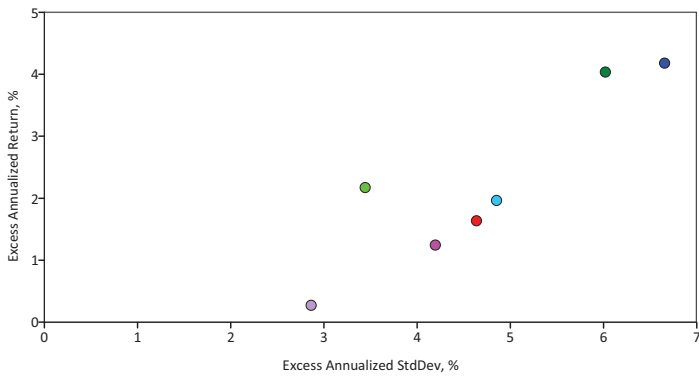
Excess Return vs. Tracking Error: Trailing 3 Years (Jul 08 - Jun 11)



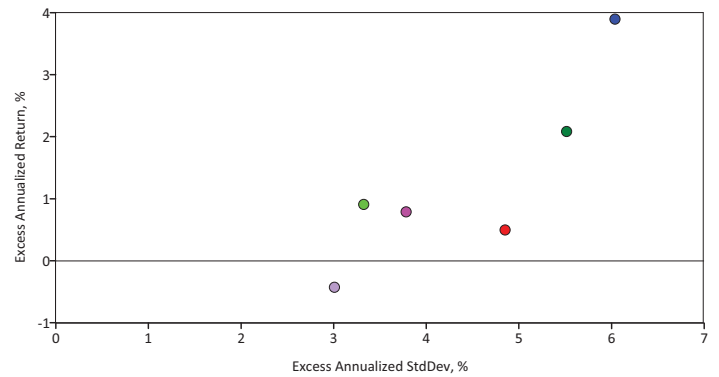
Excess Return vs. Tracking Error: Trailing 5 Years (Jul 06 - Jun 11)



Excess Return vs. Tracking Error: Trailing 7 Years (Jul 04 - Jun 11)



Excess Return vs. Tracking Error: Trailing 10 Years (Aug 01 - Jun 11)



### Legend

- Artisan Partners: Non-U.S. Growth
- Baillie Gifford: EAFE Plus Focus
- Barings: Foc Intl Plus
- Echo Point: Intl Growth Equity
- Franklin Templeton: Frk Non-US Equity
- GMO: Intl. Growth
- MSCI EAFE Growth

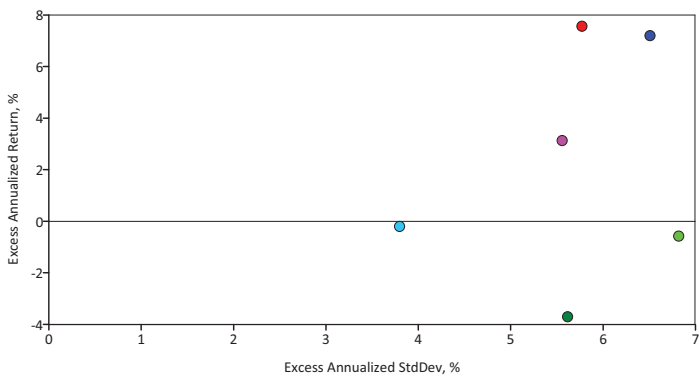
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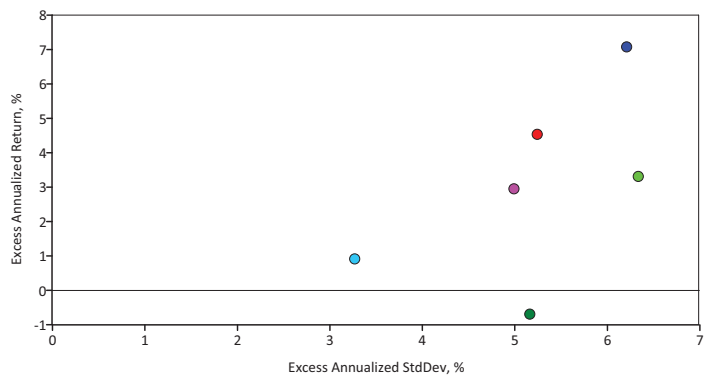
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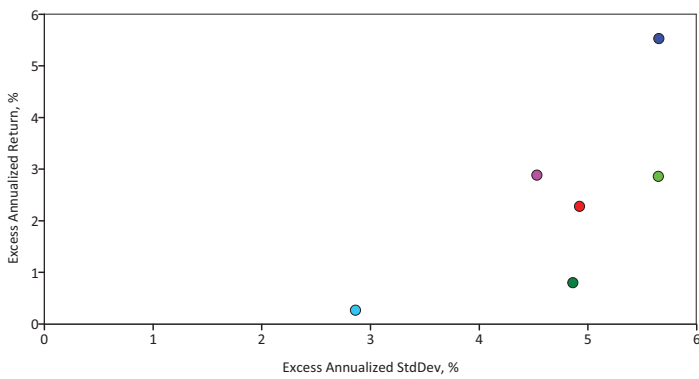
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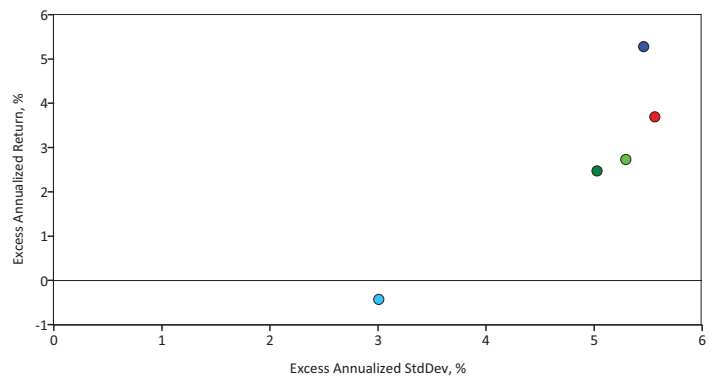
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**Legend**

- Gryphon Intl: EAFE Equities
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- Johnston Asset: International
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- Artio Global: International Equity
- MSCI EAFE Growth

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**Alpha (Jenson's Alpha)** – a manager's *Total Return* in excess of that which can be explained by its systematic risk, or *Beta*. Alpha is calculated by regressing a manager's *Total Returns* against those of the benchmark (taken to represent the "market"). Alpha is the intercept term in this regression, also known as a Capital Asset Pricing Model (CAPM) regression. A positive Alpha implies that a manager has added value relative to the benchmark on a *Beta*- or risk-adjusted basis.

**Batting Average** – the percentage frequency a manager's periodic *Total Return* exceeds the benchmark. A manager that outperforms the benchmark in 15 out of 20 months will have a *Batting Average* of 0.75.

**Benchmark R-Squared** – a statistical measure that represents the percentage of volatility in a manager's returns which can be explained by the volatility of the benchmark. Benchmark R-Squared can range from 0-100%. See also *R-Squared*.

**Best/Worst Quarter** – the maximum/minimum *Total Return* or *Excess Return* over any rolling 3-month period (when monthly returns are used). Note that the term "quarter" in this calculation does not refer to calendar quarters (unless the periodicity is quarterly), but rather 3-month windows.

**Best/Worst Year** – the maximum/minimum *Total Return* or *Excess Return* over any rolling 12-month period (when monthly returns are used). Note that the term "year" in this calculation does not refer to calendar years, but rather 12-month (or 4-quarter) windows.

**Beta** – a measure of a manager's sensitivity to systematic, or market risk. Beta is calculated by regressing a manager's *Total Returns* against those of the benchmark (taken to represent the "market"). Beta is the slope coefficient in this regression, also known as a Capital Asset Pricing Model (CAPM) regression. A manager with a Beta of 1 has a systematic volatility equal to that of the benchmark, while a Beta less than 1 implies lower systematic volatility than the benchmark and a Beta greater than 1 indicates that a manager exhibits more systematic volatility than the benchmark.

**Calmar Ratio** – a risk/return measure that is calculated by dividing a manager's *Total Return* or *Excess Return* by the respective *Maximum Drawdown*. A higher Calmar Ratio implies greater manager efficiency in generating *Total Returns* or *Excess Returns* without experiencing correspondingly high *Maximum Drawdowns*.

**Capture Ratio** – the ratio of a manager's average *Total Return* to the benchmark's average *Total Return*. Up Market Capture Ratio refers to relative performance in periods where the benchmark *Total Return* is greater than 0 (i.e., positive) and Down Market Capture Ratio is calculated over those periods where the benchmark *Total Return* is less than 0 (i.e., negative).

**Correlation** – a standardized measure of *Covariance* scaled to a range of -1 to 1. Correlations close to 1 suggest that two *Return Series* move together very closely while Correlations close to -1 indicate that two *Return Series* tend to move opposite of one another.

**Covariance** – a measure of the co-movement of two variables, *Return Series* for these purposes. When two *Return Series* tend to deviate in the same direction they will exhibit positive *Covariance* and if they tend to deviate in opposite directions they will exhibit negative *Covariance*.

**Excess Correlation** – the *Correlation* between two sets of *Excess Return Series*.

**Excess Information Ratio** – a measure of a manager's active return per unit of active risk. Excess Information Ratio (commonly referred to as *Information Ratio*) is calculated by dividing a manager's *Excess Return* by the *Tracking Error*. A higher Excess Information Ratio implies greater manager efficiency in terms of the active risk taken versus the benchmark.

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**Excess Loss Ratio** – a measure of a manager's active return per unit of downside active risk. Excess Loss Ratio is calculated by dividing a manager's *Excess Return* by the *Semi-Standard Deviation of Excess Returns*. A higher Excess Loss Ratio implies greater manager efficiency.

**Excess Omega Ratio** – a measure of a manager's active return versus active risk that uses the cumulative probability distribution function (CDF) of *Excess Returns* and assigns a return threshold (0 in this case), with part of the distribution on each side. Excess Omega Ratio is calculated by dividing the area above the CDF curve to the right of the threshold by the area below the CDF curve to the left of the threshold. Excess Omega Ratio is useful in that it incorporates the full distribution of *Excess Returns*, not just the mean and standard deviation (i.e., tracking error), and does not rely on a normally-distributed return series as many other risk-adjusted measures such as the *Sharpe Ratio* and *Information Ratio* implicitly do. As with other risk-adjusted measures, a higher Excess Omega Ratio implies greater manager efficiency in terms of active risk and return.

**Excess Return** – a manager's return in excess of the benchmark's *Total Return*.

**Excess Style Weights** – a manager's style weights in excess of the benchmark's style weights for a given period. This measures a manager's style deviations, or bets, versus the benchmark.

**Information Ratio** – a measure of a manager's return per unit of risk. Information Ratio is calculated by dividing a manager's *Total Return* by the *Standard Deviation*. A higher Information Ratio implies greater manager efficiency. To avoid confusion and conform to industry standards, the term "Information Ratio" is used throughout the study when referencing the *Excess Information Ratio* statistic.

**Maximum Drawdown** – a drawdown is any losing period during a *Return Series* (either *Total Return* or *Excess Return*) and the Maximum Drawdown measures the cumulative return during the worst "peak to trough" period for the *Return Series*. The Maximum Drawdown does not necessarily occur over consecutive months (or quarters) of negative performance and can be interrupted by periods of positive performance as long as this does not cause full recovery of the initial value prior to the drawdown.

**Recovery Duration** – the number of months (or quarters) from trough to full recovery after the *Maximum Drawdown*. If the full amount of the initial value has not been recovered, Recovery Duration will display "N/A".

**Recovery Percent** – where the full amount of the initial value has not been recovered after the *Maximum Drawdown*, Recovery Percent represents the partial percent of peak to trough loss that has been regained to date. If the initial value has been re-achieved, Recovery Percent will display "100%".

**Recovery Period** – the range of months (or quarters) to regain the value before the *Maximum Drawdown* occurred, starting from the first month (or quarter) after a trough. When the full amount of the initial value has not been recovered the date range shown is from the trough to the highest subsequent cumulative value.

**Return Series** – a set of *Returns* over a range of time periods.

**Risk** – see *Standard Deviation*.

**R-Squared** – within the context of regression analysis, R-Squared represents the portion of the variation of a dependent variable (e.g., a manager's *Return Series*) that can be explained by the variation of the independent variable(s) (e.g., a benchmark index or set of *Style Indices*). R-squared values range from 0 to 100. An R-squared of 100 indicates that all movements of the dependent variable are completely explained by movements of the independent variable(s). In addition, R-Squared provides a measure of the goodness of fit, or validity, of the regression model.

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**Selection Return** – a manager's *Total Return* in excess of the *Style Return*. A positive Selection Return implies that a manager has added value relative to the *Style Benchmark* through security selection.

**Semi-Standard Deviation** – a measure of downside risk similar to Standard Deviation, except that it is calculated using only the variance of returns below a target rate (0 by default, but can also be set to a Minimum Accepted Return or MAR, the risk-free rate or the benchmark's return). A high Semi-Standard Deviation represents a wide range of returns below the target rate and therefore implies a higher level of downside risk. Semi-Standard Deviation is useful in that it penalizes managers only for volatile returns below the target rate, unlike the full Standard Deviation calculation which does not distinguish between upside (good) and downside (bad) volatility.

**Sharpe Ratio** – a manager's *Excess Return* over the risk-free rate divided by the *Standard Deviation*. Sharpe Ratio measures a manager's return per unit of risk. A higher Sharpe Ratio implies greater manager efficiency.

**Standard Deviation** – a measure of the extent to which observations in a series vary from the arithmetic mean of the series. Standard Deviation (also referred to as *Volatility* or *Risk*) provides an indication of the dispersion of periodic returns. A high Standard Deviation represents a wide range of returns and therefore implies a higher level of risk.

**Style Benchmark** – a blended index of *Style Indices* combined at the corresponding *Style Weights*. The *Style Return* represents the *Total Return* of the Style Benchmark.

**Style Indices** – independent (or explanatory) variables used in the *Style Regression*. Style Indices can also be interpreted as the manager's *Betas* or risk factors within the context of the *Style Regression*.

**Style Map** – a specialized form of scatter plot used to show where a manager lies in relation to a set of *Style Indices* on a two-dimensional plane. A Style Map is simply a different way of viewing the *Style Weights*. The x and y co-ordinates are calculated by rescaling the *Style Weights* to a range of -1 to 1 on each axis.

**Style Regression** – a constrained quadratic regression of a manager or benchmark return series against a set of *Style Indices*. Style Regression calculates a series of *Betas* that collectively seek to explain as much of a return series as possible.

**Style Return** – calculated by multiplying a manager's (or benchmark's) *Style Weights* by the corresponding returns of the *Style Indices* and summing the resulting weighted component returns.

**Style R-Squared** – a statistical measure that represents the percentage of volatility in a manager's returns which can be explained by the volatility of the *Style Indices* (or collectively, the *Style Benchmark*). Style R-Squared can range from 0-100%. See also *R-Squared*.

**Style Weights** – represent the periodic exposure of a manager (or benchmark) to various explanatory variables, also referred to as *Style Indices*. Style Weights are returns-based, i.e. they are calculated through the *Style Regression*.

**Timing Return** – a manager's *Style Return* in excess of the benchmark's *Style Return*. A positive Timing Return implies that a manager has added value relative to the benchmark through asset allocation decisions, i.e., over/underweight "positions" in the *Style Indices* versus those of the benchmark.

1) If the market benchmark used in the study is not also one of the *Style Indices* then it too will have *Style Weights*, a *Style Return* and a *Style Benchmark*. If the benchmark is one of the *Style Indices*, its *Style Return* will equal the benchmark's *Total Return*.

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**Total Return** – a measure of the appreciation or depreciation in the price of an investment over a given time period.

**Tracking Error** – the *Standard Deviation* of a manager's *Excess Return* series. Tracking Error measures the extent to which a manager's returns diverge from the benchmark's returns. A low Tracking Error indicates that the manager closely tracks the benchmark.

**Volatility** – see *Standard Deviation*.

*Note: All calculations use geometrically annualized returns except for cumulative returns and those that cover periods less than one year.*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.7

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Initial rewrite of *SamCERA*'s Investment Policy.

STAFF RECOMMENDATION: Staff recommends that the Investment Committee review *SamCERA*'s current Investment Policy and 1<sup>st</sup> draft of the new policy and begin work rewriting the Policy.

COMMENT: The Investment Committee's work plan calls for an annual review of *SamCERA*'s Investment Policy. That annual review was suspended due to multiple changes to the portfolio structure that the board has undertaken. *SamCERA*'s Investment Policy was last reviewed in July 2008. Today's agenda item is intended to begin the process of developing a new investment policy that incorporates those changes.

Attached to this agenda item are *SamCERA*'s current Investment Policy and a portion of the proposed draft of the future policy. The Investment Committee will work on the redraft in several installments. The first will be from the beginning through section VI and Schedule 1. This portion of the policy is designed to lay a framework for the entire policy

**San Mateo County Employees'  
Retirement Association**

***SamCERA***

***INVESTMENT POLICY***

**ADOPTED MMMM DD, 2011**

# *SamCERA*

## **GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES**

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- Schedule IIA – Watchlist/Probation Criteria for Underperformance
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- Schedule V – Compliance Schedule
- Schedule VI – Investment Philosophy
- Schedule VII – Charter of *SamCERA's* Investment Committee

# GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

## SECTION I: INTRODUCTION, MISSION AND PURPOSE

*SamCERA* was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944.

The nine-member Board of Retirement is composed of the County Treasurer, four trustees appointed by the Board of Supervisors and four trustees elected from the membership. There are two alternate trustees. One is elected by the safety members and one by the retired members. The trustees' three-year terms are staggered to provide for continuity in the management of the association.

*SamCERA* was organized in accordance with the provisions of California's County Employees' Retirement Law of 1937. The powers and duties of the board are set forth in the '37 Act and in Article XVI of the State Constitution.

Included among the board's duties are the mandate to assure the association's actuarial soundness and the prudent investment of the assets of the retirement fund.

This Investment Policy incorporates the board's policies, objectives, strategies, implementation programs and procedures for fulfilling its fiduciary obligation to manage the assets of the retirement fund with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

The San Mateo County Employees' Retirement Association ("*SamCERA*") exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system. *SamCERA's* overall goal is to provide caring, fair, accurate, timely and knowledgeable professional service to *SamCERA's* clients and the public. Also, to prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers. And finally, to constantly improve the effectiveness of *SamCERA's* services and the efficiency of its operations.

The Board of Retirement (the "Board"), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the "Fund"), hereby establishes the following "General Investment Guidelines, Policies and Procedures" (the "Policy") for the investment of *SamCERA's* assets. The Board reserves the right to amend, supplement or rescind this Policy at any time.

The Board is directed by law and given discretion to prudently invest the retirement plan assets. The purpose of this statement of Policy is to assist *SamCERA* in effectively supervising said investments and to encourage effective communication between *SamCERA* and its investment managers (the "Manager(s)") and investment consultants (the "Consultant(s)").

*SamCERA's* investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis and to be as well funded as possible so that

*SamCERA's* benefit costs do not become a burden upon future generations of members and taxpayers.

## **SECTION II: CONSTITUTIONAL REQUIREMENTS**

Article 16 §17 of the California State Constitution provides in pertinent part as follows: “Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of money and administration of the system, subject to the following:

a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

b. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

c. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

d. The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

e. The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.

f. With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the change, amendment, or modification enacted by the legislature is ratified by a majority of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed.

g. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.

h. As used in this section, the term “retirement board” shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees pension or retirement system; provided, however, that the term “retirement board” shall not be interpreted to mean or include a governing body or board created after July 1, 1991, which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees pension or retirement system.”

### **SECTION III: ROLES AND PRINCIPAL DUTIES**

The Fund investments shall be prudently planned, implemented, managed, monitored and guarded. The Board, Investment Committee (the “Committee”), investment staff (the “Staff”), Consultant (the “Consultant”), Custodian Bank (the “Custodian”), and Managers shall coordinate this process. See the defined roles and principal duties of the above-mentioned parties below:

A. THE BOARD shall review and approve Committee recommendations. The Board also reviews, adopts and monitors all investment policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund.

B. THE COMMITTEE shall identify issues pertinent to the effective investment and administration of the Fund and, on Board approval, initiate analysis of such issues by Staff, Consultant or Managers. It also reviews Staff’s and Consultant’s recommendations regarding all investment policies and investment Fund management. The Committee provides recommendations to the Board for adoption, oversees implementation, and monitors the investment programs in accordance with all applicable laws and Board-established policies, guidelines and procedures. Refer to Schedule VII – Charter of *SamCERA*’s Investment Committee of the Board for detailed Committee responsibilities.

C. THE STAFF shall oversee the Fund’s investment program activities, implement the Board decisions, make recommendations to the Committee regarding Fund management, and recommend investment-related policies and procedures to the Committee. Additionally, Staff monitors the performance and compliance of Managers in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as “Specific Investment Guidelines” set out in the investment agreement between *SamCERA* and each Manager (Agreement or Contract). Staff also facilitates the Committee meetings and completes activity as directed by the Board.

D. THE CONSULTANT shall review, analyze and evaluate the Fund’s effectiveness and efficiency and make fund management related recommendations. Consultant assists Staff in implementing the Board decisions and developing all investment-related policies. Consultant’s responsibilities are detailed in the service agreement between *SamCERA* and Consultant.

E. THE CUSTODIAN shall provide custody of *SamCERA*’s investment assets. Custodian’s responsibilities are detailed in the service agreement between *SamCERA* and Custodian.

F. THE MANAGERS shall prudently manage their mandated allocations (defined in Section VII – Eligible Asset Categories) in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Specific Investment Guidelines. Managers’ responsibilities are detailed in their Investment Management Agreements.

#### **SECTION IV: INVESTMENT PHILOSOPHY**

The following is a summary of *SamCERA*’s investment philosophy. For the complete statement, please refer to Schedule VI of this document, “*SamCERA* Investment Philosophy.”

The Board believes that its investment policies, in aggregate, are the most important determinants of its investment success. Compliance with investment policies should, therefore, be monitored rigorously. The Board also believes that performance of the total portfolio, individual asset classes, and Managers should be monitored and compared to appropriate, predetermined benchmarks.

The Board believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio in the long term.

The Board believes that market efficiency and opportunities vary among asset classes and may change over extended periods of time; therefore, the Board believes that *SamCERA*’s portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

The Board’s primary goals in managing the Fund are:

1. To ensure that sufficient funds are available to pay vested benefits, and
2. To comply with all applicable fiduciary standards; and
3. To add marginal value that will help reduce the costs of the plan.

The Board believes that in order to achieve its goals, *SamCERA* must invest the necessary resources to build and maintain an appropriate organizational infrastructure.

#### **SECTION V: ASSET ALLOCATION AND REBALANCING**

Asset allocation targets, a function of the returns and risks from various asset classes and the nature of the plan’s liabilities, are set forth in Schedule I. A goal of asset allocation is balancing asset growth versus liability growth considering time horizons, liabilities and risk tolerance. *SamCERA*’s objective is to conduct an asset/liability study once every three years and an asset allocation study once every eighteen months or more often if necessary.

Rebalancing is the risk control process of returning an allocation to the desired target level after having drifted away from its targeted position. The board establishes bands or ranges around the asset allocation targets are set forth in Schedule IA. The objective of rebalancing is to enhance the risk-adjusted performance of the asset allocation structure.



Staff shall be responsible for maintaining the relative weights of asset classes and allocations within the acceptable rebalancing ranges as reflected in Schedule IA. Should an asset class or allocation fall outside its target range, Staff shall rebalance the asset class or allocation back to the target weights as specified in the asset allocation structure in Schedule I.

Staff shall

1. Monitor the portfolio;
2. Determine whether or not any asset category is out of balance with its target asset allocation in excess of the specified tolerance range;
3. Determine whether or not any Manager within each asset category is out of balance with their target allocation in excess of the specified tolerance range;
4. And, if this is determined, either
  - (a) instruct the relevant Managers to redirect cash income (interest coupon and dividends) in concert with an evaluation of pending commitments and other cash flows (employer and employee contributions), in order to bring the allocation(s) back to the adopted strategic target; and/or
  - (b) instruct the relevant Managers to liquidate or acquire the appropriate dollar value of securities to reach the target and reallocate the cash thus generated or required to the other category(s) or Manager(s), as necessary.

Staff shall report to the Board on a regular basis the status of the Fund with respect to how categories are tracking relative to their allowable ranges, as well as any actions taken to rebalance the portfolio.

## **SECTION VI: INVESTMENT STRATEGY AND MANAGER STRUCTURE**

A. U.S. EQUITY will be structured to capture exposure to the broad U.S. equity market as represented by the Russell 3000 Index. Passively managed (index) portfolios may be used in portions of the markets that are reasonably efficient. These portfolios are intended to provide broadly diversified market exposure with controlled (market) risk and minimal cost.

Actively managed portfolios will be used when the Board determines that a Manager possesses special skills or abilities that enable that Manager to capture excess returns relative to the market, adjusted for risk and fees; or to exploit specialty markets that provide enhanced return with acceptable risk.

A great part of the Russell 3000, on a market value basis, is comprised of large-cap stocks, which the Board believes are efficiently priced most of the time. Therefore, the Board has adopted a policy of obtaining overall exposure to this segment of the market via passively managed indexed products. In addition, some active Managers have been employed to enhance overall portfolio return on a risk- and fee-adjusted basis.

The remainder of the Russell 3000 index is comprised of small to mid-cap companies. Some opportunities for active management enhancement exist in these securities due to market inefficiencies. *SamCERA* will attempt to capture these opportunities through a mix of Managers who have the special skills required to identify smaller companies that may be undervalued or possess substantial growth potential.

The U.S. equity portfolio shall be allocated among the various styles and Managers. The U.S. equity manager structure is outlined in Schedule I.

B. INTERNATIONAL EQUITY represents an opportunity to diversify risk and capture enhanced returns within markets generally less efficient than the U.S. domestic equity market. The international equity allocation of the Fund will be invested in actively managed portfolios. The international equity portfolio shall be allocated among various styles and managers. The international equity manager structure is outlined in Schedule I.

C. FIXED INCOME represents a means of reducing overall portfolio risk and capturing incremental returns either domestically or globally. Inefficiencies in the pricing and trading of fixed income securities create opportunities to add value through active management. The fixed income portion of the portfolio will be invested in actively managed portfolios. The fixed income portfolio shall be allocated among various styles and managers. The fixed income manager structure is outlined in Schedule I.

D. REAL ESTATE will be used as a means of diversifying the portfolio and capturing additional returns due to the low correlation between returns on real estate and financial assets. Real estate investments occur in an inefficient market and will be designed to provide returns in excess of the industry benchmarks. Active management, value creation and opportunistic strategies, as well as prudent use of third party debt, are approved methods of generating excess return. The real estate manager structure is outlined in Schedule I.

E. PRIVATE EQUITY AND ALTERNATIVES represent a means of further diversifying the portfolio and generating returns superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with such investments. The private equity and alternatives portfolio shall be allocated among the various subcategories and Managers. The private equity and alternatives manager structure is outlined in Schedule I.

## SCHEDULE I

### ASSET ALLOCATION AND MANAGER STRUCTURE TARGETS ASSET ALLOCATION TARGETS

Portfolio	Target *	Rebalance Range
Large Cap Core Passive (BlackRock Russell 1000)	6.50%	±3%
Active Large Cap Core (D.E. Shaw Investment Management, LLC)	4.25%	±3%
Active Large Cap Core (T. Rowe Price Associates)	4.25%	±3%
Active Large Cap Core (Barrow, Hanley, Mewhinney & Strauss)	6.50%	±3%
Active Large Cap Core (BlackRock Capital Management, Inc.)	6.50%	±3%
Large Cap Aggregate	28.00%	
Active Small Cap Core (The Boston Company)	1.75%	±3%
Active Small Cap Core (Chartwell Investment Partners)	1.75%	±3%
Active Small Cap Core (Jennison Associates)	3.50%	±3%
Small Cap Aggregate	7.00%	
Active Developed Market Growth (Artio Global Investors )	8.00%	±3%
Active Developed Market Value (Mondrian Investment Partners)	6.00%	±3%
Active International Small Cap (TBA)	1.75%	±3%
Active Emerging Markets (TBA)	2.25%	±3%
International Aggregate	18.00%	±3%
Total Equity	53.00%	
Active Core (Aberdeen Asset Management)	3.75%	±2%
PPIP (Angelo Gordon)	1.63%	±2%
Active Credit (Brigade Capital Management)	1.63%	±2%
Active TIPS (Brown Brothers Harriman)	3.00%	±2%
Active International (Franklin Templeton)	4.50%	±2%
Active Core (Pyramis Global Advisors)	3.75%	±2%
Active Core (Western Asset Management Company)	3.75%	±2%
Total Fixed Income	22.00%	
Private Equity	8.00%	N/A
Risk Parity (AQR Global Risk Premium)	6.00%	N/A
Hedge Fund (AQR Delta Fund)	3.00%	N/A
Commodities (SSGA/SSARIS Multisource Commodities)	3.00%	N/A
Alternative Investments	20.00%	
Real Estate (INVESCO Realty Advisors)	5.00%	±2%
Cash	0.00%	
Total	100.00%	

# *SamCERA's Investment Policy*

## *Part One*

### *POLICY PERSPECTIVES*

#### **1.0 INTRODUCTION**

*SamCERA* was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944.

The nine-member Board of Retirement is composed of the County Treasurer, four trustees appointed by the Board of Supervisors and four trustees elected from the membership. The trustees' three-year terms are staggered to provide for continuity in the management of the association.

*SamCERA* was organized in accordance with the provisions of California's County Employees' Retirement Law of 1937. The powers and duties of the board are set forth in the '37 Act and in Article XVI of the State Constitution.

Included among the board's duties are the mandate to assure the association's actuarial soundness and the prudent investment of the assets of the retirement fund.

This Investment Policy incorporates the board's policies, objectives, strategies, implementation programs and procedures for fulfilling its fiduciary obligation to manage the assets of the retirement fund with *the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*

*Appendix A* is a chronological account of *SamCERA's* investment program since 1981.

#### **2.0 ACTUARIAL LIABILITIES**

- Under GASB 25, investments are stated at fair market value instead of cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in the Market Stabilization Account, an account established in 1996, as recommended by William M. Mercer, *SamCERA's* actuary. Initially, these gains and losses were only allocated to the Market Stabilization Account until the actual gains and losses were realized by the sale of the investment asset. However, with the implementation of the five-year smoothing methodology, a portion of these unrealized gains and losses is recognized and allocated to all other reserves.

To prevent the smoothed value from deviating significantly from the actual market value, the Board of Retirement adopted a policy in 2002 that the smoothed value cannot be less than 80% nor greater than 120% of market value. If the smoothed value is greater than 120%, then the market losses (or market gain if less than 80%) have to be recognized immediately.

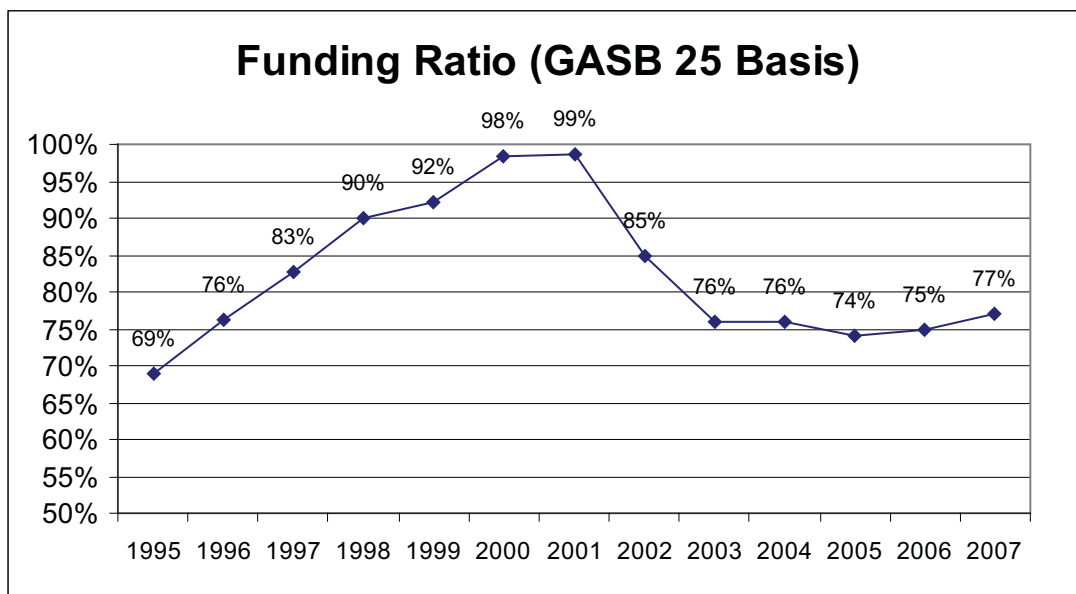
- A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities. *SamCERA* currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued

liabilities (AAL) exceeding the actuarially determined value of assets. *SamCERA* is funding the UAAL over a 20-year amortization period, which began July 1, 2002.

- In this environment, it is essential that the retirement fund be fully diversified across the full-range of institutional investment grade assets and that opportunities to achieve capital appreciation be pursued and captured. It continues to be critical for the board to focus on optimizing investment return vs. risk.

### SamCERA's Funding Ratio History

June 30 <sup>th</sup>	Actuarial Value of Assets/ Actuarial Accrued Liability (GASB 25)
2007	<b>77.4%</b>
2006	<b>75.4%</b>
2005	<b>74.2%</b>
2004	<b>75.6%</b>
2003	<b>76.0%</b>
2002	<b>85.3%</b>
2001	<b>98.6%</b>
2000	<b>98.4%</b>
1999	<b>92.0%</b>
1998	<b>89.9%</b>
1997	<b>82.6%</b>
1996	<b>75.6%</b>
1995	<b>68.9%</b>
1994	<b>67.3%</b>



### 3.0 ACCEPTABLE RISK

*SamCERA* adheres to the twenty recommendations of the Risk Standards Working Group (See Appendix B) that are appropriate for a pension fund with *SamCERA's* profile.

A prudent fiduciary wants to sleep well at night. "Sleeping well" can be articulated as one's comfort level in the face of an uncertain future. The board has defined its comfort level as an annualized tracking error of  $\pm 3\%$  around the aggregate target rate of return. "Tracking error" means the excess standard deviation of return between the actual performance of the fund and the performance of the aggregate target benchmark. This level of conservatism is in line with other public pension plans of comparable size. *SamCERA's* actuarial realities require that the board confront the challenges before it. To the fullest extent possible, this investment policy incorporates the concerns of each of *SamCERA's* nine trustees. The risk-adjusted return assumptions behind this investment policy represent the best thinking of experts in the various asset classes, tempered by the trustees' contributions to each element of the policy.

The adopted asset allocation set forth in Section 8.0 encompasses the board's conclusions regarding the proper mix of assets to minimize risk for the targeted rate of expected returns. The mix of asset classes and styles outlined in the asset allocation defines the aggregate target benchmark for the entire plan. This "aggregate target" has its own risk/return profile, which over the long run is appropriate for the San Mateo County Employees' Retirement Association.

Historical analysis indicates that for the vast majority of pension funds, the asset allocation decision is the single most important decision that trustees can make. The asset allocation decision is likely to predetermine as much as 90% of a portfolio's real return.\*

Consequently, the board conducts periodic asset liability modeling studies, which evaluate the expected returns vs. expected risk of each asset class and then generate a series of potential optimum portfolios along the efficient risk/return frontier. The most recent study was accepted by the board in January 2007.

#### STRATEGIC INVESTMENT SOLUTIONS PROJECTED PORTFOLIO EXPECTATIONS

Portfolio	Return	Standard Deviation	Cash	Large Stocks	Small Stocks	Intern'l Stocks	Real Estate	US Bonds		Total Equity
<i>Prior</i>	8.02	10.77	0	40	10	15	6	29		65
Projection A	7.89	10.15	0	33	8	18	7	34		66
<b>CURRENT</b>	<b>8.13</b>	<b>11.24</b>	<b>0</b>	<b>37</b>	<b>9</b>	<b>21</b>	<b>6</b>	<b>27</b>		<b>67</b>
Projection C	8.24	11.74	0	39	10	22	5	24		71

<b>Return</b>	<b>3.5</b>	<b>8.4</b>	<b>9.0</b>	<b>8.8</b>	<b>6.3</b>	<b>5.5</b>	
<b>Standard Deviation</b>	<b>1.3</b>	<b>14.5</b>	<b>22.0</b>	<b>19.2</b>	<b>10.0</b>	<b>5.8</b>	

\* *Determinants of Portfolio Performance II: An Update*, Gary P. Brinson, Brian D. Singer and Gilbert Beebower, *Financial Analysts Journal*, May/June 1991. The article is an update of an earlier study by Gary P. Brinson, L. Randolph Hood and Gilbert Beebower that was published in the July/August 1986 issue of the same journal.

## Reverse Optimization Allocation Analysis

*SamCERA's Portfolio Asset Allocation*  
Accepted January 23, 2007

Asset Class	Former	Current
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	7.81	8.13
Expected Risk	11.56	11.24

### 4.0 INVESTMENT PHILOSOPHY

4.1 The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio.

4.2 Therefore, the retirement fund should be invested across the spectrum of institutional grade Asset Classes.

4.3 The board acknowledges that the asset allocation targets reflect a long-term view of the market.

4.4 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.

4.5 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.

4.6 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.

4.7 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.

4.8 The board views short-term cash equivalents as insignificant contributors to real returns in the long run.

4.9 The board is responsible for keeping the lines of communication open and the *Investment Policy* on target.

## *Part Two*

# *PORTFOLIO MANAGEMENT*

### **5.0 INVESTMENT POLICY**

It is the Investment Policy of the Board of Retirement to:

- 5.1 Pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in Section 7 of this Investment Plan.
- 5.2 Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in Section 8.
- 5.3 Reevaluate the asset allocation study at least once every three-years, except as provided for in Section 17.
- 5.4 Retain the most qualified investment managers with demonstrated expertise in the management of institutional pension funds, as provided for in Part Three.
- 5.5 Delegate full discretion to each investment manager, to the extent authorized in Parts Three & Four.
- 5.6 Adopt objectives which encourage the investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark, as set forth in Part Three.
- 5.7 Refrain from dramatically shifting asset class allocations over short time spans.
- 5.8 Discourage the use of cash equivalents, except for liquidity purposes, as provided for in Part Three.
- 5.9 Monitor the performance of its investment managers, relative to their assigned custom benchmarks to assure their conformance with the provisions of the board's investment policy, as provided for in Section 16.

### **6.0 INVESTMENT OBJECTIVES**

6.1 It is the **Primary Investment Objective** of the board to structure an investment program such that the short term volatility of returns does not induce the board to alter its long term asset allocation strategies.

In keeping with the aforementioned, the following specific objectives are established:

- 6.1.1 Generate portfolio returns that, over the long-term, exceed the actuarial interest assumption of 8.00%, net of fees.
- 6.1.2 Generate a total fund return equal to or greater than the aggregate return of the asset allocation Target benchmarks.
- 6.1.3 Provide for the full funding of the Pension Benefit Obligation by the year 2022 based on GASB 25.
- 6.2 It is the **Secondary Investment Objective** of the board to stabilize the employer contribution rate, as a percentage of payroll for the present configuration of benefits.
- 6.3 It is the **Tertiary Investment Objective** of the board to generate total time-weighted rates of return which equal or exceed the benchmark indices, for the asset class assigned to the individual manager, as specified in the contract (net of fees in the case of active managers):



ASSET CLASS	BENCHMARK INDEX
Large Capitalization Domestic Equity	Russell 1000
Small Capitalization Domestic Equity	Russell 2000
International Equity	MSCI All Country World Free ex US
Domestic Fixed Income	Lehman Aggregate
Core Plus Fixed Income	Lehman Aggregate
Real Estate	NCREIF

6.4 The board's policy regarding investment benchmarks and investment benchmark modifications appears in Appendix E.

## 7.0 INVESTMENT STRATEGY

The investment strategy of the Board of Retirement seeks to:

7.1 Diversify the fund in a manner which minimizes the risk of loss and maximizes the probability of achieving the investment objective;

7.2 Structure an asset allocation based on the long-term historical behavior of asset classes coupled with assumptions regarding the next three to five years.

7.3 Allocate the assets of the fund cost-efficiently by distinguishing a "passive" and an "active" component, as set forth in Section 8.

7.4 Establish performance objectives (specifically tailored benchmarks) & Guidelines for each investment management style, as set forth in Part Three.

7.5 Retain investment managers representative of the relevant and distinct investment management styles within each asset class, as set forth in Part Three.

7.6 Delegate responsibility for attaining the investment performance objectives to investment managers.

7.7 Monitor the performance of the investment managers to assure compliance with the Investment Policy and attainment of their performance objectives, as set forth in Section 16.

7.8 Rebalance the component portfolios, as set forth in Section 20.

7.9 Evaluate the asset allocation target at least once every three years, except that the board may adopt an annual investment strategy, as set forth in Section 17.

## 8.0 ASSET ALLOCATION

In the overall development of the asset allocation and manager structure policies of the investment plan, the Board of Retirement shall follow these philosophies:

- The overall active manager structure for domestic equities will not possess any significant biases in terms of investment style, and
- For those asset classes evidencing market efficiencies, the manager structure will favor the employment of passive strategies

8.1 The Assets of the Fund shall be allocated, as follows:

ASSET CLASS	ALLOCATION	REBALANCE RANGE
Equity (Stocks)	67%	±3%
Fixed Income (Bonds)	27%	±2%
Real Estate *	6%	±2%

\* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

8.2 The Equity Assets shall be allocated to managers reflecting the following investment styles:

EQUITY MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Large Capitalization Domestic	37.00%	
Core	7.40%	±3%
Core Enhanced	29.60%	±3%
Small Capitalization Domestic	9.00%	
Core Enhanced	4.50%	±3%
Growth	2.25%	±3%
Value	2.205%	±3%
International	21.00%	
Core Growth	10.50%	±3%
Core Value	10.50%	±3%
<b>TOTAL EQUITY</b>	<b>67.00%</b>	<b>±3%</b>

8.3 The Fixed Income Assets shall be allocated to managers reflecting the following investment styles:

FIXED INCOME MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Active	27.00%	±2%
<b>TOTAL FIXED INCOME</b>	<b>27.00%</b>	<b>±2%</b>

8.4 The Real Estate Assets shall be allocated to managers reflecting the following investment styles:

REAL ESTATE MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Core Separate Account	6%	±2%
<b>TOTAL REAL ESTATE *</b>	<b>6%</b>	<b>±2%</b>

\* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

# *Part Three*

## *INVESTMENT GUIDELINES*

### **9.0 GENERAL INVESTMENT PERFORMANCE GUIDELINES**

The overall performance objectives for the various asset classes are set forth in Section 6.3 of this document. The individual performance objectives for each investment manager will be established within the investment management agreement (IMA) with each firm.

The Board of Retirement expects to measure investment performance quarterly and will generally follow prudent time horizons when evaluating short term, intermediate term, and long term performance of its investment managers. Investment managers are advised that the board intends to track the interim progress toward multi-year goals. If there is a clear indication that performance is so substandard and severe that reasonable hope of recovery to the Plan's target performance level in the remaining time horizon period would require either high risk or good fortune, then the board will not feel constrained by this policy to avoid an "early" decision to take corrective action.

#### 9.1 MANAGER'S ADHERENCE TO ITS PUBLISHED INVESTING STYLE

As stated in other parts of this *Investment Plan*, the board will have little or no tolerance for an inconsistent investment approach. Therefore, the board will carefully monitor their investment managers on several key indicators of possible inconsistency, such as:

- (a) Changes in portfolio managers, and general personnel turnover.
- (b) Surges in portfolio trading volume.
- (c) Evidence that actual portfolio characteristics deviate from the published investing style.
- (d) Performance patterns not logically explainable in terms of the published style, or performance out-of-step with manager's style peer group. This situation would cover significant performance deviation from the benchmark.
- (e) Material *Investment Plan* or guideline exceptions.

None of these indicators will be taken as conclusive evidence of inconsistency. Such a finding would be based upon the facts and circumstances of each situation.

#### 9.2 UNDERPERFORMANCE IS DEFINED AS EITHER:

- (a) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%). Or
- (b) 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 consecutive 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
- (c) Cumulative annualized performance (net of fees) over a three-year period below a 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
- (d) Performance will be evaluated in light of the manager's stated style and discipline.

### 9.3 THE BOARD'S EVALUATION

The board will evaluate any manager who fails to comply with the general terms and conditions of this Investment Plan and specifically the above issues. The board understands that the dynamics of the markets can render a portfolio to be non-compliant with these investment guidelines. In such cases, the manager will be given 30 days to bring the portfolio back into compliance. In the case of underperformance and non-compliance an extensive review of the manager and its performance will be conducted. Expectations on the future likelihood of the manager's ability to meet the terms and performance goals will be determined. If the board determines the manager is unlikely (without undue risk or style drift) to meet the requirements, the manager will be terminated.

In the case of material guideline exceptions, each occurrence will be evaluated on the merits. In most cases, the manager will be required to bring the portfolio into immediate compliance. However, the board is cognizant of those situations where, in the judgment of the investment manager, immediate compliance could prove detrimental to the return of the portfolio.

In the case of key professional turnover, the firm must show a depth of staff within the organization and be prepared to demonstrate the sustainability of their track record.

### 9.4 ACTION STEPS BY BOARD

The board may decide to review an investment manager or place same on the "watch list" for a number of reasons including but not limited to:

- (a) Sustained underperformance of any of the manager's goals;
- (b) Deviation from stated investment approach;
- (c) Failure to comply with all investment guidelines; or
- (d) Turnover of key professionals.

When a firm is reviewed, an intensive review of their process and approach will occur. The firm will be required to explain to the board or the board's representative reasons for such occurrences and be available for meetings with the board.

## 10.0 EQUITY

10.1 EQUITY PERFORMANCE OBJECTIVES: As set forth in Section 6.3 and within the individual investment manager's contract.

10.2 ACTIVE EQUITY INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

10.3 EQUITY GUIDELINES: The responsibility for securities selection and purchase and sale decisions is delegated to the equity investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

10.3.a.1: No individual security shall constitute more than 10% of the market value of *SamCERA's* assets under a manager's supervision, nor shall *SamCERA's* investment constitute more than 5% of the

company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the “free float” of a particular security.

10.3.a.2: In evaluating the industry risk component of individual manager portfolios, the board will be cognizant of the industry structure of same. With the exception of any special equity portfolios, the board expects active managers to maintain a reasonable degree of portfolio diversification. Extreme industry deviations from a manager’s benchmark are subject to inquiry. Industry groups are defined by the North American Industry Classification System (NAICS).

(b) Quality

10.3.b.1: Securities must be traded on a major stock exchange or listed on the NASDAQ.

10.3.b.2: Securities in the international portfolio must be included within the Morgan Stanley Capital International database, or the *Financial Times* database.

(c) Restricted Transactions:

10.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.3.

10.3.c.2: No funds shall be borrowed.

10.3.c.3: No short sales or margin sales shall be made.

10.3.c.4: No letter stock shall be purchased.

10.3.c.5: Futures and options may be utilized only as specified in the investment manager's contract.

10.3.c.6: Currency forward contracts, futures and options may be used to hedge an equity or fixed income portfolio as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

## **11.0 FIXED INCOME**

11.1 FIXED INCOME PERFORMANCE OBJECTIVES: As set forth in Section 6.3.

11.2 ACTIVE FIXED INCOME INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

11.3 FIXED INCOME GUIDELINES: The responsibility for fixed income securities selection and purchase and sale decisions is delegated to the fixed income investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

11.3.a.1: No individual security shall constitute more than 5% of the market value of *SamCERA's* assets under a manager's supervision, with the following exceptions: (1) no individual securities issued or guaranteed by a sovereign government included in the Lehman Aggregate or Lehman Global Aggregate Index or issued or guaranteed by such sovereign government's agencies or instrumentalities shall constitute more than 10% of the market value of the portfolio; (2) there are no limits on the use of securities issued or guaranteed by the United States government or its agencies or instrumentalities.

(b) Quality:

11.3.b.1: The minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value.

11.3.b.2: The minimum quality rating eligible for the portfolio is "B" or better (as rated by Standard & Poor's or Moody's equivalent)

11.3.b.3: No more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below Baa3, BBB-, P-1 or A-1.

11.3.b.4: Eligible non-US fixed income securities are limited to those issued in countries utilized in the Salomon Brothers World Government Bond Index, with the following exception for emerging markets:

11.3.b.5: If a security is downgraded below Baa *or* BBB, the manager must notify the Investment & Finance Manager.

(c) Restricted Transactions:

11.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

11.3.c.2: No funds shall be borrowed.

11.3.c.3: No short sales or margin sales shall be made.

11.3.c.4: No tax-exempt security shall be purchased or retained, unless, on a comparable quality basis, it provides a return superior to that of a like taxable security.

11.3.c.5: No private placements shall be purchased without the prior notification of the Investment & Finance Manager & the Chair, with the exception of Rule 144(a) securities.

11.3.c.6: Currency forward contracts, futures and options may be used to hedge the non-US dollar fixed income securities as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior written approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

## **12.0 REAL ESTATE PROPOSED**

12.1 INVESTMENT OBJECTIVES: *SamCERA* has determined that over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of its portfolio. Real estate investments occur in an inefficient market and will be designed to provide returns in excess of the industry benchmarks. Active management, value creation and opportunistic strategies, as well as prudent use of third party debt, are approved methods of generating excess return. A secondary objective will be to improve the diversification of the overall investment portfolio.

12.1.a: Completion of due diligence entails staff, consultant, and counsel to review the investment structure and associated legal documents.

12.1.b: Investment structures will be monitored quarterly to evaluate investment performance and to ensure compliance with vehicle documents.

12.2 REAL ESTATE PERFORMANCE OBJECTIVES: The investment manager(s) retained by *SamCERA* shall be accountable for generating total time-weighted rates of return (TTWRR), net of fees, which equal or exceed, the NPI ("NCREIF Property Index").

12.3 REAL ESTATE GUIDELINES: The responsibility for real estate selection and purchase and sale decisions is delegated to the real estate manager(s) in Section 15.4, *et seq.* The manager, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions, (d) leverage, (e) special conditions, (f) annual plan and (g) exemptions.

(a) Diversification:

12.3.a.1: The board will employ a commingled fund vehicles account investment structure.

12.3.a.2: The commingled fund vehicle may not exceed a concentration of 40% (by value) in any single property type or 25% in any single metropolitan statistical area, determined as of the date of the acquisition of a property.

12.3.a.3: Commingled fund vehicles shall be diversified as to region, property type, industry and economic base.

(b) Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar properties, high quality construction and design, a market with underlying fundamental strengths and a strong location.

(c) Restricted Transactions:

12.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

12.3.c.2: No properties shall be purchased outside of the boundaries of the United States.

12.3.c.3: No single-purpose, specialized properties (e.g. hotels, medical facilities, land, etc.) shall be purchased unless the criteria are specified in the investment manager's contract.

(d) Leverage: The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 30% of overall loan to value, with a target of 15% of the aggregate portfolio.

(e) Special Conditions:

12.3.e.1: The commingled fund vehicles shall include specific provisions governing reporting, due diligence, property valuations, property management, insurance, unrelated business income tax and property specific environmental evaluations and environmental liabilities.

12.3.e.2: No transaction shall be entered into that does not meet the unique compliance requirements outlined in the collective vehicle's private placement memorandum.

(f) Exemptions: The commingled fund vehicle manager(s) must request prior written approval from the Board for permission to deviate from the provisions of these guidelines.

(g) Annual Plan: The commingled fund vehicle manager(s) must provide the board with a strategic plan review on an annual basis. Some of the items to be provided in the annual plan include: (1) Organizational Review, (2) Leasing Status, (3) Operating Income, (4) Distributed Income, (5) Operating Expenses, (6) Capital Expenses, (7) Fees, (8) Buy/Sell Analysis by Property and (9) Strategy for Coming Year.

12.4 COMMINGLED FUND VEHICLE OVERSITE: The board has determined that engagement is the best course to implement change.

12.4.a. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will secure a seat on the commingled fund vehicle's advisory committee and attend its meetings.

12.4.b. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will attend the commingled fund vehicle's annual meeting.

### **13.0 ALTERNATE ASSETS**

The Board of Retirement recognizes that its *Investment Policy* is evolutionary and that other asset classes will be considered in the future. Although non-traditional assets (with the exception of real estate) are not owned at this time, the board will not undertake investments in this arena without the development of a plan statement.



## *Part Four*

# **CONTROLS**

### **14.0 CODE OF FIDUCIARY CONDUCT**

WHEREAS, Article XVI, §17 of the Constitution of the State of California was amended by the electorate in 1992 to read, in pertinent part, as follows:

“Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:

“(a) The retirement board shall have the sole and exclusive fiduciary responsibility over the assets of the ... system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets ... are trust funds and shall be held for the exclusive purposes of providing benefits to participants ... and their beneficiaries and defraying reasonable expenses of administering the system.

“(b) The members of the retirement board ... shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

“(c) The members of the retirement board ... shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

“(d) The members of the retirement board...shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

“(e) The retirement board..., consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the system .. ; “ and

WHEREAS, Chief Judge Benjamin Cardozo, in 1928, set forth the standard for fiduciary conduct, as follows:

“A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior. As to this there has developed a tradition that is unbending and inveterate. Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine the rule of undivided loyalty by the "disintegrating erosion" of particular exceptions. Only thus has the level of conduct for fiduciaries been kept at a level higher than that trodden by the crowd ... ; “ and

WHEREAS, the Political Reform Act of 1974 sets forth specific circumstances which require public officials to disqualify themselves from making, participating in, or attempting to influence governmental decisions which may affect any of their financial interests. Therefore, Be it

RESOLVED that the board hereby adopts the following Code of Fiduciary Conduct:

1. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended; the Ralph M. Brown Act, relating to public meetings, as

amended; Government Code §1090, *et seq*, as amended; and all other California laws pertinent to the conduct of public pension fund fiduciaries.

2. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall execute their duties as set forth in the County Employees' Retirement Law of 1937, as amended, with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

3. The trustees will not authorize the making of any investment, which is not contemplated in *SamCERA's* Investment Plan. The Investment Plan may be amended at any properly noticed meeting of the board, but only after considering the written recommendations and comments of the chief executive officer, consultants and investment managers, which shall be promptly submitted upon request of the trustees.

4. The investment authority vested in the board shall not be delegated to any committees of the board, except by formal resolution. Such resolutions shall specify the limits of the authority delegated and require that all actions be reported to the board for approval.

5. Investment signature authority shall be limited to individuals identified by formal resolution, which shall specify the limits of the authority delegated and require that all actions be reported to the board for ratification.

6. Due diligence shall be completed prior to the execution of any board initiated investment transaction. Due diligence will be performed in accordance with established guidelines and procedures by persons with expertise relevant to the transaction under evaluation. The board's due diligence checklist is set forth in Appendix D.

7. Direct equity investments and other alternative asset investments shall be made only after considering the written recommendations and comments of the chief executive officer and consultants. Investments in this area shall be done only after the development and adoption of an alternative investment policy by the Board of Retirement.

8. In keeping with the provisions of the Government Code, a member or employee of the board shall not become an endorser, surety, or obligor on, or have any personal interest, direct or indirect, in the making of any investment for the board, or in the gains or profits accruing there from. These persons are prohibited from having any financial interest in any contract made by them in their official capacity and from making or influencing official decisions in which they have a financial interest.

9. Trustees, the chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall be accountable for recognizing a potential conflict of interest and for disqualifying themselves from making, participating in, or attempting to influence board decisions which may affect any of their financial interests. They shall disclose their potential conflict, either in writing to the Chairman of the Board, with a copy to all trustees and the chief executive officer, or during a noticed meeting of the board or its committees, and shall explain their conflict of interest and refrain from participating in any further deliberations on the matter.

10. The Board shall pursue all of its legal remedies against any who violate the provisions of this code.

## **15.0 DELEGATION OF AUTHORITY**

### **15.1 THE BOARD SHALL:**

(a) Discharge its duties in conformance with the Code of Fiduciary Conduct.

- (b) Make investment decisions in accordance with the adopted Investment Plan, or make properly noticed revisions thereto; and may adopt an annual investment strategy to amplify or clarify progress towards the attainment of the investment objectives, as set forth in Section 17.
- (c) Employ investment consultants and investment manager services, as needed, to ensure that the retirement fund is invested effectively and to safeguard the assets of the retirement fund; and may enter into agreements setting forth management and performance expectations.
- (d) Delegate to its investment managers full discretionary investment authority consistent with the provisions of the Investment Plan and the individual investment manager contracts.
- (e) Monitor the performance of its investment managers at least quarterly, as set forth Section 16.
- (f) Meet with its investment managers annually to review performance in accordance with the criteria set forth in Section 15 and manager specific issues identified by the board.
- (g) Dismiss investment managers who fail to perform acceptably in accordance with the terms of the contract or the applicable provisions of Sections 9, 10, 11,12 and 15.4. The decision to retain or dismiss a manager shall consider the evaluation criteria set forth in Section 9 and the recommendations of the investment consultant and the Investment & Finance Manager.

**15.2 THE CHIEF EXECUTIVE OFFICER SHALL:**

- (a) Discharge his duties in conformance with the Code of Fiduciary Conduct.
- (b) (i) Support the board in the development & approval of the Investment Plan, (ii) implement & monitor the Plan & (iii) report monthly on investment activity & other matters of significance.
- (c) Provide for the collection & investment of contributions & investment income, the disbursement of benefits & refunds, the payment of budgeted expenditures, the maintenance of accounting & internal control systems, the estimating & monitoring of retirement fund cash flows (including the management of all float & daily cash sweep accounts) & report on matters of significance.
- (d) Ensure that investment managers conform to the terms of their contracts and that the performance monitoring systems are sufficient to provide the board with timely, accurate and useful information.
- (e) (i) Provide for the voting of proxies, (ii) seek board guidance on nonfinancial issues & (iii) report on matters of significance.

**15.3 THE INVESTMENT CONSULTANT SHALL:**

Provide the board with relevant and timely information with respect to the total portfolio and the investment managers. Generally, the investment consultant will provide the following services for the board:

- (a) Assist the board in the development of the Investment Plan
- (b) Assist the board in the oversight, monitoring and selection of investment managers
- (c) Provide educational sessions and insights into recent developments within the financial markets
- (d) Provide quarterly investment performance reports

## **15.4 THE INVESTMENT MANAGERS SHALL:**

- (a) Discharge their duties in conformance with the Code of Fiduciary Conduct, the Investment Plan and their individual contracts and be liable for any investment decision not made in accordance therewith. The members of the investment management firm's research and portfolio teams are expected to comply with the AIMR Standards of Practice and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the firm's investment staff must be immediately reported in writing to the Board.
- (b) Provide the board with written agreement to invest within the guidelines established in the Investment Plan.
- (c) Provide the board with proof of liability and fiduciary insurance coverage upon the inception of the investment management agreement and annually thereafter.
- (d) Be SEC Registered Investment Advisors recognized by the Investment & Finance Manager as providing substantial years of demonstrated expertise in (i) the management of pension funds and (ii) an investment specialty.
- (e) Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, (i) develop portfolio strategy; (ii) perform research; (iii) develop buy, hold, and sell lists; (iv) purchase and sell securities; and (v) vote proxies as set forth in Section 18.
- (f) Execute all transactions for the benefit of the retirement fund with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the retirement fund.
- (g) Facilitate the recapture of commissions, on a best execution basis, on behalf of the fund when provided for in the contract. Managers are expected to exercise diligence when trading for the portfolio. The board will authorize any directed trading for the portfolio and such should not occur without the board's consent in writing. Managers are expected to follow the principles of best price and execution when conducting trades within the portfolio.
- (h) Define and adhere to a dollar-value or percent-of-market limit to the amount of assets the firm will manage under the investment style specified in the contract.
- (i) Provide a semi-annual compliance checklist to staff and the investment consultant that sets forth the status of all pertinent policy and guideline issues.
- (j) Maintain frequent and open communication with the Board of Retirement, through the Investment & Finance Manager, on all significant matters pertaining to the Investment Plan, including, but not limited to the following: (i) Inform the board of major changes in the investment manager's investment outlook, investment strategy and portfolio structure; (ii) inform the board of any significant changes in ownership, organizational structure, financial condition or senior personnel; (iii) inform the board of any changes in the portfolio manager assigned to the retirement fund; (v) inform the board of all pertinent issues which the investment manager deems to be of significant interest or material importance; (vi) provide the board with monthly transaction and valuation reports and quarterly performance reports, as specified in Section 15; (vii) meet with the board as specified in the contract. The investment manager is generally expected to inform the board, in writing, of any significant changes discussed above and any other changes that might impact the portfolio or the manager's ability to manage the portfolio. Such notification shall be done no later than 30 days from the date of the change or from the date of the manager's knowledge of the impending change and shall be submitted to Investment & Finance Manager and the board's consultant; (viii) report any discrepancies between the manager's portfolio accounting records and those received by the manager from the board's custodian.

## **15.5 THE GLOBAL CUSTODIAN SHALL:**

- (a) Provide Global Custody Services.
- (b) Provide safekeeping for securities purchased by managers on behalf of the board.
- (c) Provide for timely settlement of securities transactions.
- (d) Maintain short-term investment vehicles for investment of cash not invested by the managers and sweep all manager accounts daily to ensure that all available cash is invested.
- (e) Collect interest, dividend and principal payments as soon as they become available.
- (f) Price all securities regularly and post transactions daily.
- (g) Pursuant to authority and direction from the board, manage a securities lending program to enhance income
- (h) Provide electronic access to accounting and performance reporting systems.
- (i) Provide monthly, quarterly and annual accounting reports for posting to the retirement fund's general ledger.
- (j) Provide other services, as required, that assist with the monitoring of managers and investments.

## **16.0 QUARTERLY INVESTMENT PERFORMANCE REPORTING:**

The quarterly investment performance reports will be designed as a risk management tool and will afford the board the opportunity to timely identify potential risk issues within the portfolio and to assess the relative performance of the investment managers.

The report will provide sufficient information to assess the following:

16.1 Adherence to the investment style for which the manager is retained, as measured by the quarterly risk adjusted active return (deviation of the manager's performance from the specified performance benchmark) over the last quarter, six months and year, including updates from previous quarterly reports regarding adherence to the style for which the firm was retained;

16.2 Ability of the active manager to demonstrate consistently positive information ratios, including updates from previous quarterly reports regarding the firm's information ratios;

16.3 Growth in assets under management and how the firm plans to minimize the adverse impact which the additional assets will have on its investment discipline relative to the depth of the investment team and professionals, including updates from previous quarterly reports regarding assets under management;

16.4 Client retention, in terms of the names of tax-exempt clients, which terminate their relationship with the investment manager and the reasons given;

16.5 Changes in senior investment professional staff and how the firm plans to minimize the adverse impact the changes will have on its investment discipline, including updates from previous quarterly reports regarding personnel;

16.6 Quarterly, annual, three-and-five-year total time-weighted returns relative to the specified performance benchmark;

16.7 Performance attribution, direct and indirect transaction costs, and turnover;

16.8 Items which the manager has brought to the board's attention pursuant to Section 15.4(j).

## **17.0 ANNUAL INVESTMENT STRATEGY**

17.1 Annually, the board shall convene an investment strategy session with the objective of addressing strategic investment policy issues and to deliberate any policies that could benefit the performance of the retirement funds. The agenda for these sessions should include (but is not limited to) the following information:

- (a) Compare the fund's actual investment performance for the prior fiscal year against the investment objectives set forth in Section 9 and evaluate the relative success or failure of the prior year's performance; specific commentary to this objective shall be an integral part of the performance measurement process.
- (b) Compare each investment manager's actual investment performance for the prior fiscal year against the performance criteria set forth in the applicable sections of Part III and their individual contracts, and evaluate the relative success or failure of their prior year's performance;
- (c) Compare the fund's actual investment performance for the prior ten fiscal years against the actuarial assumptions and other actuarial expectations and evaluate the relative success or failure of the investment performance and the appropriateness of maintaining or altering the current actuarial assumptions and other actuarial expectations;
- (d) Compare the market-value-weighted percentages of the assets invested in each class of assets against the asset allocation targets set forth in Section 8 and evaluate the appropriateness of maintaining or altering the current allocation;
- (e) Evaluate the appropriateness of allocating additional assets to managers who have demonstrated rigid adherence to the investment discipline for which they were retained, but whose sector has lagged the market during the prior fiscal year;
- (f) Evaluate the fund's liquidity requirements for the current and next fiscal years;
- (g) Authorize the Investment & Finance Manager to prepare an annual investment strategy to implement the changes proposed by the board during its deliberations on Sections (a) through (f), for formal approval at a regularly scheduled meeting of the board.

17.2 The board may review and amend the annual investment strategy during its quarterly monitoring deliberations, as set forth in Section 16, so long as the amendments are approved during a regularly scheduled meeting of the board.

17.3 The Investment & Finance Manager shall inform all investment managers of actions taken by the board in connection with the annual investment strategy, and shall implement all necessary changes.

## **18.0 PROXIES**

The Investment & Finance Manager shall provide for the voting of proxies by the investment managers, as set forth in Sections 15.2(e)(i) and 15.4(e)(v), subject to the following guidelines:

18.1 All proxies shall be voted in the best interest of the shareholders, but in no instance shall the economic interests of the retirement fund be subordinated to any other interest.

18.2 The investment managers shall be accountable for alerting, in a timely manner, the Investment & Finance Manager to proxy issues that have aroused concern among institutional investors. The Investment & Finance Manager shall solicit advice and recommendations from institutional investors and proxy advisory services and request direction from the board at its next regularly scheduled meeting.

18.3 Unless the board provides specific direction, proxies concerning the election of directors, ratification of auditors, amendments to the articles of incorporation, name changes, employee stock purchase or ownership plans, stock option plans, incentive plans and increases in the number of authorized shares of common stock, shall be voted with management.

18.4 Unless the board provides specific direction, proxies concerning mergers, acquisitions, restructuring, reincorporation and changes in capitalization shall be voted as provided for in Section 18.1.

18.5 Unless the board provides specific direction, proxies concerning social, environmental, and political issues shall be voted as provided for in Section 18.1.

18.6 Unless the board provides specific direction, votes shall be cast against proxies which would limit management's accountability to the shareholders or otherwise restrict shareholder's ability to realize the full value of their investment, such as proposals creating super-majorities, elimination of cumulative or preemptive rights, creation of dual-class voting rights, greenmail, poison pills, golden parachutes, and excessive compensation for management when earnings are declining.

18.7 Investment managers shall provide the board with quarterly reports on all proxies cast, in a mutually acceptable format.

## **19.0 SECURITIES LENDING**

*SamCERA* reinstated a securities lending program Effective July 1, 2007, for the actively managed component of the portfolio. The board's standards with respect to this type of program are hereby promulgated within this document.

19.1 Pursuant to Section 15.5(g), the master custodian(s) shall manage a securities lending program to enhance income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement and guaranty.

19.2 The board reserves exclusive authority to approve the securities lending agreement prior to the commencement of securities lending activity.

19.3 Unless otherwise specified in the agreement(s),

(a) All loans shall be marked-to-market daily,

(b) Collateral on each loan shall be maintained daily at 102% of loan value for domestic securities and 105% of loan value for international securities,

(c) Acceptable collateral shall be in the form of cash or marketable fixed income securities with maturities not greater than one year, including (1) Commercial Paper with quality ratings of P-1 and/or A-1 by Moody's Investors Services or Standard & Poor's Corporation, or their equivalents; (2) Banker's acceptances, certificates of deposits and time deposits; (3) United States Treasury and Government Agency short-term obligations; (4) Repurchase Agreements with United States Treasury Securities and Agencies of the United States Government as collateral; and (5) Money market or short-term investment funds.

(d) If rated, borrowers shall be rated AA, Aa or higher by Moodys or Standard & Poors.

19.4 The Investment & Finance Manager shall be responsible for monitoring the securities lending program and recommending changes as appropriate.

## **20.0 REBALANCING**

20.1 The Investment & Finance Manager shall rebalance the portfolio quarterly or as needed in conformance with the asset allocation tactical ranges set forth in Section 8. All rebalancing activity shall be reported to the board in writing at the next scheduled meeting.

20.2 The Investment & Finance Manager shall issue instructions to managers to sell or transfer securities for reallocation to other managers or other asset classes when necessary to rebalance the portfolio.

20.3 All interest, dividends, net operating revenue and capital gains shall be reinvested by the investment manager accountable for the underlying investment.

20.4 On a monthly basis, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to asset classes that are below the target allocation. The proration shall take into account the asset class' percentage of the total portfolio and the magnitude of the deviation from the target.

20.5 When all asset classes are within their target allocation, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to each asset class on a rotating basis in order of the asset class' percentage of the total portfolio.

20.6 Pursuant to Section 17.1 (d), the board shall review the allocation of assets to each investment manager as part of the board's annual investment strategy.



## APPENDIX A

### *SamCERA Investment Policy Chronology*

**1981:** Two decades ago, *SamCERA's* investment portfolio consisted of stocks, bonds and short-term securities. Changes in the board's membership, coupled with a decade of below average returns for the stock market, led to a decision to abandon the stock market in 1981. At that time, the board apparently determined that the securities of the United States Government were the only prudent investment. Consequently, *SamCERA* did not participate in the significant returns captured by most pension funds during that decade.

**1992:** With the assistance of a pension consultant, the Board of Retirement approved an asset allocation target and implemented a \$10 million per month investment in a commingled fund which mirrored the performance of the S&P 500 Index.

**1994:** The board adopted *SamCERA's Investment Plan* and launched the implementation of its new asset allocation program.

**1996:** The board accepted Wyatt Investment Consulting's *Asset Liability Modeling Study* which provided the basis for the asset allocation in the first revision to *SamCERA's Investment Plan*.

**1997:** The board revised the active:passive ratio from 40:60 to 60:40 for those asset classes where perceived market inefficiencies provided opportunities for successful active management.

**1998:** The board eliminated two of its passive allocations and replaced them with active allocations where new investment managers were hired for small cap value domestic equity and for international equity assignments. In addition, the board replaced its active large cap core equity allocation and manager with a large cap value equity allocation and manager.

**1999:** The board collaborated with Watson Wyatt Investment Consulting to reevaluate the *Asset Liability Modeling Study*. The resulting asset allocation reduced the real estate allocation, increased the equities allocation, restated the proportion of international versus domestic fixed income and added emerging markets as an asset class. The board opined to delay implementation of the emerging market allocation. Following a thorough review process, the board selected State Street Bank & Trust Company as its Global Custodian transferring assets on July 1, 1999.

**2000:** Following a two-day planning retreat, the board established an investment committee charged with evaluating *SamCERA's Investment Plan*. The committee undertook a reverse optimization analysis that led the committee to recommend and the board to approve a new allocation closer to the "median" corporate fund. Consequently the board reduced its allocation to small cap and international stocks and eliminated its allocation to international fixed income. The board also decided to embrace emerging market investing within the risk controlled limitations pertinent to its overall international equity portfolio. The board's overall fixed income portfolio will have the authority to encompass country, currency, and credit quality diversification in a risk-controlled fashion. The board also increased its use of passive index funds and terminated its contracts with four active investment managers.

**2001:** Strategic Investment Solutions was selected to succeed Gray & Co as *SamCERA's* investment consultant.

**2002:** *SamCERA* established a process of investment manager due diligence that includes monthly, quarterly, semi-annually and annually review and reporting.

**2003:** San Mateo County granted an enriched benefit structure for *SamCERA's* Tiers One, Two, and Four. The board accepted Strategic Investment Solutions' *Asset Liability Modeling Study* which reaffirmed *SamCERA's* asset allocation. *SamCERA's* due diligence policy was formalized

**2004:** The board collaborated with Strategic Investment Solutions' to complete a study of *SamCERA's* manager structure. Consequently, the board increased the plan's allocation to active management from 32% to 50%.

**2005:** The board approved a futures agreement with Goldman Sachs Asset Management (GSAM) to allow GSAM to equitize the cash position of their small cap enhanced index mandate.

**2006:** The board with Strategic Investment Solutions' assistance reviewed *SamCERA's* fixed income manager structure, which was mandated as follows: 1/3 in a passively managed Lehman Brothers Aggregate Bond Index Fund, 1/3 active core management and 1/3 active core plus management. The passive 1/3 was replaced by an active enhance index fund. Fidelity Trust Management Company (later renamed Pyramis Global Advisors) was hired in February 2006 to manage the enhanced index mandate.

**2007:** The board collaborated with Strategic Investment Solutions' to complete an asset liability study in January. The asset allocation was amended as noted in the table below. The study was followed by a review of *SamCERA's* manager structure, which was completed in April. The large cap equity mandate was amended from a 50%/50% split to a split of 80% in the Russell 1000 Alpha Tilts Fund and 20% in the Russell 1000 Index Fund both still managed by Barclay's Global Index.

*SamCERA's* Portfolio Asset Allocation  
Accepted January 23, 2007

Asset Class	Former	Adopted
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	8.23	8.13
Expected Risk	11.74	11.24

. Consequently the board increased the plan's allocation to active management from 32% to 50%.

**APPENDIX B**

*Evaluation of SamCERA's Risk Management Practices as Promulgated by the Risk Standards Working Group*

*(As amended January 2008)*

RISK STANDARD	CURRENT STATUS	NEXT STEPS	DANGERS	
<b>Management</b>				
1	Acknowledgment of Fiduciary Responsibility	<ul style="list-style-type: none"> <li>• <b>Board Identification of Fiduciary Duties &amp; Delegations are Well Documented</b></li> <li>• <b>Staff Delegations &amp; Code implemented</b></li> </ul>	<ul style="list-style-type: none"> <li>• Review Investment Guidelines &amp; Contracts</li> <li>• Continue Board &amp; Staff Annual Acknowledgment of Fiduciary Duty</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to Define &amp; Communicate Risk Controls</li> </ul>
2	Approved Written Policies, Definitions, Guidelines & Investment Documentation	<ul style="list-style-type: none"> <li>• Board Policies &amp; Guidelines are Well Documented</li> <li>• Investment Contracts are explicit</li> <li>• Staff procedures are well documented</li> </ul>	<ul style="list-style-type: none"> <li>• IFM continues review of definitions of permitted &amp; prohibited transactions</li> <li>• CEO directs staff in continual updating of Procedure manuals</li> <li>• IFM &amp; CEO continue review of internal procedures for compliance with Board Policies &amp; Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Unauthorized investment or benefit transaction due to ambiguity in Policies &amp; Guidelines</li> </ul>
3	Independent Risk Oversight, Checks & Balances, Written Procedures and Controls	<ul style="list-style-type: none"> <li>• Managers &amp; Staff must further document internal controls</li> <li>• Audit Committee &amp; Auditor provide opportunity for a fresh perspectives</li> </ul>	<ul style="list-style-type: none"> <li>• CEO conducts formal Inventory of Critical Investment, Benefit &amp; Financial Procedures</li> <li>• CEO continues Checks &amp; Balances Reviews</li> <li>• Sarbanes Oxley will provide guidance to attest SamCERA's risk oversight or internal controls</li> </ul>	<ul style="list-style-type: none"> <li>• Internal Controls difficult in small organization; errors &amp; fraud may go undetected</li> </ul>
4	Clearly Defined Organizational Structure & Key Roles	<ul style="list-style-type: none"> <li>• Human Resources Plan &amp; Delegations implemented</li> <li>• Manager Structure not yet systematically analyzed by risk standards</li> </ul>	<ul style="list-style-type: none"> <li>• Board &amp; CEO continue to Monitor Staff Performance</li> <li>• IFM continues to refine due diligence regarding service providers</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate checks &amp; balances to insure compliance with risk standards, policies and procedures</li> </ul>
5	Consistent Application of Risk Policies	<ul style="list-style-type: none"> <li>• Cross checks have worked well</li> <li>• HR Plan resolved most issues</li> <li>• All Positions Filled &amp; In Training AEO is currently mobilized on military leave</li> </ul>	<ul style="list-style-type: none"> <li>• CEO continues to schedule quarterly staff reviews of internal control practices</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate checks &amp; balances to insure compliance with risk standards, policies and procedures</li> </ul>

RISK STANDARD	CURRENT STATUS	NEXT STEPS	DANGERS
	<ul style="list-style-type: none"> <li>• CEO set <i>PensionGold</i> security levels</li> </ul>		
6 Adequate Education, Systems & Resources, Back-up & Disaster Recovery Plans	<ul style="list-style-type: none"> <li>• Trustees &amp; Staff have access to full range of relevant educational forums</li> <li>• Budget provides sufficient resources for optimal cost-effective risk control operations</li> <li>• Informal Disaster Recovery Plans</li> </ul>	<ul style="list-style-type: none"> <li>• CEO issues formal Disaster Recovery Plan</li> <li>• CEO conducts test of DRP within next 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• Excessive risk accepted as a result of inadequate education</li> <li>• Disaster results in failure to perform fiduciary duties</li> </ul>
7 Identification and Understanding of Key Risks	<ul style="list-style-type: none"> <li>• Board Regulations, Plans and Policy Resolutions address all identified traditional risks</li> </ul>	<ul style="list-style-type: none"> <li>• CEO conducts regular reviews of each staff procedure to ascertain that all essential functions are being performed and that all procedures are executed in conformance with sound internal control practices</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to realize that an essential function is not being performed.</li> <li>• Failure to realize that an unidentified risk exists.</li> </ul>
8 Setting Risk Limits	<ul style="list-style-type: none"> <li>• <i>Investment Plan, Regulations, Contracts, Budget and Policies</i> define current limits</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Committee monitors CEO's &amp; IFM's efforts to identify, define and recommend limits for each risk identified per Standard #7</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to take reasonable steps to manage individual risks in a timely manner.</li> </ul>
9 Routine Reporting, Exception Reporting & Escalation Procedures	<ul style="list-style-type: none"> <li>• Monthly portfolio report provides performance and asset allocation check</li> <li>• Quarterly performance reports include essential risk characteristics of portfolio</li> <li>• Annual Manager Compliance Certification Statement attests adherence to the Investment Plan</li> <li>• Managers provide exception reports to the IMF</li> </ul>	<ul style="list-style-type: none"> <li>• Board &amp; CEO increases scrutiny of overall risk measures</li> <li>• IFM expands monthly portfolio report to include measures of risk</li> <li>• Consultant focuses on assessment of risks in quarterly reports and annual reviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to initiate appropriate action when risk levels are approaching unacceptable range</li> </ul>

<b>Measurement</b>				
10	Valuation Procedures	<ul style="list-style-type: none"> <li>• Current securities valuation by Custodian is adequate for pension assets</li> <li>• Valuation triggers Rebalancing</li> <li>• Actuarial Valuation &amp; Experience Study is adequate for pension liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• IFM determines if any additional valuation techniques are advisable for investment portfolios [This is a more significant issue for securities firms with leveraged capital at risk on a daily basis]</li> <li>• Board will review the actuarial valuation &amp; experience study process.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect information leads to Asset Allocation imbalance and opportunity costs</li> <li>• Incorrect information leads to incorrect contribution rates</li> </ul>
11	Valuation Reconciliation, Bid/Offer Adjustments & Overrides	<ul style="list-style-type: none"> <li>• Managers reconcile to Custodian records</li> </ul>	<ul style="list-style-type: none"> <li>• IFM reviews all exceptions &amp; reports behavior outside of the norm to CEO &amp; Board</li> </ul>	<ul style="list-style-type: none"> <li>• Risk characteristics and return of securities in portfolio differ from manager's representations</li> </ul>
12	Risk Measurement & Risk/Return Attribution Analysis	<ul style="list-style-type: none"> <li>• <i>Investment Plan</i> &amp; contracts set forth key investment risk concerns</li> </ul>	<ul style="list-style-type: none"> <li>• Custodian reports on all exceptions</li> <li>• Consultant expands risk analysis in quarterly performance reports</li> </ul>	<ul style="list-style-type: none"> <li>• Manager's build portfolios inconsistent with <i>Investment Plan</i> &amp; alter total Fund exposure</li> </ul>
13	Risk-Adjusted Return Measures	<ul style="list-style-type: none"> <li>• Consultant provides quarterly risk-adjusted return analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Board and staff devote additional time to reviewing and understanding the analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Style drift alters asset allocation and generates more volatility than expected</li> </ul>
14	Stress Testing	<ul style="list-style-type: none"> <li>• Integral to Asset Liability Modeling Study</li> <li>• Integral to Actuarial Assumptions</li> </ul>	<ul style="list-style-type: none"> <li>• Board continuing to critique Consultant's model</li> <li>• Review Actuarial Assumptions during current fiscal year</li> </ul>	<ul style="list-style-type: none"> <li>• Asset allocation generates more volatility than expected</li> </ul>
15	Back Testing			
16	Assessing Model Risk	<ul style="list-style-type: none"> <li>• Triennial Experience Study (2005)</li> <li>• Asset Liability Modeling Study (2003)</li> <li>• Annual Valuations (annual)</li> <li>• Actuarial Audit (1999)</li> </ul>	<ul style="list-style-type: none"> <li>• Compare results of Actuarial studies with comparable plans</li> <li>• IMF compares results of Asset Liability Modeling Study with comparable plans' asset allocation &amp; assumptions</li> </ul>	<ul style="list-style-type: none"> <li>• Asset allocation generates more volatility than expected</li> <li>• Incorrect information leads to incorrect contribution rates</li> </ul>

<b>Oversight</b>				
17	Due Diligence, Policy Compliance & Guideline Monitoring	<ul style="list-style-type: none"> <li>• Board reviews all policies &amp; guidelines annually.</li> <li>• Staff &amp; managers review quarterly</li> </ul>	<ul style="list-style-type: none"> <li>• Board reviews its due diligence monitoring procedures for managers, consultants &amp; staff</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Non compliance activities resulting in direct losses or opportunity costs</li> </ul>
18	Comparison of Manager Strategies to Compensation and Investment Activity	<ul style="list-style-type: none"> <li>• Manager stipulates to compliance with contract</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen holdings-based Risk/Return Attribution Analysis program to evaluate stated strategy, results and compensation</li> </ul>	<ul style="list-style-type: none"> <li>• Style drift or unearned compensation result in under performance &amp; Asset Allocation discontinuities</li> </ul>
19	Independent Review of Methodologies, Models & Systems	<ul style="list-style-type: none"> <li>• Independent Actuary ['99 Audit]</li> <li>• Independent Consultant [2003 ALM Study]</li> <li>• Independent Counsel</li> <li>• Independent Auditor</li> <li>• Independent Investment Managers</li> <li>• Independent Global Custodian</li> <li>• Participate in Kuhn &amp; CEM data bases</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate Actuarial Triennial Experience Study &amp; Valuation</li> <li>• Ongoing review of all benefit policies &amp; procedures with other '37 Act Systems</li> <li>• Continue to evaluate Asset Liability Modeling Study comparisons</li> </ul>	<ul style="list-style-type: none"> <li>• Perpetuation of policies or practices which are inconsistent with generally accepted fiduciary standards</li> </ul>
20	Review Process for New Activities	<ul style="list-style-type: none"> <li>• Board, Consultant, or Staff proposes new activity</li> <li>• Consultant or Staff evaluates proposal</li> <li>• Board approves new activity based on all relevant considerations</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain adherence to current process for initiating new activities in accordance with <i>Code of Fiduciary Conduct</i> Resolution</li> </ul>	<ul style="list-style-type: none"> <li>• Initiating an activity which falls outside of the Board's normal risk parameters, without assessment of risk-return tradeoffs</li> </ul>

## APPENDIX C

### Derivatives Investment Policy

#### 1) Introduction

There is a genuine need to allow *SamCERA's* managers to evaluate new securities and introduce them into their portfolios, given that the investment process followed by the investment managers complies with the subsequent provisions of this policy statement. This policy statement allows *SamCERA's* investment managers to exercise reasonable investment freedom, while minimizing the possibility of adverse implications for the Board.

#### 2) Derivative Definition

"A 'derivative' commonly is defined as a financial instrument whose performance is derived, at least in part, from the performance of an underlying asset (such as a security or an index of securities)." (1)

#### 3) Types of Securities Included or Excluded

Since the derivative sector of the market is likely to experience considerable change, provision must be made for the general characteristics of a derivative security, its evaluation and monitoring. Therefore, it is most appropriate to not attempt to definitively list all of the derivative securities that are covered by *SamCERA's Investment Plan*. Instead, what will be explicitly stated is the investment process that governs derivative investments and the evaluation and monitoring requirements of this investment process?

#### 4) Approach to Policy

An approach has been developed which states allowable derivative investments, limited allocation derivative investments and restricted derivative investments.

Derivative securities not specified in the above three groups of securities must be evaluated in accordance with the following section entitled Derivative Investment Process. If the security meets these provisions and the spirit of these policies, the manager may establish a prudent position in the instrument. However, the manager must be able to demonstrate the appropriateness of such an investment in light of *SamCERA's* guidelines.

#### 5) Counter-Party Evaluation

When entering into a non-exchange traded derivative investment, the investment manager must fully evaluate the other side of the derivative transaction--the counter-parties to the trade. Due to the possibility of counter-party default, *SamCERA's* investment managers must evaluate the risks associated with the counter-party as if an investment were being made in the traditional securities issued by the counter-party.

At a minimum, the investment manager must evaluate the counter-party's following criteria:

- a) Corporate earnings stream
- b) Corporate asset quality
- c) Capitalization
- d) Corporate liquidity
- e) Moody's and Standard & Poor's debt ratings

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(1)"Investments in Derivatives by Registered Investment Companies", August, 1994, Investment Company Institute, page 2. This document states the requirements of mutual funds regarding the investment in and oversight of derivative securities.

f) Other fundamental investment and risk characteristics.

For those counter-parties that are broker/dealers, they must:

- a) Have investment grade (Moody's and S&P rated) debt
- b) Be registered with the SEC
- c) Have significant net capital to protect against potential adverse market circumstances.

For those counter-parties that are financial institutions (banks), they must have:

- a) Investment grade (Moody's and S&P rated) debt
- b) Total assets in excess of \$1 billion
- c) Significant net capital to protect against potential adverse market circumstances.

The investment manager must monitor individual investment and total portfolio exposure to counter-parties. Individual counter-party exposure must be well diversified and not concentrated in a small number of organizations.

## **6) Purposes for Derivatives**

The acceptable investment purposes for the use of derivatives are as follows:

- a. Appropriate to use futures, options and forward currency contracts to assist investment managers in mitigating portfolio risk.
- b. Useful substitute for an existing, traditional investment. In certain circumstances it may be cheaper, quicker or easier to invest in a derivative instrument or security rather than transacting in the cash or traditional security market.
- c. Provides investment value to the portfolio, while being consistent with *SamCERA's* overall and specific investment policies.
- d. Obtains investment exposure that is appropriate with the manager's investment strategy *SamCERA's* investment guidelines, but could not be made through traditional investment securities.

Given that one or more of these investment purposes are clearly met, it is the responsibility of the investment manager to explain and demonstrate how derivative investments impact portfolio risk and the context of the investment within the overall portfolio.

Any other derivative investment purpose is not allowed. Derivatives may not be introduced into the portfolio to create economic leverage or to create investment exposures that are otherwise excluded by *SamCERA's Investment Plan*. However, if a manager develops an investment purpose other than those listed above which he/she feels is legitimate and consistent with the spirit of *SamCERA's* guidelines, this purpose should be proposed in writing to the Board.

## **7) Investment Restrictions and Derivatives Policy**

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. Based upon the factors enumerated in the above section entitled Approach to Policy, the following guidelines have been established:

### ***Allowable derivative investments***

- a. Stable and well-structured mortgage CMO's (collateralized mortgage obligations)
- b. Financial futures (if exchange traded)
- c. Currency forward contracts and currency options (exchange and OTC traded)



### ***Derivative investments with allocation limits***

- a. Interest only mortgage CMO's
- b. Principal only mortgage CMO's
- c. Options (if exchange traded)
- d. Caps and floors as they apply to the above stated allowable derivative investments

Derivative investments with allocation limits, as listed above, may not represent more than 5% of the individual portfolio manager's assets (based on market value) managed for *SamCERA*. At the same time, derivative investments with allocation limits in aggregate may not expose the individual manager's portfolio to losses in excess of 5% of the manager's total assets. In addition, the use of options, caps and floors may be used only for defensive investment purposes.

Managers investing in the above-defined limited allocation derivative instruments should ensure that portfolio exposure is maintained within the stated constraints and communicate the assumptions and model used to estimate VAR (Value at Risk and/or other reasonable risk measurement procedures) annually to the Boards.

### **Restricted derivative investments**

- a. Inverse floating rate notes and bonds
- b. Structured notes

Restricted derivatives cannot be held in *SamCERA's* portfolios at any time.

## **8) Risk Analysis and Monitoring of Derivatives**

For those securities that are classified as derivative investments with allocation limits, the investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors are as follows:

- a. Extreme changes in interest rates, volatility, liquidity, credit quality, and cash market prices

These risk factors will be assessed prior to initial investment and on a quarterly basis. Results of such risk testing on derivative investments with allocation limits will be supplied to *SamCERA* on an annual basis (December 31). If the investment manager identifies additional risks that should be evaluated, these other risk factors should be added to the list and handled in a manner consistent with the previously stated approach.

## **9) Derivative Investment Process**

Investment managers are expected to cover the following issues before purchasing a derivative instrument or security, whether specifically stated as an allowable derivative investment, a derivative investment with allocation limits, or a derivative not specifically discussed in the Investment Restrictions and Derivatives Policy section above.

- a. Determine if the purpose for investing in a derivative security is consistent with one or more of the purposes in the previous section entitled Purposes for Derivatives.
- b. Determine where the security fits into the classification system, if at all, stated in the Investment Restrictions and Derivatives Policy.
- c. Evaluate, at a minimum, the counter-party risk and the risks stated in the Risk Analysis and Monitoring section of the derivatives policy.

- d. Evaluate the derivative in a comparably thorough manner as the firm would any other traditional investment opportunity.

### **10) Reporting Requirements**

It is the responsibility of *SamCERA's* investment managers to certify and demonstrate that their portfolios are in compliance with *SamCERA's* overall guidelines as well as those that apply to derivative investments. On an annual basis (December 31), *SamCERA's* investment managers will provide the following minimum monitoring information on all derivative securities.

- a. A general statement from the manager that his/her portfolio is in compliance with the Retirement Trust's derivatives policy.
- b. When stating the market value of the derivative exposure, the manager will specify the security pricing sources. The pricing source must be exchange-listed.
- c. A statement of the risks (credit risk--an evaluation of potential counter-party default on obligations, market risk--percent of portfolio invested in derivatives, and any other relevant risks) associated with the derivative investments.
- d. Potential adverse impact on market values if extreme adverse market movements occur.
- e. A statement regarding the liquidity of the derivative investments.
- f. Summary comments and the firm's list of approved counter-parties, ratings, and a statement regarding any changes to this list.
- g. An overall statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

## APPENDIX D

### *Compliance Certification Statement San Mateo County Employees' Retirement Association*

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office and investment consultant no later than 10 days after the end of each reporting period. (15.3(i))

#### **General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (15.4(a))  
Yes/No: \_\_\_ If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (6.3)  
Yes/No: \_\_\_ If no, please explain.
3. Has the firm's insurance coverage been sustained? (15.4(c)) Yes/No: \_\_\_ If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (6.0) Yes/No: \_\_\_ If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (15.4(j)) Yes/No: \_\_\_ If yes, please explain.
6. Have there been any changes in the firm's investment approach? (15.4(e)) Yes/No: \_\_\_ If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (9.1) Yes/No: \_\_\_ If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (15.4(a))  
Yes/No: \_\_\_ If yes, please explain.
9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (18.0) Yes/No: \_\_\_ If no, please explain.
10. For domestic equity managers, has the firm supported *SamCERA's* commission recapture program? (15.4(g)) Yes/No: \_\_\_ If no, please explain.

#### **Derivative Investments**

1. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: \_\_\_ If no, please explain.

2. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.
3. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.
4. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: \_\_\_ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Have there been any changes to the investment manager's list of approved counter-parties over the past month?
5. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.
6. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: \_\_\_ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.
7. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: \_\_\_ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
8. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: \_\_\_ If no, please explain.
9. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: \_\_\_ If no, please explain.
10. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
11. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
12. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: \_\_\_ If yes, please explain.

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities? (5.0) Yes/No: \_\_\_ If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: \_\_\_ If yes, please explain.

### **Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments? Yes/No: \_\_\_ If yes, do the investments comply with the policies? (11.0) Yes/No: \_\_\_ If no, please explain.

### **Domestic Equity Portfolios (Large, Mid & Small)**

1. Please state the percentage of the portfolio held in each of the following types of securities: common stock; preferred stock; convertible securities; and, cash & equivalents. (15.4 j)
2. What is the firm's market value allocation to large, mid and small stocks? (15.4 j) Please specify percentages.
3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (15.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.
4. What is the largest percentage of the portfolio represented by a single security? (15.4 j) If any securities were above 5% at the time of purchase, please list and explain why.
5. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (10.3 a). Please specify all industries above 15%.

### **International Equity Portfolios - Developed**

1. Specify the percentage of the portfolio held in each of the following types of securities: foreign ordinary shares; ADR's; cash & equivalents (foreign or domestic). (15.4 j)
2. Specify the large, mid and small capitalization exposure of the portfolios. (15.4 j)
3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (15.4 j) Yes/No: \_\_\_ If no, please explain.
4. Does the portfolio currently employ a currency hedging strategy? Yes/No: \_\_\_ Is the firm in compliance with the Retirement Association's derivatives investment policy? (Appendix C) Yes/No: \_\_\_ If no, please explain.

### **Domestic Fixed Income Portfolios**

1. State the percentage of the portfolio held in each of the following types of securities: certificates of deposit; commercial paper; other high grade short-term securities; U. S. Government and Agency securities; corporate bonds; mortgage- and asset-backed securities; and, Yankee bond securities. (11.3)
2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (6.3) Yes/No: \_\_\_ If no, please explain.

3. Does the firm conduct horizon analysis testing? (15.4 j) Yes/No: \_\_\_ If no, please explain.
4. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.
5. Are any holdings below investment grade? (11.3(b)) If yes, why are they held in the portfolio?
6. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: \_\_\_ (11.3(b)) Please specify. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify.
7. What percentage of the portfolio is held in Rule 144A securities? (11.3(c))

**Separate Property Real Estate Portfolios**

1. What is the current product type and geographic diversification of the portfolio?
2. Is the portfolio achieving a TTWRR equal to the specified NCREIF benchmark? Yes/No: \_\_\_ If no, please explain
3. Does any individual asset constitute more than 20% of the market value in the real estate portfolio?
4. Is the portfolio leverage within the 30% guideline?

Signed by:

Dated:

Name of Firm

## APPENDIX E

**The purpose of a benchmark is “To facilitate the periodic reporting to the Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Board.”**

### **BENCHMARK POLICY**

1. The investment Committee approved performance benchmarks are used in the asset allocation process for modeling purposes. The approved benchmarks are contained in the Investment Plan.
2. There are four characteristics identified as desirable in the selection of an appropriate benchmark.
  - (A) Unambiguous – The names and weights of the securities in the benchmark should be clearly defined.
  - (B) Investable – The securities contained in the benchmark should represent tradable positions. Ideally, the benchmark should be constructed with low turnover (companies should not change too much over time) to minimize transactions costs.
  - (C) Measurable – The pricing of the benchmark should be transparent making it possible to track the benchmark’s performance. The benchmark will, whenever practical, be calculated independently and available to the public on a daily basis (applies to public traded asset classes only)
  - (D) Appropriate – As part of the investment planning/policy process the Investment Committee will adopt an asset class benchmark (reference portfolio) that reflects the board risk and return characteristics of the asset class. The benchmark will be the reference portfolio against which the aggregate active and passive portfolios within the asset class will be measured.
3. As a matter of practice the approved benchmark will be reviewed by the Investment Committee on an annual basis to assure that it continues to reflect the risk/return characteristics of the asset class in a cost-effective manner. Strategic asset allocation assumptions will be based upon expected risk, return, and correlation coefficients of the approved benchmark.

### **BENCHMARK MODIFICATION POLICY**

1. Asset class benchmarks may be modified when it is in the economic interest of the System.
2. Benchmark modification indicators are identified as:
  - A. When a more cost efficient (expenses such as trading costs or transaction fees) alternative is available that captures the risk return characteristics of the asset class.
  - B. When an industry or sector (component) of the benchmark is exposed to economic risks that are of such a degree that the future economic viability of that industry or sector is in doubt. Specific indicators are:

- (1) The industry, not an individual company, shares common exposure to product liability judgments (including, but not, limited to, potential judgments involving overwhelming punitive damage awards), settlements and ongoing litigation that have the potential to exceed the industry's net worth.
  - (2) Significant threat of industry-wide bankruptcy filings.
  - (3) Regulatory and/or legislative actions that have the potential to substantially impair industry-wide earnings.
  - (4) Policy actions in the institutional investor community that, in aggregate, have the potential to have a deleterious effect on industry-wide share prices.
- C. In the event that 2A or at least three of the indicators referenced in 2B are evidenced the staff or a member of the Investment Committee may bring the matter before the Investment Committee for due diligence and consideration. This due diligence will include:
- (1) Analysis by the staff and/or third-party experts that the indicators are evidenced and have the potential to adversely impact the specific industry.
  - (2) Identification and listing of the individual companies in the specific industry based upon the definition adopted by the Investment Committee.
  - (3) Analysis of the impact the benchmark modification is expected to have upon total portfolio risk/return characteristics.
  - (4) Analysis of the expected costs associated with implementation of the benchmark modification.
  - (5) A timetable for review of the benchmark modification.



## APPENDIX F

### **DUE DILIGENCE POLICY**

#### **MANUAL**

#### **AUTHORITY**

The San Mateo County Employees' Retirement Association (*SamCERA*) Board of Retirement (Board) is responsible for the management of the Association's assets under authority granted by Article XVI, Section 17 of the California Constitution.

Article XVI, Section 17(c) of the California Constitution provides that "the members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim."

#### **POLICY**

*SamCERA's* due diligence process requires (i) staff to perform regular due diligence monitoring and report on same, (ii) investment consultants and managers to make regularly scheduled due diligence presentations to the Board and staff in *SamCERA's* offices, (iii) the board and staff to make on-site visitations to the investment consultant's and investment managers' offices and (iv) to attend client conferences that discuss the consultant's and managers' business plans, investment processes and practices.

#### **PURPOSE**

To discharge the fiduciary responsibilities of the Board of Retirement and staff, regular due diligence with the San Mateo County Employees' Retirement Association investment managers and real estate properties are essential to the Board of Retirement's ability to effectively monitor the performance of its investment professionals and to the prudent discharge of the board's fiduciary duty to the beneficiaries of this multi-billion dollar retirement system.

#### **F.01 – Due Diligence Monitoring**

Individual investment managers will be monitored monthly, quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The Investment & Finance Manager (IFM) will prepare a monthly investment activity and compliance report. The report will note individual investment manager statistical compliance to their investment guidelines, objectives and portfolio restrictions. The IFM will review the investment managers' purchases and sales for each month, and note in the report any deviations from the investment guidelines and restrictions, as outlined by the investment manager agreement. The report will also note any significant changes in the following:

- ✱ portfolio composition
- ✱ portfolio turnover
- ✱ changes in market value
- ✱ sector weights
- ✱ general trading activity
- ✱ changes in cash position

The Investment & Finance Manager, with assistance from the investment consultant, will present an investment performance report to the Board on a quarterly basis, as specified in Section 16.0 Quarterly Investment Performance Reporting. Performance will be measured for the total portfolio as well as individual components such as equities, fixed income and real estate portfolios. In addition, the performance of each component will be broken down into individual portfolios.

Comparisons will be made against market indices defined in this document. A variance from the stated performance objective will be calculated each quarter. Additionally, the portfolios' actual investment approach will be monitored against the required investment style to determine whether the manager is adhering to its acknowledged investment style.

The quarterly investment performance report will compare the total fund, each asset class and individual portfolio return to appropriate market indices and a representative peer group of similar funds or similar style investment managers. The report will note significant changes in the attribution of investment manager performance.

Every six months, the Investment and Finance Manager, with the assistance of the investment consultant, will provide the board with a review of one of the three major asset categories of the total investment portfolio in detail. Therefore, during a eighteen-month period the IFM and the investment consultant will conduct a detailed review of each of the three asset categories in which *SamCERA* invests.

Annually, the Investment and Finance Manager will request and review the Investment Manager's ADV Part II form and inform the board of significant changes in the firm or apparent conflicts of interest. In addition the IFM will request an annual insurance certification from each professional service provider. Where appropriate a Statement of Auditing Standards #70 will be obtained and reviewed. (The SAS-70 audit report describes the control structure as it relates to its fiduciary and custodial activities and is prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards Number 70, entitled "Reports on the Processing of Transactions by Service Organizations" as amended by AICPA Statement on Auditing Standards Number 78, entitled "Consideration of Internal Control in a Financial Statement Audit.")

## **F.02 – Due Diligence Presentations**

*SamCERA's* Investment consultants and investment managers that are under contract with the board to provide services will make a presentation to the board at a public board meeting at least once a year. The presentation shall include, but not be limited to, an update on the manager's organization and business plan, changes to the investment process and investment performance. The board may request presentations more frequently as circumstances demand. The investment managers will provide on a semi-annual basis a completed Compliance Certification Statement (Appendix D) and in depth response to a list of questions submitted by the board.

## **F.03 – Evaluation and Education**

On-site meetings provide board and staff with opportunities to:

1. Evaluate an investment manager's staff and observe how they jointly carry out their fiduciary responsibility to *SamCERA*.
2. Interview individuals who directly manage *SamCERA's* account.
3. Evaluate the significance of personnel shifts or other organizational changes that may affect *SamCERA's* portfolio.
4. Observe the systems and controls utilized to handle *SamCERA's* investments.
5. Hold in-depth reviews regarding an investment manager's philosophy, style and approach to investing *SamCERA's* assets.
6. Develop a better understanding of the significance of short-term periods of good or bad performance.

## **F.04 – Asset Categories**

On-site meetings will be grouped by asset categories. This approach enables the board and staff to readily compare and contrast investment approaches, systems, and controls utilized by the investment managers. It will also allow for a better evaluation of the existing asset diversification.

## **F.05 – Domestic – International Investment Managers**

Regular due diligence evaluations shall be scheduled with traditional domestic and international equity and fixed income managers on a three-year rotational basis. Evaluations may be necessary on a more frequent basis if there have been significant personnel changes, a deterioration of returns, or unresolved issues relating to the style drift with a manager.

## **F.06 – Real Estate Managers**

Regular due diligence evaluations with real estate managers shall be scheduled on at least a three-year rotational basis. These due diligence evaluations shall include on-site inspections of properties held in *SamCERA's* portfolio. The investment manager and the individual property manager will accompany staff and board members on these visits.

### **F.07–Investment Committee Chair Responsibilities**

The Investment Committee chair shall, at the first meeting of the committee in each calendar year, place before the committee a proposed outline of all due diligence trips to be performed in the following fiscal year. Once voted on by the committee, that schedule will be placed on the Board of Retirement’s agenda for approval at the next regular meeting.

### **F.08 - Official Due Diligence Trip**

An official due diligence trip shall consist of at least two members of the Investment Committee or in the event committee members are not available, two board members who are available; along with the Investment & Finance Manager or his/her designee and the investment consultant. When deemed necessary by the Chief Executive Officer the IFM and investment consultant may meet with an investment manager on an interim basis.

### **F.09 – Coordination of Due Diligence**

The Investment Committee will coordinate with the Chief Executive Officer and the Investment & Finance Manager on all planned due diligence. The IFM will be responsible for coordinating each scheduled evaluation visit with the appropriate investment manager.

### **F.10– Chief Executive Officer**

The Chief Executive Officer, at the discretion or direction of the board chair or the Investment Committee Chair, may be directed to accompany an official *SamCERA* due diligence evaluation visit. The Chief Executive Officer may decline to accompany an official *SamCERA* due diligence trip for good cause. Nothing in this section is intended to prevent the Chief Executive Officer from participating in any due diligence performed by the Board of Retirement or any of its committees.

### **F.11 – Manager Selection Due Diligence**

The board, with the assistance of the investment consultant and staff select investment managers to manage the assets of the system. The board authorizes staff and consultant to initiate a search for a manager either to replace a manager or to fill a new mandate approved by the board. The investment consultant and staff will conduct the search in accordance with criteria established for the search. The search criteria will include the scope of the mandate, the investment style, benchmark, and the minimum qualifications for candidates. The investment consultant and staff will perform on-site due diligence on final candidates prior to them being interviewed by the board.

The board will require any investment manager being considered as provider of professional services for *SamCERA* to make a formal presentation to it at a public board meeting. The presentation shall include, but not be limited to, (i) the consultant’s or manager’s organization and its staff, (ii) investment philosophy and process, (iii) the resources available to provide the service, (iv) proposed fees and (iv) if an investment manager, their performance.

### **F.12 – Limitation on Board Due Diligence**

The Board of Retirement will not participate in any due diligence trip being conducted on any new service provider, investment manager, or others.

### **F.13 – Policy Review**

The Due Diligence Policy Manual shall be reviewed every three years and updated as necessary.

## Glossary

Active Information Ratio	<i>Active Information Ratio</i> means the monthly difference between the gross return and the benchmark return divided by the standard deviation of the monthly differences. If considered over rolling three to five year periods, the ratio provides an indication of the success or failure of "Active Management". See "Information Ratio".
Active Management	<i>Active management</i> means that the investment manager uses various disciplines and strategies to select securities to buy and sell in a manner intended to add active returns over those which will be produced by the benchmark. See "Alpha".
Active Return	<i>Active return</i> equals a portfolio's return minus its benchmark's return.
Actuarial Funding Objectives	The <i>Actuarial Funding Objectives</i> for SamCERA are to fully fund the Pension Benefit Obligation by the Year 2022, to stabilize the employer contribution rate, and to minimize employer contributions to the extent it is prudent to do so.
Actuarial Accrued Liability	The <i>Actuarial Accrued Liability</i> is an estimate of the amount of money that should be on deposit today which, when combined with future investment earnings, should be sufficient to pay for a member's retirements benefits for life, based upon service credit up to this point in time.
Actuarial Value of Assets	The <i>Actuarial Value of Assets</i> for SamCERA is computed using a five-year weighted smoothing of market values. It is used to dampen the impact of market price swings on the annual actuarial valuation.
Actuary	An <i>actuary</i> is a mathematician who is specially trained to <b>evaluate</b> member experience (deaths, terminations, disabilities & retirements at various ages, etc.), <b>recommend</b> economic assumptions (inflation, investment returns, salary and payroll increases, etc.), <b>calculate</b> actuarial liabilities (forecast of how much will have to be paid out in benefits in future years, etc.) and rates (such as contribution, pension, annuity, <i>et al</i> ).
Aggregate Target Benchmark	The <i>Aggregate target benchmark</i> represents the cumulative sum of the returns generated by the performance benchmark for each investment style multiplied by the percentage of the portfolio which has been invested in each style.
Alpha	<i>Alpha</i> is the portfolio's risk-adjusted return. <i>Alpha</i> is the active return in excess of what would be expected from a diversified portfolio with the same exposure to fluctuations in market prices. A stock with a positive alpha is undervalued relative to other stocks with the same systematic risk. A portfolio with a positive <i>alpha</i> is one which has reaped an extraordinary reward through successful active management.
Alternate Asset	<i>Alternate Asset</i> is a term used to define special situation investments which pension funds utilize to add incremental return to a portfolio which has already been well diversified across the other asset classes. <i>Alternate Assets</i> are characterized as private placements having low liquidity, requiring intense due diligence and monitoring and significant active returns if and when the investment matures. Management buy outs, corporate restructuring and venture capital are examples of alternate assets.
AIMR Compliant Returns	The Association for Investment Management and Research (AIMR) is the outgrowth of the merger of the two associations representing financial analysts. AIMR provides professional certification programs and promulgates standards and guidelines for professional conduct. AIMR's standards for the measurement of investment returns are considered the most stringent of the cost-effective means for evaluating portfolio performance. In essence, the

extensive standards strive to produce (1) full disclosure, (2) fair representations and (3) comparable performance results. The standards dictate the methods to be employed and the data to be included in the analysis, as well as the disclosures which must be detailed.

Annualized Rate of Return	The <i>annualized rate of return</i> is similar to the compound rate of interest which would have produced the same increase (or decrease) in the value of an asset over the course of one year, including unrealized capital gains (or losses) and investment income, but excluding any additional contributions or withdrawals.
Appreciation	<i>Appreciation</i> is any increase in the value of an asset.
Asset Allocation	<i>Asset allocation</i> is the process of assigning investments across broad categories of investments. Categories typically include stocks, bonds, real estate and international investments. The <i>asset allocation</i> process usually sets percentage targets for each category of investment in an effort to position the portfolio on the "efficient frontier".
Asset	An asset is anything having commercial or exchange value that is owned by a business, institution or individual.
Asset Class	An <i>asset class</i> is a broadly defined generic group of financial assets, such as stocks, bonds, or real estate. Each broad class may be subdivided into subclasses which share identifiable characteristics, such as large capitalization vs. small capitalization stocks.
Baa, BBB, P-1, A-1	See "Bond Rating". P-1, A-1 are "Commercial Paper" ratings.
Basis Point	A <i>basis point</i> is one one-hundredth of one percent (0.0001 or 0.01%).
Bear Market	A <i>bear market</i> is a prolonged period of falling prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates.
Benchmark	A <i>benchmark</i> is a standard against which to judge the performance of an investment manager or portfolio. Typical <i>benchmarks</i> are the S&P 500 Index for U.S. stocks and the Lehman Brothers Corporate-Government Bond Index for U.S. bonds.
Beta	<i>Beta</i> measures the systematic risk of the portfolio. It indicates how much the value of the portfolio can be expected to increase or decrease as the value of a given market portfolio changes. For example, if the S&P 500 is assigned the Beta coefficient of 1, then a portfolio with a Beta of 1.2 will be expected to increase or decrease in value 20% more than any given increase or decrease in the value of the S&P 500 (If the portfolio = 100; then, when S&P=110, portfolio=112; when S&P=90, portfolio=88).
Bond Rating	A <i>bond rating</i> is a method for evaluating the probability of default by the issuer of a bond. Standard & Poor's and Moody's Investors Services are two firms which analyze the financial strength of each bond's issuer. For example, S&P rates bonds from AAA, if they are very unlikely to default, to D, if they are in default. A bond with a rating of BB, Ba, or below is considered to be below investment grade by most institutional investors.
Bond	A <i>bond</i> is any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specified intervals, and to repay the principal amount of the loan at maturity. Bondholders have an IOU from the issuer, but they have no corporate ownership privileges. A convertible bond entitles the bondholder to exchange the bond for other securities of the issuer at some future date and under prescribed conditions.

Book Value	<i>Book value</i> is the value at which an asset is carried on the balance sheet. It reflects the price paid for a security adjusted for the amortization of any premiums or the accretion of any discounts included in the purchase price.
Bull Market	A <i>bull market</i> reflects a prolonged rise in the prices of stocks, bonds, or commodities. Bull markets usually last several months and are characterized by high trading volume.
Business Cycle	A <i>business cycle</i> is a recurrence of periods of expansion and contraction in economic activity which have effects on inflation, growth and employment. One cycle extends from a low point, as measured by Gross National Product, through the next high point and the subsequent decline to the next low point.
Capital Markets	The <i>capital markets</i> are where debt and equity funds are traded. The definition includes organized markets and exchanges, over-the-counter markets and sources of private placement financing.
Capital Appreciation	<i>Capital Appreciation</i> is any increase in the market value of the amount invested in an asset.
Capital Loss	<i>Capital loss</i> is the negative difference between an asset's purchase and selling prices. An <i>unrealized capital loss</i> means that the market value is lower than the book value, but that the asset is still held in the portfolio.
Capital Asset Pricing Model	The <i>CAPM</i> seeks to define the relationship between expected risk and expected return. It breaks return down into a risk-free return plus a risk premium return. <i>CAPM</i> implies that an asset's total return should equal the risk-free return plus the product of <i>beta</i> times the expected market excess return.
Capital Gain	<i>Capital gain</i> is the positive difference between an asset's purchase and selling prices. It does not include dividends, coupons, or the amortization of discounts, which are treated as investment income in the year in which they are accrued. An <i>unrealized capital gain</i> means that the market value is higher than the book value, but that the asset is still held in the portfolio.
Cash Equivalents	The Financial Accounting Standards Board defines <i>Cash equivalents</i> as all highly liquid securities with a known market value and a maturity-at-acquisition of less than three months.
Collateral	<i>Collateral</i> is any asset pledged to a lender until a loan is repaid.
Commercial Paper	Commercial paper encompasses short-term obligations of banks, corporations and other borrowers with maturities of 2 to 270 days.
Commingled Fund	A <i>commingled fund</i> is essentially a mutual fund for institutional investors, in which each institution owns a share of the total fund.
Commission Recapture	<i>Commission recapture</i> refers to programs offered by certain brokers. In return for the broker being given an opportunity to make an offer on individual transactions, commission recapture programs turn back (to the investment portfolio) an agreed upon percentage of the commission dollars which are generated from the purchase and sale of stocks for the portfolio,
Commitment-Weighted Aggregate	The <i>commitment-weighted aggregate</i> represents the cumulative sum of the returns from each asset class multiplied by the percentage of the portfolio which has been invested in each of the classes.



Common Stock	<i>Common stock</i> reflect units, or shares, of ownership in a public corporation. The price is usually determined in the capital markets and increases or decreases in value based upon investor perceptions and the ability of buyers and sellers to agree upon a value for the stock. Owners are typically entitled to vote for directors and to receive dividends on their investment. In the event of liquidation, common stock claims are settled after the claims of creditors, bondholders and preferred stockholders.
Consultant	A <i>consultant</i> , as used in the <i>Investment Plan</i> , is a firm with professionals who specialize in providing pension fiduciaries with background, research, advice, recommendations, due diligence and monitoring services regarding the management of pension assets.
Consumer Price Index	The <i>Consumer Price Index</i> , or <i>CPI</i> is the measure of the rate of changes in prices which are used by pension funds to measure inflation. CPI is based on a U.S. Department of Labor Statistics monthly survey of consumer goods and services, including housing costs, food, transportation, electricity, <i>et al.</i>
Core	See "Passive Management".
Correlation	<i>Correlation</i> is a statistical term explaining the strength of the relationship between two variables. Values can range from +1, meaning that every change in the first variable produces a predictable equivalent change in the second variable; to -1, meaning that every change in the first variable produces a predictable opposite change in the second variable. A correlation of 0 means that the two variables have no linear relationship. Correlation is used to measure relationships between price movements in the various categories of assets.
Currency Futures	A <i>currency future</i> is a contract for delivery of a major currency of a specified amount on a specified date and is used by pension funds to reduce the volatility of international investments. See "Futures".
Current Yield	<i>Current yield</i> equals the annual interest receivable on a bond divided by its market price.
Custodian	A <i>custodian</i> is a depository for the safekeeping of securities. The custodian may collect income and dividends and do simple reporting on the assets.
Custom Benchmarks	A <i>custom benchmark</i> is designed to reflect as accurately as possible the unique performance objectives of a specific pension fund or investment portfolio. It can be as simple as the blending of two or more common indices, or as complex as a proprietary computer simulation.
Debt Service	<i>Debt service</i> is the cash required in a given period for payments of interest and current maturities of principal on outstanding debt.
Debt Instrument	A <i>debt instrument</i> is a written promise to repay a debt; such as a bill, note, bond, banker's acceptance, certificate of deposit, or commercial paper.
Deep Discount	A <i>deep discount</i> bond typically sells for more than 20% below its face value, with a below market coupon. Deep discount bonds are expected to appreciate rapidly as interest rates fall, or drop in value faster as interest rates rise.
Depression	A <i>depression</i> in an economic condition characterized by falling prices, reduced purchasing power, an excess of supply over demand, rising unemployment, accumulating inventories, deflation, plant contraction, public fear and caution, and a general decrease in business activity.
Derivative	A <i>derivative</i> is any financial instrument whose value is based on another security. For

example, an option is a derivative whose value derives from an underlying stock, stock index, or future.

- Devaluation *Devaluation* is the lowering of the value of a country's currency relative to the currencies of other nations.
- Diligence *Diligence* characterizes the act of being persevering and careful in work; hardworking; done with careful, steady effort; painstaking. A fiduciary is responsible for exercising prudent due diligence in all trust duties.
- Discount The *discount* is the negative difference between a debt security's current market price and its redemption value, and typically represents the adjustment in price necessary to compensate for the difference between current market interest rates and the security's coupon rate.
- Disinflation *Disinflation* is the slowing down of the rate at which prices increase--usually during a recession, when sales drop and retailers are not able to pass on higher prices. [Prices actually drop during *deflation*.]
- Disinvestment *Disinvestment* is the reduction in capital investment which may result from closing or disposing of plants, equipment and other facilities, or the failure to replace capital assets as they are consumed or depleted, or become obsolete.
- Diversification *Diversification* is the spreading of risk among a number of different investment opportunities. *Diversification* is the reduction in risk that is obtained by investing wealth in assets which are not perfectly positively correlated. Since the assets are not perfectly correlated, losses in any one asset may be offset by gains on other assets. In this manner, the risk of a portfolio will be less than the risk of its individual assets.
- Dividend A *dividend* is a distribution of earnings to shareholders by a corporation. A dividend may be paid in cash, stock or other form. Dividends are set by the corporation's board of directors and are usually paid quarterly.
- Domestic *Domestic* refers to a U.S. based company or capital market. However, many companies with foreign headquarters are now traded in the U.S. capital markets. Consequently, they may be included in domestic portfolios if they are included in the S&P 500, R 1000, et al.
- Dual Class Voting Rights *Dual class voting rights* refers to a strategy employed by the board of directors of certain corporations to deny shareholders full participation in shareholder votes. Typically one class of stock with voting rights is issued in small amounts to corporate insiders. A second class of stock without voting rights is issued in abundant amounts for the public. The strategy usually requires an amendment to the bylaws of the corporation and, therefore, usually requires ratification by the shareholders.
- Due Diligence *Due Diligence* is the process used to ascertain that things are as they appear to be. For example, *due diligence* is performed on prospective investment managers to make certain that they are who they say they are; that their client's report that they have fulfilled their commitments; that their disciplines, procedures & internal controls are well documented and are monitored for compliance. See "Diligence".
- Econometrics *Econometrics* is the use of computer analysis and modeling techniques to describe in mathematical terms the relationship between key variables and to test their relationships under various economic scenarios.
- Efficient The *efficient market* theory states that capital market prices reflect the knowledge and

Market	expectations of all investors; therefore, one is unlikely to be able to consistently outperform the market. This is one of the theories used by those who support "passive management".
Efficient Frontier	The <i>efficient frontier</i> describes a set of optimal portfolios which balance returns with various levels of tolerance for risk. The portfolios on the efficient <i>frontier</i> offer the highest possible expected return at each specific level of risk, and conversely, the lowest level of risk for each expected level of return.
Entry Normal Funding Method	The <i>Entry Age Normal Funding Method</i> is an actuarial technique which projects an estimate of future benefit payments to a member (based on numerous actuarial probabilities) and then calculates a level percentage of payroll which (if paid in regularly over the member's career as salaries increase) should fully fund the present value of the future benefit payments by the time of retirement.
Equity	<i>Equity</i> is a general term for instruments which are highly sensitive to the total value of a business enterprise. Common stock is one form of equity.
ERISA	The <i>Employee Retirement Income Security Act</i> of 1974 governs private sector and Taft-Hartley pension plans. While it does not apply to government sponsored pension plans, its fiduciary standards are regularly cited as the guiding principles for the administration of public pension plans.
Event Risk	<i>Event risk</i> is the possibility that a bond will suddenly decline in credit quality and warrant a lower rating.
Excess Return	<i>Excess return</i> is that over a risk-free rate, such as a 90-day T-bill.
Expected Return	The <i>expected return</i> is the average (mean of the probability distribution) investment return.
Fiduciary Responsibility	The California Constitution defines the Fiduciary responsibility of the board members as follows: "The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty."
<i>Financial Times</i> Data Base	Great Britain's <i>Financial Times Data Base</i> includes information on most investment grade equities in the world. If a security is not included in the data base it suffers from at least one of the following conditions: too small an issue, too illiquid, too risky, too small a capital market, et al.
Free Float	<i>Free Float</i> is the amount of outstanding shares available for public trading with due consideration to shares held in cross-ownership and shares held or subject to employee benefit, and other employee compensation schemes. A small float implies stock price will be more volatile.
Full Discretion	<i>Full discretion</i> means that the investment manager does not have to check back with the pension fund before making investment decisions, so long as the pension fund's investment guidelines are followed. The manager reports on all investment transactions after the fact.
Futures	<i>Futures</i> contracts are agreements to buy or sell a specific amount of a commodity or financial instrument at a specific price on a specific future date.

GIC	A <i>GIC</i> or <i>Guaranteed Income Contract</i> is an agreement, usually issued by an insurance company, which guarantees a specific rate of return for a specific period of time. While the insurance company assumes all risk on the underlying portfolio of securities, it also keeps all returns in excess of the guaranteed rate.
Global	<i>Global</i> is an all inclusive term which covers all of the world's major capital markets. It usually excludes emerging markets in third world countries.
Hedge	A <i>hedge</i> is a strategy used to offset investment risk. A <i>hedge</i> is a form of insurance. Futures contracts are frequently used as <i>hedges</i> to protect against significant market volatility.
High Yield	<i>High yield</i> usually refers to below investment grade bonds selling at a significant discount. Also called "junk bonds". See "Deep Discount" & "Bond Rating".
Index	An <i>Index</i> is a statistical composite that measures changes in the economy or the capital markets. See Lehman Aggregate, S&P 500, R1000, R2000, MSCI..., & SB World.
Indexed	See "Passive Management"
Industry Group	See "Sector"
Inefficiencies	<i>Inefficiencies</i> is used to describe opportunities to find mispriced securities in the capital markets. See "Efficient Market". If the market as a whole is efficient, then the active investor must be on the lookout for temporary or dynamic inefficiencies which have the potential to produce active returns.
Inflation	<i>Inflation</i> reflects a rise in the prices of goods and services, as happens when demand increases faster than supply. See "Consumer Price Index".
Information Ratios	The <i>information ratio</i> is a measure of risk-adjusted portfolio returns. It is equal to "active return" divided by the "active risk", where active risk equals the standard deviation of the active return.
Institutional Grade Investment	An <i>institutional grade investment</i> refers to assets suitable for inclusion in any institutional portfolio. Such investments are generally recognized as being of sufficiently high quality as to minimize the likelihood of catastrophic loss or default. <i>Investment grade</i> bonds are those rated BBB and higher.
Institutional Pension Funds	<i>Institutional pension funds</i> refers to tax exempt pension plans with a long-term funding horizon and a statistically significant membership. Their investment objectives and funding requirements differ from those of an individual or taxable entity.
International	<i>International</i> refers to securities and capital markets which are not part of the U.S. capital markets.
Investment Discipline	<i>Investment discipline</i> refers to an investment manager's explicit mission statement, philosophy, goals, objectives, policies, procedures and controls which are used to research, select, purchase, retain and sell securities for inclusion in portfolios which reflect the investment manager's style(s).
Investment Manager	An <i>investment manager</i> is a firm with professionals who specialize in making investment decisions for pension funds. Those decisions must be consistent with the terms and conditions of their contract. They are fiduciaries for the assets under their control.

Large Capitalization	<i>Large capitalization</i> refers to stocks issued by the largest corporations in a specific market. For instance, the S&P 500 index includes the 500 largest corporations in the domestic stock market.
Lehman Aggregate	The <i>Lehman Aggregate</i> refers to the Lehman Brothers index which measures the composite return of all investment grade domestic fixed income securities.
Liquidity	<i>Liquidity</i> is a relative measure of the ease with which a willing seller can find a willing buyer. The more liquid a security, the easier it is to execute significant transaction volumes without significantly impacting the price.
Margin Sales	A <i>margin sale</i> is one in which the purchaser is permitted to buy securities with the equivalent of a down payment. The <i>Investment Plan</i> prohibits <i>margin sales</i> .
Marked-to-Market	<i>Marked-to-Market</i> refers to the process of determining the current value of individual assets in the capital markets and then recording those values for the individual assets held in a portfolio, in order to establish the current market value of the portfolio.
Market Returns	<i>Market returns</i> are the total returns generated by all of the securities in a particular sector of the market; for example, the capital appreciation and reinvested dividends for all domestic large capitalization stocks as measured by the S&P 500 during the past three months.
Market-Timers	<i>Market-timers</i> are investors who actively seek to anticipate the highs and lows of prices for individual securities, sectors, or asset classes and to buy and sell securities at the most opportune time to capture active returns.
Monitor	<i>Monitor</i> is the process whereby fiduciaries periodically review the actions of those to whom they have delegated authority to insure that the terms of the delegation have been fulfilled and that all fiduciary obligations are being faithfully executed. <i>Monitoring</i> provides assurance that all parties are adhering to the provisions of the Investment Plan and individual contracts.
MSCI Data Base	The <i>MSCI Data Base</i> refers to the Morgan Stanley Capital International data bases which includes information on most investment grade equity securities in the world.
MSCI World ex US Unhedged	The <i>MSCI World ex US Unhedged</i> refers to Morgan Stanley Capital International which measures the composite returns of all relatively liquid stocks worldwide. It does not include U.S. stocks. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
NASDAQ	<i>NASDAQ</i> refers to the National Association of Securities Dealers Automated Quotation System which is the over-the-counter market place for the trading of more than 5,000 securities listed on the system.
Net Cost	<i>Best net cost</i> , as used in the Investment Plan, means that investment managers are expected to execute transactions that are as favorable for the Retirement Fund as is prudent. Commissions and spreads should be less than the average for similar transactions. Soft dollar relationships should not be used as excuses for not obtaining best execution.
Net Operating Revenue	<i>Net operating revenue</i> , as used in the Investment Plan, refers to income on real estate and alternate asset investments generated in the course of business through the active management of the asset.
Objectives	<i>Objectives</i> , as used in the <i>Investment Plan</i> , refers to specific performance targets which can be used by the Board of Retirement to monitor the relative success of the <i>Investment Plan</i>

and investment managers in making progress towards the funding target.

Options	<i>Options</i> are contracts between two investors in which one grants the other the right to buy (or sell) a specific asset at a specific price within a specified time period. Whereas as a "future" includes a commitment to execute the transaction, an <i>option</i> does not have to be exercised (though a fee will be forfeited by the purchaser of the option).
Passive Management	<i>Passive Management</i> refers to the investment of assets in a pool of securities designed to replicate the characteristics of all of the securities included in a specified universe (such as the "R1000"). The passive manager is not expected to attempt to outperform the index which measures the return on the specified universe. <i>Passive management</i> reflects the most common technique for the implementation of the "Efficient Market" theory.
Pension Benefit Obligation	The <i>Pension Benefit Obligation</i> is an accounting standard used to characterize and compare the strength of the actuarial funding of two or more pension plans. The pension benefit obligation is the present value of the theoretical amount which should be on deposit today to pay for all service rendered to date. It includes factors for future salary increases up to the date of retirement and cost-of-living allowances thereafter. See "Unfunded Actuarial Liability".
Performance Attribution	<i>Performance attribution</i> refers to the techniques used to break down an investment manager's or portfolio's return into component parts. Through the use of computer models and actual market data, the return is dissected. Portions of the return will result from the overall direction of the market, individual asset classes ( <i>i.e.</i> : stocks vs. bonds), asset subclasses ( <i>i.e.</i> : domestic large capitalization growth stocks), sectors ( <i>i.e.</i> : automotive stocks) and security selection ( <i>i.e.</i> : General Motors). Consultants find performance attribution useful in tracking a manager's adherence to a specific investment discipline; while, investment managers often view it as a way to validate backtested strategies.
Plenary	<i>Plenary</i> authority is granted to the Board of Retirement by the State Constitution. <i>Plenary</i> means complete, entire, perfect, not deficient in any element or respect, absolute, unqualified.
Portfolio	A <i>portfolio</i> is the combined holding of more than one stock, bond, and/or other assets to reduce the investor's risk through diversification.
Private Placement	A <i>private placement</i> is an investment which is not traded in the security markets. Returns are expected to be higher to compensate for the lack of liquidity.
Proxy	A <i>proxy</i> is a written power of attorney given by shareholders of a corporation authorizing a specific vote on their behalf at a corporate meeting. A <i>proxy</i> usually identifies a slate of candidates for the board of directors and resolutions submitted to the shareholders for action.
Prudence	<i>Prudence</i> is the practice of acting wisely in the handling of practical matters and the exercising of good judgment or common sense; possessing sufficient knowledge of a matter and discerning the most appropriate course of action.
Punctilio	<i>Punctilio</i> , as used by Chief Judge Cardozo, means the highest point or apex of a standard of honor and the strictest observance of the highest standard of performance.
R-Squared	"R-Squared" ( $r^2$ ) is the square of the correlation coefficient. $r^2$ describes the percentage of the change in a dependent variable that is related to a change in the independent variable in a simple linear regression model. For example, an $r^2$ of .85 for Mutual Fund A would indicate that 85% of the excess return of Mutual Fund A could be explained by movement

in the excess return of the S&P 500. Conversely, 15% of the excess return for Mutual Fund A could not be explained away by changes in the S&P 500.

R1000	<i>R1000</i> standards for the Russell 1000 stock index which measures the composite returns of the 1,000 largest market capitalization domestic stocks.
R2000	<i>R2000</i> stands for the Russell 2000 stock index which measures the composite returns of the 2,000 <b>next largest</b> market capitalization domestic stocks which are <b>not</b> included in the R1000. (The Russell 3000 equals the R1000 plus the R2000.) See "Small Capitalization".
Real Return	<i>Real return</i> equals total return less an adjustment for inflation.
Rebalance	<i>Rebalance</i> is the term used to describe the process of bringing a portfolio back into conformance with its asset allocation targets. When an asset class exceeds its "tactical range", assets must be sold and the proceeds redeployed to other asset classes; conversely, if an asset class falls below its "tactical range", other assets must be sold and the proceeds redeployed to the class which is out of conformance.
REIT	<i>REIT</i> stands for Real Estate Investment Trust. <i>REIT</i> 's are typically publicly traded securities whose underlying assets are invested in real estate. Shareholders participate in the income stream of the underlying real estate portfolio.
Return	<i>Return</i> means the increase (or decrease) in the market value of an asset plus income (such as coupons or dividends) divided by its cost. <i>Return</i> is measured over a period of time, such as one month, last quarter, last year; and annualized three, five and ten years.
Risk	<i>Risk</i> is the uncertainty that an investment will produce the expected return. In pension portfolios <i>risk</i> is measured by the "volatility" of the returns expected from each of the separate asset classes which make up the diversified portfolio. Individual securities have a wide range of specific risk exposures. By combining a mix of securities which different risk profiles into a portfolio, the overall risk to the total portfolio is significantly reduced.
Risk-Adjusted Return	<i>Risk-adjusted return</i> refers to techniques used to determine if a portfolio or investment manager is producing active returns commensurate with the associated risk profile. A manager with exceptional returns may be taking exceptional risks. By adjusting returns to reflect risk, a fiduciary can judge the effectiveness of the investment strategy.
S&P 500	<i>S&amp;P 500</i> stands for the Standard & Poors 500 stock index which measures the composite returns of the 500 largest market capitalization domestic stocks. (Most of the S&P 500 stocks are included in the "R1000".)
SB World Unhedged	<i>SB World Unhedged</i> stands for the Salomon Brothers World Bond Index which measures the composite returns of most relatively liquid government bonds in the world. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
SEC Registered Investment Advisors	The Securities and Exchange Commission serves as a registry of investment advisors. The principal value of the registration process is the extensive disclosure requirements imposed by the SEC. Pension funds frequently require that their "investment managers" be SEC Registered Investment Advisors as the first step in the due diligence process.
Sector	<i>Sector</i> refers to a group of stocks identified with a particular industry. Portfolio managers tend to classify stocks by industry and use those classifications as one of the factors in assembling portfolios. A well diversified portfolio is invested across many <i>sectors</i> .
Security	<i>Security lending</i> refers to the practice of loaning assets under the custodian's care to brokers

Lending	for a fee. The loan is secured by collateral provided to the custodian by the borrower.
Short Sales	<i>Short sales</i> refers to the sale of a security which the seller does not own. The <i>Investment Plan</i> prohibits <i>short sales</i> .
Small Capitalization	<i>Small capitalization</i> refers to stocks issued by corporations which are excluded by size from being considered as large capitalization stocks in a specific market. For instance, the "R2000" index encompasses the 2,000 smallest corporations in the R3000 list of domestic stocks. Smaller capitalization stocks are typically less liquid than large capitalization stocks.
Special Situations	See "Alternate Assets".
Standard Deviation	<i>Standard deviation</i> is the statistical measurement of dispersion around the Mean. For instance, if a series of active returns have a normal (bell-shaped) distribution, they will be spread out such that 68.26% of the occurrences will fall within 1 <i>Standard Deviation</i> of the Mean; 95.46% within 2 <i>Standard Deviations</i> ; and 99.73% within 3 <i>Standard Deviations</i> .
Styles	<i>Styles</i> is a term used to describe the investment discipline adhered to by an investment manager. Consultants classify investment managers by their style. Typical classifications for stock managers include growth style vs. value style broken down by large capitalization vs. small capitalization styles.
Tactical Range	<i>Tactical range</i> defines the upper and lower limits which the current market value of an individual asset class must not exceed, in terms of its percentage of the total portfolio. Once the percentage falls outside of the limits, the portfolio is to be "rebalanced".
Tax exempt security	A <i>tax exempt security</i> is an obligation whose interest is exempt from taxation by one or more taxing authorities. Tax exempt securities provide tax free income to an investor and, therefore, usually provide lower interest coupons than a comparable taxable security. Pension funds do not pay taxes. Consequently such securities are not usually attractive to pension funds.
Total Time-Weighted Rate of Return	<i>Total time-weighted rate of return</i> is the most common measurement used to compare the performance of one investment manager or portfolio against another. <i>TTWRR</i> calculates investment performance (income and price changes) as a percentage of capital invested over a specific period of time. <i>TTWRR</i> eliminates the effects of additions and withdrawals of capital and their timing (factors which distort comparisons based on dollar-weighted rates of return).
Tracking Error	<i>Tracking error</i> is a statistical measure of how closely an investment manager or portfolio adhere to a specific performance objective. Specifically, <i>tracking error</i> is the standard deviation of the difference between actual performance and the performance of a specified benchmark. Tracking error is a synonym for "active risk".
Trustee	A <i>trustee</i> is one who is responsible for the stewardship of another's assets, including the responsibility for collecting contributions, safekeeping the assets, investing the assets productively, paying earned benefits in a timely fashion and other acts expected of a prudent fiduciary.
TUCS	<i>TUCS</i> stands for the Trust Universe Comparison Service which provides comparative analysis of total time-weighted rates of return for approximately 286 master trust portfolios, including approximately 38 state and local government pension portfolios.



Unfunded Actuarial Liability	The <i>Unfunded Actuarial Liability</i> is the difference between the assets on hand today and the present value of earned benefit payments which are projected to be payable in the future. There are as many measures of the unfunded actuarial liability as there are actuarial funding methods. SamCERA utilizes the "Entry Age Normal Funding Method". Utilizing that method, the appropriate calculation is to subtract the "Actuarial Accrued Liability" from the "Actuarial Value of Assets".
Volatility	<i>Volatility</i> is a measure of fluctuations in returns. <i>Volatility</i> is one standard deviation of the dispersion of returns around the average return. Pension funds use <i>volatility</i> as a proxy for "risk".

**Sources:** The entries have been generated by *SamCERA* staff. Many of the entries are based on definitions offered in the following sources: BARRA's *Glossary, Investment and Portfolio Theory*; Barron's *Dictionary of Finance and Investment Terms*; Sharpe & Alexander's *Investments, Fourth Edition*; Winklevoss' *Pension Mathematics*; Ibbotson & Brinson's *Global Investing*; Arnott & Fabozzi's *Asset Allocation, A Handbook of Portfolio Policies, Strategies & Tactics*. Recommended additions, changes and corrections should be submitted to the Retirement Administrator for inclusion in the next edition of *SamCERA's Investment Policy*.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.8 a

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Investment Manager Review – Artio Global Management LLC – International Equity Strategy.

Staff Comments: The board instructed *SamCERA's* staff and investment consultant to perform the annual review of *SamCERA's* investment managers and report back to the board. On August 11, 2011, staff interviewed *SamCERA's* value managers in the 100 Marine Parkway conference room.

Artio was interviewed at approximately 11:15 a.m. Those present were:

Jonathon Brody – Strategic Investment Solutions' Investment Consultant  
Gary Clifton – *SamCERA's* Chief Investment Officer  
Lilibeth Dames – *SamCERA's* Retirement Investment Analyst  
David Bailey - *SamCERA's* Chief Executive Officer  
Scott Hood - *SamCERA's* Assistant Executive Officer  
Brett Gallagher – Artio's Deputy Chief Investment Officer, Senior Portfolio Manager  
Melvin D. Lindsey – Artio's Senior Vice President, Director of Institutional Investments

Attached to this agenda item are the presentation materials used by Artio for the review and Artio's response to *SamCERA's* annual questionnaire.

On May 25, 2004, the board selected Julius Baer Investment Management to manage approximately \$115 million in an international core growth equity mandate. The portfolio is benchmarked against the MSCI ACWI ex US (Free).

Performance & Values As Of 7/31/2011	Book Value	Market Value	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Since Inception (12/1/2004)
	(Unit Million)					
Artio Global Investors	\$175.8	\$202.3	-5.59%	1.68%	16.12%	5.67%
MSCI ACWI Free ex-US			-4.52%	3.38%	20.35%	7.77%
<b><i>Return Variance</i></b>			<b><i>-1.07%</i></b>	<b><i>-1.70%</i></b>	<b><i>-4.23%</i></b>	<b><i>-1.10%</i></b>

The management fee is marginally priced and is currently approximately 48 basis points.

One the following page are the criteria used in the search to select Artio as an international large cap growth manager, the original pros and cons to their selection, and the other finalists in the search.

## Criteria - *SamCERA* International Equity Core Growth Search – April 2004

1. Create starting universe of all International Equity managers. (405 products)
2. Pass half available performance screens (3,5,7 and 10 yrs.) versus MSCI ACWI -ex US Index and median International Equity manager. (292 products)
3. At least \$500 million in product assets (so SamCERA would be maximum of 20% of product assets). (154 products)
4. Product is open to new business. (137 products)
5. Minimum 5-year track record. (117 products)
6. Eliminate regional and emerging markets only products. (74 products)
7. Run return-based style screen and determine managers with Core-Growth style based on a minimum 60% plotting to the MSCI Growth Index. (34 products)
8. Initial qualitative cuts due to lack of emerging markets exposure/proven experience, extreme style leanings, very high tracking error, low information ratios/relative performance, organizational instability, significant personnel turnover, unethical behavior, lack of institutional focus, etc. (6 products left)

Below the pros and cons that surfaced through the vetting process.

### Artio Global Investors

#### *Pros*

- International product an increasingly important part of Artio's business
- Skilled portfolio management team led by co-heads Richard Pell and Rudolph Riad Younes who are equity holders in Artio
- Opportunistic and flexible approach with regard to style, market cap, country and sector weightings
- Diversified security selection
- Very strong performance and return statistics
- Have maintained opportunistic exposure to emerging markets

#### *Cons*

- Portfolio composition can be quite different from benchmark
- Low R-Squared and high tracking error
- Rapid growth could result in loss of flexibility?

Below are the other international core growth managers, which were semi-finalists in the search process:

<u>International Equity Core-Growth</u>
1) BPI Global Asset Management, LLP
2) <i>Capital Guardian Trust Company</i>
3) Clan Finlay, Inc.
4) JPMorgan Fleming Asset Management
5) New Star Institutional Managers

A comparison of the returns since inception for the finalists appears on the next page.

## Intl Growth

Excess Vs. ACWI ex US Growth starting

12-1-2004

Performance as of 6-30-

2011

	3 Mos	6 Mos	9 Mos	1 Yr	3 Yrs	5 Yrs	Since Inception
Artio Global: International Equity	-1.3	-1.6	-3.5	-6.0	-4.2	-3.2	-1.8
Capital Guardian: ACWE ex-US (AA)	-0.6	0.4	0.4	-1.4	2.2	0.3	0.5
JPMAM: EAFE Plus	0.9	2.2	1.2	0.6	1.3	-1.6	-1.8
New Star IM: ACWI ex-US	-1.3	-1.4	-0.8	-2.1	-0.3	-1.5	-1.9
eA International LCG Median	0.4	2.2	1.5	1.2	-0.1	-0.3	-0.4
eA International LCG Size	44	44	44	44	44	41	37

	YTD 2011	2010	2009	2008	2007	2006	2005
Artio Global: International Equity	-1.60	6.30	13.90	0.70	-3.80	8.00	1.30
Capital Guardian: ACWE ex-US (AA)	0.40	0.80	0.50	1.70	-4.10	-0.50	4.70
JPMAM: EAFE Plus	2.20	6.90	-0.80	3.70	-10.00	0.00	-5.40
New Star IM: ACWI ex-US	-1.40	0.10	0.00	-1.70	-2.20	-1.50	-4.80

Note: Candidate BPI was acquired by Trilogy.

Candidate Clay Finlay no longer exists.

### **General Firm Information**

Firm Legal Name: Artio Global Management LLC

Firm Headquarters: 330 Madison Avenue New York, New York 10017

Year Firm Founded: 1983

Registered Investment Advisor: Yes

Firm Website Address: [www.artioglobal.com](http://www.artioglobal.com)

Secondary Office Locations:

City, State - Purpose

- 1) Toronto, Canada - Client Service/Marketing
- 2) Los Angeles, California - Client Service/Marketing
- 3) London, United Kingdom - Client Service/Marketing

## **Firm Background**

Artio Global Investors Inc. became a publicly traded company on the New York Stock Exchange in September 2009 under the ticker symbol "ART". Through its registered investment adviser, Artio Global Management LLC (Artio Global), the firm actively invests in the global equity and fixed income markets and, since 1995, has offered strategies and vehicles to meet the needs of their diverse clientele. The firm is headquartered in New York City with offices in Los Angeles and Toronto.

Artio Global serves both institutional and intermediary clients including some of the world's leading corporations, public and private pension funds, endowments and foundations, and major financial institutions. Products offered include separate accounts, commingled vehicles and SEC-registered mutual funds. Artio Global has consistently pursued a global approach to investing. Their focus remains centered on outstanding investment management and top-quality client service. The firm believes a global perspective across all asset classes provides critical insights in adding value for clients over the long term.

Artio Global's stable team of investment and client service professionals is supported by independent third party suppliers of retail distribution and operational support. By building a dynamic environment in which their professionals can respond to changes in the marketplace, the firm seeks to identify and capture value across markets. Artio Global believes their creative and unconventional thinking can deliver best-in-class strategies which navigate the complexities of the markets. Their drive for attractive risk-adjusted returns also encompasses a framework of risk management, compliance oversight, and monitoring.

## **Joint Ventures**

Artio Global Management LLC does not have broker dealer or investment advisory affiliates. Artio Global Management LLC is affiliated with Artio Global Holdings LLC and Artio Global Investors, their public holding company. In addition, Artio Global Management LLC international equity strategies, through its clients' ownership of securities may have share voting authority over companies that exceeds 5% of the company's outstanding shares.

## **Prior or Pending Ownership Changes**

Management LLC (Artio Global), is a registered investment adviser committed to providing investment management expertise in asset classes where they believe they can add value over the long term. The firm is headquartered in New York City with offices in Los Angeles and Toronto. Prior to becoming a publicly-traded company, Artio Global Investors, formerly known as Julius Baer Americas Inc., was a wholly-owned subsidiary of the Swiss-based Julius Baer Group, an entity whose roots date back to the 19th century. As a public company the current ownership will change as each of the constituents buys, sells and/or receives shares.

## **Additional Comments**

Prior or Pending Litigation  
Explanation of Litigation

Artio Global and its affiliates, parent company, officers, or principals are not defendants in any litigation or legal proceedings that could have a material adverse effect on the adviser's ability to provide investment advisory services. In September 2009, a lawsuit seeking damages in connection with an outside investment adviser's actions regarding the plaintiff's custodial accounts held at the New York branch of a former affiliate was dismissed in its entirety against Artio Global. In arriving at its decision, the court essentially agreed with Artio Global's motion to dismiss which sought dismissal on the grounds that (i) that there was no allegation that the plaintiffs had accounts with or did any business with either Artio Global Management LLC or Artio Global Investors Inc. and (ii) that the complaint did not contain any factual assertions about anything that either Artio Global entity did.

## **Artio's International Large Cap Growth Equity**

### **Research & Screening Process**

After the Investment Team has identified their universe of approximately 5,000 stocks in the initial "thinking" phase of the process, they conduct the screening phase in which they use unique industry-specific financial and operational ratios to create peer groups of companies in a given industry. Screening is employed after determining key sector-specific drivers (which change over time) and evaluating the overall market and economic environment. Only then does the Investment Team decide what screens are appropriate.

As core managers, the International Equity Team does not differentiate between "growth" and "value" companies but focuses instead on fundamental analyses that apply Michael Porter's "Five Competitive Forces".

The firm believes it is critical to have the flexibility to use different approaches in different markets, and their performance record bears this out.

#### **Bottom-Up Investment Approach: Developed Markets**

In analyzing developed markets, determining fair market value of sectors and companies is critical to the team buy/sell decisions. Bottom-up drivers of the team's assessment include industry and company fundamentals, growth expectations, management assessment, relative valuation, and risk (liquidity, volatility) on both an absolute basis and within the context of the portfolio.

#### **Top-Down Investment Approach: Emerging Markets**

While the Strategy is biased toward developed market equities, it can have exposure to emerging markets. Macro factors drive decisions for emerging markets. Key criteria include currency/interest rate risks, political environments/leadership assessment, growth rates, structural reforms, and risk (liquidity).

The Investment Team focuses on "cross-over" countries - those moving from "emerging" to "developed" status - as they recognize that countries are not simply "emerging" or "developed"; more often, they are somewhere in between. Moreover, they believe it is imprudent to wait for the indexes to re-categorize such nations as "developed" before investing in them.

#### **Hybrid (Top-Down/Bottom-Up) Investment Approach: Japan**

The Japanese market is highly segmented and is comprised of both strong global competitors as well as protected domestic industries. Given this unique market structure, the Team finds that blending

both top-down and bottom-up approaches provides a viable way to determine whether a Japanese sector, company, or the market offers relative value.

Within the Japanese market, they look top-down at industries that are more protected or domestically focused such as retail, financials and construction.

They look bottom-up at globally oriented industries such as autos or electronics. These companies are viewed against their peers globally. At the sector level, what works in unearthing opportunities is a function of the unique key drivers of that given sector, which include both financial (valuation, balance sheet or income statement derived) and operational (sector-specific) metrics.

### **Portfolio Construction & Risk Control Methodology**

Every member of the Team may make recommendations and defend inclusion of names. However, the final decision rests with the co-founders of the Strategy: Mr. Richard Pell, CEO/CIO, and Mr. Rudolph-Riad Younes, CFA, Head of International Equity. Mr. Pell has veto power and is ultimately responsible for overseeing the Strategy's risk.

The International Equity Team constructs the portfolio using a three-phase process:

1. Thinking
2. Screening
3. Selecting

#### **Phase 1: Thinking**

The Team begins their process with global fundamental analysis to establish relative values and priorities. Their process puts "thinking" before "screening" and applies different analytical tactics to different industries, sectors, and regions.

Apart from a liquidity screen, they do not conduct standard initial screens based on balance sheet or income statements to generate a research universe. They believe such screens are simplistic and cannot be applied broadly because the formula for success is different in every industry and market environment. In generating a research universe, the Team believes it is advantageous to first examine factors in the market environments in which they operate.

Many investors focus on static information (valuation measures, financial statement analysis, etc.) based on historic norms. While they also evaluate static information, Artio prioritizes their activities by addressing active information (e.g., price movements, earnings announcements, regulatory and management changes, political events) that they can exploit by analyzing and acting on quickly.

#### **Phase 2: Screening**

In this phase of the process, the Investment Team uses unique industry-specific financial and operational ratios to create peer groups of companies in a given industry. They include US companies in this screening phase, as they believe it aids in understanding global dynamics.

#### **Phase 3: Selecting**

In the final, or "selecting," phase of portfolio construction, the Team's objective is to create a highly diversified portfolio of the most relatively attractive securities (total holdings are generally between 250 and 350 securities though the actual number may be higher or lower depending on market

circumstances). In selecting securities, the Team is mindful of the benchmark but willing to actively depart from it in pursuit of risk-adjusted returns. They also seek diversification across most sectors and regional lines.

### **Buy / Sell Discipline**

A security is purchased for the portfolio only after careful consideration and must meet several criteria, including having:

- An attractive relative value based on industry-specific analysis;
- A catalyst for change;
- A dominant competitive position;
- A strong financial position (based on analysis of balance sheet, quality of earnings), with strong management and leadership;
- And, in emerging markets, a structural change that could lead to revaluation of the market or its sectors; or (in Eastern/Central Europe) whether the market is crossing over to “developed” status.

Individual positions as well as the overall portfolio are monitored on an on-going basis using a proprietary attribution system. A position may be sold from the portfolio if:

- The reasons for purchase no longer exist.
- The valuation/liquidity/market environment trade-off is unfavorable.
- The balance sheet has deteriorated.
- Catalysts have disappeared.
- The company experiences a relative price decline, which triggers an immediate review. Though eliminating such a stock is not mandatory, Artio tends to prune positions that are not working for the Investment Team.
- The Team has lost confidence in senior management.

### **Trading Strategy**

The overriding objective of the trading process is to seek the best possible trade execution at the lowest possible cost. Artio believes they can add value for clients through trading. The process and operations are therefore designed to get the most benefit from their traders' skills and leverage in the market.

While all trades are initiated by the Portfolio Manager, specific share/client figures are computed by a dedicated trade entry and allocation group while trades are executed by an in-house trading team (24 hours) based in the New York office.

The trading team utilizes the Charles River front-end order management system to model each order. All modeling sessions are created based on the target weights provided by the portfolio manager. The portfolio manager may provide a target weight for the security or may add or subtract a specified percentage for each trading group to bring the respective accounts within a target percentage. The share amounts for the trade are calculated in Charles River based on the account's current weight. If a trade is intended for more than one trading group, the trading team will include all intended groups, and target amounts for each group in one modeling session.



Partially-filled orders are allocated either on a pro-rata basis (based on the allocation statement and model), or on a random basis if the amount is deemed too small to allocate. If pro-rata and the targets are higher for different trading groups, this may be respected in the allocation. With respect to international equity trades, random allocation is generally utilized if the filled amount is less than 10% of the total order. Note: If a partial fill is allocated on a random basis, the subsequent allocations from this order will be allocated taking into consideration the previous random allocations. Therefore, no account will receive more than the amount indicated in the allocation statement and model. Orders carried over to the next trading day will become new orders and the pro-rata vs. random allocation will be based on the new order..

As part of its Best Execution Procedures, Artio Global has retained the services of Elkins/McSherry, an outside vendor, to evaluate equity execution costs. Elkins/McSherry receives a variety of trading data from Artio Global and compares that information against other investment managers in its database of trading statistics. Based upon trade related information contained in these reports, the Best Execution Working Group will conduct a periodic review (generally quarterly) of the Artio Global's overall compliance with its best executions.

In addition, Artio Global has a committee structure which ensures adherence to client guidelines and reviews performance dispersion among client accounts. Any material differences are examined by the Risk Management Team and discussed with portfolio management.

Artio believes their trading process gives them the flexibility to assess the best method of execution, lets them use their significant trading volume to lower commissions, and ensures a consistent approach for clients.

### **Additional Comments**

The International Equity strategy is closed to new investors.

Derivatives are used in managing this product. Derivatives are used from time to time for risk management and liquidity management purposes. The vast majority of derivatives used in client portfolios whose guidelines and investment objectives permit their use include FX Forwards, exchange traded futures, and, in some cases, swaps. Generally, these are highly liquid instruments that enable the portfolio managers to quickly adjust the risk profile of the strategy as well as to participate in certain markets, regions or sectors in an efficient and cost effective manner. Currency forwards are used where the underlying security positions create currency exposures with which Artio is uncomfortable. In such situations they will use currency forwards to reduce risk, either by bringing a currency's weight up or down towards its weight in the benchmark or to hedge part of the portfolio into US dollars. Equity index futures are used to obtain or reduce, quickly and at low cost, exposure to particular markets. Artio may use swaps to gain exposure where direct access is limited or otherwise unavailable. Under no circumstances does the use of derivatives result in leverage.

# **San Mateo County Employees' Retirement System**

Portfolio Review – Quarter-to-Date to June 30, 2011

Presented by:

Brett Gallagher – Deputy Chief Investment Officer, Senior Portfolio Manager

Melvin D. Lindsey, CFA – Senior Vice President, Director of Institutional Investments

Tel. 310-282-0200

August 11, 2011

## Firm Overview



- Global resources with a diverse staff
- Consistent long term performance versus benchmark and peers
- Stable ownership and portfolio management team
- Unique philosophy and process for generating risk adjusted performance
- Artio Global Management LLC is a registered investment adviser dedicated to managing international assets for a global client base. The firm's indirect parent company, Artio Global Investors Inc., is listed on the New York Stock Exchange (symbol: ART).



1. As of 6/30/11 (in US\$)

# The Artio Global Team



## Richard C. Pell

Chief Executive Officer  
Chief Investment Officer

### International Equity Portfolio Manager / Analyst Team

Rudolph-Riad Younes, CFA, Head of International Equities	Harry Polishook, Portfolio Manager / Analyst
Andrew Barker, Senior Portfolio Manager	Junichi Nonami, CMA, Portfolio Manager / Analyst
Brett Gallagher, Deputy Chief Investment Officer, Senior Portfolio Manager	Dimitre Genov, Senior Portfolio Manager / Analyst
Brian Holland, Portfolio Manager	Usman Malik, Senior Portfolio Manager
Michael Testorf, CFA, Senior Portfolio Manager / Analyst	Danny Seth, Senior Research Analyst
Stefano Galli, Senior Portfolio Manager / Analyst	Regina Ewers, CPA, Research Analyst
Stephen Lew, CFA, Senior Portfolio Manager / Analyst	Nikhil Chari, CFA, Research Analyst
Katalin Osvath, CFA, Portfolio Manager / Analyst	Tejas R. Savant, Research Analyst

### International Equity Trading / Portfolio Construction / Analysis Team

Elyse Tarnofsky, Head of Portfolio Administration
Jonathan Mortenson, Trader
16 additional Trading / Portfolio Construction / Analysis professionals

### Risk Management Team

Prasad Nanisetty, PhD
8 Additional Risk Management Professionals

### Institutional Investments / Relationship Management

Melvin D. Lindsey, CFA, Director	Teri M. Smith, Director
Hien K. Nguyen	Elizabeth K. Estrada
	Kristina N. Surkova

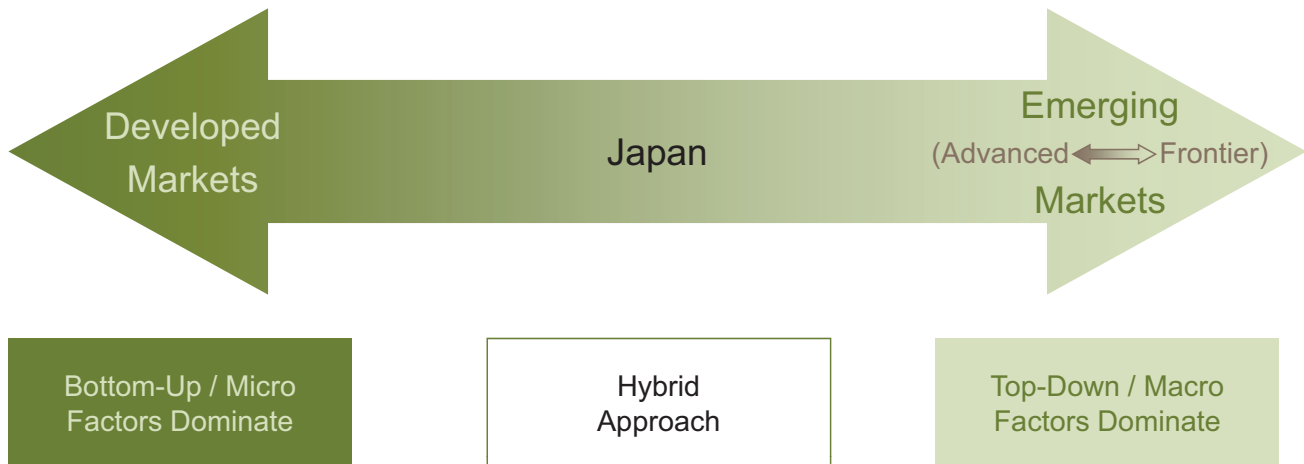
# Philosophy & Process Overview



## Our Philosophy

We believe a **diversified core** portfolio, driven by dynamic sector and company **fundamental** analysis, is the key to delivering consistently superior, risk-adjusted, long-term performance in the international equity markets.

## Our Process

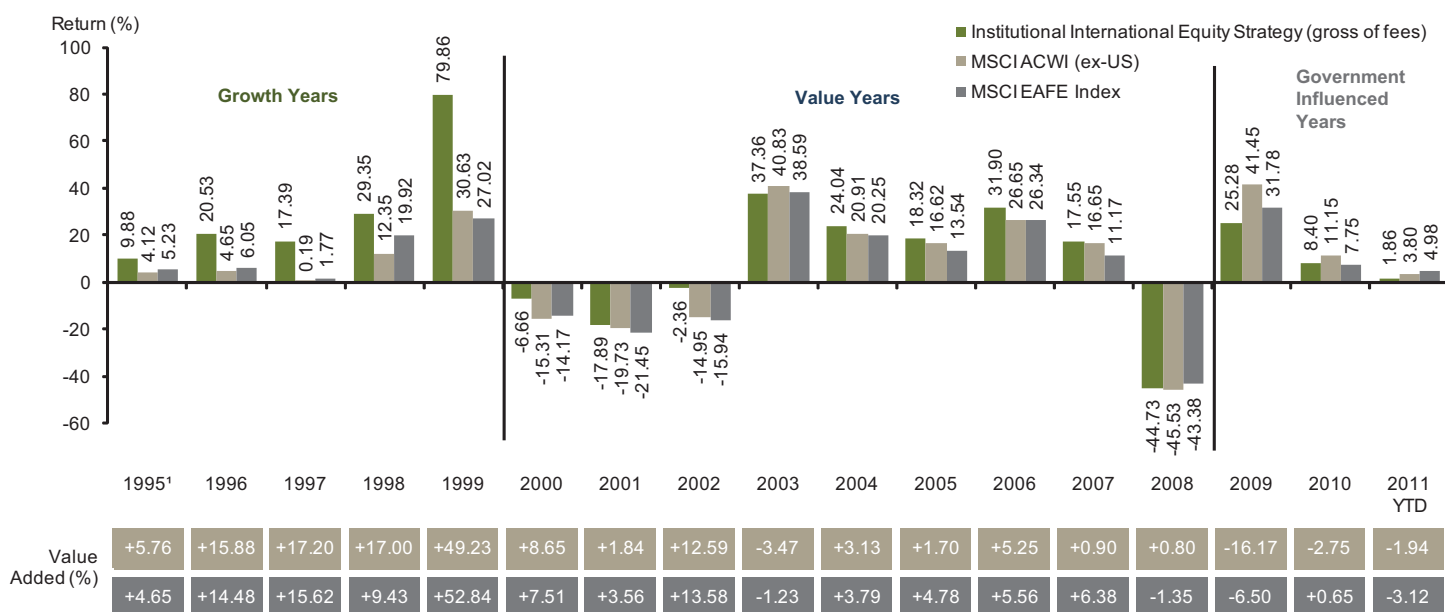


# Calendar Year Performance in US\$

## Institutional International Equity Strategy (supplemental information - as of 6/30/11)



(This is not the performance of IE II. Please refer to notes below.)



### 1. Performance inception 5/1/95

The above IE I Strategy is closed to new investors and returns are for informational purposes. The proposed IE II Strategy is different from the IE I Strategy in that it will not purchase companies with a market capitalization of less than US\$2.5 billion. The IE I Strategy does not impose any market capitalization limits; because of the market capitalization limit, the IE II Strategy may be comprised of different securities and portfolio weightings. Subsequently, performance returns for the IE II Strategy could differ significantly from performance returns of the IE I Strategy. IE I performance is provided for informational purposes only and should not be relied upon to evaluate the IE II Strategy. The IE II Strategy began on March 31, 2005. This information is provided for informational purposes to demonstrate Artio Global's investment management capabilities in international equity strategies and should not be viewed as indicative of IE II Strategy performance.

The information contained on this page is supplemental to the GIPS compliant composite contained on the final pages of this presentation.

Performance results are presented gross of management and custodial fees and net of trading commissions. A client's return will be reduced by such fees and any other expenses that it may incur relative to its advisory account. Past performance is not indicative of future returns.

# Portfolio Risk Characteristics<sup>1</sup>

## Institutional International Equity Strategy (supplemental information - as of 6/30/11)



(This is not the performance of IE II. Please refer to notes below.)

	International Equity I Strategy	MSCI ACWI (ex-US)	MSCI EAFE Index
Cumulative Return (% in US\$)	546.77	141.58	119.90
Annualized Rate of Return (% in US\$)	12.24	5.61	5.00
Average 12 Month Rolling (% in US\$)	15.33	7.82	7.14
Monthly Batting Average (% vs.) <sup>3</sup>	--	61.34	61.34
Quarterly Batting Average (% vs.) <sup>2,3</sup>	--	57.81	62.50
Annualized Standard Deviation (%)	18.47	17.47	16.93
Annualized Downside Deviation (%)	12.23	12.86	12.49
Quarterly Upside Capture Ratio (% vs.) <sup>2,3</sup>	--	123.13	124.52
Quarterly Downside Capture Ratio (% vs.) <sup>2,3</sup>	--	83.94	80.15
Information Ratio (vs.) <sup>3</sup>	--	0.80	0.84
Annualized Sharpe Ratio	0.48	0.13	0.10
Annualized Sortino Ratio (%) <sup>4</sup>	0.72	0.17	0.13
T-Statistic	--	3.21	3.36
Probability of Outperformance by Chance (%)	--	0.078	0.047

1. Data starting 5/1/95 and reported on a monthly basis, unless otherwise noted; 2. As of 6/30/11; 3. Note: vs. = versus corresponding index; 4. MAR = SSB USD 3-month T-Bill Return  
The characteristics shown above are for informational purposes only. All such ratios and statistical measures have limitations and will change with the inclusion of new data as it becomes available. Such performance characteristics should not be viewed in isolation when making an investment decision. Investors are cautioned that such information is no indication of future performance.

The above IE I Strategy is closed to new investors and returns are for informational purposes. The proposed IE II Strategy is different from the IE I Strategy in that it will not purchase companies with a market capitalization of less than US\$2.5 billion. The IE I Strategy does not impose any market capitalization limits; because of the market capitalization limit, the IE II Strategy may be comprised of different securities and portfolio weightings. Subsequently, performance returns for the IE II Strategy could differ significantly from performance returns of the IE I Strategy. IE I performance is provided for informational purposes only and should not be relied upon to evaluate the IE II Strategy. The IE II Strategy began on March 31, 2005. This information is provided for informational purposes to demonstrate Artio Global's investment management capabilities in international equity strategies and should not be viewed as indicative of IE II Strategy performance.

The information contained on this page is supplemental to the GIPS compliant composite contained on the final pages of this presentation.

Performance results are presented gross of management and custodial fees and net of trading commissions. A client's return will be reduced by such fees and any other expenses that it may incur relative to its advisory account. Past performance is not indicative of future returns.

## Summary

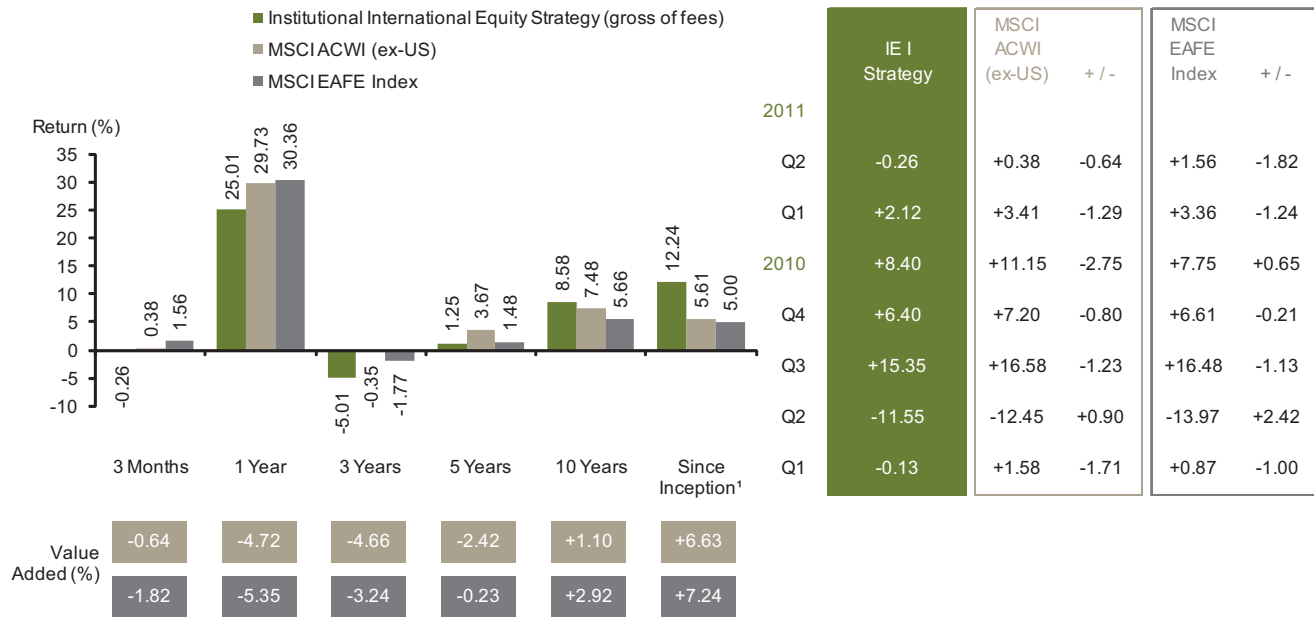


- Macro-economic concerns have led to massive policy and monetary interventions that have dominated the investment environment and distorted asset prices.
- The downside risk to stock prices has led us to be broadly defensive with a bias toward high quality stocks.
- Our flexible investment process combines both macro-economic and fundamental analysis to find opportunities in any investment environment.
- The portfolio's positioning reflects strong conviction in our investment themes, with a high active share (deviation from the benchmark).
- The firm remains strong and the investment team added three new professionals in 2010.



# Historical Performance in US\$

## Institutional International Equity Strategy (supplemental information - as of 6/30/11)



Performance for periods greater than one year is annualized.

1. Performance inception 5/1/95

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# Account Summary



## General Information

Inception Date	November 30, 2004
Benchmark	MSCI ACWI ex-US
Investment Mandate	International Equity Core, all capitalization Opportunistic emerging markets allocation up to 35% of account

## Account Assets

Inception funding amount		\$121,984,765
Inflows/Outflows	January 2005	\$269,679
	January 2006	(\$15,000,000)
	April 2006	(\$10,000,000)
	April 2007	\$39,742,550
	October 2008	\$25,000,000
	November 2008	\$20,000,000
	July 2009	(\$20,000,000)
	May 2011	(\$20,000,000)
Market Value as of June 30, 2011		\$203,328,710

# Calendar Year Performance (as of 6/30/11)



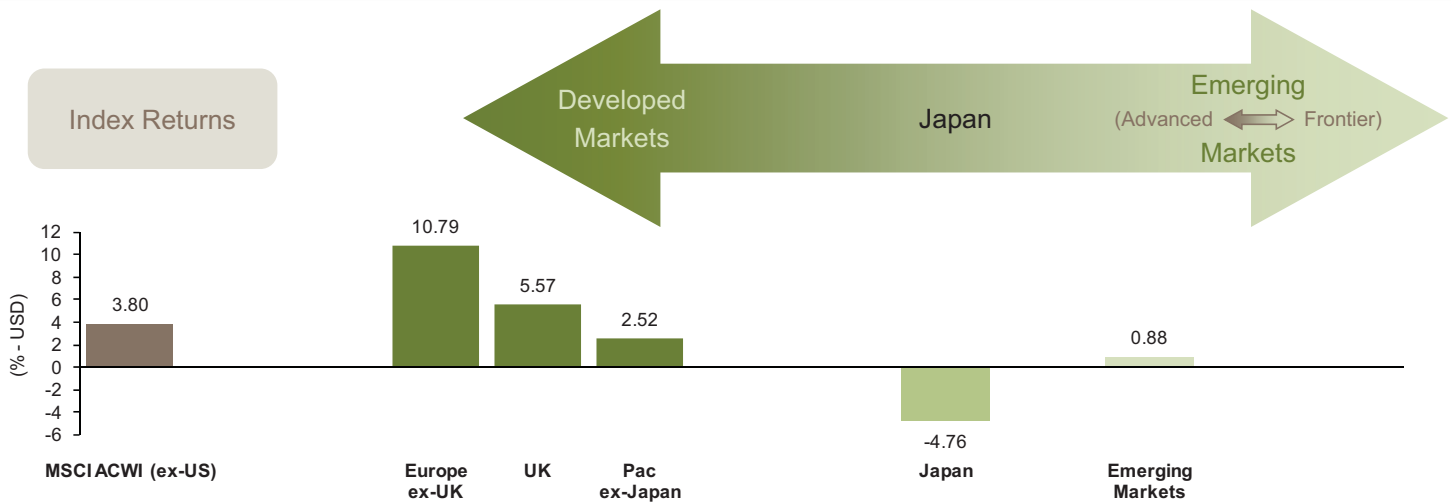
1. Performance inception 11/30/04

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# Index Returns & Market Highlights (year-to-date to 6/30/11)



## Index Returns



- Year-to-date market gains have been relatively strong, however, most markets fell in May and June as European sovereign debt issues weighed on investors' minds; developed markets have outpaced their emerging counterparts but margins have slimmed in recent months

- Although Continental European results remain relatively strong, May and June largely saw negative returns due to fears over the outcome of Greece's sovereign debt crisis
  - In April, European Central Bank raised interest rates for the first time in almost three years in an effort to stem inflation; in their June meeting bank indicated another rise was likely (in early July, the ECB did raise rates to their highest level since March 2009)
  - Italy, Ireland and Portugal also face sizeable debt and the latter two have already received emergency bailout funds raising concerns of a possible contagion to re-emerge
- Bank of England kept interest rates at record low levels amid concerns that the country's economy is too weak to cope with higher borrowing costs; consumer confidence is low and unemployment remains high
- Commodities have retreated from their April highs

- Economy showing small signs of recovery but a debt downgrade looms as growth and government action may not be enough to control ballooning debt
- After March natural and nuclear disasters, central bank pumped a record \$184 billion into money markets to protect teetering economy
- Prior to disaster, nation's long-term sovereign debt stood out even in today's debt-laden world

- Emerging markets have underperformed developed counterparts year-to-date but outperformed in both May and June
  - Central and Eastern Europe, led by Hungary, the Czech Republic and Poland have posted results that exceeded most developed markets
  - Emerging Asian returns have been mixed since Japanese disaster; China recently announced better than estimated industrial production figures; India concerned about accelerating inflation
  - Latin America posted the weakest returns year-to-date

Source: MSCI, Artio Global Management LLC

# Portfolio Highlights vs. MSCI ACWI (ex-US)

Year-to-date (to 6/30/11)



## Bottom – Up / Micro Factors Dominate

- Developed markets continue to outperform emerging counterparts; Continental Europe was strong, led by France, Spain and Germany
- Materials stock selection was the most significant detractor; overweight to the sector also hurt as commodity prices retreated in May and June from their highs early in the year; continue to like sector as we see many mining companies trading at discount to net present value of reserves
- Decision to underweight the financial sector helped in May and June amid the sovereign debt crisis; stock selection remained negative year-to-date
- Stock selection in the industrials sector was the largest positive contributor in the year's first half; focus on airports and seaports as passenger traffic recovers as well as firms likely to benefit from increased capital expenditures
- Underweight to both energy and consumer staples sectors detracted; stock selection in information technology sector proved beneficial
- Focus on companies with exposure to emerging market consumption growth

## Hybrid Approach

- Market suffers steep declines after March earthquake and tsunami; our historically underweight positioning benefited returns as did stock selection
- Economy showing small signs of recovery but most believe a debt downgrade looms due to inability to control ballooning levels
- Country remains a slow growth story plagued by an aging population and very high levels of debt

## Top – Down / Macro Factors Dominate

- Although stronger in May and June, emerging markets underperformed developed counterparts year-to-date; while stock selection was a positive contributor, an overweight positioning detracted from returns; prefer companies we feel are likely to benefit from growth in consumption
- Benefited from Asian exposure including Korea (consumer discretionary), Taiwan and China (both information technology)
- India had negative effect on results due to early period sell-off; Indian infrastructure continues to be an area of interest due to the strong need to develop the country's ports, power generating facilities and other infrastructure-related projects
- Our focus on Russian consumer related companies (i.e., retailers) helped in the first quarter and late in the second but total exposure hurt largely due to run-up in energy/commodity prices (large part of Russian benchmark) early in second quarter
- Exposure to Brazil detracted largely the result of a single holding

This commentary was prepared using a representative account for the strategy. When using a representative account, excess returns and attribution analysis can be influenced by variations in the construction and returns of both the account and the benchmark. Individual client results may vary.

# Portfolio Attribution – Broad Allocation Decisions

San Mateo County Employees' Retirement System (year-to-date to 6/30/11)



	Total Effect vs. MSCI ACWI (ex-US)
Allocation Between Emerging and Developed Markets and Japan	-0.01
Countries and Stock Selection Within Emerging Markets	0.08
Sector Allocation Within Developed Markets	0.11
Stock Selection in Developed Market Sectors	-1.41
Cash & Currency Holdings	-0.27

Please see important disclosures at the end of this presentation.

# Portfolio Attribution – Developed Markets (Sectors)<sup>1</sup>

## San Mateo County Employees' Retirement System (year-to-date to 6/30/11)



	Portfolio Average Weight	Portfolio Return	MSCI ACWI (ex-US) Average Weight	MSCI ACWI (ex-US) Return	Sector Allocation Effect vs. MSCI ACWI (ex-US)	Stock Selection Effect vs. MSCI ACWI (ex-US)
Consumer Discretionary	8.72	7.51	4.62	9.92	0.21	-0.22
Consumer Staples	4.31	5.66	6.24	8.44	-0.21	-0.08
Energy	7.22	5.25	7.61	5.73	-0.20	-0.07
Financials	8.71	-1.17	16.64	6.67	-0.14	-0.74
Healthcare	5.82	10.17	4.88	13.68	0.12	-0.17
Industrials	7.44	15.10	6.30	8.27	0.03	0.49
Information Technology	0.47	35.69	1.62	2.95	-0.01	0.11
Materials	14.00	-3.27	8.25	1.37	-0.22	-0.67
Telecommunication Services	1.17	8.60	3.41	9.14	-0.11	0.00
Utilities	0.36	4.77	2.78	8.79	-0.12	-0.02
Other/ETF	0.00	0.00	0.00	0.00	0.00	0.00

1. Excludes Japan

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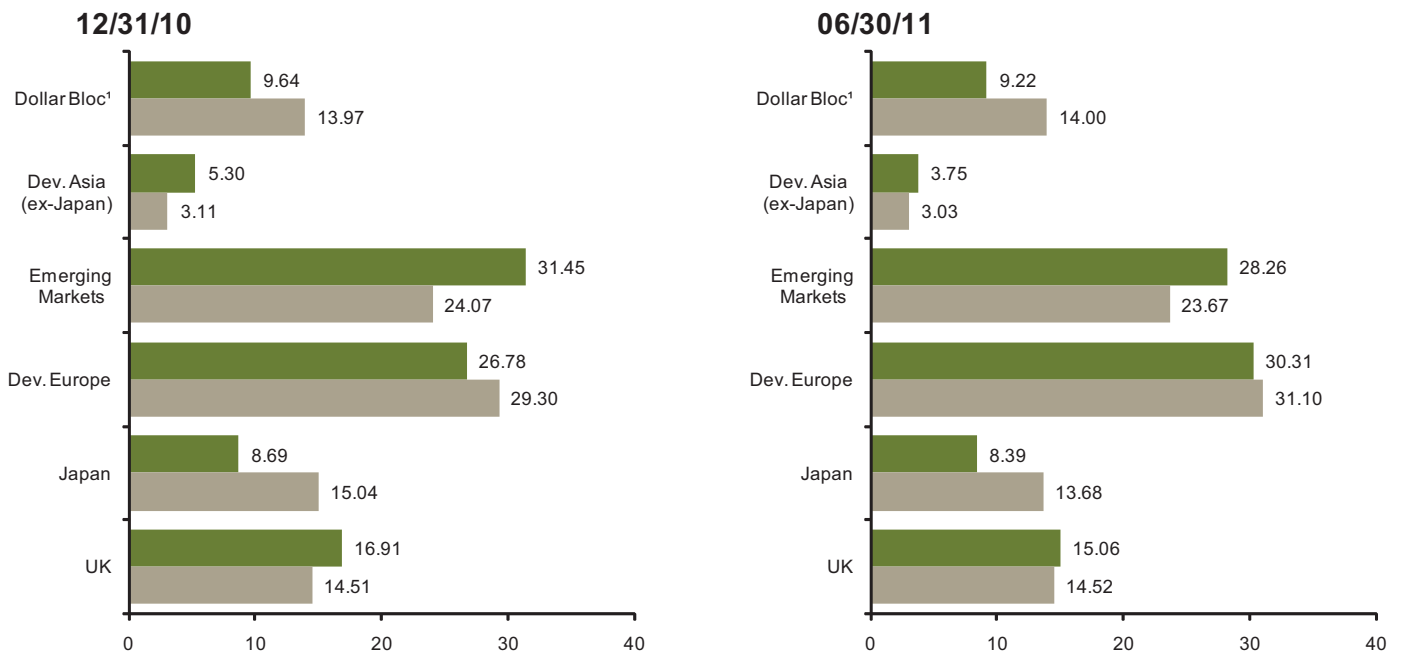
# Regional Positioning Comparison

San Mateo County Employees' Retirement System (year-to-date changes - %)



**SamCERA**

**MSCI ACWI (ex-US)**



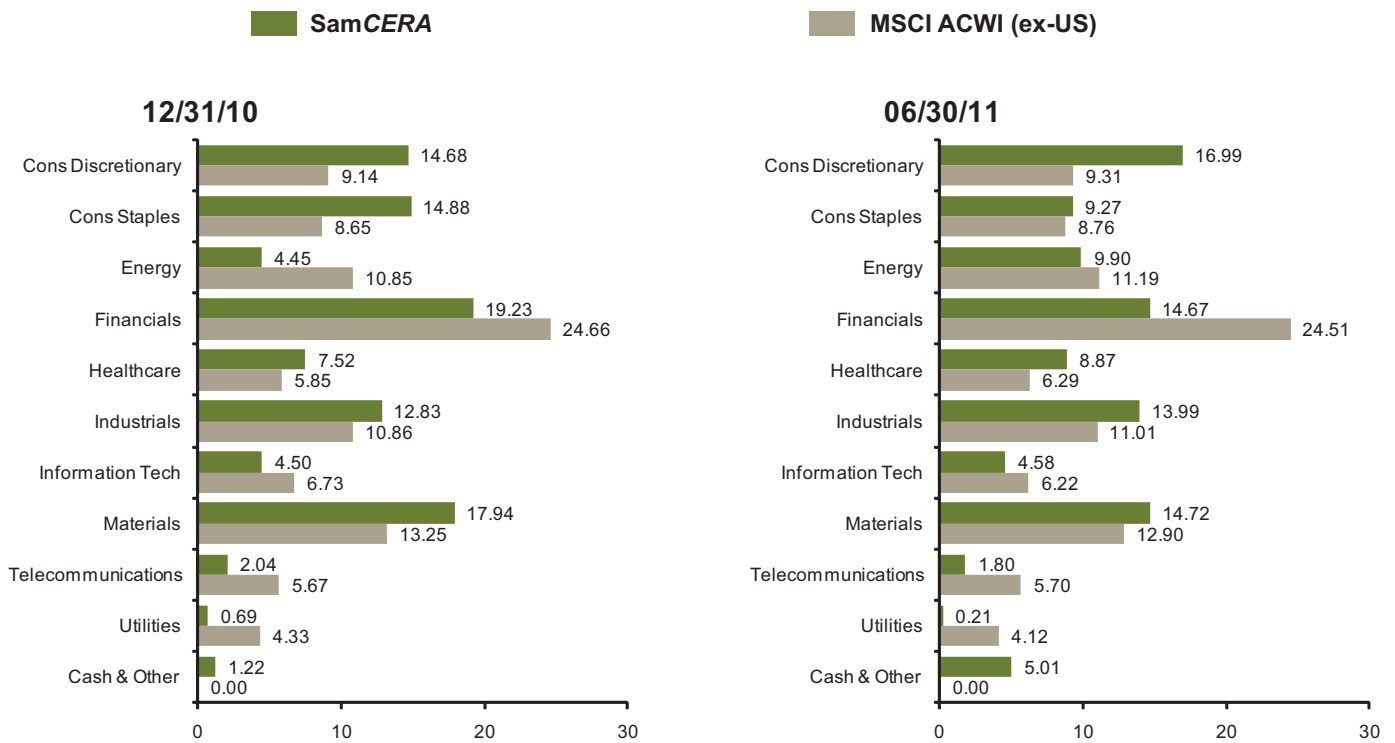
1. Dollar Bloc includes Australia, Canada, New Zealand and the US

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# Sector Positioning Comparison

San Mateo County Employees' Retirement System (year-to-date changes - %)



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## Current Market Valuations (as of 6/30/11)



		Next Year P/E Ratio	Next Year P/Sales	Next Year Est Dividend Yield
<b>Developed Markets</b>	<b>US</b> (S&P 500)	11.8x	1.2x	2.2%
	<b>Europe</b> (Eurostoxx)	8.9x	0.8x	5.1%
	<b>UK</b> (FTSE 100)	9.4x	1.0x	4.0%
	<b>Australia</b> (S&P ASX 200)	11.6x	1.6x	4.9%
	<b>Canada</b> (S&P TSX Composite)	12.7x	1.6x	2.7%
	<b>Japan</b>	<b>Japan</b> (TOPIX)	12.7x	0.4x
<b>Emerging Markets</b>	<b>China</b> (Shanghai SE Composite)	10.6x	1.1x	2.5%
	<b>Brazil</b> (Bovespa)	8.8x	1.1x	3.9%
	<b>Poland</b> (WSE WIG 20 Index)	10.3x	1.0x	4.9%
	<b>Czech Republic</b> (Prague Stock Exchange)	10.0x	1.5x	6.1%
	<b>Russia</b> (Russian RTS Index)	5.4x	1.0x	3.2%

Source: Bloomberg. Past performance is not indicative of future returns.

# Topics of Discussion



## Positive Outlook

### Long term secular rise of the emerging market consumer

- Consumer staples and consumer discretionary
- Infrastructure
- Healthcare

### Long term positive view on hard assets/commodities

- Energy
- Metals/mining
- Cement

### Industrials

- Transportation

### Technology

- Smartphones

## Negative Outlook

### Japanese domestically-focused equities

### Select continental European financials

- Banks/insurance

### Telecom

### Utilities

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# Current Strategy

## Emerging market consumer

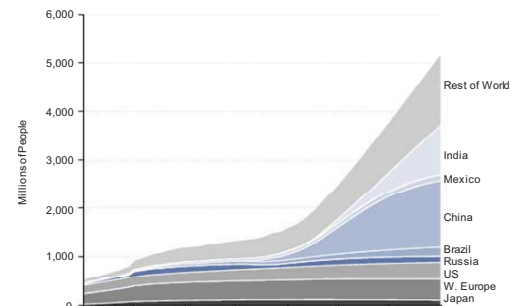


### Overview

- Between 1998 and 2008, consumer spending in emerging markets rose by approximately 66%, two times faster than developed nations<sup>1</sup>
- Average 2008 per capita consumer spending in emerging economies (\$1,380) was 48% higher than 1998
  - Developed market consumer spending increased 19% in the same period
- In 2008, real consumer spending in emerging markets was 27% of worldwide total
- Strong link between income levels and consumption
- Industry forecasts middle class consumers will grow from 2.5 to 4.5 billion by 2025: majority of growth from emerging markets; significant increases in per capita spending potential
- China and India offer the greatest growth opportunities: highest forecasted GDP growth; largest populations; biggest emerging middle class



**Rapid Growth in Middle Class Consumers**  
Consumers earning over US\$6K annually (in real 2008 US\$ terms)



Source: UN Population Division, Goldman Sachs Global ECS Research

1. Source: Societe Generale

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# Current Strategy

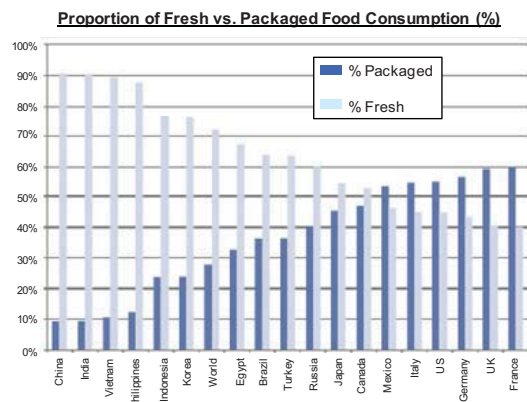
## Emerging market consumer



### Developed Market Opportunities

- **Food/Beverage, Household/Personal Care**

- BRIC (Brazil, Russia, India, China) markets are forecasted to grow 6% to 10% per year through 2025, becoming among the top six markets (with China replacing the US as the largest)
- Examples: Danone, Carlsberg, Tingyi

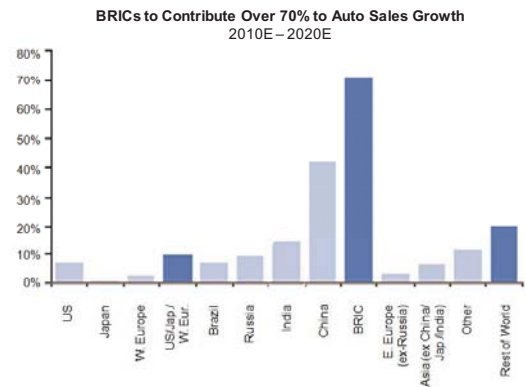


Source: Euromonitor, 7/12/10



- **Luxury – Autos**

- BRIC countries are estimated to contribute up to 70% of sales growth to 2020
- India and China's strong growth in mid-size, premium and luxury cars is expected to continue
- Examples: Daimler, Volkswagen



Source: Global Insight, World Bank, GS Global ECS Research estimates

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# Current Strategy

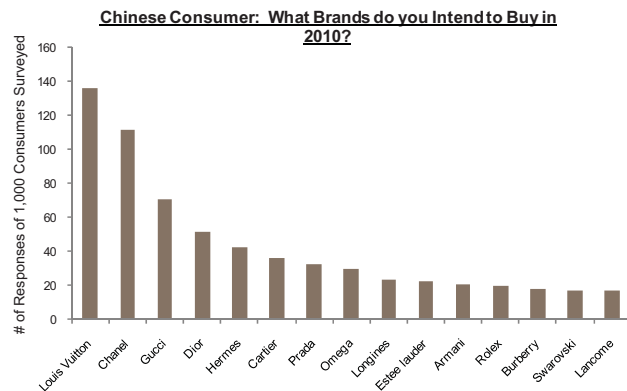
## Emerging market consumer



### Developed Market Opportunities

- **Luxury – Personal Goods**

- Young, well-educated Chinese are expected to drive country's overall luxury market
- Chinese Ministry of Commerce believes China will become the world's largest market for luxury goods by 2014
- Examples: LVMH, PPR



Source: Albatross Global Solutions and Ruder Finn Asia

- Brands with strong heritage and visibility are expected to do well in China
- Chinese luxury consumers can be divided into two groups: those who buy luxury to add something to their life and those who buy luxury to fill a gap, a lack

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# Current Strategy

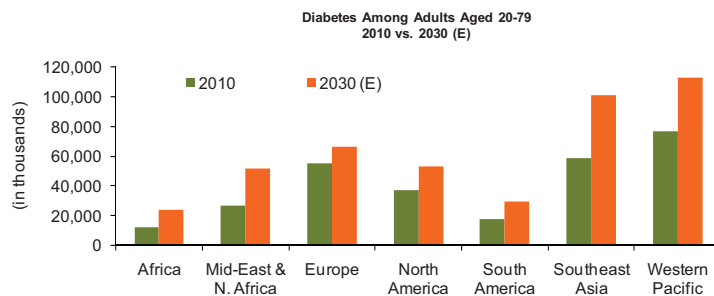
## Emerging market consumer



### Developed Market Opportunities

- **Healthcare – Pharmaceuticals, Equipment & Services**

- Changes in diet within emerging markets have led to increased prevalence of traditional Western diseases such as diabetes
- Experts indicate that approximately 1 in 10 adults have diabetes (often undiagnosed)
- Diabetes frequently leads to other major illnesses, such as heart disease, stroke, cancer, kidney disease and ophthalmic degeneration
- Aging populations and changes in lifestyle have been attributed to rising incidence of cancer
- Examples: Novo Nordisk, Essilor, Elekta



Source: International Diabetes Foundation

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# Current Strategy

## Financial services

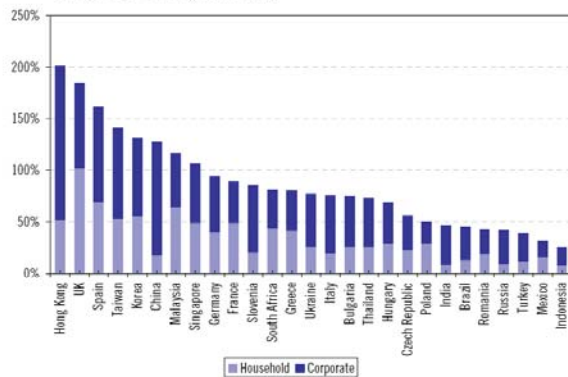


### Emerging Markets

- **Russia**
  - Underpenetrated market; rapid growth in demand for financial services
  - Examples: VTB, Sberbank
- **India**
  - World's second most populated country; 38% between ages 20-44
  - Underpenetrated mortgage and auto loan segments forecasted to grow
  - Examples: HDFC Bank, State Bank of India



Loans-to-GDP, 2009 (%)



Source: Central Banks

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# Current Strategy

## Metals and mining



### Supply/demand characteristics remain favorable

- **Gold:** Gold mining companies trading at levels substantially below NPV (net present value) of future production; expect firm gold price because of global monetary conditions
- **Iron ore:** Chinese and Indian steel consumption are below historical peaks seen in other developing economies (on a per capita basis); believe there is significant demand growth potential
- **Coal:** Most important source of energy for electricity generation in India; forecasted increase in Indian infrastructure spending should lead to increased power generation/demand for coal

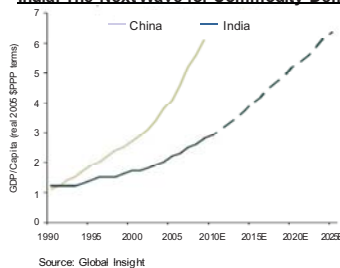
### Risks are priced in

- Primary risks include China overheating and double-dip global recession stalling Western markets
- Believe these risks are priced into valuations

### Prefer companies with high exposure to iron ore, coal, gold and other precious metals

- Examples: Rio Tinto, Barrick Gold, Xstrata

**India: The Next Wave for Commodity Demand?**



- India's GDP per capita estimated to reach current levels in China in 15 years
- Steel and aluminum consumption per person in India during 2009 was 1/10<sup>th</sup> China's

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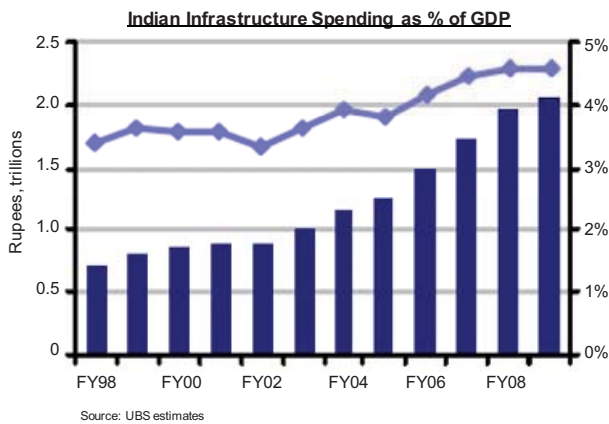
# Current Strategy

## Indian infrastructure



### Despite near term concerns, long term growth coupled with government focus should lead to significant infrastructure build-out

- We have concerns over the size and funding sources for the current account deficit and see the possibility of accelerating inflation in the short term; however, the current government supports infrastructure initiatives
- Government has taken steps to reduce bottlenecks and speed project awards, ease execution and improve financing environment
- Example: Larsen & Toubro



- The government expects infrastructure investment of close to 10% of gross domestic product in the 12<sup>th</sup> Five Year Plan starting April 2012, with underlying assumptions of 9% GDP growth and faster award of projects in the development of ports and roads

Source: Financial Express

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# Current Strategy

## Energy



### Preference for “upstream” companies

- Underweight integrated oil companies and refiners
- Scarcity in cheap supply, not supply overall; expect price of crude to increase as marginal production is expensive to attract (difficult for integrated oil companies)
- Prefer companies with long reserves and low cost structure
- Also like oil service companies which benefit from larger budgets to find and develop new oil as projects are becoming increasingly more challenging and costly. Higher crude prices allow for more spend.
- Examples: BG Group, Cairn, Technip, Saipem



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# Current Strategy

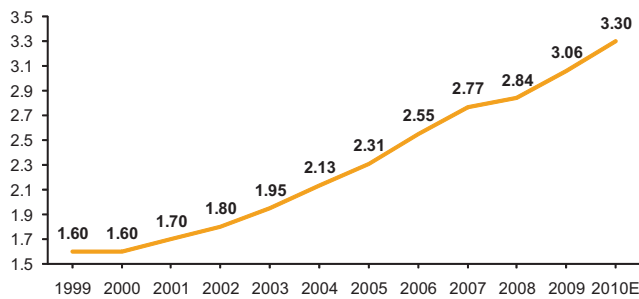
## Cement



- Oligopolistic industry
- Heavy infrastructure investment, particularly in emerging markets such as India and China, driving global demand
- High barriers to entry
- Formerly a more cyclical industry
- Attractive valuations, many companies trading below book value
- Consolidation and vertical integration over the past several years has led to stronger pricing power
- Near term, share prices may stagnate; long term, positive bias
  - Examples: CRH, China National Building Materials Co.



**Worldwide Cement Production**  
(millions of tons)



Source: US Geological Survey

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# Current Strategy

## Industrials



### Under-investment in technology and capital spending during economic crisis needs to be reversed



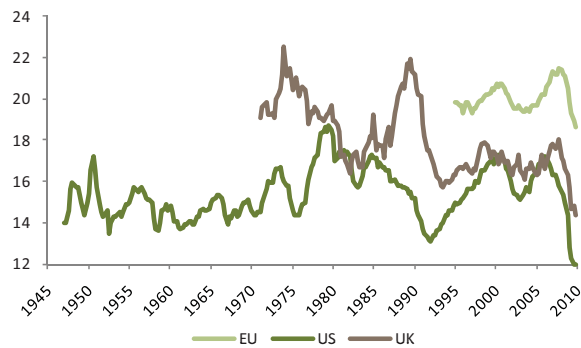
- **Trucking**

- Replacement cycle in the developed world bottomed in 2009 and has seen sharp recovery in 2010; trend expected to continue
- Examples: Daimler, Volvo

- **Airports**

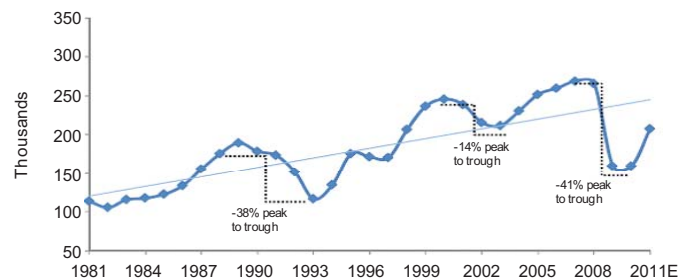
- Passenger travel growing faster than GDP growth driven by ticket price via low cost airlines
- Income growth in emerging markets expected to lead to increased expenditures on travel
- Example: Fraport

**Gross Fixed Capital Formation as % of GDP**



Source: Factset

**Heavy Truck Sales – Western Europe (1981 – 2011E)**



Source: JD Power, Deutsche Bank

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# Current Strategy

## Smartphones

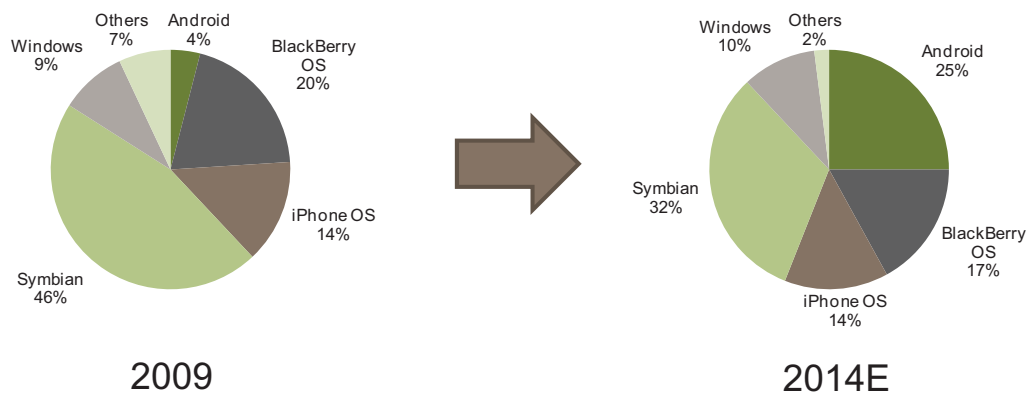


### Effectively compete with phones, PCs, TVs and gaming producers

- Capable of browsing the web, displaying video, playing music and, importantly, running additional programs through a tightly integrated application store
- Exposure to handset and semiconductor (intellectual property) companies
- Examples: HTC, ARM Holdings



### Smartphone Market Expected Growth



Source: BofA Merrill Lynch Global Research Estimates

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# Current Strategy

## Underweight Telecommunications, Utilities



### Telecommunications

- Don't see growth in sector; do not believe dividend yields are sustainable in the long-term
- Sector threats include increased competition, regulatory changes, technological changes and unpredictable managements
- Prefer companies with more exposure to more stable markets with committed management; favor fixed satellite providers to traditional telecommunication names



### Utilities

- Electricity and gas markets are in oversupply and don't foresee increased pricing
- Dividends at risk of being cut significantly
- Government intervention is expected to continue
- Balance sheets are relatively weak; high debt load through acquisitions

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# Regional & Sector Positioning

San Mateo County Employees' Retirement System (as of 6/30/11)



	SamCERA	MSCI ACWI (ex-US)
Dev. Europe	30.31	31.10
Emerging Markets	28.26	23.67
Japan	8.39	13.68
UK	15.06	14.52
Dollar Bloc <sup>1</sup>	9.22	14.00
Dev. Asia (ex-Japan)	3.75	3.03

	SamCERA	MSCI ACWI (ex-US)
Consumer Discretionary	16.99	9.31
Consumer Staples	9.27	8.76
Energy	9.90	11.19
Financials	14.67	24.51
Healthcare	8.87	6.29
Industrials	13.99	11.01
Information Technology	4.58	6.22
Materials	14.72	12.90
Telecommunications	1.80	5.70
Utilities	0.21	4.12
Cash & Other	5.01	0.00

1. Dollar bloc includes Australia, Canada, New Zealand and the US

Regional and sector weights represent investments at the date stated and are subject to change without notice. For informational purposes only.



# Best & Worst Absolute Equity Contributors

San Mateo County Employees' Retirement System (year-to-date to 6/30/11)



## Top 10

Security	Average Weight (%)	Contribution	Country	Sector
Fraport AG	1.82	+0.48	Germany	Industrials
Baidu Inc. ADS	1.18	+0.43	China	Information Technology
Celltrion Inc.	0.74	+0.30	Korea	Healthcare
Sberbank	2.62	+0.25	Russia	Financials
Fresenius SE	1.07	+0.24	Germany	Healthcare
Volkswagen AG (Pfd Non-Vtg)	0.79	+0.22	Germany	Consumer Discretionary
Essilor International S.A.	0.96	+0.22	France	Healthcare
Hyundai Motor Co. Ltd.	0.59	+0.21	Korea	Consumer Discretionary
HTC Corp.	3.04	+0.20	Taiwan	Information Technology
BG Group PLC	1.83	+0.19	United Kingdom	Energy

## Bottom 10

Security	Average Weight (%)	Contribution	Country	Sector
Li & Fung Ltd.	0.99	-0.41	Hong Kong	Consumer Discretionary
Lloyds Banking Group PLC	1.28	-0.34	United Kingdom	Financials
Hypermarcas S/A	0.90	-0.30	Brazil	Consumer Staples
Hang Lung Properties Ltd.	2.10	-0.29	Hong Kong	Financials
Market Vectors ETF Gold Miners	0.54	-0.28	Other/Multi	Materials
Barrick Gold Corp.	1.26	-0.23	Canada	Materials
Suncor Energy Inc.	1.01	-0.20	Canada	Energy
China Yurun Food Group Ltd.	0.67	-0.17	China	Consumer Staples
Silver Wheaton Corp.	0.26	-0.15	Canada	Materials
Xstrata PLC	1.30	-0.12	United Kingdom	Materials

Please see important disclosures at the end of this presentation.

# Top 10 Holdings

## San Mateo County Employees' Retirement System (as of 6/30/11)



### Top 10 Equity Holdings

Security	Country	Sector	Portfolio Wt. (%)
Sberbank	Russia	Financials	2.70
HTC Corp.	Taiwan	Information Technology	2.29
Fraport AG	Germany	Industrials	2.13
BHP Billiton PLC	United Kingdom	Materials	1.98
Hang Lung Properties Ltd.	Hong Kong	Financials	1.97
Larsen And Toubro Ltd Gdr Reg S	India	Industrials	1.83
Jsc Vtb Bank Spon Gdr Reg S	Russia	Financials	1.78
BG Group PLC	United Kingdom	Energy	1.75
Potash Corp. of Saskatchewan Inc.	Canada	Materials	1.57
Royal Dutch Shell PLC (CL A)	United Kingdom	Energy	1.49
<b>Total Portfolio Weight</b>			<b>19.49</b>
<b>Total Number of Securities</b>			<b>175</b>

Holdings represent investments at the date stated and are subject to change without notice. For informational purposes only.

# Account Guidelines



## INVESTMENT OBJECTIVES

Exceed the Morgan Stanley Capital International All Country World Index ex U.S. (MSCI ACWI ex-US) over a market cycle. The *Board's* Investment Plan defines underperformance as:

- (1) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%)
- (2) Performance (gross of fees) below the 50<sup>th</sup> percentile for equity managers. Below median performance on a risk adjusted basis will also be a guiding tool in the evaluation of the investment manager.
- (3) Cumulative annualized performance (net of fees) over a three-year period below a 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
- (4) Performance will be evaluated in light of the manager's stated style and discipline.

# Account Guidelines



## PERMITTED SECURITIES

- No more than 5% of the portfolio to be invested in the stock of any single issuer
- Exchange Traded Fund holdings to range from 0-20% of the portfolio in aggregate
- No more than 10% of the portfolio to be invested in any single Exchange Traded Fund
- Aggregate investment in any single issue not to exceed 5% of that company's outstanding stock, unless such investment in aggregate does not exceed 3% of SAMCERA portfolio
- Emerging Markets allocation not to exceed 35% of total SAMCERA account market value
- Notes, Baskets or Warrants which replicate performance of an underlying security are permitted up to 5% of the portfolio
- Securities issued under rule 144A are permitted, all other private placements are prohibited
- Commodities, loans, put and call options are prohibited
- Short sale and use of margin prohibited
- Real estate and direct participations are prohibited
- Fixed income investments are allowed in Emerging Market regions where stock investment opportunities are limited. Fixed income is limited to a range of 0-5% of the portfolio
- Cash is permitted up to 10% of the portfolio

# International Equity Investment Team

## Biographies



### Richard C. Pell

Chief Executive Officer, Chief Investment Officer, Artio Global Management, 1995-Present  
Head of Global Fixed Income, Bankers Trust Company, 1990-1995  
Head of Corporate Bonds and Mortgage-Backed Securities, Mitchell Hutchins Institutional Investors, 1988-1990  
MBA, Finance, New York University  
BA, History, University of California, Berkeley

### Rudolph-Riad Younes, CFA

Head of International Equities, Artio Global Management, 1993-Present  
Associate Director, Swiss Bank Corp., 1991-1993  
MBA, Yale University  
BS, MS, Electrical Engineering, Columbia University

### Andrew Barker

Senior Portfolio Manager, International Equity, Artio Global Management, 2004-Present  
Institutional Portfolio Manager, Putnam Investments, 2001-2004  
Senior Vice President, Schroder Investment Management North America, 1992-2001  
Principal, Mercer Management Consulting, 1988-1992  
MBA, Harvard University  
MA (Honors), Cambridge University, UK  
BA, Economics/Geography, Cambridge University, UK

### Brett Gallagher

Deputy Chief Investment Officer, Senior Portfolio Manager, Artio Global Management, 1999-Present  
Senior Investment Executive, Chase Manhattan Bank (Singapore), 1997-1998  
Head Private Client Investment Management, JP Morgan (Singapore), 1994 -1997  
Senior Portfolio Manager Global Equity, Bankers Trust Company, 1990-1994  
Financial Analyst, Irwin Management Company, 1987-1990  
MBA, University of Virginia  
BA, Economics, University of Virginia

### Brian Holland

Portfolio Manager, Artio Global Management, 2008-Present  
Director and Global Portfolio Manager, Citi Global Wealth Management Investments, 2004-2008  
Portfolio Manager and Director of Research, Boyd Watterson Asset Management LLC, 2000-2004  
Senior Portfolio Manager, Deutsche Bank (formerly Bankers Trust Company), 1995-1999  
Equity Analyst, Bankers Trust Company, 1994-1999  
Equity Syndicate / Equity Analyst, First Albany Corporation, 1992-1994  
MBA, International Finance, Vanderbilt University  
BA, English and Fine Arts, Vanderbilt University

### Michael Testorf, CFA

Senior Portfolio Manager / Analyst, International Equity, Artio Global Management, 2000-Present  
Senior European Equity Officer, Artio Global Management, 1998-2000  
Head of European Equities, United Nations, Joint Staff Pension Fund, 1994-1997  
Portfolio Manager, Commerzbank, 1987-1994  
Graduate, Wirtschaftsakademie, Hamburg, Germany

Artio Global Management LLC is a registered investment adviser and a subsidiary of Artio Global Holdings which is wholly owned by Artio Global Investors Inc. Experience at Artio Global includes employment at Julius Baer, the firm's prior owner.

# International Equity Investment Team (cont'd)

## Biographies



### Stefano Galli

Senior Portfolio Manager / Analyst, International Equity, Artio Global Management, 2003-Present  
Director of European Equity Research Sales, Merrill Lynch, 1995-2003  
Vice President R&D, ORION, A.C.T., Inc., 1990-1994  
MBA, The Wharton School, University of Pennsylvania  
BS, Civil Engineering and Economics, University of Delaware

### Stephen Lew, CFA

Senior Portfolio Manager / Analyst, International Equity, Artio Global Management, 2010-Present  
Senior Research Analyst, Janus Capital Group, 2005-2010  
Research Analyst, Driehaus Capital Management, 1999-2005  
Senior Accountant, Price Waterhouse LLP, 1994-1997  
MBA, Graduate School of Business, University of Chicago  
BA, Business Economics, University of California, Los Angeles

### Harry Polishook

Portfolio Manager / Analyst, International Equity, Artio Global Management, 2000-Present  
Securitization Programmer, Deloitte and Touche, 1994-2000  
BS, Computer Science and Applied Math, State University of New York at Albany

### Katalin Osvath, CFA

Portfolio Manager / Analyst, International Equity, Artio Global Management, 2003-Present  
Associate, Emerging Europe Equity Research Sales, HVB Capital, 2000-2003  
Masters in Finance and Business Administration, Budapest University of Economic Sciences  
Certificate in Finance, Stockholm School of Economics  
BS, Economics, Budapest University of Economic Sciences

### Junichi Nonami, CMA

Portfolio Manager / Analyst, International Equity, Artio Global Management, 2005-Present  
Vice President, Japanese Equity Sales, Nomura Securities International, 2003-2005  
Assistant Vice President, Japanese Equity Sales, Nomura Securities International, 2001-2002  
Associate & Financial Consultant, Nomura Holding (Tokyo), 1995-1999  
MBA, MIT Sloan School of Management  
Bachelor of Law, Osaka University

### Dimitre Genov

Senior Portfolio Manager / Analyst, Artio Global Management, 2009-Present  
Portfolio Manager / Senior Analyst, JP Morgan, 2005-2009  
Vice President, Lazard LLC Investment Banking, 1994-2005  
MBA, Finance, Columbia Business School /London Business School (joint)  
BA, Applied Mathematics, Harvard University

### Usman Malik

Senior Portfolio Manager, International Equity, Artio Global Management, 2004-Present  
Investment Analyst / Assistant Portfolio Manager, United Nations Joint Staff Pension Fund, 1997-2004  
Cash Management Specialist, United Nations Joint Staff Pension Fund, 1995-1996  
Undergraduate work at University of Virginia  
BA and MA, University of Punjab

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# International Equity Investment Team (cont'd)

## Biographies



### Danny Seth

Senior Research Analyst, International Equities, Artio Global Management, 2010 – Present  
Analyst, Sansar Capital, 2007-2009  
Private Equity Associate, Vulcan Capital, 2003-2005  
Analyst, Goldman Sachs Principal Investments, 2001-2003  
MBA, Harvard Business School  
MS, Electrical Engineering and Computer Science, Massachusetts Institute of Technology  
BS, Electrical Engineering, Northeastern University

### Regina Ewers, CPA

Research Analyst, International Equity, Artio Global Management, 2006-Present  
Vice President, Merrill Lynch, 2001-2006  
Senior Tax Consultant, Ernst & Young, LLP, 1995-1999  
MBA, New York University, Leonard N. Stern School of Business  
BS, Accounting / Japanese, Providence College

### Nikhil Chari, CFA

Research Analyst, International Equity, Artio Global Management, 2010-present  
Senior Research Associate, Sanford C. Bernstein, 2006-2010  
Senior Associate, McKinsey & Co., 1999-2002 and 2004-2006  
MBA, University of Pennsylvania, The Wharton School, University of Pennsylvania  
B Tech. and M Tech., Biochemical Engineering & Biotech, Indian Institute of Technology

### Tejas R. Savant

Research Analyst, Global Equities, Artio Global Management, 2011-present  
Senior Research Associate, Sanford C. Bernstein & Co., 2008-2011  
Summer Associate, McKinsey & Co. / London School of Economics, 2006  
MA, Quantitative Methods, Columbia University  
MS, Finance and Economics, London School of Economics  
BA, Economics and Mathematics, Vassar College

### Elyse Tarnofsky

Head of Portfolio Administration, Artio Global Management, 2000-Present  
Sales Assistant, Municipal Bond Trading Desk, Morgan Stanley Dean Witter, 1997-2000  
Portfolio Assistant, Burnham Securities, 1995-1997  
BS, AB Freeman School of Business, Tulane University

### Jonathan Mortenson

International Equity Trader, Artio Global Management, 2006-Present  
Senior Vice President, Pan European Equity Sales Trading, Collins Stewart Inc., 2003-2006  
Vice President, International Sales Trading, ING Financial Markets, 2000-2003  
Vice President, Pan European Sales Trading, CCF Charterhouse Securities, 1999-2000  
Associate, Global Convertible Bond Trading, BT Alex Brown, 1994-1999  
BA, Economics, College of the Holy Cross

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# Firm Management and Relationship Management

## Biographies



### Glen Wisher

President, Artio Global Management, 2004-Present  
Head of Asset Management Americas, Julius Baer, 2002-2004  
Director of Fixed Income, Julius Baer Investment Management Inc., 1995-2002  
Director of Debt Syndication Division, S.G. Warburg Co., 1986-1995  
Graduate, Nottingham University, UK

### Tony Williams

Chief Operating Officer, Artio Global Management, 2003-Present  
Chief Operating Officer and Head of Cross Border Strategies, JPMorgan Fleming Asset Management, 1998-2002  
Director, Fleming Asset Management, 1989-1998  
MA (Hons), University of Cambridge, UK

### Prasad Nanisetty, PhD

Head of Risk Management, Artio Global Management, 2004-Present  
Senior Vice President, Quantitative Analysis and Risk Management, Jennison Associates, 2000-2004  
Managing Director, Quantitative Analysis and Risk Management, Prudential Investments, 1997-2000  
Director of Risk Management, Nomura Securities International, 1994-1997  
Senior Associate, Smith Breeden Associates Inc., 1993-1994  
Assistant Professor of Finance, Indiana University, Bloomington, 1984-1993  
PhD (Business Administration), University of Michigan  
MS (Statistics and Operations Research), Bowling Green University  
B. Stat (Mathematics and Statistics), Indian Statistical Institute

### Melvin D. Lindsey, CFA

Director, Institutional Investments, Artio Global Management, 2002-Present  
Senior Managing Director, Wells Capital Management, 1997-2002  
Senior Portfolio Manager, Wells Capital Management, 1994-1997  
Vice President, Salomon Smith Barney, Inc., 1989-1994  
Equity Sales, Lehman Brothers, 1987-1989  
MBA, Finance, UCLA Anderson School of Management  
BA, Economics, California State University

### Teri M. Smith

Director of Client Service, Institutional Investments, Artio Global Management, 2005-Present  
Vice President, Capital Guardian Trust Company, 1993-2005  
Senior Associate, Scudder, Stevens & Clark, 1991-1993  
Associate, Northern Trust of California, 1989-1991  
BA (with distinction), Speech Communication, San Diego State University  
AIMSE Investment Institute, The Wharton School

### Elizabeth K. Estrada

Relationship Manager, Institutional Investments, Artio Global Management, 2008-Present  
Vice President, Bernstein Global Wealth Management, 2001-2008  
MBA, Finance, UCLA Anderson School of Management  
BA, French Literature, Columbia University

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# Firm Management and Relationship Management

## Biographies



### Hien K. Nguyen

Associate Director, Institutional Investments, Artio Global Management,  
2001-Present

Senior Account Manager, Prime Performance, Inc., 1997-2001

Marketing Associate, Great West Life & Annuity, 1995-1997

BA, International Business & Marketing, University of Colorado

### Kristina N. Surkova

Client Service Officer, Institutional Investments, Artio Global Management,  
2009- Present

Client Relations Associate, Capital Guardian Trust Company, 2008-2009

Presentation Development Coordinator, Capital Guardian Trust Company,  
2001-2008

Marketing Assistant, Ernst & Young LLP, 2000-2001

MA, Linguistics & International Communication, Moscow State Linguistics  
University

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# Composite Performance in US\$

Artio Global Management LLC



## Institutional International Equity Composite (January 1, 2001-March 31, 2011)

(this Composite was closed to new investment as of March 31, 2005)

Year	Gross Return	Net Return	MSCI ACWI (ex-US)	Number of Portfolios	Composite Dispersion	3 Yr Std Dev - Composite	3 Year Std Dev - MSCI ACWI (ex-US)	Composite Market Value (USD Millions)	Total Firm Assets (USD Millions)
2001	-17.9%	-19.1%	-19.7%	≤ 5	N/A	22.54%	15.89%	\$623	\$2,989
2002	-2.4%	-3.7%	-14.9%	6	N/A	17.20%	16.39%	\$1,397	\$4,138
2003	37.4%	35.6%	40.8%	18	1.18%	14.83%	17.92%	\$4,944	\$8,741
2004	24.0%	22.8%	20.9%	45	1.34%	13.21%	15.28%	\$5,877	\$22,717
2005	18.3%	17.5%	16.6%	44	0.89%	12.49%	11.63%	\$11,103	\$34,850
2006	31.9%	31.2%	26.7%	44	1.23%	11.78%	10.22%	\$14,594	\$53,486
2007	17.6%	16.9%	16.7%	43	0.52%	12.04%	10.63%	\$15,998	\$75,224
2008	-44.7%	-45.1%	-45.5%	13 <sup>1</sup>	0.27%	20.55%	20.88%	\$4,168	\$45,036
2009	25.3%	24.4%	41.4%	13	0.55%	23.85%	25.24%	\$5,201	\$55,972
2010	8.4%	7.7%	11.2%	11	0.23%	25.42%	27.28%	\$4,157	\$53,430
2011 YTD	2.1%	1.9%	3.4%	10	N/A	24.68%	26.66%	\$3,842	\$51,882

1. The reduction in accounts is due to a change in the core strategy, allowing up to 35% emerging markets exposure. Accounts that did not adopt the new mandate were moved to a new composite, Artio Institutional International Equity, Non-35% Emerging Market Composite, as of January 1, 2008.

N/A - For Composite Dispersion, not applicable when the period is less than 12 months or when there are 5 or fewer portfolios in the Composite for the entire year.

The disclosures and representations on the following pages are an integral part of this presentation.

Past performance does not guarantee future results.

# Performance Notes & Disclosures

## Institutional International Equity Composite



Artio Global Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Artio Global Management LLC has been independently verified for the periods of January 1, 1995 through December 31, 2010.

Verification assesses whether (1) the firm has complied with all of the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Institutional International Equity composite has been examined for the periods of May 1, 1995 through December 31, 2010. The verification and performance examination reports are available upon request.

### Notes

1. Artio Global Management LLC ("Artio Global") is an indirect subsidiary of Artio Global Investors Inc. Artio Global is a registered investment adviser under the Investment Advisors Act of 1940 that actively manages a variety of equity, fixed and balanced strategies. The firm was established in 1995 and all portfolios are included in one or more composites. Artio Global changed its name from Asset Management Americas ("AMA") as of June 15, 2008. AMA was a business unit of Julius Baer Investment Management LLC.
2. The Institutional International Equity strategy seeks long-term growth of capital by investing in a wide variety of international equity securities issues throughout the world. The strategy will have a maximum Emerging Market exposure of 35% of portfolio assets. The strategy is managed as a core product and is not constrained by a particular investment style. The strategy follows a multi-capitalization approach focusing on mid-to-large-capitalization companies but may also invest in smaller, emerging growth companies. The Composite includes all discretionary, fee paying, non-taxable and taxable portfolios and mutual funds invested in this mandate for institutional clients. The composite was created in February 2003. A complete list and description of all firm composites is available upon request. **This composite is closed to new investment as of March 31, 2005.**
3. A significant cash flow policy was implemented for this composite from Inception through March 31, 2005. Significant cash flows are defined as a client initiated cash inflow or outflow of 10% of portfolio's beginning of period assets and requires the temporary removal of the account from the composite at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the following month after the cash flow. The significant cash flow policy was reinstated on September 1, 2009. Additional information regarding the treatment of significant cash flows is available upon request.
4. The benchmark for the Institutional International Equity Composite was changed as of March 31, 2007 to the **MSCI ACWI (All Country World Index) ex USA Net Index** ("MSCI ACWI x-US") from the **MSCI EAFE Net Index** (Europe, Australasia, Far East). The change in benchmark was applied retroactively, as Artio Global believes the MSCI ACWI x-US index is more representative of the firm's core strategy, especially in light of the increased emerging markets exposure. The MSCI ACWI x-US is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index excludes the US. Both the benchmark and composite returns are net of withholding taxes on dividends, interest income and capital gains. The benchmark is net of withholding taxes from a Luxembourg perspective. Withholding taxes may vary according to the investor's domicile. Sources of foreign exchange rates may be different between the composite and the benchmark.
5. Valuation and performance are computed and stated in U.S. Dollars. All components of income, including realized and unrealized gains and/or losses and accrued income are included in the returns. Additional information regarding the firm's policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.



# Performance Notes & Disclosures

## Institutional International Equity Composite



6. Gross of fee returns are calculated gross of investment management and custodial fees and net of transaction costs and foreign withholding tax on income, dividends and capital gains. A client's return will be reduced by such fees and any other expenses as described in their individual investment management agreement. Net of fee returns are calculated net of management fees, transaction costs and foreign withholding taxes on dividends, interest income, and capital gains and gross of custodial fees. The investment management fee utilized in the net of fee calculation is based on actual investment fees incurred by each portfolio in the composite. In instances where actual fees could not be utilized, the highest fee schedule in effect during the periods presented was utilized to calculate net of fee performance. Artio Global's advisory fees for this composite are 0.80% on the first \$20 million, 0.60% on the next \$20 million, 0.50% on the next \$60 million and 0.40% on the balance thereafter. Artio Global reserves the right to negotiate the standard fee schedule presented.
7. The composite dispersion is the asset-weighted standard deviation of the gross-of-fee returns for accounts within the composite for the entire year. Dispersion will not be presented when there are 5 or fewer accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.
8. The Composite may periodically invest in futures, swaps and warrants, which are types of derivatives, for hedging purposes and to remain fully invested, to maintain liquidity, or to increase total return.
9. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes. This may result in greater price volatility.
10. Past performance is no indication of future results. This material is provided for informational purposes only and does not in any sense constitute a solicitation or offer of the purchase or sale of securities. This presentation is for one-on-one use only and the information presented is believed to be correct but is not guaranteed.



# Disclosures



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The material may contain forward- or backward-looking statements regarding intent or beliefs on current or past expectations. Readers are cautioned that such statements are not a guarantee of future performance, involve risks and uncertainties, and actual results may differ materially from those statements as a result of various factors. The views expressed are also subject to change based on market and other conditions. Furthermore, the opinions expressed do not constitute investment advice or recommendation by Artio Global Management LLC or affiliated companies.

A significant portion of the information used by Artio Global Management is received from external sources and has been adapted for use in Artio Global Management's analytical and risk management systems framework. This report has been created using information believed to be reliable but we do not warrant its accuracy or completeness. While every effort is made to insure the validity of the information received, Artio Global Management cannot be responsible for any inaccuracies that may occur.

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Certain information contained herein is derived from historical price data from various indices (described below) and does not purport to represent investment results of an actual portfolio. These results do not reflect the deductions for investment management fees. Past results do not guarantee future results.

Foreign securities generally pose greater risks than domestic securities, including greater price fluctuations and higher transaction costs. Foreign investments also may be affected by changes in currency rates or currency controls. With respect to certain foreign countries there is a possibility of nationalization, expropriation or confiscatory taxation, imposition of withholding or other taxes and political or social instability that could affect investments in those countries. These risks can be greater in the case of emerging country securities.

The information contained in this presentation is for a representative account and is for illustrative purposes only. Individual client results, weightings, etc. may be higher or lower given differences in portfolio holdings and/or client imposed restrictions.

In addition to emerging markets, in order to achieve certain "Top-Down" objectives, Artio Global Management LLC may affect transactions in certain index positions where permissible by individual client guidelines.

The **Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) ex-US®** is a market capitalization weighted index composed of companies representative of the market structure of developed and emerging market countries in the Americas, Europe/Middle East, and Asia/Pacific Regions, excluding the United States. The index also excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The index is calculated without dividends or with gross dividends reinvested, in both US dollars and local currencies.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Artio Global Management LLC. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representation with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P any of their affiliate or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.



## **San Mateo County Employees' Retirement Association Board of Retirement**

### **Organizational Update**

- 1) What is the ownership structure of your firm? Please identify all owners with 5% ownership or more.**

Artio Global, through an intermediary holding company, is majority-owned by Artio Global Investors Inc. ("Artio Global Investors"), a Delaware corporation. Artio Global Investors' Class A shares have been listed on the New York Stock Exchange since September 24, 2009.

As of June 30, 2011, 52% of the shares in Artio Global Investors were held by the public, excluding shares held by the Company's employees which amount to approximately 20%. In addition, GAM Holding AG, an asset manager listed on the Swiss Stock Exchange and the firm's former sole stockholder, holds 28% of Artio Global Investors.

- 2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your structure over the past eighteen months, (b) growth and acquisition of assets under management, (c) clients gained or lost in the past year, and (d) recent corporate acquisitions, including negative and positive affects. All significant changes should be accompanied by an explanation.**

**a) Changes over the past eighteen months**

On May 21, 2010, we announced a potential secondary public offering, related to each Principal's exchange of an aggregate of 5,350,000 New Class A Units for 5,350,000 shares of Class A common stock. On June 3, 2010 we announced the pricing of this synthetic secondary public offering of 3,770,229 shares of Class A common stock at \$17.33 per share. The underwriters have the option to purchase from Artio Global up to an additional 565,534 shares of Class A common stock, on the same terms and conditions.

We have not had any changes to the structure of the organization over the past 18 months.

**b) Growth and Acquisition of Assets Under Management**

Our approach to asset growth is conservative and focuses first on strong relative performance for our existing clients. Maximum asset levels are set at the product level and are strategy specific. We continuously monitor assets under management to ensure the integrity of the process and we are prepared to limit growth at any time.

We believe the critical components of a successful business model are: 1) ability to provide strong risk-adjusted returns over market cycles, 2) stability, longevity and ability to control risks and 3) ability to achieve scale in one's area of competence. Our objective is to methodically develop new products while ensuring the highest level of service and investment expertise for our clients. Our commitment is to remain fully aware of client investment

objectives, to use our knowledge and experience to meet client requirements and to gain and retain client trust. We strive to stay competitive through constant innovation in the development of competitive investment strategies.

Specific changes since the last San Mateo Annual Review are as follows:

**3Q 2010**

Launch the Artio Global Credit Opportunities Fund in the third quarter utilizing \$19.0 million of Company seed capital

**2Q 2011**

Launch of the Artio Local Emerging Markets Debt Fund in the second quarter of 2011, utilizing \$22.0 million of Company seed capital.

Artio Global further expanded its distribution efforts, establishing a presence in Sydney to pursue opportunities in Australia, New Zealand and Asia.

**c) Clients Gained/Lost in the Past Year**

Artio Global Clients Gained/Lost		
	Assets (millions)	Accounts*
Gained (2010)	\$922.66	10
Lost (2010)	\$2,585.93	10

\*Does not include underlying clients invested in our mutual funds and commingled funds. Year ending 12/31/10.

**d) Recent Corporate Acquisitions**

None

**3) In light of the IPO and market conditions, please discuss how the new ownership structure impacts Artio’s investment professionals. To the extent possible please discuss the professional’s plans to diversify their ownership.**

Following the completion of the IPO in September 2009, all employees, other than our two principals, received grants of unvested Restricted Stock Units, which generally vest over a five-year or three-year period (74,500 of those Restricted Stock Units vested in February 2010).

On January 24, 2011, the Compensation Committee of the Board of Directors approved long-term performance-based awards that provide additional incentives to further align the interests of employees, shareholders and clients.

The long-term incentive program (LTIP) provides for grants of restricted stock units to certain employees within three company functions (senior management, portfolio management and sales) and creates different performance vesting criteria for each of these three functions. The awards will only vest to the extent that the relevant performance criteria are achieved. Vesting of senior management’s awards depends upon the extent to which the price of the Company’s Class A common stock reflects a price-to-earnings multiple that is closer to the multiple at



which the Company's peers trade ("multiple discount award"). Vesting of portfolio managers' awards depends upon the relative performance of the funds for which they are responsible ("investment performance award"). Vesting of sales professionals' awards depends upon the achievement of net new money. All awards will vest, if at all, three years after the grant date, which was in February 2011 (assuming employment through the grant date).

#### 4) What are your firm's philosophy and current policy regarding new business?

Artio Global's primary business objective is to consistently generate strong investment returns for our clients. We manage our investment portfolios based on a philosophy of style-agnostic investing across a broad range of opportunities, focusing on macro-economic factors and broad-based global investment themes. We believe that the depth and breadth of the intellectual capital and experience of our investment professionals, together with this investment philosophy and approach, have been the key drivers of the strong relative returns we have generated for clients over the past decade. As an organization, we concentrate our resources on meeting our clients' investment objectives and we seek to outsource, whenever appropriate, support functions to industry leaders thereby allowing us to focus our business on the areas where we believe we can add the most value.

##### Business Plan:

##### **Business Strategy**

We seek to achieve consistent and superior long-term investment performance for our clients. Our strategy for continued success and future growth is guided by the following principles:

***Further Extend our Distribution Capabilities*** - We continue to focus on expanding our distribution capabilities into those markets and client segments where we see demand for our product offerings and which we believe are consistent with our philosophy of focusing on distributors who display institutional buying behavior through their selection process and due diligence. We have selectively strengthened our international distribution by expanding into Canada and expect to further develop our international distribution over time.

In regard to the development of our International distribution, in 2010 Artio Global dedicated two full-time resources to this distribution area in terms of ongoing business development and client/consultant responsibilities. As we expand within the marketplace, we expect to add to this group in order to efficiently service our international relationships. We also opened a UK office in early 2011.

***Maintain a Disciplined Approach to Growth*** - We are an investment-centric firm that focuses on the delivery of superior long-term investment returns for our clients through the application of our established investment processes and risk management discipline. While we have generated significant growth in our assets under management over the past several years and have continued to develop a broader range of investment offerings, we are focused on long-term success and we will only pursue expansion opportunities that are consistent with our operating philosophy.

***Maintain our Strong Position in Global and International Equity*** - We expect to continue to grow our Global Equity assets under management. We believe we have the capacity to handle substantial additional assets within our Global Equity strategy. We plan to continue to grow our Global Equity strategy internationally, in order to capitalize on increasing flows into this strategy from investors globally.

Our International Equity II Strategy, launched in March 2005 as a successor strategy to our International Equity I Strategy that was launched in 1995 (which is currently closed to new investors), has produced attractive investment returns relative to industry benchmarks since inception.

***Continue to Focus on Risk Management*** - We manage risk at multiple levels throughout the organization, including directly by the portfolio manager, at the Chief Investment Officer level, under the Enterprise Risk Management Committee, among a dedicated Risk Management Group and through our Legal & Compliance Team. Our approach to managing portfolio-level risk is not designed to avoid taking risks, but to seek to ensure that the risks we choose to take are rewarded with an appropriate premium opportunity for those risks. This approach to managing portfolio-level risk has contributed significantly to our strong relative investment performance and will continue to be an integral component of our investment processes.

- 5) **Please specify separately the individuals (up to ten) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).**

**Management**

**Glen Wisher**

**President**, Artio Global Management, 2004 – Present  
Head of Asset Management Americas, Julius Baer, 2002-2004  
Director of Fixed Income, Julius Baer Investment Management Inc., 1995-2002  
Director of Debt Syndication Division, S.G. Warburg Co., 1986-1995  
Graduate Nottingham University, UK

**Tony Williams**

**Chief Operating Officer**, Artio Global Management, 2003 – Present  
Chief Operating Officer and Head of Cross Border Strategies, JPMorgan Fleming Asset Management, 1998 – 2002  
Director, Fleming Asset Management, 1989 – 1998  
MA (Honors), Cambridge University, UK

**Richard C. Pell**

**Chief Executive Officer, Chief Investment Officer**, Artio Global Management, 1995-Present  
Global Portfolio Management, Bankers Trust Company, 1990-1995  
Head of Corporate Bonds and Mortgage-Backed Securities, Mitchell Hutchins Institutional Investors, 1988-1990  
MBA, Finance, New York University  
BA, History, University of California, Berkeley

**Rudolph-Riad Younes, CFA**

**Head of International Equities**, Artio Global Management, 1993-Present  
Associate Director, Swiss Bank Corp., 1991-1993  
MBA, Yale University  
BS, MS, Electrical Engineering, Columbia University

**Andrew Barker**

**Senior Portfolio Manager**, Artio Global Management, 2004-Present  
Institutional Portfolio Manager, Putnam Investments, 2001-2004  
Senior Vice President, Schroder Investment Management North America, 1992-2001  
Principal, Mercer Management Consulting, 1988-1992  
MBA, Harvard University  
MA (Honors), Cambridge University, UK  
BA, Economics/Geography, Cambridge University, UK

**Brett Gallagher**

**Deputy Chief Investment Officer, Senior Portfolio Manager**, Artio Global Management, 1999-Present  
Senior Investment Executive, Chase Manhattan Bank (Singapore), 1997-1998  
Head Private Client Investment Management, JP Morgan (Singapore), 1994-1997  
Senior Portfolio Manager Global Equity, Bankers Trust Company, 1990-1994  
Financial Analyst, Irwin Management Company, 1987-1990  
MBA, University of Virginia  
BA, Economics, University of Virginia

**Michael Testorf, CFA**

**Senior Portfolio Manager/Analyst**, Artio Global Management, 2000-Present  
Senior European Equity Officer, Artio Global Investors, 1998-2000  
Head of European Equities, United Nations, Joint Staff Pension Fund, 1994-1997  
Portfolio Manager, Commerzbank, 1987-1994  
Graduate, Wirtschaftsakademie, Hamburg, Germany

**Stefano Galli**

**Senior Portfolio Manager/Analyst**, Artio Global Management, 2003-Present  
Director of European Equity Research Sales, Merrill Lynch, 1995-2003  
Vice President R&D, ORION, A.C.T, Inc., 1990-1994  
MBA, The Wharton School, University of Pennsylvania  
BS, Civil Engineering and Economics, University of Delaware

**Melvin Lindsey, CFA**

**Senior Vice President**  
**Director, Institutional Investments**, Artio Global Management, 2002-Present  
Senior Managing Director, Wells Capital Management, 1997-2002  
Senior Portfolio Manager, Wells Capital Management, 1994-1997  
Vice President, Salomon Smith Barney, Inc., 1989-1994  
Equity Sales, Lehman Brothers, 1987-1989  
MBA, Finance, UCLA Anderson School of Management  
BA, Economics, California State University

*Artio Global Management is the registered investment adviser and a subsidiary of Artio Global Investors. Artio Global Management experience includes tenure at Julius Baer and its subsidiaries.*

The above list of individuals has not changed over the last eighteen months.

- 6) **Specify separately the individuals (up to five) who you feel are key to the success of your SamCERA's product. If the list has changed in the last eighteen months, identify and explain the change(s).**

We believe the following individuals are key to the success of the SamCERA's International Equity product:

**Richard C. Pell**

**Chief Executive Officer, Chief Investment Officer**, Artio Global Management, 1995-Present  
Global Portfolio Management, Bankers Trust Company, 1990-1995

Head of Corporate Bonds and Mortgage-Backed Securities, Mitchell Hutchins Institutional Investors, 1988-1990

MBA, Finance, New York University

BA, History, University of California, Berkeley

**Years with Product – 16**

**Years in Industry – 28**

**Role** – Focused on macro analysis, risk control and is a generalist across all sectors and countries.

**Rudolph-Riad Younes, CFA**

**Head of International Equities**, Artio Global Management, 1993-Present

Associate Director, Swiss Bank Corp., 1991-1993

MBA, Yale University

BS, MS, Electrical Engineering, Columbia University

**Years with Product- 18**

**Years in Industry- 20**

**Role-** Primary portfolio structuring responsibility and qualitative idea generation. Focused on execution and is a generalist across all sectors and countries.

**Brett Gallagher**

**Deputy Chief Investment Officer, Senior Portfolio Manager**, Artio Global Management, 1999-Present

Senior Investment Executive, Chase Manhattan Bank (Singapore), 1997-1998

Head Private Client Investment Management, JP Morgan (Singapore), 1994-1997

Senior Portfolio Manager Global Equity, Bankers Trust Company, 1990-1994

Financial Analyst, Irwin Management Company, 1987-1990

MBA, University of Virginia

BA, Economics, University of Virginia

**Years with Product – 12**

**Years in Industry – 24**

**Role** – Generalist focusing on macro top-down research.

**Michael Testorf, CFA**

**Senior Portfolio Manager/Analyst**, Artio Global Management, 2000-Present

Senior European Equity Officer, Artio Global Investors, 1998-2000

Head of European Equities, United Nations, Joint Staff Pension Fund, 1994-1997

Portfolio Manager, Commerzbank, 1987-1994

Graduate, Wirtschaftsakademie, Hamburg, Germany

**Years with Product- 13**

**Years in Industry- 24**

**Role-** Fundamental research and idea generation on developed Europe.

**Stefano Galli****Senior Portfolio Manager**, Artio Global Management LLC, 2003-Present

Director of European Equity Research Sales, Merrill Lynch, 1995-2003

Vice President R&amp;D, ORION, A.C.T, Inc., 1990-1994

MBA, The Wharton School, University of Pennsylvania

B.S., Civil Engineering and Economics, University of Delaware

**Years with Product- 8****Years in Industry- 16****Role-** Fundamental research and idea generation on developed Europe.**7) Update all significant personnel changes to the "SamCERA Team."**

Since the last Annual Review, three individuals have been added to the Investment Team: Danny Seth, Research Analyst, joined in July 2010; Nikhil Chari, CFA, Research Analyst, joined in August 2010 and Tejas Savant, Research Analyst, joined in March 2011.

**8) Describe your firm's management succession plan. Have dates been established regarding the succession of any key personnel, specifically those reported in the preceding questions?**

Artio Global utilizes a team approach in managing our investment Strategies. For all of our investment strategies, we have ensured that there is considerable depth and experience inherent in its portfolio management teams. This includes the International Equity Team. Should a portfolio manager or other key investment professional depart the comprehensive investment backgrounds and expertise of the other team members ensure the continued smooth and efficient functioning of the portfolio.

There are no dates established regarding the succession of any key personnel.

**9) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months? E-mail your firm's most recent ADV Parts I & II to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global and its affiliates, parent company, officers, or principals are not defendants in any litigation or legal proceedings that could have a material adverse effect on the adviser's ability to provide investment advisory services. In September 2009, a lawsuit seeking damages in connection with an outside investment adviser's actions regarding the plaintiff's custodial accounts held at the New York bank branch of a former bank affiliate was dismissed in its entirety against Artio Global. In dismissing the case, the court essentially agreed with Artio Global's motion to dismiss which sought dismissal on the grounds that (i) that there was no allegation that the plaintiffs had accounts with or did any business with either Artio Global Management LLC or Artio Global Investors Inc. and (ii) that the complaint did not contain any factual assertions about anything that either Artio Global entity did.

Please find attached the most current *Form ADV Part I and Part II* as requested.

**10) When did the Securities Exchange Commission, Attorney General, Financial Industry Regulatory Authority (FINRA) and/or the NASD last audit your firm? Please note any material findings or recommendations.**

The Firm's most recent SEC examination was concluded in July 2006. The most recent NFA examination was concluded in February 2007. There were no material findings or recommendations.

**11) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global Management LLC (Artio Global) carries various forms of insurance coverage, including \$50 million in errors and omissions insurance and \$55 million in directors and officers insurance that provides prudent coverage for negligent acts or omissions.

Artio Global also has employment practices liability insurance in the amount of \$5 million with a \$250,000 retention.

Please refer to the table below for additional details.

Insurance Company	Coverage	Limit
Great American Insurance Company	Financial Institutional Bond	\$10,000,000
Berkley Regional Insurance Co.	Financial Institutional Bond	\$15,000,000
Federal Insurance Company (Primary Carrier)	ERISA Bond	Limit of liability for each loss is as required by ERISA, to a \$500,000 maximum per plan or \$1,000,000 maximum for plans containing employer securities, subject to the bond's limit.
Houston Casualty Company	Error & Omission Policy	\$10,000,000
ACE American Insurance Company	Error & Omission Excess Policy	\$10,000,000
Everest National Insurance Company	Error & Omission Excess Policy	\$10,000,000
National Union Fire Insurance Company (Chartis)	Error & Omission Excess Policy	\$10,000,000
St. Paul Fire & Marine Insurance Co. (Travelers)	Error & Omission Excess Policy	\$10,000,000
Federal Insurance Company	Employment Practices Liability Insurance	\$5,000,000
ACE American Insurance Company	Directors & Officers	\$15,000,000
St. Paul Fire & Marine Insurance Co. (Travelers)	Directors & Officers Excess	\$15,000,000
XL Specialty Insurance Company	Directors & Officers Excess	\$10,000,000
Houston Casualty Company	Directors & Officers (Primary A-DIC)	\$10,000,000
Catlin Insurance Company, Inc.	Directors & Officers (Excess A-DIC)	\$5,000,000

Please find attached the most current *Certifications of Insurance*.

**12) Do you have a written policy on ethics? If so, please e-mail the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Yes. Artio Global has adopted business practices and guidelines that are contained in its Code of Ethics.

Please find attached the most current *Code of Ethics*.

**13) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.**

Artio Global has outsourced the back office function for the investment business to Northern Trust Company located in Chicago. Artio Global's Head of Operations serves as the relationship manager with Northern Trust and is the primary point of contact.

The day-to-day interaction between Artio Global and Northern Trust centers on the basic outsourced function: trade processing. Parties involved include Artio Global trade support, portfolio support, client support, valuation team, and if escalation is warranted, operations management. Communication revolves around confirmation and settlement of trades, valuation and reconciliation of security positions, corporate action reviews, and implementation of ongoing initiatives. Interaction is via regularly scheduled reporting, Northern Trust to Charles River system processing, email, and phone.

The Artio Global Operations Department is composed of the following teams:

Client & Subadvisory Support – Centralized point of contact for all client operational matters including the coordination of all events such as new business implementation and cash flows.

Pricing & Valuation – Responsible for all pricing & valuation deliverables and issue resolution. Ensure external vendors are pricing securities in accord with valuation procedures.

Trade Support & Data - Responsible for the daily reconciliation, resolving broker discrepancies, segregation & collateral management, and static data security integrity.

Operational Compliance – Primary interface between Operations and the Artio Global Fund CCO.

The Northern Trust Company provides a full range of back-office services for Artio Global's asset management business. Northern Trust currently has a staff of over 200 (trade support, reporting, performance, portfolio accounting, and investment operations) that is dedicated to clients such as Artio Global who outsource back-office operations. Artio Global diligently manages the service level agreements that have been established with Northern Trust.

Northern Trust provides the following support functions to our firm, which affords our clients one of the most comprehensive reporting systems.

Trade Support:

- broker matching;
- trade enrichment;
- trade communication to custodians and fund accountants;
- fail resolution;
- broker and custodian relationship management;
- claims management.

Reporting and Performance:

- reporting to Artio Global and clients;
- performance calculations and reporting;
- management reporting.

Portfolio Accounting:

- position and cash records by portfolio;
- processing and posting of all transactions;
- pricing and valuation.

Investment Operations:

- account set-up and maintenance;
- client transitions/take-on;
- cash projections and processing;
- corporate actions;
- reconciliations to custodian and fund accountants;
- managing data interfaces and messaging;
- standing data support;

**14) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?**

Artio Global's mission critical systems are as follows:

Mission Critical Systems	Implemented	Upgraded
Charles River Portfolio Management System	2005 (2 <sup>nd</sup> half)	Upgraded from Bloomberg
Northern Trust Outsourcing Platform	2004	Passport (Reporting interface) is updated at least once per year.
Bloomberg for Market Data	Since inception of Artio Global	Ongoing (updated at least once a year)

In the past eighteen months, Artio Global has not experienced any problems with these systems.



We do not envision any changes to these systems in the next eighteen months.

**15) Provide an overview of your firm's business continuity plan as it relates to the investment process.**

Artio Global Investors' essential business operations are located at our New York City headquarters, along with primary technology and support functions. We have established a Crisis Management, Emergency Response, and a number of business unit and technology teams to ensure an efficient, expedient, and orderly response to a crisis.

Crisis response is handled by the following two teams:

1. Crisis Management Team – consists of senior/executive management of major business functions. This group will determine the appropriate response to an emergency and take steps to mitigate disruption to business functions.
2. Emergency Response Team – consists of senior managers of each business unit. This team will mobilize the business and technology units and oversee resources to recover business and support services.

A Business Continuity Plan (“BCP”) Coordinator ensures that business units review and update their recovery capability plans.

Currently, Artio Global, in conjunction with SunGard, maintains a disaster recovery plan that includes a back-up facility in Carlstadt, NJ. The plan is designed to ensure that our business will be operational during unpredictable situations. In the event of a protracted period of inoperability, certain critical business functions would be relocated to the designated disaster facility. Furthermore, investment teams use the Charles River Portfolio Management/Trading System, which can be accessed remotely over the internet via secured Virtual Private Network (VPN) by authorized personnel. Artio Global's use of Charles River is remotely hosted and managed by SunGard in Carlstadt, NJ which replicates to its own disaster recovery facility in Scottsdale, AZ. Our electronic connections to the broker community for trading via Financial Information Exchange (FIX) and to our outsourced middle office (Northern Trust) for downstream processing are independent of and remote from Artio Global's infrastructure in NY. Portfolio management, trading, settlement and reconciliation activities, therefore, do not rely on access to our head office in Manhattan.

Artio Global has selected Northern Trust Company to provide comprehensive middle-office services for our US-based Asset Management business. Northern Trust has a back-up facility in Naperville, IL that receives production data from its Primary Data Center over high speed fiber-optic connections. The data is mirrored and backup files are created to ensure an extra layer of protection. Also, annual due diligence visits to assess risks are conducted.

Artio Global maintains a Business Continuity Plan, which provides for access to critical systems necessary to support communication to clients. Salesforce.com, our Client Relationship Management system (CRM) houses all contact information for clients and is available remotely by each client service professional and via our disaster recovery site in Carlstadt, New Jersey. Within 24 hours of a disruption of service written communication will be disseminated centrally from our disaster recovery site informing clients about the status of our operations, the oversight of all clients' accounts and alternative contact numbers for key contacts within Artio Global.

Should the primary location become inoperative, Artio Global's portfolio management and trading platforms experience no disruption and are readily available. The other components of Artio Global's critical infrastructure will be operational within a 4 hour time frame.

Artio Global's business continuity plan is tested annually. A successful test was performed in October 2010; the next test is scheduled for October 2011.

**16) E-mail your firm's most recent SAS 70 Report or equivalent to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Given our outsourcing business model, Artio Global does not produce a SAS 70 report. We do, however, obtain and review the SAS 70 reports produced by our major service providers which include Northern Trust, State Street and US Bancorp. This is supplemented with quarterly reviews of compliance with Service Level Agreements (with these vendors) and on-site visits.

Please find attached the most current *SAS 70 – Northern Trust*.

## Performance

**17) Is the performance composite constructed for *SamCERA*'s portfolio in compliance with the Global Investment Performance Standards (GIPS)?**

Yes.

**18) What is a reasonable expected tracking error to the MSCI ACWI ex US? What are the expected sources of the tracking error (country, currency, sector or security over / underweighting, securities outside the index, etc.)?**

We anticipate ex-ante tracking error for the International Equity I Strategy to be approximately 2% - 4% versus the MSCI ACWI ex-US Index. We believe our process can generate consistently an information ratio of 0.5 or more, hence our 2% - 4% estimate of excess returns.

Principal sources of tracking error are security selection, country weights, and sector allocation.

Although both ex-post and ex-ante tracking error are monitored, we do not manage the Strategy to a specific figure as we believe tracking error penalizes a portfolio for positive alpha (i.e., tracking error is a residual of the investment process). We are strong advocates of diversification and believe that it is imprudent to correlate a portfolio too closely to a benchmark. In seeking a lower risk profile than that of the benchmark, we put high priority on producing asymmetric returns while offering broad diversification.

**19) Detail your firm's perspective of *SamCERA*'s performance expectations for your firm, as spelled out in the Investment Management Agreement and *SamCERA*'s *Investment Policy*. How is your firm doing relative to those expectations?**

The *Board's* Investment Plan defines underperformance as:

- 1) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the managers return would be less than 8.0%).

	<i>SamCERA</i>	MSCI ACWI ex-U.S.	Manager Expected Minimum Return	Underperformance
1 Year Return*	24.79%	29.73%	200-400 basis points**	-4.94%
3 Year Return*	-5.09%	-0.35%	200-400 basis points**	-4.74%

\*Periods ending June 30, 2011 gross of fees.

\*\*This is our expected long-term alpha over the benchmark.

- 2) Performance (gross of fees) below the 50<sup>th</sup> percentile for equity managers in a universe of the managers' peers over any consecutive 8 quarter period.

Artio Global is ranked in the 83<sup>rd</sup> percentile of core managers in the past 8 quarters ending March 31, 2011 in the Callan Universe.

- 3) Cumulative annualized performance (**net of fees**) over a three-year period below a 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.

11/30/04 – 06/30/11	<i>SamCERA</i>	MSCI ACWI ex-U.S.	Manager Expected Minimum Return	Underperformance
Cumulative Annualized (Net of Fees)	5.46%	7.37%	200-400 basis points*	-1.91%

\* This is our expected long-term alpha over the benchmark.

**20) Has *SamCERA* imposed constraints on the portfolio either through *SamCERA*'s *Investment Policy* or the guidelines in the Investment Management Agreement that would result in a significant dispersion from the commingled portfolio for this product?**

Artio Global does not manage the *SamCERA* portfolio significantly differently than other portfolios invested in the International Equity Strategy. However, it is important to note that *SamCERA*'s guidelines differ from Artio Global's model portfolio as follows:

- *San Mateo*'s guidelines call for a maximum cash position of 10% versus 20% for the model portfolio.
- Finally, *San Mateo*'s guidelines state a maximum 5% exposure to 144A securities.

We have an open dialog with *SamCERA* staff with respect to these limits. The staff has accommodated our request to temporarily increase these limits when necessary.

A combination of these factors can lead to significant differences between *San Mateo*'s portfolio and the model portfolio given the market environment and the strategy we have in place at the time.

**21) Please discuss your firm's performance relative to the MSCI ACWI ex US for the one, two and three year periods ending June 30, 2011.**

Gross Returns*	One Year	Two Years	Three years
International Equity I Composite	25.01%	16.79%	-5.01%
MSCI ACWI ex US	29.73%	19.69%	-0.35%

\* Represents Gross returns for periods ending June 2011.

**22) What is your firm's source(s) for pricing international equities? Does this source differ from that of the *SamCERA's* custodian, State Street Bank & Trust? How are pricing variances with the custodian resolved?**

Artio Global uses Telekurs, Interactive Data (FTID), Bloomberg and Reuters as its pricing sources. State Street uses Reuters as its pricing source for international equities. As the book of record, the custodian is responsible for investigating any pricing discrepancies and confirming with their pricing source(s). In addition, Northern Trust will conduct a full market value reconciliation for the account when there is a total market value discrepancy of at least 20 basis points.

**23) Are there pricing issues relative to methodology or pricing sources utilized by your firm versus those utilized by the benchmark?**

Since most of the securities held in the portfolio are exchange traded, the prices provided through Interactive Data (FTIC) and Bloomberg (used by the Index) are primarily the same.

**24) Is *SamCERA's* international equity benchmark, MSCI ACWI ex-US, appropriate?**

Yes.

## Investment Strategy and Process

- 25) Provide a description, in detail, of your investment philosophy, strategy, and process, including your research effort and portfolio construction rules. Describe how the portfolio managers and research analysts interact in the investment process? Do the portfolio managers work individually or in teams?**

### Philosophy

We believe a diversified core portfolio, driven by dynamic sector and company fundamental analysis, is the key to delivering consistently strong, risk-adjusted, long-term performance in the international equity markets.

### Strategy

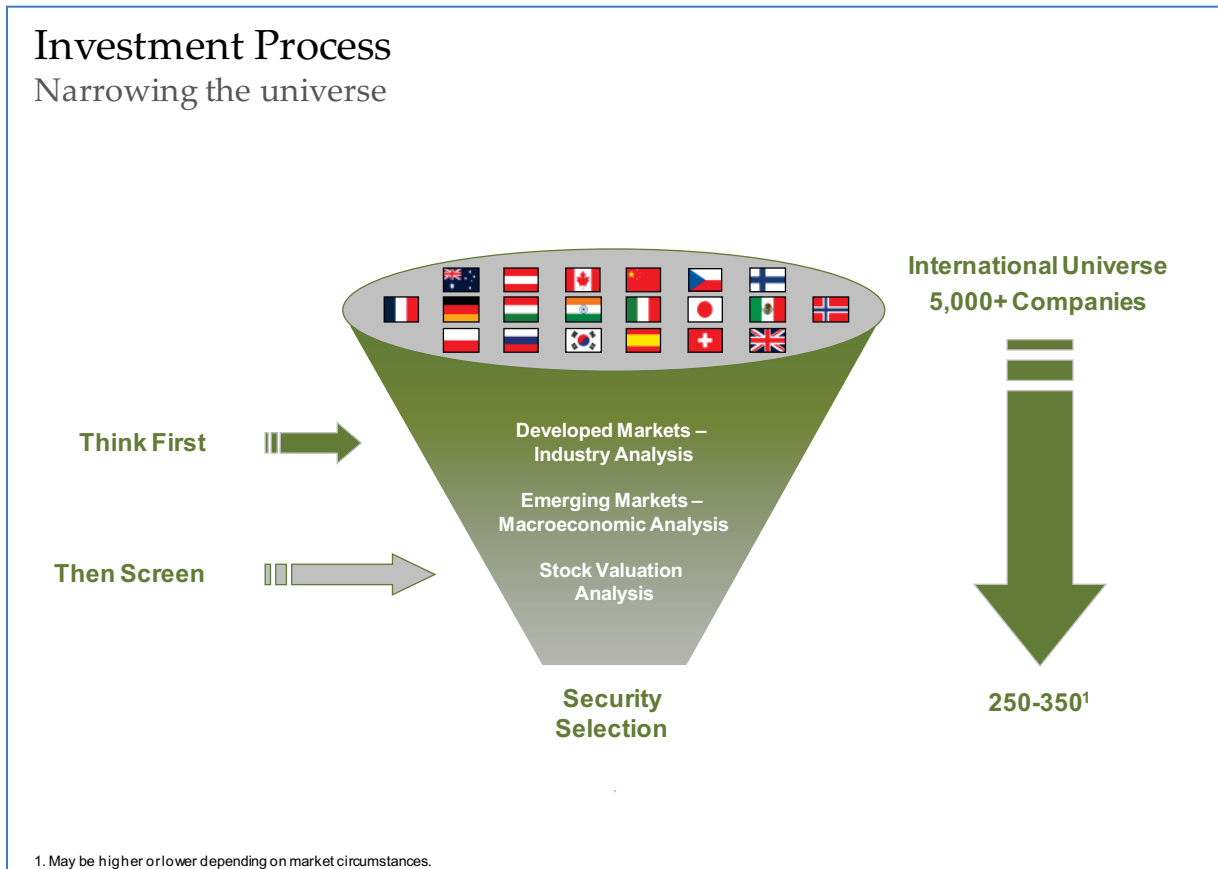
We begin our process with global fundamental analysis to establish relative values and priorities. Our process puts "thinking" before "screening" and focuses on applying different analytical tactics to different industries, sectors, and regions.

We believe it is especially critical to use different tactics when evaluating different regions, since not all markets are at the same stage of development. Depending upon the region we are evaluating, we will use top-down and bottom-up tactics or a hybrid of the two. Similarly, different tools/metrics work better for different industries.

### Process

We construct the portfolio using a three-phase process:

- 1. Thinking**
- 2. Screening**
- 3. Selecting**



#### Phase 1: Thinking

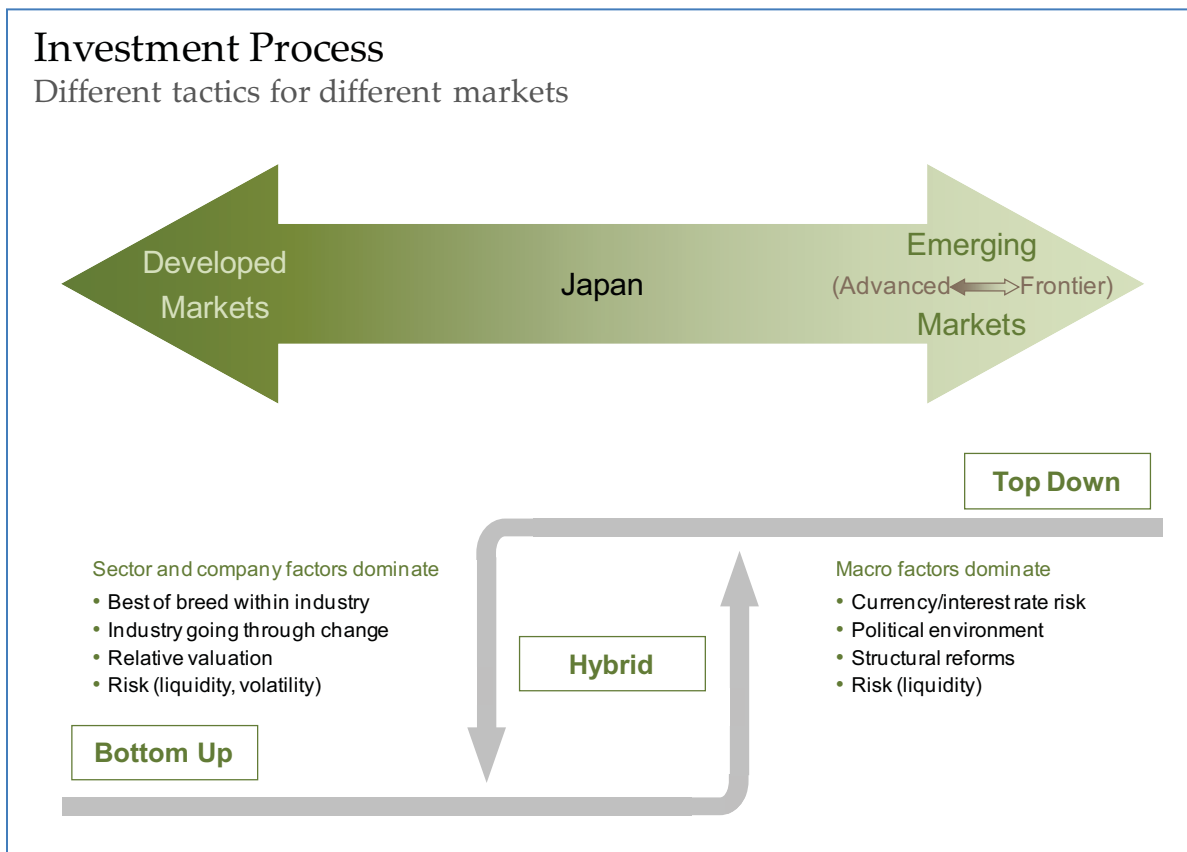
We like to term our process as one that begins with "thinking" before "screening". In other words, we don't attempt to begin the evaluation process by forcing all industries and all geographies through the same set of fixed metrics. Instead we seek to determine what specific industry drivers (in developed markets) and macroeconomic factors (in emerging markets) will drive stock performance. Once we have determined this, only then will we begin the screening process.

#### Phase 2: Screening

We believe that "one size doesn't fit all", that is, different tools and approaches are needed for different sectors or regions of the world.

In the second phase of our process, we use unique industry-specific financial and operational ratios to create peer groups of companies in a given industry.

As core managers, we do not differentiate between "growth" and "value" companies but concentrate instead on detailed fundamental analyses that apply Michael Porter's "Five Forces Model" to industry analysis. This framework centers on the relationship between actual competitors within industries, potential competitors, the bargaining power of buyers and suppliers, and the threats of alternative solution providers.



#### ***Bottom-Up Investment Approach: Developed Markets***

In analyzing developed markets, determining fair market value of sectors and companies is critical to our buy/sell decisions. Bottom-up drivers of our assessment include industry and company fundamentals, growth expectations, management assessment, relative valuation, and risk (liquidity, volatility) on both an absolute basis and within the context of the portfolio.

#### ***Top-Down Investment Approach: Emerging Markets***

While the Strategy is biased toward developed market equities, we can have exposure to emerging markets. Macro factors drive our decisions for emerging markets. Key criteria include currency/interest rate risks, political environments/leadership assessment, growth rates, structural reforms, and risk (liquidity).

We prefer to focus on “cross-over” countries – those moving from “emerging” to “developed” status – as we recognize that countries are not simply “emerging” or “developed”; more often, they are somewhere in between. Moreover, we believe it is imprudent to wait for the indexes to re-categorize such nations as “developed” before investing in them.

From time to time, in order to achieve certain “top-down” objectives, Artio Global may utilize index positions in ETGs and derivatives such as futures, options and swaps in developed markets as well as emerging markets.

***Hybrid (Top-Down/Bottom-Up) Investment Approach: Japan***

The Japanese market is highly segmented and is comprised of both strong global competitors as well as protected domestic industries. Given this unique market structure, we find that blending both top-down and bottom-up approaches provides a viable way to determine whether a Japanese sector, company, or the market offers relative value.

Within the Japanese market, we look top-down at industries that are more protected or domestically focused such as retail, financials and construction.

We look bottom-up at globally oriented industries such as autos or electronics. These companies are viewed against their peers globally. At the sector level, what works in unearthing opportunities is a function of the unique key drivers of that given sector, which include both financial (valuation, balance sheet or income statement derived) and operational (sector-specific) metrics.

**Phase 3: Selecting**

Today, we find that “information is not the bottleneck”. We believe information is readily and widely available and it is the ability to quickly prioritize and process that information that creates an advantage. Many investors focus solely on “static” information (valuation measures, financial statement analysis, etc.). While we also evaluate such information, we prioritize our activities by addressing “active” information (e.g., price movements, earnings announcements, regulatory and management changes, political events).

Our objective is to create a highly diversified portfolio of 250 - 350 of the most relatively attractive securities (actual number of holdings may be higher or lower depending on market circumstances). In selecting securities, we are mindful of the benchmark but willing to actively depart from it in pursuit of risk-adjusted returns. We also seek diversification across most sectors and regional lines.

Our portfolio structure can be summarized as follows:



## Investment Process

### Portfolio structure

- Emphasize Broad Diversification →
  - Generally:
    - 250-350 securities<sup>1</sup>
    - No more than 3% weight in any one security
    - 30+ countries
    - Sector weights are not more than 200% of the index<sup>2</sup>
  
- Investment Style →
  - Core
  
- Market Bias →
  - Developed market bias
  - Emerging markets opportunistic
  
- Capitalization →
  - Multi cap with large cap bias
  - Market cap greater than \$2.5 billion
  
- Risk Control →
  - Correlation to existing holdings
  - Liquidity analysis and testing

1. May be higher or lower depending on market circumstances.

2. Maximum sector weights are the greater of twice the MSCI ACWI ex-US weight or the benchmark weight plus 10 percentage points. An exception is Financials, which is capped at 1.4 times the benchmark weight due to its large size. Minimum sector weights are 0%.

### Research Effort

Our research process is based primarily on fundamental assessment of companies, sectors, and macroeconomic influences on regions/countries. We seek to maintain a highly diversified portfolio of the most relatively attractive securities. Both idea generation and execution are performed by portfolio managers, who manage assets as well as serve as researchers/analysts.

Approximately 70% of our research is derived internally. The rest is obtained from external sources, which are used selectively to provide specific information and access to companies. We use external research typically for documentary work only and do not rely heavily on economic forecasting.

Internal Resources	External Resources
<ul style="list-style-type: none"> <li>• Sector Analysts</li> <li>• Global Fixed Income Teams</li> <li>• US Equity Team</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Management</li> <li>• Global Research (documentary only)</li> <li>• Management Visits</li> <li>• Academic Resources</li> </ul>

Portfolio managers on the International Equity Team serve both as asset managers and as researchers/analysts. We believe that effective equity management does not distinguish between analysis, trade execution, and portfolio management. Our team approach to portfolio management means that all team members share research, market execution, and, to a lesser extent, portfolio management duties.

Each portfolio manager covers different sectors, industries, and markets, performing various analyses and contributing to ideas. The investment team meets informally on a daily basis to discuss all aspects of the portfolio. The entire International Equity Strategy team is based in New York, which facilitates daily face-to-face interaction and discussion of investment strategies. Additionally, members of other Artio Global product teams based in New York are able to contribute in discussions.

**26) Discuss your firm's investment strategy relative to market environments. Are there market cycles that are particularly favorable to your firm's investment strategy and process? Are there market cycles that are historically difficult for your firm's investment strategy and process?**

The goal of our core investment process is designed to outperform during all market conditions. We tend to face our toughest challenges during periods when market prices decouple from fundamentals. More recently, such periods were driven by unprecedented regulatory and government intervention in the markets and economies in response to serious macro-economic imbalances. Typically, these types of actions are not sustainable over the long-run and we believe fundamentals ultimately guide markets toward their fair levels.

**27) How much of the portfolio can be invested in emerging markets? What are the portfolio construction rules for emerging markets? Does Artio's buy/sell criteria differ for emerging market names? If yes, please explain.**

Emerging market exposure for the International Equity I Strategy has averaged 15.51% since inception in May 1995. Emerging market exposure for the International Equity II Strategy has averaged 21.9% since inception in March 2005. In 2007, we provided clients with the flexibility of an operating range of 0-35% for emerging markets.

In contrast to our approach for developed markets, which focuses first on industry analysis and stock selection, in emerging markets we take an explicitly top-down approach. Under this approach, we first analyze macroeconomic factors (e.g., growth, inflation, direction of interest rates, quality of policy making), sustainability of growth, and trends in corporate governance in order to develop a clear understanding of a country's competitive positioning in key industries. Part of our top-down approach is also to focus on economically sensitive areas of the market, particularly the banking sector. We will typically own a broad range of stocks so as to minimize stock-specific risk.

Contrary to emerging markets where macro-economic factors take precedence, in developed markets it is the industry factors that dominate. In developed markets, we utilize two types of screens to identify attractive stocks: 1) valuation screens – we look at all relevant metrics, which vary by industry and 2) operational screens – we identify and quantify variables that we believe will determine success of a stock relative to its competitors.

**28) How much of the portfolio has been invested in emerging markets over each of the 1st five calendar years ending 12/31/2010?**

*SamCERA's* portfolio allocation to emerging markets since inception is as follows:

<i>SamCERA Portfolio*</i>	
12/31/2006	19.73%
12/31/2007	32.75%
12/31/2008	9.12%
12/31/2009	18.29%
12/31/2010	27.81%

By comparison, our international equity strategy had the following emerging market allocation for each of the last five calendar years:

<i>International Equity I*</i>	
12/31/2006	23.28%
12/31/2007	34.26%
12/31/2008	10.88%
12/31/2009	18.11%
12/31/2010	27.95%

\*Based on the representative account.

**29) How do you approach currency management? How much of the portfolio can be hedged and for what purposes?**

In developed markets, currency considerations play a relatively small part in our decision process. We believe that markets in the major currencies are efficient and - over the long run – create little opportunity for adding value.

In emerging markets, however, currency risk can be significant. A key part of our analysis is assessing the macroeconomic factors likely to drive a currency (e.g. inflation, monetary policy, and balance of payments).

Currency hedging is generally used as a risk control measure, rather than an explicit attempt to add alpha to the portfolio. Our primary focus is to add alpha through intensive industry analysis and stock selection. The resultant equity holdings will give rise to an underlying currency exposure. At that point, we may choose to hedge the resulting currency exposure toward the benchmark currency weights in an attempt to remove currency as a factor in relative performance.

Occasionally, should fundamental currency values move significantly away from where we believe fair value to reside, we may partially hedge the foreign currency exposure into the portfolio reference currency.

There is no maximum placed on hedges allowed. Typically, currency hedging ranges between 0% and 10% of portfolio value, but this can vary.

**30) How much of the portfolio has been hedged over each of the last five calendar years ending 12/31/2009?**

Currency Hedge % of <i>SamCERA</i> Portfolio	
12/31/2010	7.40%
12/31/2009	3.80%
12/31/2008	10.48%
12/31/2007	8.09%
12/31/2006	10.19%

*\*Average for the year.*

**31) Provide a full review of: (a) a performance attribution which reflects your assessment of the value added by your investment discipline, (b) your assessment of the risks associated with *SamCERA*'s portfolio, and (c) methodologies employed to evaluate risk, What software(s) do you have in place to evaluate portfolio risk?**

Performance Attribution

Please refer to the attachment *San Mateo Attribution YTD 2011-06-30*.

Risks Associated with *SamCERA*'s Portfolio

Artio Global's approach to risk management considers risk not just at the portfolio level but also from a valuation, liquidity, and operational perspective.

To properly manage risk, our Risk Management Group operates independently of portfolio management and reports directly to senior management. The Group analyzes attribution, performance risk, and quality control.

**Risk Management Philosophy**

We believe that consistent long-term risk-adjusted returns can be obtained by strong stock selection — the first layer of our strategy-level risk management process. Consistent with our predominantly bottom-up approach for developed markets, we emphasize risk management at the individual stock selection and liquidity stages. Portfolio-level risk management is engaged to monitor adherence to guidelines.

**1. Valuation Risk Management**

The most critical component of our overall risk management process lies in stock selection. We constantly evaluate the risk-reward profile of securities that we follow. When a security is considered for inclusion, we evaluate potential risk factors, both quantitative and qualitative. Portfolio managers/research analysts monitor the changing risk and return conditions of securities, in seeking opportunities with upside potential relative to downside risk.

**2. Liquidity Risk Management**

The second layer of our risk management process monitors overall portfolio liquidity. To assess portfolio liquidity, the liquidity of each position is tracked. Due to the potential for increased returns to accompany increased risks, we are willing to assume liquidity risks.

### 3. Portfolio Risk Management

The final layer is risk control at the aggregate portfolio level. We systematically monitor the deviation of portfolios from their respective benchmarks to ensure that they remain within our objectives and clients' guidelines.

We use three kinds of measurement: historical, current, and prospective. Historical measurements include performance attributions of returns, Sharpe ratio, information ratio, and tracking errors. Current measurements include forward and trailing P/E ratios. To gauge future deviations, we use the *Northfield Information Services* model. Risk exposures and projected tracking errors are also monitored regularly.

The *Northfield Information Services* model is also used to monitor the overall ex-ante tracking error relative to the benchmark. We also measure risk using a combination of *FactSet*, *Bloomberg*, *Reuters*, *IBES*, *MSCI*, *Compustat*, *StatProFundamentals*, and various dynamic spreadsheets that we maintain in-house. Although no enhancements are being contemplated, we keep abreast of available research tools. Our proprietary attribution system is an additional critical tool in managing portfolio risk.

Within this tightly controlled framework, we have a strong bias to sell down risks and exposures that are hurting relative performance, a process that contributes to our asymmetric returns.

### 32) Describe your compliance procedures in detail. To whom does compliance report?

Our portfolio management/trading process is designed to ensure compliance with client guidelines. In setting up an account, Artio Global works closely with the client to accurately hard code guidelines into Charles River, our trading system. Restrictions such as specific securities, security types and brokers are hard-coded into the system. The Charles River system is used for pre- and post-trade compliance checks. On a daily basis, the system produces "exception reports" that identify any infractions (red flags for limits, etc.), which are then reviewed by a surveillance analyst in the compliance group. Should a violation occur, compliance immediately refers the matter to the respective investment team for rectification.

Alerts can be overridden in Charles River only by the Compliance Team. The Compliance Team researches the validity of alerts received in the system. If an alert is deemed to be invalid, the Compliance Team will override the alert noting the reason for approval in the comment section. Compliance will not override alerts that are deemed valid and will instruct the team entering the trade to amend or cancel the order.

In addition, Artio Global has a committee structure which reviews performance dispersion among client accounts. This body, formerly known as the Quality Control Committee, has now become a sub-Committee of Artio Global's Compliance Committee. Any material differences are examined by the risk management team and discussed with portfolio management.

Artio Global's Legal & Compliance Department is independent of all other departments and reports directly to the Firm's President. It oversees the day-to-day compliance of all the Artio Global entities. The Legal & Compliance Department administers the Compliance Program, which includes maintaining and monitoring client guidelines, responding to client requests, marketing reviews, resolving general trading issues, filings and registrations, and Code of

Ethics and gifts and entertainment monitoring. In addition, on a daily basis, the Department reviews exception reports produced by the Charles River system which includes client guideline violations, affiliate dealings, and portfolio diversification reports.

**33) Describe your trading procedures in detail. What trading platforms does your firm use?**

The overriding objective of our trading process is to ensure the best possible trade execution at the lowest possible cost. We believe we can add value for our clients through trading. Our process and operations are therefore designed to get the most impact from our traders' skills and our leverage in the market.

Our portfolio managers typically do not trade themselves. Instead, they request trades by filling out a trade order sheet or by email using our Charles River trading system (and following up with a trade order sheet). Each trade request includes the amount to be purchased or sold, expressed as a percentage of the portfolio.

Before the order is passed on to the portfolio administration/trading team for execution, the Charles River system models the trade to arrive at a total number of shares to buy or sell across all accounts. This number is checked by the system's compliance module and, based on client guidelines, will be amended if a rule is violated.

Once the trade has fully passed compliance, it is sent electronically to the portfolio administration/trading team, whose members use best execution principles and their knowledge of specialty brokers to place the trade. Allocations are made pro rata, based on total market value (allocations below 10% of the total order are completed on a random basis). Because we manage assets collectively, through block trades, the timing of a purchase or sale depends on the security's relative size and liquidity; typically, this ranges from one to two days.

Our trading process includes built-in quality control measures. Every trade ticket is reviewed and verified by our portfolio administration/trading team the first time they receive it; the trade is verified once again when they receive broker confirms. Any failed trades are corrected by our operations team immediately after each morning's trade confirmations are received.

Moreover, client guidelines are hard-coded into Charles River, our portfolio management/trading system. Accounts are monitored on a daily basis. On a monthly basis, a sub-Committee of our Compliance Committee, formerly known as the Quality Control Committee, reviews each separately-managed account to ensure that we are complying with the client's guidelines and Investment Policy Statement.

**34) Does your firm monitor trade effectiveness? If so, how is that documented? To whom does trading report?**

We regularly assess the quality of our trade execution, using price as our main criterion. For each trade, the portfolio administration/trading team examines whether the best price was obtained and, where data is available, whether that price was at least as good as the best inside "bid" or "ask." We also employ Elkins/McSherry, an outside consulting firm, to monitor and measure our trading costs.

The Artio Global Trading Department reports to Michael Testorf, Senior Portfolio Manager on the International Equity Team. In addition, the Trading Department's activities are reviewed

by the Best Execution Working Group and the Compliance Committee. These activities include, but are not limited to, best execution, directed brokerage activities, adherence to the approved counterparty list, and soft dollar activities.

**35) How many brokers were used during calendar year 2010? List the top ten brokers used during that period.**

Artio Global used approximately 97 brokers during 2010.

As of December 31, 2010 the following list represents the top ten broker/dealers used by Artio Global in its equity strategies:

Merrill Lynch & Co. Inc.  
Deutsche Bank  
Credit Suisse  
Morgan Stanley  
UBS  
Citigroup Global Markets Inc.  
Goldman  
JP Morgan  
Macquarie  
Nomura

*Notes: Commission charges in international markets are typically assessed in basis points on the traded amount, not in cents per share as for domestic trading.*

**36) Have you discontinued the use of any broker in the last eighteen months?**

Artio Global discontinued its use of Otkrite Securities and US Bancorp (due to an affiliation issue) in the last eighteen months.

**37) Do you have a policy regarding the selection and review of brokers and counterparties? If you do, please e-mail a copy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global's Risk Management Department is responsible for reviewing and approving potential broker-dealer arrangements with the firm. We have adopted Best Execution Procedures on a firm-wide basis through which our Best Execution Working Group (the "Group"), on a quarterly basis, reviews trades for best execution. This Group evaluates the firm's brokerage arrangements, including any soft dollar relationships. In assessing the quality of services provided by executing brokers and trade costs, the Group considers the broker's credit quality and ability to:

- act with integrity;
- execute a trade quickly;
- account for its trade errors and satisfactorily correct them;
- consistently satisfy trading needs;
- maximize the opportunity for price improvement;

- handle a high volume of transactions without undue market impact;
- search for and obtain liquidity to minimize market impact;
- accommodate unusual market conditions and engage in after-hours and cross-border trading, when required;
- maintain the anonymity of an investment manager.

Members of the Best Execution Working Group include traders, compliance personnel (including the Chief Compliance Officer), and portfolio managers. Furthermore, we employ Elkins/McSherry, an outside vendor, to produce reports that measure our trading costs.

**38) Describe your firm's policies regarding the use of soft dollars. If soft dollar arrangements were used to acquired products and services, what was the dollar amount?**

Less than 2% of our executed trades are used to pay for third party soft-dollar research services. Artio Global may be party to soft dollar arrangements with certain brokerage firms pursuant to which the cost of certain research products/services used by Artio Global are paid for with commissions generated by client accounts. It is important to note that Artio Global uses soft dollars for research services only.

Our Compliance Committee has approved Bloomberg, Empirical Research Partners, Reuters, Thomson Financial, Autonomous Research, Roubini Global Economics, The IDEA, and Strategas to provide research-related services to members of our Equity Teams through the use of soft dollars.

In addition to third party soft dollar arrangements, Artio Global may trade with broker-dealers at rates above execution only in exchange for receiving access to that broker-dealer's proprietary research, or other eligible services. The selection and the amount of commissions paid to a particular broker-dealer are not made pursuant to any agreement or commitment to provide the brokerage and research services. However, Artio Global identifies those broker-dealers that have provided it with valuable brokerage and research services and does endeavor to direct sufficient commissions to such broker-dealers to ensure the continued receipt of brokerage and research services, in the event such higher payments would be in accordance with Section 28(e).

Third party soft dollar expenditures during 2010 approximated \$1,286,025.

**39) Describe how your firm obtains and pays for outside research reports. Please list the primary sources of research upon which your firm relies.**

As part of our natural transaction flow, the full service brokers with which we trade provide research materials to us. Additionally, Artio Global may be party to soft dollar arrangements with certain brokerage firms pursuant to which the cost of certain research and other services and products used by Artio Global is paid for with commissions generated by client accounts.

Approximately 30% of Artio Global's research effort is obtained from external sources which are used selectively to provide specific information and access to companies. The team does not rely heavily on economic forecasting and utilizes external research for documentary work only.



External Resources – 30%
<ul style="list-style-type: none"> <li>• Corporate Management</li> <li>• Global Research (documentary only)</li> <li>• Management Visits</li> <li>• Academic Resources</li> </ul>

**40) Please disclose the firms you employ to provide introductions to industry experts.**

Artio Global is utilizing the Gerson Lehrman Group.

**41) Describe your firm’s policy regarding directed commissions. Is there a maximum amount of trades that you allow to be directed? How many clients direct commissions? What are the advantages and disadvantages to a client who directs commissions?**

The overriding objective in trading is to ensure the best possible execution of each trade at the lowest possible cost. We regard trading as a function that can add value for our clients, and we structure our operations to maximize the impact of our traders’ skills and our leverage in the market. This ensures a consistent approach and that we are fully able to take advantage of aggregation of orders, assess the best way to execute a particular order and to use our significant volume of business to manage down our commission costs.

We would stress that our obligation to seek best execution will always override any direction given by a client and we cannot guarantee any specified level of direction. We believe that a target of up to 25% of commissions is not unreasonable but that above this level we would begin to see conflicts between the client’s commission goals and best execution. Currently, approximately forty-three clients direct commissions. Any instructions from a client regarding directed brokerage must be in writing.

Advantages of directed commissions:

- Clients can direct trades to a broker of their own choice in support of services received.

Disadvantages of directed commissions:

- Clients may not always get the best execution price in the market, especially for smaller cap stocks in emerging markets.

**42) What percentage of each of the following does the portfolio account for? Please estimate if exact figures are not available or disclosed.**

<b>A) Firm assets</b>	<u>&lt; 0.50</u> %
<b>B) Firm revenue</b>	<u>N.A.</u> %
<b>C) Firm profit</b>	<u>N.A.</u> %*
<b>D) Total firm work hours</b>	<u>N.A.</u> %

*Data as of June 30, 2011*

## Outlook

### 43) What is your firm's outlook for the international and domestic equity markets?

Please refer to the attachment *CIO Quarterly Letter*.

### 44) What is your firm's outlook for equities in emerging markets?

We continue to believe the emerging world offers tremendous potential, with China and Russia being two key markets of our investment focus. In the greater Chinese market, where we include Hong Kong and Taiwan, we are focused on companies that are poised to benefit from an increase in domestic consumption as well as those that may gain from consolidation. With consensus forecasts for GDP (gross domestic product) growth greater than in much of the world, China presents an interesting opportunity. Currently, the vast majority of retail sales in the country take place through mom-and-pop stores, opposite of the developed world where they come from national chains. As consolidation takes place (local supermarkets joining to become regional players), potential exists and has led us to invest not only in supermarkets but department stores, specialty retailers (shoe stores) and shopping mall developers. In China as with much of the emerging world.

### 45) Discuss your firm's view of global mandates. Do you offer global products?

We believe that a diversified core portfolio – driven by dynamic sector and company fundamental analysis – is key to consistently delivering superior risk-adjusted, long-term performance in global equity markets.

Yes. Artio Global offers a Global Equity product in both a separate account and commingled vehicle. The Global Equity Strategy seeks long-term growth of capital by investing in a wide variety of equity securities issued in developed and emerging markets throughout the world, including the US. The Strategy invests in domestic and foreign issuers of all sizes.

### 46) What impact is private equity and hedge fund development having on the equity markets?

Prior to the collapse in the credit markets in 2008, private equity played a significant role in the equity markets and was a catalyst for some of the more extreme price variances in certain sectors and markets. The use of leverage gave these players great influence and was a factor in, for example, driving many mid-cap European stocks to extremely high valuations in 2007 and early 2008. As a result of the deleveraging of bank balance sheets (limited financing availability) and increased risk aversion, private equity deals have been rather scarce since. Most private equity managers are dealing with issues in their current portfolio of businesses and the myriad of problems associated with the global economic slowdown. Many of these managers overpaid for businesses which are now suffering under enormous debt loads

From the Wall Street Journal April 2, 2011:

*“Research firm Preqin says U.S.-focused private-equity funds have some \$213 billion in undeployed capital that needs to be used by 2016, near a record amount.*

*Unfortunately, big buyout firms can't play on their favorite turf. With banks still reluctant to lend the huge sums that were available in 2007, the megadeals common in the boom era are out of reach. Since the start of 2010, the average deal size for the top 20 buyouts was just \$3 billion, according to data provider Dealogic. By contrast, the 20 largest such deals in 2006 and 2007 averaged \$20 billion.*

*The upshot: Bidders may have to fight over companies valued at a few billion dollars, which again have become expensive. The S&P MidCap 400, which includes companies valued at roughly \$1 billion to \$4.4 billion, has surpassed its record from the boom. It trades at 16.3 times forward earnings (Artio Note: now 17.2x), the same multiple it had at the start of 2007. The S&P 500, meanwhile, trades at 13.7 times (Artio Note: now 12.9x), or 15% less than it did back then.*

*Where else can big buyout funds turn? It isn't economical to go for even smaller deals because they require similar amounts of manpower and barely make a dent in the "dry powder" funds have on hand. Instead, buyout firms may have to look for deals in markets they don't know as well.*

*On the plus side, the sleepy IPO market has at last shown signs of improvement. Dealogic says a record \$11 billion in private-equity-backed deals went public in the first quarter. The hitch is that a pair of deals, [HCA Holdings](#) and Kinder Morgan, accounted for \$7.6 billion of the total. With so many large companies purchased during the boom, the IPO market needs to be setting regular new records for private-equity-backed IPOs to clear the backlog."*

Similarly, in our view, the impact of hedge funds on the equity markets has been diminished by the economic crisis and state of the financial sector as the willingness of banks to lend the balance sheets to these companies is greatly reduced. Leveraged beta plays, a large component of the activity prior to the seizure of the credit markets, simply is non-existent today. Many managers faced large redemptions at year end 2008 and into 2009 as the performance of many funds did not offer the downside protection many investors believed they would. Ponzi schemes like Bernie Madoff and Alan Stanford's did little to help bolster the reputation of the industry. All that said, solid managers continue to do well, but their impact on the overall market is much diminished relative to the heyday prior to the equity market collapse in 2008.

#### **47) What issues are other clients concerned with in regards to products, markets, education and governance?**

Other clients tend to be concerned with the following issues regarding products, markets, education and governance:

*Products:* Clients are still discussing whether global is a better way to allocate assets than a distinct US/non-US allocation.

*Markets:* Emerging Markets as a standalone allocation or better integrated into an international/global strategy in both equity and fixed income markets.

*Education:* Understanding the global economic landscape and opportunities, or lack thereof, in light of the current economic conditions in the US and Europe.

*Governance:* Sudan, Iran restrictions.

**48) What is new developments do you anticipate in your firm's business plan?**

Artio Global seeks to strategically maintain, grow, and diversify assets under management, by leveraging, in a risk-controlled manner, our core competencies in global investing across both the equity and fixed income space.

**49) Describe your assessment of the relationship between your firm and *SamCERA*. How can we better utilize your firm's capabilities?**

Our goal is to be a strategic partner with *SamCERA* by making *SamCERA* better investors regardless of our overall strategy. We believe our firm is positioned as a pure global investment manager, rather than a marketing organization.

We also believe direct communication between *SamCERA* and Artio Global is the optimal approach to utilizing our capabilities.

**Conclusion**

**50) Is there any information that would be timely pursuant to *SamCERA's Investment Plan*, the Investment Management Agreement, and this annual review?**

No.

**51) Are your clients making significant changes in their asset mixes? Please describe these changes.**

No.

**52) What market opportunities should *SamCERA* be considering?**

We continue to believe that *SamCERA* should consider fixed income with a global perspective through either investment grade or high yield; or a combination of both.

***\*\*This un-audited information is as of June 30, 2011 and is provided pursuant to your respective request.\*\****

***A significant portion of the information used by Artio Global Management is received from external sources and has been adapted for use in Artio Global Management's analytical and risk management systems framework. This report has been created using information believed to be reliable but we do not warrant its accuracy or completeness. While every effort is made to insure the validity of the information received, Artio Global Management cannot be responsible for any inaccuracies that may occur. This information is not a substitute for custodial information and/or official account statements.***

***The material may contain forward or backward looking statements regarding intent, beliefs regarding current or past expectations. Readers are cautioned that such forward-looking statements are not a guarantee of future performance, involve risks and uncertainties, and actual results may differ materially from those statements as a result of various factors. The views expressed are also subject to change based on market and other conditions. Furthermore, the opinions expressed do not constitute investment advice or recommendation by Artio Global. All material provided, unless specifically indicated otherwise, is under copyright to Artio Global. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied, or distributed to any other party, without the prior express written permission of Artio Global. The information contained herein is derived from historical price data from various indices and publically government statistics and does not purport to represent investment results of an actual portfolio. These results do not reflect the deductions for investment management fees. Past results do not guarantee future results.***

## San Mateo County Employees' Retirement Association Board of Retirement

### Organizational Update

- 1) What is the ownership structure of your firm? Please identify all owners with 5% ownership or more.**

Artio Global, through an intermediary holding company, is majority-owned by Artio Global Investors Inc. (“Artio Global Investors”), a Delaware corporation. Artio Global Investors’ Class A shares have been listed on the New York Stock Exchange since September 24, 2009.

Currently, 53.1% of the shares in Artio Global Investors have been issued to the public while 27.9% are owned by GAM Holding Ltd. (the firm’s former sole stockholder). In addition, Richard Pell (Chairman, CEO, and CIO) and Riad Younes (Head of International Equities) each have ownership interests of 9.5%. GAM Holding Ltd., an asset manager listed on the Swiss Stock Exchange, is expected to periodically evaluate its ongoing level of ownership of Artio Global Investors.

- 2) Provide an update on your firm’s organization, with particular emphasis on (a) changes to your structure over the past eighteen months, (b) growth and acquisition of assets under management, (c) clients gained or lost in the past year, and (d) recent corporate acquisitions, including negative and positive affects. All significant changes should be accompanied by an explanation.**

**a) Changes over the past eighteen months**

In September 2009, Artio Global Investors Inc. (the “Company”) became a publicly traded company on the New York Stock Exchange under the ticker symbol “ART”. Its indirect subsidiary, Artio Global Management LLC (“Artio Global”), is our operating subsidiary.

On May 21, 2010, we announced a potential secondary public offering, related to each Principal’s exchange of an aggregate of 5,350,000 New Class A Units for 5,350,000 shares of Class A common stock. On June 3, 2010 we announced the pricing of this synthetic secondary public offering of 3,770,229 shares of Class A common stock at \$17.33 per share. The underwriters have the option to purchase from Artio Global up to an additional 565,534 shares of Class A common stock, on the same terms and conditions.

Following the application of the net proceeds of the offering and assuming that the underwriters’ option to purchase additional shares is not exercised, the public owns 53.1%, GAM Holding Ltd. will hold 27.9%, and our Principals each have a collective ownership interest of approximately 19.0%. The Principals’ remaining ownership interests in the Company are subject to a five-year lock-up, under which each Principal is permitted to sell.

As a public company the current ownership will change as each of the constituents buys, sells and/or receive shares.

### b) Growth and Acquisition of Assets Under Management

Our approach to asset growth is conservative and focuses first on strong relative performance for our existing clients. Maximum asset levels are set at the product level and are strategy specific. We continuously monitor assets under management to ensure the integrity of the process and we are prepared to limit growth at any time.

We believe the critical components of a successful business model are: 1) ability to provide strong risk-adjusted returns over market cycles, 2) stability, longevity and ability to control risks and 3) ability to achieve scale in one's area of competence. Our objective is to methodically develop new products while ensuring the highest level of service and investment expertise for our clients. Our commitment is to remain fully aware of client investment objectives, to use our knowledge and experience to meet client requirements and to gain and retain client trust. We strive to stay competitive through constant innovation in the development of competitive investment strategies.

### c) Clients Gained/Lost in the Past Year

Artio Global Clients Gained/Lost		
	Assets (millions)	Accounts*
Gained (2009)	\$1,053.64	12
Lost (2009)	\$644.35	9

\*Does not include underlying clients invested in our mutual funds and commingled funds.

### d) Recent Corporate Acquisitions

None

### 3) In light of the recent IPO please discuss how the new ownership structure impacts Artio's investment professionals. To the extent possible please discuss the professional's plans to diversify their ownership.

Following the completion of the IPO in September 2009, all employees, other than our two principals, received grants of unvested Restricted Stock Units, which generally vest over a five-year or three-year period (74,500 of those Restricted Stock Units vested in February 2010). We expect to work with our Compensation Committee to provide equity-based awards in the future, which would create broader employee ownership in the firm.

### 4) What are your firm's philosophy and current policy regarding new business?

We seek to achieve consistent and superior long-term investment performance for our clients. Our strategy for continued success and future growth is guided by the following principles:

*Continue to Capitalize on our Strong Position in International Equity* - We expect to continue to grow our International Equity assets under management. Our International Equity II strategy, launched in March 2005 as a successor strategy to our International Equity I strategy (which is currently closed to new investors), has produced attractive investment returns relative to industry benchmarks since

inception and has grown to \$24.6 billion in assets under management in five years (as of March 31, 2010). We believe we have the capacity to handle substantial additional assets within our International Equity II strategy. In addition to continuing to grow our International Equity strategies, we plan to continue to leverage our experience in International Equity to grow our Global Equity strategy in order to capitalize on increasing flows into this strategy from investors in the United States.

***Grow our other Investment Strategies*** - Historically, we concentrated our distribution efforts primarily on our International Equity strategies. In recent years, we have focused on expanding and growing our other strategies, including our High Grade Fixed Income and High Yield strategies which have experienced significant growth in assets under management as a result. We expect our U.S. Equity strategies to provide additional growth now that they have achieved their three-year performance track records, which are an important pre-requisite to investing for many institutional investors. We also intend to continue to initiate new product offerings in additional asset classes where we believe our investment professionals have the potential to produce attractive risk-adjusted returns.

***Further Extend our Distribution Capabilities*** - We continue to focus on expanding our distribution capabilities into those markets and client segments where we see demand for our product offerings and which we believe are consistent with our philosophy of focusing on distributors who display institutional buying behavior through their selection process and due diligence. We have selectively strengthened our international distribution by expanding into Canada and expect to further develop our international distribution over time.

***Maintain a Disciplined Approach to Growth*** - We are an investment-centric firm that focuses on the delivery of superior long-term investment returns for our clients through the application of our established investment processes and risk management discipline. While we have generated significant growth in our assets under management over the past several years and have continued to develop a broader range of investment offerings, we are focused on long-term success and we will only pursue expansion opportunities that are consistent with our operating philosophy.

***Continue to Focus on Risk Management*** - We manage risk at multiple levels throughout the organization, including directly by the portfolio manager, at the Chief Investment Officer level, under the Enterprise Risk Management Committee, among a dedicated risk management group and through our legal and compliance team. Our approach to managing portfolio-level risk is not designed to avoid taking risks, but to seek to ensure that the risks we choose to take are rewarded with an appropriate premium opportunity for those risks. This approach to managing portfolio-level risk has contributed significantly to our strong relative investment performance and will continue to be an integral component of our investment processes.

- 5) Please specify separately the individuals (up to ten) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).**



**Management****Glen Wisher**

**President**, Artio Global Management, 2004 – Present  
Head of Asset Management Americas, Julius Baer, 2002-2004  
Director of Fixed Income, Julius Baer Investment Management Inc., 1995-2002  
Director of Debt Syndication Division, S.G. Warburg Co., 1986-1995  
Graduate Nottingham University, UK

**Tony Williams**

**Chief Operating Officer**, Artio Global Management, 2003 – Present  
Chief Operating Officer and Head of Cross Border Strategies, JPMorgan Fleming Asset Management, 1998 – 2002  
Director, Fleming Asset Management, 1989 – 1998  
MA (Honors), Cambridge University, UK

**Richard C. Pell**

**Chief Executive Officer, Chief Investment Officer**, Artio Global Management, 1995-Present  
Global Portfolio Management, Bankers Trust Company, 1990-1995  
Head of Corporate Bonds and Mortgage-Backed Securities, Mitchell Hutchins Institutional Investors, 1988-1990  
MBA, Finance, New York University  
BA, History, University of California, Berkeley

**Rudolph-Riad Younes, CFA**

**Head of International Equities**, Artio Global Management, 1993-Present  
Associate Director, Swiss Bank Corp., 1991-1993  
MBA, Yale University  
BS, MS, Electrical Engineering, Columbia University

**Years with Product- 16**

**Years in Industry- 18**

**Role-** Primary portfolio structuring responsibility and qualitative idea generation. Focused on execution and is a generalist across all sectors and countries.

**Andrew Barker**

**Senior Portfolio Manager**, Artio Global Management, 2004-Present  
Institutional Portfolio Manager, Putnam Investments, 2001-2004  
Senior Vice President, Schroder Investment Management North America, 1992-2001  
Principal, Mercer Management Consulting, 1988-1992  
MBA, Harvard University  
MA (Honors), Cambridge University, UK  
BA, Economics/Geography, Cambridge University, UK

**Years with Product- 5**

**Years in Industry- 21**

**Role-** Generalist focusing on macro top-down research.

**Brett Gallagher**

**Deputy Chief Investment Officer, Senior Portfolio Manager**, Artio Global Management, 1999-Present

Senior Investment Executive, Chase Manhattan Bank (Singapore), 1997-1998

Head Private Client Investment Management, JP Morgan (Singapore), 1994-1997

Senior Portfolio Manager Global Equity, Bankers Trust Company, 1990-1994

Financial Analyst, Irwin Management Company, 1987-1990

MBA, University of Virginia

BA, Economics, University of Virginia

**Years with Product- 10**

**Years in Industry- 22**

**Role-** Generalist focusing on macro top-down research.

**Michael Testorf, CFA**

**Senior Portfolio Manager/Analyst**, Artio Global Management, 2000-Present

Senior European Equity Officer, Artio Global Investors, 1998-2000

Head of European Equities, United Nations, Joint Staff Pension Fund, 1994-1997

Portfolio Manager, Commerzbank, 1987-1994

Graduate, Wirtschaftsakademie, Hamburg, Germany

**Years with Product- 11**

**Years in Industry- 22**

**Role-** Fundamental research and idea generation on developed Europe.

**Stefano Galli**

**Senior Portfolio Manager**, Artio Global Management LLC, 2003-Present

Director of European Equity Research Sales, Merrill Lynch, 1995-2003

Vice President R&D, ORION, A.C.T, Inc., 1990-1994

MBA, The Wharton School, University of Pennsylvania

B.S., Civil Engineering and Economics, University of Delaware

**Years with Product- 6**

**Years in Industry- 19**

**Role-** Fundamental research and idea generation on developed Europe.

**Melvin Lindsey, CFA**

**Senior Vice President**

**Director, Institutional Investments**, Artio Global Management, 2002-Present

Senior Managing Director, Wells Capital Management, 1997-2002

Senior Portfolio Manager, Wells Capital Management, 1994-1997

Vice President, Salomon Smith Barney, Inc., 1989-1994

Equity Sales, Lehman Brothers, 1987-1989

MBA, Finance, UCLA Anderson School of Management

BA, Economics, California State University

*Artio Global Management is the registered investment adviser and a subsidiary of Artio Global Investors. Artio Global Management experience includes tenure at Julius Baer and its subsidiaries.*

The list has not changed over the past 18 months.

**6) Update all significant personnel changes to the "SamCERA Team."**

The only personnel change made to the International Equity Team was the addition of Stephen Lew, a fundamental research analyst. He joined the team in mid June 2010.

**7) Describe your firm's management succession plan. Have dates been established regarding the succession of any key personnel, specifically those reported in the preceding questions?**

Artio Global utilizes a team approach in managing our investment Strategies. For all of our investment strategies, we have ensured that there is considerable depth and experience inherent in its portfolio management teams. This includes the International Equity Team. Should a portfolio manager or other key investment professional depart, the comprehensive investment backgrounds and expertise of the other team members ensure the continued smooth and efficient functioning of the portfolio.

**8) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months? E-mail your firm's most recent ADV Parts I & II to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global has not been involved in any litigation or legal proceedings that could have a material, adverse effect on its ability to provide investment advisory services. In December 2003 a lawsuit — which we consider entirely without merit — was filed in New York, naming Julius Baer Investment Management LLC ("JBIM" former name of Artio Global) as a defendant. The lawsuit seeks damages in connection with an outside investment adviser's actions regarding the plaintiff's custodial accounts held at the New York branch of Bank Julius Baer & Co. Ltd. In September 2009, the trial court granted our motion for summary judgment ordering the dismissal of the claims because the complaint lacks specific allegations concerning Artio Global. This decision will likely be appealed by the plaintiffs. Artio Global is not otherwise subject to any litigation or other legal proceedings.

Please find attached the most current *Form ADV Part I and Part II* as requested.

**9) When did the Securities Exchange Commission, Attorney General, and/or the NASD last audit your firm? Please note any material findings or recommendations.**

The Securities and Exchange Commission (SEC), as Artio Global Management LLC's primary regulator, has conducted periodic examinations of the firm's investment management business. For the most recent examination that concluded in July 2006, there were no significant findings discovered. Artio Global and the Julius Baer Funds (now known as the Artio Funds) received a letter indicating that financial statements for certain Artio Global pooled vehicles (for the fiscal year ended December 31, 2004) were not distributed to investors within the 120-calendar-day period after the end of the fiscal year. Also, the SEC cited two minor issues relating to the mutual funds, both of which were corrected shortly afterwards. All necessary actions were taken immediately to correct the minor deficiencies.

**10) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global Management LLC (Artio Global) carries various forms of insurance coverage, including \$50 million in errors and omissions insurance and \$50 million in directors and officers insurance that provides prudent coverage for negligent acts or omissions.

Artio Global also has employment practices liability insurance in the amount of \$5 million with a \$250,000 retention.

Artio Global has an ERISA/fidelity insurance in the amount of \$248 million with a \$1 million limit for each plan.

Please refer to the table below for additional details.

Insurance Company	Coverage	Limit
Great American Insurance Company	Financial Institutional Bond	\$10,000,000
Federal Insurance Company (Primary carrier)	ERISA Bond	\$1,000,000 limit for each plan
Houston Casualty Company	Error & Omission Policy	\$10,000,000
ACE American Insurance Company	Error & Omission Excess Policy	\$10,000,000
Everest National Insurance Company	Error & Omission Excess Policy	\$10,000,000
National Union Fire Insurance Company (Chartis)	Error & Omission Excess Policy	\$10,000,000
St. Paul Fire & Marine Insurance Co. (Travelers)	Error & Omission Excess Policy	\$10,000,000
XL Specialty Insurance Company	Employment Practices Liability Insurance	\$5,000,000
ACE American Insurance Company	Directors & Officers	\$15,000,000
St. Paul Fire & Marine Insurance Co. (Travelers)	Directors & Officers Excess	\$15,000,000
XL Specialty Insurance Company	Directors & Officers Excess	\$10,000,000
Houston Casualty Company	Directors & Officers (Primary A-DIC)	\$10,000,000

Please find attached the most current *Certification of Insurance*.

**11) Do you have a written policy on ethics? If so, please e-mail the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Yes. Artio Global has adopted business practices and guidelines that are contained in its Code of Ethics.

Please find attached the most current *Code of Ethics*.

**12) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.**

Artio Global has outsourced the back office function for the investment business to Northern Trust Company located in Chicago. Artio Global's Head of Operations serves as the relationship manager with Northern Trust and is the primary point of contact.

The day-to-day interaction between Artio Global and Northern Trust centers on the basic outsourced function: trade processing. Parties involved include Artio Global trade support, portfolio support, client support, valuation team, and if escalation is warranted, operations management. Communication revolves around confirmation and settlement of trades, valuation and reconciliation of security positions, corporate action reviews, and implementation of ongoing initiatives. Interaction is via regularly scheduled reporting, Northern Trust to Charles River system processing, email, and phone.

The Artio Global Operations Department is composed of the following teams:

Client & Subadvisory Support – Centralized point of contact for all client operational matters including the coordination of all events such as new business implementation and cash flows.

Pricing & Valuation – Responsible for all pricing & valuation deliverables and issue resolution. Ensure external vendors are pricing securities in accord with valuation procedures.

Trade Support & Data - Responsible for the daily reconciliation, resolving broker discrepancies, segregation & collateral management, and static data security integrity.

Operational Compliance – Primary interface between Operations and the Artio Global Fund CCO.

The Northern Trust Company provides a full range of back-office services for Artio Global's asset management business. Northern Trust currently has a staff of over 200 (trade support, reporting, performance, portfolio accounting, and investment operations) that is dedicated to clients such as Artio Global who outsource back-office operations. Artio Global diligently manages the service level agreements that have been established with Northern Trust.

Northern Trust provides the following support functions to our firm, which affords our clients one of the most comprehensive reporting systems.

Trade Support:

- broker matching;
- trade enrichment;
- trade communication to custodians and fund accountants;
- fail resolution;
- broker and custodian relationship management;
- claims management.

Reporting and Performance:

- reporting to Artio Global and clients;
- performance calculations and reporting;
- management reporting.

Portfolio Accounting:

- position and cash records by portfolio;
- processing and posting of all transactions;

- pricing and valuation.

Investment Operations:

- account set-up and maintenance;
- client transitions/take-on;
- cash projections and processing;
- corporate actions;
- reconciliations;
- managing data interfaces and messaging;
- standing data support;
- foreign exchange dealing and support.

**13) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?**

Artio Global's mission critical systems are as follows:

Mission Critical Systems	Implemented	Upgraded
Charles River Portfolio Management System	2005 (2 <sup>nd</sup> half )	Upgraded in August 2009 to Version 8.2
Northern Trust Outsourcing Platform	2004	Passport (Reporting interface) is updated at least once per year.
Bloomberg <i>for Market Data</i>	Since inception of Artio Global	Ongoing (updated at least once a year)
Eagle PACE <i>(Data Warehouse)</i>	Summer of 2008	Will be expanded over the next two to three years; we are planning to upgrade it next year.

In the past eighteen months, Artio Global has not experienced any problems with these systems. We finalized the switch in hosting providers to SunGard from Verizon.

We do not envision any changes to these systems in the next eighteen months.

**14) Provide an overview of your firm's business continuity plan as it relates to the investment process.**

Currently, Artio Global, in conjunction with SunGard, maintains a disaster recovery plan that includes a back-up facility in Carlstadt, NJ. The plan is designed to ensure that our business will be operational during unpredictable situations. In the event of a protracted period of inoperability, certain critical business functions would be relocated to the designated disaster facility. Furthermore, investment teams use the Charles River Portfolio Management/Trading System, which can be accessed remotely over the internet via secured Virtual Private Network (VPN) by authorized personnel. Artio Global's use of Charles River is remotely hosted and managed by SunGard in Carlstadt, NJ which replicates to its own disaster recovery facility in Scottsdale, AZ. Our electronic connections to the broker community for trading via Financial Information Exchange (FIX) and to our outsourced middle office (Northern Trust) for downstream processing are independent of and remote from Artio Global's

infrastructure in NY. Portfolio management, trading, settlement and reconciliation activities, therefore, do not rely on access to our head office in Manhattan.

Artio Global has selected Northern Trust Company to provide comprehensive middle-office services for our US-based Asset Management business. Northern Trust has a back-up facility in Naperville, IL that receives production data from its Primary Data Center over high speed fiber-optic connections. The data is mirrored and backup files are created to ensure an extra layer of protection. Also, annual due diligence visits to assess risks are conducted.

Artio Global maintains a Business Continuity Plan, which provides for access to critical systems necessary to support communication to clients. Salesforce.com, our Client Relationship Management system (CRM) houses all contact information for clients and is available remotely by each client service professional and via our disaster recovery site in Carlstadt, New Jersey. Within 24 hours of a disruption of service written communication will be disseminated centrally from our disaster recovery site informing clients about the status of our operations, the oversight of all clients' accounts and alternative contact numbers for key contacts within Artio Global.

Should the primary location become inoperative, Artio Global's portfolio management and trading platforms experience no disruption and are readily available. The other components of Artio Global's critical infrastructure will be operational within a 4 hour time frame.

Artio Global's business continuity plan is tested annually. A successful test was performed in October 2009; the next test is scheduled for October 2010.

## Performance

### **15) Is the performance composite constructed for *SamCERA's* portfolio in compliance with the Global Investment Performance Standards (GIPS)?**

Yes.

### **16) What is a reasonable expected tracking error to the MSCI ACWI ex US? What are the expected sources of the tracking error (country, currency, sector or security over / underweighting, securities outside the index, etc.)?**

We anticipate ex-ante tracking error for the International Equity I Strategy to be approximately 2% - 4% versus the MSCI ACWI ex-US Index. We believe our process can generate consistently an information ratio of 0.5 or more, hence our 2% - 4% estimate of excess returns.

Principal sources of tracking error are security selection, country weights, and sector allocation.

Although both ex-post and ex-ante tracking error are monitored, we do not manage the Strategy to a specific figure as we believe tracking error penalizes a portfolio for positive alpha (i.e., tracking error is a residual of the investment process). We are strong advocates of diversification and believe that it is imprudent to correlate a portfolio too closely to a benchmark. In seeking a lower risk profile than that of the benchmark, we put high priority on producing asymmetric returns while offering broad diversification.

**17) Detail your firm’s perspective of *SamCERA*’s performance expectations for your firm, as spelled out in the Investment Management Agreement and *SamCERA*’s Investment Policy. How is your firm doing relative to those expectations?**

The *Board*’s Investment Plan defines underperformance as:

- 1) Four cumulative quarters in which the manager’s performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the managers return would be less than 8.0%).

	<i>SamCERA</i>	MSCI ACWI ex-U.S.	Manager Expected Minimum Return	Underperformance
1 Year Return*	9.38%	10.43%	200-400 basis points**	-1.05%
3 Year Return*	-14.16%	-10.70%	200-400 basis points**	-3.46%

\*Periods ending June 30, 2010.

\*\*This is our expected long-term alpha over the benchmark.

- 2) Performance (gross of fees) below the 50<sup>th</sup> percentile for equity managers in a universe of the managers’ peers over any consecutive 8 quarter period.

Artio Global is ranked in the 65<sup>th</sup> percentile of core managers in the past 8 quarters ending March 31, 2010 in the Callan Universe.

- 3) Cumulative annualized performance (**net of fees**) over a three-year period below a 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.

11/30/04 – 06/30/10	<i>SamCERA</i>	MSCI ACWI ex-U.S.	Manager Expected Minimum Return	Underperformance
Cumulative Annualized (Net of Fees)	2.44%	3.80%	200-400 basis points*	-1.36%

\* This is our expected long-term alpha over the benchmark.

**18) Has *SamCERA* imposed constraints on the portfolio either through *SamCERA*’s Investment Policy or the guidelines in the Investment Management Agreement that would result in a significant dispersion from the commingled portfolio for this product?**

Artio Global does not manage the *SamCERA* portfolio significantly differently than other portfolios invested in the International Equity Strategy. However, it is important to note that *SamCERA*’s guidelines differ from Artio Global’s model portfolio as follows:

- *San Mateo*’s guidelines call for a maximum cash position of 10% versus 20% for the model portfolio.



- Finally, *San Mateo*'s guidelines state a maximum 5% exposure to 144A securities.

We have an open dialog with SamCERA staff with respect to these limits. The staff has accommodated our request to temporarily increase these limits when necessary.

A combination of these factors can lead to significant differences between San Mateo's portfolio and the model portfolio given the market environment and the strategy we have in place at the time.

**19) Please discuss your firm's performance relative to the MSCI ACWI ex US for the one, two and three year periods ending June 30, 2010.**

Gross Returns*	One Year	Two Years	Three years
International Equity I Composite	-40.19%	-22.29%	-7.28%
MSCI ACWI ex US	-35.89%	-18.92%	-5.49%

\* Represents Gross returns for periods ending May 31, 2010, as June 2010 composite data is not yet available.

**20) What is your firm's source(s) for pricing international equities? Does this source differ from that of the *SamCERA*'s custodian, State Street Bank & Trust? How are pricing variances with the custodian resolved?**

Artio Global uses Telekurs, Interactive Data (FTID), Bloomberg and Reuters as its pricing sources. State Street uses Reuters and Dataline as its pricing sources for international equities. As the book of record, the custodian is responsible for investigating any pricing discrepancies and confirming with their pricing source(s). In addition, Northern Trust will conduct a full market value reconciliation for the account when there is a total market value discrepancy of at least 20 basis points.

**21) Are there pricing issues relative to methodology or pricing sources utilized by your firm versus those utilized by the benchmark?**

Since most of the securities held in the portfolio are exchange traded, the prices provided through Interactive Data (FTIC) and Bloomberg (used by the Index) are primarily the same.

**22) Is *SamCERA*'s international equity benchmark, MSCI ACWI ex-US, appropriate?**

Yes.

**23) Would it be appropriate to use an international style basis benchmark to measure your portfolio under shorter time periods?**

No.

## Investment Strategy and Process

- 24) Provide a description, in detail, of your investment philosophy, strategy, and process, including your research effort and portfolio construction rules. Describe how the portfolio managers and research analysts interact in the investment process? Do the portfolio managers work individually or in teams?**

### Philosophy

We believe a diversified core portfolio, driven by dynamic sector and company fundamental analysis, is the key to delivering consistently strong, risk-adjusted, long-term performance in the international equity markets.

### Strategy

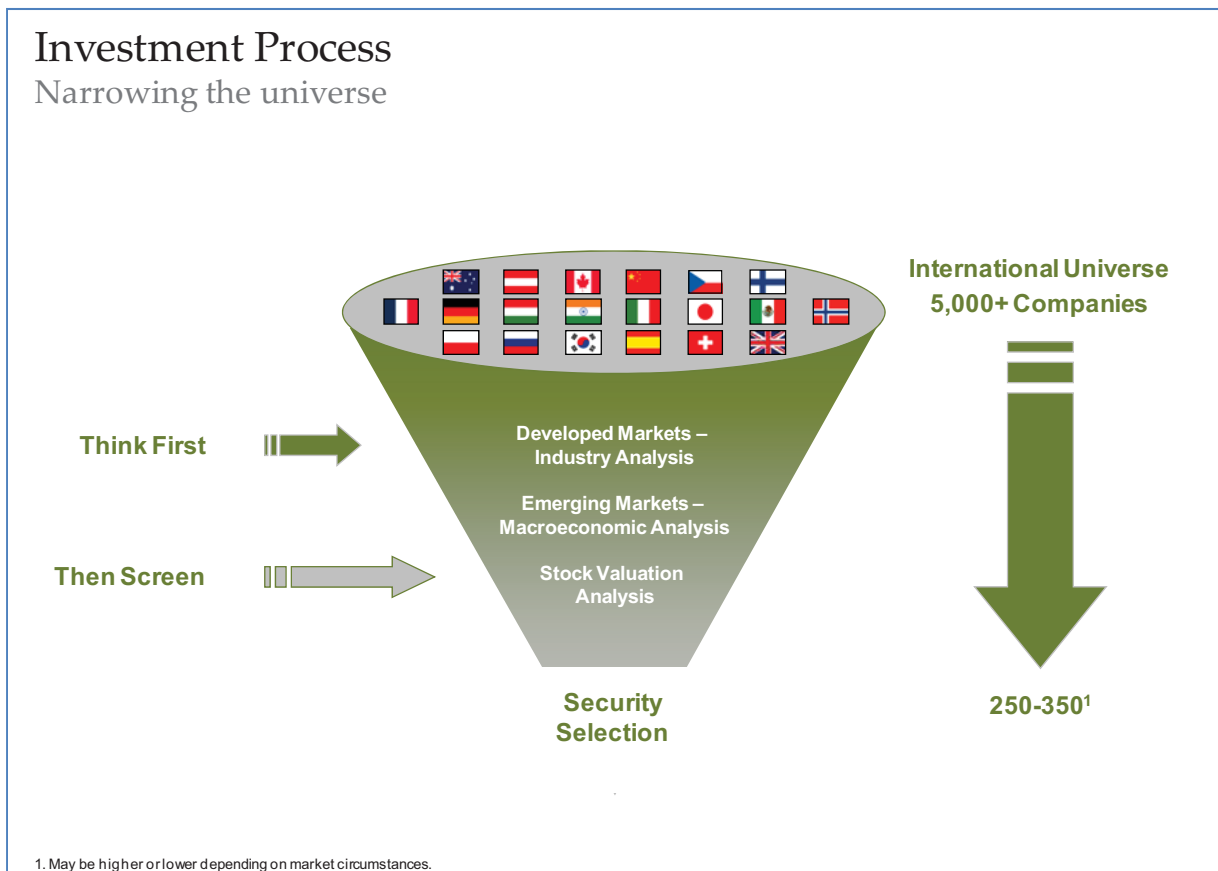
We begin our process with global fundamental analysis to establish relative values and priorities. Our process puts "thinking" before "screening" and focuses on applying different analytical tactics to different industries, sectors, and regions.

We believe it is especially critical to use different tactics when evaluating different regions, since not all markets are at the same stage of development. Depending upon the region we are evaluating, we will use top-down and bottom-up tactics or a hybrid of the two. Similarly, different tools/metrics work better for different industries.

### Process

We construct the portfolio using a three-phase process:

- 1. Thinking**
- 2. Screening**
- 3. Selecting**



#### Phase 1: Thinking

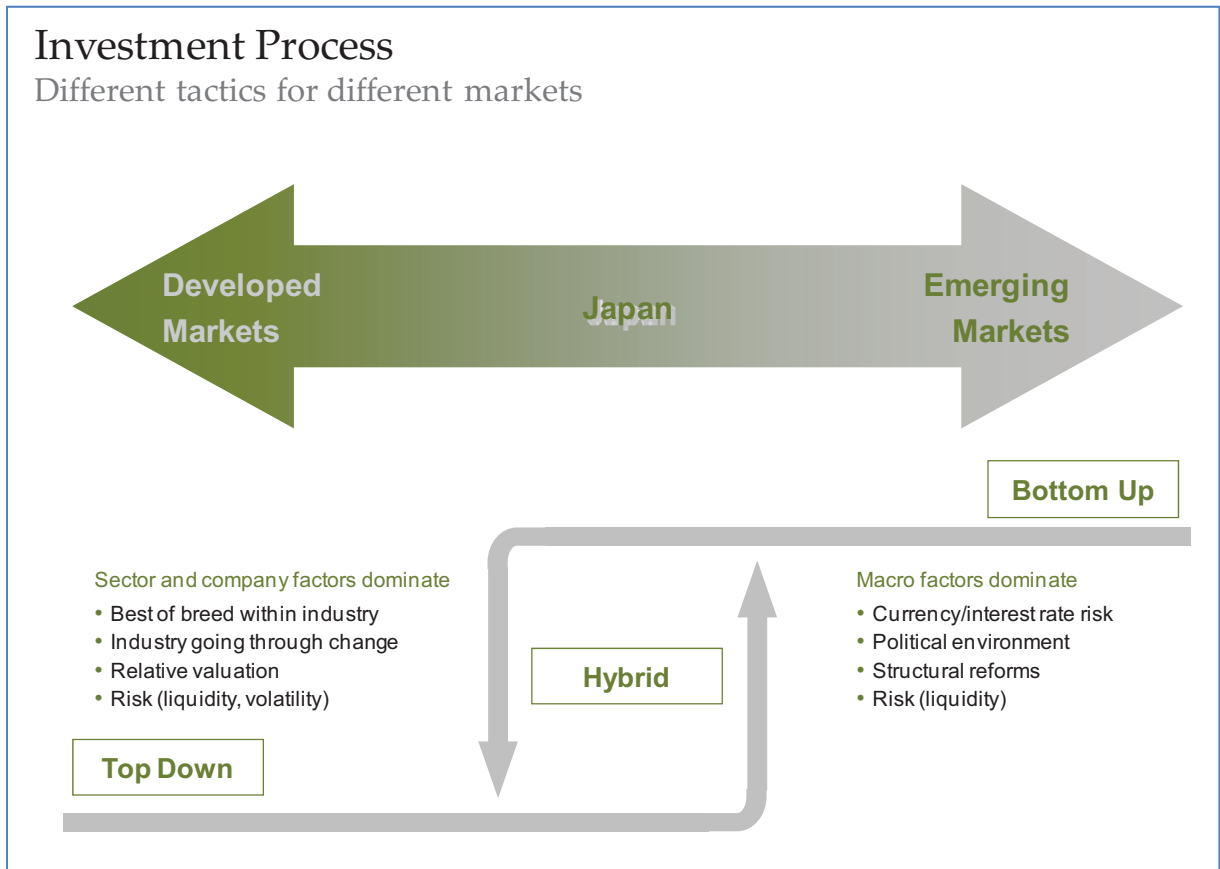
We like to term our process as one that begins with "thinking" before "screening". In other words, we don't attempt to begin the evaluation process by forcing all industries and all geographies through the same set of fixed metrics. Instead we seek to determine what specific industry drivers (in developed markets) and macroeconomic factors (in emerging markets) will drive stock performance. Once we have determined this, only then will we begin the screening process.

#### Phase 2: Screening

We believe that "one size doesn't fit all", that is, different tools and approaches are needed for different sectors or regions of the world.

In the second phase of our process, we use unique industry-specific financial and operational ratios to create peer groups of companies in a given industry.

As core managers, we do not differentiate between "growth" and "value" companies but concentrate instead on detailed fundamental analyses that apply Michael Porter's "Five Forces Model" to industry analysis. This framework centers on the relationship between actual competitors within industries, potential competitors, the bargaining power of buyers and suppliers, and the threats of alternative solution providers.



**Bottom-Up Investment Approach: Developed Markets**

In analyzing developed markets, determining fair market value of sectors and companies is critical to our buy/sell decisions. Bottom-up drivers of our assessment include industry and company fundamentals, growth expectations, management assessment, relative valuation, and risk (liquidity, volatility) on both an absolute basis and within the context of the portfolio.

**Top-Down Investment Approach: Emerging Markets**

While the Strategy is biased toward developed market equities, we can have exposure to emerging markets. Macro factors drive our decisions for emerging markets. Key criteria include currency/interest rate risks, political environments/leadership assessment, growth rates, structural reforms, and risk (liquidity).

We prefer to focus on “cross-over” countries – those moving from “emerging” to “developed” status – as we recognize that countries are not simply “emerging” or “developed”; more often, they are somewhere in between. Moreover, we believe it is imprudent to wait for the indexes to re-categorize such nations as “developed” before investing in them.

From time to time, in order to achieve certain “top-down” objectives, Artio Global may utilize index positions in ETGs and derivatives such as futures, options and swaps in developed markets as well as emerging markets.

***Hybrid (Top-Down/Bottom-Up) Investment Approach: Japan***

The Japanese market is highly segmented and is comprised of both strong global competitors as well as protected domestic industries. Given this unique market structure, we find that blending both top-down and bottom-up approaches provides a viable way to determine whether a Japanese sector, company, or the market offers relative value.

Within the Japanese market, we look top-down at industries that are more protected or domestically focused such as retail, financials and construction.

We look bottom-up at globally oriented industries such as autos or electronics. These companies are viewed against their peers globally. At the sector level, what works in unearthing opportunities is a function of the unique key drivers of that given sector, which include both financial (valuation, balance sheet or income statement derived) and operational (sector-specific) metrics.

**Phase 3: Selecting**

Today, we find that “information is not the bottleneck”. We believe information is readily and widely available and it is the ability to quickly prioritize and process that information that creates an advantage. Many investors focus solely on “static” information (valuation measures, financial statement analysis, etc.). While we also evaluate such information, we prioritize our activities by addressing “active” information (e.g., price movements, earnings announcements, regulatory and management changes, political events).

Our objective is to create a highly diversified portfolio of 250 - 350 of the most relatively attractive securities (actual number of holdings may be higher or lower depending on market circumstances). In selecting securities, we are mindful of the benchmark but willing to actively depart from it in pursuit of risk-adjusted returns. We also seek diversification across most sectors and regional lines.

Our portfolio structure can be summarized as follows:

## Investment Process

### Portfolio structure

- Emphasize Broad Diversification** →
  - Generally:
    - 250-350 securities<sup>1</sup>
    - No more than 3% weight in any one security
    - 30+ countries
    - Sector weights are not more than 200% of the index<sup>2</sup>
  
- Investment Style** →
  - Core
  
- Market Bias** →
  - Developed market bias
  - Emerging markets opportunistic
  
- Capitalization** →
  - Multi cap with large cap bias
  - Market cap greater than \$2.5 billion
  
- Risk Control** →
  - Correlation to existing holdings
  - Liquidity analysis and testing

1. May be higher or lower depending on market circumstances.

2. Maximum sector weights are the greater of twice the MSCI ACWI ex-US weight or the benchmark weight plus 10 percentage points. An exception is Financials, which is capped at 1.4 times the benchmark weight due to its large size. Minimum sector weights are 0%.

### Research Efforts

Our research process is based primarily on fundamental assessment of companies, sectors, and macroeconomic influences on regions/countries. We seek to maintain a highly diversified portfolio of the most relatively attractive securities. Both idea generation and execution are performed by portfolio managers, who manage assets as well as serve as researchers/analysts.

Approximately 70% of our research is derived internally. The rest is obtained from external sources, which are used selectively to provide specific information and access to companies. We use external research typically for documentary work only and do not rely heavily on economic forecasting.

Internal Resources – 70%	External Resources – 30%
<ul style="list-style-type: none"> <li>• Sector Analysts</li> <li>• Global Fixed Income Teams</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Management</li> <li>• Global Research (documentary only)</li> <li>• Management Visits</li> <li>• Academic Resources</li> </ul>

Portfolio managers of the International Equity strategy serve both as asset managers and as researchers/analysts. We believe that effective equity management does not distinguish between analysis, trade execution, and portfolio management. Our team approach to portfolio management means that all team members share research, market execution, and, to a lesser extent, portfolio management duties.

Each portfolio manager covers different sectors, industries, and markets, performing various analyses and contributing to ideas. The investment team meets informally on a daily basis to discuss all aspects of the portfolio. The entire International Equity Strategy team is based in New York, which facilitates daily face-to-face interaction and discussion of investment strategies. Additionally, members of other Artio Global product teams based in New York are able to contribute in discussions.

**25) How much of the portfolio can be invested in emerging markets? How much of the portfolio has been invested in emerging markets over each of the last five calendar years ending 12/31/2009? How do your buy/sell criteria differ for emerging market names, if at all, and what are portfolio construction rules for emerging markets? How do you implement emerging market exposure in the international equity portfolio?**

Emerging market exposure for the International Equity I Strategy has averaged 14.3% since inception in May 1995. Emerging market exposure for the International Equity II Strategy has averaged 20% since inception in March 2005. In 2007, we provided clients with the flexibility of an operating range of 0-35% for emerging markets.

*SamCERA's* portfolio allocation to emerging markets since inception is as follows:

<i>SamCERA Portfolio*</i>	
12/31/2005	18.81%
12/31/2006	19.73%
12/31/2007	32.75%
12/31/2008	9.12%
12/31/2009	18.29%

By comparison, our international equity strategy had the following emerging market allocation for each of the last five calendar years:

International Equity I*	
12/31/2005	20.34%
12/31/2006	23.28%
12/31/2007	34.26%
12/31/2008	10.88%
12/31/2009	18.11%

\*Based on the representative account.

In contrast to our approach for developed markets, which focuses first on industry analysis and stock selection, in emerging markets we take an explicitly top-down approach. Under this approach, we first analyze macroeconomic factors (e.g., growth, inflation, direction of interest rates, quality of policy making), sustainability of growth, and trends in corporate governance in order to develop a clear understanding of a country's competitive positioning in key industries. Part of our top-down approach is also to focus on economically sensitive areas of the market, particularly the banking sector. We will typically own a broad range of stocks so as to minimize stock-specific risk.

Contrary to emerging markets where macro-economic factors take precedence, in developed markets it is the industry factors that dominate. In developed markets, we utilize two types of screens to identify

attractive stocks: 1) valuation screens – we look at all relevant metrics, which vary by industry, and 2) operational screens – we identify and quantify variables that we believe will determine success of a stock relative to its competitors.

**26) Discuss your firm’s investment strategy relative to market environments. Are there market cycles that are particularly favorable to your firm’s investment strategy and process? Are there market cycles that are historically difficult for your firm’s investment strategy and process?**

The goal of our core investment process is designed to outperform during all market conditions. Since the International Equity Strategy inception in May 1995, we have faced a myriad of challenging market environments and have demonstrated an ability to outperform the benchmark and many of our peers without changing our investment process.

The Strategy’s performance has been challenged whenever markets decoupled from fundamentals. Our longer-term investment horizon allows us to benefit from the market’s inevitable return to fundamentals.

**27) How do you approach currency management? How much of the portfolio can be hedged and for what purposes? How much of the portfolio has been hedged over each of the last five calendar years ending 12/31/2009?**

In developed markets, currency considerations play a relatively small part in our decision process. We believe that markets in the major currencies are efficient and - over the long run – create little opportunity for adding value.

In emerging markets, however, currency risk can be significant. A key part of our analysis is assessing the macroeconomic factors likely to drive a currency (e.g. inflation, monetary policy, and balance of payments).

Currency hedging is generally used as a risk control measure, rather than an explicit attempt to add alpha to the portfolio. Our primary focus is to add alpha through intensive industry analysis and stock selection. The resultant equity holdings will give rise to an underlying currency exposure. At that point, we may choose to hedge the resulting currency exposure toward the benchmark currency weights in an attempt to remove currency as a factor in relative performance.

Occasionally, should fundamental currency values move significantly away from where we believe fair value to reside, we may partially hedge the foreign currency exposure into the portfolio reference currency.

There is no maximum placed on hedges allowed. Typically, currency hedging ranges between 0% and 10% of portfolio value, but this can vary.

Currency Hedge % of <i>SamCERA</i> Portfolio	
12/31/2009	3.80%
12/31/2008	10.48%
12/31/2007	8.09%
12/31/2006	10.19%



12/31/2005	3.93%
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- 28) Provide a full review of: (a) a performance attribution which reflects your assessment of the value added by your investment discipline, (b) your assessment of the risks associated with *SamCERA*'s portfolio, and (c) methodologies employed to evaluate risk, What software(s) do you have in place to evaluate portfolio risk?**

#### Performance Attribution

Please refer to the attachment *San Mateo Attribution YTD 2010-06-30*.

#### Risks Associated with *SamCERA*'s Portfolio

Artio Global's approach to risk management considers risk not just at the portfolio level but also from a valuation, liquidity, and operational perspective.

To properly manage risk, our Risk Management Group operates independently of portfolio management and reports directly to senior management. The Group analyzes attribution, performance risk, and quality control.

#### **Risk Management Philosophy**

We believe that consistent long-term risk-adjusted returns can be obtained by strong stock selection — the first layer of our risk management process. Consistent with our predominantly bottom-up approach for developed markets, we emphasize risk management at the individual stock selection and liquidity stages. Portfolio-level risk management is engaged to monitor adherence to guidelines.

##### **1. Valuation Risk Management**

The most critical component of our overall risk management process lies in stock selection. We constantly evaluate the risk-reward profile of securities that we follow. When a security is considered for inclusion, we evaluate potential risk factors, quantitative and qualitative. Portfolio managers/research analysts monitor the changing risk and return conditions of securities, in seeking opportunities with upside potential relative to downside risk.

##### **2. Liquidity Risk Management**

The second layer of our risk management process monitors overall portfolio liquidity. To assess portfolio liquidity, the liquidity of each position is tracked. Due to the potential for increased returns to accompany increased risks, we are willing to assume liquidity risks.

##### **3. Operational Risk Management**

The third layer of our risk management process is operational risk control. Key elements include:

- a) A consistent, disciplined investment process;
- b) Clearly defined separation of functions;
- c) Follow-up on operational errors using a proprietary operational loss database.
- d) Basle II operations risk framework which is designed to identify and mitigate risks in the operating environment.

#### 4. Portfolio Risk Management

The final layer is risk control at the portfolio level. We systematically monitor the deviation of portfolios from their respective benchmarks to ensure that they remain within our objectives and clients' guidelines.

We use three kinds of measurement: historical, current, and prospective. Historical measurements include performance attributions of returns, Sharpe ratio, information ratio, and tracking errors. Current measurements include forward and trailing P/E ratios. To gauge future deviations, we use the *Northfield Information Services* model. Risk exposures and projected tracking errors are also monitored regularly.

The *Northfield Information Services* model is also used to monitor the overall ex-ante tracking error relative to the benchmark. We also measure risk using a combination of *FactSet*, *Bloomberg*, *Reuters*, *IBES*, *MSCI*, *Compustat*, *StatProFundamentals*, and various dynamic spreadsheets that we maintain in-house. Although no enhancements are being contemplated, we keep abreast of available research tools. Our proprietary attribution system is an additional critical tool in managing portfolio risk.

Within this tightly controlled framework, we have a strong bias to sell down risks and exposures that are hurting relative performance, a process that contributes to our asymmetric returns.

#### 29) Describe your compliance procedures in detail. To whom does compliance report?

Our portfolio management/trading process is designed to ensure compliance with client guidelines. In setting up an account, Artio Global works closely with the client to accurately hard code guidelines into Charles River, our trading system. Restrictions such as specific securities, security types and brokers are hard-coded into the system. The Charles River system is used for pre- and post-trade compliance checks. On a daily basis, the system produces "exception reports" that identify any infractions (red flags for limits, etc.), which are then reviewed by a surveillance analyst in the compliance group. Should a violation occur, compliance immediately refers the matter to the respective investment team for rectification.

Alerts can be overridden in Charles River only by the Compliance Team. The Compliance Team researches the validity of alerts received in the system. If an alert is deemed to be invalid, the Compliance Team will override the alert noting the reason for approval in the comment section. Compliance will not override alerts that are deemed valid and will instruct the team entering the trade to amend or cancel the order.

In addition, Artio Global has a committee structure which reviews performance dispersion among client accounts. This body, formerly known as the Quality Control Committee, has now become a sub-Committee of Artio Global's Compliance Committee. Any material differences are examined by the risk management team and discussed with portfolio management.

Artio Global's Legal & Compliance Department is independent of all other departments and reports directly to the Firm's President. It oversees the day-to-day compliance of all the Artio Global entities. The Legal & Compliance Department administers the Compliance Program, which includes maintaining and monitoring client guidelines, responding to client requests, marketing reviews, resolving general trading issues, filings and registrations, and Code of Ethics and gifts and entertainment monitoring. In addition, on a daily basis, the Department reviews exception reports

produced by the Charles River system which includes client guideline violations, affiliate dealings, and portfolio diversification reports.

**30) Describe your trading procedures in detail. What trading platforms does your firm use? Does your firm monitor trade effectiveness? If so, how is that documented? To whom does trading report?**

The overriding objective of our trading process is to ensure the best possible trade execution at the lowest possible cost. We believe we can add value for our clients through trading. Our process and operations are therefore designed to get the most impact from our traders' skills and our leverage in the market.

Our portfolio managers typically do not trade themselves. Instead, they request trades by filling out a trade order sheet or by email using our Charles River trading system (and following up with a trade order sheet). Each trade request includes the amount to be purchased or sold, expressed as a percentage of the portfolio.

Before the order is passed on to the portfolio administration/trading team for execution, the Charles River system models the trade to arrive at a total number of shares to buy or sell across all accounts. This number is checked by the system's compliance module and, based on client guidelines, will be amended if a rule is violated.

Once the trade has fully passed compliance, it is sent electronically to the portfolio administration/trading team, whose members use best execution principles and their knowledge of specialty brokers to place the trade. Allocations are made pro rata, based on total market value (allocations below 10% of the total order are completed on a random basis). Because we manage assets collectively, through block trades, the timing of a purchase or sale depends on the security's relative size and liquidity; typically, this ranges from one to two days.

Our trading process includes built-in quality control measures. Every trade ticket is reviewed and verified by our portfolio administration/trading team the first time they receive it; the trade is verified once again when they receive broker confirms. Any failed trades are corrected by our operations team immediately after each morning's trade confirmations are received.

Moreover, client guidelines are hard-coded into Charles River, our portfolio management/trading system. Accounts are monitored on a daily basis. On a monthly basis, a sub-Committee of our Compliance Committee, formerly known as the Quality Control Committee, reviews each separately-managed account to ensure that we are complying with the client's guidelines and Investment Policy Statement.

In addition, we regularly assess the quality of our trade execution, using price as our main criterion. For each trade, the portfolio administration/trading team examines whether the best price was obtained and, where data is available, whether that price was at least as good as the best inside "bid" or "ask." We also employ Elkins/McSherry, an outside consulting firm, to monitor and measure our trading costs.

The Artio Global Trading Department reports to Michael Testorf, Senior Portfolio Manager on the International Equity Team. In addition, the Trading Department's activities are reviewed by the Best Execution Working Group and the Compliance Committee. These activities include, but are not

limited to, best execution, directed brokerage activities, adherence to the approved counterparty list, and soft dollar activities.

**31) Describe your firm's policies regarding the use of soft dollars. If soft dollar arrangements were used to acquired products and services, what was the dollar amount?**

Less than 2% of our executed trades are used to pay for third party soft-dollar research services. Artio Global may be party to soft dollar arrangements with certain brokerage firms pursuant to which the cost of certain research products/services used by Artio Global are paid for with commissions generated by client accounts. It is important to note that Artio Global uses soft dollars for research services only.

Our Compliance Committee has approved Bloomberg, Empirical Research Partners, Reuters, Thomson Financial, Autonomous Research, Roubini Global Economics, The IDEA, and Strategas to provide research-related services to members of our Equity Teams through the use of soft dollars.

In addition to third party soft dollar arrangements, Artio Global may trade with broker-dealers at rates above execution only in exchange for receiving access to that broker-dealer's proprietary research, or other eligible services. The selection and the amount of commissions paid to a particular broker-dealer are not made pursuant to any agreement or commitment to provide the brokerage and research services. However, Artio Global identifies those broker-dealers that have provided it with valuable brokerage and research services and does endeavor to direct sufficient commissions to such broker-dealers to ensure the continued receipt of brokerage and research services, in the event such higher payments would be in accordance with Section 28(e).

Third party soft dollar expenditures during 2009 approximated \$614,311.87

**32) Describe your firm's policy regarding directed commissions. Is there a maximum amount of trades that you allow to be directed? How many clients direct commissions? What are the advantages and disadvantages to a client who directs commissions?**

The overriding objective in trading is to ensure the best possible execution of each trade at the lowest possible cost. We regard trading as a function that can add value for our clients, and we structure our operations to maximize the impact of our traders' skills and our leverage in the market. This ensures a consistent approach and that we are fully able to take advantage of aggregation of orders, assess the best way to execute a particular order and to use our significant volume of business to manage down our commission costs.

We have been able to fulfill directed commission requests with no difficulties. We would stress that our obligation to seek best execution will always override any direction given by a client and we cannot guarantee any specified level of direction. We believe that a target of up to 25% of commissions is not unreasonable but that above this level we would begin to see conflicts between the client's commission goals and best execution. Approximately 2% of trades placed for our separate account clients are directed commission trades. Currently, approximately forty-three clients direct commissions. Any instructions from a client regarding directed brokerage must be in writing.

Advantages of directed commissions:

- Clients can direct trades to a broker of their own choice in support of services received.

Disadvantages of directed commissions:

- Clients may not always get the best execution price in the market, especially for smaller cap stocks in emerging markets.

**33) Describe how your firm obtains and pays for outside research reports. Please list the primary sources of research upon which your firm relies.**

As part of our natural transaction flow, the full service brokers with which we trade, provide research materials to us. Additionally, Artio Global may be party to soft dollar arrangements with certain brokerage firms pursuant to which the cost of certain research and other services and products used by Artio Global is paid for with commissions generated by client accounts.

Approximately 30% of Artio Global's research effort is obtained from external sources which are used selectively to provide specific information and access to companies. The team does not rely heavily on economic forecasting and utilizes external research for documentary work only.

External Resources – 30%
<ul style="list-style-type: none"> <li>• Corporate Management</li> <li>• Global Research (documentary only)</li> <li>• Management Visits</li> <li>• Academic Resources</li> </ul>

**34) How many brokers were used during calendar year 2009? List the top ten brokers used during that period. Have you discontinued the use of any broker in the last eighteen months?**

Artio Global used approximately 188 brokers during 2009.

As of December 31, 2009 the following list represents the top ten broker/dealers used by Artio Global in its equity strategies:

Deutsche Bank Program Trading  
 CSFB Program Trading  
 Sanford Program Trading  
 Morgan Stanley Program Trading  
 UBS Program Trading  
 Morgan Stanley  
 Merrill Lynch & Co. Inc.  
 Citigroup Global Markets Inc.  
 UBS Securities LLC - Cash desk  
 JP Morgan Program Trading

Notes: (1) Program Trading Desks were treated as separate brokers rather than being rolled- up and aggregated with the regular cash trading desks. (2)Commission charges in international markets are typically assessed in basis points on the traded amount, not in cents per share as for domestic trading. For reporting purposes, all amounts are in USD terms and reflect top 10 in commission amounts paid in 2009.

Artio Global discontinued its use of Lehman Brothers in the last eighteen months.

**35) Do you have a policy regarding the selection and review of brokers and counterparties. If you do, please e-mail a copy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Artio Global's Risk Management Department is responsible for reviewing and approving potential broker-dealer arrangements with the firm. We have adopted Best Execution Procedures on a firm-wide basis through which our Best Execution Working Group (the "Group"), on a quarterly basis, reviews trades for best execution. This Group evaluates the firm's brokerage arrangements, including any soft dollar relationships. In assessing the quality of services provided by executing brokers and trade costs, the Group considers the broker's credit quality and ability to:

- act with integrity;
- execute a trade quickly;
- account for its trade errors and satisfactorily correct them;
- consistently satisfy trading needs;
- maximize the opportunity for price improvement;
- handle a high volume of transactions without undue market impact;
- search for and obtain liquidity to minimize market impact;
- accommodate unusual market conditions and engage in after-hours and cross-border trading, when required;
- maintain the anonymity of an investment manager.

Members of the Best Execution Working Group include traders, compliance personnel (including the Chief Compliance Officer), and portfolio managers. Furthermore, we employ Elkins/McSherry, an outside vendor, to produce reports that measure our trading costs.

**36) What percentage of each of the following does the portfolio account for? Please estimate if exact figures are not available or disclosed.**

<b>A) Firm assets</b>	<u>&lt; 0.50</u> %
<b>B) Firm revenue</b>	<u>N.A.</u> %
<b>C) Firm profit</b>	<u>N.A.</u> %*
<b>D) Total firm work hours</b>	<u>N.A.</u> %

*Data as of March 31, 2010*

## Outlook

### 37) What is your firm's outlook for the international and domestic equity markets?

Please refer to the attachment *CIO Quarterly Letter*.

### 38) What is your firm's outlook for equities in emerging markets?

We continue to believe that select emerging markets countries will outperform in the long term and have positioned portfolios accordingly. Many emerging economies are unencumbered by the developed world's debt problems which should allow for more sustainable growth. Portfolio holdings within emerging markets are expected to benefit from increased domestic consumption, growing GDP and their attractive valuations. We remain overweight Central and Eastern Europe, including Russia. We are avoiding China's banking sector amid our long-held concerns related to the real estate sector's overheated state. Instead, we have focused on the domestic consumer and look to invest in companies that can effectively exploit China's growing demand for consumer goods. Within India, we favor companies leveraged to the country's long-term infrastructure build-out.

### 39) Discuss your firm's view of global mandates. Do you offer global products?

We believe that a diversified core portfolio – driven by dynamic sector and company fundamental analysis – is key to consistently delivering superior risk-adjusted, long-term performance in global equity markets.

Artio Global does offer a Global Equity product as part of our Global Equity Strategy. The Global Equity Strategy seeks long-term growth of capital by investing in a wide variety of equity securities issued in developed and emerging markets throughout the world, including the US. The Strategy invests in domestic and foreign issuers of all sizes.

### 40) What impact is private equity and hedge fund development having on the equity markets?

Prior to the collapse in the credit markets in 2008, private equity played a significant role in the equity markets and was a catalyst for some of the more extreme price variances in certain sectors and markets. The use of leverage gave these players great influence and was a factor in, for example, driving many mid-cap European stocks to extremely high valuations in 2007 and early 2008. As a result of the deleveraging of bank balance sheets (limited financing availability) and increased risk aversion, private equity deals have been rather scarce in 2009. Most private equity managers are dealing with issues in their current portfolio of businesses and the myriad of problems associated with the global economic slowdown. Many of these managers overpaid for businesses which are now suffering under enormous debt loads. Most of the recent activity has been associated with forced sales of previously private companies to distressed asset specialists. Additionally, the ability for private equity managers to raise funds has been curtailed as many institutional investors have lowered their allocations to the space.

The huge, highly-leveraged deals seen in 2006 and 2007 are not likely to reappear soon. Much of the activity in the private equity space should be limited to distressed sales and the disposal of non-core assets by larger public companies. As we move forward, pricing and competition in the private equity

space should be more rationale as the froth has disappeared from the market and there are many solid companies with strong cash flows selling at significantly discount valuations. For PE managers with cash on hand and unfettered by troubled assets, there should be interesting opportunities in the current environment.

Similarly, the impact of hedge funds on the equity markets has been diminished by the economic crisis and state of the financial sector as the willingness of banks to lend the balance sheets to these companies is greatly reduced. Leveraged beta plays, a large component of the activity prior to the seizure of the credit markets, simply is non-existent today. Many managers faced large redemptions at year end 2008 and into 2009 as the performance of many funds did not offer the downside protection many investor believed they would. Ponzi schemes like Bernie Madoff and Alan Stanford's did little to helped bolster the reputation of the industry. All that said, solid managers have done well in 2009, but their impact on the overall market is much diminished relative to the heyday prior to the equity market collapse in 2008.

Historically, we have been cautious about the speculative nature of much of this money (hedge funds) and the volatility it can create, and so have generally chosen to avoid exposures to areas of the market where we believe hedge funds are heavy investors.

**41) What issues are other clients concerned with in regards to products, markets, education and governance?**

Other clients tend to be concerned with the following issues regarding products, markets, education and governance:

*Products:* Is global a better way to allocate assets than a distinct US/non-US allocation.

*Markets:* Emerging Markets as a standalone allocation or better integrated into an international/global strategy.

*Education:* Better understanding of risk and volatility as it relates to short-term versus long-term.

*Governance:* Sudan, Iran restrictions.

**42) What is new developments do you anticipate in your firm's business plan?**

Artio Global seeks to strategically maintain, grow, and diversify assets under management, by leveraging, in a risk-controlled manner, our core competencies in global investing across both the equity and fixed income space.

**43) Describe your assessment of the relationship between your firm and SamCERA. How can we better utilize your firm's capabilities?**

Our goal is to be a strategic partner with SamCERA by making SamCERA better investors regardless of our overall strategy. We believe our firm is positioned as a pure global investment manager, rather than a marketing organization.

We also believe direct communication between SamCERA and Artio Global is the optimal approach to utilizing our capabilities.



**Conclusion**

**44) Is there any information that would be timely pursuant to *SamCERA's Investment Plan*, the Investment Management Agreement, and this annual review?**

No.

**45) Are your clients making significant changes in their asset mixes? Please describe these changes.**

No.

**46) What market opportunities should SamCERA be considering?**

We believe that *SamCERA* should consider fixed income with a global perspective through either investment grade or high yield; or a combination of both.

***Compliance Certification Statement***  
***San Mateo County***  
***Employees' Retirement Association***

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be faxed to *SamCERA's* office and investment consultant no later than 10 days after the end of each reporting period. (15.3(i))

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (15.4(a))  
Yes/No: Yes If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (6.3) Yes/No: Yes If no, please explain.
3. Has the firm's insurance coverage been sustained? (15.4(c)) Yes/No: Yes If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (6.0) Yes/No: No  
If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (15.4(j)) Yes/No: No If yes, please explain.
6. Have there been any changes in the firm's investment approach? (15.4(e)) Yes/No: No If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (9.1) Yes/No:      If yes, please explain.

Artio Global does not manage the *SamCERA* portfolio significantly differently than other portfolios invested in the International Equity Strategy. However, it is important to note that *SamCERA's* guidelines differ from Artio Global's model portfolio as follows:

- *San Mateo's* guidelines call for a maximum cash position of 10% versus 20% for the model portfolio. In 2008 San Mateo granted up to 20% cash until the Board meeting in 2009. We would like to request cash up to 20% on a permanent basis.
- Finally, *San Mateo's* guidelines state a maximum 5% exposure to 144A securities.

We have an open dialog with SamCERA staff with respect to these limits. The staff has accommodated our request to temporarily increase these limits when necessary.

A combination of these factors can lead to significant differences between San Mateo's portfolio and the model portfolio given the market environment and the strategy we have in place at the time.

8. Have there been industry or regulatory disciplinary actions taken against the firm? (15.3(j))  
Yes/No: No If yes, please explain.

9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (18.0) Yes/No: Yes If no, please explain.

#### Derivative Investments

1. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: Yes If no, please explain.

Artio Global uses non-exchange traded derivatives such as clone notes, warrants, and baskets, as a replacement for countries not open for settlement. The general nature and associated risk of the counterparty were fully evaluated prior to purchase.

2. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: Yes If yes: Do the counter-parties have investment grade debt? Yes/No: Yes Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: Yes If no, please explain.
3. For non-exchange traded derivative transactions, were the counter-parties financial institutions? (bank(Appendix C(5)) Yes/No: Yes If yes: Do the counter-parties have investment grade debt? Yes/No: Yes Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: Yes If no, please explain.
4. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: Yes If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Have there been any changes to the investment manager's list of approved counter-parties over the past month?
5. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: Yes If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: No If yes, please explain.
6. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No:     If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

*San Mateo's* portfolio does not contain derivative investments with allocation limits.

However, as of 6/30/10, 18.42% of the *SamCERA* portfolio was allocated to forward currency contracts which can be construed as derivative investments.

7. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: No If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

8. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: \_\_\_ If no, please explain.

Artio Global does not hold any derivative investments with allocation limits in the *San Mateo* portfolio.

9. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: Yes If no, please explain.

10. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

As Artio Global does not hold derivative investments with allocation limits in the *San Mateo* portfolio, information on the pricing sources for these investments is not available.

11. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

Derivative instruments are generally not liquid. Derivatives rely on the performance of the counter-party because the sale provision in these instruments does not guarantee a market. If a market exists it is generally thin.

12. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: No If yes, please explain.

#### Investment Manager Guidelines

1. Are portfolio holdings well-diversified and made in liquid securities? (5.0) Yes/No: Yes If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: No If yes, please explain.

#### Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: Yes If yes, do the investments comply with the policies? (11.0) Yes/No: Yes If no, please explain.

**International Equity Portfolios - Developed**

1. Specify the percentage of the portfolio held in each of the following types of securities: foreign ordinary shares; ADR's; cash & equivalents (foreign or domestic). (15.4 j)

<i>SamCERA Portfolio*</i>	
	% Exposure
Common Stock	79.65%
ADRs/GDRs	6.96%
Cash	6.56%
ETFs	5.85%
Preferred Stock	0.98%

*\*As of June 30, 2010*

2. Specify the large, mid and small capitalization exposure of the portfolios. (15.4 j)

<i>SamCERA Portfolio*</i>	
	% Exposure
Large (> \$10 billion)	62.25%
Mid (\$2.5 - \$10 billion)	27.17%
Small (\$0-\$2.5 billion)	3.34%
Cash	6.56%
N/A	0.68%

*\*As of June 30, 2010*

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (15.4 j) Yes/No: Yes If no, please explain.
4. Does the portfolio currently employ a currency hedging strategy? Yes/No: Yes Is the firm in compliance with the retirement association's derivatives investment policy? (Appendix C) Yes/No: Yes If no, please explain

**Signed by:** \_\_\_\_\_

**Dated:** July 12, 2010

**Name of Firm:** Artio Global Management LLC

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.8 b

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Investment Manager Review – BlackRock – Fundamental Large Cap Growth

Staff Comments: The board instructed *SamCERA's* staff and investment consultant to perform the annual review of *SamCERA's* investment managers and report back to the board. On August 11, 2011, staff interviewed *SamCERA's* growth managers in the 100 Marine Parkway conference room.

BlackRock was interviewed at approximately 9:15 a.m. Those present were:

Jonathon Brody – Strategic Investment Solutions' Investment Consultant

Gary Clifton – *SamCERA's* Chief Investment Officer

Lilibeth Dames – *SamCERA's* Retirement Investment Analyst

David Bailey - *SamCERA's* Chief Executive Officer

Scott Hood - *SamCERA's* Assistant Executive Officer

Anthony Freitas - BlackRock's Managing Director, CFA

Christopher Morahan - BlackRock's Director, CFA

Attached to this agenda item are the presentation materials used by BlackRock for the review and BlackRock's response to *SamCERA's* annual questionnaire.

BACKGROUND: During the August 2007 turmoil in the domestic equity markets, the board became concerned that there may be greater risk associated with its large cap domestic equity structure than originally anticipated. Specifically, the proliferation and duplication of quantitative strategies made products such as Barclays Global Investors' Alpha Tilts product appear to have a greater risk than stated. At the board's request, Strategic Investment Solutions' provided a study of alternate structures for *SamCERA's* U.S. equity structure.

The board then instructed Strategic Investment Solutions (SIS) to initiate a review of *SamCERA's* U.S. Equity Investment Manager Structure. The study focused on *SamCERA's* large cap equity structure and made the following points: The U.S. equity structure in intended to be low risk. The BGI Alpha Tilts exposure is more risky than originally thought, and the quantitative model risk must be addressed going forward. The goal is to maintain moderate risk and implement a process for diversification.

As a reminder, the guiding principles of the manager structure review are: i) implementation of asset allocation, ii) objectives: diversification and risk control, iii) combination of active and passive styles, iv) index funds will generally be median performers in appropriate peer groups, v) diversify managers across investment styles, vi) maintain style neutrality, vii) alpha from active risk, not style risk, and viii) minimize risks taken to achieve fund performance objectives.

Following those principles should allow the board to determine an optimal allocation among managers

On October 28, 2008, the board reviewed eleven semi-finalists. BlackRock, Inc., Delaware Investments, Waddell & Reed Investment Management Company, and Wells Capital Management, Inc. were invited to participate in interview at the February 2009 board meeting. BlackRock, Inc. was selected as the finalist.

Performance & Values As Of 07/31/2011	Book Value	Market Value	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Since Inception (8/1/2009)
	(Unit Million)					
BlackRock Capital Management, Inc.	\$138.4	\$169.2	-5.42%	0.02%	23.55%	18.62%
Russell 2000 Growth Index			-3.48%	3.14%	24.76%	19.07%
<b><i>Return Variance</i></b>			<b><i>-1.94%</i></b>	<b><i>-3.16%</i></b>	<b><i>-1.21%</i></b>	<b><i>-0.45%</i></b>

Below is the criteria used in the search to select BlackRock as a domestic large cap growth manager, the original pros and cons to their selection, and the other finalists in the search. A comparison of finalist returns for various periods is provided for the board's review.

Those are followed by a general firm overview, then an overview of BlackRock's Fundamental Large Cap Growth Portfolio.

Below are select data from the large cap growth manager search process:

#### INITIAL SCREENING CRITERIA:

1. Starting Universe: The union of the eVestment Alliance Large Cap Growth Universe and all products in eVestment Alliance US Equity Universe classified by market cap as "large" or "mid-large" and by style as "growth."
2. Product's track record must have a minimum length of three years.
3. Performance: Product must out-perform Russell 1000 Growth index in at least 50% of available time periods (1-, 3-, 5-, 7-, and 10-years) and out-perform the eVestment Large Cap Growth universe median in at least 50% of available time periods (1-, 3-, 5-, 7-, and 10-years).
4. Product must be open to new accounts.
5. Product must have minimum assets of \$500 million as of the end of Q2 2008.
6. Product's growth style must be confirmed by returns based style analysis.
7. Products may be eliminated for being tax managed, being open only in mutual fund, having many small accounts, recent portfolio manager changes, and for various other qualitative reasons.

The following information assisted the board in making its selection:

### **BlackRock Fundamental Large Cap Growth**

**Pros**

- High quality client mix, mostly large institutional separate accounts
- Team of 6 portfolio managers and analysts are 100% devoted to this strategy
- Team has access to equity and fixed income analysts across BlackRock's global platform (Galileo database)
- PM Jeff Lindsay had been CIO of Growth at SSRM prior to which he had spent 8 years at Putnam where he had been director of Concentrated Growth products (This team came to BlackRock as part of acquisition of State Street Research and Management in 2005. The team was formed at SSRM in 2002.)
- Portfolio is a mix of stable growth (60%-70%) and opportunistic accelerating growth holdings (30%-40%)
- Risk aware portfolio construction using both Barra and traditional constraints on risk exposures as well as Risk and Quantitative Analysis Group, which leverages BlackRock Solutions.

**Cons**

- The 49% of BlackRock that was owned by Merrill is now owned by Bank of America since its acquisition with Merrill.
- Fundamental Large Cap Growth represents a very small part of BlackRock's overall business
- Percentage of retail assets will increase following the recent departure of BlackRock's large cap growth equity team based in Princeton (MLIM team) which managed approximately \$3 billion, mostly in mutual funds.

Below are the large cap value managers, which were semi-finalists in the search process:

Firm Name	Product Name
BlackRock	Large Cap Fundamental Growth
Delaware Investments	Large Cap Growth Equity
Waddell & Reed Investment Management Company	Large Cap Growth
Wells Capital Management, Inc.	Large Cap Select Growth

**Large Cap Growth Return Comparison**

Excess Vs. Russell 1000 Growth starting 8-1-2009  
Performance as of 6-30-2011

	3 Mos	6 Mos	9 Mos	1 Yr	Since Inception
BlackRock: Fundamental LCG	-2.4	-4.1	-2.1	-0.9	-0.1
Delaware Investments: Large-Cap Growth	1.1	1.4	-0.7	1.6	1.5
Waddell & Reed: LCG	0.5	-0.4	-0.5	-2.3	-3.8
WellsCap: Fund Lg Cap Select G	-1.4	-1.5	-2.1	2.9	0.3
eA Large Cap Growth Equity Median	-0.2	-0.6	-0.7	-1.5	-1.0
eA Large Cap Growth Equity Size	349	349	349	349	347



Excess Vs. Russell 1000 Growth starting 8-1-2009  
Performance as of 6-30-2011

	YTD 2011	2010
BlackRock: Fundamental LCG	-4.1	3.8
Delaware Investments: Large-Cap Growth	1.4	-1.8
Waddell & Reed: LCG	-0.4	-3.4
WellsCap: Fund Lg Cap Select G	-1.5	2.3

### **General Firm Information**

Firm Legal Name: BlackRock Capital management, Inc.  
Firm Headquarters: 55 East 52<sup>nd</sup> Street, New York, New York, 10055  
Year Firm Founded: 1988  
Registered Investment Advisor: Yes  
Firm Website Address: [www.blackrock.com](http://www.blackrock.com)  
Geographic Areas of Interest: United States

### **Firm Background**

BlackRock® is a premier provider of global investment management services. As of 31 March 2011, BlackRock managed \$3.65 trillion across equity, fixed income, real estate, liquidity, alternatives, and asset allocation/balanced strategies for institutional and retail clients. Through BlackRock Solutions® (BRS), the firm provides risk management and advisory services that combine capital markets expertise with internally-developed systems and technology. Substantial resources are allocated to ongoing development of technology and analytical capabilities for internal users and external clients. BlackRock Solutions provided risk management and enterprise investment services for \$9.5 trillion in assets as of 31 March 2011.

BlackRock was founded in 1988 on the belief that experienced professionals using a disciplined investment process and sophisticated analytical tools can consistently add value to client portfolios. Within this framework, the firm has assembled teams of experienced investment professionals. The "One BlackRock" approach enables these teams to leverage resources of the organization worldwide to meet the clients' objectives. Investment capabilities are complemented by senior-level commitment to client service.

Since its founding, BlackRock has sought to better serve clients by anticipating and responding to changes and advances in the investment industry, and they continually seek to broaden and deepen the firm's investment and risk management capabilities. The two most significant steps in this process have been the mergers with Merrill Lynch Investment Managers (MLIM) in 2006 and Barclays Global Investors (BGI) in 2009. Today's BlackRock combines the history, experience, and innovation of each of these firms.

### **BlackRock's Fundamental Large Cap Growth**

#### **Research & Screening Process**

The investment team focuses on publicly-traded US equity securities for companies with market capitalizations above \$2 billion. They begin with constituents of the Russell 1000 Growth Index

and use the Beta 2 model to capture additional stocks outside the benchmark with desired characteristics. Large cap ADRs are also considered when permitted by clients. This process results in an investable universe of approximately 500 to 600 securities.

They then employ proprietary screens to segment the universe into those companies that exhibit stable growth and those companies with accelerating earnings. Emphasizing their highest confidence ideas, about 60-70% of each portfolio consists of companies that exhibit stable growth with the balance invested more opportunistically in companies with accelerating earnings. Sector weights are primarily a residual of their bottom-up investment approach.

In addition to proprietary screening tools, the team utilizes external databases. FactSet, Bloomberg, Baseline and BARRA provide company financial statement statistics, consensus earnings estimates, technical trading information, pricing history and current news.

### **Portfolio Construction & Risk Control Methodology**

Portfolios are constructed on a bottom-up basis. Typically, stable growth holdings will represent 60-70% of each portfolio; the remaining 30-40% will be invested in opportunistic holdings in companies with accelerating earnings. Utilizing the BARRA U3 model, holdings are ranked from highest to lowest on a risk-adjusted basis (based on expected tracking error) to ensure that the highest confidence ideas are emphasized appropriately in the portfolio. The result is a risk-adjusted, conviction-weighted portfolio of the best investment ideas.

Portfolios typically hold 60-80 positions, with approximately 30-40% invested in the top ten holdings. While sector weights are primarily a result of bottom-up stock selection, they are typically kept within 10 percentage points of benchmark sector weights. Individual positions do not exceed 5% at cost unless they constitute more than 3% of the benchmark. Portfolios are fully invested except for frictional cash. Typically, they expect annual turnover to range from 70 to 100%.

### **Buy / Sell Discipline**

As noted, the team focuses on companies with market capitalizations above \$2 billion. The investable universe is segmented into two distinct groups; securities are categorized as either stable growth or opportunistic. Stable growth candidates are typically mature companies that have demonstrated a pattern of steady earnings growth over time. Opportunistic candidates tend to exhibit earnings momentum or possess a catalyst for the company to accelerate earnings such as a product cycle or new management team.

The team incorporates consistent, yet flexible, buy and sell disciplines within the investment process. The discipline and value of the decision making process does not rely on the meeting of any exact mathematical hurdle or formula. Rather, it results from the thoroughness of the team's work as analysts. They focus intently on developing a clear investment thesis for each new stock purchase. This investment thesis summarizes the reasons the team believes a selection should be purchased for the portfolio and is based on catalysts and fundamental assessment.

The team applies the following criteria to potential buy candidates:

#### Stable Growth Holdings

- Demonstrate consistent earnings growth over 3-5 years
- Sustainable competitive advantages
- Strong management with a proven ability to execute
- Attractive relative and absolute valuation

#### Opportunistic Holdings

- Earnings momentum
- Above-consensus earnings
- Clear catalyst for near-term surprise

The team believes that the decision to sell is as important as the decision to buy, and carefully monitors portfolio holdings. The team will trim or sell a holding for one of four primary reasons. First, if the original investment thesis breaks down, they will quickly move away from the stock rather than look for other reasons to continue to own it. A deteriorating investment thesis could be due to a slowing growth rate, a loss of confidence in company management, or a company failing to accelerate earnings and provide earnings upside. Second, the team will trim or sell a position when valuation has increased significantly, resulting from dramatic price movement in an opportunistic holding or an unjustified premium for a stable growth holding. The third reason to sell is for portfolio construction and risk management; when a stock is performing well it may approach the maximum position size or contribute too much risk to the portfolio. Finally, the team may sell a stock if a more attractive opportunity has been identified.

#### **Trading Strategy**

Trades are captured electronically in a front-end order management system, MacGregor. Front-end compliance is automatically checked in this system. Front-end restrictions can include limitations on transactions with affiliates or specific brokers; transactions in securities of certain affiliates of the client; specific prohibitions on security types (no futures, options, private placements); and security rating limitations (e.g., only investment grade). If a trade generates a restriction the portfolio manager sees a pop-up notice. A trade may not be entered if there is a “restriction” unless proper authorization is received to permit the transaction.

Once trades are completed and confirmed by the middle office operations staff, the trades are automatically routed to the Aladdin® system. Aladdin’s foundation is one common database that is used throughout the entire organization. All information including transactions, positions, risk measures, prices, security master data and client investment guidelines are maintained within this central database. Information on each transaction is passed electronically between all professionals involved in managing or servicing an individual account. Aladdin’s use of a single database eliminates redundant data input, enhances data integrity, significantly reduces operational and compliance risk, increases firm-wide operating leverage and provides consistency across disparate activities.

The Equity Division of BlackRock believes that research services obtained with soft dollars enhance its investment research process, thereby increasing the prospects for higher investment

returns. To ensure compliance with regulatory requirements and with BlackRocks own policies, all soft dollar arrangements must comply with the legal guidelines established in Section 28(e) of the Securities Exchange Act of 1934 and BlackRocks Soft Dollar Policy.

### **Additional Comments**

They view the process of risk measurement, monitoring, and management as integral to the overall investment process. They actively measure and manage risk using a range of qualitative and quantitative techniques. Risk management is the responsibility of the investment team and the Risk & Quantitative Analysis Group (RQA), which leverages the resources of BlackRock Solutions, the firms risk management and analytics group.

At the portfolio level, they view risk to be deviation from the benchmark, and look at forecasted (ex-ante) tracking error as the primary risk measure. Monitoring adherence to the fundamental large cap growth process and style is part of the risk analysis.

Daily risk reports enable the portfolio manager and members of the Risk & Quantitative Analysis Group to regularly review the fundamental portfolio characteristics, performance relative to the style, benchmark, and sector and industry weightings.

# BLACKROCK



## BlackRock Annual Review

11 August 2011

**Anthony Freitas, CFA, Managing Director**  
**Christopher Morahan, CFA, Director**

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- II. **Fundamental Large Cap Growth Investment Philosophy and Process**
- III. **Fundamental Large Cap Growth Characteristics and Performance**

### Appendix

- **Biographies**

**BLACKROCK**

**BlackRock update**

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## BlackRock's Relationship with SamCERA

As of 30 June 2011, BlackRock manages approximately \$171 million in assets for SamCERA's Fundamental Large Cap Growth portfolio

Name	Title	Location
<b>Portfolio Management - Fundamental Large Cap Growth Team</b>		
Jeffrey Lindsey, CFA	Managing Director	Boston, MA
Edward Dowd	Managing Director	Boston, MA
Christopher Morahan, CFA	Director	Plainsboro, NJ
<b>Account Management</b>		
Anthony Freitas, CFA	Managing Director	San Francisco, CA
Vickie Chan	Associate	San Francisco, CA



## BlackRock's institutional philosophy

### Our philosophy is to deliver investment excellence through partnership with clients

#### We apply our capital markets expertise to benefit clients

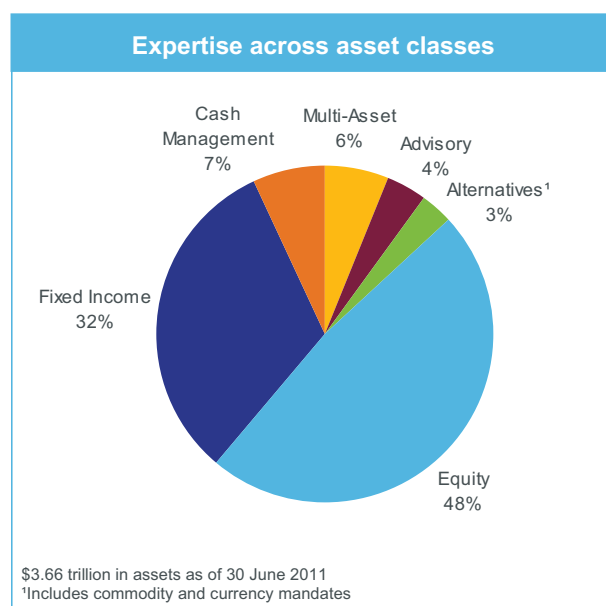
- Investment professionals share local insights across asset classes and regions in pursuit of generating strong risk-adjusted returns
- Our broad industry experience enables us to innovate across products, services and vehicles—including mutual funds, ETFs, commingled funds, and separate accounts

#### Our culture embodies risk management

- Firm founded upon rigorous risk management principles
- Independent risk professionals help ensure portfolio risk is deliberate, diversified and appropriately scaled
- BlackRock Solutions® provides independent risk management and enterprise investment services for \$10 trillion in assets\*

#### We carefully align service with our clients' needs

- We are truly independent – never trading on our own account
- We integrate corporate governance practices to protect and enhance the economic value of the companies in which we invest
- We provide all facets of transition management services to help clients realize new investment strategies while minimizing disruption



\* Assets as of 30 June 2011

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**Fundamental Large Cap Growth Equity**

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## Philosophy for managing Fundamental Equities

### Wide breadth of strategies, styles, and capabilities to fit client needs

- Individual capabilities made stronger through interaction with each other and other asset class specialists

### Regional investment centers provide global insight and local interaction

- Products managed globally by dedicated teams
- Proprietary fundamental research and quantitative security analysis identifies the best investment opportunities

### Deep-rooted risk management culture facilitates risk-efficient portfolio construction to achieve consistent and repeatable investment success

### Extensive firm resources allow investment teams to focus on idea generation, portfolio construction, and alpha generation

#### Platform Competitive Advantages

##### Competitive Performance

- Consistent performance track record achieved in widely varied market conditions
- Experienced investment teams dedicated to portfolio management

##### Efficient Information Sharing

- Technology platform seeks to facilitate sharing of market knowledge and best ideas among teams
- Tightly knit portfolio and risk management teams

##### Risk Management

- State-of-the-art, proprietary developed risk analytics
- Global portfolio transparency ensures all portfolio risks are deliberate, diversified, and scaled
- Dedicated and independent Risk & Quantitative Analysis (RQA) team

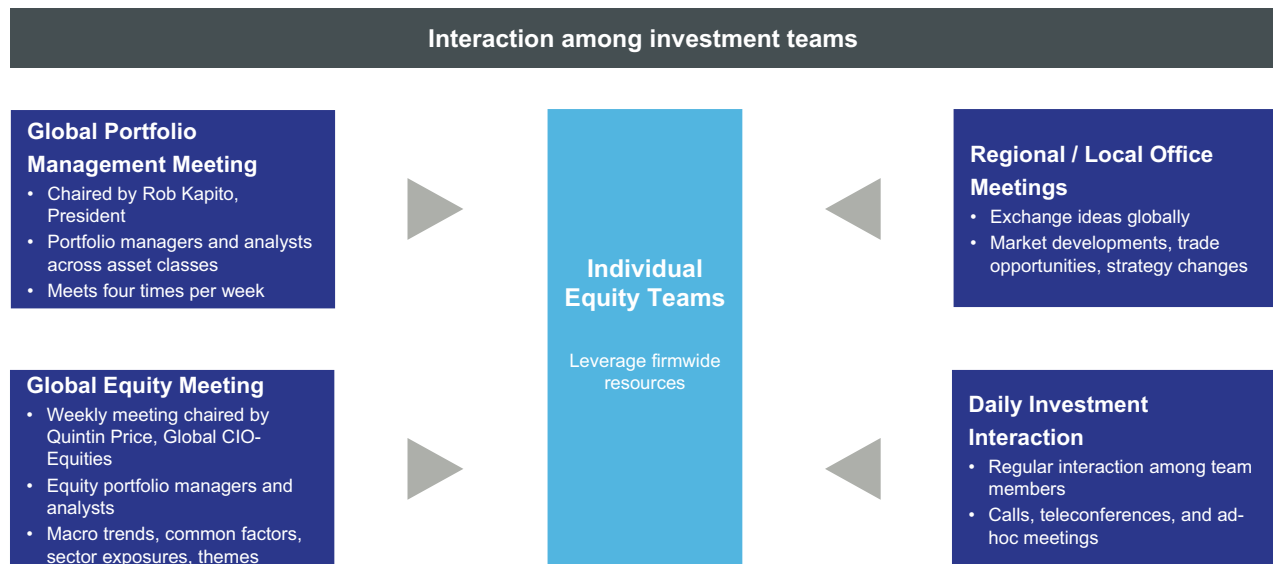
## Fundamental Equity platform oversight

### Management team governance platform

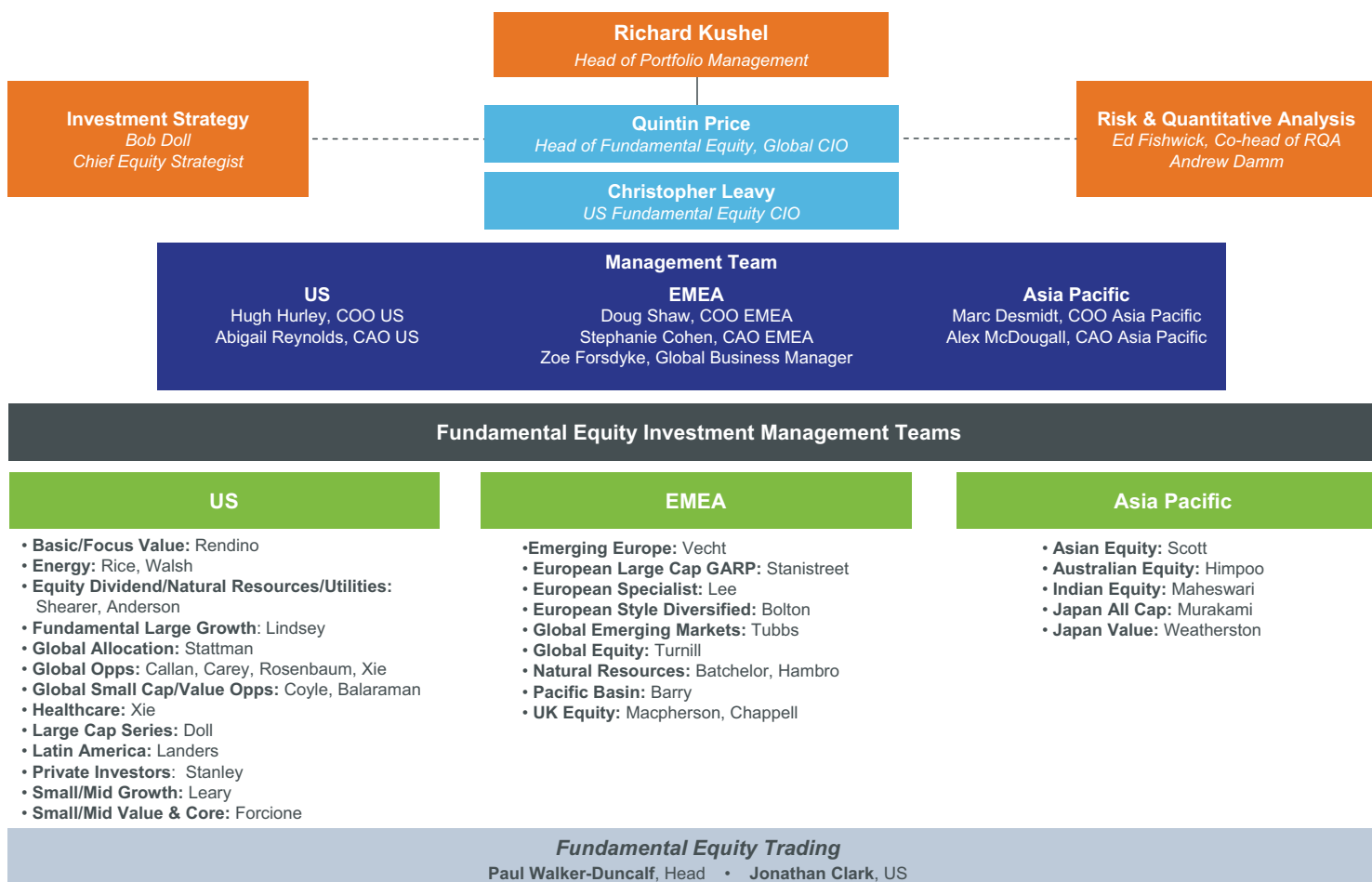
- Top level governance of decentralized team structure
- Individual teams are accountable for strategy and performance

### Qualitative and quantitative tools utilized to evaluate investment teams

- Monthly risk assessment meeting – factor exposures, compliance to guidelines
- Quarterly performance review meetings assess attribution, competitive analysis
- Ongoing review of teams based on alpha contribution



# BlackRock Fundamental Equity Platform

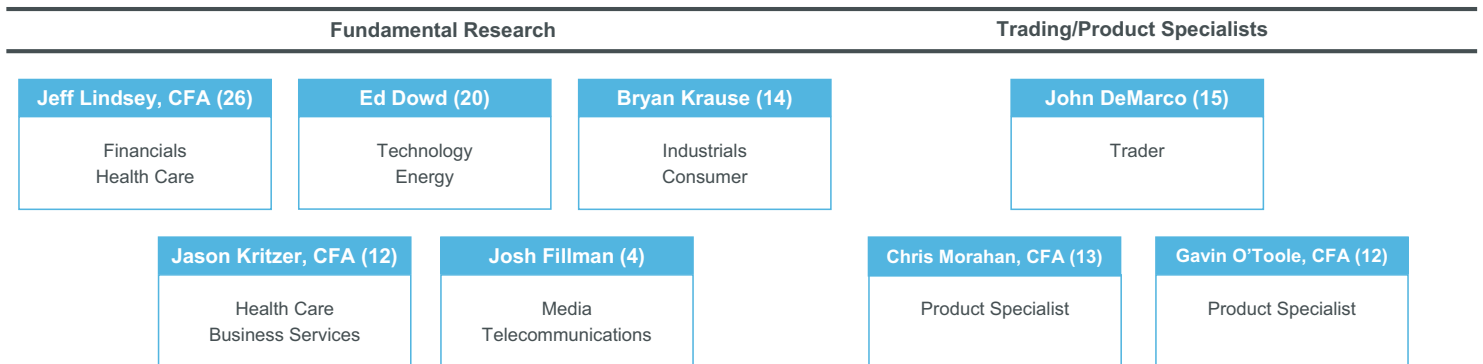
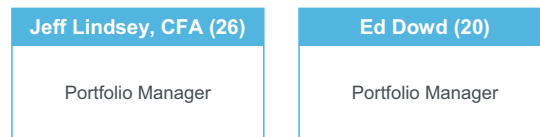


As of June 2011

## Key Investment Professionals

Led by Jeff Lindsey, CFA, the Fundamental Large Cap Growth Team employs same disciplined process across products

- Responsible for \$13.8 billion\* in Fundamental Large Cap Growth and Fundamental Large Cap Growth Concentrated portfolios
- Leverages BlackRock's broad resources and risk management tools



( ) years of investment experience.

\* As of 30 June 2011, the team manages approximately \$419 million across two large core exchange funds.

## Investment philosophy

### **We invest in two types of growth stocks: “Stable Growth” and “Opportunistic”**

- Bottom-up stock selection uncovers the candidates we believe will generate excess returns
- Typically 2/3 stable growth, 1/3 opportunistic

### **Disciplined, yet flexible investment approach**

- Ability to shift between stable and opportunistic growth stocks as investment opportunities arise
- Allows us to deliver consistent active returns in varying market conditions over time

### **Our process emphasizes the team’s highest confidence investment ideas**

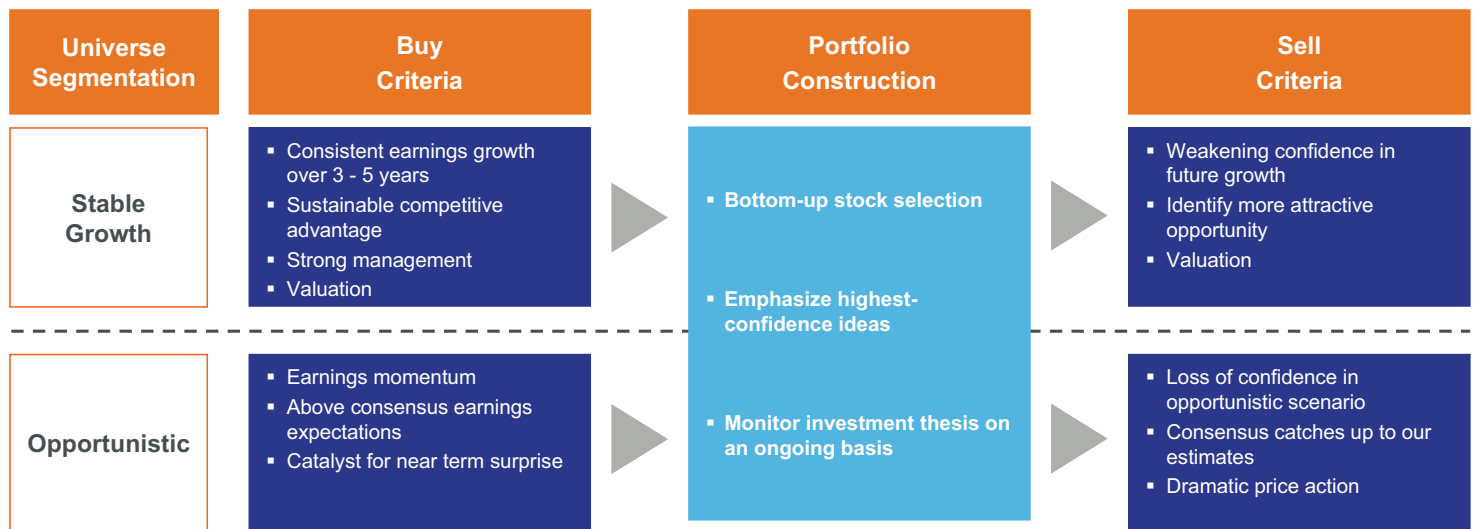
- We seek to construct a conviction-weighted, risk-adjusted portfolio

# Investment process

## Bottom-up fundamental research process applied to growth stock universe of 500 — 600 companies:

- Russell 1000® Growth Index constituents with market capitalizations above \$2 billion
- Beta 2 model identifies additional stocks that exhibit growth characteristics

## We seek to identify two types of growth stocks: stable growth and opportunistic





# Portfolio construction & risk management

## Portfolio Framework

- Two-thirds stable growth
- One-third opportunistic

## Number of Positions

- Diversified portfolios generally hold 60 - 80 securities
- Concentrated portfolios generally hold 25 to 35 best ideas from diversified portfolios

## Holding Period

- Stable Growth — Long-term investment horizon
- Opportunistic — 6-12 month investment horizon

## Sector Weights

- Residual of our bottom-up investment approach
- Typically within 10% of benchmark index sector weight
- Expect portfolios to be fully invested, typically less than 5% in cash

## Risk Management

- Incorporated throughout the entire investment process
- Risk aware, not risk averse process
- Utilize BARRA tools to help ensure that highest confidence ideas are emphasized appropriately

# SamCERA's Fundamental Large Cap Growth Portfolio Characteristics

As of 30 June 2011

## Characteristics

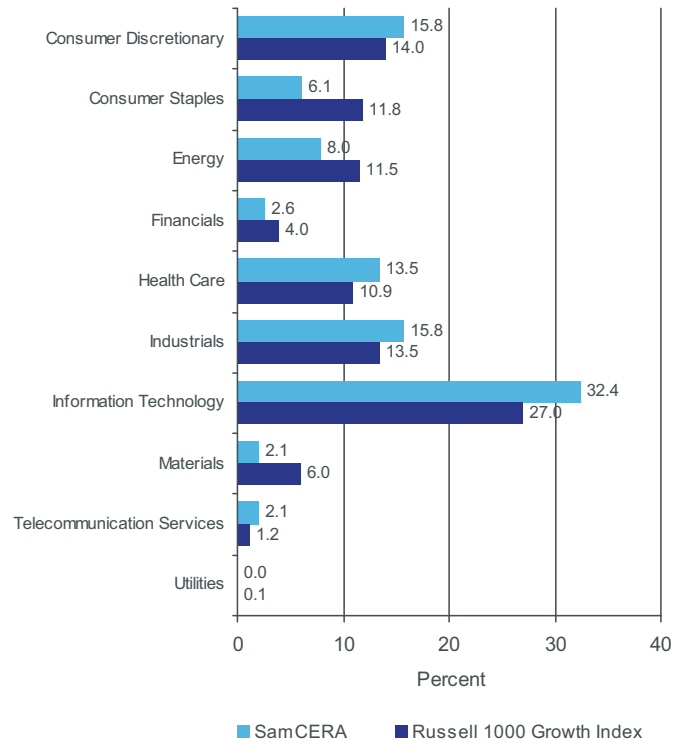
	Portfolio	Russell 1000 Growth Index®
Number of holdings	70	591
Top 10 holdings % of portfolio	32.6%	25.3%
Wtd. avg market cap (billions)	\$69.9	\$79.7
P/E (FY1)	17.3	15.6
Price/sales	1.5	1.7
Price/cash flow	12.5	12.0
LT IBES growth rate (5 yr forecast)	15.4%	14.1%

Top 10 active weights (%)		Bottom 10 active weights (%)	
Qualcomm Inc.	3.1	Exxon Mobil Corp.	(4.3)
Procter & Gamble Inc.	2.8	International Bus. Machines Corp.	(3.0)
Boeing Inc.	2.6	Microsoft Corp.	(2.8)
Danaher Corp	2.4	Google Inc. (Cl A)	(1.9)
Check Point Software Tech.	2.0	PepsiCo Inc.	(1.6)
Anadarko Petroleum Corp.	2.0	Philip Morris International inc.	(1.6)
Salesforce.com Inc.	1.7	McDonald's Corp.	(1.3)
Netapp Inc.	1.7	Abbott Laboratories	(1.1)
Amazon.com Inc	1.7	United Technologies Corp.	(1.1)
Apple Inc.	1.6	Wal-Mart Stores Inc.	(1.1)

\* Sector weights are based on GICS classifications

Source: BlackRock, FactSet. Portfolio characteristics are of a representative account managed in the BlackRock strategy and are subject to change. Actual client portfolios may differ due to timing of client investment, client-imposed restrictions, and differences in market conditions. Holdings are for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned or securities in the industries shown above.

## Sector exposures\*

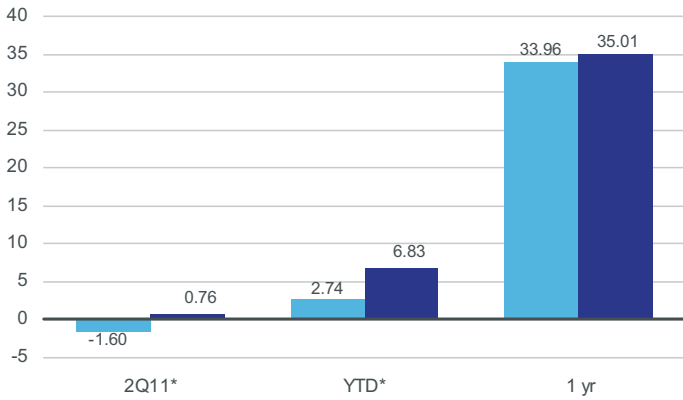


# SamCERA's Fundamental Large Cap Growth Portfolio Performance

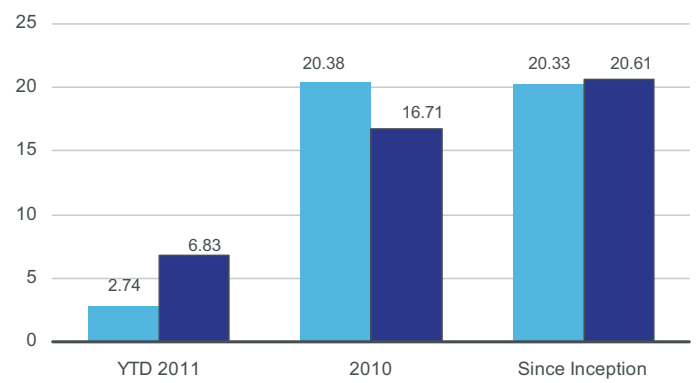
As of 30 June 2011

As of 30 June 2011

Gross total return in USD (annualized %)



Calendar year gross active return USD (%)



	1 yr
Active return	-1.05
Tracking error	3.48

■ San Mateo County Employees' Retirement Association  
■ Russell 1000® Growth Index

\* Unannualized

\*\* Inception 31 July 2009

Results do not reflect the deduction of management/advisory fees and other expenses; management/advisory fees and other expenses will reduce a client's return. For example, assuming an annual gross return of 8% and an annual management/advisory fee of 1.00%, the net annualized total return of the portfolio would be 6.94% over a 5-year period. Fees are described in Part II of BlackRock's Form ADV. Past results are not necessarily indicative of future results.

**BLACKROCK**

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# BLACKROCK

## Appendix

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## BlackRock biographies

**Anthony R. Freitas, CFA**, Managing Director, is a member of the US and Canada Institutional team within BlackRock's Global Client Group. He is responsible for developing and maintaining relationships with institutional investors, including public and private pension plans, foundations and endowments.

Prior to joining BlackRock in 2004, Mr. Freitas was with Deutsche Asset Management, most recently as Managing Director and Regional Manager for client service. From 1993 to 2000, he was with Boston Partners Asset Management L.P. Initially a vice president responsible for West Coast client service, he became a Principal in 1995. Mr. Freitas began his career at Callan Associates in 1986 as a pension fund consultant.

Mr. Freitas earned a BA degree in political science from the University of California at Berkeley in 1982 and an MBA in finance from San Francisco State University in 1985.

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**Christopher Morahan, CFA**, Director and product specialist, is a member of BlackRock's Portfolio Management Group. He is a product specialist for the Fundamental Large Cap Growth team, providing a link between the investment team and account managers.

Prior to assuming his current role in 2007, Mr. Morahan was a product specialist for BlackRock's US small to mid cap growth equity products. Mr. Morahan joined BlackRock in 1999 as an analyst in the Portfolio Management Group, and was responsible for preparing new business proposals and providing information to investment consultants before becoming a product specialist in 2003. Prior to joining BlackRock, he worked as a management consultant for SRA International.

Mr. Morahan earned a BA degree, with highest honors, in economics from the College of William and Mary in 1997.

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Annual Review – BlackRock  
Fundamental Large Cap Growth Portfolio

8 August 2011

## Organizational Update

**1) What is the ownership structure of your firm? Please identify all owners with 5% ownership or more.**

BlackRock is independent in ownership and governance, with no single majority stockholder and a majority of independent directors. As of 1 June 2011, the PNC Financial Services Group, Inc. ("PNC") owned 21.7% of BlackRock, Barclays Plc ("Barclays") owned 19.7%, and institutional investors, employees and the public held economic interest of 58.6%. With regard to voting stock, PNC owned 24.6%, Barclays owns 2.2%, and institutional investors, employees and the public owned 73.2% of voting shares.

**2) Provide an update on your firm's organization, with particular emphasis on**

**(a) changes to your structure over the past eighteen months,**

Prior to the June 2011 repurchase of Bank of America's ownership interest in BlackRock, PNC owned 20.2% of BlackRock, Barclays owned 19.5%, Bank of America owned 7.1%, and institutional investors, employees and the public held economic interest of 53.2%. With regard to voting stock, PNC owned 25.1%, Barclays owned 2.3%, and institutional investors, employees and the public owned 72.6% of voting shares; Bank of America did not hold any voting stock.

Prior to the November 2010 secondary stock offering, Bank of America owned approximately 33.9% of BlackRock, PNC owns approximately 24.3%, Barclays owns approximately 19.7%, and institutional investors, employees and the public own approximately 22.1%. The approximate breakdown for voting common stock is as follows: Bank of America owns 3.7%, PNC owns 34.7%, Barclays owns 4.8%, and institutional investors, employees and the public own 56.8%.

**(b) growth and acquisition of assets under management,**

We have provided below the history of assets under management.

In (\$ millions)	6/30/11	12/31/10	12/31/09 <sup>1</sup>
Assets	3,659,147	3,560,968	3,346,256

<sup>1</sup> Increase includes the merger with Barclays Global Investors.

<sup>2</sup> Increase includes the merger with Merrill Lynch Investment Managers.

**(c) clients gained or lost in the past year, and**

Over the past year, BlackRock has gained 110 clients and lost 199 clients.

**(d) recent corporate acquisitions, including negative and positive effects. All significant changes should be accompanied by an explanation.**

There were no corporate acquisitions since the last update.



### **3) What are your firm's philosophy and its current policy regarding new business?**

BlackRock has not set a maximum capacity for Fundamental Large Cap Growth strategy. Given the size and liquidity of the domestic equity markets, and the current level of assets, we do not foresee any obstacles to the full implementation of BlackRock's philosophy and process.

BlackRock does have a strong history of closing products when capacity is reached and we feel our ability to generate alpha may be impacted (for example, in our single strategy hedge funds, in our US small cap equity products, etc).

### **4) Specify separately the individuals (up to ten) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).**

BlackRock's most senior executive decision-making body, the Global Executive Committee (GEC), is comprised of 13 senior executives representing regional and functional leadership. The GEC is charged with five main areas of responsibility – oversight of operations and business performance, strategy and planning, talent development and retention, risk management, and external affairs. All other decision-making responsibilities, with corresponding accountability, are delegated to the functions and regions. The GEC is led by Larry Fink, Chairman and CEO, alongside BlackRock's President, Rob Kapito, and Vice Chairmen Sue Wagner and Ken Wilson. The GEC employs sub-committees to oversee certain activities; key among these are the Capital Committee, chaired by Ann Marie Petach and the Corporate Risk Committee, co-chaired by Ann Marie Petach and Ben Golub. A second global governance committee, the Global Human Capital Committee (GHCC) is chaired by Ken Wilson. The GHCC's mission is to support both talent processes and culture development.

Three regional committees are responsible for implementing the "One BlackRock" model in their respective regions, in conjunction with the global functional groups. These include the EMEA Executive Committee, chaired by James Charrington, the Asia Pacific Executive Committee, chaired by Rohit Bhagat, and the Americas Operating Committee, led by Rob Kapito. These committees are designed to reflect client, market and regulatory differences across regions, empower a broader universe of leaders, and to foster a greater sense of cross-functional partnership and accountability.

Finally, the Portfolio Management Group (PMG) Executive Committee, Global Client Group (GCG) Executive Committee, and Corporate and Business Operations Committee are responsible for overseeing the key functions across regions. Rich Kushel, head of Portfolio Management, is chair of the PMG Executive Committee and is responsible for developing a cohesive portfolio management function that shares information and insight globally, while retaining distinct investment styles and processes. As head of the Global Client Group, Rob Fairbairn leads the GCG Executive Committee and is responsible for strategic direction planning across the client businesses, talent management and development, and for global client relationships. Charlie Hallac, Chief Operating Officer, leads the Corporate and Business Operations Committee and is responsible for investment and infrastructure services, as well as commercializing our capabilities through BlackRock Solutions.

#### **Turnover**

In 2010, BlackRock created the Global Executive Committee to provide oversight of operations and business performance, strategy and planning, talent development and retention, risk management, and external affairs. In early 2011, Blake Grossman, Vice Chairman, announced his decision to step down. After a transition period, his responsibilities have been assumed by other members of BlackRock's GEC.

- 5) **Specify separately the individuals (up to five) who you feel are key to the success of SamCERA's product. If the list has changed in the last eighteen months, identify and explain the change(s).**

The two key portfolio managers for the Fundamental Large Cap Growth portfolio are provided below, there have not been significant changes to the team in the last eighteen months.

<b>Name</b>	<b>Responsibility</b>
Jeffrey Lindsey, CFA	Portfolio Manager
Ed Dowd	Portfolio Manager

- 6) **Update all significant personnel changes to the "SamCERA Team" over the past eighteen months.**

There have been no significant changes to the team responsible for managing SamCERA's portfolio over the past eighteen months.

- 7) **Describe your firm's management succession plan. Have dates been established regarding the succession of any key personnel, specifically those reported in the preceding questions?**

To ensure continuity of leadership and management, BlackRock applies a team approach to portfolio management. We believe this approach offers substantial benefits over one that is dependent on the expertise of only one or two people and protects our clients from the departure of any single investment professional. In the event of the departure of member of the US Large Cap Growth Team, BlackRock would rely on the remaining team to ensure continuity for our clients.

- 8) **Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months? E-mail your firm's most recent ADV Parts I & II to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

From time to time, BlackRock, Inc. and its various subsidiaries have been subject to certain business litigation that has arisen in the normal course of its business. None of BlackRock's prior litigation has been, and none of its pending litigation currently is expected to be, material to BlackRock's business. Certain lawsuits filed against BlackRock have contained allegations of fiduciary duty.

In January 2005, September 2006 and December 2009, BlackRock acquired State Street Research & Management Company, Merrill Lynch Investment Managers and Barclays Global Investors, respectively. This response does not address any regulatory issues that arose from conduct that occurred within those organizations prior to their acquisitions by BlackRock.

The Form ADV has been sent via electronically to the email address above.

- 9) **When did the Securities & Exchange Commission, Attorney General, or the Financial Industry Regulatory Authority (FINRA) last audit your firm? Please note any material findings or recommendations.**

From time to time BlackRock and its various subsidiaries receive subpoenas or requests for information in connection with regulatory inquiries and/or investigations by, among others, the SEC, FINRA, NYSE and CFTC. None of these regulatory matters has resulted in any formal proceedings, fines or any other sort of discipline against BlackRock's management of the strategy.

On June 14 2010, BlackRock met with SEC staff members for a high level discussion of the use of derivatives by BlackRock's fixed income U.S. registered funds. We have responded to the SEC's request

for certain documents related to two BlackRock funds, including schedules of holdings, results of compliance testing and board meeting materials. We have had no further contact with the SEC.

In January 2005, September 2006 and December 2009, BlackRock acquired State Street Research & Management Company, Merrill Lynch Investment Managers and Barclays Global Investors, respectively. This response does not address any regulatory issues that arose from conduct that occurred within those organizations prior to their acquisitions by BlackRock.

**10) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

BlackRock maintains the following types of global insurance coverage:

Type
Investment Advisers Professional Liability (aka Errors & Omissions Liability)
Internet Professional Liability (aka Internet Errors & Omissions Liability)
Blanket Fidelity Bond (including Computer Crime)
ERISA Bond (Limits as required under ERISA)

BlackRock has recently renewed the above listed insurance policies. Although we do not disclose the level of coverage and carrier information, BlackRock only chooses insurers rated "Excellent" by AM Best and limits maintained are in keeping with industry best practices.

The most current insurance certifications has been sent via electronically to the email address above.

**11) Do you have a written policy on ethics? If so, please e-mail the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

BlackRock maintains a Code of Business Conduct and Ethics and an Advisory Employee Investment Transaction Policy (the "Policy"). Upon commencement of employment and annually thereafter, all employees must acknowledge in writing compliance with the provisions of the Policy.

Under the Policy, all employees are held to a standard of fiduciary duty that places the interests of our clients ahead of personal interests. Among others, the issues of "front running" and insider trading issues, are addressed. All personal investment transactions (unless specifically exempt under the Policy) must be pre-approved by the Legal and Compliance Department before an employee can effect a transaction in his or her personal account. In addition, employees must send duplicate copies of all trade confirmations and account statements to BlackRock's Legal and Compliance Department.

The most recent Code of Ethics has been sent via electronically to the email address above.

**12) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back-office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.**

BlackRock maintains a straight-through trade entry and confirmation process. Through the use of our centralized and integrated on-line trading and portfolio system, the Aladdin® Enterprise Investment System, BlackRock manages its trade flow in an efficient and controlled manner. The ultimate goal of

these procedures is to ensure that trades are booked, allocated, and confirmed on trade date. Likewise, interested parties (custodial banks, dealer counterparties) are provided with trade details and allocation information on trade date.

BlackRock's Operations and Administration Group oversees the orderly execution and settlement of daily trading volume for BlackRock's Fundamental Fixed Income assets. Leveraging BlackRock's leading-edge, proprietary developed technology capabilities, these groups interact with all areas of the firm and serve externally as liaisons between custodian banks and the broker-dealer community. John Davis and Ed Hart, both Managing Directors, co-lead the group.

*BlackRock Operations & Administration Group*

**Risk & Quantitative Analysis Group senior professionals**

Name	Title	Location	Product area
<b>RQA Professionals</b>			
<b>Ben Golub, PhD</b>	Managing Director	New York	Co-head of Global RQA
<b>Ed Fishwick</b>	Managing Director	London	Co-head of Global RQA
<b>Pierre Sarrau</b>	Managing Director	London	Head Global RQA BMACS
<b>Soledad Inguito</b>	Managing Director	Princeton	Head Global RQA COO/Perf Analytics
<b>Sal Parascandola</b>	Managing Director	New York	Head Global RQA Counterparty Risk
<b>Yury Geyman</b>	Managing Director	New York	Head Global RQA Fixed Income
<b>Maurizio Ferconi</b>	Managing Director	San Francisco	Head Global RQA Passive
<b>Sally Gordon</b>	Managing Director	New York	Head Global RQA Real Estate
<b>Jason Malinowski</b>	Director	Seattle	Head of RQA — BAA
<b>Norbert Schnadt</b>	Managing Director	San Francisco	Head RQA Corporate Risk/Ops Risk
<b>David Ridgway</b>	Managing Director	New York	Co-head of Global RQA Operational Risk
<b>Joel Coverdale</b>	Director	Hong Kong	Head of RQA — Hong Kong
<b>Shinichi Kawano</b>	Managing Director	Tokyo	Head of RQA — Japan
<b>R. Andrew Damm</b>	Managing Director	Princeton	Fundamental Equity
<b>Mary Warner</b>	Director	Boston	Fundamental Equity
<b>Vinod Chandrashekar</b>	Managing Director	San Francisco	Scientific Equity
<b>Selig Sechzer, PhD</b>	Managing Director	Wilmington	Fundamental Fixed Income & Liquidity
<b>Michael Huang</b>	Director	New York	Fundamental Fixed Income
<b>Matthew Wang</b>	Director	New York	Fundamental Fixed Income

*Aladdin Portfolio Services Group*

BlackRock's Aladdin Portfolio Services Group is responsible for new account set-up, Green Package risk report production, cash/position reconciliations, portfolio compliance, net asset values and performance. James Kong, Managing Director heads the group.

**13) E-mail your firm's most recent SAS 70 Report or equivalent to [gclifton@samcera.org](mailto:gclifton@samcera.org)**

The SAS70 has been sent electronically to the email address above.

**14) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?**

BlackRock's enterprise investment system (Aladdin®) integrates fixed income and equity risk analytics with a sophisticated trading platform that supports straight-through processing of investments from trade entry to compliance to operations to administration to reporting.

A key component of Aladdin is FALCON, which allows portfolio managers to construct a broad range of duration and/or curve positioning in all portfolios. FALCON allows portfolio managers to decide how trades should be allocated across eligible portfolios according to duration target and other key client guidelines, facilitating simultaneous implementation of changes in portfolio allocations or duration across all accounts. This minimizes dispersion and ensures equitable treatment among accounts, including those in the long duration strategy as applicable.

The Investment Teams also use Galileo™, BlackRock's global research database. Galileo allows analysts to share, store and access information and viewpoints across all of BlackRock's fixed income and equity investment teams.

We do not anticipate any changes to these systems in the next eighteen months.

**15) Provide an overview of your firm's business continuity plan as it relates to the investment process.**

BlackRock views Business Continuity Management ("BCM") and technology Disaster Recovery ("DR") as a critical and fundamental part of its ability to fulfill its fiduciary responsibilities to clients. As such, significant resources and effort are dedicated to the program.

BlackRock maintains business continuity and crisis response plans to facilitate the continuity of business in the event of a significant business disruption. BlackRock's executive management is responsible for oversight of the firm's BCM program, supported by the Business Continuity Management group, which manages the program.

In order to maintain a resilient information technology (IT) environment, the Disaster Recovery (DR) program has developed a strategy for near zero downtime and near zero data loss for all applications that support critical business processes as defined by the Business Continuity Management (BCM) Program. BlackRock employs a full time Disaster Recovery Manager to oversee its recovery program and ensure consistency across its global operation.

BlackRock's Business Continuity Management/Disaster Recovery programs have several key elements, including:

- Planning
- Training and Awareness
- Exercises and Testing
- Technology Processes
- Third Party Resiliency

**Planning**

There are five main areas of focus that comprise the BCM/DR planning that BlackRock performs:

1. **Business Impact Analysis:** The Business Impact Analysis (BIA) methodology is designed to assess both financial and non-financial impacts of a critical process on the business. Each department periodically reviews and updates their business continuity needs through a formal Business Impact Analysis template, managed by the Business Continuity Management team. The results of this process are used to perform a “gap analysis” to identify potential areas of improvement within Business Resumption Plans (BRPs). The appropriate groups address any significant gaps and revise their departments’ BRP as appropriate.
2. **Business Resumption Planning:** Business Resumption Plans (BRPs) are procedures designed to recover specific critical processes in support of continuity of operations in the event of a business disruption. These include recovery strategies for personnel, data, communications, information processing, and facilities. Recovery Time Objectives (RTOs) are created for all critical business functions and services, and are validated through annual exercise requirements. All BRPs are updated annually, or more often if conditions warrant, and are included in each department’s overall Business Continuity Plan (BCP).
3. **Disaster Recovery Plans:** Datacenter Recovery Plans incorporate the failover strategy and are comprehensive enough to recover from a catastrophic event affecting a data center facility yet modular enough to recover from the loss of a single server. The key elements of the Datacenter Recovery Plans include:
  - Communication Plan that identifies how personnel will be engaged when an event occurs as well as the frequency and method of communicating information and progress concerning the event.
  - Incident Management Plan that includes information for establishing and maintaining a command center, the responsibilities of the management team as well as a methodology for decision making and escalation.
  - Recovery Team Plans that document the requirements and processes that are needed to failover each application to an alternate processing site.
4. **Pandemic Policy:** Under ownership of Human Resources, the global pandemic policy is implemented at the local/regional levels to provide country and cultural considerations when responding to a pandemic event. A pandemic response framework addresses supplies, cleaning, social distancing strategies and crisis management response triggers.
5. **Response Planning:** In addition to department-level planning, BlackRock has a program devoted to response planning which includes a full-featured Crisis Management framework. BlackRock recognizes that communication is crucial for effective Crisis Management, and has implemented the following tools:
  - Crisis Management Call Lists that include key global and regional business heads;
  - An automated crisis notification system that can broadcast messages to designated staff in the event of a crisis. Notifications are sent via email, work and personal phones, and SMS;
  - Employee Status Lines and Emergency Websites to provide staff updates;
  - Employee emergency pocket cards that contain procedures for employee evacuation, assembly, check-in and communication;

### **Training and Awareness**

BlackRock uses several methods to keep employees aware of the critical role that they play in preparing for and responding to potential business disruptions. Primary methods used include mandatory annual on-line training, distribution of emergency pocket cards to all personnel, business recovery exercises, crisis management training and exercises, periodic educational intranet articles and periodic e-mails.

Furthermore, BlackRock uses the recovery tests as a method to ensure all personnel are prepared should a catastrophic event occur. Testing support is rotated among the staff so that everyone has an

opportunity to participate each year. As part of the planning for each test the Disaster Recovery Manager conducts a series of meetings to:

- Ensure each participant is aware of his responsibilities at time of recovery
- Conduct a plan walkthrough to review the timing and dependencies
- Complete a readiness assessment to validate that each participant, recovery plan and process are ready for recovery

### **Exercises & Testing**

BlackRock exercises its Business Continuity Plans to ensure the procedures for recovering business operations are appropriate, and ensures a key personnel competency with documented procedures. Similarly, facilities-based testing is conducted with BCM participation. Broadly, the firm requires:

- Remote Access (e.g., work from home)
- Alternative location exercises (e.g., work area recovery);
- System fail-over testing, including external vendors where appropriate;
- Evacuation drills, notification system tests and periodic generator tests.

Exercise results are documented and reviewed with all involved participants following each exercise. Recommendations for improvements to the recovery process are identified, required corrective action clearly defined and assigned to the appropriate personnel. These actions are tracked, completed and documented as appropriate.

BlackRock technology testing strategy includes an annual simulation of a catastrophic event for each of its datacenters that require the full execution of all Disaster Recovery Plans. DR tests are managed from a command center with full participation of all DR teams. Each DR team follows its plan step by step to validate the plan, make any necessary updates and record the actual recovery time. A Post Mortem report is completed following each test to:

- Identify all Lessons Learned
- Resolve all Issues
- Validate the Recovery Time Objectives

### **Technology Processes**

BlackRock emphasizes the need for reliable and repeatable technology processes. These processes are documented to a level of detail that allows execution by a person with skills in the appropriate technical discipline. Standards have been established to review and update each process as a result of:

- Application Releases
- Change Management
- Validation Reviews

### **Third-Party Resiliency**

One of the key components of the BCM planning process is our supplier management framework, which includes periodic reviews of the business continuity programs for key service providers. Risk assessments are used to determine the criticality of each service provider. For the most critical service providers, BlackRock conducts targeted reviews and evaluations of BCM plans and, where appropriate, on-site visits.

**16) E-mail your firm's most recent SAS 70 or equivalent to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

The SAS70 has been sent electronically to the email address above.

## Performance

**17) Is the performance composite constructed for SamCERA's portfolio in compliance with the Global Investment Performance Standards (GIPS)? When was the performance composite last audited?**

Yes, BlackRock is GIPS compliant. For purposes of compliance with the Global Investment Performance Standards (GIPS®), the "firm" refers to the investment adviser and national trust bank subsidiaries of BlackRock, Inc., located globally, with the exception of BlackRock Kelso Capital Advisors, LLC. This definition excludes: i) BlackRock subsidiaries that do not provide investment advisory or management services, and ii) the Absolute Return Strategies (funds-of-hedge-funds) business unit under the "BlackRock Alternative Advisers" platform.

BlackRock Inc is verified for compliance on a regular annual cycle for all business units, with the verification to June 2008 finalized.

**18) What is a reasonable expected tracking error to the Russell 1000 Growth Index? What are the expected sources of the tracking error?**

Portfolios are constructed on a bottom-up basis. Typically, stable growth holdings will represent 60-70% of each portfolio; the remaining 30-40% will be invested in opportunistic holdings in companies with accelerating earnings. Utilizing the BARRA U3 model, holdings are ranked from highest to lowest on a risk-adjusted basis (based on expected tracking error) to ensure that the highest confidence ideas are emphasized appropriately in the portfolio. The result is a risk-adjusted, conviction-weighted portfolio of our best investment ideas.

**19) Detail your firm's perspective of SamCERA's performance expectations, as spelled out in the Investment Management Agreement and SamCERA's Investment Policy. How is your firm doing relative to those expectations?**

SamCERA's performance expectation is for BlackRock to "Exceed the Appropriate Benchmark over a market cycle." BlackRock has not yet managed the account for a full market cycle, as of June 30, 2011, SamCERA's portfolio has underperformed the Russell 1000 Growth Index return by an annualized 29 basis points since the portfolio's inception on July 31, 2009 (20.32% vs. 20.61%).



**20) Please discuss your firm’s performance relative to the Russell 1000 Growth Index for the one, two and three year periods ending June 30, 2010.**

Please refer to Appendix A for the portfolio’s commentary.

Year	BlackRock Fundamental Large Cap Growth Composite (%)	Russell 1000 Growth Index (%)	Active Return (%)	Explanation
2Q 2011	-1.61	0.76	-2.37	Although an underweight to energy stocks benefited relative returns, disappointing stock selection ultimately led the portfolio to underperform the benchmark during the quarter. Key areas of weakness during the period included the information technology, industrials and consumer discretionary sectors.
2010	20.60	16.71	+3.89	Positive stock selection across several sectors generated outperformance in 2010. Stock selection within information technology generated the greatest excess returns, while stock selection in consumer discretionary and industrials also boosted performance. These factors more than offset negative stock selection in health care and financials.
2009	37.84	37.20	+0.64	Stock selection across several industries within information technology provided the greatest contribution to relative performance in 2009. In addition, an overweight in consumer staples and stock selection in industrials and materials added value. These factors modestly overshadowed negative stock selection in health care and financials.

**21) What is your firm’s source(s) for pricing equities? Does this source differ from that of SamCERA’s custodian, State Street Bank & Trust? How are pricing variances with the custodian resolved?**

BlackRock collects standard market convention valuations to price all portfolios. BlackRock prioritizes our pricing services so that while we may collect more than one price on certain securities, only the highest priority price is utilized for most portfolios. Pricing frequency varies depending upon client needs. Some client portfolios are priced daily depending on the mandate. All other portfolios are priced at least weekly and always at month-end.

BlackRock uses firm-wide accepted pricing services, including pricing vendors, index providers and broker-dealers to price all portfolios. Some of these pricing services include Barclays Capital Index, Reuters Pricing Service, and FT Interactive Data. Pricing services provide BlackRock with about 80% of prices, and broker-dealers provide about 20%. BlackRock designates specific pricing services for each sector of the market based upon the provider’s expertise. Pricing services are used to price standard securities such as Treasuries, futures, exchange-listed options, TBA mortgages, municipal bonds, and corporate bonds. BlackRock leverages broker-dealers to price structured products and many derivatives. Generally fixed income assets are priced at a clean bid price, while derivatives are priced at a dirty market value.

BlackRock maintains daily and monthly controls to ensure completeness and accuracy of all prices received from any vendor. These controls are reviewed and documented for quality control and audit purpose. These controls can be viewed in BlackRock’s SAS70.

As noted, BlackRock maintains a straight-through trade entry and confirmation process. Through the use of our centralized and integrated on-line trading and portfolio system, the Aladdin Enterprise Investment System, BlackRock manages its trade flow in an efficient and controlled manner.

**22) Are there pricing issues relative to methodology or pricing sources utilized by your firm versus those utilized by the benchmark?**

There no pricing issues utilized by the firm versus the benchmark.

**23) Is SamCERA's benchmark, the Russell 1000 Growth Index, appropriate?**

Yes, we believe the benchmark is appropriate

## Investment Strategy and Process

**24) Provide a description, in detail, of your investment philosophy, strategy, and process, including your research effort and portfolio construction rules. Describe how the portfolio managers and research analysts interact in the investment process. Do the portfolio managers work individually or in teams? How is the work divided among managers?**

### Investment Philosophy

We believe two different types of stocks offer excess returns in the large cap growth universe over time: stable growth and opportunistic. Commitment to a disciplined balance of both types of stocks, identified through bottom-up research, is essential in producing consistent alpha. Flexibility to emphasize either stable growth or opportunistic stocks as market and economic conditions dictate enables us to excel in a wide variety of market environments. Finally, we believe that sizing individual positions according to conviction and risk contribution optimizes risk-adjusted returns.

### Investment Process

We focus on publicly-traded US equity securities for companies with market capitalizations above \$2 billion. We begin with constituents of the Russell 1000® Growth Index and use the Beta 2 model to capture additional stocks outside the benchmark with our desired characteristics. Large cap ADRs are also considered when permitted by clients. This process results in an investable universe of approximately 500 to 600 securities. Each of our portfolio managers and research analysts has significant sector experience and is responsible for covering their respective sectors within the universe.

Detailed internal fundamental research and analysis drives stock selection in the portfolio. In researching investment opportunities, our analysts seek to identify companies that either exhibit stable growth or accelerating earnings. For stable growth companies, analysts utilize meetings with company managements, industry contacts, internally-developed sector-specific screens, and the insight of other BlackRock investment teams to identify those companies with steady historical earnings growth and attractive relative valuations. In opportunistic candidates analysts look for accelerating earnings and rising earnings expectations. We consider factors such as earnings momentum, estimate revisions and earnings surprise.

The team holds daily morning meetings. In this structured environment, discussions cover current holdings, buy/sell recommendations, new investment ideas, research findings, plus capital market and economic events. In addition, more informal stock-specific conversations occur throughout the day. The portfolio managers and analysts work in partnership to conduct fundamental analysis and generate new ideas. Each stock purchase is supported by an investment thesis. While the portfolio managers make the ultimate decisions on purchases and sales, the investment process is a collaborative effort and involves all team members.

Portfolios are constructed on a bottom-up basis. Typically, stable growth holdings will represent 60-70% of each portfolio; the remaining 30-40% will be invested in opportunistic holdings in companies with accelerating earnings. Utilizing the BARRA U3 model, holdings are ranked from highest to lowest on a risk-adjusted basis (based on expected tracking error) to ensure that the highest confidence ideas are emphasized appropriately in the portfolio. The result is a risk-adjusted, conviction-weighted portfolio of our best investment ideas.

Portfolios typically hold 60-80 positions, with approximately 30-40% invested in the top ten holdings. While sector weights are primarily a result of bottom-up stock selection, they are typically kept within 10 percentage points of benchmark sector weights. Individual positions do not exceed 5% at cost unless they constitute more than 3% of the benchmark. Portfolios are fully invested except for frictional cash. Typically, we expect annual turnover to range from 70 to 100%.

## **Research**

Fundamental research is the focus of the team's investment process. Portfolio managers and research analysts work in partnership to understand business fundamentals and valuations of securities in our investment universe.

We believe that portfolio managers must also be good analysts. A deep-rooted understanding of the stocks held in the portfolio is central to making buy and sell decisions that add value. As a result, all members of the team are involved in the fundamental research process. Our research process is highly collaborative. Members of the team have extensive experience conducting fundamental research in growth industries, and they recognize that each industry requires a unique perspective. Therefore, each team member has primary responsibility for a particular sector or industries and conducts independent research on companies that meet the initial capitalization and growth requirements.

Potential investment candidates undergo a rigorous fundamental research process that includes a detailed review of both industry and company-specific fundamentals. We do this in a variety of ways, such as in-depth financial statement analysis, an examination of the company's competitive positioning, and an analysis of the company's resources. Analysts review revenue and earnings growth opportunities, profitability trends, financial strength, and quality of management. Company visits and industry conferences play a critical role in assessing a company's potential for investment. We conduct regular meetings with company management in order to evaluate the quality of the management team and to assess management's strategic plan and its ability to execute that plan. Analysts establish an investment thesis for each new stock purchase, identifying specific drivers for future earnings growth, and they generate proprietary earnings forecasts to determine an initial price target.

In addition to their own primary research, the team leverages the investment expertise of BlackRock's other equity, fixed income, real estate and alternatives investment professionals globally to provide additional insights into existing or potential holdings through several forums. Communication across investment teams yields powerful insights; BlackRock has emphasized this collaboration for many years. The daily Global Morning Call, led by Rob Kapito, President, is a forum for sharing market developments and perspectives; it includes all investment professionals at BlackRock and covers all asset classes. In addition, equity investment professionals share ideas globally in the weekly equity portfolio management call, chaired by Bob Doll in his role as BlackRock's Global CIO for Equities. This group addresses macro themes, and sector and industry ideas. Each week features a different topic and interactive discussion ranging from sector debates, macroeconomic surveys, government policy assessments, and common risk factor observations. Members of the Fundamental Large Cap Growth equity team have also established informal regular dialogues with their counterparts on other investment teams, and this collaboration supplements and enhances the team's own research efforts by integrating other viewpoints.

BlackRock relies exclusively on internal research for investment decisions, and approximately 80% of research considered in the stock selection process is internally generated. External research sources include brokerage firms, vendors, and databases such as FactSet, Bloomberg, Baseline and BARRA for financial statement statistics, consensus earnings estimates, technical trading information, pricing history, and current news.

## **Buy and Sell Discipline**

As noted, the team focuses on companies with market capitalizations above \$2 billion. The investable universe is segmented into two distinct groups; securities are categorized as either stable growth or opportunistic. Stable growth candidates are typically mature companies that have demonstrated a pattern of steady earnings growth over time. Opportunistic candidates tend to exhibit earnings momentum or possess a catalyst for the company to accelerate earnings such as a product cycle or new management team.

The team incorporates consistent, yet flexible, buy and sell disciplines within the investment process.

The discipline and value of our decision making process does not rely on the meeting of any exact mathematical hurdle or formula. Rather, it results from the thoroughness of our work as analysts. We focus intently on developing a clear investment thesis for each new stock purchase. The investment thesis summarizes the reasons we believe a selection should be purchased for the portfolio and is based on catalysts and our fundamental assessment.

The team applies the following criteria to potential buy candidates:

#### **Stable Growth Holdings**

- Demonstrate consistent earnings growth over 3-5 years
- Sustainable competitive advantages
- Strong management with a proven ability to execute
- Attractive relative and absolute valuation

#### **Opportunistic Holdings**

- Earnings momentum
- Above-consensus earnings
- Clear catalyst for near-term surprise

We believe that the decision to sell is as important as the decision to buy, and we carefully monitor portfolio holdings. We will trim or sell a holding for one of four primary reasons. First, if the original investment thesis breaks down, we will quickly move away from the stock rather than looking for other reasons to continue to own it. A deteriorating investment thesis could be due to a slowing growth rate, a loss of confidence in company management, or a company failing to accelerate earnings and provide earnings upside. Second, we will trim or sell a position when valuation has increased significantly resulting from dramatic price movement in an opportunistic holding or an unjustified premium for a stable growth holding. The third reason to sell is for portfolio construction and risk management; when a stock is performing well it may approach our maximum position size or contribute too much risk to the portfolio. Finally, we may sell a stock if a more attractive opportunity has been identified.

Jeff Lindsey, CFA, Managing Director, has led the Fundamental Large Cap Growth equity team since inception. Jeff Lindsey and Ed Dowd, Managing Director and portfolio manager, are responsible for all buy and sell decisions within the portfolios. In addition, the six-person, Boston-based investment team includes three research analysts and one dedicated trader.

In September 2002, Jeff joined State Street Research & Management as CIO for Growth Equity and took over management of the firm's large cap growth equity portfolios. He established the current investment team at that time, and implemented a philosophy and process that he had constructed previously. This strategy has remained consistent since inception. On 31 January 2005, BlackRock acquired State Street Research & Management. As a part of the acquisition, the entire team joined BlackRock.

#### **25) What is the market capitalization purchase range for this product? What are the portfolio construction rules regarding market capitalization? Are sell disciplines directly tied to market capitalization?**

As previously noted, we focus on publicly-traded US equity securities for companies with market capitalizations above \$2 billion. We begin with constituents of the Russell 1000® Growth Index and use the Beta 2 model to capture additional stocks outside the benchmark with our desired characteristics. Large cap ADRs are also considered when permitted by clients. This process results in an investable universe of approximately 500 to 600 securities. Each of our portfolio managers and research analysts has significant sector experience and is responsible for covering their respective sectors within the universe. Please refer to our response to Question 23 above for additional information on our sell discipline.

**26) Discuss your firm's investment strategy relative to market environments. Are there market cycles that are particularly favorable to your firm's investment strategy and process? Are there market cycles that are historically difficult for your firm's investment strategy and process?**

The Fundamental Large Cap Growth team's flexible investment approach seeks to produce active returns in varying market conditions. While we feel the combination of stable growth (typically 60-70% of the portfolio) and opportunistic holdings (typically 30-40% of the portfolio) allows us to deliver competitive returns in most environments, the strategy will occasionally experience periods of underperformance. Given our relatively high exposure to stable growth companies, it is likely that the portfolio will trail its growth benchmark when the market becomes more speculative, tending to favor lower quality companies that may not have strong or improving fundamentals.

**27) Provide a full review of: (a) a performance attribution which reflects your assessment of the value added by your investment discipline, (b) your assessment of the risks associated with SamCERA's portfolio, and (c) methodologies employed to evaluate risk, including a description of the software(s) you have in place.**

Over time, stock selection accounts for 80% of the portfolio's outperformance. The strategy's reliance on bottom-up stock selection enables the team to generate outperformance in a variety of market environments.

As of June 30, 2011, the SamCERA portfolio has a beta relative to the Russell 1000 Growth Index of 1.06, and a forecasted ex-ante tracking error relative to the Index of 3.32. No individual security or industry contributes more than 10% of active risk.

We view the process of risk measurement, monitoring, and management as integral to our overall investment process. We actively measure and manage risk using a range of qualitative and quantitative techniques. Risk management is the responsibility of the investment team and the Risk & Quantitative Analysis Group (RQA), which leverages the resources of BlackRock Solutions, the firm's risk management and analytics group.

At the portfolio level, we view risk to be deviation from the benchmark, and we look at forecasted (ex-ante) tracking error as our primary risk measure. Monitoring adherence to the Fundamental Large Cap Growth process and style is part of our risk analysis. Individual stock contribution to active risk is continually monitored and individual position sizing incorporates risk expectations.

We monitor risk daily. Daily risk reports enable the portfolio managers and members of the Risk & Quantitative Analysis Group to regularly review the fundamental portfolio characteristics and performance relative to the style, benchmark, and sector and industry weightings.

BlackRock uses FactSet Portfolio Analysis software and a BARRA model for benchmark-relative return analysis and to identify the sources of active return. The portfolio management team reviews FactSet performance attribution to understand the contributors of absolute and relative performance on a monthly basis. This attribution provides security, industry and sector level information and dissects total performance into stock selection and sector allocation effects. Stock selection is typically the most significant source of added value.

In addition, RQA reviews data from the BARRA U.S. Equity3 model on a monthly basis. The model breaks active return down into multiple categories, including industry selection, stock selection, returns from various stock factors and returns from market timing. This analysis allows the investment team to see if value is being added commensurate with the risk assumed and provides an indication of how well

the strategy is being applied. RQA meets with the each portfolio manager on a quarterly basis to formally review this information.

**28) Describe your compliance procedures in detail. To whom does compliance report?**

BlackRock has professionals dedicated to both regulatory and portfolio compliance. Bartholomew Battista, Managing Director, is Chief Compliance Officer for BlackRock and is responsible for oversight of regulatory compliance. He is BlackRock's primary contact for government regulators, including the SEC, FINRA, CFTC, Office of the Comptroller of the Currency and Federal Reserve Board. He reports to Robert Connolly, Managing Director and General Counsel, who heads the Legal and Compliance Department and has overall responsibility for all legal affairs and regulatory compliance for the firm. Mr. Battista and Mr. Connolly have been with BlackRock since 1998 and 1997, respectively.

The Legal & Compliance Department currently consists of approximately over 60 full-time legal professionals and over 40 full-time compliance professionals). The individuals in BlackRock's Legal & Compliance Department devote 100% of their time to legal and compliance related matters. This does not include Portfolio Compliance employees.

**29) Describe your trading procedures in detail. What trading platforms does your firm use?**

When the Fundamental Large Cap Growth team makes a decision to purchase or sell a particular security, an electronic trade ticket is issued to the equity trading team. John DeMarco is the trader dedicated to our Fundamental Large Cap Growth team. Portfolio management and trading teams both utilize the MacGregor trading system for order creation and execution. Traders then electronically communicate trade orders with broker-dealers, and often follow up with a phone call. The order and the execution are relayed electronically to avoid errors.

After the trade has been entered into MacGregor XIP, the order management system (OMS), Front-end compliance is automatically checked in this system. Front-end restrictions can include limitations on transactions with affiliates or specific brokers; transactions in securities of certain affiliates of the client; specific prohibitions on security types (no futures, options, private placements); and security rating limitations (e.g., only investment grade). If a trade generates a restriction the portfolio manager sees a pop-up notice. A trade may not be entered if there is a "restriction" unless proper authorization is received to permit the transaction.

Once trades are completed and confirmed by our middle office operations staff, the trades are automatically routed to Aladdin<sup>®</sup>, BlackRock's proprietary trade management and risk analytical system. Through Aladdin, trades are captured electronically, compliance is automatically checked, transactions are confirmed and trade information is automatically routed to custodian banks and accounting agents leveraging industry mechanisms like SWIFT. The result is a paperless, exception-based investment management process that leverages the latest technology and industry standards to deliver robust information processing capabilities.

All information including transactions, positions, risk measures, prices, security master data and client investment guidelines are maintained within this central database. Information on each transaction is passed electronically between all professionals involved in managing or servicing an individual account. Aladdin's use of a single database eliminates redundant data input, enhances data integrity, significantly reduces operational and compliance risk, increases firm-wide operating leverage and provides consistency across disparate activities.

Trade allocation is achieved through FALCON, BlackRock's fund allocator, which is part of our proprietary-developed trading system. FALCON allows portfolio managers to decide how trades should be allocated across eligible portfolios, i.e. by duration target, etc., and FALCON then distributes the

securities according to client guidelines. Changes in portfolio allocations or duration are implemented simultaneously across all eligible accounts in order to minimize dispersion and ensure fair treatment among accounts.

The average daily trading volume for the Fundamental Large Cap Growth strategy is \$52MM and approximately 2MM shares.

As noted, portfolios typically hold 60-80 positions, with approximately 30-40% invested in the top ten holdings. While sector weights are primarily a result of bottom-up stock selection, they are typically kept within 10 percentage points of benchmark sector weights. Individual positions do not exceed 5% at cost unless they constitute more than 3% of the benchmark. Portfolios are fully invested except for frictional cash.

**30) Does your firm monitor trade effectiveness? If so, how is that documented? To whom does trading report?**

BlackRock maintains a straight-through trade entry and confirmation process. Through the use of our centralized and integrated on-line trading and portfolio system, the Aladdin Enterprise Investment System, BlackRock manages its trade flow in an efficient and controlled manner. The ultimate goal of these procedures is to ensure that trades are booked, allocated, and confirmed on trade date. Likewise, interested parties (custodial banks, dealer counterparties) are provided with trade details and allocation information on trade date.

Once a portfolio manager has executed a trade with a counterparty, he or she will enter the details of the transaction into Aladdin's TradeEntry screen. This "trade ticket" contains all of the relevant elements of the block trade (issue, coupon, maturity, identifiers, buy/sell, block quantity, trade date, settlement date, and net money). The trade will also contain the portfolio allocation. Once this information is entered, and compliance restrictions are checked, the trade is posted in the system and ready for confirmation/affirmation and settlement.

All posted trades appear in the Aladdin Dashboard. This system is color coded to display those trades that are posted and need to be confirmed as well as confirmed transactions. BlackRock Trading Operations manages the trade flow by confirming all posted transactions with the dealer counterparts. This is done via two methods: eConfirm or verbal/autofax checkout.

**eConfirm:** Sales contacts at BlackRock's primary dealer counterparties have access to a BlackRock maintained website called eConfirm. Dealer contacts access the password protected website to submit the block trade notification details for executed trades to BlackRock. Submitted block trade details are matched electronically in BlackRock's Aladdin trading system. Acknowledgement of the confirmation and portfolio allocations are then routed back to the dealer via the eConfirm site. The dealer sales contact reconfirms the block-level details and acknowledges receipt of the portfolio allocation by electronically confirming the block trade and allocation details.

**Verbal Checkout:** The dealer sales desk contacts BlackRock Trading Operations to verbally check trade details. The dealer contact reads the critical block details to BlackRock Trading Operations. Once BlackRock Trading Operations confirms the trade with the dealer verbally, block trade details and portfolio allocations are sent to the dealer via autofax confirmation. The dealer sales contact reconfirms the block-level details and acknowledges receipt of the portfolio allocation by signing and faxing the confirm back to BlackRock Trading Operations.

Once all trade details are agreed to, the trade is confirmed by BlackRock Trading Operations. The confirmer enters his or her initials as well as the sales representative's name on the trade. The trade is then reapplied turning it green (confirmed status). Once a transaction is confirmed (green), a trade notification is automatically generated to the custodial bank via auto fax or SWIFT messaging.



Reconciliation with custodians for our separate account clients is typically performed in two different processes: daily and monthly. BlackRock's Operations Group reconciles all trade settlement balances and subscriptions and redemptions daily to the client's custodian/administrator. Any exceptions are communicated to the custodian and resolved. On a monthly basis, BlackRock's Administration Group performs comprehensive cash balance reconciliation against the custodian's audited records. In addition, NAV, portfolio performance and position reconciliation procedures are performed periodically and whenever the difference in a portfolio's total value exceeds a 25 basis point threshold.

**31) How many brokers were used in calendar year 2010? List the top ten brokers used during that period.**

During 2010, the Fundamental Large Cap Growth team traded with approximately 60 brokers. The top 25 brokers accounted for 95% of the volume traded during the year.

**32) Have you discontinued the use of any broker in the past eighteen months?**

None.

**33) Does your firm have a policy regarding the selection, review and usage of brokers and counterparties? If you do, please e-mail a copy of the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

BlackRock's philosophy is to manage counterparty credit risk conservatively. As such, the firm actively and aggressively monitors counterparty credit risk exposures globally and evaluates counterparty credit quality on a continuous basis. We believe that our policies and procedures for counterparty risk management are robust and thorough, and recent market events have not required us to revise our approach.

In 2005, BlackRock established the Counterparty Credit Risk Management Group (the "Group"), a dedicated team of professionals that leads the global process for managing counterparty risk. The Group is responsible for managing credit risk in all trading relationships with counterparties and to that end coordinates with Credit Research, Portfolio Management, Operations, and data integrity functions across the organization. The Group monitors and assesses counterparty exposures arising from a wide range of instruments that include derivatives, mortgage TBAs, foreign exchange, financing trades (repo), equities, and other forward-settling transactions. Reporting is generated to show aggregate risk exposures by counterparty and by portfolio.

The Counterparty Credit Risk Management Group developed the firm-wide Counterparty Credit Policy and Procedures, and is responsible for implementing, updating and enforcing it, as follows: (1) assess prospective counterparty creditworthiness and approve counterparties, (2) measure and monitor credit exposure to each counterparty, broken out by asset classes, (3) monitor financial performance of counterparties in order to establish, confirm, or adjust exposures, as needed, (4) monitor levels of exposure by product, by tenor, and by counterparty, and provide feedback to portfolio management when aggregate exposures warrant, and (5) provide guidance and supervision of credit issues for ISDA and other derivatives documentation.

The Firm has Credit Alert Procedures which serve as a guideline for the action and interaction of key BlackRock constituencies in the case of a counterparty related "credit event." These procedures specifically contemplate the coordination among the Counterparty Credit Risk Management, Portfolio Management, Legal, and Operations groups in order to facilitate BlackRock's ability to make timely and informed decisions following the recognition of credit concerns. The major aspects addressed include fact finding, communication, liquidation and close-out, and key roles and responsibilities.

## **BlackRock's Counterparty Approval Process**

BlackRock focuses primarily on counterparty credit risk and counterparty reputation risk. Counterparty credit risk is the potential loss that BlackRock or our clients' accounts could incur if a counterparty is unable to perform on its trading commitments. Reputation risk is defined as the risk to earnings or capital arising from negative public opinion. The process by which we select broker/dealer counterparties for transaction purposes is outlined below.

*Determine the nature of the proposed transaction activity:*

What are the securities to be traded? What is the expected volume by security?

*Determine the settlement and delivery procedure:*

How are we going to receive monetary compensation in exchange for delivering the particular security in question? If we are going to receive securities, how is the counterparty going to deliver those securities? Is settlement through an established clearing platform or is there also a physical settlement? From a delivery risk perspective, we view DTC and Fed settlement along with settlement through several other established trading and clearing platforms to be of limited risk. We view settlement via other methodologies as bearing potentially significant risk, and generally limit it to only those counterparties who have had investment grade debt ratings (for senior unsecured debt) for an extended period of time.

*Determine if the proposed counterparty settles "directly" or uses a correspondent:*

Most "agency" counterparties utilize correspondents to clear securities for them. If they do so, who are they using? On what basis are they clearing (fully disclosed or otherwise)?

BlackRock will only accept clearing correspondents that are well-capitalized, well-established, and possess a favorable reputation in the marketplace (investment grade in most cases).

*Settlement risk tolerance levels:*

BlackRock has established tolerance levels for our exposure to settlement risk (defined as a credit balance on all trades outstanding but not settled). The level reflects our settlement risk tolerance per counterparties and is monitored by BlackRock's Counterparty Credit Risk Management Group, Operations, and Compliance personnel on a daily basis. If the limit is exceeded, the trade details are reviewed in concert with the counterparty's financial strength in order to determine if any intervention is required.

*Financial review:*

Our view is that the level and trend of excess regulatory capital, as shown in the financial information, is the principal barometer of the financial strength of our counterparty. Most brokerage firms are required to calculate and report this figure to regulatory authorities on a periodic basis. We are directly interested in ensuring that the process is maintained.

Therefore, investment grade counterparties are monitored as part of our ongoing credit research process, which includes daily corporate bond morning meetings and monthly watch list meetings. Our credit research analysts review financial statements on a quarterly basis.

As previously stated, non-investment grade counterparties are required to clear through investment grade clearing correspondents and are limited to short settlement trades. Current regulatory financial filings are reviewed on an ongoing basis.

## **Counterparty Monitoring**

BlackRock prefers to have multiple counterparties to ensure sufficient liquidity, risk management, and best execution. The counterparties with which we trade must have broad market coverage. With respect to OTC derivatives, exposure to each counterparty is monitored, and agreements are diversified to minimize exposure to individual counterparties. Positions are marked-to-market on a regular basis.

BlackRock's standard approach is to negotiate threshold limits in each agreement at zero, minimum transfer amounts to \$500,000, and independent amounts (or initial margin) are set to zero. Margin calls are made on a dealer-by-dealer basis for each portfolio in line with respective master agreement terms.

To monitor post-trade counterparty risk, BlackRock has a strong technological infrastructure and proprietary internal review processes in place. In 2002, BlackRock built DECO, our derivatives collateral management system. DECO automates daily monitoring of collateral requirements for OTC derivative instruments (including forward FX trades as applicable) governed by master agreements. DECO is incorporated into our firm-wide Aladdin platform.

BlackRock also has a number of reporting tools that allow us to manage counterparty exposure, balancing net exposures to our different counterparties. Where necessary, credit risk exposure to counterparties can be adjusted, both at the individual portfolio level and at the aggregate firm-wide level.

**34) Describe your firm's policies regarding the use of soft dollars. If soft dollar arrangements were not used to acquired products and services in 2010, what would be the dollar increase in your firms total operating expenses?**

The Portfolio Management Group of BlackRock believes that research and brokerage services obtained through client commission arrangements enhance its investment research and execution process, thereby increasing the prospects for higher investment returns. In order to seek compliance with regulatory requirements and with BlackRock's own policies, all client commission arrangements must comply with the legal guidelines established in Section 28(e) of the Securities Exchange Act of 1934 and BlackRock's Soft Dollar Policy.

BlackRock does not generate soft dollar credits in connection with the execution of trades for its fixed income clients.

**35) Describe how your firm obtains and pays for outside research reports. Please list the primary sources of research upon which your firm relies.**

BlackRock relies exclusively on internal research for investment decisions, and approximately 80% of research considered in the stock selection process is internally generated. External research sources include brokerage firms, vendors, and databases such as FactSet, Bloomberg, Baseline and BARRA for financial statement statistics, consensus earnings estimates, technical trading information, pricing history, and current news.

**36) Please disclose the firms you employ for introductions to industry experts.**

The Fundamental Large Cap Growth team does not employ firms for introductions to industry professionals.

**37) Describe your firm's policy regarding directed commissions. Is there a maximum amount of trades that you allow to be directed? What percentage of your clients direct commissions? What are the advantages and disadvantages to a client who directs commissions?**

BlackRock permits a client to designate a broker or dealer to execute a portion of that client's trades in the Fundamental Large Cap Growth strategy. In situations where the client designates the broker-dealer, BlackRock may not be in a position to freely negotiate commission rates or spreads, obtain volume discounts on aggregated orders, or to select brokers or dealers on the basis of best price and execution. As a result, directed brokerage transactions may result in higher commissions, greater spreads or less favorable execution on some transactions than would be the case if BlackRock were free to choose the broker or dealer. Directed brokerage transactions are not within the safe harbor of Section 28(e).

Please refer to the attached trading policy for additional information.

**38) What percentage of each of the following does the portfolio account for? Please estimate if exact figures are not available or disclosed.**

	<b>Fundamental Large Cap Growth Portfolio</b>
<b>Firm Assets</b>	<1%
<b>Firm Revenue</b>	See comment
<b>Firm Profit</b>	See comment
<b>Total Firm Work Hrs.</b>	See comment

Comment: SamCERA's portfolio accounts for less than <1% of BlackRock's AUM. As this strategy is managed by a large team working on multiple products simultaneously, specific revenue and work hour information is not available.

**39) What are the current assets in this product? What are the capacity constraints for this product and who determines the constraints? How does your firm determine the capacity threshold?**

The Fundamental Large Cap Growth strategy is not a capacity constrained product, given the large and liquid nature of the investment universe. We do not anticipate the need to close it to new investment. However, the product's asset levels are reviewed regularly to ensure that our size does not inhibit our ability to effectively manage our clients' accounts and provide consistent, high-quality client service.

## Outlook

### 40) What is your firm's outlook for the domestic equity markets?

BlackRock does not publish a firm-wide outlook for domestic equity markets as individual equity teams are free to generate their own views. The Fundamental Large Cap Growth Team invests from the bottom up, and does not make macroeconomic or market projections. The following represents the team's current opinion as of June 30, 2011.

Recent economic data suggests a weakening of the US recovery, and slowing GDP growth globally. As a result we've seen a reduction in risk from investors. We continue to focus on individual company fundamentals, which remain very strong, and maintain an opportunistic bias in the portfolio. Given the strength of the rally since September 2010, and the overall headwinds to the global economy (high commodity prices, sovereign debt levels, slowing growth), we have recently been reducing our investment in the higher growth opportunistic holdings, and investing in high quality global franchises which are trading at very compelling valuations.

### 41) What issues are other clients concerned with in regards to products, markets, education and governance?

Given the events of the past year, we are seeing the following trends or areas of emphasis:

- Identifying and maintaining of liquidity
- Managing portfolios more closely to liabilities
- Desire for greater transparency
- Greater use of indexed products
- Re-evaluating organizational decision-making
- Currency hedging
- Movement towards broader international market exposures
- Understanding the potential impact of higher deficits/inflation/deflation/etc., on the plan

To the last point, we have had several discussions with clients around the policy portfolio, and whether investors should look to replace a strategic policy with a more tactically oriented approach. We think it unlikely that tactical portfolios based on forecasting regime shifts can succeed. Instead, we think it more sensible to use a policy portfolio that is strategic, but hedged to account for a lower predictability of returns.

### 42) What is on the horizon for your firm's business plan?

BlackRock's mission is to create a better financial future for our clients by building the most respected investment and risk manager in the world. We believe our merger with Barclays Global Investors is a key step in reaching this objective. The transaction combined two market leaders to create a comprehensive investment platform, with a unique ability to develop investment solutions for our clients. Our focus is on the following goals:

**Customized solutions for clients.** We believe in working in partnership with our clients and their advisers to develop innovative, customized solutions, rather than just products, to meet their investment objectives and solve the complex problems they face. We offer a wide spectrum of solutions that can be tailored across several dimensions, including those aiming to better integrate the risk management of specific liabilities with a diversified range of value-adding strategies, from fixed income to equities to alternatives.

**Further developing BlackRock Solutions, our risk management business.** One of the firm's strategic objectives over the next several years is to establish BlackRock Solutions as the preeminent risk management platform and advisor. BlackRock Solutions risk management services and enterprise investment system outsourcing are an outgrowth of our longstanding investment in sophisticated, integrated systems to support risk management and investment operations. The potential for this business over the next few years is considerable and success will allow for significant reinvestment back into the business to maintain our competitive position.

**Continuing to enhance our global presence.** Since our inception, BlackRock has continually sought ways to enhance our ability to serve our clients. We have broadened and deepened our general capabilities through both organic growth and strategic acquisitions. We have also tried to capitalize on the key macro trends that are shaping the future of asset management. Our merger with BGI strengthened our world-class investment and risk management capabilities and transforms BlackRock into a truly global investment manager. We are committed to ensuring consistency of what we do on a global basis, and to tailoring investment management and services according to specific client or local needs.

**43) Describe your assessment of the relationship between your firm and SamCERA. How can we better utilize your firm's capabilities?**

BlackRock has been managing assets for SamCERA for more than a decade and greatly values the relationship. The firm today has a truly global investment platform and is deep in resources. We should encourage SamCERA to utilize those resources as much as needed.

## Conclusion

**44) Is there any information that would be timely pursuant to SamCERA's Investment Policy, the Investment Management Agreement with SamCERA, and this annual review?**

None.

**45) Are your clients making significant changes in their asset mixes? Please describe these changes.**

There is a continued evolution toward full globalization. Many clients are taking global view with respect to their investment portfolios and US pensions have decreased their home equity over the past decade. For instance, the traditional US/Non-US equity allocation benchmarked to the MSCI EAFE Index is changing to more of an ACWI World format. In addition, there is an increasing interest in real assets classes: commodities have gained nearly \$4 billion in net inflows in 2009 making this asset class the most popular strategies in terms of inflows.

**46) What market opportunities should SamCERA consider?**

- Emerging Markets and Frontier Markets
- Alternative investments including hedge funds, private equity, commodities and real estate

Annual Review  
BlackRock – Russell 1000 Index Fund



## Organizational Update

### 1) Please provide an update on BlackRock's acquisition of Barclays Global Investors.

Our number one goal throughout the integration has been to ensure that our portfolio managers remained focused on meeting their investment objectives. Our Model-Based Fixed Income strategies continue to demonstrate good performance, and steps to strengthen our Fundamental Fixed Income platform are beginning to reap benefits in improved performance. Additionally, Fundamental Equity performance has been strong versus the volatile markets witnessed in the first half of the year. While parts of our Scientific Investments platform have performed well, other parts remain challenged. In our Scientific Active Equity platform, Blake Grossman and Ken Kroner have continued their focus on enhancements to the investment process and we are confident that we are positioned to deliver improved investment performance in the future.

The integration has been progressing very well – in many ways ahead of schedule. We have made important strides in integrating the technology and operations platforms of BlackRock and BGI. Today, over 65% of our assets under management are managed through our Aladdin platform and we are on track to reach our goal of 100% by the end of 2011. As we had expected, the integration, like any major business combination, has involved some challenges and required some organizational changes. However, we are fortunate to have a talented and broad leadership team, and we have experienced exceptionally low turnover throughout the integration process – with global turnover of just 2% at the Managing Director level (through June 30).

### 2) What is the current ownership structure of your firm? Please identify all owners with 5% ownership or more.

Please refer to our response to Question 1 in the Fundamental Large Cap Growth questionnaire.

### 3) What will be the new ownership structure? Please identify all owners with 5% ownership or more.

Prior to the Barclays transaction on 1 December 2009, Merrill Lynch and PNC owned approximately 4.8% and 46.4% of BlackRock's voting common stock, respectively, and approximately 47.4% and 31.5% of BlackRock's capital stock on a fully diluted basis, respectively. The remaining approximately 21.1% of the capital stock was held by employees and the public.

### 4) Provide an update of the growth and acquisition of assets under management, the clients gained and the clients lost in the past year for the Russell 1000 Index Fund.

	AUM (\$MM)
2010*	39,012
2009	42,880
2008	42,984

\*As of June 2010

#### Account Gained and Lost

	Gained		Lost	
	Accounts	AUM (\$MM)	Accounts	AUM (\$MM)
2010*	9	461	3	188
2009	16	10,767	2	64
2008	9	1,585	7	6,997

\*As of June 2010

### 5) What is your firm's philosophy and current policy regarding new business for the Russell 1000 Index Fund?

While there is no current capacity target for the index equity strategies, monitoring product capacity is integral to our portfolio management process across all strategies at BlackRock. We recognize that at some very large scale of assets there is the potential for trading liquidity and transactions costs to materially interfere with the investment process. Therefore, we remain vigilant in proactively monitoring this important aspect of each strategy's long-term performance.

**6) Update all significant personnel changes to the "SamCERA Team".**

There have been no significant changes in the team that manages the portfolio for SamCERA.

**7) Please specify separately the individuals (up to ten) who you feel are key to the success of BlackRock.**  
Please refer to our response to Question 1 in the Fundamental Large Cap Growth questionnaire.

**8) Please specify separately the individuals (up to five) who you feel are key to the success of the Russell 1000 Index Fund.**

Name	Responsibility
Amy Schioldager	Global Head of Index Equity
Corin Frost	Global Head of Index Strategy
Ed Corallo	Head of Institutional Indexing

**9) Describe your firm's management succession plan. Have dates been established regarding succession of any key personnel, specifically those in the preceding questions?**

To ensure continuity of leadership and management, BlackRock applies a team approach to portfolio management. We believe this approach offers substantial benefits over one that is dependent on the expertise of only one or two people and protects our clients from the departure of any single investment professional. In the event of the departure of member of the Index Equity Team, BlackRock would rely on the remaining team to ensure continuity for our clients.

**10) Has your firm been involved in regulatory or litigation events in the past eighteen months?**  
Please refer to our response to Question 8 in the Fundamental Large Cap Growth questionnaire.

**11) When did the Securities Exchange Commission, Attorney General, or the NASD last audit your firm? Please note any material findings or recommendations.**

BlackRock Institutional Trust Company ("BTC") is a national banking association organized under the laws of the United States. BTC operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency, the agency of the US Treasury Department that regulates United States national banks.

The OCC ensures that the fiduciary activities of national banks are conducted in a manner that promotes the safety and soundness of both the overall national banking system and the individual bank. The OCC also has responsibility to ensure that fiduciary powers are exercised by national banks in a manner consistent with the best interests of the banks' clients and sound fiduciary principles. The OCC conducts regular examinations of BTC to ensure that it is exercising its powers in accordance with these requirements.

**12) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Please refer to our response to Question 10 in the Fundamental Large Cap Growth questionnaire.

**13) Does your firm have a written policy on ethics? If so, please provide an electronic version to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

Please refer to our response to Question 11 in the Fundamental Large Cap Growth questionnaire.

**14) Please provide an electronic version of your firm's ADV Forms, Parts I and II to [gclifton@samcera.org](mailto:gclifton@samcera.org).**

BlackRock Institutional Trust Company, N.A. ("BTC") would be contracting entity for SamCERA's Russell 1000 Index portfolio. As a national banking association, BTC is exempt from registration with the U.S. Securities and Exchange Commission ("SEC") as an investment adviser under Section 202 of the Investment Advisers Act of 1940, and therefore is not required to file a Form ADV.

**15) What are the current technologies utilized in supporting the investment and back-office processes?**

Each of these applications has the following configuration:

Investment Analysis – BlackRock developed two-tier application with a VB.Net client running on Microsoft Windows XP workstations and a Sybase database back-end known as Common Platform which is shared with the Orbis application and runs on Sun Solaris servers.

Orbis – BlackRock developed three-tier application. It consists of a V6 client running on Microsoft Windows XP, a Weblogic Java middle-tier running on Microsoft Windows servers and the same Common Platform database.

Fox – BlackRock developed application, that utilizes the Cplex optimizer running on Sun Solaris to enforce crossing fairness rules and stored the results in a Sybase database that are accessible via a VB 6 front-end.

FlexTrade – a third party developed trading environment that runs on a Microsoft Windows XP client and a Sun Solaris back-end providing market connectivity via FIX.

Prism – BlackRock developed three-tier application used to support Securities Lending Trading. A Java Swing client runs on a Microsoft Windows XP workstation, talking to a Weblogic Java middle tier running on Sun Solaris and a Sybase database also running on Sun Solaris.

Global Loan Manager (GLM) – BlackRock developed three-tier application used to support Securities Lending middle and back office activates. A Java client runs on a Microsoft Windows XP workstation, talking to a Weblogic Java middle-tier running on Sun Solaris and a Sybase database also running on Sun Solaris.

Sapphire – BlackRock developed reporting warehouse to support Securities Lending. A Business Objects web based client sits on a Sybase IQ data warehouse running on Sun Solaris. Data is transformed and loaded via Informatica.

**16) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back-office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.**

Portfolio Management, Trading, Client Order Management, Securities Lending Operations, and Data Services Groups are comprised of talented individuals with strong credentials and substantial years with the firm. The quality and dedication of these professionals ensure that in the event of considerable personnel turnover any number of qualified individuals could assume responsibility.

In May of 2001, BlackRock transferred its back-office US Fund Accounting, Custody, and related investment operations groups to Investors Bank and Trust (IBT), a subsidiary of State Street Bank and Trust Company. BlackRock and IBT's track record of collaboration began in 1996 when BlackRock first selected IBT to provide custody and administration services for its mutual funds. IBT was again chosen as servicing partner for the launch of its US iShares funds in 2000.

**17) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?**

Please refer to our response to Question 10 in the Fundamental Large Cap Growth questionnaire.

Please refer to our response to question 15 for a list of the systems utilized in the management of BlackRock's equity index portfolios. None of our systems have experienced material problems in the past eighteen months, including proprietary and vendor applications. Although BlackRock is dedicated to maintaining the integrity and improvement of all of our technological systems, we do not anticipate any significant changes over the coming months.

**18) Provide an overview of your firm's Business Continuity Plan as it relates to the investment process.**

Please refer to our response to Question 15 in the Fundamental Large Cap Growth questionnaire.

## Performance

### 19) Detail your firm's perspective of SamCERA's performance expectations for BlackRock's Russell 1000 Index, as spelled out in the investment management agreement and SamCERA's Investment Policy. How is BlackRock doing relative to those expectations?

SamCERA's performance expectation for BlackRock is to invest in a portfolio of securities with the objective of approximating as closely as practicable the total rate of return of the Russell 1000 Index. While there have been periods of under- and out-performance versus the index, SamCERA's long term investment has tracked well within expected tolerances.

### 20) Is the performance composite constructed for SamCERA's portfolio in compliance with Global Investment Performance Standards (GIPS)?

Please refer to our response to Question 16 in the Fundamental Large Cap Growth questionnaire.

### 21) What are your firm's source(s) for pricing domestic equities?

State Street uses two primary pricing sources, at BlackRock's direction, in order of priority; Reuters and Bloomberg (backup). Portfolios are valued using last closing prices whenever available, with pricing procedures employed for exceptions.

### 22) Are there pricing issues relative to methodology or pricing sources utilized by BlackRock versus those utilized by the benchmarked index? What is the process followed for resolving significant pricing differences?

There are no pricing issues utilized by the firm versus the benchmark.

### 23) Please discuss what is a reasonable expected tracking error to the index for the Russell 1000 Index. What are the expected sources of the tracking error?

The returns of each index benchmark assume that the world is frictionless and free of transactions costs. In reality, index funds are subject to the headwind of a variety of potential costs and sources of tracking error. At BlackRock, we seek to minimize these potential costs while prudently capturing sources of potential value added. For all of the index funds, realized tracking error is driven by a number of sources that are summarized below.

- Index Rebalancing:** Additions and deletions to the index necessitate trading in order to maintain the tracking performance of the portfolio.
- Securities Lending Income:** The underlying benchmark does not include securities lending income and therefore any income received is a direct benefit to performance.
- Cash Management of Dividend Flow:** The index assumes income is reinvested on the ex-dividend date. Actual pay date cash flows may not be received until several weeks later. We maintain tracking performance by holding index futures.
- Corporate Action Treatment:** The underlying index will make assumptions concerning pro-rating of stock and cash elections for merger activity. We will elect the most valuable option for the fund.
- Equitization of Cash Pool:** The proposed funds maintain a small percentage of cash, equitized via index futures, in the portfolio to accommodate daily client activity.

Fund Name	Expected Tracking Error	Expected Value Add
Russell 1000 Index Fund	+/- 0-5 bps	+ 0-3 bps

*\*Expected Tracking Error expresses the fund's mis-tracking from portfolio construction sources such as transactions costs and rebalancing. Expected value added describes the return generated above that of the index that results from securities lending revenue, trading strategies around index changes and securities litigation payments.*

### 24) Discuss the domestic equity market and SamCERA/BlackRock's relative success or failure in the current market.

As an equity index fund provider for SamCERA, over most calendar and annualized time periods BlackRock has tracked the benchmark within tolerances. For your reference, we have provided Market Commentaries on the overall markets and the US equity market. Please see Appendix A for these commentaries.

## **25) Discuss your firm’s strategy regarding the annual Russell 1000 Reconstitution.**

BlackRock is an industry leader when it comes to index reconstitution. We believe there is a critical difference between understanding how an index is constructed and knowing how to manage money against it—BGI has extensive capabilities in both areas.

The true skill of index change trading is in understanding the trade-off between risk and cost—specifically, judging when, where, and how to trade. By assessing the costs of trading at the designated index reconstitution date versus the risk of trading away from this point, effective trade strategies can be developed.

BlackRock’s approach to index reconstitution trading focuses on minimizing total cost and risk. Total trading costs affect both the fund’s relative and absolute returns. The costs associated with index reconstitutions are:

- Broker commissions
- Taxes and exchange fees
- Bid/ask spread
- Market impact—reflected as reduced absolute return of the index
- Opportunity cost—reflected as realized tracking error or relative return to the index

Our index research and portfolio management teams collaborate with our trading team to understand the impact of benchmark changes and then design strategies to minimize portfolio impact. We also interact with our global offices to coordinate trading activity. Trading flows are aggregated firm-wide to secure the best terms possible from our trading counterparties.

Collectively, these groups prepare reconstitution impact forecasts that estimate the effect on the index of a change. BlackRock monitors and estimates the expected activity associated with the reconstitution for the following investor groups:

1. Institutional and retail index managers who will be reacting to the index reconstitution
2. Institutional speculators and arbitrageurs, especially hedge funds, which will seek to exploit index reconstitutions

By combining this research and analysis with price performance, volume and volatility data, a trading strategy is devised. This does not mean always trading at the exact index reconstitution date. However, 99% of all trading strategies are completed within one week of the index effective date. By quantifying the risks and costs associated with different trading strategies, BlackRock selects the strategy which best meets the portfolio’s objectives.

With each index reconstitution trade, the strategies are devised to remain fully invested and market neutral, thus avoiding excess cash. Futures may be used to implement reconstitution strategies as well as a range of risk management trading techniques.

## Investment Strategy and Process

**26) Provide a full review of the investment process for the Russell 1000 Index Fund, including (a) who is responsible for various stages of the process? (b) Do portfolio managers and research analysts interact in the investment process? (c) Do portfolio managers work individually or in teams? (d) Is risk management a function within the index team or performed by a different department?**

All BlackRock index funds are managed in accordance with our philosophy of Total Performance Management - understanding, measuring, forecasting and managing the three dimensions of investment performance – return, risk and cost.

The Russell 1000 Index Fund has the objective of providing return and risk commensurate with that of the benchmark.

### **Investment Team**

Investment strategists take responsibility for the overall product management of the index funds. This includes ensuring the quality control of the existing investment products, researching and implementing product enhancements and researching investment strategies.

Traders' primary responsibility is developing and executing the most cost-effective trading strategies for all client and fund accounts. They also act as important resources for transaction cost data, market trends and new trading innovations.

Portfolio managers focus on the day-to-day management of the BlackRock's funds and custom strategies. They are responsible for managing sector/industry allocations and security selection, rebalancing activity, corporate actions, cash/dividend reinvestment, contributions and withdrawals, special fund openings, and internal securities crossing. Trades required to maintain the investment objective of the portfolio are reviewed by a team of portfolio managers and released for trading as conditions warrant. These decisions occur within a tightly controlled context, created by the nature of the investment objective.

### **Crossing**

BlackRock submits all potential market trade lists first to our internal cross and then to the market. BlackRock's large and diverse client base provides access to substantial proprietary crossing opportunities. Our index managed assets form the basis of BlackRock's crossing engine, but our active assets and broad mix of clients, both by type and geography; maximize the chances of finding the other side of a cross. Full exposure to external crossing (including, but not limited to POSIT and Instinet) will be utilized to the extent possible given the trading plan emphasis on maintaining dollar neutrality and reducing portfolio risk characteristics.

### **Portfolio Construction**

The Russell 1000 Index Fund fully replicates the Russell 1000 Index by holding every stock in the index in its market capitalization weight. Full replication helps ensure the closest tracking of fund to benchmark and minimizes transaction costs. Most trading (other than that related to client contributions and redemptions) is for the reinvestment of dividends and tender proceeds, and for accommodation of changes in the composition of the index. By holding every stock in the index at its market-capitalization weight, the fund becomes "self-rebalancing."

### **Risk Evaluation**

For equity index funds, BlackRock uses proprietary and Barra models to manage portfolios along multiple dimensions including beta, yield, size, style and economic sectors. We also include a transaction cost dimension designed to measure the diversifying merits of each security relative to its trading costs. This methodology is an extremely cost-effective approach to managing a portfolio.

**27) Provide performance attribution which reflects your firm's assessment of the value added by your investment discipline, (a) your assessment of the risks associated with SamCERA's portfolio, (b) what methodologies are employed to evaluate risk, including a description of the software you have in place and (c) which parts of your investment process are not functioning as well as you would expect.**

The trailing one year attribution of the Russell 1000 Index Fund as of June 30, 2010 is provided below.

Fund +15.33% vs. Benchmark +15.24%

+2.3 bps from sec misweights/corporate actions (specifically +1.3 bps during Russell Recon)

+3.5 bps from sec lending

+3.5 bps from sec litigation payments

+9.3 bps in outperformance

Across all index funds, regardless of their particular benchmark or methodology (fully replicated, optimized, etc.), BlackRock understands how crucial it is to control the deviations that they have relative to the benchmark on a number of different levels.

Investment risk is defined as relative-to-benchmark or active risk (tracking error). The proposed index equity fund aims to track their benchmarks within their tracking error tolerances. Tracking error is defined as the annualized standard deviation of monthly returns as against the benchmark, measured over three year periods.

For equity funds, the primary levels on which we control deviations between Fund and index are:

**Stock Level:** This involves controlling the 'sum of the absolute stock level differences' as well as the difference for any individual stock (particularly for fully replicated funds). Most stocks are tracked within a very tight margin.

**Industry Level:** This involves controlling the deviation for each industry that comprises the benchmark.

**Sub-index level:** For regional benchmarks this would control the deviations at a country level. For single country benchmarks, the control would be on a size basis.

The process by which BlackRock manages index funds is to set targets and limits for each of these levels. By monitoring this consistently through time, any tracking error that does accrue from stock deviations should be mean zero over the long term. In addition, concentrating trading based on these areas will most efficiently allow the management of the trade-off between tracking error and transaction costs.

**28) Discuss the structure of the Russell 1000 Index.**

SamCERA holds units of a commingled trust fund, the Russell 1000 Index Fund. The Russell 1000 Index Fund is a long-only fund that directly holds securities.

**29) What drives the decision making process which governs the selection of securities for the above portfolio and the individuals involved with the selection?**

The Russell 1000 Index Fund is a passive strategy, with the objective to match the performance of its benchmark. As such, purchase and sale decisions are either a function of client buy /sell orders or driven by changes in the composition of the index. Purchase and sell decisions are made by the portfolio manager. The ultimate goal in a fully replicating fund is to create a trade list that insures tight tracking of the index fund after the client transaction or index change event.

**30) Are SamCERA's investment guidelines adequate?**

BlackRock believes the guidelines set forth are appropriate to the investment philosophy and objectives of the Board.

**31) Provide an overview of the role that security lending plays in generating incremental income for the Russell 1000. This overview should include (a) an organizational chart identifying the individuals within your firm who are responsible for security lending, (b) identification of other organizations utilized to facilitate the security lending program (clearly identify those organizations with which BlackRock is**

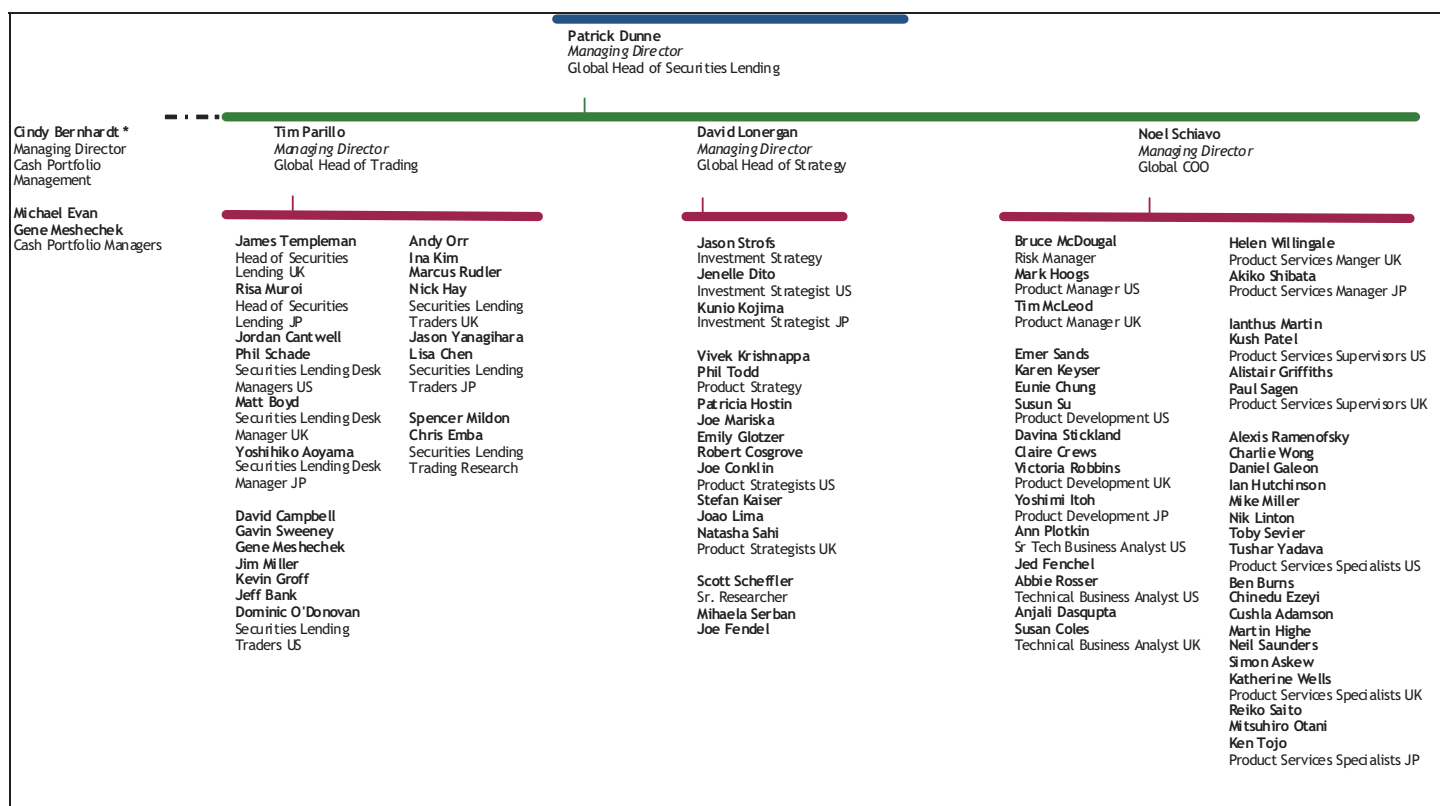
affiliated), (c) a flow chart detailing your firm's security lending process and (d) a description of the security lending policies, procedures and internal controls.

## Overview

BlackRock's securities lending program is integrated into the portfolio management of the commingled fund in which SamCERA is invested. Over the last three years the annual incremental return has been approximately 4 bps on average for the Russell 1000 Index Fund. While not exceedingly large, this return does help to reduce the management costs associate with the strategy.

Our philosophical approach to securities lending is one of total performance management, from the initial investment contribution through to the portfolio management, transitions, trading, cash management and particularly, securities lending activity. The program's mission is to both complement the investment strategy return while delivering cost-effective, risk-controlled performance and preservation of capital.

## Organizational structure



BlackRock's securities lending program currently has a dedicated staff of over 80 people in the US, Europe and Asia. Our offices in San Francisco, London and Tokyo are all staffed with traders, operations support, project management, client service and strategy functions. In our San Francisco office, we also have groups who support the global business such as accounting and researchers.

We reinvest heavily in our technology systems and believe in automation where possible. BlackRock has several proprietary systems to support our unique business. Our technology developers and support teams sit along side the users to offer timely, expert service to the business and our clients.

As the world's largest investment manager, we have unique access to market information and investment insight. Our close coordination with portfolio managers allows BlackRock's securities lending team to leverage information that is only available to an investment manager.

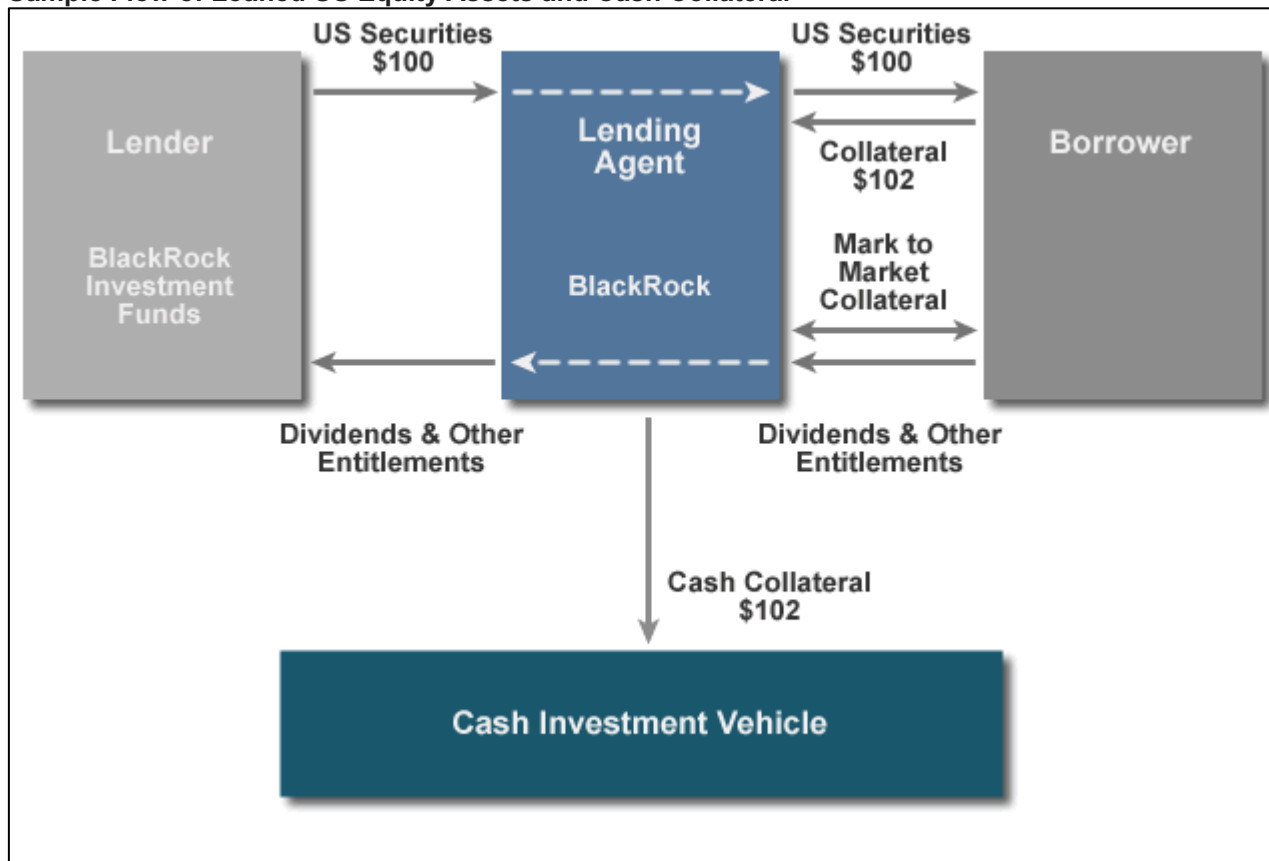
Our operations team, referred to as Product Services, is embedded, reporting into the securities lending business. Product Services is responsible for many aspects of the post-trade business, such as collateralization levels, daily mark to



market, recall management, corporate action processing and much more. The operating teams meet regularly across BlackRock to ensure best practices with shared service providers, technology changes and regulatory requirements. Our dedicated risk manager focuses on on-going compliance with policies and regulations as well as coordination with the broader BlackRock compliance groups and the Risk and Quantitative Analysis (RQA) group.

BlackRock's RQA team provides oversight to securities lending ensuring that all areas of risk are understood and appropriately mitigated. We have embedded members from RQA that sit with our team. These oversights allow the Securities Lending business at BlackRock to maintain a high profile ensuring clients that ample attention is paid to the program.

**Sample Flow of Loaned US Equity Assets and Cash Collateral**



**Other Organizations**

BlackRock operates a proprietary securities lending program and acts as the lending agent for its investment funds. State Street Bank and Trust is our sub-custodian.

BlackRock has received a Department of Labor Prohibited Transaction Exemption that allows us to use EquiLend LLC to negotiate securities lending transactions. A comprehensive document outlining all of BlackRock's DOL PTE exemptions has been provided to all clients.

BlackRock, along with nine other major securities borrowers and lending agents, established EquiLend in May 2001. EquiLend's primary goal is to develop an industry standard global equity borrowing and lending platform intended to streamline the trading, processing, and monitoring of securities lending transactions. The platform benefits our clients by enhancing the processing of securities lending transactions and potentially reducing the risks and costs associated with mismatched and failed securities lending transactions. In addition, the platform enables the industry to establish objective securities lending benchmarks and thereby enhance our performance reporting to you. Participants in BlackRock's securities lending program will not incur additional fees related to BlackRock's use of the EquiLend platform. As with all operational costs associated with the securities lending program, BlackRock will absorb the participation fees charged by EquiLend.

**32) Please describe the firm's policies regarding soft dollars and directed commissions. For 2009, what percent of the firm's total operating expenses were covered through the receipt of products and services acquired through soft dollar arrangements?**

The Portfolio Management Group of BlackRock believes that research and brokerage services obtained through client commission arrangements enhance its investment research and execution process, thereby increasing the prospects for higher investment returns. In order to seek compliance with regulatory requirements and with BlackRock's own policies, all client commission arrangements must comply with the legal guidelines established in Section 28(e) of the Securities Exchange Act of 1934 and BlackRock's Soft Dollar Policy.

BlackRock does not generate soft dollar credits in connection with the execution of trades for its fixed income and index clients.

**33) How many brokers were used during calendar year 2009? What is your average cost (cents per share) for trades? Provide an overview of your firm's broker relationships.**

For Calendar 2009, the Russell 1000 index fund utilized twelve brokers for external market trades at an average cost of 0.44 cents per share.

External trading through brokers is done strictly on a best execution basis. The size of BlackRock's assets under management and the diverse nature of our clients' portfolios mean that, even after internal and external crossing, our trading activities are substantial. The volume of our trading activities has allowed us to build good working relationships with the world's leading brokers, and ensures that they provide us with the lowest trading rates possible. When trading equities, we make use of program trading techniques where advantageous.

**34) Does your firm monitor trade effectiveness? If so, how is that documented?**

BlackRock has developed its own sophisticated transaction cost analysis platform, TAR (Trading Analytics Report), which produces daily and period post-trade analytics across our global equity, currency, and futures transactions. Our trading team is tasked with forecasting trading costs and maintaining the TAR system.

At BlackRock, trading cost minimization begins with research on understanding market dynamics. A key competitive differentiator is the significant investment BlackRock has made in the area of trading research and technology. This group is headed by Dr. Ananth Madhavan, who has written extensively on trading and transaction costs as an academic. BlackRock's global trading research team focuses exclusively on understanding the trading microstructure in global markets. To support their activities, we have also invested heavily in the development of a state-of-the-art trading platform and proprietary database tools to track trading activity.

This team is also tasked with forecasting trading costs and maintaining our Trading Analytics Report system that produces daily and period post-trade analytics across our global equity, currency, and futures transactions.

**Minimizing Transaction Costs**

We believe that to ensure best execution, we need to measure, analyze, and control our transaction costs:

- We have built in-house tools for pre- and post-trade analysis on a global, multi-asset basis. We monitor, analyze and control our trading costs using these tools.
- BlackRock regularly reviews its trading costs on a holistic basis. We examine all elements of costs, not only explicit commission costs, but also market impact and other implicit costs.
- We break down costs in meaningful ways using benchmarks appropriate to our styles of trading.
- The trading research group at BlackRock is a unique innovation among asset managers, helping to reduce trading costs through quantitative analysis.

A key output of BlackRock's Trading Research team has been the development of a proprietary Transaction Cost Model that captures the mountain of internal trading cost information we create through our daily executions.

**Measurement:** BlackRock has quantified true transaction costs, looking at all elements including commissions, spreads, market impact, and even the opportunity costs from failing to execute a trade. Every trade is captured, providing real-life wisdom to inform future trades.

**Forecast:** Every night, updates on volatility, trading intensity, and effective bid-ask spreads feed our trading forecasts and are incorporated into our transaction forecast model. BlackRock's trade model processes these updates along with our history of realized transactions costs. The result may be the most up-to-date and accurate transaction cost forecasts in the industry.

**Management:** Armed with accurate forecasts, traders can execute with clear transaction cost goals in mind. Results can be compared to pre-established transaction cost benchmarks, allowing for evaluation of internal trading staff and external broker/dealer counterparties.

**35) What percentage of each of the following does the Russell 1000 Index account for? Please estimate if exact figures are not available or disclosed.**

	<b>Russell 1000 Index Fund</b>
<b>Firm Assets</b>	1.2%
<b>Firm Revenue</b>	See comment
<b>Firm Profit</b>	See comment
<b>Total Firm Work Hrs.</b>	See comment

Comment: Russell 1000 Index strategy accounts for less than 1.2% of BlackRock's AUM. As this strategy is managed by a large team working on multiple products simultaneously, specific revenue and work hour information is not available.

# Outlook

## 36) What is your firm's outlook for the domestic equity markets?

Provided in Appendix A is the latest market commentary.

## 37) What issues are other clients concerned with regarding products, markets, education and governance?

Given the events of the last two years, we are seeing the following trends or areas of emphasis:

- Identifying and maintaining of liquidity
- Managing portfolios more closely to liabilities
- Desire for greater transparency
- Greater use of indexed products
- Re-evaluating organizational decision-making
- Currency hedging
- Movement towards broader international market exposures
- Understanding the potential impact of higher deficits/inflation/deflation/etc., on the plan

To the last point, we have had several discussions with clients around the policy portfolio, and whether investors should look to replace a strategic policy with a more tactically oriented approach. We think it unlikely that tactical portfolios based on forecasting regime shifts can succeed. Instead, we think it more sensible to use a policy portfolio that is strategic, but hedged to account for a lower predictability of returns.

## 38) What is on the horizon for your business plan? Is your firm emphasizing any product or asset class in your new business goals?

Please refer to our response to Question 38 in the Fundamental Large Cap Growth questionnaire.

## 39) Describe your assessment of the relationship between BlackRock and SamCERA. How can we better take advantage of your firm's capabilities?

BlackRock has been managing assets for SamCERA for more than a decade and greatly values the relationship. The firm today has a truly global investment platform and is deep in resources. We should encourage SamCERA to utilize those resources as much as needed.

## Conclusion

## 40) Is there any information that would be timely pursuant to SamCERA's Investment Policy, the SamCERA/BlackRock Agreement, and this annual review?

None.

## 41) Are your clients making significant changes in their asset mixes? Please describe these changes.

Some clients are taking off risk (adjusting asset allocation and shifting within allocations), while others are adding risk, depending on their existing plan type/design/maturity and available capital. For most, there is still interest in making opportunistic bets, but this has been hampered somewhat by the need to continue to maintain liquidity. Most recently, we have seen a trend towards broader and deeper equity exposure.

Many clients are beginning to take a global view with respect to their investment portfolios. The traditional US/Non-US equity allocation benchmarked to the MSCI EAFE Index is changing to more of an ACWI World format.

## 42) What market opportunities should SamCERA consider?

- Alternative investments including hedge funds, private equity, commodities and real estate;
- Opportunities created by the credit market dislocation continues to become available;
- Emerging Markets: China, India, and Brazil

# Compliance Certification Statement

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be faxed to *SamCERA's* office and investment consultant no later than 10 days after the end of each reporting period. (15.3(i))

## General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (15.4(a)) Yes/No: \_\_\_ If no, please explain.

Yes.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (6.3) Yes/No: \_\_\_ If no, please explain.

Yes.

3. Has the firm's insurance coverage been sustained? (15.4(c) Yes/No: \_\_\_ If no, please explain.

Yes.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (6.0) Yes/No: \_\_\_ If yes, please explain.

No.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (15.4(j)) Yes/No: \_\_\_ If yes, please explain.

As previously noted, on 16 June 2009, BlackRock, Inc. announced that it had received written notice from Barclays PLC (Barclays) that Barclays' Board of Directors had accepted BlackRock's offer to acquire Barclays Global Investors (BGI). The transaction closed on 1 December 2009 following the receipt of client consents and regulatory approvals, and satisfaction of customary closing conditions. The combination of BlackRock and BGI has brought together market leaders in active and index strategies to create a preeminent asset management firm operating under the name BlackRock. The transaction has created an independent and fully integrated asset management firm with combined assets under management of US\$3.15 trillion as at 30 June 2010.

6. Have there been any changes in the firm's investment approach? (15.4(e)) Yes/No: \_\_\_ If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (9.1) Yes/No: \_\_\_ If yes, please explain.

No.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (15.3(j)) Yes/No: \_\_\_ If yes, please explain.

No.

9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (18.0) Yes/No: \_\_\_ If no, please explain.

Yes.

10. For domestic equity managers, has the firm supported *SamCERA's* commission recapture program? (15.3(g))  
Yes/No: \_\_\_ If no, please explain.

Yes.

#### Derivative Investments

1. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: \_\_\_ If no, please explain.

No, the portfolio does not engage in non-exchange traded derivative transactions.

2. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5))  
Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.

Not applicable.

3. For non-exchange traded derivative transactions, were the counter-parties financial institutions, (banks)? (Appendix C(5)) Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.

Not applicable.

4. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: \_\_\_ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Have there been any changes to the investment manager's list of approved counter-parties over the past month?

Yes.

5. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.

Yes.

6. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: \_\_\_ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

Not applicable.

7. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: \_\_\_ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

No.

8. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: \_\_\_ If no, please explain.

Yes.

9. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: \_\_\_ If no, please explain.

Not applicable.

10. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

Not applicable. SamCERA's portfolio does not employ derivatives with allocation limits.

11. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

The futures used to equitize cash in the Russell 1000 Index Fund are extremely liquid. Spreads are very low, approximating 3 basis points. BlackRock's strict liquidity guidelines limit investment in futures based on trading volume and open interest in any given contract. All derivative transactions are in accordance with regularly reviewed legal and regulatory requirements.

12. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g) Yes/No: \_\_\_ If yes, please explain.

#### Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (5.0) Yes/No: \_\_\_ If no, please explain.

Yes.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: \_\_\_ \_ If yes, please explain.

No.

#### Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: \_\_\_ If yes, do the investments comply with the policies? (11.0) Yes/No: \_\_\_ If no, please explain.

No, we do not directly invest in short term fixed income investments.

#### Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the Russell 1000 Index Fund held in each of the following types of securities: common stock; preferred stock; convertible securities; and, cash & equivalents. (15.4 j)

The entire portfolio of the Russell 1000 Index Fund is held in common stocks.

2. What is the portfolio's market value allocations to large, mid and small stocks? (15.4 j)

	Percentage
Large Capitalization (\$34.94B & Above)	39.5
Medium/Large (\$10.46B - \$34.94B)	27.3
Medium (\$3.18B-\$10.46B)	18.8
Medium/Small (\$3.18B & below)	14.4
<b>Total</b>	<b>100</b>

3. **Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (15.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.**

There are no ADRs held in the SamCERA portfolio.

4. **What is the largest percentage of the portfolio represented by a single security? (15.4 j) If any securities were above 5% at the time of purchase, please list and explain why. Please list the Russell 1000 and Russell 1000 Alpha Tilts separately.**

The Russell 1000 Index Fund is a fully replicating index fund and holds each security according to the benchmark weight.

5. **Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (10.3 a). Please specify all industries above 15%.**

The Russell 1000 Index Fund is a fully replicating index fund and holds each sector according to the benchmark weight.

Signed by: 

Dated: October 15, 2010

Name of Firm BlackRock



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 6.8 c

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Investment Manager Review – Chartwell Investment Partners

Staff Comments: The board instructed *SamCERA's* staff and investment consultant to perform the annual review of *SamCERA's* investment managers and report back to the board. On August 11, 2011, staff interviewed *SamCERA's* growth managers in the 100 Marine Parkway conference room.

Chartwell was interviewed at approximately 10:15 a.m. Those present were:

Jonathon Brody – Strategic Investment Solutions' Investment Consultant

Gary Clifton – *SamCERA's* Chief Investment Officer

Lilibeth Dames – *SamCERA's* Retirement Investment Analyst

David Bailey - *SamCERA's* Chief Executive Officer

Scott Hood - *SamCERA's* Assistant Executive Officer

John A. Heffern - Chartwell Investment Partners, Managing Partner, Senior Portfolio Manager

Brian J. Ward - Chartwell Investment Partners, Vice President Client Services & Marketing, CFA

Attached to this agenda item are the presentation materials used by Chartwell for the review and Chartwell's response to *SamCERA's* annual questionnaire.

BACKGROUND: The board completed an asset liability study in July 2003. As a result of that study the board opined to maintain its existing asset allocation of 65% equities (40% large cap domestic, 10% small cap domestic, & 15% international); 29% domestic fixed income and 6% real estate. The board then reviewed its manager structure. Several portfolio changes were recommended as a result of that study. The domestic small cap equities moved from 100% indexed in a Russell 2000 Index Fund to 50% indexed in a Russell 2000 Enhanced Index Fund; 25% actively managed in a small cap value portfolio; and 25% actively managed in a small cap growth portfolio.

In February 2004, the board approved a list of criteria to be utilized in a small cap growth manager search. Strategic Investment Solutions screened 351 products to assure a minimum three-year track record, minimum performance standards, and minimum amount of asset under management, return based style screens, and qualitative screens. The qualitative screens excluded managers with a micro-cap or small/mid bias, organizational concerns, retail or wrap business focus, very high tracking error, sub-advisory or fund of funds products, and poor relative performance. In March 2004, the Investment Committee with the assistance of SIS reviewed Chartwell Investment Partners, Next Century Growth Investors, Wellington Management Company and Westcap Investors before narrowing the field to two finalists that were invited to interview before the entire board at the April 2004 meeting. Those finalists were Chartwell Investment Partners and Next Century Growth Investors. When Next Century received the invitation to *SamCERA's* small cap

growth finalist interview, it alerted SIS that due to an SEC investigation the firm would decline the invitation. The board decided to proceed by interviewing Chartwell Investment Management and then reviewing the board's options for completion of the small cap growth manager search.

On April 27, 2004, the board selected Chartwell Investment Partners to manage approximately \$45 million in a domestic small cap growth equity mandate. The portfolio is benchmarked against the Russell 2000 Index.

Performance & Values As Of 07/31/2011	Book Value	Market Value	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Since Inception (12/1/2004)
	(Unit Million)					
Chartwell Investment Partners	\$50.4	\$58.9	-6.93%	7.54%	34.88%	6.67%
Russell 2000 Growth Index			-7.81%	4.92%	29.32%	5.81%
<b><i>Return Variance</i></b>			<b><i>0.88%</i></b>	<b><i>2.62%</i></b>	<b><i>5.56%</i></b>	<b><i>0.86%</i></b>

Below is the criteria used in the search to select Chartwell as a domestic large cap growth manager, the original pros and cons to their selection, and the other finalists in the search.

Those are followed by a general firm overview, then an overview of Chartwell's Diversified Large Cap Growth Equity Portfolio.

Below are select data from the small cap growth manager search process:

#### **INITIAL SMALL CAP GROWTH SCREENING CRITERIA:**

1. Create starting universe of all Small Cap Growth managers. (351 products)
2. Minimum 3-year track record. (214 products)
3. Pass half available performance screens (3,5,7 yrs.) versus Russell 2000 Growth Index and median Small Cap Growth manager. (126 products)
4. Pass half available performance screens (rolling 3 year periods) versus Russell 2000 Growth Index and median Small Cap Growth manager. (115 products)
5. At least \$100 million in product assets (maximum of 30% of product assets after funding). (78 products)
6. Product open to new business. (59 products)
7. Added back two qualitatively sound products that agreed to reopen for SamCERA's search – Chartwell and Next Century. (61 products)
8. Return-based style screens confirm Small Cap Growth style. (30 products)
9. Qualitative screens – excluded managers with a micro cap or small/mid bias, organizational concerns, retail or wrap business focus, very high tracking error, subadvisory or fund of funds products, and poor relative performance. (5 products left)
10. Excluded one more manager with SamCERA's Investment Committee who used a Russell 2500 Growth Index for the product benchmark (as opposed to the Russell 2000 Growth Index). (4 products left)

Below are some of Chartwell's pros and cons that came out through the vetting process

### **Chartwell Investment Partners**

*Pros*

- Product closed at reasonable asset level – open for SIS client
- Good ownership structure – 77% owned by active employees
- Excellent return history without large Technology Sector overweight
- Good risk control – lowest tracking error to the Russell 2000 Growth benchmark
- Ed Antoian veteran small growth investor; success over several market cycles

*Cons*

- Other Chartwell products have not performed well in recent years
- Chartwell team left predecessor firm, Delaware
- Lowest longer-term excess returns among candidates

Below are the small cap growth managers, which were the finalists followed by their returns since the inception date for the mandate:

<b><u>Small Cap Growth</u></b>
1) Chartwell Investment Partners
2) Next Century Growth Investors
3) Wellington Management Company
4) Westcap Investors

### Small Cap Growth

Excess Vs. Russell 2000 Growth starting 12-1-2004  
Performance as of 6-30-2011

	3 Mos	6 Mos	9 Mos	1 Yr	3 Yrs	5 Yrs	Since Inception
Chartwell: SCG	-0.9	3.8	1.4	6.1	-1.3	-0.4	0.5
Next Century Growth: NCG Small Cap	-1.3	3.9	9.8	6.9	-3.2	0.8	5.1
Wellington Mgmt: Small Cap Growth	0.5	5.5	4.0	1.0	1.0	1.5	3.6
eA Small Cap Growth Equity Median	0.9	2.0	2.8	1.7	0.7	0.4	1.2
eA Small Cap Growth Equity Size	208	208	207	207	195	184	168

Note: Next Century declined an invitation to interview as a finalist due to an SEC investigation.  
Candidate Westcap was acquired by Transamerica

Excess Vs. Russell 2000 Growth starting 12-1-2004  
Performance as of 6-30-2011

	2011	2010	2009	2008	2007	2006	2005
Chartwell: SCG	3.8	1.6	-0.8	-7.0	6.7	0.0	3.0
Next Century Growth: NCG Small Cap	3.9	1.6	1.8	-10.2	28.1	-0.3	22.2
Wellington Mgmt: Small Cap Growth	5.5	-6.1	1.4	-1.5	8.7	1.0	15.4

Note: Next Century declined an invitation to interview as a finalist due to an SEC investigation.  
Candidate Westcap was acquired by Transamerica

### **General Firm Information**

Firm Legal Name: Chartwell Investment Partners  
Firm Headquarters 1235 Westlakes Drive, Suite 400, Berwyn, Pennsylvania 19312  
Year Firm Founded: 1997  
Registered Investment Advisor: Yes  
Firm Website Address: [www.chartwellip.com](http://www.chartwellip.com)  
Geographic Areas of Interest: United States

### **Firm Background**

The firm is an employee-owned investment advisory firm founded on April 1, 1997 by nine investment professionals from Delaware Investment Advisers. The firm is 75% owned by the partners of the firm and 25% owned by a limited partnership comprised of three investors in the Philadelphia area.

Timothy J. Riddle, an executive with 30 years of investment industry experience, is the Chief Executive Officer of Chartwell and G. Gregory Hagar is the Chief Financial Officer and Chief Compliance Officer. He has 21 years related experience. Michael J. McCloskey, an executive with 22 years of management experience, is Director of Client Services and Marketing.

### **Chartwell Investment Partner's Small Cap Growth Equity**

### **Research & Screening Process**

Chartwell invests in, not merely own the stocks of, these distinguished companies for an intermediate time horizon. It initiates investments opportunistically, when the stocks are particularly attractively valued, yet concentrate holdings in companies best positioned for most rapid growth. The portfolios focus on a narrow set of such investments. The investment targets range in market capitalization between \$200 million and \$3.0 billion with a median market cap of under \$1 billion. This yields a universe of approximately 3500 names. Overlaying a quality growth requirement further reduces the universe to approximately 700-800 names. Applying minimum growth and quality requirement enables them to focus their research efforts on 700-800 stocks.

Their rigorous and continual fundamental research efforts help Chartwell to understand the businesses and prospects of these firms. It is from this dynamic segment of growth companies that they build a portfolio of 70-90 stocks.

### **Portfolio Construction & Risk Control Methodology**

#### Portfolio Construction:

Portfolio construction is largely a bottom-up process with caps on sector exposure. Research and evaluation drives industry weights while limits on those sector weights relative to indices reduce potential volatility. Top-down economic work modestly influences the weights.

#### Sector Weights:

Typically 80% of the holdings will be from four sectors, healthcare, technology, consumer services, and business services/durables. Energy and utilities are usually under-weighted. Sector overweight or underweight generally limited to a range of 150% to 50% of the sector weighting or a differential of +/- 10 percentage points vs. the weighting, whichever is greater. Sector or industry weightings are residual to the stock selection process but Chartwell imposes broad limits as stated above.

#### Stock Weights:

Individual stock weightings range from 0% to 5% with the average of approximately 3%. The weight assigned to each security is reflective of the relative return potential, so potentially higher returning stocks will have higher relative weights.

### **Buy / Sell Discipline**

#### Small Cap Buy Criteria:

The Small Cap Growth product is managed by a team of eight investment professionals. Although generalists, each member has a primary industry/sector responsibility. Decisions to buy investments are reached by both the individual and at a team level.

#### Small Cap Sell Criteria:

Sales are based on three factors:

- Research which uncovers a material change in a company with respect to the target investment characteristics, i.e. potential earnings expectation disappointment.
- Valuation which reaches an excessive relative P/E ratio or P/E to growth rate level, from which they believe further appreciation may be limited in spite of positive feedback.
- New purchase ideas have a higher forecasted return than an existing holding.

## **Trading Strategy**

The trade executions are reviewed on a daily basis to judge the efficiency of the trading operation. As a smaller investment firm Chartwell has experienced a significant degree of mobility and effectiveness in executing trades in both the small and large cap product area. Traditional trading is the main trading method employed at Chartwell. Principal bids are also commonly used when trading NASDAQ names. Crossing networks are currently used on an infrequent basis, but they anticipate heavier usage in the future.

After an order has been executed at the trading desk, the trader enters the information into the MOXY trading system. The allocation is then processed automatically across all accounts that are permitted to participate in the trade. The portfolio managers and the traders are aware of all account restrictions, but the portfolio managers are ultimately responsible for ensuring that no restrictions are violated.

All trades are processed through the MOXY trading system. This information is downloaded to their accounting system overnight. This gives the portfolio managers the advantage of having complete, up to date account holding information available each day.

Consistent with obtaining best execution for their clients, Chartwell may direct brokerage from the client's portfolios to a broker who provides research services described in Section 28 (e) of the Securities Exchange Act of 1934 and are designed to augment their own internal research and investment strategy.



*San Mateo County Employees  
Retirement Association (SamCERA)*

*Portfolio Review*

**August 11, 2011**

- I. Chartwell Update
- II. Performance Review
- III. Portfolio Review
- IV. Appendix

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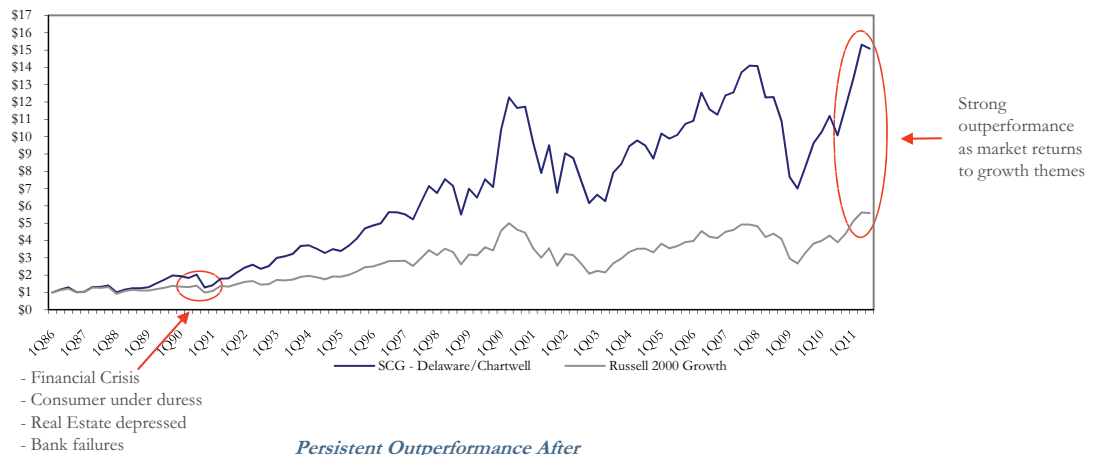
Representing the firm:

**John A. Heffern**  
Managing Partner, Senior Portfolio Manager

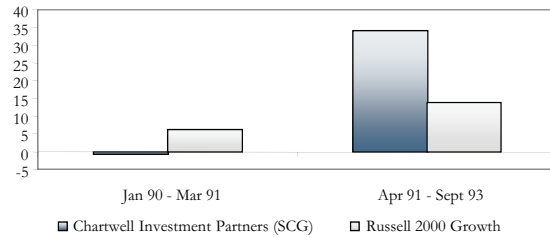
**Michael J. McCloskey**  
Managing Partner, Director of Client Services & Marketing



*Growth of a Dollar*



*Persistent Outperformance After Recessionary Period Lead by Financial Crisis*



- Our time tested strategy which focuses on companies with strong secular growth has provided superior long term results. Periodically, we have experienced short cycles of underperformance when the market does not reward companies that exhibit strong growth characteristics. By staying true to our philosophy and process through all market environments, our strategy has provided consistent outperformance.



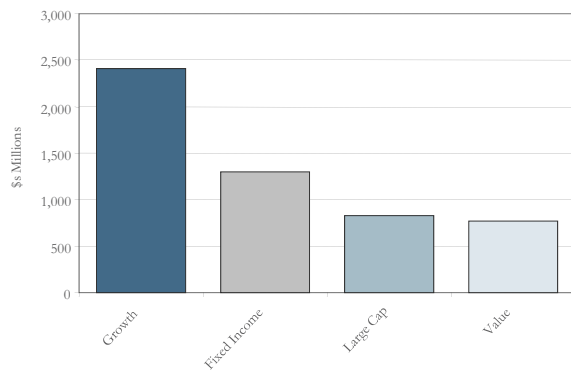
## Product Summary



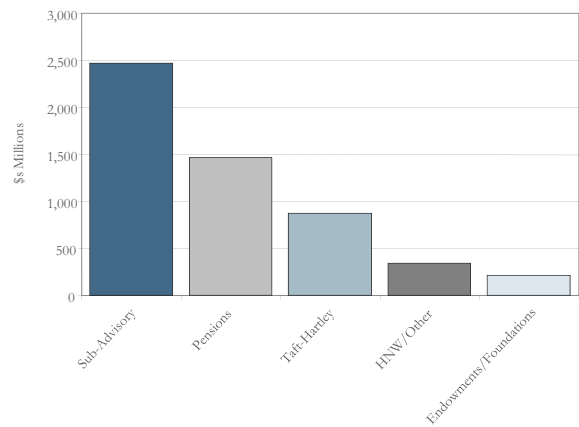
**Chartwell Investment Partners**  
Institutional and Private Asset Management

Chartwell Investment Partners manages \$5.4 billion in a variety of equity and fixed income investment styles, for over 95 institutional, sub-advisory and private client relationships.

### Investment Styles



### Client Type



**Separately Managed Portfolios: \$5 million minimum**

Information as of 06-30-11

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*Our Investment Management Structure  
and Team-Based Research*



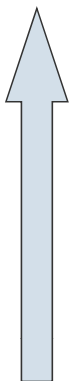
**Chartwell Investment Partners**  
*Institutional and Private Asset Management*

**Edward N. Antoian, CPA, CFA**  
Chief Investment Officer



**Small/Mid/Smid Cap Growth**

**John A. Heffern**  
Senior Portfolio Manager



<p><b>Edward N. Antoian, CPA, CFA</b> <i>Consumer, Healthcare</i> 28 years experience</p>	<p><b>John A. Heffern</b> <i>Business Services, Financial Services</i> 22 years experience</p>	<p><b>David E. Reidinger</b> <i>Technology</i> 17 years experience</p>
<p><b>Jennifer C. Boden</b> <i>Quantitative Research</i> 5 years experience</p>	<p><b>Michael D. Jones, CFA</b> <i>Consumer, Energy, Basic Industry</i> 25 years experience</p>	<p><b>Ben Sun, Ph.D.</b> <i>Healthcare</i> 6 years experience</p>
<p><b>David Choi, CFA</b> <i>Business, Consumer &amp; Healthcare Services</i> 14 years experience</p>		<p><b>Fan Wu</b> <i>Consumer</i> 8 years experience</p>



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### Our Foundation

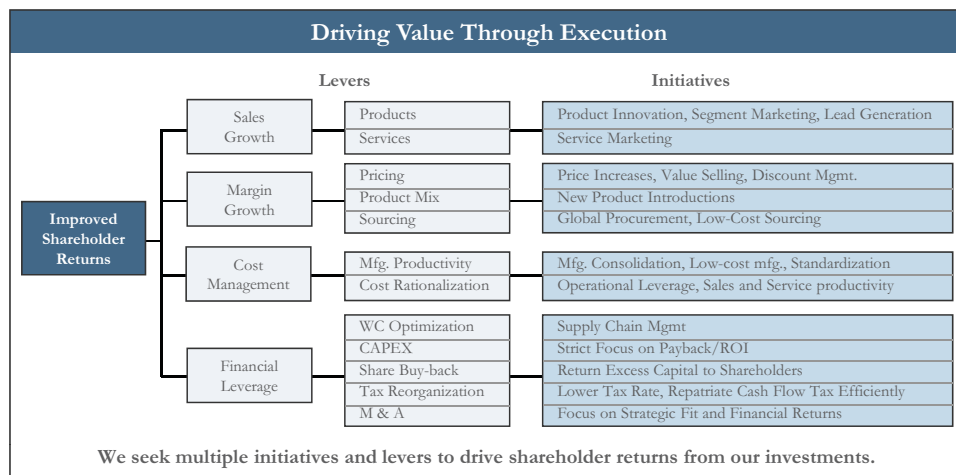
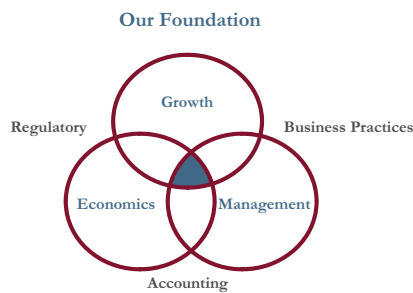
Chartwell Investment Partners invests in **secular growth** companies. These businesses demonstrate strong increases in earnings per share. More significantly, they continually broaden, deepen and enhance their fundamental capabilities, competitive positions, product and service offerings and customer bases. We invest in these distinguished companies for an *intermediate time horizon*. We initiate investments opportunistically, when the stocks are *attractively valued*, and concentrate holdings in companies best positioned for most rapid growth. We are diversified by security and by sector, but our relatively focused portfolio means we *invest for impact*.

## Target Investment Characteristics



**Chartwell Investment Partners**  
Institutional and Private Asset Management

We search for three key elements in our targeted investments; both a current reading and the expected change in these characteristics are significant.



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# Hands-on Research: 175+ Companies in 2 mos. is the Norm



**Chartwell Investment Partners**  
Institutional and Private Asset Management

## BASIC INDUSTRY

Ticker	Name
ARG	Airgas Inc.
ALB	Albemarle Corp.
ATI	Allegheny Technologies Inc.
ALGT	Allegiant Travel Co.
ACO	AMCOL International Corp.
AAWW	Atlas Air Worldwide Holdings
BHP	BHP Billiton Ltd. ADS
CHMT	Chemtura Corp.
CVTI	Covenant Transportation Group Inc. (C A)
ECL	Ecolab Inc.
FMC	FMC Corp.
GDI	Gardner Denver Inc.
GTT	GrafTech International Ltd.
HSC	Harsco Corp.
HI	Hillenbrand Inc.
HUBG	Hub Group Inc. (C A)
IPI	Intrepid Potash Inc.
JBHT	J.B. Hunt Transport Services Inc.
RJET	Republic Airways Holdings Inc.
KOC	Rockwood Holdings Inc.
SCHN	Schnitzer Steel Industries Inc.
SOA	Solutia Inc.
USAP	Universal Stainless & Alloy Products Inc.

## BUSINESS SERVICES

Ticker	Name
ADS	Alliance Data Systems Corp.
FIS	Fidelity National Information Services Inc.
FORR	Forrester Research Inc.
HURN	Huron Consulting Group Inc.
JKHY	Jack Henry & Associates Inc.
LRN	K12 Inc.
KFRC	Kforce Inc.
MAN	Manpower Inc.
MDMD	MediaMind Technologies Inc.
MINI	Mobile Mini Inc.
NSR	NeuStar Inc. (C A)
NLSN	Nielsen Holdings N.V.
QNST	QuinStreet Inc.
REGN	Resources Connection Inc.
SEEN	SEI Group Corp.
TW	Towers Watson & Co. (C A)
TBI	TrueBlue Inc.
VCI	Valassis Communications Inc.

## CAPITAL SPENDING

Ticker	Name
AMSC	American Superconductor Corp.
BWC	Babcock & Wilcox Co.
BDC	Belden Inc.
HTZ	Hertz Global Holdings Inc.
KMT	Kennametal Inc.
MILM	Marrin Marietta Materials Inc.
OSK	Oshkosh Corp.
RUSHA	Rush Enterprises Inc. (C A)
WTS	Watts Water Technologies Inc. (C A)
YGE	Yingli Green Energy Holding Co. Ltd. ADS

## CONSUMER CYCLICAL

Ticker	Name
RYL	Ryland Group Inc.
SWK	Stanley Black & Decker Inc.
TPX	Tempur-Pedic International Inc.
TUP	Tupperware Brands Corp.

## CONSUMER SERVICES

Ticker	Name
APOL	Apollo Group Inc. (C A)
ASNA	Ascena Retail Group Inc.
BWLD	Buffalo Wild Wings Inc.
CPLA	Capella Education Co.
CAKE	Cheesecake Factory Inc.
CMG	Chipotle Mexican Grill Inc.
COH	Coach Inc.
DRI	Darden Restaurants Inc.
DECK	Deckers Outdoor Corp.
DEST	Destination Maternity Corp.
DV	DeVry Inc.
EXPR	Express Inc.
FOSL	Fossil Inc.
GET	Gaylord Entertainment Co.
GES	Guess? Inc.
HIBB	Hibbett Sports Inc.
LTD	Limited Brands Inc.
MW	Men's Warehouse Inc.
MGM	MGM Resorts International
PENN	Penn National Gaming Inc.
PIR	Pier 1 Imports Inc.

## CONSUMER SERVICES (cont'd)

Ticker	Name
PNK	Pinnacle Entertainment Inc.
RCL	Royal Caribbean Cruises Ltd.
RT	Ruby Tuesday Inc.
SIX	Six Flags Entertainment Corp.
SHOO	Steven Madden Ltd.
TXRH	Texas Roadhouse Inc.
WRC	Warnaco Group Inc.
WYN	Wyndham Worldwide Corp.
GMCR	Green Mountain Coffee Roasters Inc.

## ENERGY

Ticker	Name
BRY	Berry Petroleum Co. (C A)
CNX	Consol Energy Inc.
NOA	North American Energy Partners Inc.
REXX	Rex Energy Corp.

## FINANCIAL SERVICES

Ticker	Name
HIS	BlackRock High Income Shares
CFNL	Cardinal Financial Corp.
CATM	Cardtronics Inc.
NARA	Nara Bancorp Inc.

## HEALTH CARE

Ticker	Name
ABCO	Advisory Board Co.
AKRX	Akorn Inc.
ALXN	Alexion Pharmaceuticals Inc.
AFAM	Almost Family Inc.
AMMD	American Medical Systems Holdings Inc.
ABC	AmerisourceBergen Corp.
AHS	AMN Healthcare Services Inc.
BRKR	Braker Corp.
CHSI	Catalyst Health Solutions Inc.
CPHD	Cephed
CERN	Cerner Corp.
CPSI	Computer Programs & Systems Inc.
CVD	Covance Inc.
ELGX	Endologix Inc.
ESRX	Express Scripts Inc.
HMA	Health Management Associates Inc. (C A)
HS	HealthSpring Inc.
PODD	Insulet Corp.
IPCM	IPC The Hospitalist Co. Inc.

## HEALTH CARE (cont'd)

Ticker	Name
ISTA	Ista Pharmaceuticals Inc.
KCI	Kinetic Concepts Inc.
LHGG	LHC Group
LMNX	Luminex Corp.
MWIV	MWI Veterinary Supply Inc.
MYL	Mylan Inc.
NXTM	NxStage Medical Inc.
PRXL	PAREXEL International Corp.
PDGO	Patterson Cos. Inc.
PPDI	Pharmaceutical Product Development Inc.
QSI	Quality Systems Inc.
QCOR	Questcor Pharmaceuticals Inc.
SIRO	Sirona Dental Systems Inc.
SKH	Skilled Healthcare Group Inc. (C A)
SXCI	SXC Health Solutions Corp.
TMH	Team Health Holding Inc.
TMO	Thermo Fisher Scientific Inc.
UTHR	United Therapeutics Corp.
UHS	Universal Health Services Inc. C B
WAT	Waters Corp.

## TECHNOLOGY

Ticker	Name
ADTN	Adtran Inc.
AMCC	Applied Micro Circuits Corp.
ARBA	Ariba Inc.
AZPN	Aspen Technology Inc.
CELL	Brightpoint Inc.
CRNT	Ceragon Networks Ltd.
CPWR	Compware Corp.
CTCT	Constant Contact Inc.
CNVO	Convio Inc.
CYMI	Cymer Inc.
DMD	Demand Media Inc.
DMAN	DemandTec Inc.
DRIV	Digital River Inc.
FN	Fabrinet
FISV	Fiserv Inc.
IGTE	iGATE Corp.
INFA	Informatica Corp.
ININ	Interactive Intelligence Inc.
ICE	IntercontinentalExchange Inc.
XXIA	Isia
JCOM	j2 Global Communications Inc.
KLAC	KLA-Tencor Corp.
LWSN	Lawson Software Inc.
NPTN	NeoPhotonics Corp.
OPNT	OPNET Technologies Inc.
PLCM	Polycorn Inc.
RLD	RealD Inc.
ROVI	Rovi Corp.
FIRE	Southern Fire Inc.
SFSF	SuccessFactors Inc.
SNCR	Synchronoss Technologies Inc.

- Company meetings are vital to our bottom up, fundamental investment approach.
- Six highly experienced senior analysts on our growth team enable us to cover a high volume of companies across all key sectors.
- We use these meetings to understand trends, products, strategies, competitors, management, risks and opportunities. None of these factors can be adequately judged using data base screening alone.

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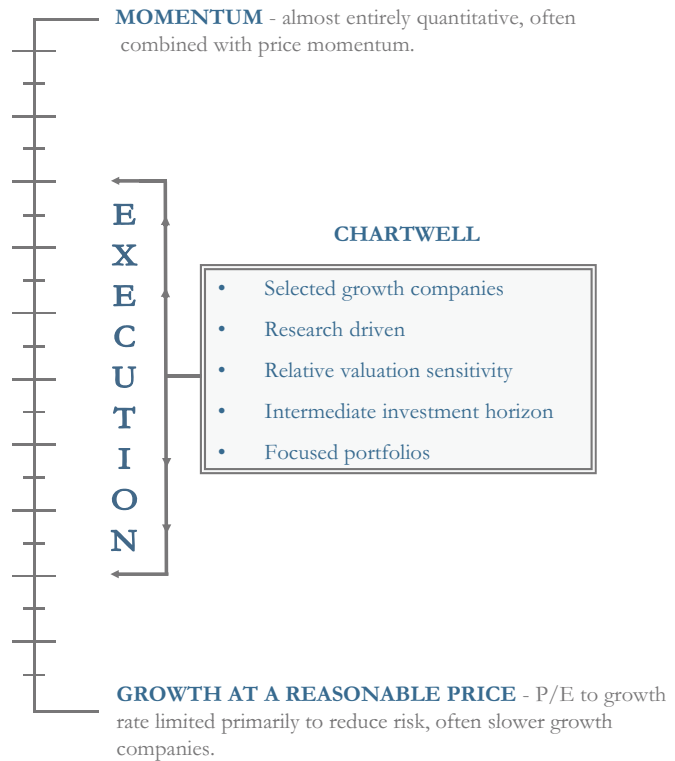
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## Chartwell's Investment Philosophy is Time-Tested

### SMALL CAP GROWTH

- Earnings Growth Drives Performance
- Sustainable Growth Requires:
  - Product Innovation
  - Competitive Advantage
  - Market Expansion
  - Widening Profit Margins
- Product Cycles Drive Investment Cycles
  - 6 - 24 months
- Initiate at Attractive Valuation
- Invest for Impact
  - 70 - 90 Stocks



## Performance Summary



Chartwell Investment Partners  
Institutional and Private Asset Management

San Mateo County  
Employees Retirement Association (SamCERA)  
As of June 30, 2011

	June '11	2nd Qtr '11	Year To Date	Last 12 Months	2010	3 Years Annualized	5 Years Annualized	Annualized 11/30/04 To 06/30/11
Portfolio	-1.64	-1.47	12.42	49.87	30.85	7.21	5.53	7.21
Russell 2000 Growth	-2.14	-0.59	8.59	43.50	29.09	8.35	5.79	6.53

Portfolio value as of June 30, 2011: \$60,535,349.53

Chartwell uses an inception date of 11/30/04 for comparative purposes. Actual inception is 11/03/04.

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6 Months Ended 6/30/11

Chartwell/Prudential Sector	SamCERA			Russell 2000 Growth			Variation			Attribution Analysis			
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
HEALTH CARE	18.48	21.32	3.53	19.05	10.82	1.86	-0.57	10.50	1.68	0.09	1.83	-0.16	1.76
TECHNOLOGY	23.72	13.24	3.44	25.73	7.87	1.91	-2.01	5.37	1.53	0.14	1.40	-0.07	1.46
REITS	2.63	56.21	1.23	1.66	6.82	0.16	0.98	49.39	1.06	0.02	0.83	0.22	1.07
CONSUMER SERVICES	14.96	11.94	1.91	15.22	9.54	1.42	-0.26	2.40	0.49	0.09	0.37	-0.00	0.45
CONSUMER STAPLES	1.10	89.81	0.73	2.21	17.07	0.37	-1.11	72.74	0.37	-0.14	1.21	-0.63	0.44
CAPITAL SPENDING	10.18	8.57	1.00	6.30	3.50	0.27	3.88	5.07	0.73	-0.15	0.38	0.15	0.37
BASIC INDUSTRY	6.42	6.92	0.55	9.78	7.14	0.72	-3.36	-0.22	-0.17	0.03	0.02	0.10	0.15
FINANCIAL SERVICES	5.65	7.83	0.44	3.27	7.66	0.26	2.38	0.17	0.18	-0.07	0.01	0.09	0.04
[Cash]	1.09	0.04	0.00	--	--	--	1.09	0.04	0.00	-0.01	--	--	-0.01
CONSUMER CYCLICAL	1.56	-1.49	-0.05	2.56	6.69	0.18	-1.00	-8.18	-0.23	-0.04	-0.22	0.10	-0.16
UTILITIES	0.74	-9.77	-0.19	1.28	19.75	0.24	-0.54	-29.52	-0.43	-0.12	-0.18	-0.10	-0.40
BUSINESS SERVICES	9.97	-0.31	0.14	8.05	4.20	0.36	1.91	-4.51	-0.22	-0.11	-0.30	-0.03	-0.44
ENERGY	3.51	-8.37	-0.28	4.90	12.09	0.83	-1.39	-20.46	-1.11	-0.16	-1.01	0.30	-0.86
<b>Total</b>	<b>100.00</b>	<b>12.46</b>	<b>12.46</b>	<b>100.00</b>	<b>8.59</b>	<b>8.59</b>	<b>--</b>	<b>3.88</b>	<b>3.88</b>	<b>-0.43</b>	<b>4.34</b>	<b>-0.03</b>	<b>3.88</b>



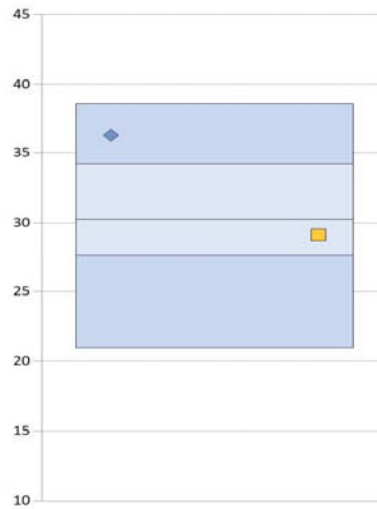
# Peer Performance During Recovery



**Chartwell Investment Partners**  
Institutional and Private Asset Management

- ◆ Chartwell: Small Cap Growth Equity
- Russell Index: Russell 2000 Growth

Returns as Of: March 31, 2011



Universe:  
eA US Small Cap Growth Equity

	DS	VT	RM	1.5 Yrs	Rk
5th percentile				38.50	
25th percentile				34.21	
Median				30.30	
75th percentile				27.58	
95th percentile				20.96	
# of Observations				211	
◆ Chartwell	IM	SA	GF	36.27	10
■ Russell Index	IM	---	IX	29.20	61

Results displayed in US Dollar (USD)

source: eVestment Alliance

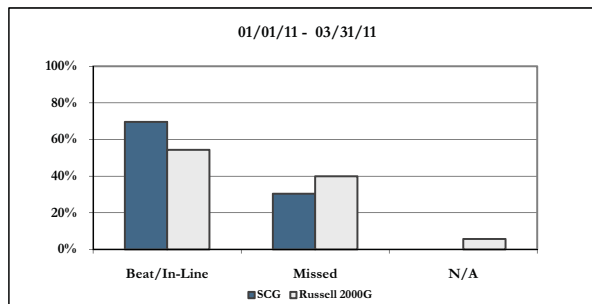
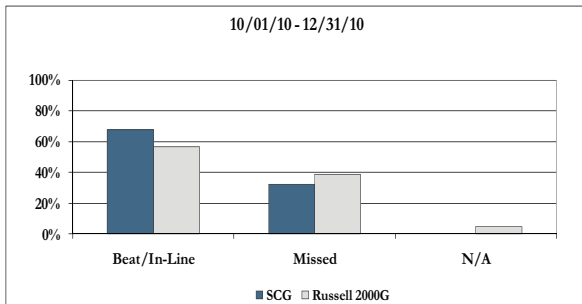
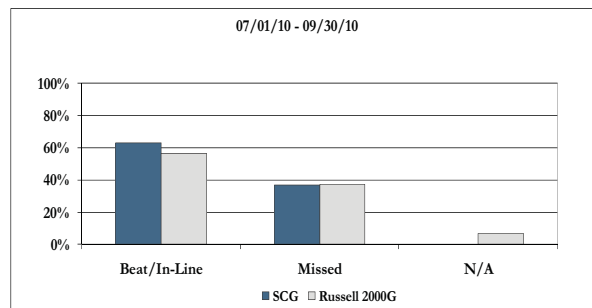
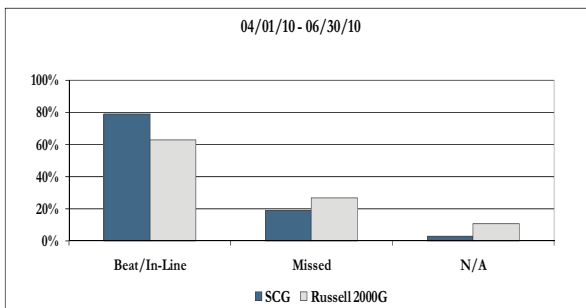
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Our companies continue to deliver earnings in a difficult environment.



Source: FactSet Research Systems Inc.

## Top Ten Holdings as of 6-30-11



Chartwell Investment Partners  
Institutional and Private Asset Management

	Express Inc. (EXPR) 3.2%		Cypress Semiconductor Co. (CY) 2.2%
	<ul style="list-style-type: none"> <li>• <i>What they do:</i> National apparel and accessories retailer</li> <li>• <i>Why we own:</i> Potential for strong revenue due to new market strategies, improving operating margin, increasing store growth and attractive valuation</li> </ul>		<ul style="list-style-type: none"> <li>• <i>What they do:</i> Focuses on programmable semiconductors</li> <li>• <i>Why we own:</i> Strength in new product cycles, gaining market share</li> </ul>
	Kforce Inc. (KFRC) 2.5%		United Rentals Inc. (URI) 2.2%
	<ul style="list-style-type: none"> <li>• <i>What they do:</i> Temporary staffing provider</li> <li>• <i>Why we own:</i> Secular tailwind of temporary hires growing as % of workforce</li> </ul>		<ul style="list-style-type: none"> <li>• <i>What they do:</i> Provides rental equipment for industrial, residential &amp; non-residential construction clients</li> <li>• <i>Why we own:</i> Rebound in revenue trends due to improving cyclical demand and secular tailwinds, improving margins due to higher volumes and better pricing</li> </ul>
	HFF Inc. (HF) 2.5%		Robbins & Myers, Inc. (ROBN) 2.1%
	<ul style="list-style-type: none"> <li>• <i>What they do:</i> Commercial real estate (CRE) and capital markets servicer</li> <li>• <i>Why we own:</i> Solid brand/platform, potential for fast recovery</li> </ul>		<ul style="list-style-type: none"> <li>• <i>What they do:</i> General industrial manufacturer with exposure to energy, chemical and pharmaceutical markets</li> <li>• <i>Why we own:</i> Solid industrial exposure with product diversification, stronger operating leverage outlook, chemical end market rebound</li> </ul>
	Cheesecake Factory Inc. (CAKE) 2.4%		Clean Harbors Inc. (CLH) 2.1%
	<ul style="list-style-type: none"> <li>• <i>What they do:</i> National restaurant chain</li> <li>• <i>Why we own:</i> Potential for strong revenue due to pricing capabilities, improving operating margin, increasing store growth, and stellar (15%+) earnings growth</li> </ul>		<ul style="list-style-type: none"> <li>• <i>What they do:</i> Leading provider of environmental services in North America</li> <li>• <i>Why we own:</i> Normalized growth accelerating in various end markets, opportunity for multiple expansion</li> </ul>
	Cardtronics Inc. (CATM) 2.2%		Sirona Dental Systems Inc. (SIRO) 2.1%
	<ul style="list-style-type: none"> <li>• <i>What they do:</i> Owner and operator of a network of automatic teller machines</li> <li>• <i>Why we own:</i> Increasing managed service deals, margin expansion, should benefit from higher surcharge fees and pricing</li> </ul>		<ul style="list-style-type: none"> <li>• <i>What they do:</i> Manufacturer of high-technology dental equipment</li> <li>• <i>Why we own:</i> Recovery of international dental market, improving margins</li> </ul>

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### Characteristics

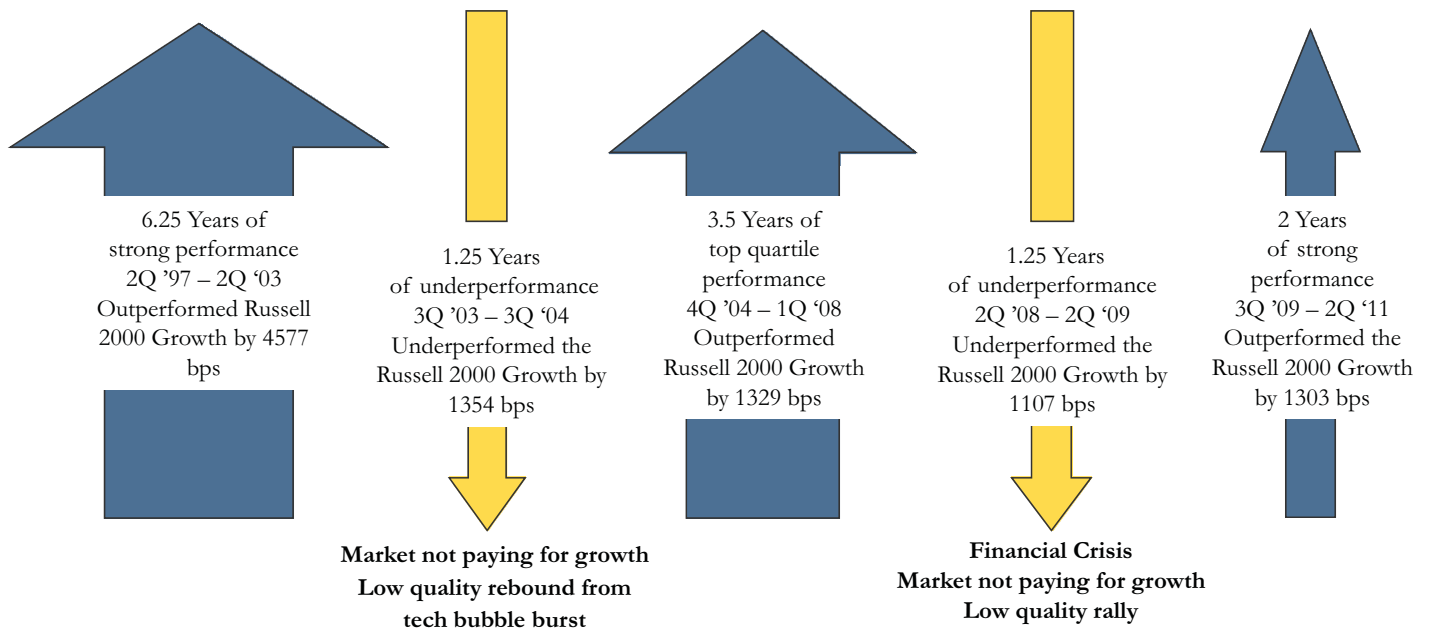
As of 06/30/11

Valuation			Holdings	
	<u>SCG</u>	<u>R2G</u>	Top 10 Holdings	23.7%
Average Market Cap	\$1,846	\$1,423	Top 20 Holdings	41.9%
Average P/E FY1 Est.	25.5x	23.7x		
Growth & Profitability			Other	
	<u>SCG</u>	<u>R2G</u>	Portfolio Turnover	134%
EPS Growth 1 Yr. Projected	28.4%	22.2%	(trailing 12 months 6/30/11)	
Operating Margin	9.7%	11.9%		



For 13+ years, Chartwell’s Small Cap Growth strategy has focused on a time tested philosophy of high quality, high growth companies.

- From time to time, there are brief, temporary rallies in low quality, low growth companies.



**History gives us confidence the markets will reward our discipline and staying power.**

## Portfolio Holdings as of 6-30-11



Chartwell Investment Partners  
Institutional and Private Asset Management

	Portfolio	R2000G		Portfolio	R2000G		Portfolio	R2000G
<b>TECHNOLOGY</b>	<b>21.84</b>	<b>21.39</b>	<b>HEALTH CARE</b>	<b>18.46</b>	<b>19.28</b>	<b>FINANCIAL SERVICES</b>	<b>7.63</b>	<b>3.60</b>
Cypress Semiconductor Corp.	2.21		Sirona Dental Systems Inc	2.06		Cardtronics Inc	2.23	
Syntel Inc	2.00		Bruker Corp.	1.95		Cardinal Financial Corp.	1.56	
Ariba Inc	1.96		ExamWorks Group Inc	1.50		Signature Bank	1.27	
Parametric Technology Corp.	1.73		AMN Healthcare Services Inc	1.44		Nara Bancorp Inc	1.03	
Synchronoss Technologies Inc	1.72		Ista Pharmaceuticals Inc	1.33		Altera Capital Holdings Ltd.	1.00	
SuccessFactors Inc	1.52		Catalyst Health Solutions Inc	1.27		First Midwest Bancorp	0.53	
Informatica Corp.	1.52		NxStage Medical Inc	1.24		JMP Group Inc	0.01	
VeniFone Systems Inc	1.39		Questor Pharmaceuticals Inc	1.24		<b>ENERGY</b>	<b>3.85</b>	<b>7.54</b>
Gartner Inc	1.21		Cepheid	1.00		Key Energy Services Inc	1.39	
OmniVision Technologies Inc	1.03		Alkerm Inc	0.98		Kodiak Oil & Gas Corp.	1.36	
NICE-Systems Ltd. ADS	1.00		Skilled Healthcare Group Inc. (Cl A)	0.91		Rex Energy Corp.	1.10	
Super Micro Computer Inc	0.97		NPS Pharmaceuticals Inc	0.88		<b>BASIC INDUSTRY</b>	<b>3.75</b>	<b>9.47</b>
LogMeIn Inc	0.81		Acetiv Health Inc	0.78		Atlas Air Worldwide Holdings	1.89	
KIT digital Inc	0.77		SXC Health Solutions Corp.	0.63		Hub Group Inc. (Cl A)	1.40	
NetLogic Microsystems Inc	0.72		IPC The Hospitalist Co. Inc	0.56		RailAmerica Inc	0.45	
DemandTec Inc	0.60		Quality Systems Inc	0.39		<b>REITS</b>	<b>2.54</b>	<b>3.81</b>
Aruba Networks Inc	0.45		Caliper Life Sciences Inc	0.29		HFF Inc. (Cl A)	2.54	
Interactive Intelligence Inc	0.22		<b>CAPITAL SPENDING</b>	<b>11.20</b>	<b>5.98</b>	<b>[Cash]</b>	<b>1.79</b>	<b>--</b>
<b>CONSUMER SERVICES</b>	<b>18.49</b>	<b>14.59</b>	Robbins & Myers Inc	2.25		U.S. Dollar	1.77	
Express Inc	3.16		United Rentals Inc	2.16		Dividends - USD	0.02	
Cheesecake Factory Inc	2.43		Clean Harbors Inc	2.06		<b>CONSUMER CYCLICAL</b>	<b>0.77</b>	<b>2.49</b>
Gaylord Entertainment Co.	1.95		Belden Inc	1.26		Group 1 Automotive Inc	0.77	
Pier 1 Imports Inc	1.77		Altra Holdings Inc	1.21		<b>CONSUMER STAPLES</b>	<b>0.56</b>	<b>2.29</b>
Pinnacle Entertainment Inc	1.61		Rush Enterprises Inc. (Cl A)	1.05		Ultra Salon Cosmetics & Fragrance Inc.	0.56	
Sotheby's	1.52		Heico Corp.	0.61		<b>Total</b>	<b>100.00</b>	<b>100.00</b>
Fossil Inc	1.49		Heico Corp. (Cl A)	0.59				
Steven Madden Ltd.	1.04		<b>BUSINESS SERVICES</b>	<b>9.14</b>	<b>8.27</b>			
Domino's Pizza Inc	1.01		Kforce Inc	2.55				
Ancestry.com Inc	0.99		MDC Partners Inc	1.42				
Texas Roadhouse Inc	0.92		comScore Inc	1.36				
Heartland Payment Systems Inc	0.60		K12 Inc	0.92				
			FleetCor Technologies Inc	0.91				
			interCLICK Inc	0.87				
			Advent Software Inc	0.81				
			InnerWorkings Inc	0.30				

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## Russell 2000 Growth's Performance



Chartwell Investment Partners  
Institutional and Private Asset Management

Health Care was weak in June but gained over 3% for the quarter and is a double-digit winner so far this year. Technology took its lumps in June and for the quarter but is still the biggest contributor to the index at 223 basis points based on a gain of 9.1%. Energy lost flight in the quarter at -8.3% but is still up over 9% year to date.

The smallest names fell over 4% in June, almost 4% for the quarter, and are up 3.6% year to date, while Q1 has jumped 11.8% in 2011.

After barely losing ground in the second quarter, stocks over \$1 billion are up close to 11% year to date.

The highest P/E names held up well in June and the quarter and have risen 13.4% year to date.

The top two quintiles on ROE are still up double digits year to date.

The lowest-beta group gained 3.2% for the quarter versus a drop of over 8% for the highest.

Stocks under \$5 lagged in all three time frames.

Despite falling over 2% in June, the fastest growing names are up 9.7% for the year.

It is a close race between Yield and No Yield so far this year.

Table 2: Russell 2000 Growth's performance for June 2011

	June		Second Quarter		Year To Date		Wgt.
	Return	Contrib.	Return	Contrib.	Return	Contrib.	
<b>Russell Global Sectors</b>							
Consumer Discretionary	-0.58	-0.20	3.07	0.49	7.43	1.31	17.2
Consumer Staples	1.26	0.01	4.99	0.10	11.75	0.26	3.1
Energy	-2.61	0.10	-3.30	-0.24	9.39	0.79	9.1
Financial Services	-1.21	-0.04	-1.67	-0.06	8.24	0.36	4.8
Health Care	-3.92	-0.77	3.39	0.65	10.56	1.93	19.2
Materials & Processing	-2.76	-0.25	-2.00	-0.17	7.07	0.55	7.1
Producer Durables	-0.40	-0.01	-2.95	-0.34	5.57	0.79	13.1
REITs	-1.39	0.02	1.90	0.08	7.26	0.17	3.9
Technology	-3.52	-1.02	-4.16	-1.16	9.06	2.23	21.3
Utilities	1.14	0.02	13.86	0.14	13.94	0.15	1.3
<b>Index</b>	<b>-2.14</b>	<b>—</b>	<b>-0.59</b>	<b>—</b>	<b>8.59</b>	<b>—</b>	<b>100.0</b>
<b>Market Cap Size Quintile</b>							
Q1 (Largest)	-1.78	-1.14	-0.23	-0.31	11.81	5.87	50.0
Q2	-1.65	-0.32	-0.50	-0.02	5.46	1.41	24.4
Q3	-3.63	-0.43	-0.25	0.03	6.63	0.97	14.4
Q4	-2.45	-0.12	-2.62	-0.12	1.80	0.19	7.4
Q5 (Smallest)	-4.02	-0.13	-3.63	-0.12	3.61	0.17	3.8
<b>Market Cap Bucket</b>							
>1 BIL	-1.68	-1.12	-0.13	-0.14	10.89	6.56	65.9
>500 MIL, <=1 BIL	-2.90	-0.60	-0.90	-0.05	6.62	1.74	22.5
>250 MIL, <=500M	-3.31	-0.30	-3.43	-0.30	0.37	0.07	6.2
<=250M	-3.92	-0.12	-2.81	-0.07	4.05	0.24	3.4
<b>P/E Quintile</b>							
Q1 (Lowest)	-2.40	-0.08	-0.85	0.11	8.07	1.22	14.7
Q2	-2.45	-0.48	0.53	0.09	9.22	1.60	16.3
Q3	-1.09	-0.18	0.85	0.19	6.98	1.37	20.7
Q4	-1.54	-0.40	-1.78	-0.45	8.13	1.69	19.0
Q5 (Highest)	-1.80	-0.40	-0.98	-0.24	13.38	2.31	16.2
Nonearnings Stories	-4.72	-0.60	-1.71	-0.22	4.28	0.40	13.1
<b>ROE Quintile</b>							
Q1 (Highest)	-1.60	-0.55	1.38	0.21	11.47	2.90	26.0
Q2	-1.18	-0.35	0.82	0.22	11.54	2.95	26.8
Q3	-2.31	-0.35	-3.43	-0.53	6.96	1.63	18.6
Q4	-3.57	-0.40	-4.68	-0.57	2.79	0.52	17.2
Q5 (Lowest)	-3.80	-0.49	1.34	0.15	5.29	0.59	11.4
<b>Beta Quintile</b>							
Q1 (Lowest)	-1.82	-0.45	3.18	0.57	11.07	2.12	15.6
Q2	-1.29	-0.33	1.77	0.29	8.65	1.67	22.5
Q3	-1.97	-0.29	2.19	0.55	14.38	2.86	22.7
Q4	-2.78	-0.69	-3.12	-0.76	8.12	1.58	20.0
Q5 (Highest)	-3.65	-0.38	-8.40	-1.18	-0.63	0.35	19.2
<b>Stock Price</b>							
<=5	-6.36	-0.26	-6.97	-0.28	-5.78	-0.19	3.2
>5, <=10	-4.07	-0.27	-1.67	-0.08	3.38	0.33	8.4
>10, <=20	-1.99	-0.20	0.13	0.19	4.86	1.12	19.2
>20	-1.78	-1.41	-0.35	-0.40	11.19	7.37	69.3
<b>Long-Term Earnings Growth</b>							
<=10%	-3.32	-0.35	0.70	0.02	9.52	0.92	12.3
>10%, <=20%	-1.89	-0.99	-0.32	-0.25	8.97	4.03	42.5
>20%	-2.19	-0.55	-0.66	-0.24	9.69	1.99	20.4
NA	-1.94	-0.25	-1.26	-0.07	6.62	1.65	24.8
<b>Yield</b>							
Yield	-0.54	-0.04	-0.39	0.02	8.40	2.35	29.0
No Yield	-2.75	-2.10	-0.70	-0.60	8.62	6.21	71.0

Source: BofA Merrill Lynch Small Cap Research; Russell Investment Group.

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## Product Investment Team



**Chartwell Investment Partners**  
*Institutional and Private Asset Management*

### **Edward N. Antoian, CPA, CFA**

*Managing Partner, Chief Investment Officer*

Mr. Antoian is a dual employee of Chartwell Investment Partners and Zeke Capital Advisors, LLC. He has been with Chartwell since its inception in 1997 and is currently a Managing Partner and Senior Portfolio Manager. He serves as Chief Investment Officer for Zeke Capital Advisors, LLC. Mr. Antoian earned a Bachelor of Science degree from the State University of New York, and an MBA from the University of Pennsylvania's Wharton School. He is a Certified Public Accountant and holds the Chartered Financial Analyst designation. In addition, he is the General Partner of Zeke, LP, a privately offered long-short equity hedge fund. From 1984 to 1997, Mr. Antoian was a Senior Portfolio Manager at Delaware Investment Advisers, managing institutional assets in small and mid-cap growth styles as well as the Trend and DelCap Funds. Prior to joining Delaware, Mr. Antoian was employed by E.F. Hutton in the institutional equity division. Mr. Antoian is a member of the CFA Institute and the CFA Society of Philadelphia.

### **Jennifer C. Boden**

*Quantitative Analyst*

Ms. Boden earned a Bachelor of Science degree in Mathematics from the Pennsylvania State University. Prior to joining Chartwell, Ms. Boden was a Quantitative Analyst/Portfolio Manager at Turner Investment Partners. From 2003 to 2006, Ms. Boden was employed as an Actuarial Analyst at ACE USA. She is currently a Chartered Financial Analyst level three candidate.

### **David Choi, CFA**

*Principal, Portfolio Analyst*

Mr. Choi earned a Bachelor's degree in Economics from the University of Pennsylvania. He holds the Chartered Financial Analyst designation. Prior to joining Chartwell in 1999, Mr. Choi worked for two years at Daewoo Securities in Seoul, Korea where he was an Equity Research Analyst, entrusted with fundamental and quantitative analysis of South Korean equities. Mr. Choi is a member of the CFA Institute and the CFA Society of Philadelphia.

### **John A. Heffern**

*Managing Partner, Senior Portfolio Manager*

Mr. Heffern earned a Bachelor's degree in Economics and an MBA in Finance from the University of North Carolina at Chapel Hill. From 1997 to 2005, he was a Senior Vice President and Senior Portfolio Manager with the Growth Investing Group at Delaware Investment Advisers. From 1994 to 1997, he was a Senior Vice President, Equity Research at NatWest Markets, responsible for specialty financial services equity research. Prior to NatWest, he was a Principal and Senior Regional Bank Analyst at Alex Brown & Sons.

R E S E A R C H

Q U A L I T Y

C O N S I S T E N C Y



## *Product Investment Team*



**Chartwell Investment Partners**  
*Institutional and Private Asset Management*

### **Michael D. Jones, CFA**

*Managing Partner, Portfolio Manager*

Mr. Jones earned a Bachelor's degree in Business from Miami University and an MBA from the University of Michigan. He holds the Chartered Financial Analyst designation. Prior to joining Chartwell, Mr. Jones was a Portfolio Manager at Pilgrim Baxter and Associates from 1995 to 1998 where he managed over \$1 Billion in institutional growth equity accounts. From 1990 to 1995, Mr. Jones was an Equity Portfolio Manager in the institutional equity division of The Bank of New York. From 1985 to 1990, Mr. Jones was employed as an Analyst and Portfolio Manager at the Fifth Third Bank of Toledo, Ohio. Mr. Jones is a member of the CFA Institute and the CFA Society of Philadelphia.

### **David E. Reidinger**

*Principal, Portfolio Manager/ Senior Portfolio Analyst*

Mr. Reidinger earned a Bachelor's degree in Economics and Mathematics from Fordham University and an MBA in Finance from Columbia University. Prior to joining Chartwell, Mr. Reidinger was a Portfolio Manager and analyst with Circle T Partners covering the technology sector. From 2000 to 2003, he was a Vice President and Portfolio Manager with Morgan Stanley Asset Management ( Miller Anderson ) in Conshohocken, PA. Previous employment included Tiger Management, LLC and Goldman Sachs.

### **Ben Sun, Ph.D.**

*Investment Analyst*

Mr. Sun earned a Bachelor's degree in Physics from the University of Science and Technology of China (USTC) and a Ph.D. in Biophysics from the University of Wisconsin-Madison. Mr. Sun also received a Masters Degree in Physics from the University of Pittsburgh and from The Chinese Academy of Sciences. Prior to joining Chartwell, he was a Senior Associate at Canaccord Adams (Adams Harkness) where he covered healthcare and industrial technology. From 2000 to 2003 he was a research fellow at Harvard Medical School. He is currently a Chartered Financial Analyst level two candidate.

### **Fan Wu**

*Portfolio Analyst*

Mr. Wu earned a Bachelor's degree in Economics from Harvard University. Prior to joining Chartwell, Mr. Wu worked at SAC Capital Advisors where he was a Portfolio Manager, covering the consumer sector. From 2007 to 2009, he was employed by Citadel Investment Group where he was a Senior Analyst, responsible for consumer and retail. From 2004 to 2006, he was a consumer and retail Research Analyst at Partner Fund Management. Previous employment included Andor Capital Management and Goldman Sachs.

R E S E A R C H

Q U A L I T Y

C O N S I S T E N C Y

## Chartwell Investment Partners

### Organizational Update

- 1) What is the ownership structure of your firm?

Limited Partnership

75%            30 Active Chartwell Employees  
25%            Passive Investor - Maverick Partners, LP

Please identify all owners with 5% ownership or more.

Currently, there are 5 limited partners who own 5% or higher, as follows:

Edward N. Antoian  
David C. Dalrymple  
Michael J. McCloskey  
Timothy J. Riddle  
Maverick Partners, LP (passive venture capital investor)

- 2) Provide an update on your firm's organization, with particular emphasis on **(a)** changes to your structure over the past eighteen months, **(b)** growth and acquisition of assets under management, **(c)** clients gained or lost in the past year, and **(d)** recent corporate acquisitions, including negative and positive effects. All significant changes should be accompanied by an explanation.

**(a)** We have not had any changes to our organizational structure, and we have not had any corporate acquisitions or dispositions. We have continued to manage the same product line and attempted to grow via new assets into existing products, and not via acquisitions.

**(b)** Listed below are the firm's stated assets at quarter end for the last 6 quarters (18 months)

1Qtr 2010	\$4.8 Billion	1Qtr 2011	\$5.3 Billion
2Qtr 2010	\$4.3 Billion	2Qtr 2011	\$5.4 Billion
3Qtr 2010	\$4.7 Billion		
4Qtr 2010	\$5.0 Billion		

**(c)** Clients gained over the past year: 3 total firm / 0 SCG  
Clients lost over the past year: 9 total firm / 3 SCG

**(d)** There have been no corporate acquisitions.

3) What are your firm's philosophy and its current policy regarding new business?

We plan to grow by (1) adding new assets to existing investment products only up to pre-determined capacity levels, and (2) incubating and rolling out several new investment products over the next 5-10 years. Each of the existing investment products have pre-determined capacity levels at which we feel the products can be effectively managed to reach maximum performance potential. We do not take new assets into existing products once such capacity levels are reached. Thus, our firm's long-term growth beyond the capacity of existing products will be in the introduction of several new products.

<b>Product</b>	<b>Capacity</b>
Premium Yield Equity	\$10 billion
Small Cap Growth	\$1.75 billion
Smid Cap Growth	\$1.5 billion
Mid Cap Growth	\$5 billion
Small Cap Value	\$1 billion
Mid Cap Value	\$5-7 billion
Small Cap Core	\$1 billion
Investment Grade Fixed Income	\$5 billion
High Yield Fixed Income	\$5 billion

4) Specify separately the individuals (up to ten) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).

Chartwell currently has ten Managing Partners.

- \*Timothy Riddle
- \*Michael McCloskey
- \*Kevin Melich
- \*Edward Antoian
- \*David Dalrymple
- G. Gregory Hagar
- George Burwell
- John Heffern
- Michael Jones
- Christine F. Williams

\*original founders of Chartwell.

- 5) Specify separately the individuals (up to five) who you feel are key to the success of *SamCERA's* product. If the list has changed in the last eighteen months, identify and explain the change(s).

Edward Antoian  
John Heffern  
Michael Jones  
David Reidinger  
David Choi

- 6) Update all significant personnel changes to the "*SamCERA* Team" over the past eighteen months.

Personnel additions to the growth team:

Fan Wu, Portfolio Analyst – replaced Dawn Francfort

Jennifer Boden, Quantitative Analyst – replaced James Hargadon

Personnel departures to the growth team:

James Hargadon, Quantitative Analyst

Dawn Francfort, Portfolio Analyst

- 7) Describe your firm's management succession plan. Have dates been established regarding the succession of any key personnel, specifically those reported in the preceding questions?

Within the next five to ten years Partners may elect to retire. The remaining Partners will purchase the retiring interest and redistribute the interest to new and likely younger Partners to carry on the integrity of the firm. No dates have been established, regarding the succession of any of key personnel.

- 8) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months? E-mail your firm's most recent ADV Parts I & II to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Neither Chartwell nor any of its employees been involved in any regulatory or litigation actions related to our business in the past eighteen months.

- 9) When did the Securities & Exchange Commission, Attorney General, or the Financial Industry Regulatory Authority (FINRA) last audit your firm? Please note any material findings or recommendations.

Our last SEC exam was completed on September 2, 2009. None of the findings were material and did not impact our marketing materials. We had to add our trade rotation policy regarding block trades between wrap and non-wrap portfolios to our ADV II Trading disclosure which is already included in our Best Execution guidelines; document our fair valuation practices that were already in place for a hedge fund;

broaden the range of advisory fees disclosed in the ADV II of an affiliate adviser; create a separate compliance manual for the affiliate adviser who shares staff and resources with Chartwell rather than utilize Chartwell's; and improve the language in both compliance manuals for safeguarding client information to include physical safeguards already in place.

- 10) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).

We maintain the following insurance coverage:

<u>Coverage</u>	<u>Carrier</u>	
Errors & Omissions	\$5,000,000	Federal Insurance Co. (Chubb)
ERISA	\$500,000 per client	Federal Insurance Co. (Chubb)
Fidelity Bond	\$3,000,000	Federal Insurance Co. (Chubb)

We also have an umbrella policy coverage of \$5 million with Hartford which serves as a backup to our other policies.

- 11) Do you have a written policy on ethics? If so, please e-mail the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Yes.

- 12) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back-office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.

All investment and accounting duties are performed at our office located in Berwyn, PA. We currently employ three back office personnel. All back office staff perform the duties for the accounts assigned to them; Ms. Cindy Smith has been employed by Chartwell since 1997 as Head Accountant and Director of Operations. Ms. Smith oversees the entire process. Each person performs trade processing and affirmation duties, which include, but are not limited to, posting trades from the trading system into the accounting system intra-day, affirming trades, communicating with internal trading desk, brokers/dealers and custodian banks to resolve any problems effecting contractual settlement. They also perform portfolio accounting duties which include, but are not limited to, posting contributions/distributions, posting in-kind receipts/disbursements, monitoring cash balances on a daily basis in all accounts and the communication of this information to all interested parties under the direction of the department manager as well as resolving any problems that arise during the normal valuation/cash management process, reconciling assigned accounts on a daily, weekly or monthly basis.

Most of our operational functions are performed in house. We do utilize PNC Global Investment Advisors (Lockwood Advisors, Inc. an affiliate of Pershing LLC, a BNY Mellon Company) to set-up and reconcile accounts for our Managed Account (Brokerage Wrap) assets.

- 13) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?

When Chartwell opened its doors in April 1997 we selected the Advent software package. This state of the art software has two components, Moxy, which is currently our trading platform and Axys, which is our portfolio accounting system. The Advent systems are accurate and flexible. They offer daily appraisals and daily returns. The flexible systems allow for the customization of client reports.

We have experienced no issues in the last 18 months here at Chartwell. We will be installing a larger internet pipe within the next month to expand bandwidth.

- 14) Provide an overview of your firm's business continuity plan as it relates to the investment process.

Currently at Chartwell Investment Partners, there are approximately 60 workstations accessing 13 servers with individual outside services connected via dedicated data lines, Internet connectivity, and telephone lines. This document is provided to show how these products work within the Chartwell environment.

Chartwell's network is based around Microsoft's 2003 network operating system. Where cost allows Chartwell has implemented one server per main service or main application. The server named CIPDCA is Chartwell's primary domain controller. The server CIPDATA acts as the users file share server and is attached to a HP StorageWorks Modular Smart Array 1000 (MSA1000) is a 2 Gb Fibre Channel storage system (SAN). The server CIPDCB is a backup domain controller. CIPDATA is also the small application and print server. CIPDCB is the backup domain controller which shares the process load of CIPDCA. CIPMOXY is only an application server, which supports the Moxy database (Fund accounting), which is based on Microsoft's SQL Server 2000. The CIPMAIL server is another application server that solely supports email. The email server application is Microsoft's Exchange Server 2003. CIPMONITOR is a Windows 2003 server which houses our anti-virus application. CIPOA is a windows 2003 server which has our corporate backup and CIPBES is windows 2003 which houses Blackberry Enterprise application. All servers and workstations have the latest service packs and security patches. This is achieved by a workstation-based package called SP Query. SP Query finds all Microsoft based devices on the network and creates a database of the operating system files. It then

updates these systems manually or automatically with the latest Microsoft service pack or security patch releases.

To protect network data, Chartwell has implemented DoubleTake by NSI. DoubleTake protects data and applications such as Exchange, SQL Server, enabling us to replicate and protect mission-critical data that resides throughout our enterprise. It combines continuous real-time backup and automatic failover capabilities for disaster recovery, high availability, and centralized backup. We also use VERITAS' Backup Exec 11d to backup data; we also copy pertinent databases to other servers in the event of a system outage with a server. Backup includes all data files, Exchange data, and SQL data. The backup runs a full backup every day on a four-week rotation. Monthly backups are also run on the last Saturday of the month which is stored at VRI for 10 years. This is done to facilitate disaster recovery.

Vircom's MoibusGate product sits out side of the CIP network in front of the FortiGate 300A firewall. This Windows 2003 server acts as a front line of defense to CIP. Its purpose is to stop spam from our mail server; however, this application has two features that play into our DR project. The first being another AV checkpoint and the second is a relay server for mail. All user workstations have access to the Internet through a Firewall called a FortiGate 300A. Fortinet Internet security appliances use stateful packet inspection technology that provides around-the-clock protection from hackers and Denial of Service (DoS) attacks. This unit is managed by using an Internet Browser pointed to its local IP address. The device is configured to only allow management access from within the network and not externally. The device also keeps a log of security events and emails them to the current Chartwell IT manager. The unit is also configured with a content filter to deny access to sites that are considered non-business related by Chartwell.

Virus protection at Chartwell is two fold. First, the Spam Server (CIPGATE) has Anti-Virus. The Antivirus software scans all incoming email along with scanning all mailboxes for viruses. This product automatically updates itself with the latest virus definition files ten times a month. On the desktop, Sophos's anti-virus software is running. The software scans the individual machines for viruses. It also protects against viruses that may be opened accidentally. The server CIPMONITOR pushes new updates down to individual systems. Therefore, users are never required to update their systems. The advantage here is that Chartwell is using two different anti-virus companies to protect against viruses. It also gives Chartwell's mobile clients piece of mind while traveling. Another advantage is Chartwell can be assured that users have the latest virus updates automatically.

The individual departments requiring financial and banking services typically referred to as "Outside Services" request access to these services through the IT Technical Committee. The committee reviews these services for security and support concerns. If approved, the services are set up in conjunction with the Chartwell IT department, the Outside service vendor, and the department requesting the service.

## Contact Information

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G. Gregory Hagar, Partner, Chief Financial Officer  
Business (610) 407-4841, Home (610) 407-0253, Cell (610) 324-0229

Jonathan C. Caffey, Principal, Finance and Administration  
Business (610) 407-4845, Home (215) 641-8958 Cell (215) 353-7494

Brian E. Angelucci, IT Specialist  
Business (610) 407-4833, Cell (484) 459-7647

Chris Stella, Systems Consultant  
Business (215) 638-9067, Cell (215) 208-5833

A copy of the full detailed Disaster Recovery Plan is available upon request.

- 15) E-mail your firms most recent SAS 70 Report or equivalent to [gclifton@samcera.org](mailto:gclifton@samcera.org).

A SAS 70 report is not generated.

## Performance

- 16) Is the performance composite constructed for *SamCERA's* portfolio in compliance with the Global Investment Performance Standards (GIPS)?

Yes.

- 17) What is a reasonable expected tracking error to the Russell 2000 Growth? What are the expected sources of the tracking error?

Historically, the tracking error against the Russell 2000 has generally been in the 4%-8% range. The majority of the source of tracking error has been security selection. The tracking error in our portfolio is a product of our fundamental stock selection which searches for the best possible growth opportunities while maintaining the appropriate levels of risk control with regard to security and sector exposure.

- 18) Detail your firm's perspective of *SamCERA's* performance expectations, as spelled out in the Investment Management Agreement and *SamCERA's Investment Policy*. How is your firm doing relative to those expectations?

Chartwell's standard outperformance goal for SCG is to outperform the R2000G by 200-300 bps over a full market cycle of 3 to 5 years. For the last 12 months, we are very pleased with the performance of our Small Cap Growth portfolio. SamSERA's



portfolio outperformed the Russell 2000 Growth by 637 basis points for the one year period, ending 6/30/11.

We are disappointed in the results for the longer term expectations. However, we note that similar performance in our long-term history led ultimately to significant outperformance over multiple years in subsequent periods. We believe this has been a particularly unstable time in global financial and securities markets and we have not deviated from a fundamental search for growth companies in market characterized by a distinct absence of growth across most sectors of the market and the economy.

- 19) Please discuss your firm's performance relative to the Russell 2000 for the one, two and three year periods ending June 30, 2011.

	<u>SamCERA</u>	<u>Russell 2000</u>
1 Yr.	49.87%	37.41%
2 Yr.	35.16%	29.20%
3 Yr.	7.21%	7.77%

The one and two year relative performance of the Chartwell Small Cap Growth portfolio was strong, as evident by significant outperformance against the Russell 2000 Index. Portfolio performance has improved in the current market environment where fundamental themes like quality and growth have been rewarded and as the economy moves along an uneven path to recovery. For the three year period, performance remains modestly under the benchmark as results carry the weakness of 2008 which was a period characterized by overriding global macro factors that punished higher growth, higher valued companies in the downturn and favored lower quality companies in the initial upturn. Looking ahead, we expect increasing divergence between companies well positioned to grow and gain share and those who are challenged by the economic and competitive pressures.

From an attribution perspective, our stock selection has been significantly positive in the last year primarily in Technology (Informatica Corp., INFA, and Ariba Inc., ARBA), Consumer Services (Fossil Inc., FOSL, and Ancestry.com Inc., ACOM), Financial Services (Cardtronics Inc., CATM), and REITs (HFF Inc., HF). There were also sectors which underperformed, namely Energy (Rex Energy Corp., REXX) and Utilities (SBA Communications Corp., SBAC).

- 20) Please discuss your firm's performance relative to the Russell 2000 Growth for the one, two and three year periods ending June 30, 2011.

	<u>SamCERA</u>	<u>Russell 2000 Growth</u>
1 Yr.	49.87%	43.50%
2 Yr.	35.16%	30.10%

3 Yr.

7.21%

8.35%

The one and two year relative performance of the Chartwell Small Cap Growth portfolio was strong, as evident by significant outperformance against the Russell 2000 Growth Index. Portfolio performance has improved in the current market environment where fundamental themes like quality and growth have been rewarded and as the economy moves along an uneven path to recovery. For the three year period, performance remains modestly under the benchmark as results carry the weakness of 2008 which was a period characterized by overriding global macro factors that punished higher growth, higher valued companies in the downturn and favored lower quality companies in the initial upturn. Looking ahead, we expect increasing divergence between companies well positioned to grow and gain share and those who are challenged by the economic and competitive pressures.

From an attribution perspective, our stock selection has been significantly positive in the last year primarily in Consumer Services (Fossil Inc., FOSL, and Ancestry.com Inc., ACOM), Health Care (Accretive Health Inc., AH, and Cepheid, CPHD), Technology (Informatica Corp., INFA), and REITs (HFF Inc., HF). There were also sectors which underperformed, namely Energy (Rex Energy Corp., REXX) and Utilities (SBA Communications Corp., SBAC).

21) What is your firm's source(s) for pricing equities?

Chartwell has an automated pricing feed from Interactive Data Corporation (IDC) that provides for daily pricing and valuation. Secondary pricing sources include Bloomberg & Bridge Information Systems.

Does this source differ from that of *SamCERA's* custodian, State Street Bank & Trust?

State Street uses the same pricing sources. We have had no pricing issues/variances in the SamCERA portfolio since inception of the Chartwell-managed portfolio.

How are pricing variances with the custodian resolved?

Chartwell's Operations Group communicates directly with custodial banks as needed to resolve problems and to ensure that all transactions settle on the contractual settlement date. Daily controls are in place to reconcile all trades with the Depository Trust Company through an automated interface with Advent software used by Chartwell. Generally, income received, positions and market values are reconciled with the custodial banks on a monthly basis, unless otherwise requested by the client. Any reconciling items are dealt with immediately upon completing the monthly bank reconciliation and resolved through direct communication with the client custodian. Cash balances are reconciled daily and/or weekly via the Internet or by directly contacting the custodian.

- 22) Are there pricing issues relative to methodology or pricing sources utilized by your firm versus those utilized by the benchmark?

Chartwell is not aware of any pricing issues at this time.

- 23) Is *SamCERA*'s benchmark, the Russell 2000 Growth, appropriate?

Yes. Most of our clients use the Russell 2000 Growth as a benchmark for our Small Cap Growth portfolio.

### **Investment Strategy and Process**

- 24) Provide a description, in detail, of your investment philosophy, strategy, and process, including your research effort and portfolio construction rules. Describe how the portfolio managers and research analysts interact in the investment process. Do the portfolio managers work individually or in teams? How is the work divided among managers?

Chartwell Investment Partners' Small Cap Growth product invests in selected small growth companies. These businesses demonstrate strong increases in earnings per share. More significantly, they continually broaden, deepen and enhance their fundamental capabilities, competitive positions, product and service offerings and customer bases. We invest in, not merely own the stocks of, these distinguished companies for an intermediate time horizon. We initiate investments opportunistically, when the stocks are particularly attractively valued, yet concentrate holdings in companies best positioned for most rapid growth. Our portfolios focus on a narrow set of such investments. Our investment targets range in market capitalization between \$200 million and \$3 billion. This yields a universe of approximately 3500 names. Applying minimum growth and quality requirement enables us to focus our research efforts on 700-800 stocks. Our rigorous and continual fundamental research efforts help us to understand the businesses and prospects of these firms. It is from this dynamic segment of growth companies that we build our portfolio of 70-90 stocks.

#### **Portfolio Construction:**

Portfolio construction is largely a bottom-up process with sector exposure monitored versus the benchmark. Our research and evaluation drives industry weights while limits on those sector weights relative to indices reduce potential volatility. Top-down economic work modestly influences the weights.

### Sector Weights:

Our portfolio tends to be concentrated in four sectors, healthcare, technology, consumer services, and business services/durables. The overweight or underweight of any one sector is generally limited to a range of 150% to 50% of the sector weighting or a differential of plus or minus ten percentage points versus the weighting, whichever is greater. Sector or industry weightings are residual to the stock selection process.

### Stock Weights:

Individual stock weightings range from 1% to 5%. The weight assigned to each security is reflective of the relative return potential, so potentially higher returning stocks will have higher relative weights.

Our evaluation of companies uses conservative valuation parameters. We focus on several key numbers, their historical levels and relative value to a peer universe. These numbers include price to earnings, earnings growth rates, relative P/E to growth, price to EBITDA, return on equity, return on assets, return on investments, among others. Additionally, quarterly earnings expectations and results are carefully followed.

Chartwell's small cap growth strategy is differentiated from other common growth styles. We focus on high growth companies that lie in the middle of the momentum and growth at a reasonable price continuum. (At times high growth investments may be found at reasonable prices. However, consistently high growth performers also may be expensive but yet demonstrate exceptional continued growth expectations. We believe that both categories contain attractive investments.) Our investment decisions lie along this continuum and are arrived at through strong fundamental research.

### Fundamental Research:

Our research process draws on three primary sources. We assess specific attributes through our contacts with each source.

#### 1. Company

- Strategy and growth plans: the company's view of its future.
- Economics of the business: returns on assets and equity on both a company and operating unit basis.
- Available resources: physical, human and financial resources the company draws on.
- Management talent and character: skills, previous experience, integrity and reputation.

#### 2. Industry and Competitors

- Growth potential: market growth and what drives it.
- Industry competitive structure: monopoly, oligopoly or fragmented and the impact on growth and profitability.
- Competitive position: current market share and potential changes.

### 3. Wall Street

- External research: market expectations to understand which way the herd is stampeding.

A team approach is used in our investment process. The Small Cap team consists of eight investment professionals. Each member of our team contributes to the decision making process. All members conduct fundamental research and conduct meetings with company management, competitors, and customers. In this respect, portfolio managers have a dual role that encompasses security analysis. Our analyst's primary role is to scrutinize potential investment opportunities within a number of industry sectors and then present these opportunities to the managers. The process is often iterative and draws on the knowledge and experiences of all the investment team members. Portfolio managers and analysts may specialize in a specific area but are not limited to their primary knowledge base for research and stock recommendations.

- 25) What is the market capitalization purchase range for this product? What are the portfolio construction rules regarding market capitalization? Are sell disciplines directly tied to market capitalization?

Our investment target ranges in market capitalization are between \$200 million and \$3 billion. Stocks that grow past \$3 billion are not immediately sold, but are monitored.

- 26) Discuss your firm's investment strategy relative to market environments. Are there market cycles that are particularly favorable to your firm's investment strategy and process? Are there market cycles that are historically difficult for your firm's investment strategy and process?

Our fundamentally driven small cap growth strategy will generally outperform the Russell 2000 Growth benchmark when momentum investing is out of favor. A market environment which rewarded fundamental stock analysis favors our strategy. A market environment which is quantity driven price momentum oriented, or has little regard for any valuation works against our strategy.

- 27) Provide a full review of: **(a)** a performance attribution which reflects your assessment of the value added by your investment discipline, **(b)** your assessment of the risks associated with *SamCERA's* portfolio, and **(c)** methodologies employed to evaluate risk, including a description of the software(s) you have in place.

**(a)** See the attached 1 year performance attribution report.

(b) The primary risk associated with SamCERA's portfolio is the risk of underperformance against the relevant benchmark. Realization of that risk could arise from two sources: decisions about stock selection and decisions about sector allocation. We manage stock selection risk by adhering to a bottom up fundamental research process that seeks strong companies with compelling sustainable growth opportunities. All investment ideas are approved by the portfolio manager and intensively researched by senior sector analysts after addition to the portfolio. Further managing for risk, we construct portfolios that are diversified, holding 70-90 investments across a wide variety of sectors and sub-sectors. The objective of diversification is to protect the portfolio from single-name or single-sector underperformance that is inherently part of investment management.

(c) Risk is measured at both a security and portfolio level. The unsystematic risk of individual securities is monitored by stock volatility, quality of earnings and sector volatility. Risk is monitored at a portfolio level through several attributes including industry weight limits, price to earnings, market capitalization and estimated growth levels relative to indices. Risk is measured by standard deviation relative to our benchmark while risk adjusted return is measured by the Sharpe Ratio.

We use Factset as part of our evaluation process. We typically evaluate sector weightings and portfolio characteristics (PE's, Growth rates) on a weekly basis and compare them to the benchmark and to historical absolute levels. We also use Factset to evaluate our performance on a daily, weekly, monthly, quarterly, and annual basis. Performance is analyzed to determine what sectors, stocks, etc contributed both positively and negatively to a return for a specific period.

28) Describe your compliance procedures in detail. To whom does compliance report?

One of the primary components of implementing a responsible business plan was to create and maintain a conservative, well-run compliance program. Compliance is taken very seriously at Chartwell because our reputation is our most valuable asset.

An effective compliance program requires resources and the involvement and direction of the management of the firm. Since the inception of the firm, Chartwell's designated CCO has been part of the executive management team, and the CCO has a position on Chartwell's Management Committee. As noted below, Chartwell's CEO has a position in the firm's Compliance Group, and is heavily involved in compliance communications to employees. Management has been able to establish a true compliance culture.

Personnel – Compliance Group:

Timothy J. Riddle, Managing Partner & Chief Executive Officer

G. Gregory Hagar, Managing Partner, Chief Financial Officer & Chief Compliance Officer

LuAnn M. Molino, Principal, Compliance & Client Administration

Jonathan C. Caffey, Principal, Finance & Administration

Compliance Manual & Code of Ethics:

Chartwell maintains its compliance policies in the firm's Compliance Manual, which is distributed to all employees upon hire, then annually, and any time the manual is amended. New employees are required to sign a certification that they have read the manual, understand the policies, and that they will fully comply with such policies. On an annual basis, each employee must sign a similar certification that he/she has fully complied with the policies over the past year. In each certification, the employees must also make other representations regarding any history of legal issues or disciplinary action by any court, regulatory agency or exchange related to investments or fraud.

The Compliance Manual covers the following areas:

- Chartwell's Code of Ethics – includes personal securities trading rules
- Annual acknowledgments & certifications
- Fiduciary duties to clients
- Use of firm funds or property
- Conflicts of interest and firm opportunities
- Standards of conduct dealing with clients and prospective clients
- Protection of material, non-public and other confidential information
- Prevention of insider trading and tipping
- Regulatory, legal and other inquiries
- Compliance with state notification and licensing requirements
- Marketing materials, advertising and solicitation of prospective clients
- Portfolio management
- Brokerage discretion and deal allocation procedures
- Trade error resolution
- Proxy voting procedures
- Reports to clients
- Client contract procedures
- Policies for handling ERISA accounts, IRAs, and sub-advisory relationship requirements
- Record preparation and retention requirements
- Regulatory reporting and renewal requirements

The firm's Code of Ethics specifically addresses the following:

- Standards of conduct pursuant to personal securities and open-end mutual fund trading (funds managed/sub-advised by Chartwell), reporting requirements, and pre-clearance requirements
- Gifts, entertainment, and political contributions
- Review and enforcement of the Code of Ethics
- Protection of confidential information concerning client recommendations or advice
- Monitoring compliance with insider trading and tipping policies and procedures

Chartwell's Management Committee and Compliance Group have had a compliance program review process in place since inception of the firm. Upon the SEC's adoption of Rule 206(4)-7, the review process has been formalized, augmented, documented, and is described below.

*Approach:*

In 2005, an Annual Review Committee was formed as a subset of the Compliance Group to plan and implement the annual review. The committee is comprised of 2 employees: Greg Hagar & LuAnn Molino. Chartwell's approach to the "annual" review consists primarily of procedures and testing that occur more frequently than annually, along with some annual testing for areas not tested during the year. The areas reviewed and levels of testing are determined by the Annual Review Committee based on the SEC's suggested guidelines and the committee's assessment of risk that may be inherent in certain areas. It is important to note that the members of the Annual Review Committee attend compliance conferences throughout the year to stay current on the SEC's suggested guidelines, and continually assess risk as Chartwell's business changes.

The procedures, testing, reporting, and communication functions of annual review occur all year long.

The various committees meet on a regular basis as follows:

*Compliance Group* - members of the Compliance Group meet informally on a daily basis to discuss ongoing compliance responsibilities, and meet on an ad-hoc basis to deal with any compliance issues that arise during the course of business. Hagar & Molino formally meet on a monthly basis (as described below) to review and document current compliance responsibilities, issues, and annual review procedures & testing.

*Management Committee* – members of the Management Committee formally meet on a bi-weekly basis, currently every other Monday. The CCO and CEO sit on this committee and discuss and review any compliance-related issues.

*Brokerage Committee* – members of the Brokerage Committee formally meet once per quarter to review broker selection, execution measurement, directed brokerage, and soft dollars.

*Full Employee Meetings* – general employee update meetings (and/or firmwide correspondence updates) are held on a semi-annual basis or more frequently if necessary. Compliance is always an agenda item of employee meetings.

*Formal Monthly Compliance Meetings:*

Members of the Compliance Group have always met on a regular basis, and continue to meet informally on a daily basis. In light of the annual review requirements of Rule



206(4)-7, Hagar & Molino began a formal monthly meeting schedule beginning in April 2005. The primary objectives of these meetings are as follows:

- Discuss ongoing compliance responsibilities, client reporting, deadlines
- Meet with key personnel in different areas of the firm
  - Information Technology personnel regarding the firm's Disaster Recovery Plan
  - Operations & Investment personnel regarding client investment restrictions
  - Other members of the Compliance Group regarding ADV updates, registered rep licensing, etc.
- Discuss any compliance issues that may have arisen during the past month
- Review *ALL* areas & topics covered in the Compliance Manual by using a monthly matrix (discussed below). This includes discussion of any ongoing supervisory review or testing related to the annual review.
- Document all of the above

As mentioned above, all areas & topics covered in the firm's Compliance Manual are addressed at each monthly meeting. A matrix was created in June 2005 to act as a guide for attendees to cover each compliance area and to document if any issues occur during the month or need to be addressed.

29) Describe your trading procedures in detail.

Unless prohibited by client guidelines, trade orders for multiple portfolios in a given investment product are generally "batched" or placed as an aggregated order for execution. Placing an aggregate order may enable Chartwell to obtain more favorable execution and net price for the combined order. All portfolios included in an aggregated trade are allocated the same average price per share. If in fact there are multiple orders on the trade blotter for the same security that can not be aggregated due to client restrictions, a simple rotational system is implemented.

In allocating limited investment opportunities among client accounts, all trades executed for like-style accounts are allocated across separate accounts on a pro-rata basis based on the market values of such accounts. Each account receives its proportionate amount of shares to maintain the same weighting of the security to be purchased. The price/cost of the security is allocated so that all accounts are allocated the same price per share. The same methodology is used for building positions and for any sales of securities (i.e. each allocation/fill of shares from a broker is allocated across all accounts on a pro-rata basis with all accounts receiving the same price per share).

IPO's are allocated by the Trading Group to participating portfolios on a pro-rata basis based on market value, and all participating portfolios obtain the same price. If the allocation received is so small such that each portfolio would not receive a minimum target weighting of 0.05%, a rotational system is used. A portfolio manager may submit his/her investment product's portfolios to the trade desk for participation in an IPO only if the security would otherwise be an appropriate investment for that

investment product. This is determined by the market capitalization and fundamental characteristics of the security.

What trading platforms does your firm use?

Chartwell utilizes advents Moxy trading platform for institutional trading.

How many brokers were used during calendar year 2010? 70

- 30) Does your firm have a policy regarding the selection and review of brokers and counterparties? If there is, please e-mail a copy to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Yes – see attached Best Execution Guidelines.

- 31) Does your firm monitor trade effectiveness? If so, how is that documented?

We review the trade executions on a daily basis to judge the effectiveness of our trading operation. As a smaller investment firm we have experienced a significant degree of mobility and effectiveness in executing trades in the equity product areas. We will however, use trading programs (particularly at the inception of a client relationship) as a means of reducing the impact of trading costs while expediting the investment of the clients assets into the market.

Chartwell has a Brokerage Committee, and has established Best Execution Guidelines. The trade executions are circulated via daily trade blotter and are reviewed on a daily basis by investment personnel and trading personnel to judge the efficiency of our trading operation. Chartwell's Brokerage Committee meets formally once per quarter to review execution and we utilize a third-party service for execution measurement on a semi-annual basis. Minutes are maintained for all Brokerage Committee meetings.

- 32) Describe your firm's policies regarding the use of soft dollars. If soft dollar arrangements were not used to acquired products and services in 2010, what would be the dollar increase in your firms total operating expenses?

SEC Section 28(e) Soft Dollar Safe Harbor

#### 1. Soft Dollar Policy

Chartwell may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to Chartwell and indirectly, to Chartwell's clients. These research and execution services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment Chartwell's own internal research and investment strategy capabilities.

All soft dollar arrangements under Section 28(e) must be approved, in advance, by Chartwell's Chief Compliance Officer ("CCO"), G. Gregory Hagar.

The annual soft dollar budget is prepared by the CCO and approved by the Brokerage Committee, which is comprised of the CCO, the Managing Partner and Chief Executive Officer, the Head Trader, and a Senior Portfolio Manager.

The Brokerage Committee meets at a minimum of once per quarter to review the soft dollar program, pending additions or deletions, and to compare budgeted versus actual commission totals.

2. Hard and soft dollar allocation procedures for "mixed-use" items.

Chartwell's Partner in charge of Compliance will analyze each soft dollar arrangement and determine, generally with guidance from outside legal counsel, if a "mixed-use" allocation is required.

3. Chartwell's Form ADV disclosure of soft dollar arrangements.

Consistent with obtaining best execution for clients, Registrant may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to Registrant and, indirectly, to Registrant's clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment Registrant's own internal research and investment strategy capabilities. Research services obtained through the use of soft dollars generally include statistical or quotation services, including on-line services. Registrant does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research it receives will help Registrant to fulfill its overall duty to its clients. Registrant may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Brokers selected by Registrant may be paid commissions for effecting transactions for Registrants' clients that exceed the amounts other brokers would have charged for effecting these transactions if Registrant determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those brokers, viewed either in terms of a particular transaction or Registrant's overall duty to its discretionary client accounts.

Certain items obtained with soft dollars might not be used exclusively for either brokerage or research services. The cost of such "mixed-use" products or services will be fairly allocated between soft dollars (paid by clients) and hard dollars (paid by the Registrant), according to the proposed use. For example, the cost of a service that is used for both research services and administrative purposes will be allocated between hard and soft dollars according to the percentage of time it is used for each purpose.

Although such an allocation will not always be a precise calculation, Registrant will make a good faith effort to reasonably allocate such services.

- 33) Describe your firm's policy regarding directed commissions. Is there a maximum amount of trades that you allow to be directed? How many clients direct commissions? What are the advantages and disadvantages to a client who directs commissions?

Chartwell will direct commissions to a specific broker at the request of a client. We generally utilize a "step-out" process to direct commissions. In the case of most step-outs, we will choose a broker to execute the trade based on a variety of factors that dictate best execution on a trade-by-trade basis. That executing broker will step-out the commissions and the clearing responsibility for a specific portfolio to the desired directed broker. In these cases, the execution is handled by the broker of choice and the commission direction is also satisfied. Not all direction can be handled through step-outs and certain trades must be handled by the directed broker, so we normally recommend that a client limit its commission direction to 25%. Approximately 30% of our clients utilize some form of direction.

When directing commissions, the client receives a benefit from the broker in the form of a commission rebate or whatever the arrangement dictates. The client could be disadvantaged from an execution standpoint if their target level of direction is so high that it restricts the adviser in its trading of the portfolio. As stated above, there is no disadvantage if targets are low, and step-outs can be utilized.

- 34) Describe how your firm obtains and pays for outside research reports. Please list the primary sources of research upon which your firm relies.

A percentage of our client's commissions are used to obtain research for Chartwell. Soft dollar arrangements and commission sharing arrangements are used to pay for such services. Factset Data Systems, Bloomberg terminals, ThomsonReuters First Call data/research, Reuters Knowledge (formerly Multex Research), and Advent Software (mixed use) are the primary sources of this research.

- 35) If your firm employs firms for introductions to industry experts, list those firms? If you have listed firms and have an "expert network policy" or equivalent, please e-mail that policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Coleman Research Group

It is Chartwell's policy that any engagement for service from an expert network is pre-approved by the CCO, activity logs are reviewed by the CCO when available, compliance policies and procedures of the expert network are reviewed by the CCO, and where applicable, pre-screening questions are required by the expert network before any Chartwell contact with an industry expert.

36) What percentage of each of the following does the portfolio account for? Please estimate if exact figures are not available or disclosed.

A) Firm assets	1.13%
B) Firm revenue	2.47%
C) Firm profit	2.96%
D) Total firm work hours	1.00%

37) What are the current assets in this product?

As of June 30, 2011, our Small Cap Growth assets were \$365.0 million.

What are the capacity constraints for this product and who determines the constraints?

We will close this product when assets reach \$1.75 billion in committed capital. The portfolio managers determine the capacity constraints.

How did you determine the capacity threshold?

We loosely determined our team could manage one billion in committed capital at inception of the strategy (April 1997). This was based on staffing, liquidity, number of holdings (70-90) and turnover expectations. In today's actual dollar terms, factoring market growth, this equates into 1.75 billion dollars. Compared to our peer group, this is a conservative number.

## Outlook

38) What is your firm's outlook for the domestic equity markets?

As a firm, we do not publish a definitive market outlook. Having noted that, we would offer observations about market conditions and potential developments based on our research across numerous sectors and many individual companies. At the present time, we would summarize the environment as looking like more of the same. Vacillation between pessimism and optimism. The yin and the yang that support the strong market advance in our small growth benchmark mid-way through the year. It remains an unusual time characterized by the persistent collision of forces monetary, fiscal, political, and geo-political in and around global securities markets. Investors are managing their fear of the end against their fear of missing larger gains. We will go out on a limb and suggest that this environment will persist. People and companies will remain uncertain over jobs, incomes, prices and costs, as well as demand. They will spend on items that are important, but they will choose carefully where and how much. If the past couple of years was about a cyclical recovery in revenue and profit margins (to levels that surprised many), the next few years might be more about structural gains in market share. Stock prices become somewhat less correlated as companies and groups that can advance separate from those that cannot.

So while conditions remain turbulent, there is no lack of opportunity in small cap investing. Technology is advancing rapidly with implications for use and profit in many areas. Changes to the healthcare landscape have exposed avenues for new investments. Consumers are spending where new and fresh meet the perception of value. We are finding interesting companies even in industrial sectors where the best combine good product demand with continued margin progression. Franchises, brands, products, and margins are the ingredients for superior performance and we continue to rely on bottom-up fundamentally driven research to lead us to companies well positioned for what lies ahead.

- 39) What issues are other clients concerned with in regards to products, markets, education and governance?

We have a diverse range of clients with different investment objectives, risk profiles and liquidity needs. While many of their concerns are unique to their specific accounts, we continue to see interest from our clients in alternative investments.

- 40) What is on the horizon for your firm's business plan?

Our firm's business plan continues to be long-term in nature. We look for opportunities to grow our firm across multiple channels at a moderate level, while maintaining the appropriate balance of staff members to support this growth. We have invested heavily into our research staff. Currently we have 22 fundamental analysts researching companies out of 44 employees. Compared to our peers, we believe the ratio of analysts versus support staff is unusual and supports the long term needs of our clients.

- 41) Describe your assessment of the relationship between your firm and *SamCERA*. How can we better utilize your firm's capabilities?

Chartwell and SamCERA have been working together for almost 7 years. During that time, we have had monthly dialogue (including requests for information) between Gary Clifton and the consultant, Strategic Investment Solutions. This dialogue is more frequent than many of our clients and has created a strong relationship between the two organizations.

## Conclusion

- 42) Is there any information that would be timely pursuant to *SamCERA's Investment Policy*, the Investment Management Agreement with *SamCERA*, and this annual review?

Not at this time.

- 43) Are your clients making significant changes in their asset mixes? Please describe these changes.

We continue to see movement into alternative asset classes as well as global mandates.

- 44) What market opportunities should *SamCERA* consider?

We do not have access to the current asset allocation of the fund, making it difficult to make recommendations.

## Chartwell Investment Partners 2010 Response to the Questionnaire

### Organizational Update

- 1) What is the ownership structure of your firm? Please identify all owners with 5% ownership or more.

#### Limited Partnership

75%            30 Active Chartwell Employees  
25%            Passive Investor - Maverick Partners, LP

Please identify all owners with 5% ownership or more.

Edward N. Antoian

Timothy J. Riddle

Michael J. McCloskey

Phantom Stock (includes 26 active employees)

New Share Program (includes 16 active employees)

Maverick Partners, LP (a passive, venture capital interest)

- 2) Provide an update on your firm's organization, with particular emphasis on **(a)** changes to your structure over the past eighteen months, **(b)** growth and acquisition of assets under management, **(c)** clients gained or lost in the past year, and **(d)** recent corporate acquisitions, including negative and positive effects. All significant changes should be accompanied by an explanation.

(a) We have not had any changes to our organizational structure, and we have not had any corporate acquisitions or dispositions. We have continued to manage the same product line and attempted to grow via new assets into existing products, and not via acquisitions.

(b) List below are the firm's stated assets at quarter end for the last 6 quarters (18 months)

1Qtr 2009	\$3.6 Billion	1Qtr 2010	\$4.8 Billion
2Qtr 2009	\$4.1 Billion	2Qtr 2010	\$4.3 Billion
3Qtr 2009	\$4.6 Billion		
4Qtr 2009	\$4.8 Billion		

(c) Clients gained over the past year: 6 total firm / 0 SCG

Clients lost over the past year: 20 total firm / 12 SCG

(d) There have been no corporate acquisitions.



3) What are your firm's philosophy and its current policy regarding new business?

We plan to grow by (1) adding new assets to existing investment products only up to pre-determined capacity levels, and (2) incubating and rolling out several new investment products over the next 5-10 years. Each of the existing investment products have pre-determined capacity levels at which we feel the products can be effectively managed to reach maximum performance potential. We do not take new assets into existing products once such capacity levels are reached. Thus, our firm's long-term growth beyond the capacity of existing products will be in the introduction of several new products.

<b>Product</b>	<b>Capacity</b>
Premium Yield Equity	\$10 billion
U.S. Equity	\$5 billion
Small Cap Growth	\$1.75 billion
Smid Cap Growth	\$1.5 billion
Mid Cap Growth	\$5 billion
Small Cap Value	\$1 billion
Mid Cap Value	\$5-7 billion
Small Cap Core	\$1 billion
Investment Grade Fixed Income	\$5 billion
High Yield Fixed Income	\$5 billion

4) Specify separately the individuals (up to ten) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).

Chartwell currently has ten Managing Partners.

\*Timothy Riddle  
\*Michael McCloskey  
\*George Burwell  
\*Kevin Melich  
\*Edward Antoian  
\*David Dalrymple  
G. Gregory Hagar  
John Heffern  
Michael Jones  
Christine F. Williams

\*original founders of Chartwell.

Bernard Schaffer was taken off the above listed, due to a reduced role. He is still an active Managing Partner, and employee of Chartwell. George Burwell was added due to his

increased role. Other changes over the past eighteen months include the loss of Managing Partner, Mark Cunneen. Mark left Chartwell, in order to pursue another career opportunity.

- 5) Specify separately the individuals (up to five) who you feel are key to the success of *SamCERA*'s product. If the list has changed in the last eighteen months, identify and explain the change(s).

Edward Antoian  
John Heffern  
Michael Jones  
David Reidinger  
David Choi

David Choi was added to the above list due to his increased role. Other changes include the departure of Mark Cunneen, Portfolio Manager and Analyst who left the industry to pursue other career interests.

- 6) Update all significant personnel changes to the "*SamCERA* Team" over the past eighteen months.

As previously notified, Mark Cunneen, a Portfolio Manager and Analyst in the Growth investment team, left Chartwell and the industry to pursue other interests. In April of 2009, Dawn Francfort, Analyst, joined Chartwell, but in May of 2010, left the firm to pursue another opportunity.

- 7) Describe your firm's management succession plan. Have dates been established regarding the succession of any key personnel, specifically those reported in the preceding questions?

Within the next five to ten years Partners may elect to retire. The remaining Partners will purchase the retiring interest and redistribute the interest to new and likely younger Partners to carry on the integrity of the firm. No dates have been established, regarding the succession of any of key personnel.

- 8) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months? E-mail your firm's most recent ADV Parts I & II to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Neither Chartwell nor any of its employees has been involved in any regulatory or litigation actions related to our business in the past eighteen months.

- 9) When did the Securities & Exchange Commission, Attorney General, or the Financial Industry Regulatory Authority (FINRA) last audit your firm? Please note any material findings or recommendations.

Our last SEC exam was completed on September 2, 2009. None of the findings were material and did not impact our marketing materials. We had to add our trade rotation policy regarding block trades between wrap and non-wrap portfolios to our ADV II Trading disclosure which is already included in our Best Execution guidelines; document our fair valuation practices that were already in place for a hedge fund; broaden the range of advisory fees disclosed in the ADV II of an affiliate adviser; create a separate compliance manual for the affiliate adviser who shares staff and resources with Chartwell rather than utilize Chartwell's; and improve the language in both compliance manuals for safeguarding client information to include physical safeguards already in place.

- 10) Please describe the levels of coverage for SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries. E-mail a current Certification of Insurance to [gclifton@samcera.org](mailto:gclifton@samcera.org).

We maintain the following insurance coverage:

<u>Coverage</u>	<u>Carrier</u>	
Errors & Omissions	\$5,000,000	Federal Insurance Co. (Chubb)
ERISA	\$500,000 per client	Federal Insurance Co. (Chubb)
Fidelity Bond	\$3,000,000	Federal Insurance Co. (Chubb)

We also have an umbrella policy coverage of \$5 million with Hartford which serves as a backup to our other policies.

- 11) Do you have a written policy on ethics? If so, please e-mail the policy to [gclifton@samcera.org](mailto:gclifton@samcera.org).

Yes.

- 12) Describe the relative strength and longevity of your back-office staff. Provide the location of your firm's investment and accounting back-office staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.

All investment and accounting duties are performed at our office located in Berwyn, PA. We currently employ three back office personnel. All back office staff perform the duties for the accounts assigned to them; Ms. Cindy Smith has been employed by Chartwell since 1997 as Head Accountant and Director of Operations. Ms. Smith oversees the entire process. Each person performs trade processing and affirmation duties, which include, but are not limited to, posting trades from the trading system into the accounting system intra-day, affirming trades, communicating with internal trading desk, brokers/dealers and custodian banks to resolve any problems effecting contractual settlement. They also perform portfolio accounting duties which include, but are not limited to, posting contributions/distributions, posting in-kind receipts/disbursements, monitoring cash balances on a daily basis in all accounts and the communication of this information to all interested parties under the direction of the

department manager as well as resolving any problems that arise during the normal valuation/cash management process, reconciling assigned accounts on a daily, weekly or monthly basis.

Most of our operational functions are performed in house. We do utilize PNC Global Investment Advisors to set-up and reconcile accounts for our Managed Account (Brokerage Wrap) assets.

- 13) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?

When Chartwell opened its doors in April 1997 we selected the Advent software package. This state of the art software has two components, Moxy, which is currently our trading platform and Axys, which is our portfolio accounting system. The Advent systems are accurate and flexible. They offer daily appraisals and daily returns. The flexible systems allow for the customization of client reports.

Chartwell has not experienced any problems with these systems over the past eighteen months and we are extremely happy with the Advent products. We have had these systems since the firm's inception and they were upgraded in 2010. Advent "Moxy" 6.0 was installed during the 2<sup>nd</sup> quarter, along with Axys 3.8.

- 14) Provide an overview of your firm's business continuity plan as it relates to the investment process.

Currently at Chartwell Investment Partners, there are approximately 60 workstations accessing 13 servers with individual outside services connected via dedicated data lines, Internet connectivity, and telephone lines. This document is provided to show how these products work within the Chartwell environment.

Chartwell's network is based around Microsoft's 2003 network operating system. Where cost allows Chartwell has implemented one server per main service or main application. The server named CIPDCA is Chartwell's primary domain controller. The server CIPDATA acts as the users file share server and is attached to a HP StorageWorks Modular Smart Array 1000 (MSA1000) is a 2 Gb Fibre Channel storage system (SAN). The server CIPDCB is a backup domain controller. CIPDATA is also the small application and print server. CIPDCB is the backup domain controller which shares the process load of CIPDCA. CIPMOXY is only an application server, which supports the Moxy database (Fund accounting), which is based on Microsoft's SQL Server 2000. The CIPMAIL server is another application server that solely supports email. The email server application is Microsoft's Exchange Server 2003. CIPMONITOR is a Windows 2003 server which houses our anti-virus application. CIPOA is a windows 2003 server which has our corporate backup and CIPBES is windows 2003 which houses Blackberry Enterprise application. All servers and workstations have the

latest service packs and security patches. This is achieved by a workstation-based package called SP Query. SP Query finds all Microsoft based devices on the network and creates a database of the operating system files. It then updates these systems manually or automatically with the latest Microsoft service pack or security patch releases.

To protect network data, Chartwell has implemented DoubleTake by NSI. Double-Take protects data and applications such as Exchange, SQL Server, enabling us to replicate and protect mission-critical data that resides throughout our enterprise. It combines continuous real-time backup and automatic failover capabilities for disaster recovery, high availability, and centralized backup. We also use VERITAS' Backup Exec 11d to backup data; we also copy pertinent databases to other servers in the event of a system outage with a server. Backup includes all data files, Exchange data, and SQL data. The backup runs a full backup every day on a four-week rotation. Monthly backups are also run on the last Saturday of the month which is stored at VRI for 10 years. This is done to facilitate disaster recovery.

Vircom's MoibusGate product sits out side of the CIP network in front of the FortiGate 300A firewall. This Windows 2003 server acts as a front line of defense to CIP. Its purpose is to stop spam from our mail server; however, this application has two features that play into our DR project. The first being another AV checkpoint and the second is a relay server for mail. All user workstations have access to the Internet through a Firewall called a FortiGate 300A. Fortinet Internet security appliances use stateful packet inspection technology that provides around-the-clock protection from hackers and Denial of Service (DoS) attacks. This unit is managed by using an Internet Browser pointed to its local IP address. The device is configured to only allow management access from within the network and not externally. The device also keeps a log of security events and emails them to the current Chartwell IT manager. The unit is also configured with a content filter to deny access to sites that are considered non-business related by Chartwell.

Virus protection at Chartwell is two fold. First, the Spam Server (CIPGATE) has Anti-Virus. The Antivirus software scans all incoming email along with scanning all mailboxes for viruses. This product automatically updates itself with the latest virus definition files ten times a month. On the desktop, Sophos's anti-virus software is running. The software scans the individual machines for viruses. It also protects against viruses that may be opened accidentally. The server CIPMONITOR pushes new updates down to individual systems. Therefore, users are never required to update their systems. The advantage here is that Chartwell is using two different anti-virus companies to protect against viruses. It also gives Chartwell's mobile clients piece of mind while traveling. Another advantage is Chartwell can be assured that users have the latest virus updates automatically.

The individual departments requiring financial and banking services typically referred to as "Outside Services" request access to these services through the IT Technical Committee. The committee reviews these services for security and support concerns. If approved, the services are set up in conjunction with the Chartwell IT department, the Outside service vendor, and the department requesting the service.

#### Contact Information

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## Performance

- 15) Is the performance composite constructed for *SamCERA's* portfolio in compliance with the Global Investment Performance Standards (GIPS)?

As of January 1, 2006, Chartwell Investment Partners claims compliance with the Global Investment Performance Standards (GIPS®). Prior to January 1, 2006, our Small Cap Growth product composite was AIMR, Level II compliant.

- 16) What is a reasonable expected tracking error to the Russell 2000? What are the expected sources of the tracking error?

Historically, the tracking error against the Russell 2000 has generally been in the 5%-15% range. The majority of the source of tracking error has been security selection. The tracking error in our portfolio is a product of our fundamental stock selection which searches for the best possible growth opportunities while maintaining the appropriate levels of risk control with regard to security and sector exposure. We typically use the Russell 2000 Growth as our primary benchmark for the purpose of setting portfolio constraints. Therefore the level of tracking error to the Russell 2000 has historically been higher than that of the Russell 2000 Growth.

- 17) Detail your firm's perspective of *SamCERA's* performance expectations, as spelled out in the Investment Management Agreement and *SamCERA's Investment Policy*. How is your firm doing relative to those expectations?

Chartwell's standard outperformance goal for SCG is to outperform the R2000G by 300-400 bps over a full market cycle of 3 to 5 years. For the last 12 months, we are very pleased with the performance of our Small Cap Growth portfolio. SamSERA's portfolio outperformed the Russell 2000 Growth by 394 basis points for the one year period, ending 6/30/10.

We are disappointed in the results for the longer term expectations. However, we note that similar performance in our long-term history led ultimately to significant outperformance over multiple years in subsequent periods. We believe this has been a particularly unstable time in global financial and securities markets and we have not deviated from a fundamental search for growth companies in market characterized by a distinct absence of growth across most sectors of the market and the economy.

18) Please discuss your firm's performance relative to the Russell 2000 for the one, two and three year periods ending June 30, 2010.

	<u>SamCERA</u>	<u>Russell 2000</u>
1 Yr.	21.90%	21.48%
2 Yr.	-9.33%	-4.55%
3 Yr.	-9.66%	-8.60%

Our one year performance against both indexes is consistent with a historical record of above-index results [particularly growth indexes] during periods when the market rewards our emphasis on quality, growth, and stock selection. During the two year and three year periods, market sentiment has been highly geared to overriding global macro factors producing unusual levels of correlation among asset classes and securities within asset classes. Those are market conditions of risk aversion that have tended to create near-term headwinds for our portfolios which can be characterized by somewhat above-average growth and valuation. Importantly, as market and economic conditions normalize we have seen persistent periods wherein meaningful outperformance is associated with leading companies who gained market share and expanded profit margins during the preceding economic downturn. We think we have entered a period like that and remain optimistic that a hand-picked portfolio of small cap growth stocks can perform well for a sustained period of time. From an attribution perspective in the last year our stock selection has been meaningfully positive primarily in Energy, Healthcare, Technology, Basic Industry, Consumer Staples, and Utilities [a sector which contains our investment in a wireless tower company].

19) What is your firm's source(s) for pricing equities?

Chartwell has an automated pricing feed from Interactive Data Corporation (IDC) that provides for daily pricing and valuation. Secondary pricing sources include Bloomberg & Bridge Information Systems.

Does this source differ from that of *SamCERA*'s custodian, State Street Bank & Trust?

State Street uses the same pricing sources. We have had no pricing issues/variances in the SamCERA portfolio since inception of the Chartwell-managed portfolio.

How are pricing variances with the custodian resolved?

Chartwell's Operations Group communicates directly with custodial banks as needed to resolve problems and to ensure that all transactions settle on the contractual settlement date. Daily controls are in place to reconcile all trades with the Depository Trust Company through an automated interface with Advent software used by Chartwell. Generally, income received, positions and market values are reconciled with the custodial banks on a monthly basis, unless otherwise requested by the client. Any reconciling items are dealt with immediately upon completing the monthly bank reconciliation and resolved through direct communication with the client custodian. Cash balances are reconciled daily and/or weekly via the Internet or by directly contacting the custodian.

- 20) Are there pricing issues relative to methodology or pricing sources utilized by your firm versus those utilized by the benchmark?

Chartwell is not aware of any pricing issues at this time.

- 21) Is *SamCERA*'s benchmark, the Russell 2000, appropriate?

Most of our clients use the Russell 2000 Growth as a benchmark for our Small Cap Growth portfolio. We hope to outperform most small cap indices over a long time period. The Russell 2000 is composed of both value and growth stocks and we will underperform this benchmark in periods where Small Value outperforms Small Growth.

### **Investment Strategy and Process**

- 22) Provide a description, in detail, of your investment philosophy, strategy, and process, including your research effort and portfolio construction rules. Describe how the portfolio managers and research analysts interact in the investment process. Do the portfolio managers work individually or in teams? How is the work divided among managers?

Chartwell Investment Partners' Small Cap Growth product invests in selected small growth companies. These businesses demonstrate strong increases in earnings per share. More significantly, they continually broaden, deepen and enhance their fundamental capabilities, competitive positions, product and service offerings and customer bases. We invest in, not merely own the stocks of, these distinguished companies for an intermediate time horizon. We initiate investments opportunistically, when the stocks are particularly attractively valued, yet concentrate holdings in companies best positioned for most rapid growth. Our portfolios focus on a narrow set of such investments. Our investment targets range in market capitalization between \$200 million and \$3 billion. This yields a universe of approximately 3500 names. Applying minimum growth and quality requirement enables us to focus our research efforts on 700-800 stocks. Our rigorous and continual fundamental research efforts help us to understand the businesses and prospects of these firms. It is from this dynamic segment of growth companies that we build our portfolio of 70-90 stocks.



### Portfolio Construction:

Portfolio construction is largely a bottom-up process with sector exposure monitored versus the benchmark. Our research and evaluation drives industry weights while limits on those sector weights relative to indices reduce potential volatility. Top-down economic work modestly influences the weights.

### Sector Weights:

Our portfolio tends to be concentrated in four sectors, healthcare, technology, consumer services, and business services/durables. The overweight or underweight of any one sector is generally limited to a range of 150% to 50% of the sector weighting or a differential of plus or minus ten percentage points versus the weighting, whichever is greater. Sector or industry weightings are residual to the stock selection process.

### Stock Weights:

Individual stock weightings range from 1% to 5%. The weight assigned to each security is reflective of the relative return potential, so potentially higher returning stocks will have higher relative weights.

Our evaluation of companies uses conservative valuation parameters. We focus on several key numbers, their historical levels and relative value to a peer universe. These numbers include price to earnings, earnings growth rates, relative P/E to growth, price to EBITDA, return on equity, return on assets, return on investments, among others. Additionally, quarterly earnings expectations and results are carefully followed.

Chartwell's small cap growth strategy is differentiated from other common growth styles. We focus on high growth companies that lie in the middle of the momentum and growth at a reasonable price continuum. (At times high growth investments may be found at reasonable prices. However, consistently high growth performers also may be expensive but yet demonstrate exceptional continued growth expectations. We believe that both categories contain attractive investments.) Our investment decisions lie along this continuum and are arrived at thorough strong fundamental research.

### Fundamental Research:

Our research process draws on three primary sources. We assess specific attributes through our contacts with each source.

#### 1. Company

- Strategy and growth plans: the company's view of its future.
- Economics of the business: returns on assets and equity on both a company and operating unit basis.
- Available resources: physical, human and financial resources the company draws on.
- Management talent and character: skills, previous experience, integrity and reputation.

## 2. Industry and Competitors

- Growth potential: market growth and what drives it.
- Industry competitive structure: monopoly, oligopoly or fragmented and the impact on growth and profitability.
- Competitive position: current market share and potential changes.

## 3. Wall Street

- External research: market expectations to understand which way the herd is stampeding.

A team approach is used in our investment process. The Small Cap team consists of seven investment professionals. Each member of our team contributes to the decision making process. All members conduct fundamental research and conduct meetings with company management, competitors, and customers. In this respect, portfolio managers have a dual role that encompasses security analysis. Our analyst's primary role is to scrutinize potential investment opportunities within a number of industry sectors and then present these opportunities to the managers. The process is often iterative and draws on the knowledge and experiences of all the investment team members. Portfolio managers and analysts may specialize in a specific area but are not limited to their primary knowledge base for research and stock recommendations.

- 23) What is the market capitalization purchase range for this product? What are the portfolio construction rules regarding market capitalization? Are sell disciplines directly tied to market capitalization?

Our investment target ranges in market capitalization are between \$200 million and \$3 billion. Stocks that grow past \$3 billion are not immediately sold, but are monitored.

- 24) Discuss your firm's investment strategy relative to market environments. Are there market cycles that are particularly favorable to your firm's investment strategy and process? Are there market cycles that are historically difficult for your firm's investment strategy and process?

Our fundamentally driven small cap growth strategy will generally outperform the Russell 2000 Growth benchmark when momentum investing is out of favor. A market environment which rewarded fundamental stock analysis favors our strategy. A market environment which is quantity driven price momentum oriented, or has little regard for any valuation works against our strategy.

- 25) Provide a full review of: **(a)** a performance attribution which reflects your assessment of the value added by your investment discipline, **(b)** your assessment of the risks associated with *SamCERA's* portfolio, and **(c)** methodologies employed to evaluate risk, including a description of the software(s) you have in place.

See the attached 1 year attribution report.

The primary risk associated with SamCERA's portfolio is the risk of underperformance against the relevant benchmark. Realization of that risk could arise from two sources: decisions about stock selection and decisions about sector allocation. We manage stock selection risk by adhering to a bottom up fundamental research process that seeks strong companies with compelling sustainable growth opportunities. All investment ideas are approved by the portfolio manager and intensively researched by senior sector analysts after addition to the portfolio. Further managing for risk, we construct portfolios that are diversified, holding 70-90 investments across a wide variety of sectors and sub-sectors. The objective of diversification is to protect the portfolio from single-name or single-sector underperformance that is inherently part of investment management.

Risk is measured at both a security and portfolio level. The unsystematic risk of individual securities is monitored by stock volatility, quality of earnings and sector volatility. Risk is monitored at a portfolio level through several attributes including industry weight limits, price to earnings, market capitalization and estimated growth levels relative to indices. Risk is measured by standard deviation relative to our benchmark while risk adjusted return is measured by the Sharpe Ratio.

We use Factset as part of our evaluation process. We typically evaluate sector weightings and portfolio characteristics (PE's, Growth rates) on a weekly basis and compare them to the benchmark and to historical absolute levels. We also use Factset to evaluate our performance on a daily, weekly, monthly, quarterly, and annual basis. Performance is analyzed to determine what sectors, stocks, etc contributed both positively and negatively to a return for a specific period.

26) Describe your compliance procedures in detail. To whom does compliance report?

One of the primary components of implementing a responsible business plan was to create and maintain a conservative, well-run compliance program. Compliance is taken very seriously at Chartwell because our reputation is our most valuable asset.

An effective compliance program requires resources and the involvement and direction of the management of the firm. Since the inception of the firm, Chartwell's designated CCO has been part of the executive management team, and the CCO has a position on Chartwell's Management Committee. As noted below, Chartwell's CEO has a position in the firm's Compliance Group, and is heavily involved in compliance communications to employees. Management has been able to establish a true compliance culture.

Personnel – Compliance Group:

Timothy J. Riddle, Managing Partner & Chief Executive Officer

G. Gregory Hagar, Managing Partner, Chief Financial Officer & Chief Compliance Officer

LuAnn M. Molino, Principal, Compliance & Client Administration

Jonathan C. Caffey, Principal, Finance & Administration

*Compliance Manual & Code of Ethics:*

Chartwell maintains its compliance policies in the firm's Compliance Manual, which is distributed to all employees upon hire, then annually, and any time the manual is amended. New employees are required to sign a certification that they have read the manual, understand the policies, and that they will fully comply with such policies. On an annual basis, each employee must sign a similar certification that he/she has fully complied with the policies over the past year. In each certification, the employees must also make other representations regarding any history of legal issues or disciplinary action by any court, regulatory agency or exchange related to investments or fraud.

The Compliance Manual covers the following areas:

- Chartwell's Code of Ethics – includes personal securities trading rules
- Annual acknowledgments & certifications
- Fiduciary duties to clients
- Use of firm funds or property
- Conflicts of interest and firm opportunities
- Standards of conduct dealing with clients and prospective clients
- Protection of material, non-public and other confidential information
- Prevention of insider trading and tipping
- Regulatory, legal and other inquiries
- Compliance with state notification and licensing requirements
- Marketing materials, advertising and solicitation of prospective clients
- Portfolio management
- Brokerage discretion and deal allocation procedures
- Trade error resolution
- Proxy voting procedures
- Reports to clients
- Client contract procedures
- Policies for handling ERISA accounts, IRAs, and sub-advisory relationship requirements
- Record preparation and retention requirements
- Regulatory reporting and renewal requirements

The firm's Code of Ethics specifically addresses the following:

- Standards of conduct pursuant to personal securities and open-end mutual fund trading (funds managed/sub-advised by Chartwell), reporting requirements, and pre-clearance requirements
- Gifts, entertainment, and political contributions
- Review and enforcement of the Code of Ethics
- Protection of confidential information concerning client recommendations or advice
- Monitoring compliance with insider trading and tipping policies and procedures

Chartwell's Management Committee and Compliance Group have had a compliance program review process in place since inception of the firm. Upon the SEC's adoption of Rule 206(4)-7, the review process has been formalized, augmented, documented, and is described below.

*Approach:*

In 2005, an Annual Review Committee was formed as a subset of the Compliance Group to plan and implement the annual review. The committee is comprised of 2 employees: Greg Hagar & LuAnn Molino. Chartwell's approach to the "annual" review consists primarily of procedures and testing that occur more frequently than annually, along with some annual testing for areas not tested during the year. The areas reviewed and levels of testing are determined by the Annual Review Committee based on the SEC's suggested guidelines and the committee's assessment of risk that may be inherent in certain areas. It is important to note that the members of the Annual Review Committee attend compliance conferences throughout the year to stay current on the SEC's suggested guidelines, and continually assess risk as Chartwell's business changes.

The procedures, testing, reporting, and communication functions of annual review occur all year long.

The various committees meet on a regular basis as follows:

*Compliance Group* - members of the Compliance Group meet informally on a daily basis to discuss ongoing compliance responsibilities, and meet on an ad-hoc basis to deal with any compliance issues that arise during the course of business. Hagar & Molino formally meet on a monthly basis (as described below) to review and document current compliance responsibilities, issues, and annual review procedures & testing.

*Management Committee* – members of the Management Committee formally meet on a bi-weekly basis, currently every other Monday. The CCO and CEO sit on this committee and discuss and review any compliance-related issues.

*Brokerage Committee* – members of the Brokerage Committee formally meet once per quarter to review broker selection, execution measurement, directed brokerage, and soft dollars.

*Full Employee Meetings* – general employee update meetings (and/or firmwide correspondence updates) are held on a semi-annual basis or more frequently if necessary. Compliance is always an agenda item of employee meetings.

*Formal Monthly Compliance Meetings:*

Members of the Compliance Group have always met on a regular basis, and continue to meet informally on a daily basis. In light of the annual review requirements of Rule 206(4)-7, Hagar & Molino began a formal monthly meeting schedule beginning in April 2005. The primary objectives of these meetings are as follows:

- Discuss ongoing compliance responsibilities, client reporting, deadlines
- Meet with key personnel in different areas of the firm
  - Information Technology personnel regarding the firm's Disaster Recovery Plan
  - Operations & Investment personnel regarding client investment restrictions
  - Other members of the Compliance Group regarding ADV updates, registered rep licensing, etc.
- Discuss any compliance issues that may have arisen during the past month
- Review *ALL* areas & topics covered in the Compliance Manual by using a monthly matrix (discussed below). This includes discussion of any ongoing supervisory review or testing related to the annual review.
- Document all of the above

As mentioned above, all areas & topics covered in the firm's Compliance Manual are addressed at each monthly meeting. A matrix was created in June 2005 to act as a guide for attendees to cover each compliance area and to document if any issues occur during the month or need to be addressed.

27) Describe your trading procedures in detail.

Unless prohibited by client guidelines, trade orders for multiple portfolios in a given investment product are generally "batched" or placed as an aggregated order for execution. Placing an aggregate order may enable Chartwell to obtain more favorable execution and net price for the combined order. All portfolios included in an aggregated trade are allocated the same average price per share. If in fact there are multiple orders on the trade blotter for the same security that can not be aggregated due to client restrictions, a simple rotational system is implemented.

In allocating limited investment opportunities among client accounts, all trades executed for like-style accounts are allocated across separate accounts on a pro-rata basis based on the market values of such accounts. Each account receives its proportionate amount of shares to maintain the same weighting of the security to be purchased. The price/cost of the security is allocated so that all accounts are allocated the same price per share. The same methodology is used for building positions and for any sales of securities (i.e. each allocation/fill of shares from a broker is allocated across all accounts on a pro-rata basis with all accounts receiving the same price per share).

IPO's are allocated by the Trading Group to participating portfolios on a pro-rata basis based on market value, and all participating portfolios obtain the same price. If the allocation received is so small such that each portfolio would not receive a minimum target weighting of 0.05%, a rotational system is used. A portfolio manager may submit his/her investment product's portfolios to the trade desk for participation in an IPO only if the security would otherwise be an appropriate investment for that investment product. This is determined by the market capitalization and fundamental characteristics of the security.

What trading platforms does your firm use?

Chartwell utilizes advants Moxy trading platform for institutional trading.

How many brokers were used during calendar year 2009? 75

28) Does your firm monitor trade effectiveness? If so, how is that documented?

We review the trade executions on a daily basis to judge the effectiveness of our trading operation. As a smaller investment firm we have experienced a significant degree of mobility and effectiveness in executing trades in the equity product areas. We will however, use trading programs (particularly at the inception of a client relationship) as a means of reducing the impact of trading costs while expediting the investment of the clients assets into the market.

Chartwell has a Brokerage Committee, and has established Best Execution Guidelines. The trade executions are circulated via daily trade blotter and are reviewed on a daily basis by investment personnel and trading personnel to judge the efficiency of our trading operation. Chartwell's Brokerage Committee meets formally once per quarter to review execution and we utilize a third-party service for execution measurement on a semi-annual basis. Minutes are maintained for all Brokerage Committee meetings.

29) Describe your firm's policies regarding the use of soft dollars. If soft dollar arrangements were not used to acquired products and services in 2009, what would be the dollar increase in your firms total operating expenses?

SEC Section 28(e) Soft Dollar Safe Harbor

#### 1. Soft Dollar Policy

Chartwell may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to Chartwell and indirectly, to Chartwell's clients. These research and execution services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment Chartwell's own internal research and investment strategy capabilities.

All soft dollar arrangements under Section 28(e) must be approved, in advance, by Chartwell's Chief Compliance Officer ("CCO"), G. Gregory Hagar.

The annual soft dollar budget is prepared by the CCO and approved by the Brokerage Committee, which is comprised of the CCO, the Managing Partner and Chief Executive Officer, the Head Trader, and a Senior Portfolio Manager.

The Brokerage Committee meets at a minimum of once per quarter to review the soft dollar program, pending additions or deletions, and to compare budgeted versus actual commission totals.

2. Hard and soft dollar allocation procedures for "mixed-use" items.

Chartwell's Partner in charge of Compliance will analyze each soft dollar arrangement and determine, generally with guidance from outside legal counsel, if a "mixed-use" allocation is required.

3. Chartwell's Form ADV disclosure of soft dollar arrangements.

Consistent with obtaining best execution for clients, Registrant may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to Registrant and, indirectly, to Registrant's clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment Registrant's own internal research and investment strategy capabilities. Research services obtained through the use of soft dollars generally include statistical or quotation services, including on-line services. Registrant does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research it receives will help Registrant to fulfill its overall duty to its clients. Registrant may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Brokers selected by Registrant may be paid commissions for effecting transactions for Registrants' clients that exceed the amounts other brokers would have charged for effecting these transactions if Registrant determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those brokers, viewed either in terms of a particular transaction or Registrant's overall duty to its discretionary client accounts.

Certain items obtained with soft dollars might not be used exclusively for either brokerage or research services. The cost of such "mixed-use" products or services will be fairly allocated between soft dollars (paid by clients) and hard dollars (paid by the Registrant), according to the proposed use. For example, the cost of a service that is used for both research services and administrative purposes will be allocated between hard and soft dollars according to the percentage of time it is used for each purpose. Although such an allocation will not always be a precise calculation, Registrant will make a good faith effort to reasonably allocate such services.



- 30) Describe your firm's policy regarding directed commissions. Is there a maximum amount of trades that you allow to be directed? How many clients direct commissions? What are the advantages and disadvantages to a client who directs commissions?

Chartwell will direct commissions to a specific broker at the request of a client. We generally utilize a "step-out" process to direct commissions. In the case of most step-outs, we will choose a broker to execute the trade based on a variety of factors that dictate best execution on a trade-by-trade basis. That executing broker will step-out the commissions and the clearing responsibility for a specific portfolio to the desired directed broker. In these cases, the execution is handled by the broker of choice and the commission direction is also satisfied. Not all direction can be handled through step-outs and certain trades must be handled by the directed broker, so we normally recommend that a client limit its commission direction to 25%. Approximately 30% of our clients utilize some form of direction.

- 31) Describe how your firm obtains and pays for outside research reports. Please list the primary sources of research upon which your firm relies.

A percentage of our client's commissions are used to obtain research for Chartwell. Soft dollar arrangements and commission sharing arrangements are used to pay for such services. FactSet, Reuters Bridge Station, Bloomberg, FirstCall, Autex, Oasys, Moody's and StockVal are the primary sources of this research.

- 32) What percentage of each of the following does the portfolio account for? Please estimate if exact figures are not available or disclosed.

A) Firm assets	0.94%
B) Firm revenue	1.93%
C) Firm profit	2.15%
D) Total firm work hours	0.70%

- 33) What are the current assets in this product? What are the capacity constraints for this product and who determines the constraints? How did you determine the capacity threshold?

As of June 30, 2010, our Small Cap Growth assets were \$370.0 million.

What are the capacity constraints for this product and who determines the constraints?

We will close this product when assets reach \$1.75 billion in committed capital. The portfolio managers determine the capacity constraints.

How did you determine the capacity threshold?

We loosely determined our team could manage one billion in committed capital at inception of the strategy (April 1997). This was based on staffing, liquidity, number of holdings (70-90) and turnover expectations. In today's actual dollar terms, factoring market growth, this equates into 1.75 billion dollars. Compared to our peer group, this is a conservative number.

## Outlook

34) What is your firm's outlook for the domestic equity markets?

As a firm, we do not publish a definitive market outlook. Having noted that, we would offer observations about market conditions and potential developments based on our research across numerous sectors and many individual companies. Market and economic conditions domestically and abroad remain fragile and uneven. Continued fiscal and monetary stimulus emphasizes ongoing external support for economic activity. Investor sentiment gyrates between risk aversion and trend-chasing. We expect conditions of modest uneven recovery, volatility and government support to remain in place for the foreseeable future. We think expectations for revenue growth opportunities should be restrained and a focus on operating margins and cost control will stay elevated. Corporate cash retention is likely to remain above average, with modest releases for share repurchases, dividends and acquisitions for market share and consolidation economics. Regulatory changes and legislative reforms around key industries create a climate of uncertainty for large portions of the economy as many companies adjust their business practices and investment plans to new regimes of oversight and control.

35) What issues are other clients concerned with in regards to products, markets, education and governance?

We have a diverse range of clients with different investment objectives, risk profiles and liquidity needs. While many of their concerns are unique to their specific accounts, we continue to see interest from our clients in alternative investments.

36) What is on the horizon for your firm's business plan?

Our firm's business plan continues to be long-term in nature. We look for opportunities to grow our firm across multiple channels at a moderate level, while maintaining the appropriate balance of staff members to support this growth. We have invested heavily into our research staff. Currently we have 21 fundamental analysts researching companies out of 43 employees. Compared to our peers, we believe the ratio of analysts versus support staff is unusual and supports the long term needs of our clients.

37) Describe your assessment of the relationship between your firm and *SamCERA*. How can we better utilize your firm's capabilities?

Chartwell and SamCERA have been working together for over 5 years. During that time, we have had monthly dialogue (including requests for information) between Gary Clifton and the

consultant, Strategic Investment Solutions. This dialogue is more frequent than most of our clients and has created a strong relationship between the two organizations.

## **Conclusion**

- 38) Is there any information that would be timely pursuant to *SamCERA's Investment Policy*, the Investment Management Agreement with *SamCERA*, and this annual review?

Not at this time.

- 39) Are your clients making significant changes in their asset mixes? Please describe these changes.

As mentioned above in question 35 we have seen some clients changing their allocation policies. Most of the allocation changes have been from traditional equity and fixed income strategies to alternative investments.

- 40) What market opportunities should *SamCERA* consider?

As mentioned above, we have seen an industry wide interest in alternatives and global portfolios.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 7.1

To: Board of Retirement



From: Chezelle Milan, Retirement Senior Accountant  
Gary Clifton, Chief Investment Officer

Subject: Preliminary Monthly Financial Report for the Period Ending July 31, 2011

STAFF RECOMMENDATION: Staff recommends that the board review the attached preliminary financial statements.

COMMENT: The attached preliminary statements fairly represent *SamCERA's* Financial Statements.

**Statement of Fiduciary Net Assets**

*SamCERA's* Net Assets Held in Trust for Pension Benefits as of month end, totaled \$2,358,550,693.

**Statement of Changes in Fiduciary Net Assets**

Net assets held in trust for pension benefits increased by approximately \$41.1 million, month over month. The increase is due to the semi-annual pre-payment of contributions, which was approximately \$75 million. During the month the market value of the assets decreased, eating into the increase in contributions.

The following reports are attached to this agenda item:

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Statement of Fiduciary Net Assets (Year to Year YTD Comparative)	2
Statement of Changes in Fiduciary Net Assets (Year to Year YTD Comparative)	3
Cash Flow Statements	4
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Statement of Changes in Fiduciary Net Assets (YTD Monthly Comparative)	6

**San Mateo County Employees' Retirement Association  
Statement of Fiduciary Net Assets - YTD Comparative  
June 2011**

	<b>June 2011</b>
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	253,934,047
SECURITIES LENDING CASH COLLATERAL	5,196,620
<b>TOTAL CASH</b>	<u>259,130,667</u>
<b>RECEIVABLES</b>	
Contributions	10,470,382
Due from Broker for Investments Sold	148,074,596
Investment Income	5,800,573
Securities Lending Income	67,915
Other Receivable	113,735
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<u>164,527,200</u>
PREPAID EXPENSE	7,669
<b>INVESTMENTS AT FAIR VALUE</b>	
Domestic Fixed Income Securities	585,292,394
Domestic Equities	932,277,233
International Equities	398,753,172
Real Estate	135,475,106
Private Equities	3,458,419
Risk Parity	145,620,720
Hedge Funds	69,986,280
	<u>2,270,863,323</u>
FIXED ASSETS	0
LESS ACCUMULATED DEPRECIATION	0
	<u>0</u>
<b>TOTAL ASSETS</b>	<u><b>2,694,528,860</b></u>
<b>LIABILITIES</b>	
Investment Management Fees	1,869,336
Due to Broker for Investments Purchased	175,192,142
Collateral Payable for Securities Lending	196,435,881
Other	3,538,208
<b>TOTAL LIABILITIES</b>	<u><b>377,035,567</b></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,317,493,293</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Fiduciary Net Assets - YTD Comparative**  
**July 2011**  
**PRELIMINARY**

	July 2011	July 2010
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	347,869,453	87,610,212
SECURITIES LENDING CASH COLLATERAL	(31,037,887)	165,810,496
<b>TOTAL CASH</b>	<b>316,831,566</b>	<b>253,420,708</b>
<b>RECEIVABLES</b>		
Contributions	0	0
Due from Broker for Investments Sold	168,799,220	125,839,488
Investment Income	5,165,260	4,302,024
Securities Lending Income	32,438	25,141
Other Receivable	113,685	113,708
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>174,110,603</b>	<b>130,280,361</b>
PREPAID EXPENSE	7,669	7,669
<b>INVESTMENTS AT FAIR VALUE</b>		
Domestic Fixed Income Securities	594,907,769	582,882,323
Domestic Equities	879,367,914	848,660,810
International Equities	398,181,304	374,253,616
Real Estate	135,475,106	109,210,472
Private Equities	4,259,387	0
Risk Parity	145,620,720	0
Hedge Funds	69,986,280	0
	<b>2,227,798,479</b>	<b>1,915,007,220</b>
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>2,718,748,317</b>	<b>2,298,715,958</b>
<b>LIABILITIES</b>		
Investment Management Fees	2,499,993	2,155,722
Due to Broker for Investments Purchased	196,890,166	156,151,246
Collateral Payable for Securities Lending	160,201,374	165,810,496
Other	606,091	674,337
<b>TOTAL LIABILITIES</b>	<b>360,197,624</b>	<b>324,791,801</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,358,550,693</b>	<b>1,973,924,158</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - YTD Comparative**  
**July 2011**  
**Preliminary**

	July 2011	July 2010	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	69,824,967	76,866,145	(7,041,177)
Employee Contribution	2,796,875	3,019,936	(223,061)
<b>TOTAL CONTRIBUTIONS</b>	<b>72,621,842</b>	<b>79,886,080</b>	<b>(7,264,238)</b>
INVESTMENT INCOME			
Interest and Dividends	2,374,869	2,228,528	146,341
Net Appreciation (Depreciation) in fair value of investments	(21,384,496)	87,394,852	(108,779,348)
Less Investment Expense	(819,218)	(697,856)	(121,362)
Less Asset Management Expense	(40,465)	(34,874)	(5,591)
<b>NET INVESTMENT INCOME</b>	<b>(19,869,310)</b>	<b>88,890,650</b>	<b>(108,759,960)</b>
SECURITIES LENDING INCOME			
Earnings	36,093	45,487	(9,394)
Less: Securities Lending Expenses	3,410	(18,072)	21,482
<b>NET SECURITIES LENDING INCOME</b>	<b>39,503</b>	<b>27,416</b>	<b>12,087</b>
OTHER ADDITIONS	0	5,962	(5,962)
<b>TOTAL ADDITIONS</b>	<b>52,792,034</b>	<b>168,810,108</b>	<b>(116,018,074)</b>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	9,958,402	9,259,822	698,580
Disability Retirement Allowance	1,227,092	1,214,616	12,476
Survivor, Death and Other Benefits	61,124	63,154	(2,030)
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>11,246,618</b>	<b>10,537,591</b>	<b>709,027</b>
REFUND OF MEMBER CONTRIBUTIONS	193,618	110,411	83,207
ADMINISTRATIVE EXPENSE	262,727	133,483	129,244
OTHER EXPENSE	31,671	919	30,752
<b>TOTAL DEDUCTIONS</b>	<b>11,734,634</b>	<b>10,782,405</b>	<b>952,229</b>
<b>NET INCREASE</b>	<b>41,057,400</b>	<b>158,027,703</b>	<b>(116,970,303)</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,317,493,293	1,815,896,455	
End of Period	2,358,550,693	1,973,924,158	

8/23/2011

San Mateo County Employees' Retirement Association  
 CHANGES IN FIDUCIARY NET ASSETS - TRAILING ONE MONTH  
 For the Month Ending July 31, 2011  
 PRELIMINARY

Agenda Item 7.1

	July 2011	YTD
<b>ADDITIONS</b>		
CONTRIBUTIONS		
Employee Contribution	2,796,875	2,796,875
Employer Contributions - Regular	5,858,439	5,858,439
Employer Contributions - COLA	3,261,580	3,261,580
Employer Prefunded Contribution	60,704,948	60,704,948
<b>TOTAL CONTRIBUTIONS</b>	<b>72,621,842</b>	<b>72,621,842</b>
INVESTMENT INCOME		
Interest and Dividends	2,374,869	2,374,869
Net Appreciation (Depreciation) in fair value of investments	(21,384,496)	(21,384,496)
Securities Lending Income	36,093	36,093
Other Additions		0
Asset Management Expense	(40,465)	(40,465)
Other Investment Related Expense	(98,624)	(98,624)
Securities Lending Expense	3,410	3,410
<b>TOTAL ADDITIONS</b>	<b>53,512,628</b>	<b>53,512,628</b>
<b>DEDUCTIONS</b>		
ASSOCIATION BENEFITS		
Retiree Annuity	2,577,870	2,577,870
Retiree Pension	6,081,746	6,081,746
Retiree COLA	2,583,422	2,583,422
Retiree Death and Modified Work Benefit	3,579	3,579
Active Member Death Benefit	0	0
Voided and Reissue	0	0
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>11,246,618</b>	<b>11,246,618</b>
REFUND OF MEMBER CONTRIBUTIONS		
	193,618	193,618
ACTUARIAL FEES		
	32,750	32,750
CONSULTANT FEES - INVESTMENT (SIS)		
	33,333	33,333
CUSTODIAN FEES - STATE STREET		
	18,000	18,000
INVESTMENT MANAGEMENT FEE - R1000 INDEX		
	5,628	5,628
INVESTMENT MANAGEMENT FEE - ABERDEEN		
	27,574	27,574
INVESTMENT MANAGEMENT FEE - PYRAMIS		
	16,867	16,867
INVESTMENT MANAGEMENT FEE - ANGELO GORDON		
	0	0
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS		
	6,306	6,306
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL		
	0	0
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON		
	35,092	35,092
INVESTMENT MANAGEMENT FEE - CHARTWELL		
	36,804	36,804
INVESTMENT MANAGEMENT FEE - D E SHAW		
	46,529	46,529
INVESTMENT MANAGEMENT FEE - T ROWE PRICE		
	31,601	31,601
INVESTMENT MANAGEMENT FEE - BLACKROCK		
	64,729	64,729
INVESTMENT MANAGEMENT FEE - BARROW HANLEY		
	60,870	60,870
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY		
	34,303	34,303
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES		
	76,350	76,350
INVESTMENT MANAGEMENT FEE - MONDRIAN		
	32,441	32,441
INVESTMENT MANAGEMENT FEE - ARTIO		
	82,213	82,213
INVESTMENT MANAGEMENT FEE - WESTERN ASSET		
	27,267	27,267
INVESTMENT MANAGEMENT FEE - INVESCO CORE		
	51,937	51,937
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS		
	0	0
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED		
	0	0
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY		
	0	0
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND		
	0	0
<b>TOTAL PROFESSIONAL FEE</b>	<b>720,594</b>	<b>720,594</b>
ADMIN EXPENSE - SALARIES & BENEFITS		
	115,926	115,926
ADMIN EXPENSE - SERVICES & SUPPLIES		
	146,801	146,801
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>262,727</b>	<b>262,727</b>
INTEREST FOR PREPAID CONTRIBUTION		
	0	0
OTHER DEDUCTIONS		
	31,671	31,671
<b>TOTAL DEDUCTIONS</b>	<b>12,455,228</b>	<b>12,455,228</b>

July 2011 Financials.xls



NEW YORK  
8/23/2011

41,057,400

41,057,400

Agenda Item 7.1

7/26/2011

**San Mateo County Employees' Retirement Association**  
**CHANGES IN FIDUCIARY NET ASSETS - TRAILING TWELVE MONTHS**  
 For the Month Ending June 30, 2011  
 PRELIMINARY

Agenda Item 7.1

	December YTD 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012	YTD
<b>ADDITIONS</b>								
<b>CONTRIBUTIONS</b>								
Employee Contribution	2,796,875	0	0	0	0	0	0	2,796,875
Employer Contributions - Regular	5,858,439	0	0	0	0	0	0	5,858,439
Employer Contributions - COLA	3,261,580	0	0	0	0	0	0	3,261,580
Employer Prefunded Contribution	60,704,948	0	0	0	0	0	0	60,704,948
<b>TOTAL CONTRIBUTIONS</b>	<b>72,621,842</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72,621,842</b>
<b>INVESTMENT INCOME</b>								
Interest and Dividends	2,374,869	0	0	0	0	0	0	2,374,869
Net Appreciation (Depreciation) in fair value of investments	(21,384,496)	0	0	0	0	0	0	(21,384,496)
Securities Lending Income	36,093	0	0	0	0	0	0	36,093
Other Additions	0	0	0	0	0	0	0	0
Asset Management Expense	(40,465)	0	0	0	0	0	0	(40,465)
Other Investment Related Expense	(98,624)	0	0	0	0	0	0	(98,624)
Securities Lending Expense	3,410	0	0	0	0	0	0	3,410
<b>TOTAL ADDITIONS</b>	<b>53,512,628</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>53,512,628</b>
<b>DEDUCTIONS</b>								
<b>ASSOCIATION BENEFITS</b>								
Retiree Annuity	2,577,870	0	0	0	0	0	0	2,577,870
Retiree Pension	6,081,746	0	0	0	0	0	0	6,081,746
Retiree COLA	2,583,422	0	0	0	0	0	0	2,583,422
Retiree Death and Modified Work Benefit	3,579	0	0	0	0	0	0	3,579
Active Member Death Benefit	0	0	0	0	0	0	0	0
Voided and Reissue	0	0	0	0	0	0	0	0
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>11,246,618</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,246,618</b>
<b>REFUND OF MEMBER CONTRIBUTIONS</b>								
REFUND OF MEMBER CONTRIBUTIONS	193,618	0	0	0	0	0	0	193,618
<b>ACTUARIAL FEES</b>								
ACTUARIAL FEES	32,750	0	0	0	0	0	0	32,750
<b>CONSULTANT FEES - INVESTMENT (SIS)</b>								
CONSULTANT FEES - INVESTMENT (SIS)	33,333	0	0	0	0	0	0	33,333
<b>CUSTODIAN FEES - STATE STREET</b>								
CUSTODIAN FEES - STATE STREET	18,000	0	0	0	0	0	0	18,000
<b>INVESTMENT MANAGEMENT FEE - R1000 INDEX</b>								
INVESTMENT MANAGEMENT FEE - R1000 INDEX	5,628	0	0	0	0	0	0	5,628
<b>INVESTMENT MANAGEMENT FEE - ABERDEEN</b>								
INVESTMENT MANAGEMENT FEE - ABERDEEN	27,574	0	0	0	0	0	0	27,574
<b>INVESTMENT MANAGEMENT FEE - PYRAMIS</b>								
INVESTMENT MANAGEMENT FEE - PYRAMIS	16,867	0	0	0	0	0	0	16,867
<b>INVESTMENT MANAGEMENT FEE - ANGELO GORDON</b>								
INVESTMENT MANAGEMENT FEE - ANGELO GORDON	0	0	0	0	0	0	0	0
<b>INVESTMENT MANAGEMENT FEE - BROWN BROTHERS</b>								
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	6,306	0	0	0	0	0	0	6,306
<b>INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL</b>								
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	0	0	0	0	0	0	0	0
<b>INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON</b>								
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	35,092	0	0	0	0	0	0	35,092
<b>INVESTMENT MANAGEMENT FEE - CHARTWELL</b>								
INVESTMENT MANAGEMENT FEE - CHARTWELL	36,804	0	0	0	0	0	0	36,804
<b>INVESTMENT MANAGEMENT FEE - D E SHAW</b>								
INVESTMENT MANAGEMENT FEE - D E SHAW	46,529	0	0	0	0	0	0	46,529
<b>INVESTMENT MANAGEMENT FEE - T ROWE PRICE</b>								
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	31,601	0	0	0	0	0	0	31,601
<b>INVESTMENT MANAGEMENT FEE - BLACKROCK</b>								
INVESTMENT MANAGEMENT FEE - BLACKROCK	64,729	0	0	0	0	0	0	64,729
<b>INVESTMENT MANAGEMENT FEE - BARROW HANLEY</b>								
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	60,870	0	0	0	0	0	0	60,870
<b>INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY</b>								
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	34,303	0	0	0	0	0	0	34,303
<b>INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES</b>								
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	76,350	0	0	0	0	0	0	76,350
<b>INVESTMENT MANAGEMENT FEE - MONDRIAN</b>								
INVESTMENT MANAGEMENT FEE - MONDRIAN	32,441	0	0	0	0	0	0	32,441
<b>INVESTMENT MANAGEMENT FEE - ARTIO</b>								
INVESTMENT MANAGEMENT FEE - ARTIO	82,213	0	0	0	0	0	0	82,213
<b>INVESTMENT MANAGEMENT FEE - WESTERN ASSET</b>								
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	27,267	0	0	0	0	0	0	27,267
<b>INVESTMENT MANAGEMENT FEE - INVESCO CORE</b>								
INVESTMENT MANAGEMENT FEE - INVESCO CORE	51,937	0	0	0	0	0	0	51,937
<b>INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS</b>								
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS	0	0	0	0	0	0	0	0
<b>INVESTMENT MANAGEMENT FEE - ABRY ADVANCED</b>								
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED	0	0	0	0	0	0	0	0
<b>INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY</b>								
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY	0	0	0	0	0	0	0	0
<b>INVESTMENT MANAGEMENT FEE - AQR DELTA FUND</b>								
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND	0	0	0	0	0	0	0	0
<b>TOTAL PROFESSIONAL FEE</b>	<b>720,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>720,594</b>
<b>ADMIN EXPENSE - SALARIES &amp; BENEFITS</b>								
ADMIN EXPENSE - SALARIES & BENEFITS	115,926	0	0	0	0	0	0	115,926
<b>ADMIN EXPENSE - SERVICES &amp; SUPPLIES</b>								
ADMIN EXPENSE - SERVICES & SUPPLIES	146,801	0	0	0	0	0	0	146,801
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>262,727</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>262,727</b>
<b>INTEREST FOR PREPAID CONTRIBUTION</b>								
INTEREST FOR PREPAID CONTRIBUTION	0	0	0	0	0	0	0	0
<b>OTHER DEDUCTIONS</b>								
OTHER DEDUCTIONS	31,671	0	0	0	0	0	0	31,671
<b>TOTAL DEDUCTIONS</b>	<b>12,455,228</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,455,228</b>

July 2011 Financials.xls

7/26/2011

41,057,400

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0

41,057,400

Agenda Item 7.1

**San Mateo County Employees' Retirement Association  
Statement of Fiduciary Net Assets - Monthly Comparative  
For the Month Ending July 31, 2011**

	July 2011	June 2011	Increase/(Decrease)	% of Incr/Decr
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	347,869,453	253,934,047	93,935,406	36.99%
SECURITIES LENDING CASH COLLATERAL	(31,037,887)	5,196,620	(36,234,507)	-697.27%
<b>TOTAL CASH</b>	<b>316,831,566</b>	<b>259,130,667</b>	<b>57,700,899</b>	<b>0</b>
<b>RECEIVABLES</b>				
Contributions	0	10,470,382	(10,470,382)	N/A
Due from Broker for Investments Sold	168,799,220	148,074,596	20,724,624	14.00%
Investment Income	5,165,260	5,800,573	(635,313)	-10.95%
Securities Lending Income	32,438	67,915	(35,478)	-52.24%
Other Receivable	113,685	113,735	(50)	-0.04%
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>174,110,603</b>	<b>164,527,200</b>	<b>9,583,402</b>	<b>5.82%</b>
PREPAID EXPENSE	7,669	7,669	0	0.00%
<b>INVESTMENTS AT FAIR VALUE</b>				
Domestic Fixed Income Securities	594,907,769	585,292,394	9,615,376	1.64%
Domestic Equities	879,367,914	932,277,233	(52,909,319)	-5.68%
International Equities	398,181,304	398,753,172	(571,868)	-0.14%
Real Estate	135,475,106	135,475,106	0	0.00%
Private Equity	4,259,387	3,458,419	800,968	23.16%
Risk Parity	145,620,720	145,620,720	0	N/A
Hedge Funds	69,986,280	69,986,280	0	N/A
	<b>2,227,798,479</b>	<b>2,270,863,323</b>	<b>(43,064,844)</b>	<b>-1.90%</b>
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>TOTAL ASSETS</b>	<b>2,718,748,317</b>	<b>2,694,528,860</b>	<b>24,219,457</b>	<b>0.90%</b>
<b>LIABILITIES</b>				
Investment Management Fees	2,499,993	1,869,336	630,657	33.74%
Due to Broker for Investments Purchased	196,890,166	175,192,142	21,698,024	12.39%
Collateral Payable for Securities Lending	160,201,374	196,435,881	(36,234,507)	-18.45%
Other	606,091	3,538,208	(2,932,117)	-82.87%
<b>TOTAL LIABILITIES</b>	<b>360,197,624</b>	<b>377,035,567</b>	<b>(16,837,943)</b>	<b>-4.47%</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,358,550,693</b>	<b>2,317,493,293</b>	<b>41,057,400</b>	<b>1.77%</b>

**San Mateo County Employees' Retirement Association  
Statement of Changes in Fiduciary Net Assets - Monthly Comparative  
For the Month Ending July 2011**

	July 2011	June 2011	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	69,824,967	150,474,872	(80,649,904)
Employee Contribution	2,796,875	49,013,027	(46,216,152)
<b>TOTAL CONTRIBUTIONS</b>	<b>72,621,842</b>	<b>199,487,899</b>	<b>(126,866,057)</b>
INVESTMENT INCOME			
Interest and Dividends	2,374,869	44,187,379	(41,812,510)
Net Appreciation (Depreciation) in fair value of investments	(21,384,496)	407,110,954	(428,495,450)
Less Investment Expense	(819,218)	(13,232,662)	12,413,444
Less Asset Management Expense	(40,465)	(694,307)	653,843
<b>NET INVESTMENT INCOME</b>	<b>(19,869,310)</b>	<b>437,371,363</b>	<b>(457,240,674)</b>
SECURITIES LENDING INCOME			
Earnings	36,093	558,768	(522,675)
Less: Securities Lending Expenses	3,410	(28,457)	31,866
<b>NET SECURITIES LENDING INCOME</b>	<b>39,503</b>	<b>530,311</b>	<b>(490,809)</b>
OTHER ADDITIONS			
	0	73,305	(73,305)
<b>TOTAL ADDITIONS</b>	<b>52,792,034</b>	<b>637,462,878</b>	<b>(584,670,844)</b>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	9,958,402	114,422,667	(104,464,265)
Disability Retirement Allowance	1,227,092	14,552,927	(13,325,836)
Survivor, Death and Other Benefits	61,124	858,946	(797,822)
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>11,246,618</b>	<b>129,834,541</b>	<b>(118,587,923)</b>
REFUND OF MEMBER CONTRIBUTIONS	193,618	2,474,445	(2,280,827)
ADMINISTRATIVE EXPENSE	262,727	3,547,526	(3,284,799)
OTHER EXPENSE	31,671	(9,529)	41,200
<b>TOTAL DEDUCTIONS</b>	<b>11,734,634</b>	<b>135,846,983</b>	<b>(124,112,349)</b>
<b>NET INCREASE</b>	<b>41,057,400</b>	<b>501,615,895</b>	<b>(460,558,495)</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,317,493,293	2,339,176,848	
End of Period	2,358,550,693	2,317,493,293	

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 7.2

To: Board of Retirement



From: Mabel Wong, Retirement Finance Office



Gary Clifton, Chief Investment Officer

Subject: Report on Status of the Financial Audit for the Period Ended June 30, 2011

STAFF RECOMMENDATION: Staff recommends that the board accept staff's oral report on the interim field work and current status for the June 30, 2011, Financial Statement Audit conducted by *SamCERA's* auditor, Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter.

BACKGROUND: Government Code Section 31593 mandates that *"The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition."* The board's external auditor, Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, is a Certified Public Accounting firm hired to perform an audit of *SamCERA's* financial statements. The objective of this audit is to express an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. In addition the audit includes reports on internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contractual agreements.

DISCUSSION: A Brown Armstrong audit team headed by Ms. Brooke DeCuir-Baird & Ms. Ashley Casey conducted interim audit work in *SamCERA's* office the weeks of June 27<sup>th</sup> and August 8<sup>th</sup>. The audit is ongoing with the audit team completing the review from Brown Armstrong's office in Bakersfield.

Staff will provide an oral report on the interim work, open items, potential findings and possible discussion items.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 7.3

**TO:** Board of Retirement



**FROM:** Scott Hood, Assistant Executive Officer

**SUBJECT:** Report on Results of the Alameda Retirement Administration Survey

Staff will make a presentation on the results of the Alameda Administration Survey.

**BACKGROUND**

At the Fall 2010 SACRS Administrator's Breakout Session, it was agreed that all SACRS systems would participate in the 2010 Alameda Operations Survey. SACRS had previously negotiated an arrangement for systems to participate in a CEM survey at a reduced cost but only seven systems ultimately participated, *SamCERA* being one of the participants. ACERA offered to expand the survey they conduct annually to allow all '37 Act systems to participate at no charge to the systems. All systems agreed.

ACERA compiled the results and made a presentation at the Spring SACRS Conference. At that time two additional systems decided to participate in the survey. ACERA then republished the survey to include the additional systems.

**DISCUSSION**

The ACERA survey represents a compilation of data, much of it very similar to data collected for the CEM survey. The most significant difference in the two surveys is that the ACERA data is 'raw' meaning it is purely data. There is no analysis or normalizing the data for system size, complexity or assets. It merely shows 'how many' or 'what'. Additionally, the identity of the participating systems has been masked in the results so any comparisons are against unknown systems.



# SACRS/ACERA Administrative Operations Survey Summary

## OVERALL GOALS & OBJECTIVES

The primary objectives of the SACRS/ACERA Administrative Operations Survey were to provide administrators with budgeting and strategic planning information. As conducted, the survey:

1. Assessed and compared member services.
2. Assessed and compared System processes/functions and overall service organization.
3. Assessed and compared staffing levels, workload.
4. Analyzed and compared statistical data obtained in Objectives 1-3 to determine service and staffing levels relative to other '37 Act retirement Systems.

Based on survey results, Systems may seek to:

5. Evaluate whether their structure, work processes, and staffing levels support organizational and member service goals and whether other Systems have more effective and efficient staff work processes.
6. Define future expectations for work processes and develop ideas for improvement plans.

## DETAILED OBJECTIVES

### Objective 1: Member Service Levels

The survey attempted to gauge the level of service each System is providing to its membership relative to other Systems. Member service levels were measured using the following criteria:

- Number of services provided to members
- Scope of services provided (e.g., benefit estimates, seminars, etc.)
- Volume, staff, and turnaround time to complete service for member



**Objective 2: System Organization/Processes**

The survey attempted to assess how each System organizes execution of its major benefits administration functions relative to other Systems.

System organization/processes were compared using the following criteria:

- Overall organizational structure (organization charts)
- Department assigned to processes/functions in each member service category
- Consolidation vs. fragmentation: extent to which benefits/administration is subdivided among different departments or different staff within the same department (e.g., payroll functions)

**Objective 3: Staffing Levels**

The survey measured and compared overall staffing levels and staffing levels within each service area. Systems can now compare:

- Staffing levels relative to other Systems
- Staff to membership ratios

**Objective 4: Analysis**

Based on survey results, Systems can now conduct an analysis to determine:

- How their member services compare with those of other retirement Systems both in number and scope;
- How their staffing levels compare with those of other retirement Systems in number, work assignments, and workload; and
- How their turnaround times (process completion timing) compare with those of other retirement Systems.

**Objective 5: Performance Evaluation**

System administrators can evaluate benchmarking results to address the following:

- How the System's organizational structure and work assignments compared to those of other retirement Systems;
- Do service levels, organizational structure, administrative costs, and other outcomes support the overall **goals** of their organization;
- Do staffing levels and work assignments within the System's Benefits, Legal, and Accounting Departments support an efficient and effective delivery of member services;
- Are mechanisms in place to effectively gauge service level expectations of its members and member satisfaction;
- Do other Systems more effectively gauge service level expectations of their members and their member satisfaction;
- Is the System meeting the service level expectations of its members;
- Can the System reduce administrative costs while still maintaining the overall goals of the organization and its high level of member services;
- Do other Systems provide a more effective and/or efficient delivery of member services? If yes, how; and
- Areas in which their processes differ from other retirement Systems.

**Objective 7: Define Expectations; Develop Improvement Plans**

System administrators can evaluate benchmarking results to address the following:

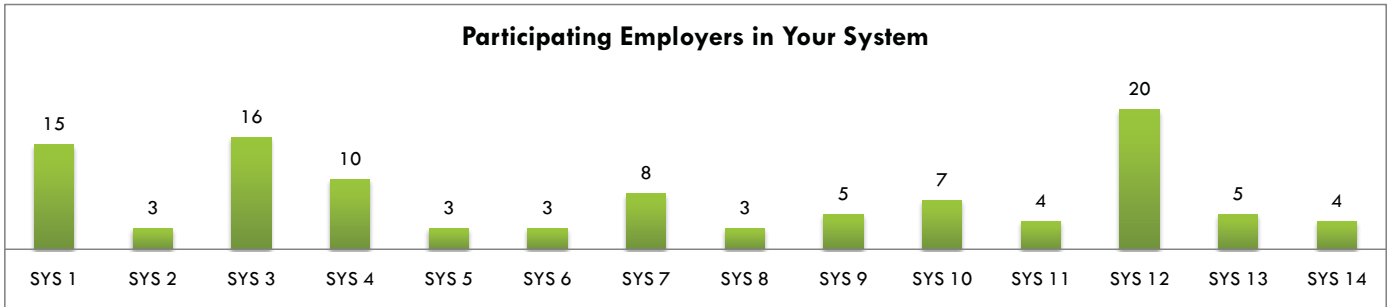
- Define future expectations for staff work processes
- Determine areas in which the System can improve its delivery of member services and/or reduce administrative costs
- Propose mechanisms for improvement

# Section 1

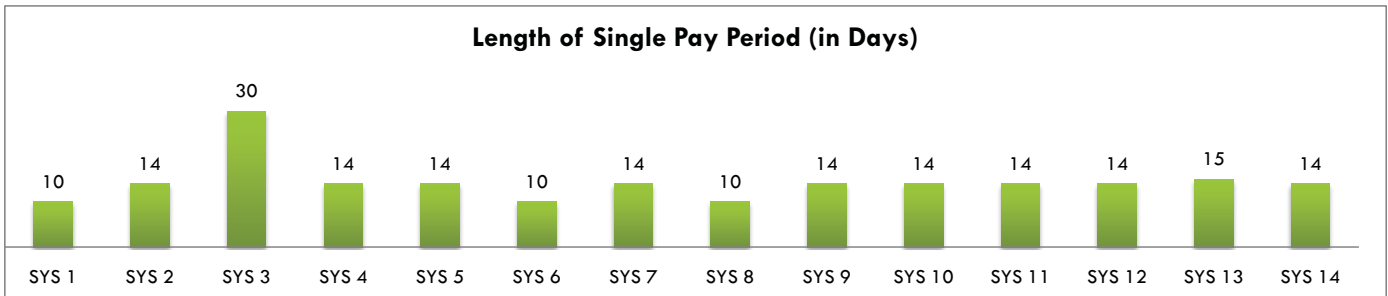
## Member Contributions

- Participating Employers
- Payroll Exceptions
- Benefits/ Accounting Staff
- Contribution Adjustment

**Participating Employers in Your System**

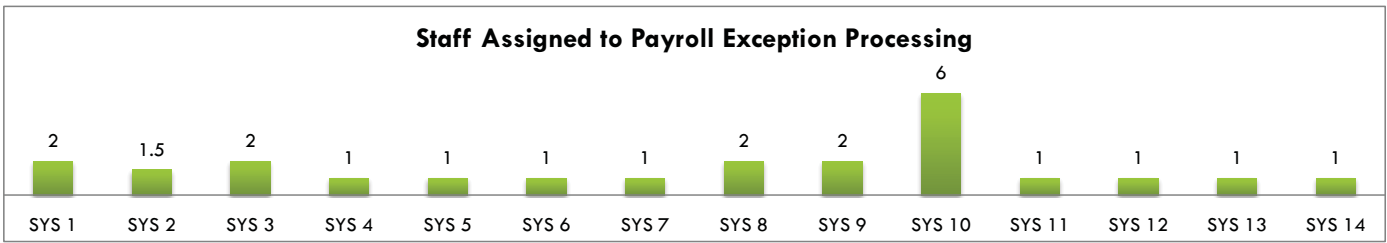
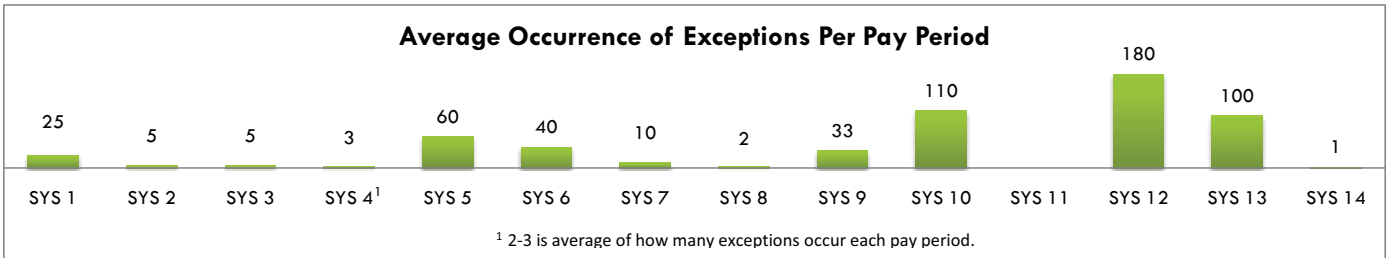


**Length of Single Pay Period (in Days)**



**What Department/Unit/Staff resolves Employer Payroll Exceptions errors?**

<b>SYS 1</b>	Member Services	<b>SYS 8</b>	Retirement Specialist/Auditors office
<b>SYS 2</b>	Asst. Administrator and Retirement Specialists	<b>SYS 9</b>	Active Benefits
<b>SYS 3</b>	Member Services/ Benefits and Accounting	<b>SYS 10</b>	Benefits
<b>SYS 4</b>	Accounting	<b>SYS 11</b>	Benefits
<b>SYS 5</b>	Benefits	<b>SYS 12</b>	Fiscal Services
<b>SYS 6</b>	Benefits	<b>SYS 13</b>	Benefits
<b>SYS 7</b>	Operations	<b>SYS 14</b>	Benefits/Accounting



Which Department/Unit/Staff imports Employer transmittals (data file) into the pension system/member accounts? (i.e.- I.T., Benefits, Fiscal, etc)	
<b>SYS 1</b>	IT
<b>SYS 2</b>	Benefits
<b>SYS 3</b>	Member Services/ Benefits
<b>SYS 4</b>	IT
<b>SYS 5</b>	Accounting/Fiscal
<b>SYS 6</b>	Benefits
<b>SYS 7</b>	Operations accountant
<b>SYS 8</b>	IT
<b>SYS 9</b>	IT
<b>SYS 10</b>	Benefits
<b>SYS 11</b>	I.T.
<b>SYS 12</b>	IT
<b>SYS 13</b>	IT
<b>SYS 14</b>	IT

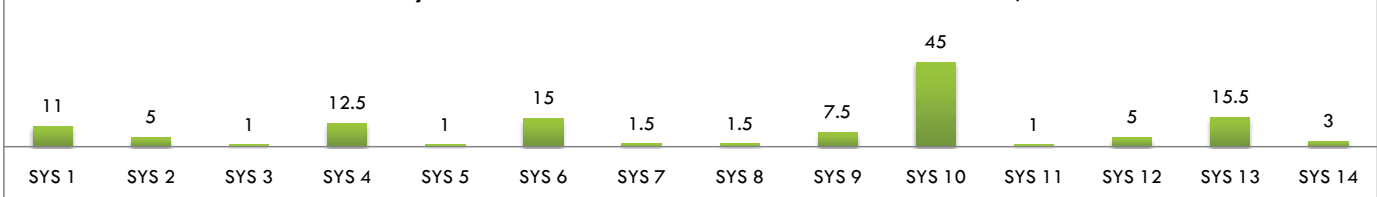
**Are member address changes updated automatically via employer transmittals?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

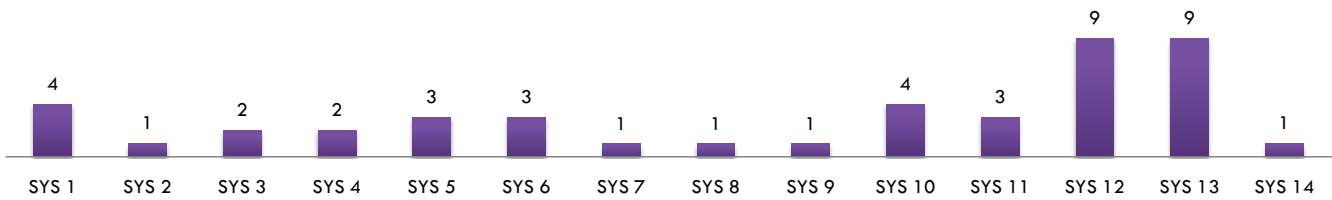
**Please list any factors that increase the complexity of your member account benefit records unit/function. (e.g. high volume of exceptions requiring research, verification, calculation, and tracking; communication with employers; errors or confusion with employer's payroll system).**

- SYS 1**
- SYS 2** Errors by the employers in reporting salary and/or retirement contributions amounts.
- SYS 3**
- SYS 4** Errors in coding retirement eligible kinds of time, receiving information after the fact, complexity of reciprocity
- SYS 5**
- SYS 6**
- SYS 7**
- SYS 8** Verification, Communication with employers
- SYS 9** There are issues when the employer payroll system is not properly updated.
- SYS 10** Multiple Systems, Research and all of the above.
- SYS 11** Divorces. Terminations with Civil Service Pending, Disabilities
- SYS 12** 2 employers separated from using the County's payroll system and began using their own payroll system this year.
- SYS 13**
- SYS 14** None out of the ordinary.

**Average Amount of Days for Staff to Resolve Payroll Exceptions (number of working days from date error is received to date it is resolved)**



### How many accountants do you have on staff to handle Pension/Benefits Accounting?



#### Does your system allow a receivable for Employer/Employee contributions to be offset against the cash received each pay period?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes

#### Are Contributions reconciled against the payroll reports received from your Employer(s)?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No

#### Is your retirement information database system able to identify any contribution errors from employers at the member detail level? Yes, the discrepancies will be recognized as receivable or payable until they are resolved/ Or No, we take the employer provided amount as is.

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No

#### If differences are found as a result of reconciliation, does your system issue refunds to the Employer(s) or collect the difference from the Employer(s)?

	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Yes, we refund and collect for all Employers	✓		✓	✓			✓
Yes, refund and collect for certain Employers							
Neither of the above		✓			✓	✓	
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes, we refund and collect for all Employers	✓		✓	✓	✓	✓	
Yes, refund and collect for certain Employers							
Neither of the above		✓					

#### Do you reconcile benefit payments and corresponding deductions for vendors (for medical/dental premiums, garnishments, taxes, association dues, etc.)?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes

Do you process and pay post-employment benefits to Vendors?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No	Yes	No	Paid directly by employers	Yes	3.00	Yes	Yes	No	Yes	Yes	Paid directly by employers

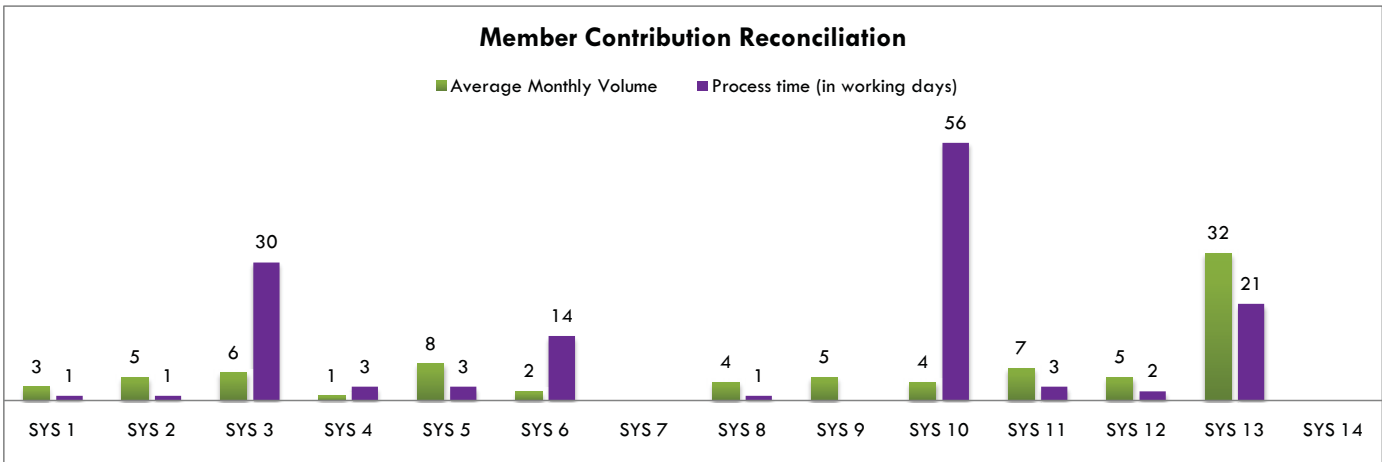
Do you conduct monthly reconciliation of the post-employment benefit premiums, life insurance deductions or long term care deductions to Vendors' invoices?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No	Yes	No	No	No	No	Yes	Yes	No	Yes	Yes	Yes

Do you prepare accruals for contributions and benefit payments?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes

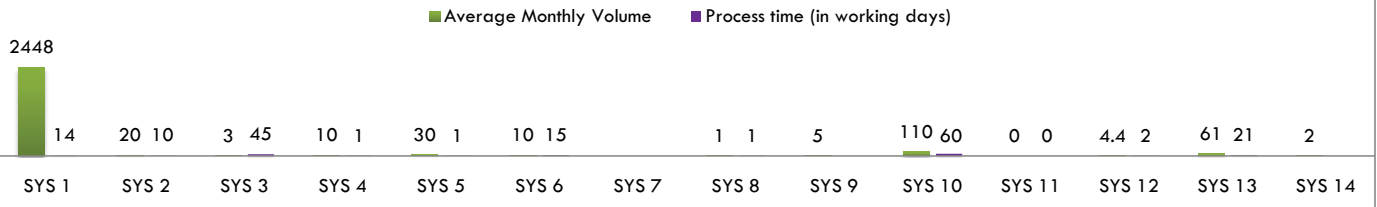
  

Do you prepare and file tax reporting?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes

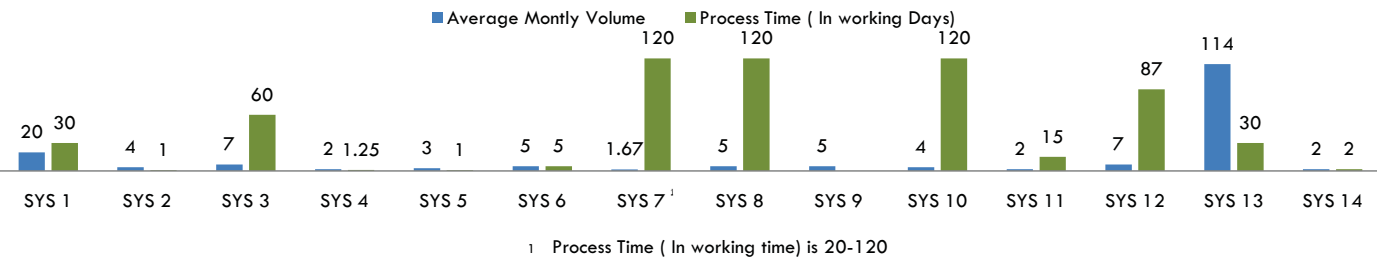




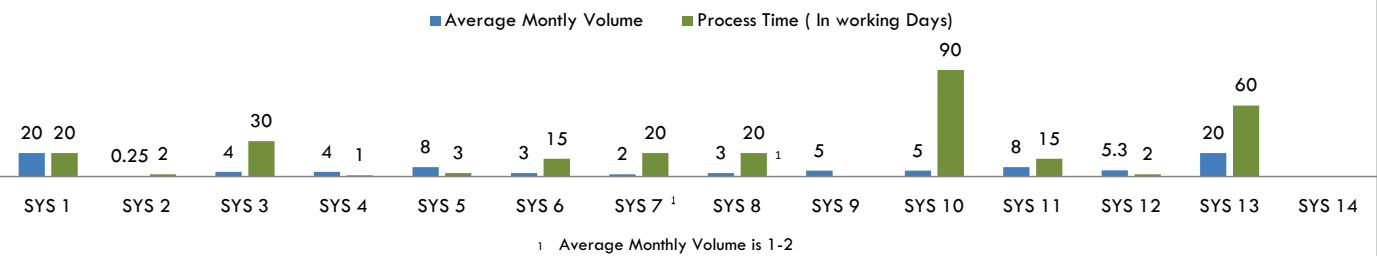
### Member Contribution Reconciliation Due to Payroll Discrepancies



### Reciprocal Agreements

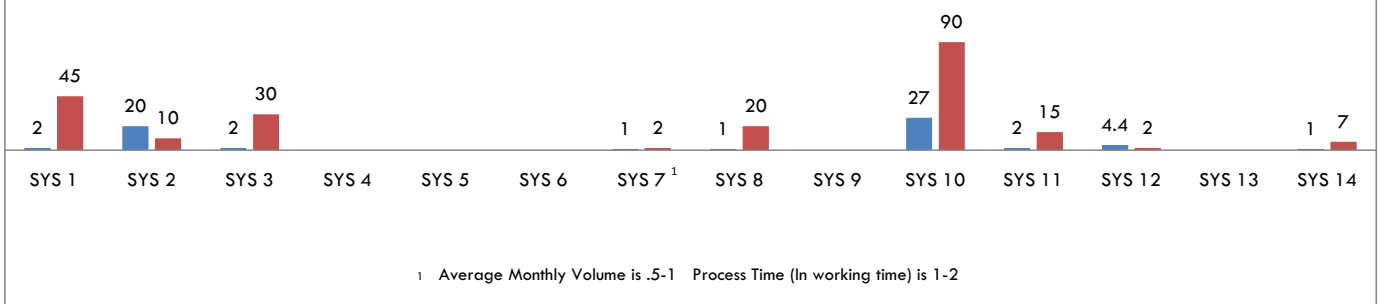


### Age Adjustments



### Other Contribution Adjustments

■ Average Monthly Volume ■ Process Time ( In working Days)



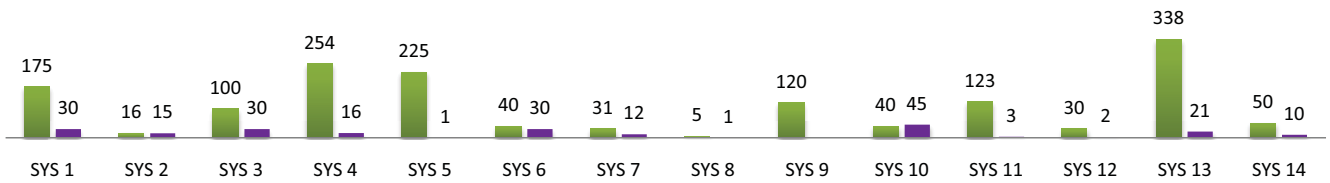
## Section 2

### Active Member Services

- Retirement Allowance Estimates
- Redeposits
- Service Purchase
- Public Service
- Leave of Absence
- Tier/Plan Conversions
- Final Retirement Calculations
- Account Balance Statements
- Active Death Benefits
- New Member Enrollments
- Terminations

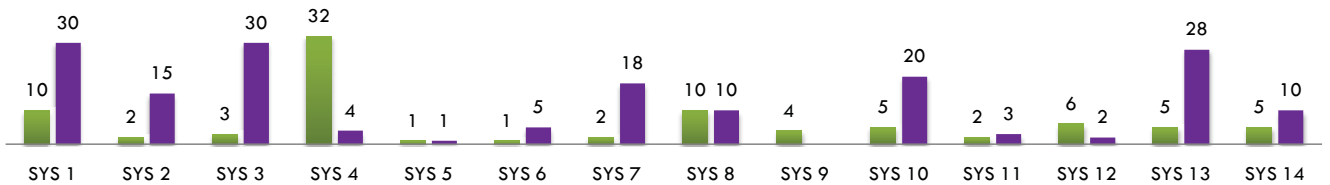
### Retirement Allowance Estimates

■ Average monthly volume    ■ Process time (in working days)



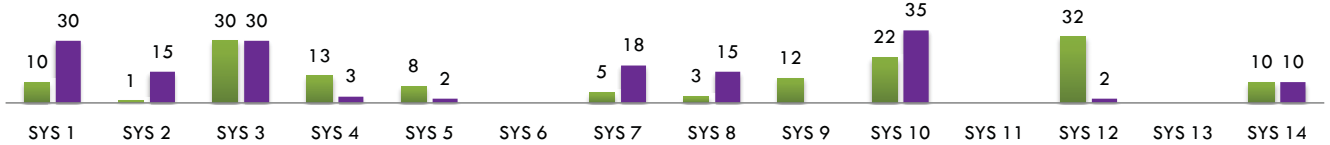
### Redeposit of Prior Membership

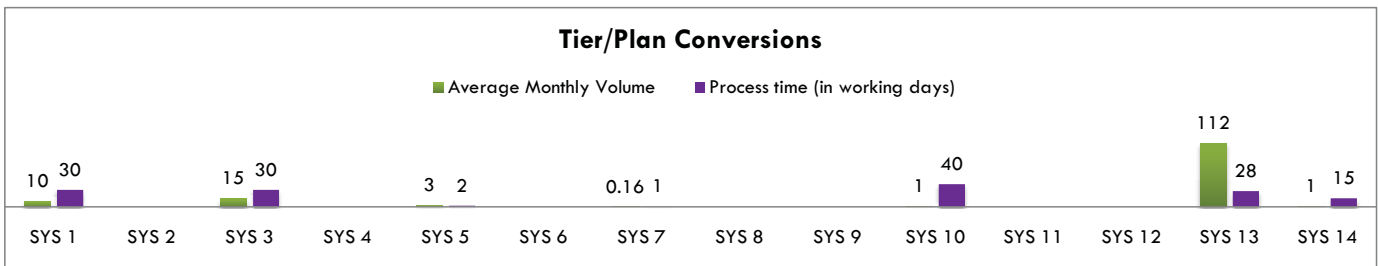
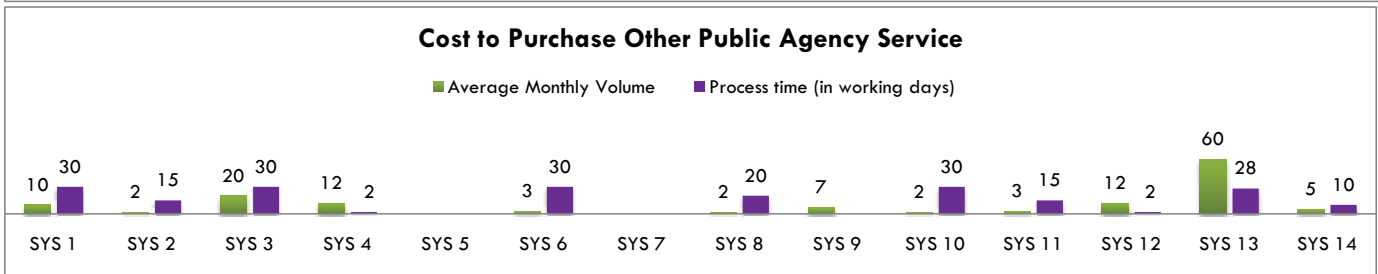
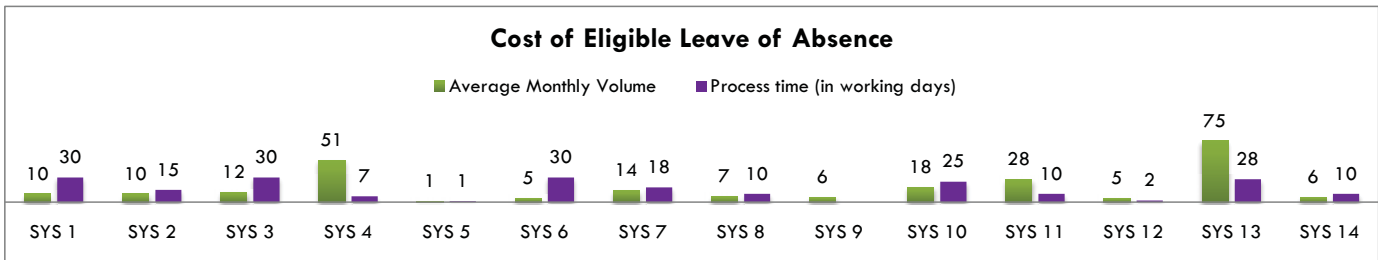
■ Average Monthly Volume    ■ Process time (in working days)

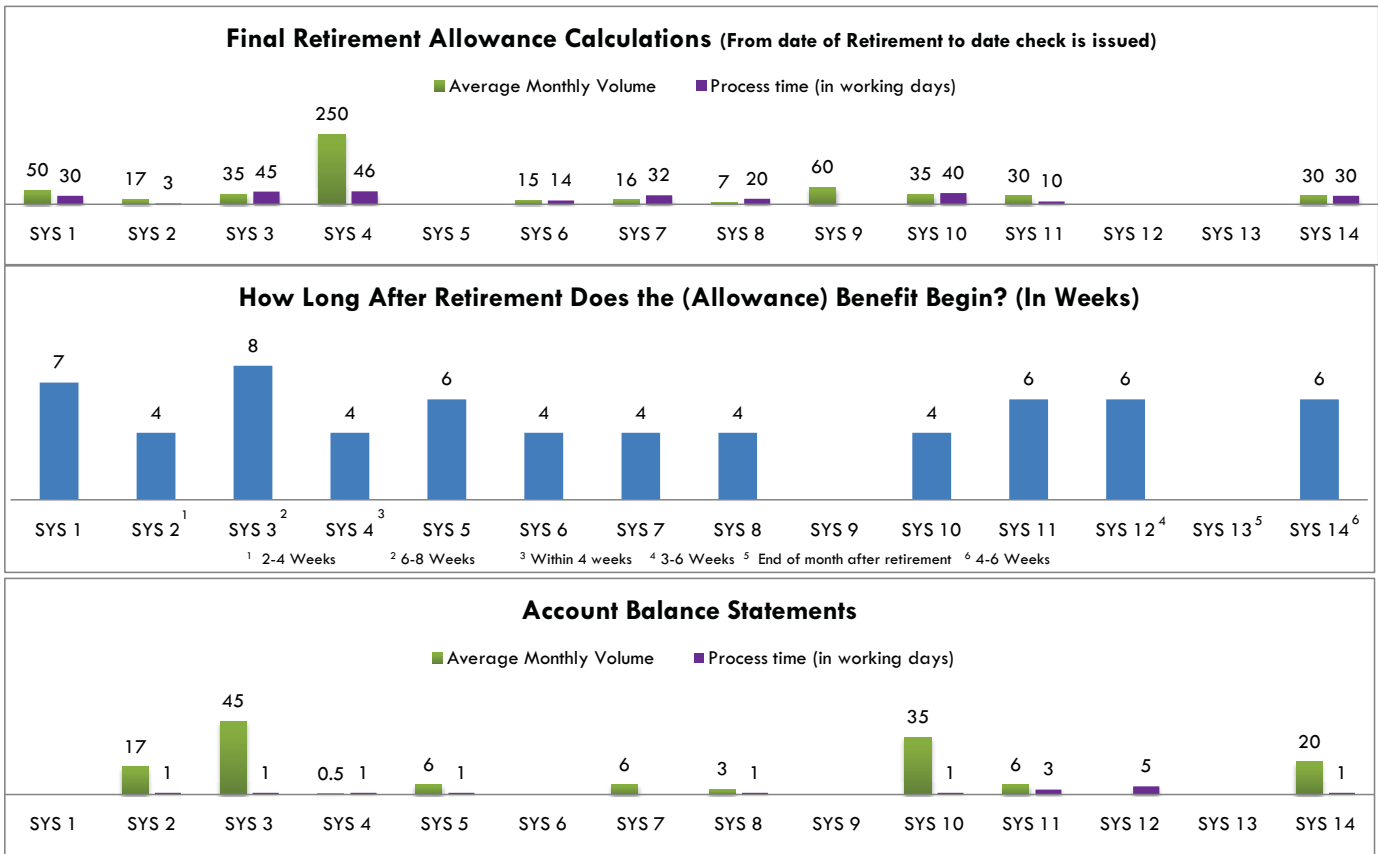


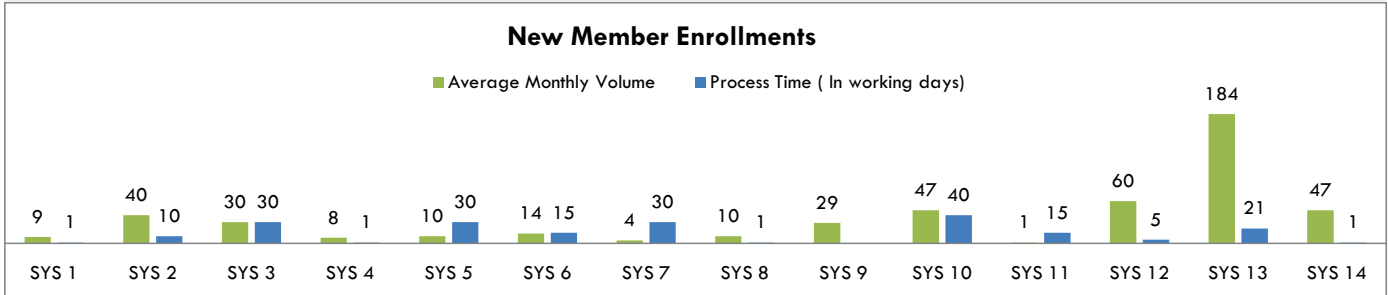
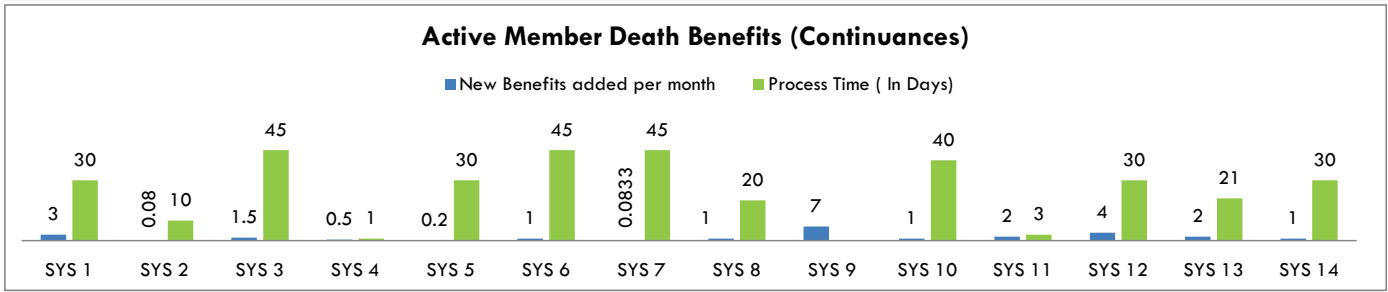
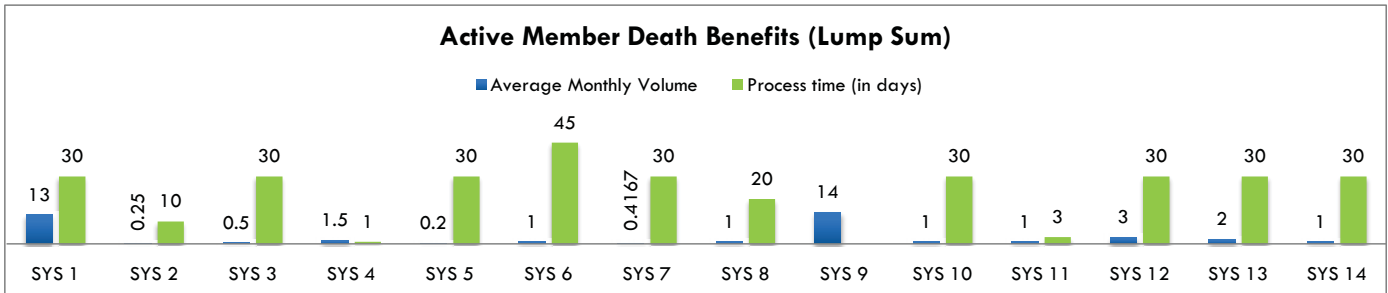
### Service Purchase

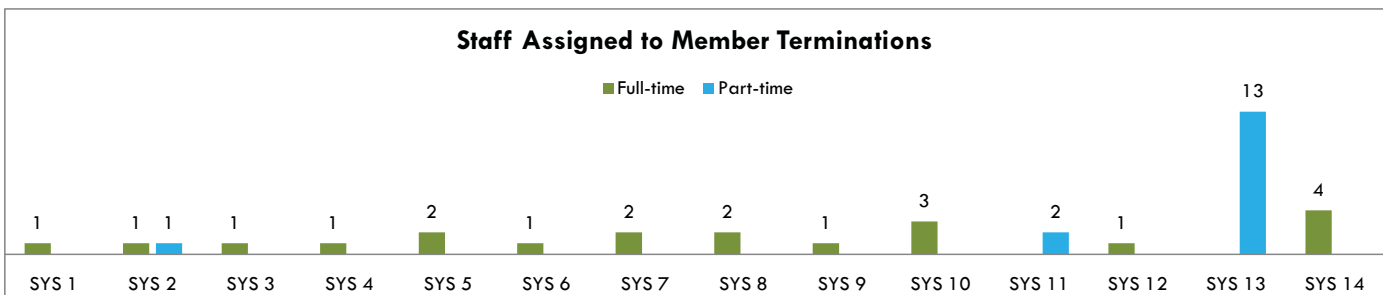
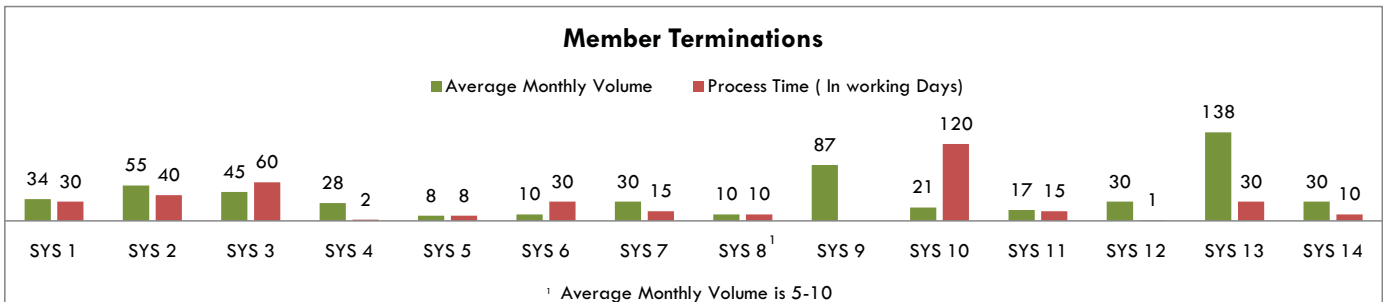
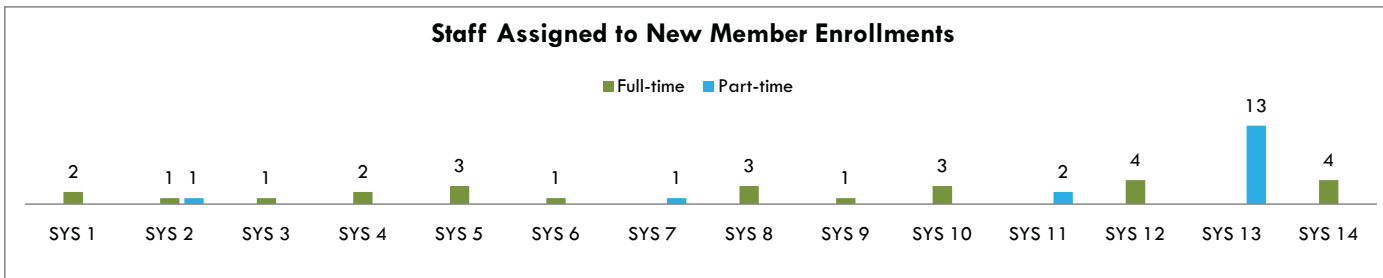
■ Average Monthly Volume    ■ Process time (in working days)



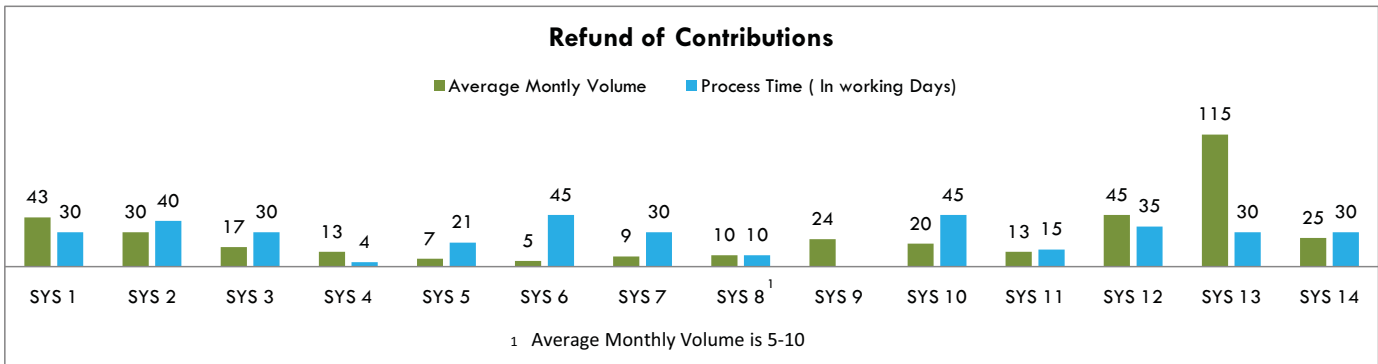












**Which Department/Unit/Staff processes Member Terminations? (includes letters/advice regarding account options, deferred status, reciprocity, etc.) (i.e. Accounting, Fiscal, Benefits, etc)**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Member Services	Benefits	Member Services/ Benefits	Benefits	Benefits	Benefits	Operations & Benefits	Retirement Specialist	Active Benefits	Benefits	Benefits	Member Services	Benefits	Benefits

**Which Department/Unit/Staff processes Refunds of Contributions due to terminations? ( i.e. Accounting, Fiscal, Benefits, etc)**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Member Services	Benefits	Member Services/ Benefits	Benefits	Benefits	Benefits	Operations	Retirement Specialist	Active Benefits	Benefits	Benefits & Accounting	Member Services	Benefits	Benefits/ Accounting

**How does your system handle overlapping service when determining reciprocal eligibility?**

<b><u>SYS 1</u></b>	30 days of overlapping services are backed out of the account if the member uses leave.
<b><u>SYS 2</u></b>	We will adjust the entry or termination date depending on the specific situation so that the member can maintain reciprocity with the other system.
<b><u>SYS 3</u></b>	We do not accept reciprocity with overlapping service.
<b><u>SYS 4</u></b>	Refund of Contributions
<b><u>SYS 5</u></b>	Adjust membership date to allow for incoming reciprocity.
<b><u>SYS 6</u></b>	We will adjust up to 30 days.
<b><u>SYS 7</u></b>	
<b><u>SYS 8</u></b>	Don't allow overlapping service
<b><u>SYS 9</u></b>	Prospectively, no overlap
<b><u>SYS 10</u></b>	If there is concurrent service, we generally deny reciprocity. However, if it is incoming reciprocity, a member may adjust their entry date with SYS 12.
<b><u>SYS 11</u></b>	We modify income reciprocity within reason. Outgoing reciprocity no modification
<b><u>SYS 12</u></b>	If there is concurrent service, we generally deny reciprocity. However, if it is incoming reciprocity, a member may adjust their entry date with SYS 12.
<b><u>SYS 13</u></b>	May use employment or membership date.
<b><u>SYS 14</u></b>	We allow up to 6 weeks of overlap if the member was running out of vacation hours to keep medical insurance intact until new coverage was established. We do not adjust our service credit, or refund any contributions.

**What other types of requests do you receive from your Active/Deferred Members? (please list):**

<b><u>SYS 1</u></b>	Disability
<b><u>SYS 2</u></b>	
<b><u>SYS 3</u></b>	One on one counseling, account balances, service purchases
<b><u>SYS 4</u></b>	Purchase of Service estimates, refunds, overall plan information.
<b><u>SYS 5</u></b>	
<b><u>SYS 6</u></b>	Redeposit to Cal Pers 1st eligible retirement date
<b><u>SYS 7</u></b>	Deferred members- corrections to personal information from semi-annual statements
<b><u>SYS 8</u></b>	
<b><u>SYS 9</u></b>	Service verification; reciprocal advice
<b><u>SYS 10</u></b>	one-on one counseling 50/month
<b><u>SYS 11</u></b>	Prior Public Service; Prior County Service; Leave of Absence Time; Redeposit of Funds; Reciprocity; Confirmation of Contributions
<b><u>SYS 12</u></b>	Requests for loans, Cost to purchase Additional Retirement Credit (ARC)
<b><u>SYS 13</u></b>	
<b><u>SYS 14</u></b>	Estimates with and without a service purchase; military service purchases (as Public Service).

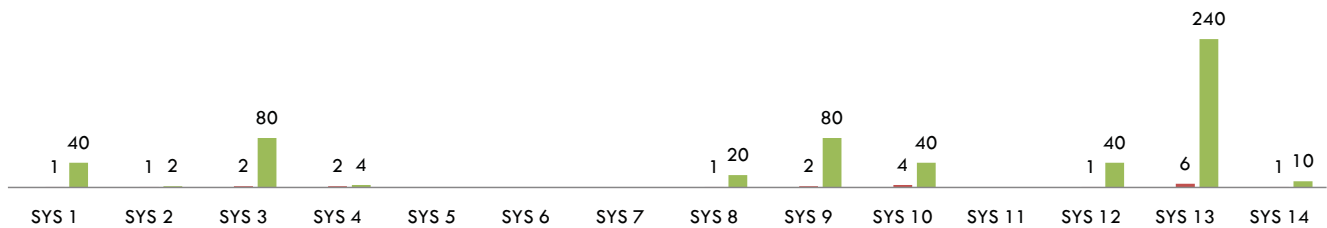
## **Section 3**

### Scanning Documents

- Staff
- Assigned Department

### Number of Staff Assigned to Scanning of Member Documents

■ Number of staff ■ Hours per week (total)



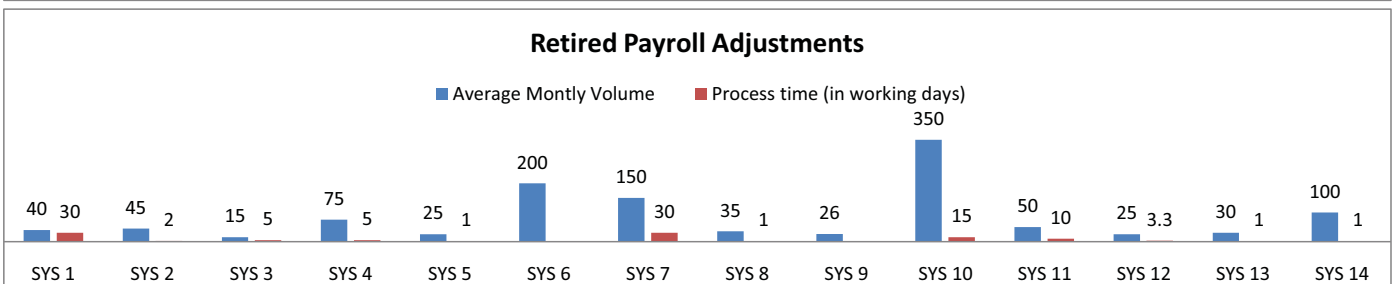
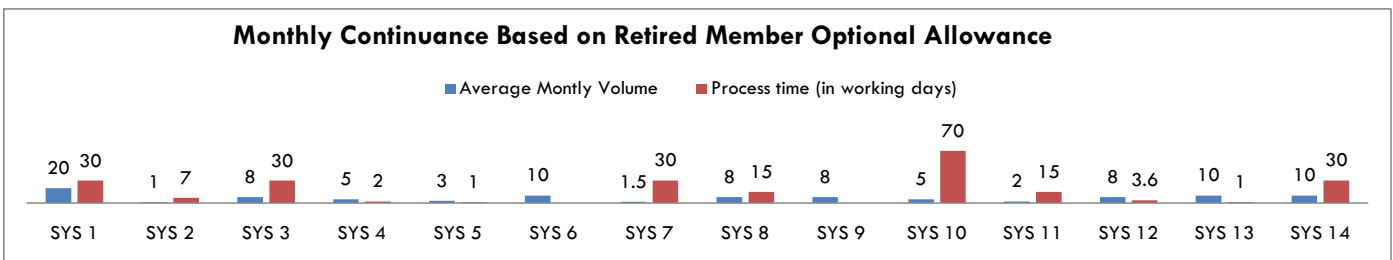
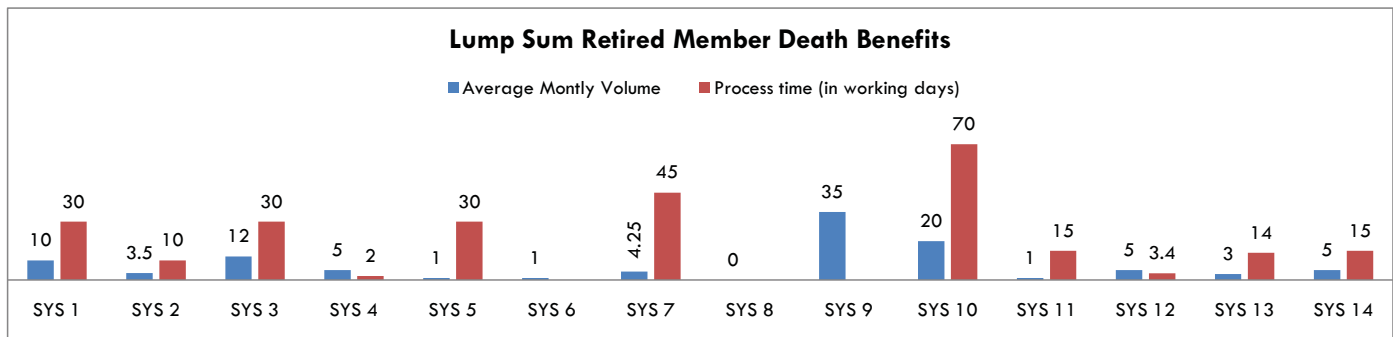
#### What Department/Unit/Staff are responsible for scanning directing, and assigning documents?

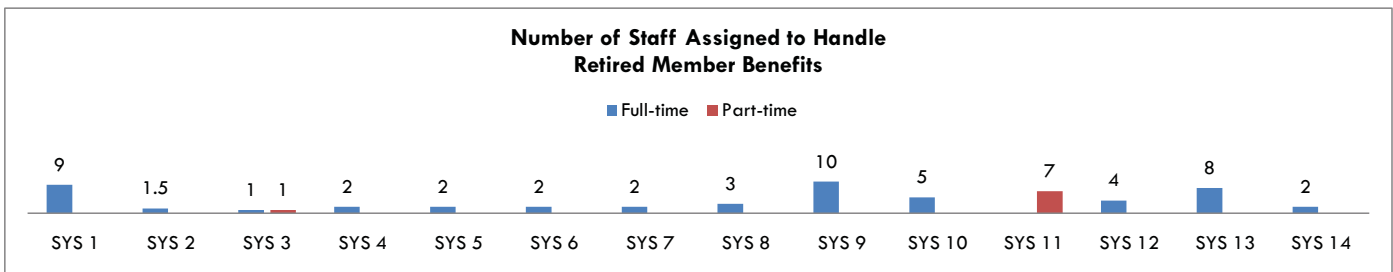
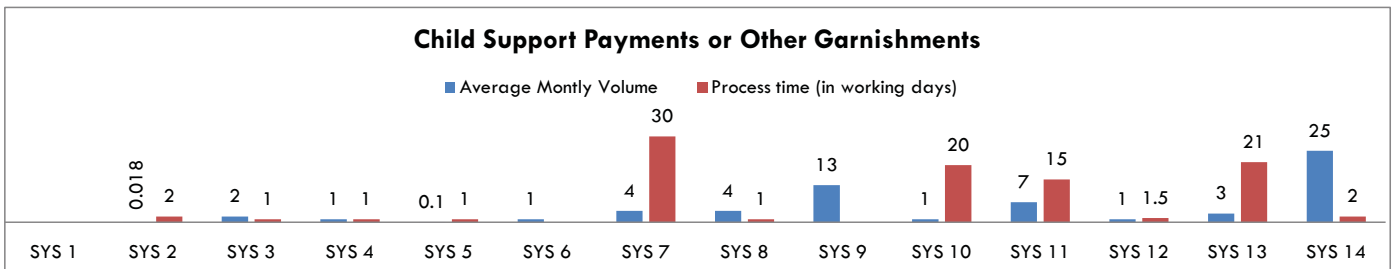
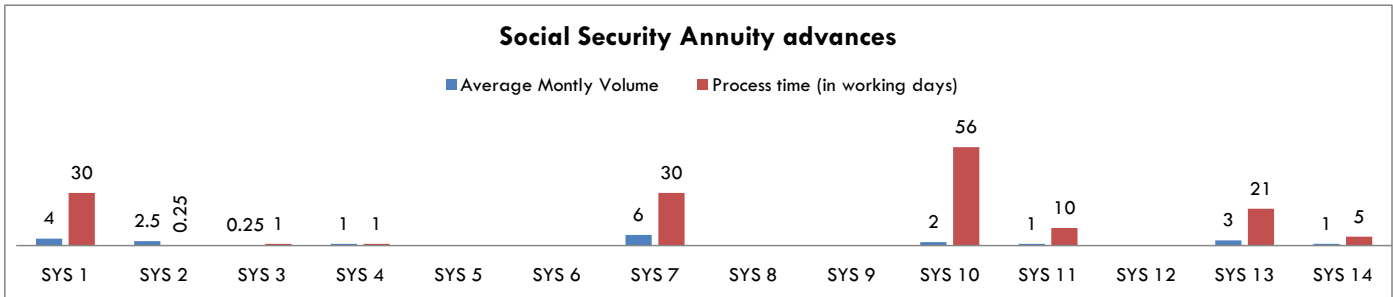
<b>SYS 1</b>	Member Services
<b>SYS 2</b>	Disability Files and Medical Records
<b>SYS 3</b>	Administration
<b>SYS 4</b>	IT
<b>SYS 5</b>	
<b>SYS 6</b>	
<b>SYS 7</b>	
<b>SYS 8</b>	
<b>SYS 9</b>	IT
<b>SYS 10</b>	Administration/ Scanning Unit
<b>SYS 11</b>	
<b>SYS 12</b>	IT
<b>SYS 13</b>	Administration
<b>SYS 14</b>	Administration/Clerical

## **Section 4**

### Retired Member Services

- Death Benefits
- Payroll Adjustment
- Monthly Continuance
- Social Security Annuity Advancement
- EFT vs. Checks





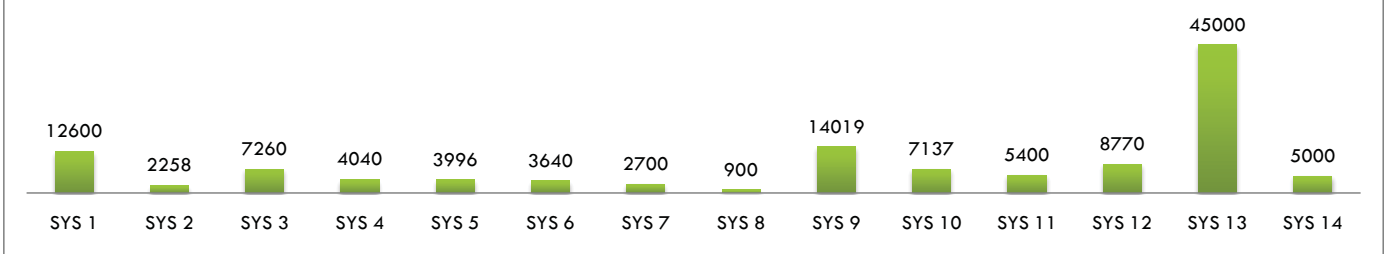
**Does staff in the retired unit set up retirement allowances in your payroll system?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes

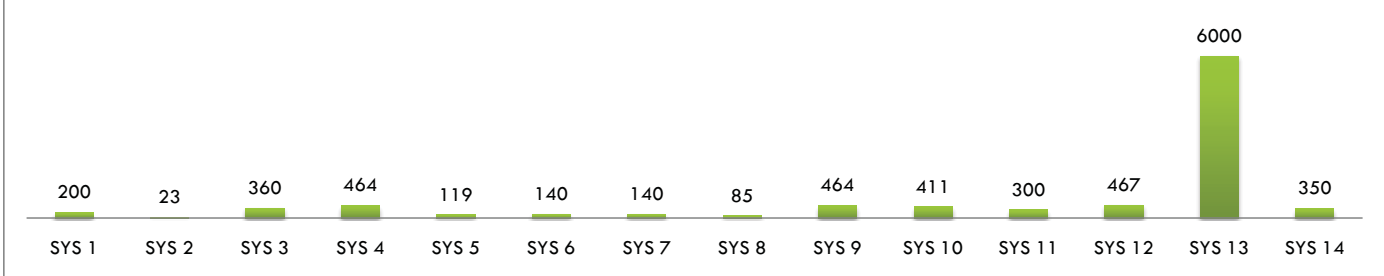
**Upon inception of retirement, how are (allowance) benefits paid?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
100%	100%	100%	100%	100%	100%	Partial	100%	100%	80%	Partial	100%	100%	100%

**EFTs Processed Each Month**



**Checks Processed Each Month**





Does your system outsource your payroll and/or check printing process?							
	<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>
<b>PAYROLL</b>							
Yes				✓ \$61,922			
No	✓	✓	✓		✓	✓	✓
	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes				✓ \$45,000			✓ \$110 K
No	✓	✓	✓		✓	✓	
<b>PRINTING</b>							
	<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>
Yes					✓ \$7 K	✓	
No	✓	✓	✓	✓			✓
	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes		✓ \$65 K	✓ \$84 K	✓ \$90 K		✓ \$430 K	✓ Included
No	✓				✓		

Does your system mandate direct deposit of benefit checks?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes, but only for newer retirees	Yes, but only for newer retirees	No, direct deposit is optional	No, direct deposit is optional	Yes, but only for newer retirees	No, direct deposit is optional	No, direct deposit is optional	No, direct deposit is optional	No, direct deposit is optional	Yes, but only for newer retirees	No, direct deposit is optional	No, direct deposit is optional	No, direct deposit is optional	No, direct deposit is optional

Do you administer deductions for Retirement Association dues? If yes, how many NEW enrollees per month and Number of Retiree Associations?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
If yes, how many New enrollees per month?													
15		10	4			2-6	14	4	12	12	30	20	10
..how many Number of Retiree Associations?													
1		4	1			1	1	1	2		1	2	1

Which Department/Staff handles your stale-dated check process?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Finance and Member Services	Accounting (Finance/ Fiscal)	Benefits/ Member Services		Accounting (Finance/ Fiscal)	Accounting (Finance/ Fiscal)	Benefits/ Member Services	Retirement Specialist/ Auditors office	Accounting (Finance/ Fiscal)	Benefits/ Member Services	Accounting (Finance/ Fiscal)	Accounting (Finance/ Fiscal)	Benefits/ Member Services	Accounting (Finance/ Fiscal)

Which Department/Staff runs Payroll?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
	Benefits	Benefits	Benefits		Accounting (Finance/ Fiscal)	Benefits	Retirement Specialist/ IT	Information Technology	Accounting (Finance/ Fiscal)	Accounting (Finance/ Fiscal)	Accounting (Finance/ Fiscal)	Benefits	Benefits

## **Section 5**

### Other Post Employment Benefits

- System Benefits Offered
- Cobra Administration
- Who Administers plans?
- Plan Subsidies

Does your system offer or administer . . .													
<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
<b>Medical benefits for retirees</b>													
No	No	No		No	No	No	No	Yes, 4 plans offered	Yes, 6 plans offered	No	No	Yes, 6 plans offered	No
<b>Dental benefits</b>													
No	No	No		No	No	No	No	Yes	Yes	No	No	Yes	No
<b>Vision benefits</b>													
No	No	No		No	Yes	No	No	No	Yes	No	No	Yes	No, SACRS VSP only
<b>Long-Term Care benefits</b>													
No	No	No		No	No	No	No	No	Yes	No	No	No	No
<b>Life Insurance</b>													
No	No	No		No	No	No	No	No	Yes	No	No	No	No
<b>Medicare Part B Reimbursement?</b>													
No	No	No		No	No	No	No	Yes	Yes	No	No	Yes	No
<b>Annual Open Enrollment</b>													
No	No	No		No	No	No	No	Yes	Yes	No	No	No	No
<b>How many medical plans are offered for Medicare-eligible retirees?</b>													
<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
								5	3			5	
<b>Do you hold an annual Health Fair? If yes what is the attendance on average?</b>													
<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
No	No	No		No	No	No	No	Yes - 200	Yes - 300	No	No	No	No
<b>Does your system hold workshops for retirees on health/wellness? If yes, what is the attendance on average?</b>													
<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
No	No	No		No	No	No	No	No	Yes - 25	No	No	Yes	No
<b>Does your system hold any other retiree-specific event?</b>													
<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
No	Yes	No		No	No	No	No	No	Yes	No	No	No	No

Which department within your system handles vendor payroll and payments to vendors?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Accounting/ Fiscal	Accounting/ Fiscal	Accounting/ Fiscal		Accounting/ Fiscal	Other, please specify	Benefits/ Member Services	Other, please specify	Accounting/ Fiscal	Accounting/ Fiscal		Other, please specify	Accounting/ Fiscal	Other, please specify
Other, please specify					Employers		Retirement Specialist				N/A		N/A

Do the Medicare Plans you sponsor have reduced premiums due to Medicare Part D? If no, do you receive a separate Part D Subsidy?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No			No				Yes	Yes	No	No	No	
If no, do you receive a separate Part D Subsidy?													
No	No			No						No	No	Yes	

Does your system administer COBRA in-house, or do you outsource it?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Outsource								Outsource	In-house		Outsource	In-house	

For which carriers/vendors do you send your Eligibility File electronically?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Orange County								All	All;		N/A		N/A
									medical, dental, and vision				

Does the Employer/County or your System administer the retiree medical plan?														
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14	
Employer/ County	Employer/ County	Employer/ County		Employer/ County	Employer/ County	Employer/ County	Employer/ County	System	System		Employer/ County	Employer/ County	System	Employer/ County

For premium rating, are the retirees blended with active employees?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
	Yes				Yes	Yes	No	No	Yes	No	No	No	Yes

Are the retiree medical plans under separate retiree contracts, or are they covered under the County's/Employer contracts?														
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14	
	County/ Employer Contract	County/ Employer Contract					County/ Employer Contract	County/ Employer Contract	Separate Contract	County/ Employer Contract	Separate Contract	Separate Contract	Separate Contract	County/ Employer Contract

Does the retirement system provide a contribution towards medical care or any other OPEB benefits for retirees using a separate trust fund or on a pay as you go basis?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No contribution provided		No contribution provided				No contribution provided	No contribution provided	No contribution provided	Yes, contribution for retirees only	No contribution provided	No contribution provided		No contribution provided

If a contribution is offered, what are the eligibility requirements? Check all that apply.							
	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Years of Service							
Age							
Employer							
Date of Entry							
Date of Retirement							
Medical Plan enrolled in							
No contributions offered						✓	
				SYS 8	SYS 9	SYS 10	SYS 11
Years of Service			✓			✓	
Age							
Employer							
Date of Entry				✓			
Date of Retirement							
Medical Plan enrolled in					✓		✓
No contributions offered						✓	

**Please provide details on eligibility requirements.**

**Eligibility for SYS 10 Health Plan Benefits**

Retired members or non-member payees (e.g., eligible spouses or domestic partners) who receive a SYS 10 monthly retirement allowance and who live within a plan's designated service area are eligible to enroll in a SYS 10-sponsored medical, dental, and vision plan. Coverage under SYS 10's medical, dental, and vision plan may be different from the coverage one had as an active employee because each plan has its own eligibility and enrollment rules.

**Enrolling Your Eligible Dependents**

If you are enrolled in a SYS 10-sponsored health plan, you may also choose to cover your eligible dependents. Your eligible dependents include:

Your legal spouse or domestic partner

Your or your domestic partner's children under age 26 (married or unmarried), including your

Biological children

Adopted children from the date of placement

Stepchildren

Dependents under a guardianship/conservatorship

Dependents for whom plan coverage has been court-ordered through a Qualified Medical

**SYS 10**

**SYS 2**

SYS 2 amount from SRBR is \$18/month for every year of service with a minimum of 10 years increasing every year for a maximum of \$360/month at 20 years of SYS 2 earned service.

**SYS 8**

Based solely on years of service

**SYS 9**

Please see the Health Insurance Allowance Fact Sheet. Link is below;

[http://www.SYS 9.org/PDF/HIA\\_fact-sheet.pdf](http://www.SYS 9.org/PDF/HIA_fact-sheet.pdf)

**SYS 13**

The cost of SYS 13-administered plans varies according to the plan selected, number of dependents covered, and years of service credit. The County subsidizes retiree medical/dental insurance based on the member's years of service credit; a minimum of ten years of service applies. For a member with ten years of service credit (excluding ARC and reciprocal service credit), the County contributes 40 percent of the selected plan premium or 40 percent of the benchmark plan premium, whichever is less. For each year of service credit beyond ten years, the County contributes an additional four percent per year of the selected plan premium or four percent of the benchmark plan premium, whichever is less, up to a maximum of 100 percent for a member with 25 years of service credit. Members (including those with 25 years of service) are required to pay the difference each month on premiums exceeding the benchmark amount. Although retirees with less than ten years of service credit are not eligible for the County subsidy, they are eligible for SYS 13-administered retiree healthcare benefits. In such cases, these retirees are responsible for the full amount of the insurance premiums.

**How are contributions funded? Check all that apply.**

	<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>
Excess (investment) earnings of pension fund		✓					
County Budget/General Fund							
Former Employers							
Current Employers							
Retirement System Budget							

	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Excess (investment) earnings of pension fund			✓				
County Budget/General Fund	✓	✓				✓	
Former Employers							
Current Employers							
Retirement System Budget							

**What is the funding source (account) from which contributions are paid?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
	Retirement System Funds/SRBR						County General Fund	Retirement System Funds/SRBR	Retirement System Funds/SRBR			County General Fund	

**What is the dollar amount of contributions provided?**

Amount/month per year of service	<u>SYS 2</u>	<u>SYS 9</u>	<u>SYS 13</u>	Percent/year per year of service	<u>SYS 10</u>
	18	20	35 Million		see SYS 10 website

Amount of premium	<u>SYS 8</u>	Minimum contribution	<u>SYS 9</u>	<u>SYS 10</u>
	94,146.57-Dec. 2010		200	261.08

Maximum contribution	<u>SYS 2</u>	<u>SYS 9</u>	<u>SYS 10</u>
	\$360 month	100	522.16

**Who determines the contribution amount? (e.g. County, Retirement Board)**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
	Retirement Board	Employer determines percent of premium					County	County Board of Supervisors	Retirement Board			Retirement Board	

**Are retiree health plan premiums shown on your website?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
No	No	No			No	No	No	Yes	Yes	No	No	Yes	No



## **Section 6**

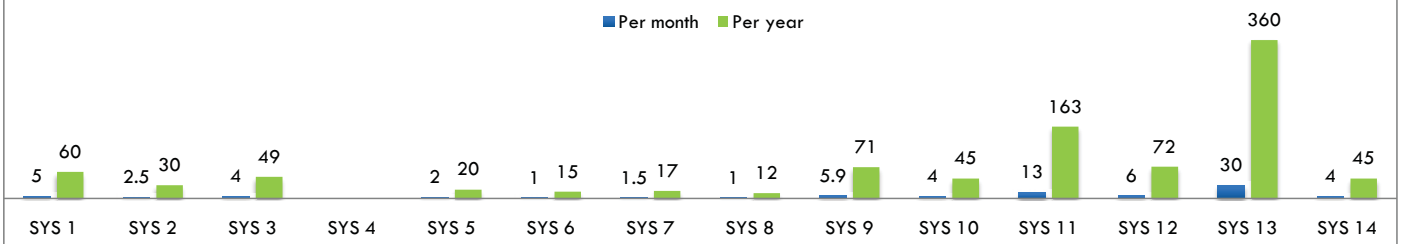
### Disability Retirements

- Applications
- Staff
- Legal Department Involvement

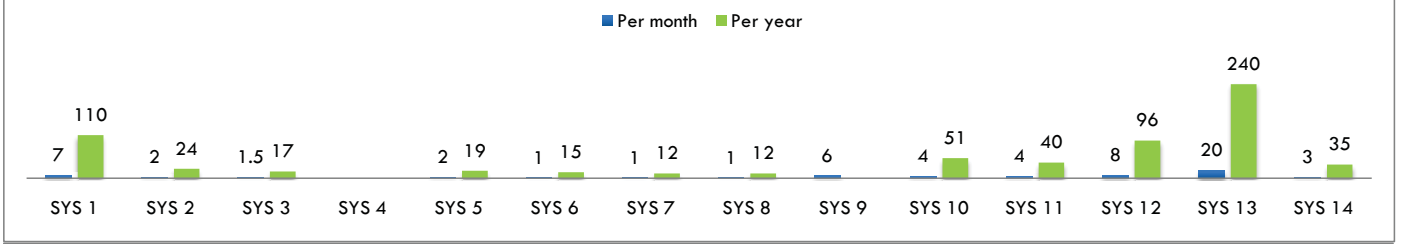
**Do you have a designated Disability Manager or Supervisor?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	No		No	No	Yes	No	Yes	Yes	No	Yes	Yes	No

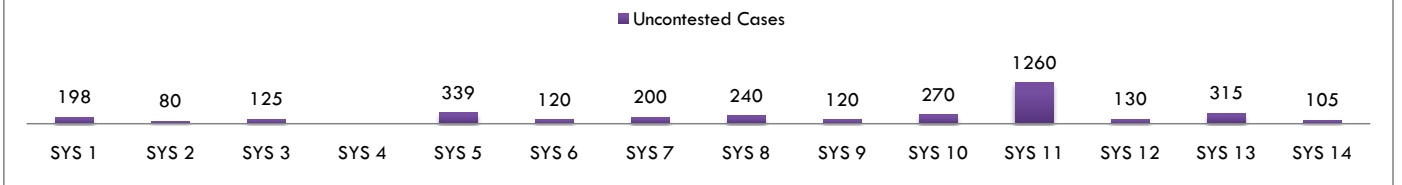
**Average Disability Retirement Applications Received**



**Average Disability Case Presented to Your Board**

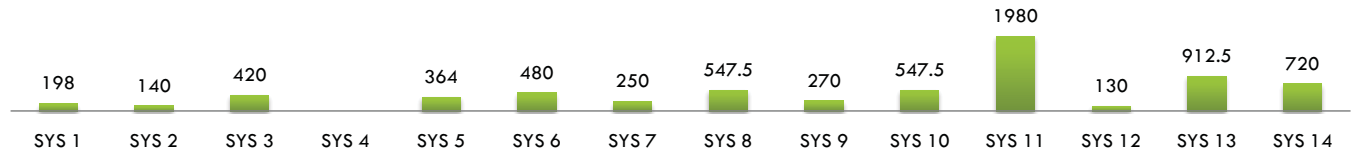


**Average Days to Process Disability Applications**



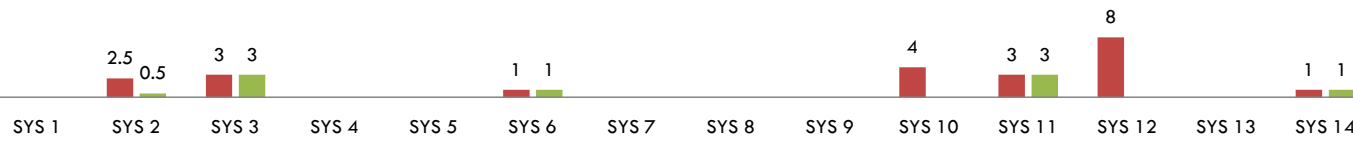
### Average Days to Process Disability Applications

■ Contested Cases



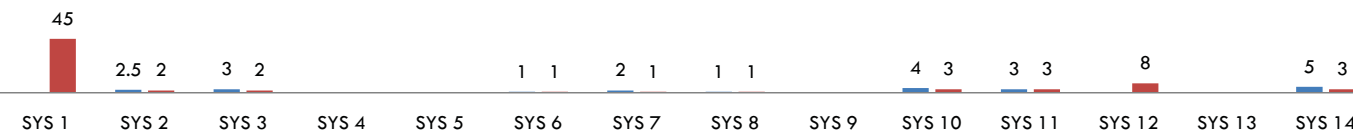
### Disability Processes

■ Service Audits ■ Purchase Cost Estimates



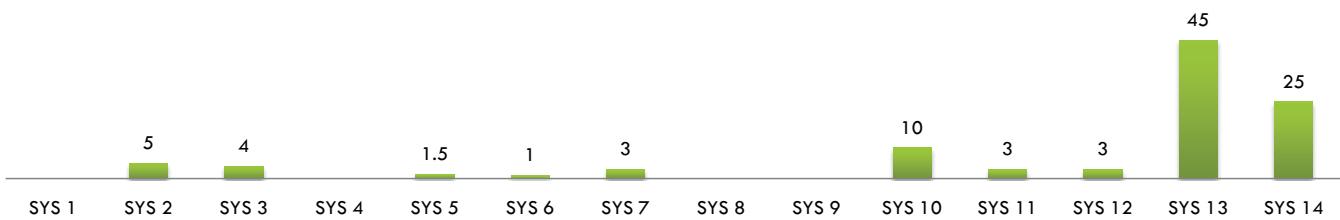
### Disability Benefits

■ Benefits estimates for disability allowance ■ Final calculations upon granting benefit



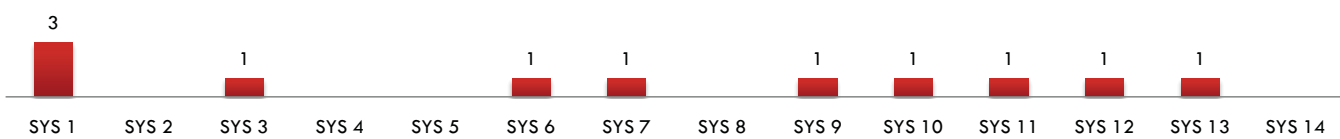
Indicate which functions your Disability Staff (vs. other Benefits Staff) performs by answering yes or no to each line item below.							
	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Counsel all applicants upon filing application							
Yes/ No	Yes	Yes	Yes		Yes	Yes	Yes
Calculate benefit estimates for disability allowance							
Yes/ No	Yes	Yes	Yes		Yes	Yes	Yes
Conduct service audits for prospective/current applicants							
Yes/ No	Yes	Yes	Yes		No	Yes	Yes
Conduct purchase cost estimates for prospective/current applicants							
Yes/ No	Yes	Yes	Yes		No	Yes	Yes
Process final calculations upon granting of benefit							
Yes/ No	Yes	No	Yes		Yes		Yes
Process benefit setups in payroll							
Yes/ No	Yes	No	No		No	Yes	Yes
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Counsel all applicants upon filing application							
Yes/ No	Yes	Yes	Yes	Yes	Yes	No	Yes
Calculate benefit estimates for disability allowance							
Yes/ No	Yes	Yes	Yes	Yes	Yes	No	Yes
Conduct service audits for prospective/current applicants							
Yes/ No	No	No	Yes	Yes	No	No	Yes
Conduct purchase cost est. for prospective/current applicants							
Yes/ No	No	No	No	Yes	No	No	Yes
Process final calculations upon granting of benefit							
Yes/ No	Yes	No	Yes	Yes	Yes	No	Yes
Process benefit setups in payroll							
Yes/ No	Yes	No	Yes	Yes	Yes	No	Yes
Who prepares cases for Board review?							
	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Disability Staff	✓	✓	✓		✓	✓	
Legal Staff							
Administrative Staff (not under Disability manager)							
Other, please state							
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Disability Staff		✓			✓	✓	✓
Legal Staff							
Administrative Staff (not under Disability manager)							✓
Other, please state							
	Benefits Manager	Retirement Specialist					

### Arbitration Hearing Cases Volume Per Year



Who prepares evidence for eligibility determination/review?							
	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Disability Staff	✓	✓	✓		✓	✓	
Legal Staff							✓
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Disability Staff		✓	✓		✓	✓	✓
Legal Staff							
Other, please specify				Ret. Specialist			Admin Staff (not under Disability manager)

### How many Legal staff are assigned to assist with Disability cases?



**How involved is your Legal Department in Disability cases?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Involvement throughout process	Involvement only as needed by Benefits/Di sability staff	Involvement if case goes to arbitration hearing		Involvement only as needed by Benefits/Di sability staff	Involvement throughout process	Involvement throughout process	Involvement throughout process	Other, please specify	Involvement if case goes to arbitration hearing	Other, please specify	Involvement only as needed by Benefits/Di sability staff	Involvement throughout process	Other, please specify

**Other, please explain.**

**SYS 9**

Legal involvement is primarily limited to contested matters or for special circumstances (threshold issues, third party issues, etc.)

**SYS 11**

No Legal Dept, Contract with County Counsel

**SYS 14**

Our disability applications are reviewed by the County Risk Management Department. They make the determination if an application will be challenged by the employer or not. If challenged, the case is then sent to a hearing officer for review. Legal (County counsel) generally only become involved at the Board meeting or if the applicant/ employer files a Petition for reconsideration or writ.

**Does the Employer review and provide feedback on disability applications?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
No	Yes	No		No	No	No	Yes	Yes	Yes	No	No	No	Yes

**Does your system continue benefits for members receiving a disability retirement who in the future are found to no longer be disabled?**

	<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>
Yes, retirement and health benefits are continued							
Yes, retirement benefits only are continued	✓					✓	
Yes, health benefits only are continued							
No, benefits are discontinued		✓					✓
Other, please state			✓				
	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes, retirement and health benefits are continued			✓			✓	
Yes, retirement benefits only are continued							
Yes, health benefits only are continued							
No, benefits are discontinued	✓						
Other, please state		✓		✓	✓		✓

**Other, please explain**

**SYS 3**

Re-evaluation process under 31730 benefits stopped if retired member returns to former position.

**SYS 9**

Benefit continues if member is over the age of 55, member may be re-evaluated and if able to return to work and department is willing to reinstate them, they may return to work. Member may also work in a different job wherein benefit would be paid to make up any difference in old and new pay.

**SYS 11**

Situation has not come before the Board

**SYS 12**

No, but employer has to take employee back to work per Government Code

**SYS 14**

It Depends on the circumstances. If the retiree is found to no longer be disabled, and the employer will not take them back into employment, then we continue to pay retirement.

## **Section 7**

### Legal Department Functions

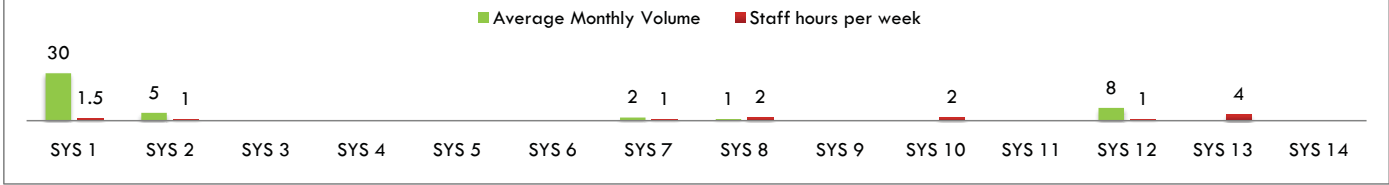
- Securities Litigation
- Lead Plaintiffs
- Form 700's Board Compliance
- Contracts
- RFP's
- PRA's
- Member Benefit Review



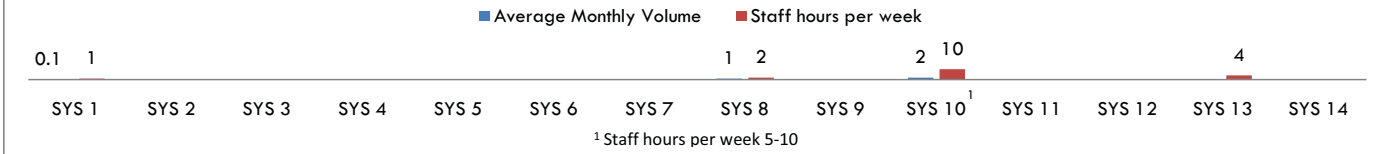
Does your legal staff prepare, compile, and/or submit documents for voluntary IRS compliance?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes				Yes	Yes	Yes	Yes	No	Yes	Yes	

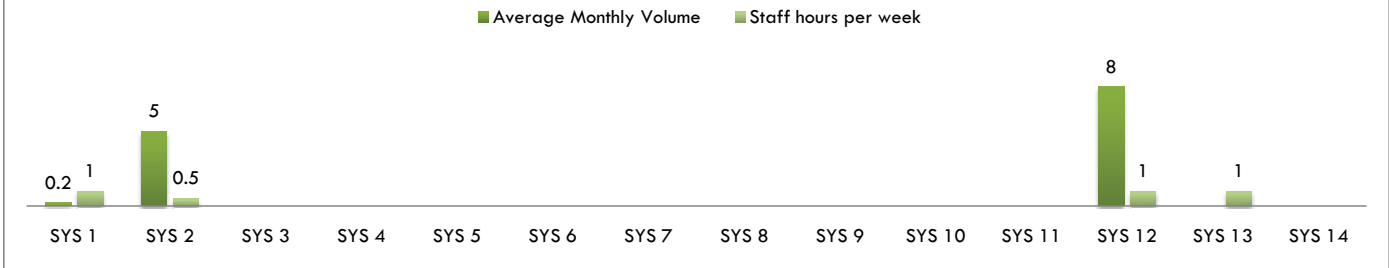
**Monitors of Securities Litigation Cases**

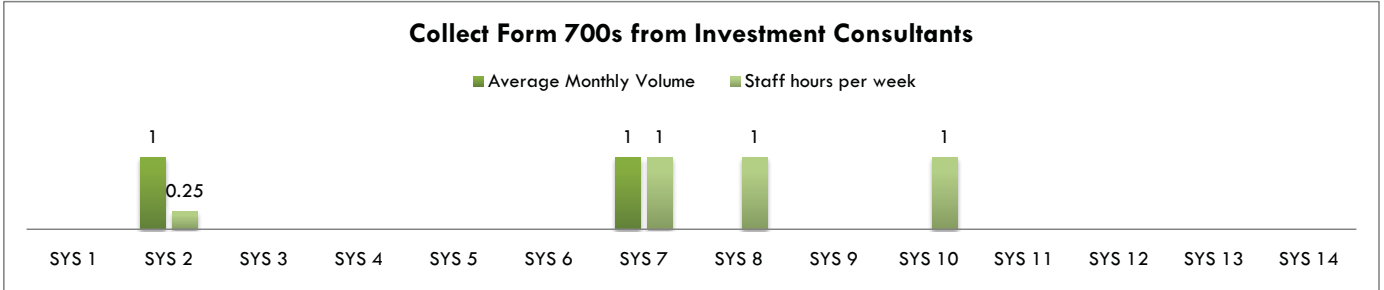
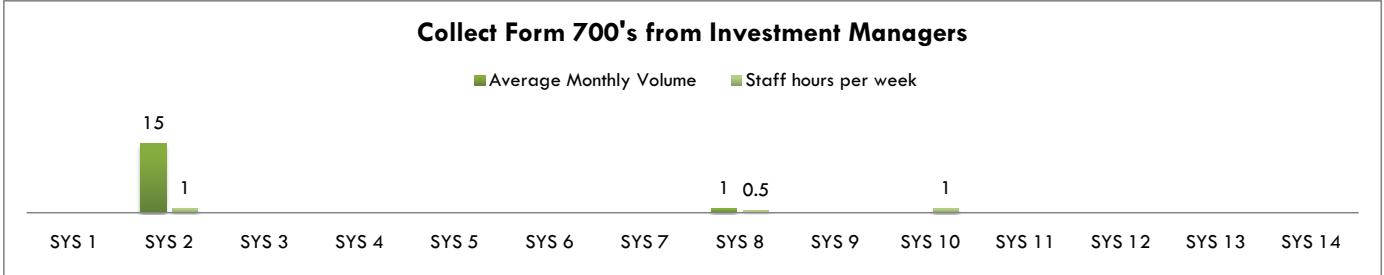
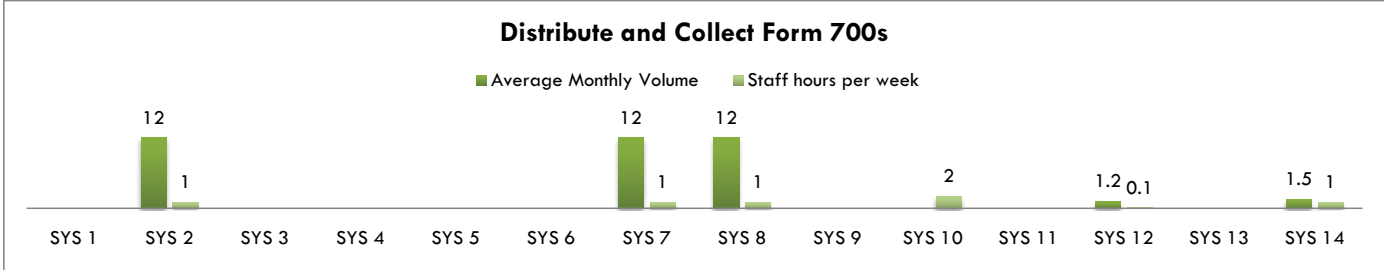


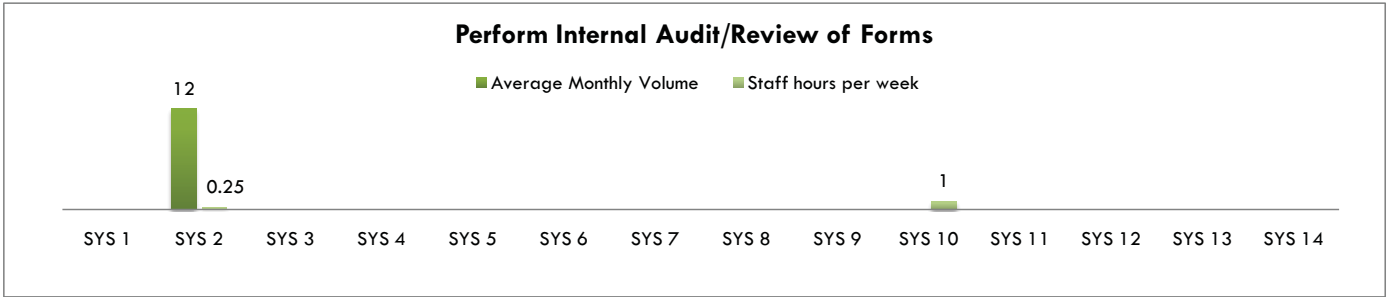
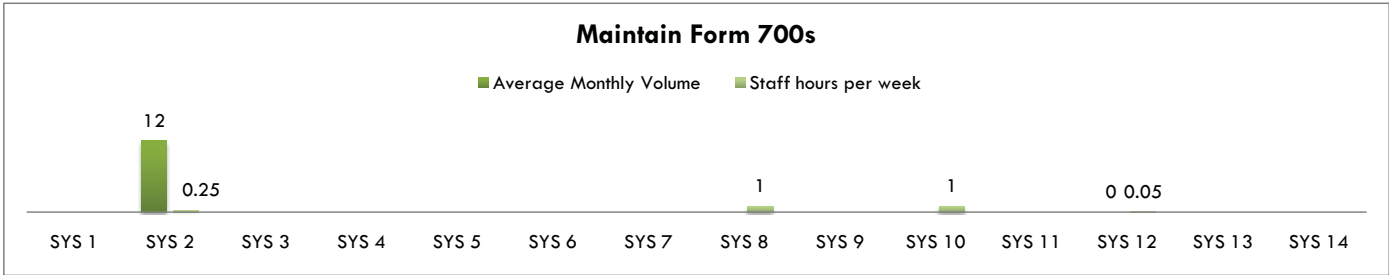
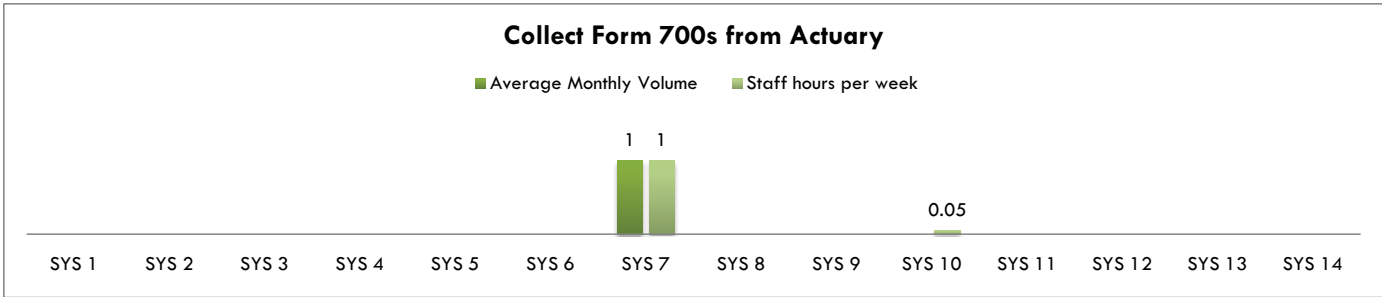
**Participate as Lead Plaintiffs**



**Monitor Custody Bank Claims Filing**

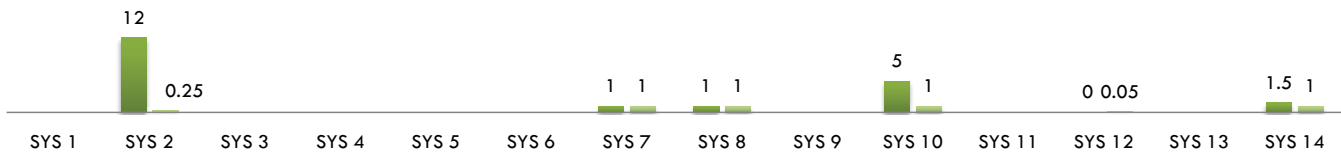






### Monitor Board Compliance/Ethics Training

■ Average Monthly Volume ■ Staff hours per week



#### Do you use contract management software to track your contracts? If no, how do you track contracts and related compliance issues?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	No		No	No	No	No	No	Yes	No	Yes	No	
	Board Secretary tracks with tickler file system						Wurtz & Associates	Staff tracks as needed.		Admin Staff tracks		See below note..	

#### SYS 13

Division Managers are responsible for tracking & complying with their respective contracts- Internal Audit performs contract compliance audits.

#### Do you prepare Investment Management Agreements in-house?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	Yes	No		No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	

#### Do you use outside counsel to review Alternative Investment/Private Equity Agreements?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes			No	Yes	No	Yes	Yes	Yes	Yes	Yes	

#### Do you have a procurement/contract policy?

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	Yes		No	No	Yes	Yes	Yes	Yes	No	No	Yes	

**Does Legal review of a contract depend on the dollar amount of the contract? If yes, what is the minimum dollar amount for which Legal must review a contract?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No		No	No	No	No	No	No	No	No	Yes, 75k	

**Does your Legal department draft all Request for Proposals (RFPs)?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No		No	No	Yes	Yes		No	No	No	No	

**Are any RFPs drafted by consultants or non-Legal department staff?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes		No	Yes	No	Yes	No	Yes	No	Yes	Yes	

**How many Contracts/RFPs does your Legal Department draft, update, and/or process per year?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
2						1-2	1-2	Approx. 10	5-7		Many	75	

**Does your Legal Department process Public Records Act requests?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes		No	No	Yes	No	Yes	Yes	No	Yes	Yes	

**How many Public Records Act requests do you receive per year?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
6	2-3	40-50		1-2		8	1-2	10 or more	20-30	250	20	Estimate 20-30	

**Counsel Benefits Department Regarding Death Benefits**

■ Average Monthly Volume ■ Staff hours per week



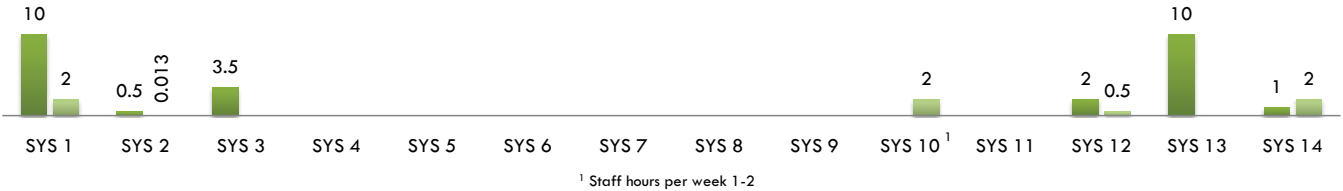
**Prepare/Review Completed Probate Code Section 13101 Declarations**

■ Average Monthly Volume   ■ Staff hours per week



**Review Member Wills, Trust, and Power of Attorney Forms**

■ Average Monthly Volume   ■ Staff hours per week



**Review Conservatorship/Legal Guardianship Documentation**

■ Average Monthly Volume   ■ Staff hours per week



Does your Legal staff review DROs before member secures court filing?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	Yes		No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	

Does your Legal staff develop or monitor disability retirement procedures? If no, please explain.													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes		No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	
										[No] Board policies are adhered to			

Does your Legal staff facilitate the hearing phase of a member's application process?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes		Yes		No		Yes	Yes	No	Yes	No	Yes	Yes	

Does your Legal staff provide legal support to the Human Resources/Personnel department of the system?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes		Yes		No	No	No	Yes	Yes	Yes	No	No	Yes	

Does your Legal staff monitor the compliance with employment/ labor laws for the system?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes		No	No	No	Yes	No	Yes	No	No	Yes	

Does your Legal staff defend claims and suits against the system in-house? If no, please explain.													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	No		No	No	No	Yes	No	Yes	No	Yes	Yes	
								[No] We do not have in- house litigation		[No] We do not have a legal department			

**Does your Legal staff institute suits to reclaim debts owed to the system? If no, please explain.**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes	Yes	No		No	No	No	Yes	Yes	Yes	No	Yes	No	
											[No] We do not have a legal department		

**Does your system have a comprehensive governance structure?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes	No	Yes		No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	

**Does your Legal Department have a role in preparing and revising Board Policies?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes	Yes	Yes		No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	
[Yes] Review policies proposed by the Board								[Yes] Legal services are outsourced with one assigned attorney. The attorney prepare some policies and reviews others.			[Yes] Maintain, write, revise, review all Board policies with trustees	[Yes] Legal reviews policies for completeness & proper legal protection.	

**Does your Legal Department provide legislative updates to the Board?**

<u>SYS 1</u>	<u>SYS 2</u>	<u>SYS 3</u>	<u>SYS 4</u>	<u>SYS 5</u>	<u>SYS 6</u>	<u>SYS 7</u>	<u>SYS 8</u>	<u>SYS 9</u>	<u>SYS 10</u>	<u>SYS 11</u>	<u>SYS 12</u>	<u>SYS 13</u>	<u>SYS 14</u>
Yes	No	Yes		No	Yes	Yes	Yes	No	Yes	No	Yes	Yes	



**Does your Legal Department have a role in evaluating, preparing or revising Board Policies in response to legislative changes? If yes, please explain.**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes		No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	
[Yes] Provide analysis to the Board	[Yes] Retirement Administrat or provider updates							[Yes] Attorney assist as needed			[Yes] See above response.	[Yes] Legal Review and participati ng in the evaluation & language of policy	

**Does your Legal Department provide member support by conducting seminars in legal topics such as Wills, Trusts, Power of Attorney?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No		No	No	No	No	No	Yes	No	No	No	

**Does your Legal Department or Disability Unit handle appeals for benefits or benefit disputes? If yes, please explain.**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	No		No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	

Please Explain

**SYS 1**

[Yes] Facilitate hearing and prepare required documents

**SYS 11**

[Yes] The Board has County Counsel assist as needed

**SYS 12**

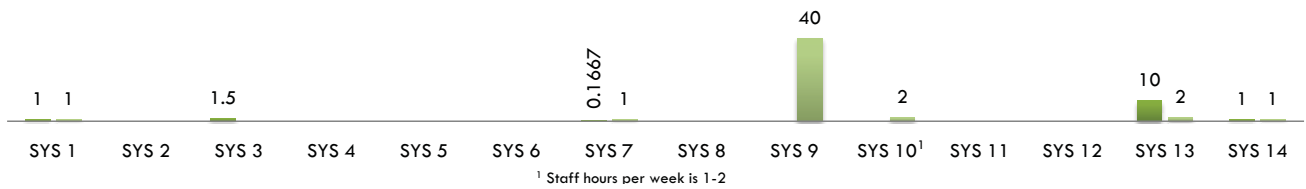
[Yes] SYS 12 has a 6 month reconsideration period if member is denied at initial hearing. Disability Unit still handles case if member wishes to provide additional evidence for reconsideration. If not, member may request to go to Formal Hearing. If this is the case, it is handled by Legal Department.

**SYS 13**

Disability Unit in conjunction with the legal office work in concept to handle appeals.

### Deceased Member Beneficiary Determinations

■ Average Monthly Volume   ■ Staff hours per week



### Review of QDROs for Divorce/Marriage Dissolution

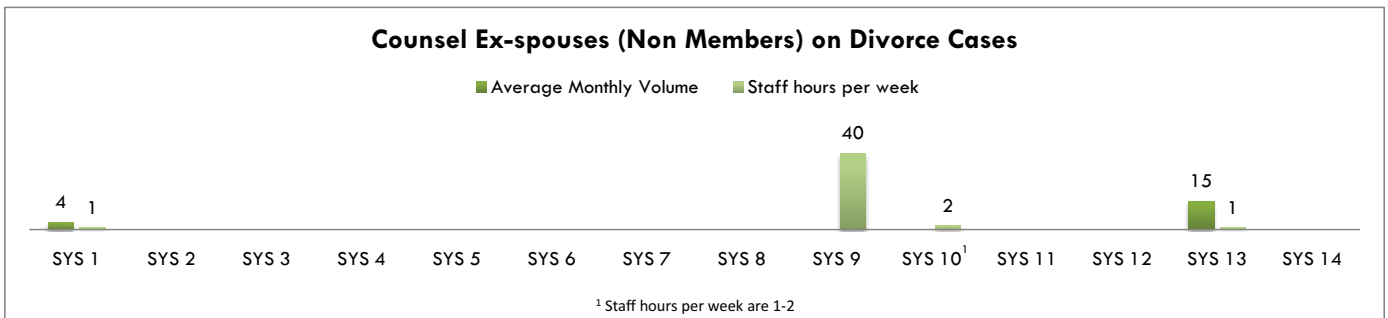
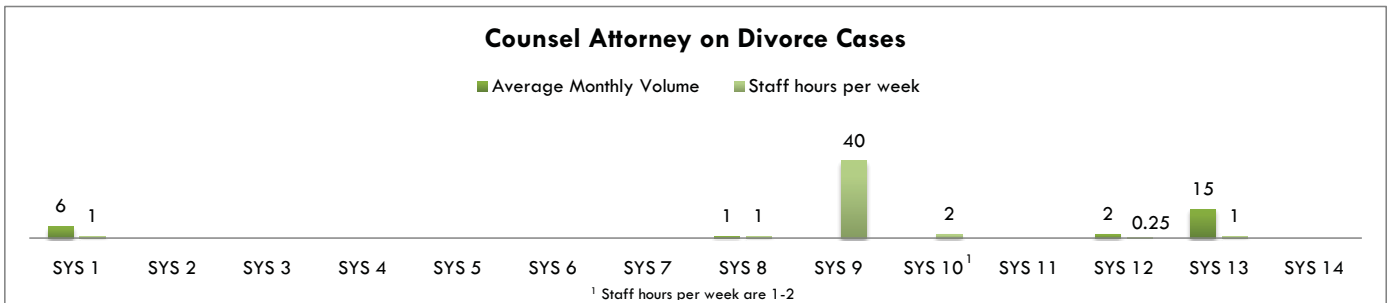
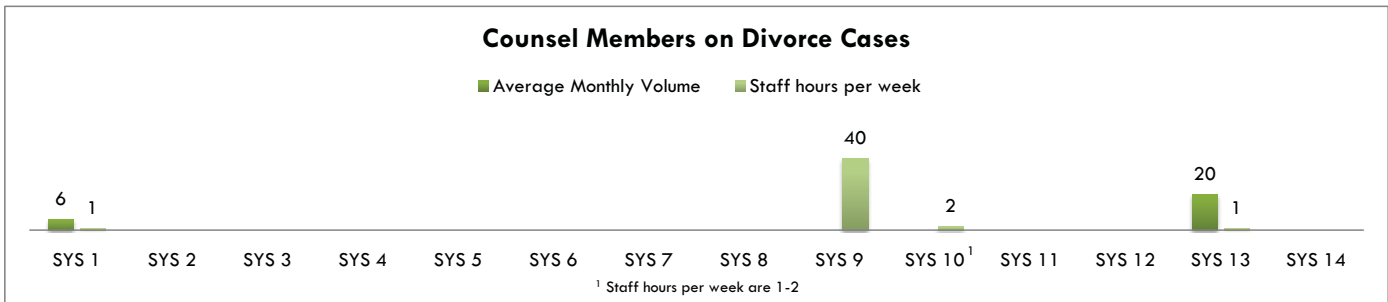
■ Average Monthly Volume   ■ Staff hours per week



### Advise Benefits Staff on Benefit Entitlement of Ex-spouse

■ Average Monthly Volume   ■ Staff hours per week





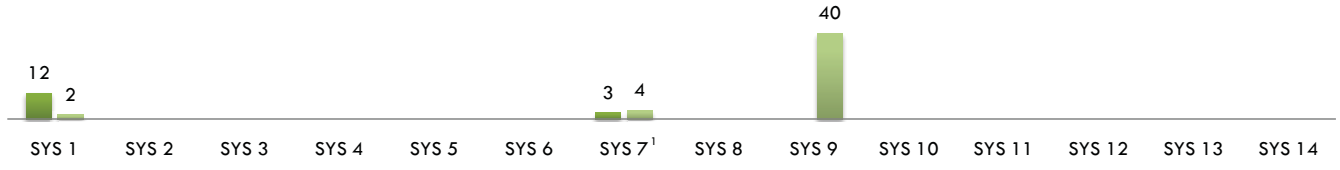
### Determine Eligibility for Disability Cases

■ Average Monthly Volume   ■ Staff hours per week



### Counsel Members on Disability Cases

■ Average Monthly Volume   ■ Staff hours per week



<sup>1</sup> Staff hours per week are 2-4

### Counsel Attorneys on Disability Cases

■ Average Monthly Volume   ■ Staff hours per week



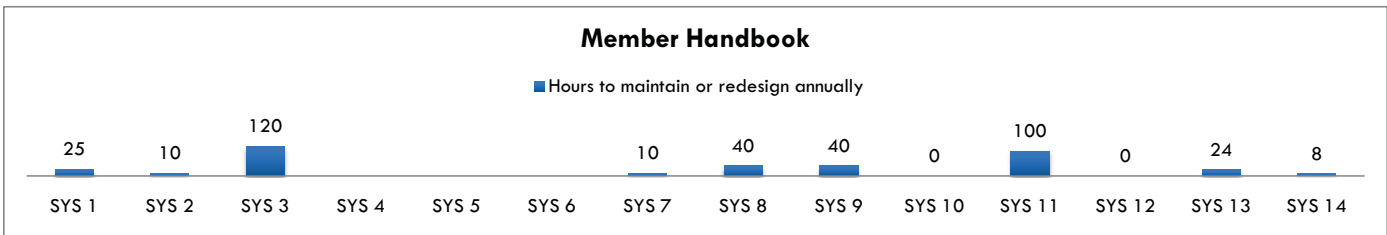
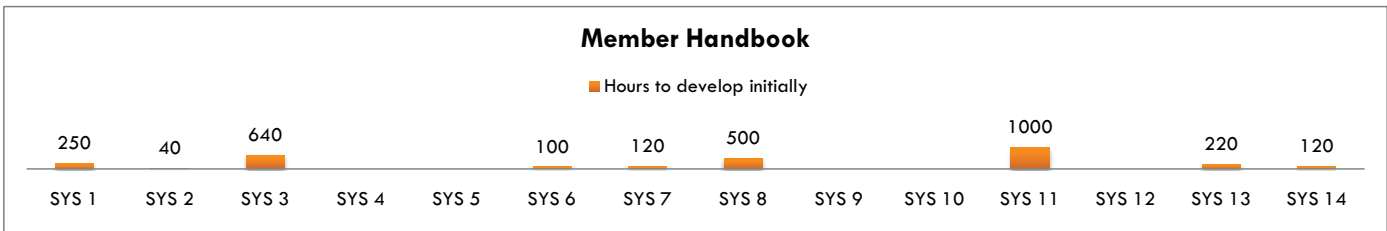
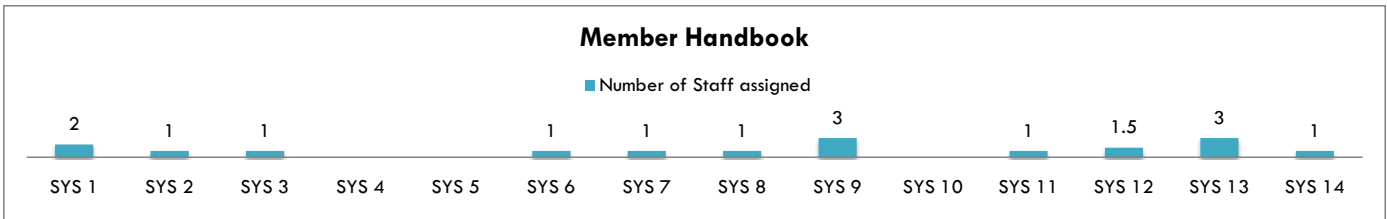
## **Section 8**

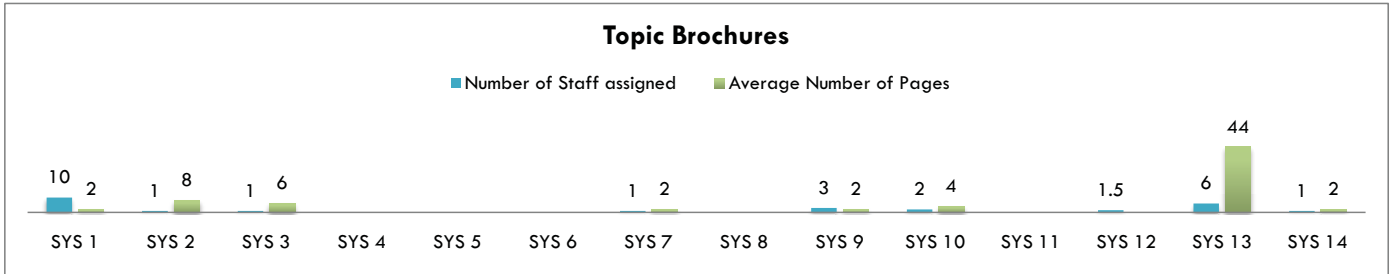
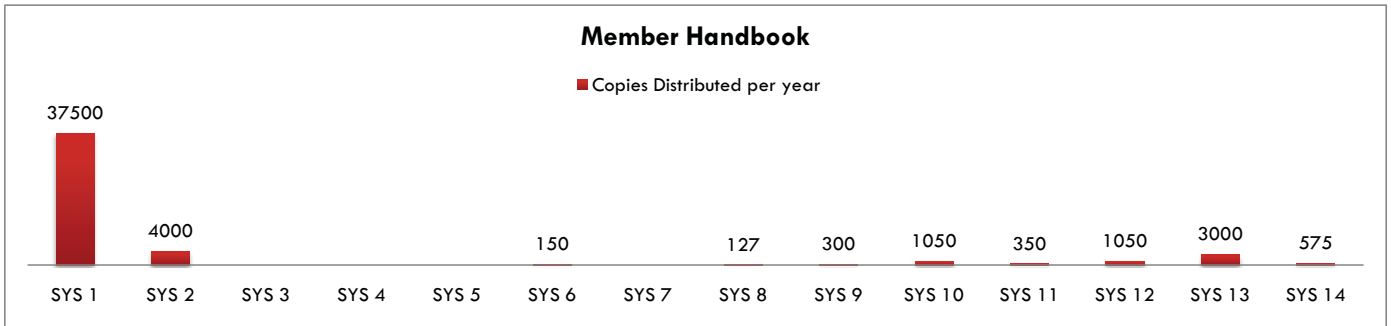
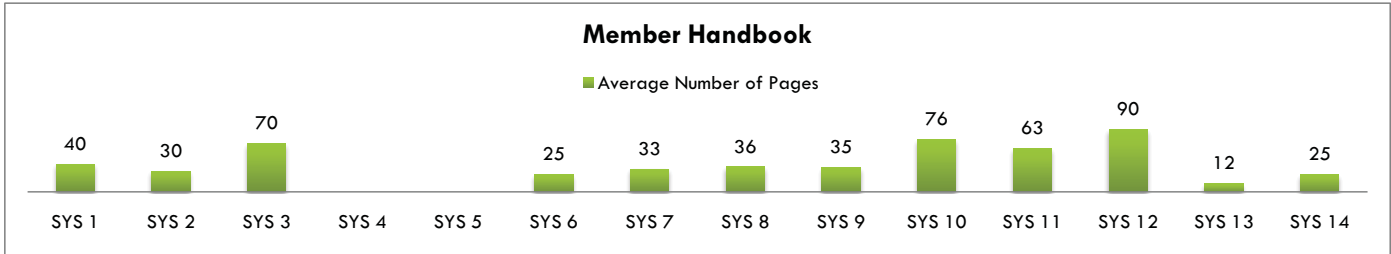
### Communications

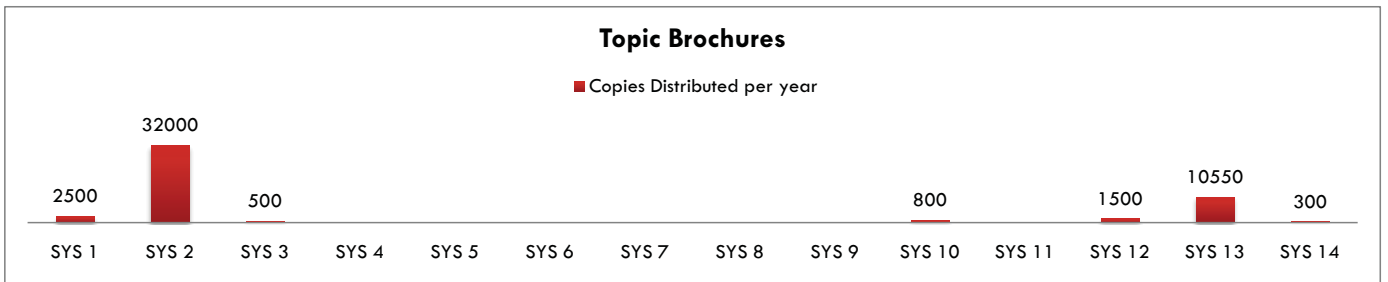
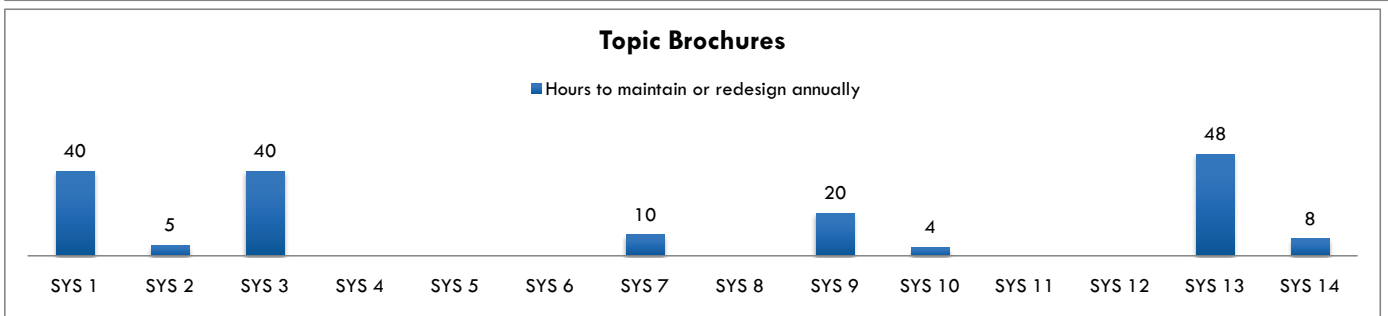
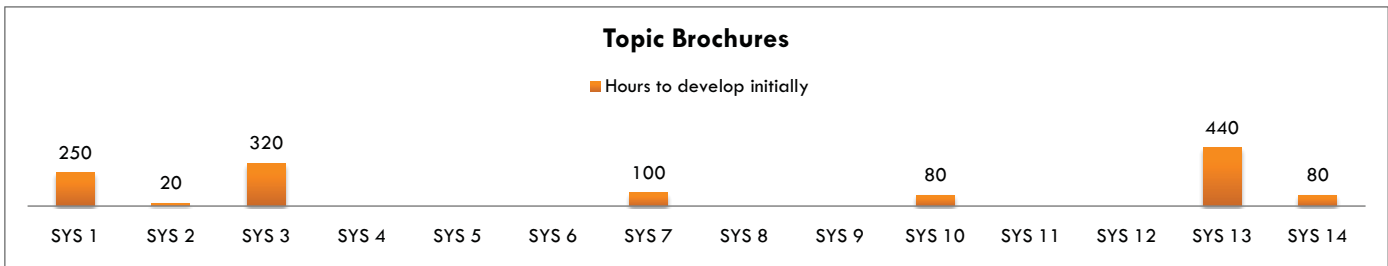
- Member Handbook
- Newsletters
- Seminars
- Call Center
- CAFR

Does your system have a Communications Department and/or a Communications Manager?

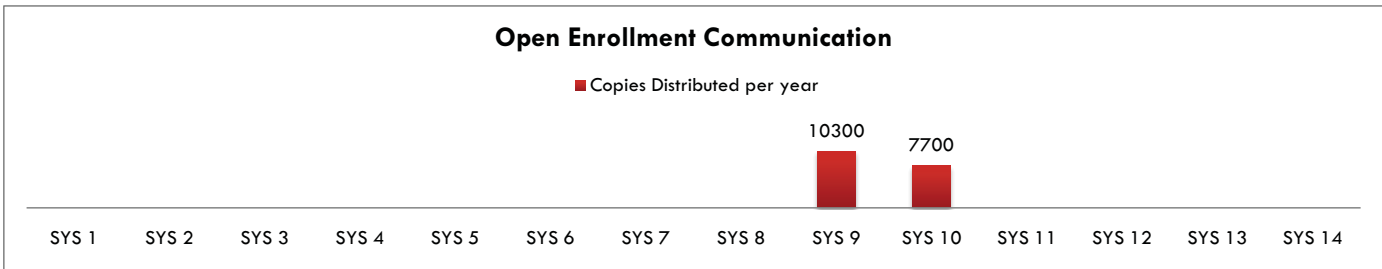
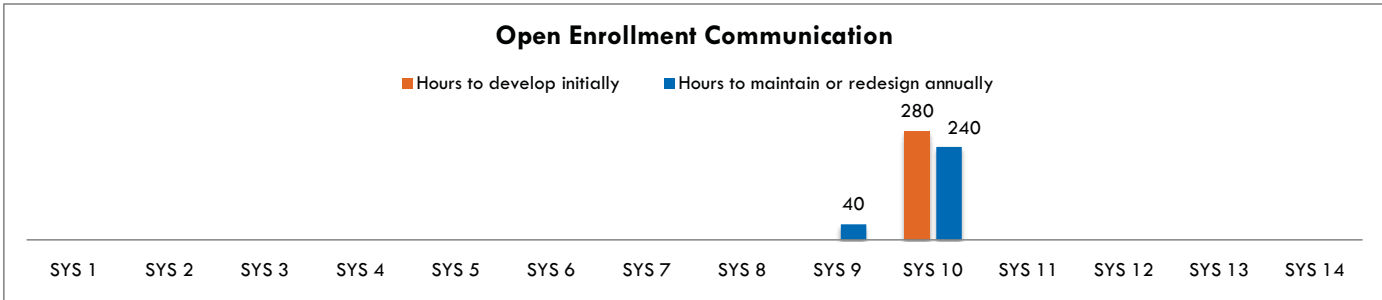
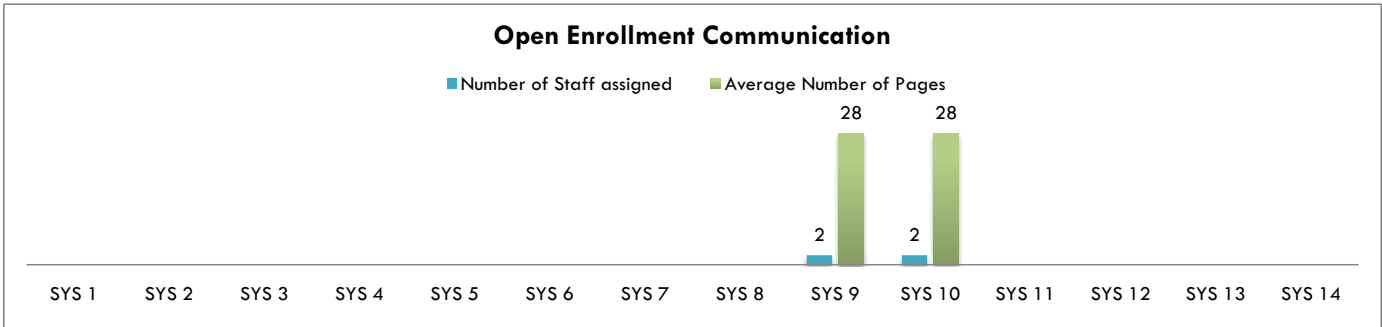
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Both	Neither	Comm. Dept.		Neither	Neither	Neither	Neither	Both	Both	Neither	Comm. Dept.	Both	Neither

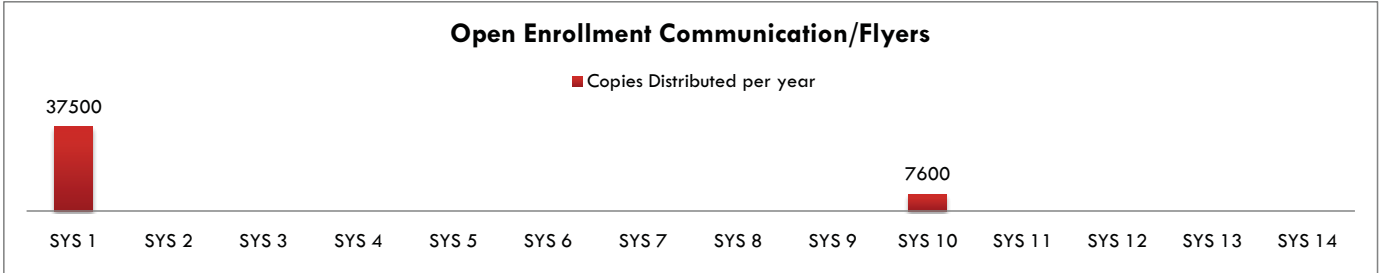
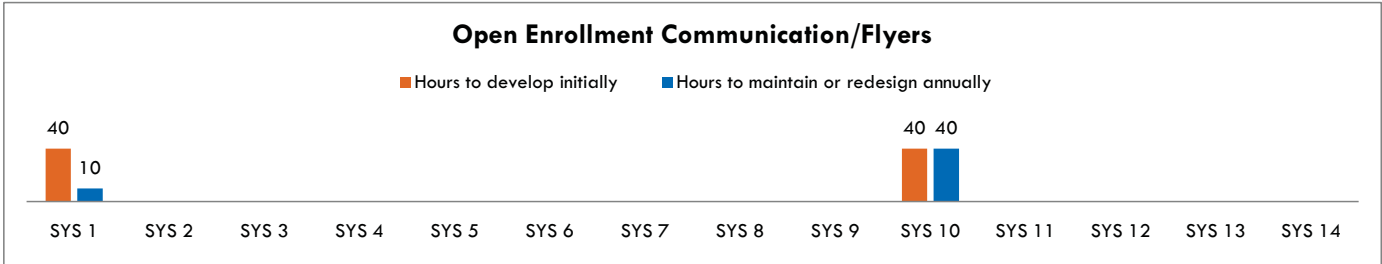
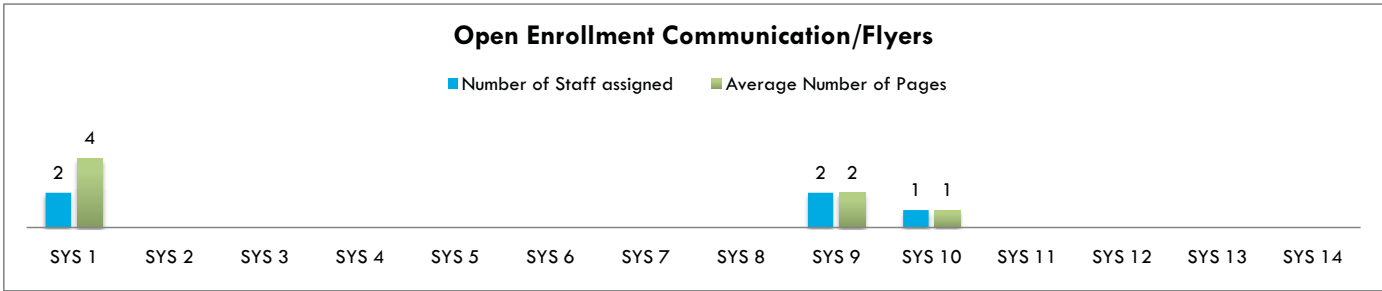


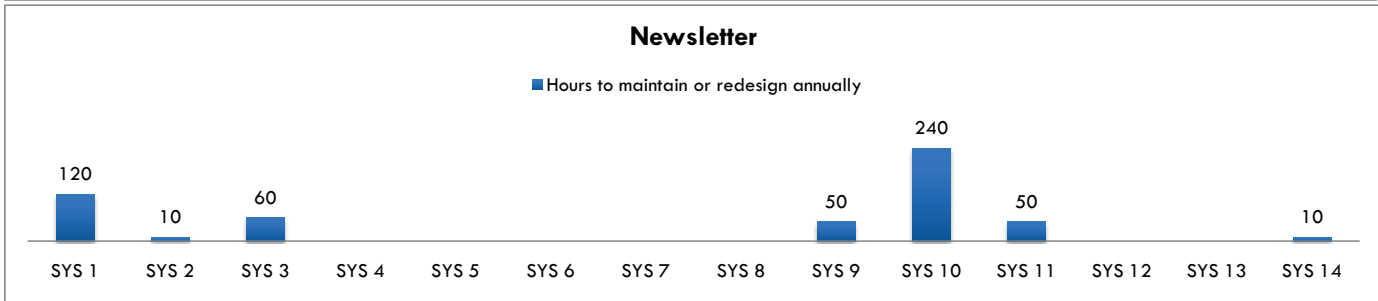
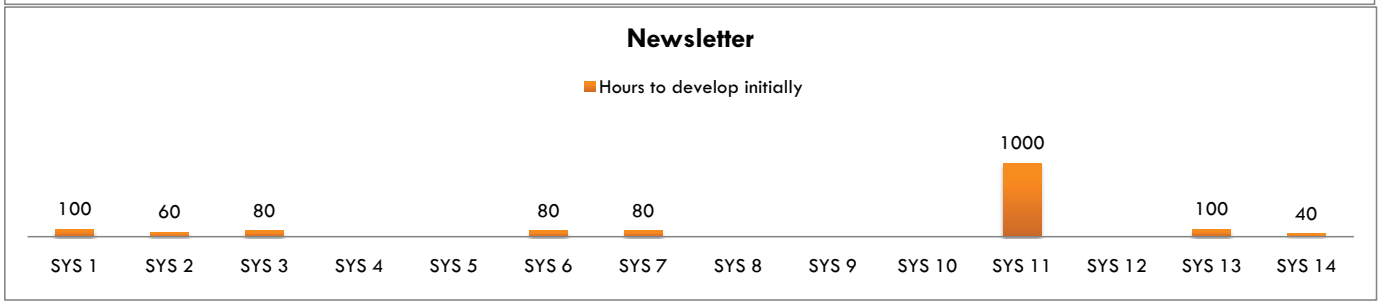
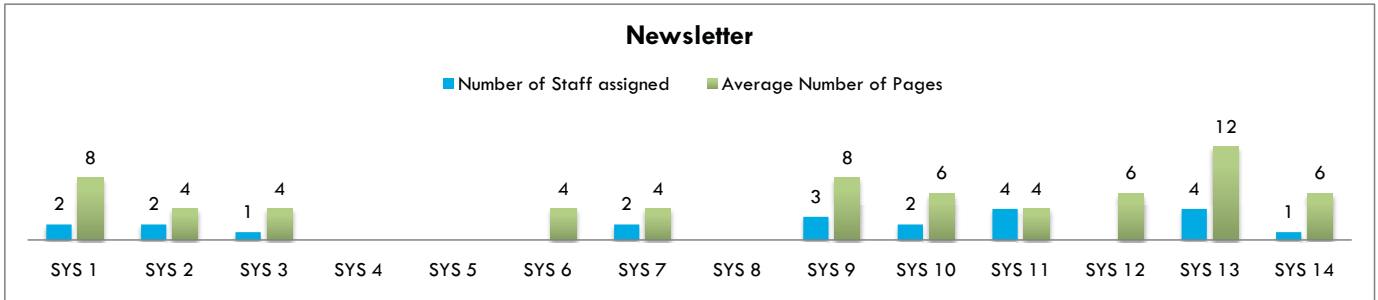


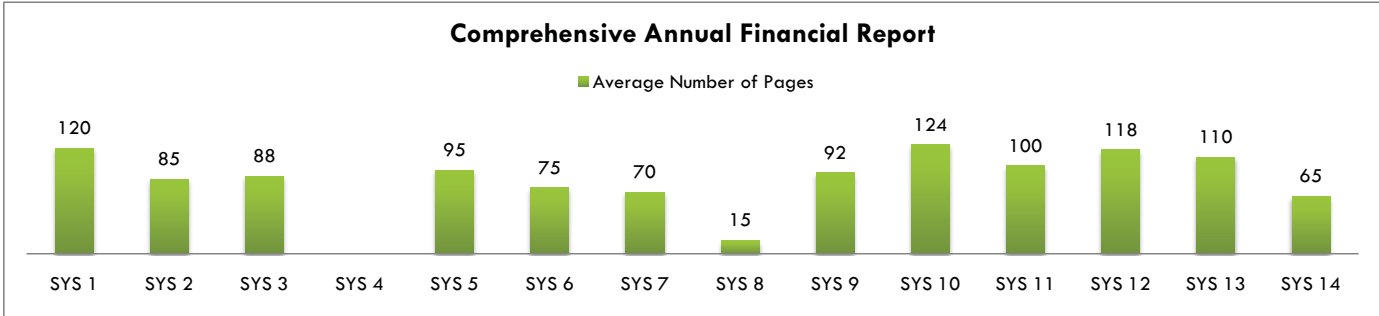
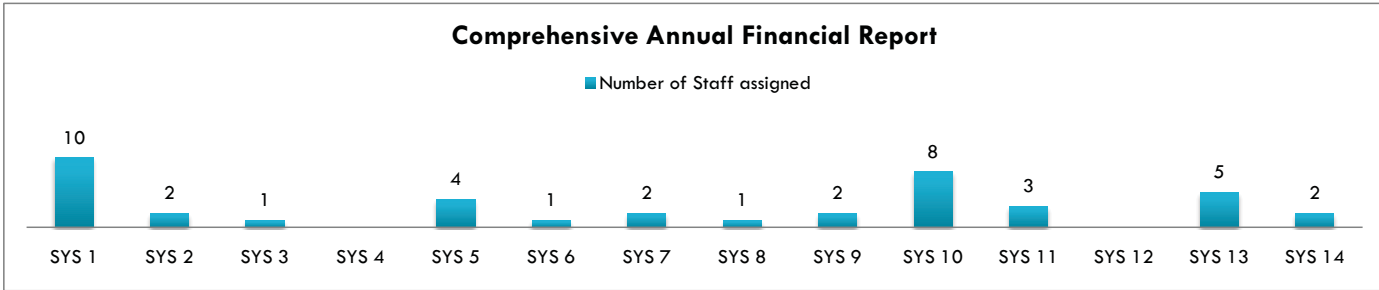
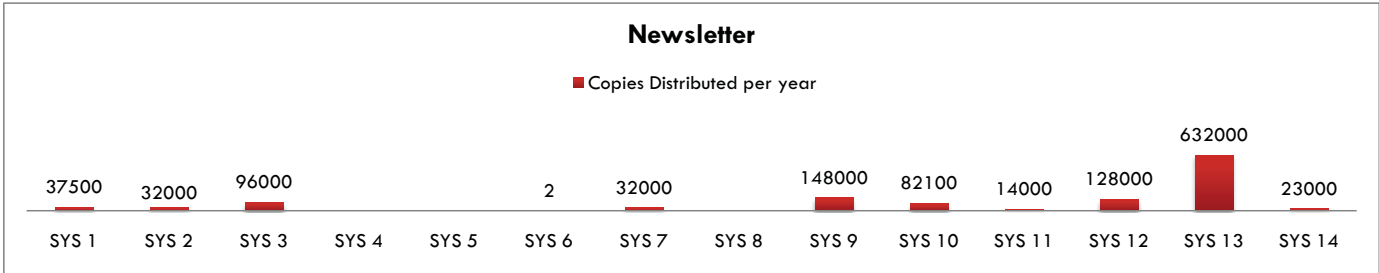


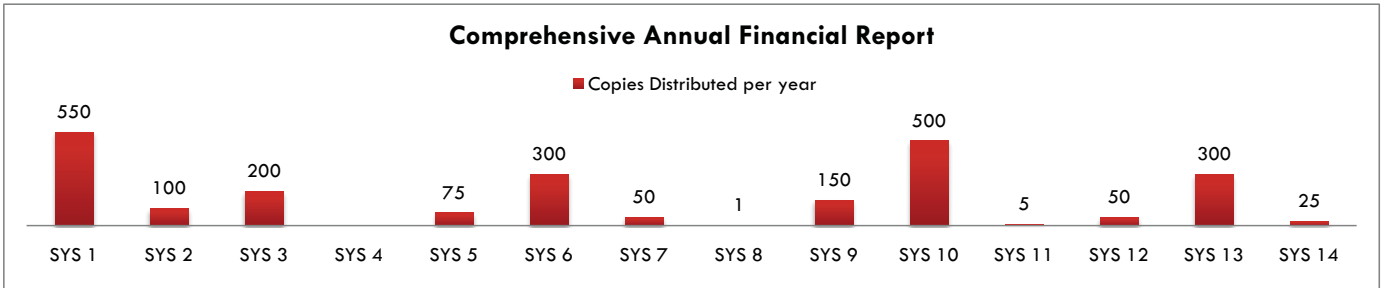
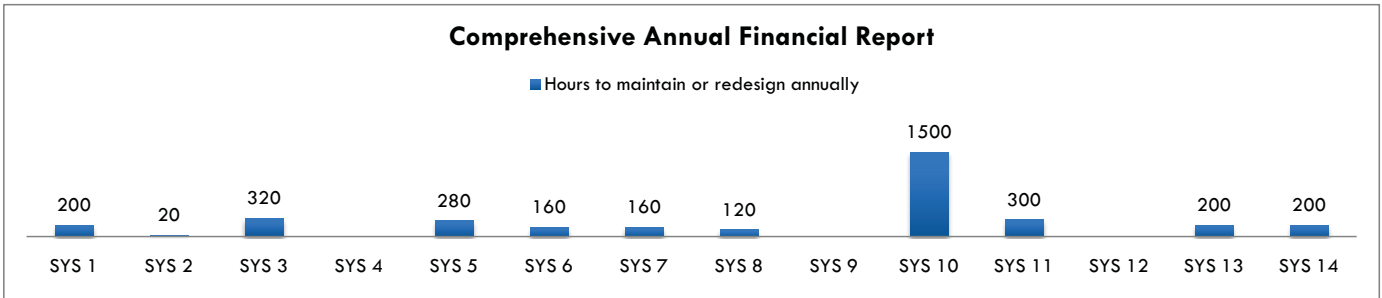
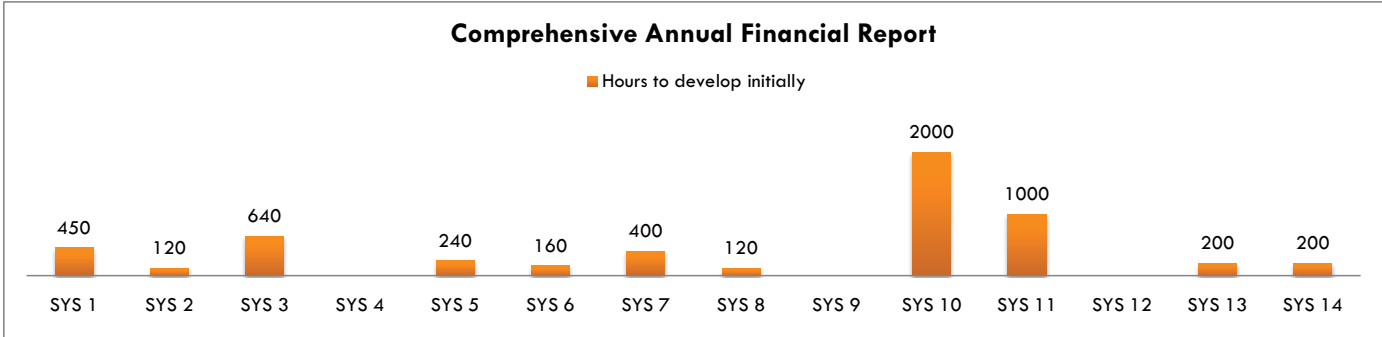


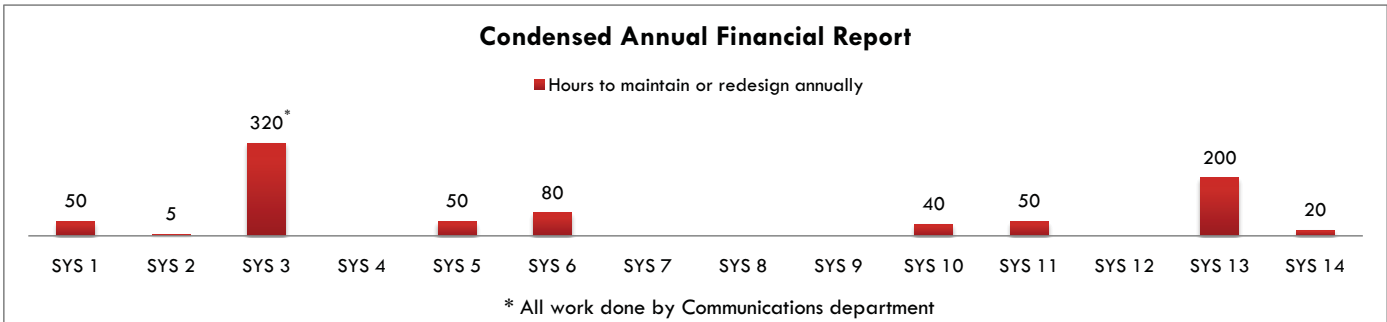
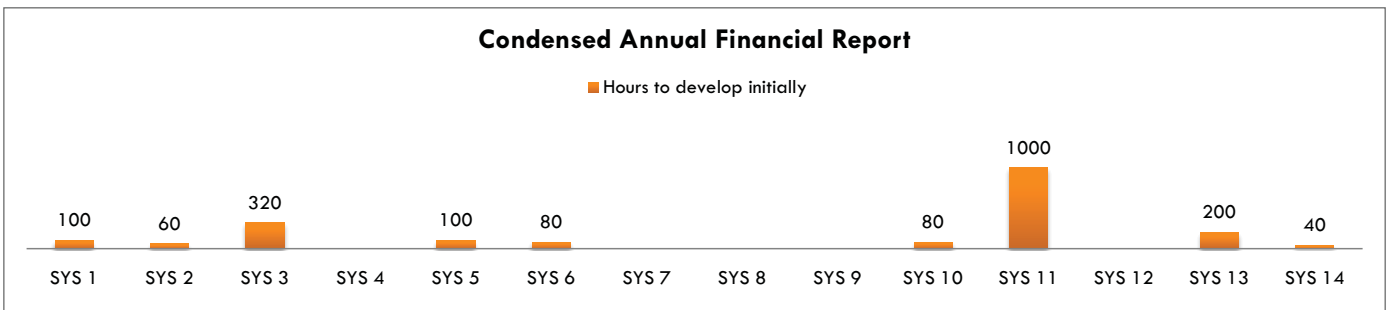
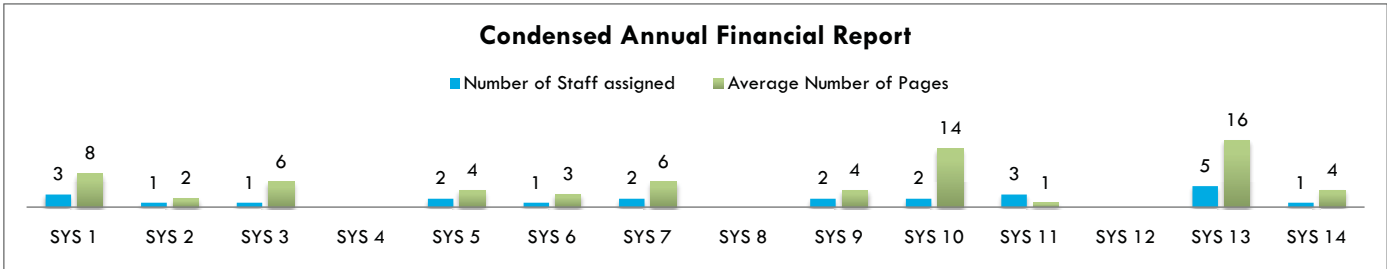






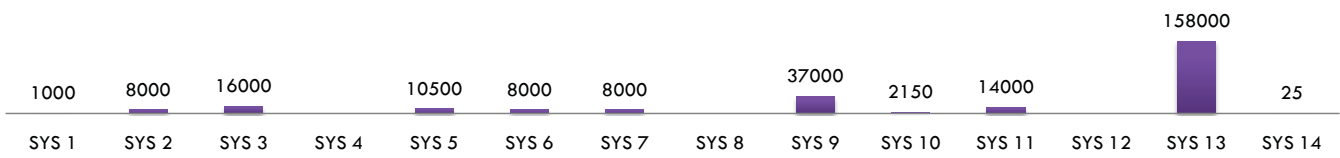






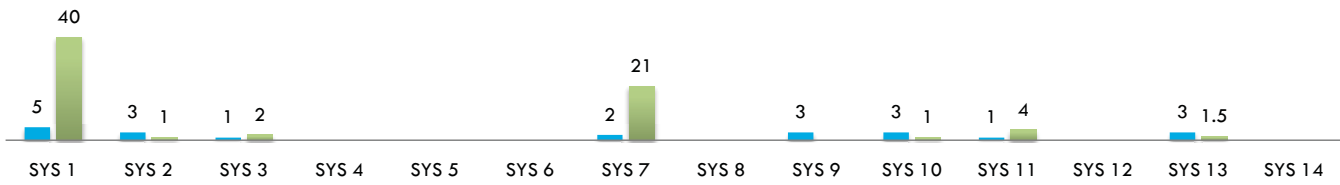
### Condensed Annual Financial Report

■ Copies Distributed per year



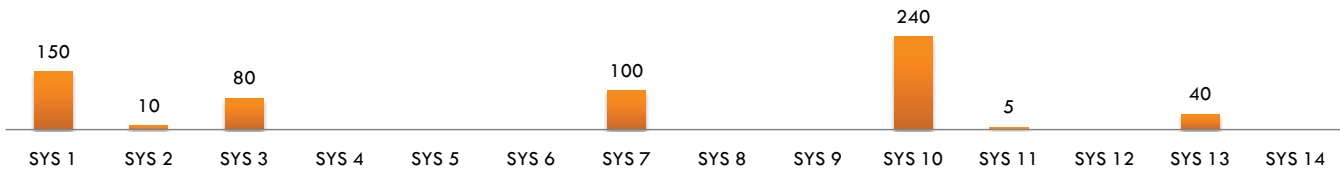
### Other Cyclical Flyers, Letters, Announcements

■ Number of Staff assigned ■ Average Number of Pages



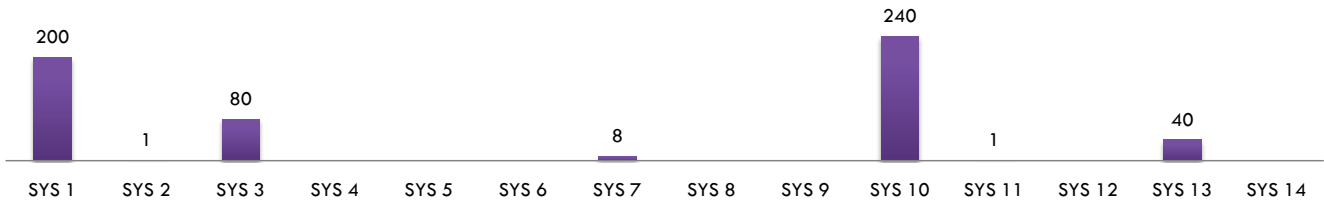
### Other Cyclical Flyers, Letters, Announcements

■ Hours to develop initially



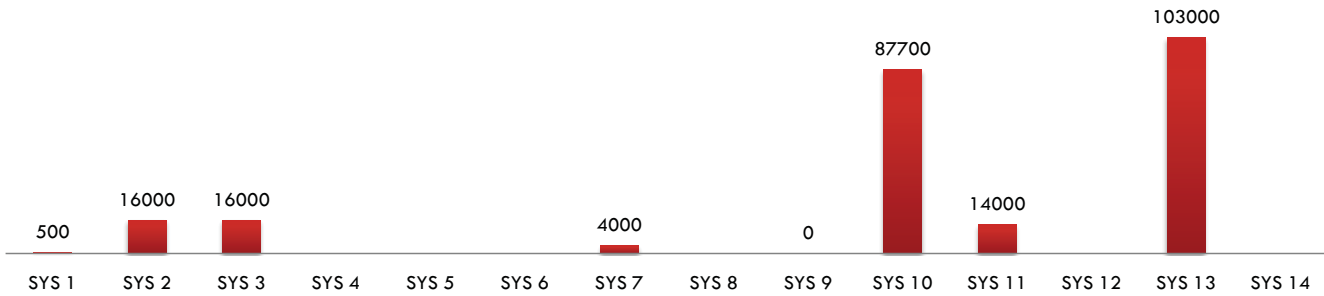
### Other Cyclical Flyers, Letters, Announcements

■ Hours to maintain or redesign annually



### Other Cyclical Flyers, Letters, Announcements

■ Copies Distributed per year





**Please list all other Communications projects or tasks (both internal and external) and the number of staff assigned.**

**SYS 1**

Video Presentation 2  
 Focus groups regarding retirement and active members issues 2  
 40 page in depth document titled 'SYS 1 by the numbers' that provides an overview of the retirement system. It is posted on SYS 1 Website 2  
 Day time and evening pre-retirement seminars 3  
 Media relations 3

**SYS 2**

**SYS 3**  
 Design, writing and posting of all information to website and maintenance.  
 Photography, graphic design, proofreading, memo drafting, RFPs, RFIs, disaster recovery documentation.  
 Communication division budget  
 Forms Design

**SYS 4**

**SYS 5**

**SYS 6**

Website design 3 staff, Develop talking points 1 staff, Development of mid-career seminar 1 staff

**SYS 7**

**SYS 8**

**SYS 9**

Seminars 2 Public relations/media 2

**SYS 10**

Annual Active/Deferred Member Statement 9, Payee Payroll inserts 3, Annual COLA Flyer 2, Annual Medicare Part-D flyer 2, Active Member Seminar Schedule 2, Retiree Seminar Schedule 2, Website updates 3, Attend Retiree Association Board Meetings 2, Present Retirement planning Seminars 1, Plan Communications Campaigns 2, Graphic Design 1.5

**SYS 11**

Request for Public Records - 2, Website Maintenance - 2

**SYS 12**

Satisfaction Surveys, Milestone Communications Postcards, PowerPoint Presentations for Seminars

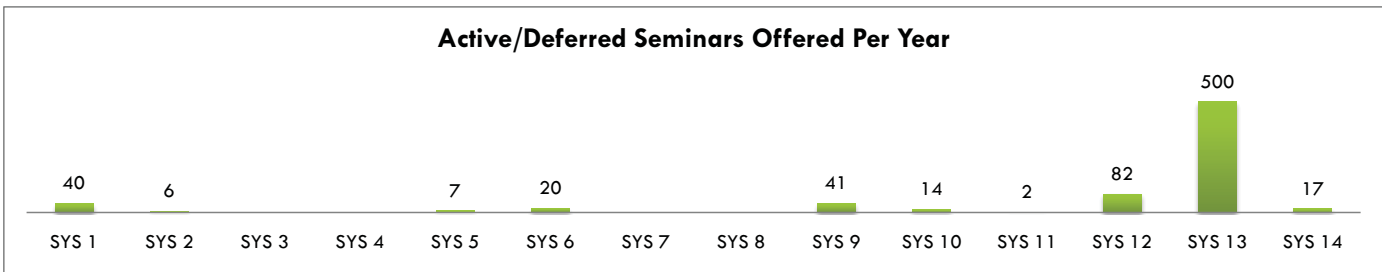
**SYS 13**

Web design- 4 websites, intranet, board resources, HR Pros. Staff: Web designer (2), web technician (1), sr. writer (1), writer II (1), graphic artist/ photographer/ video (1). Video - Online presentations , Staff- Graphic Artist (2). Chief communications (1), web designer- format (1). vendor Interactions- Printers, mail house, data merge, Staff; Staff assistant (1) , chief communication initiates and reviews , approves. Presentation, Staff: graphic artist (1), chief communications

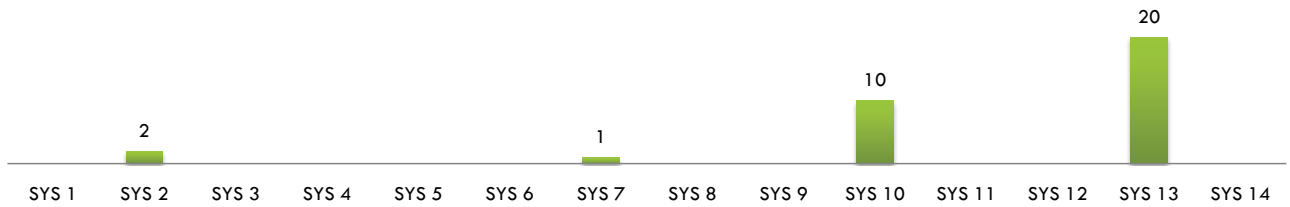
**SYS 14**

As part of our Pension Administration System project, we plan to add a web portal. ETA approximately three years.

**Active/Deferred Seminars Offered Per Year**

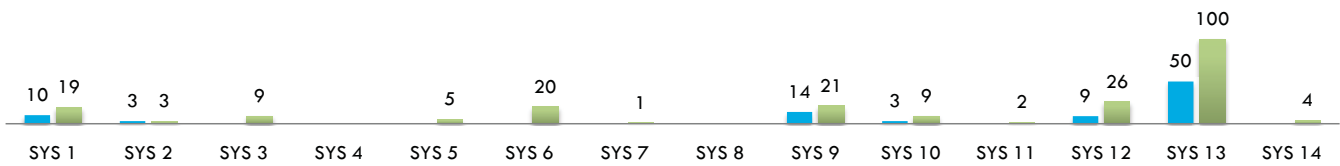


### Retired Member Seminars Offered Per Year



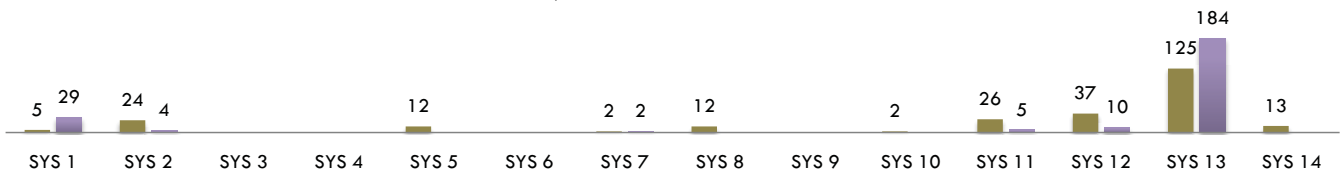
### Seminars Offered Annually

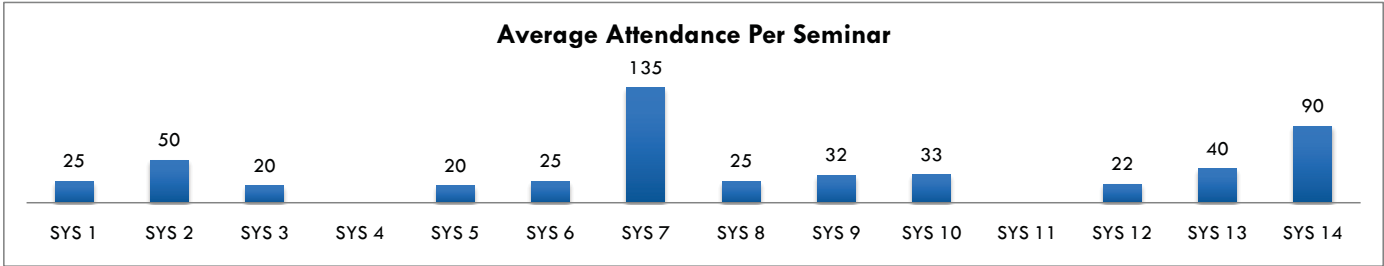
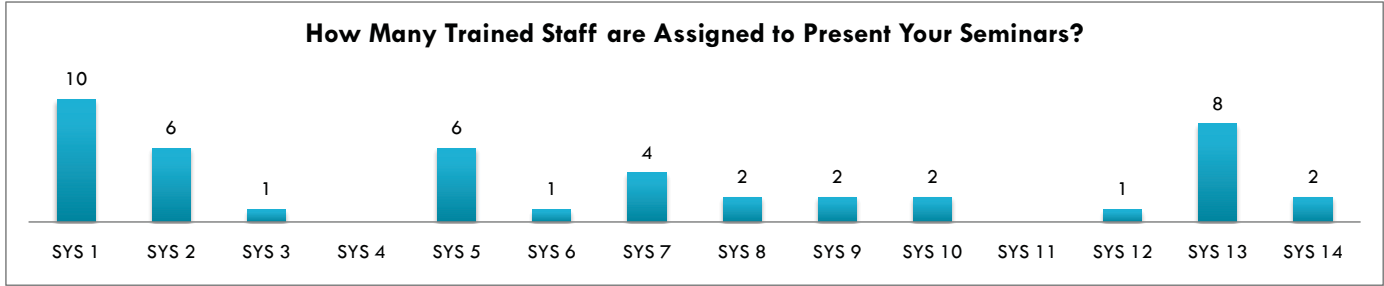
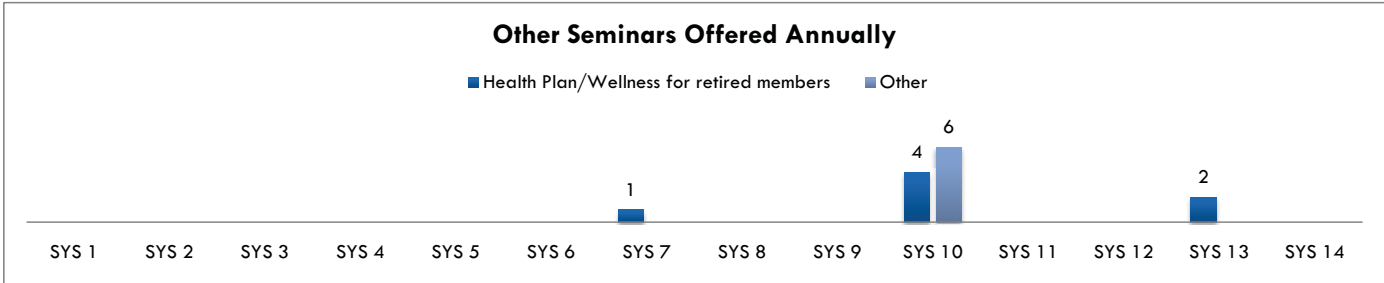
■ Mid-Career ■ Pre-Retirement



### Seminars Offered Annually

■ New Hire/New Employee ■ General Overview





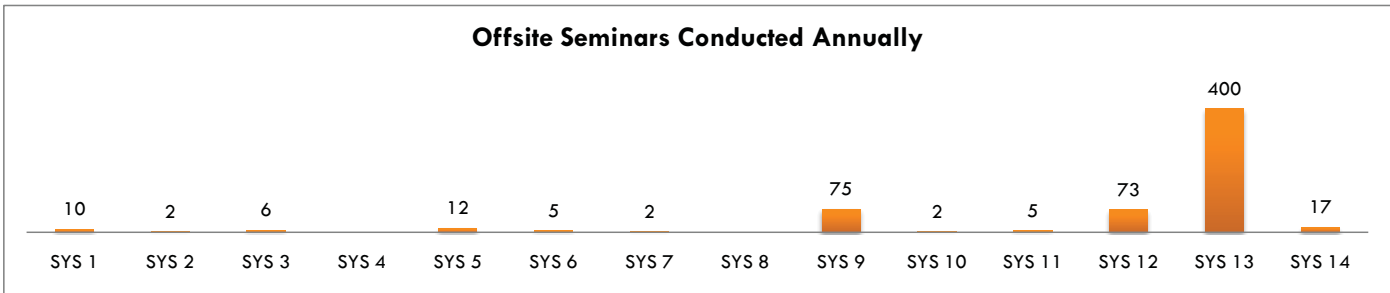
Do you provide any training for staff on seminar presentation and/or presentation skills?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	No	No		No	No	No	No	Yes	No	Yes	Yes	Yes	Yes

Do you offer seminars on the web?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes, pre-recorded	No	No		No	No	Yes, pre-recorded	No	No	No	No	No	Yes, Pre recorded	No

Do you offer CDs/DVDs of recorded seminars for members?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes		No		No	No	No	No	No	No	No	No	No	No

Do you provide seminars for active employees at offsite locations?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Yes	Yes	Yes		Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

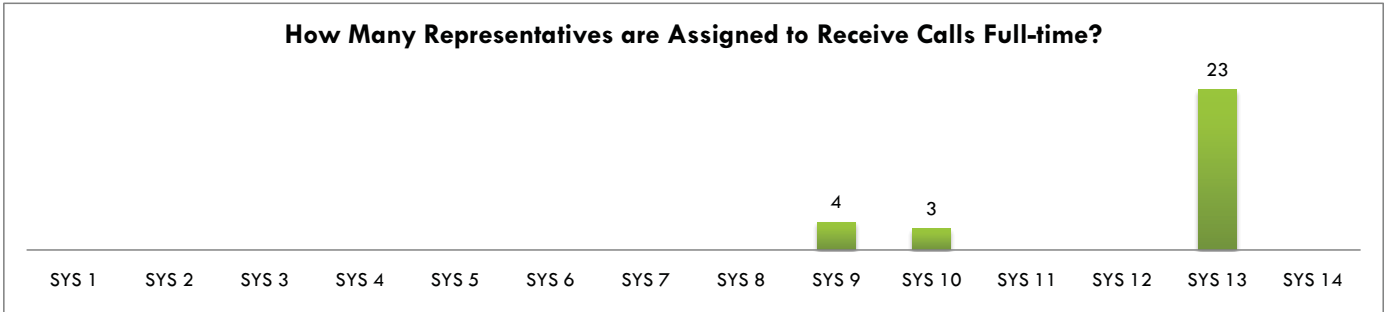
Do you provide seminars for retirees at offsite locations?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No		No	No		No	No	No	No	No	Yes	No



**Do you have a Call Center, where that a group of staff members are designated to primarily receive member calls?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No			No	No	No	Yes	Yes	No	No	Yes	No

**How Many Representatives are Assigned to Receive Calls Full-time?**



**What type of calls are representatives trained to answer?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
N/A						Organizati on-wide	N/A	Organizati on-wide	Benefits Specific			Organizati on-wide	N/A

**How are your representatives trained to answer calls? Check all that apply.**

	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Manager led training sessions							
Peer-to-peer led training sessions							
Required reading (e.g. Member Handbook)							
Listens in on calls							✓
Other, please specify							
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Manager led training sessions			✓			✓	
Peer-to-peer led training sessions			✓		✓	✓	✓
Required reading (e.g. Member Handbook)	✓	✓	✓		✓	✓	✓
Listens in on calls		✓	✓		✓	✓	✓
Other, please specify		on job training				Q/A Training	Receptionist transfers call to Benefits staff

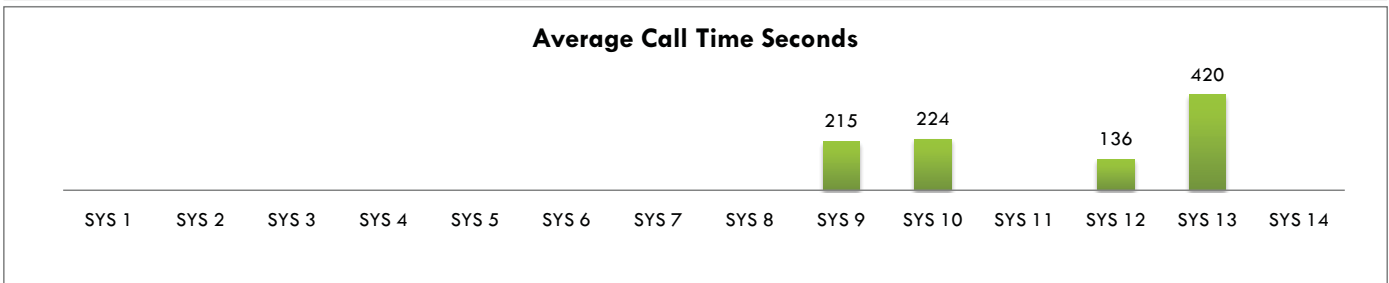
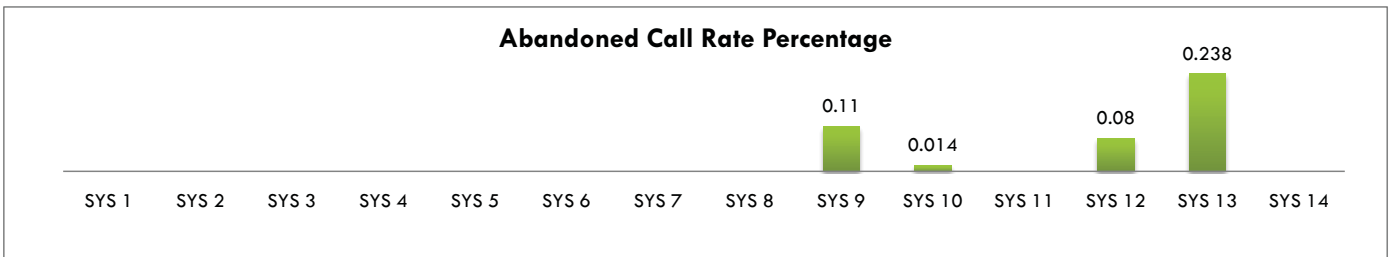
**What are your Call Center Service Level goals?**

SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
-------	-------	-------	-------	-------	-------	-------	-------	-------	--------	--------	--------	--------	--------

Answer First call resolution 90% of calls in 30 seconds or less	See below note..	N/A
---	------------------	-----

**SYS 13**

Call center Monitoring Score- 95%; Grade of Service (80% in 60 seconds)- 80%; Call Center Survey Score- 90%; Agent Utilization Rate- 65%



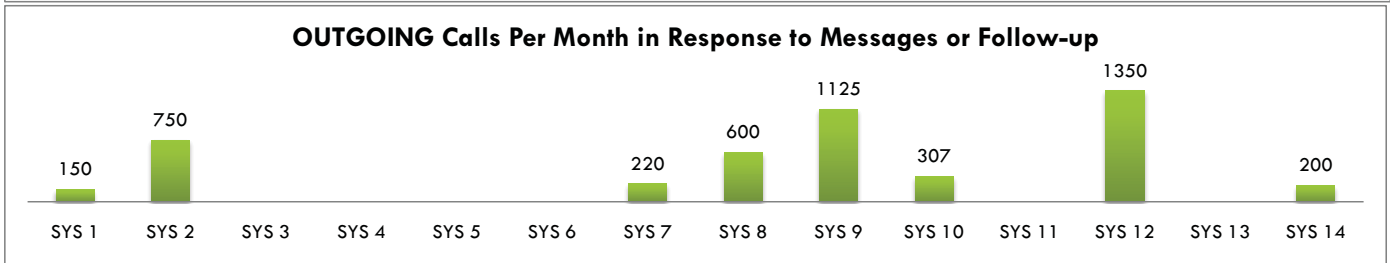
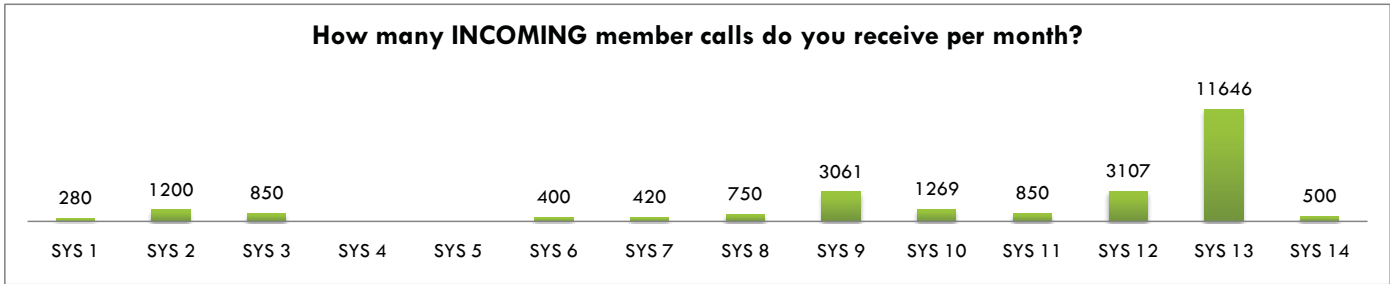
If you do not have a Call Center, how do you handle member phone calls?							
	SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7
Receptionist assist caller	✓						✓
Caller routed to staff by alpha			✓				
Caller routed to staff by type of call		✓				✓	
Other, please specify							
	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
Receptionist assist caller							✓
Caller routed to staff by alpha							✓
Caller routed to staff by type of call	✓						✓
Other, please specify				✓	✓		

**SYS 11**

Receptionist assists and/or routed to available staff

**SYS 12**

Virtual call center/staff has call center software agents



Do you have a self-service information line? If yes, number of calls received per month?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No			No	No	No	No	No	No	Yes	No	No
											Unknown		

Do you track the subject and outcome of calls? If yes, please specify how calls are tracked.													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No			No	No	No	Yes	Yes	Yes	No	Yes	No
								Manually track subject of call	Access database	Receptionist marks/tallies on pre-designed form	See below note.		

**SYS 13**

Call center staff are required to document the subject(s) discussed with the member by entering the information into a on-line tracking worksheet. Management has the ability to review, classify and count the various items entered into the on-line tracking worksheet. In addition, all calls are recorded and archived. Supervisor staff review a sample of the archived calls to validate accuracy, completeness of answers and call center professionalism.

Do you track the number of calls requiring transfer to another staff person for resolution?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	Yes			No	No	No	No	Yes	No	No	Yes	No

Do you rate member satisfaction of calls?													
SYS 1	SYS 2	SYS 3	SYS 4	SYS 5	SYS 6	SYS 7	SYS 8	SYS 9	SYS 10	SYS 11	SYS 12	SYS 13	SYS 14
No	No	No			No	No	No	No	No	No	No	Yes	No
												See below note.	

**SYS 13**

Supervisor audits recorded calls & rates according to pre-destined criteria.



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 7.4

**TO:** Board of Retirement



**FROM:** Scott Hood, Assistant Executive Officer

**SUBJECT:** Extension of Agreement with Financial Knowledge Network, LLC for Financial Education Services

**STAFF RECOMMENDATION**

Adopt a resolution authorizing the Chief Executive Officer to execute an amendment to the agreement with Financial Knowledge Network, LLC for financial education services.

**BACKGROUND**

In 2008, staff issued a Request for Proposal seeking firms interested in providing financial education to *SamCERA* members. Staff formed a six-person evaluation team that included participation from the Employee Benefits and Training and Development Divisions of the county Human Resources Department. The team reviewed and evaluated the responses. Finalists were selected to present a one-hour sample class to the team and the rest of the staff. The team then conducted interviews of the finalists. On completion of the process, the team selected Financial Knowledge Network as the firm to provide financial education to *SamCERA*'s members. In 2008 the board approved the agreement and services commenced in 2009.

**DISCUSSION**

Staff has been pleased with the quality and variety of classes offered to our members. The current agreement ends December 30, 2011, and staff recommends that it be extended until June 30, 2015. The current cost of the classes is approximately \$45,000 annually. The proposed amendment to the agreement increases the current maximum from \$180,000 to \$260,000 to cover the extended term of the agreement. The total amount expended under the current contract thus far is under \$130,000.

While members have been attending the classes, which are limited to 40 *SamCERA* members, in general, the classes have had room for additional participants. To address this, staff has coordinated with the county's Training and Development Division. This division organizes employee classes through the County's "Learning Management System" ("LMS"). LMS also is used by the Regional Training & Development Consortium for Public Agencies (the "Consortium"). The Consortium is a collaboration between cities (currently thirteen) in San Mateo County and the County. The purpose of the Consortium is to provide training and development programs, management tools, and resources to public sector agencies. Through the LMS system, Consortium members can enroll in county educational programs. The county has suggested opening up participation in the financial education classes to Consortium members. *SamCERA* members would get priority and *SamCERA* would be reimbursed for the cost of attendance by these non-*SamCERA* members. The contract amendment eliminates some wording from the current contract in order to allow consortium member attendance.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
RESOLUTION 11-12-\_\_

**RESOLUTION AUTHORIZING CHIEF EXECUTIVE OFFICER TO EXECUTE AN  
AMENDMENT TO THE AGREEMENT WITH FINANCIAL KNOWLEDGE NETWORK, LLC  
FOR FINANCIAL EDUCATION SERVICES**

**WHEREAS**, Article XVI, §17 of the Constitution of the State of California vests the Board with plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system; and

**WHEREAS**, Board of Retirement Resolution 10-11-24 approved the budget for Fiscal Year 11-12, including \$45,000 for member education; and

**WHEREAS**, Financial Knowledge Network LLC has been providing financial educational services to members of *SamCERA* since 2009 and the Board has determined that it is in the best interest of the members to continue the provision of such services with Financial Knowledge Network LLC; and

**WHEREAS**, the Board has reviewed and approved the amendment to the agreement with Financial Knowledge Network LLC and desires to entered into the amended agreement:

**RESOLVED**, that the Board hereby authorizes the Chief Executive Officer to execute the attached amendment to the agreement, on behalf of the Board, for financial education services with Financial Knowledge Network for a term ending June 30, 2015, cancelable by either party on thirty days written notice. Be it further

**RESOLVED**, that the Board directs that the total amount payable under the amended agreement to be increased from \$180,000 to not to exceed \$260,000. Be it further

**RESOLVED**, that the Board hereby designates the Chief Executive Office as its designee to perform those functions so identified in the contract and hereby authorizes the Chief Executive Officer to take all actions necessary to initiate, implement and monitor assignments, approve payments and provide the Board with timely reports regarding the progress and satisfactory completion of the assignments authorized pursuant to the amended agreement.

AMENDMENT TO AGREEMENT WITH FINANCIAL KNOWLEDGE NETWORK, LLC

THE AGREEMENT FOR MEMBER FINANCIAL EDUCATION SERVICES by and between the San Mateo County Employees' Retirement Association (*SamCERA*) and Financial Knowledge Network, LLC. ("Contractor") is hereby AMENDED AS FOLLOWS:

Paragraph 2 is amended to read as follows:

2. **Contract Term** The term of this Agreement shall be from January 1, 2009 to June 30, 2015, unless terminated earlier by *SamCERA* or Contractor.

Paragraph 3 is amended to read as follows:

3. **Payments** In consideration of the services rendered in accordance with all terms, conditions and specifications set forth herein and in Exhibit "A", *SamCERA* shall make payment to Contractor in the manner specified herein and in Exhibit "A". In the event that *SamCERA* makes any advance payments, Contractor agrees to refund any amounts in excess of the amount owed by *SamCERA* at the time of contract termination. *SamCERA* reserves the right to withhold payment if *SamCERA* determines that the quantity or quality of the work performed is unacceptable. The total payment for services under this Agreement shall not exceed two hundred and sixty thousand dollars (\$260,000.00).

Paragraph 1 (a) and 1(b) of Exhibit A of the Agreement is amended to read as follows:

- a. Contractor will conduct classes selected by *SamCERA* from Contractor's curriculum per calendar year, at days or times mutually agreed upon by *SamCERA* and Contractor. Contractor will provide the instruction at *SamCERA*'s offices or other sites on which the parties mutually agree to a maximum class size of 40. Classes will be 2 hours in duration and will cover the subjects selected by *SamCERA* from Contractor's schedule of courses.
- b. Course workbooks will be physically constructed in a sturdy manner consistent with personal reference material. Content of material shall be written and formatted as a reference guide for retirement and financial planning; it shall identify additional sources for participants to access for the most up-to-date information; and include financial worksheets for participants to evaluate and develop their individual financial plans. Webcast course materials for up to 40 registered participants will be sent electronically.

This change is effective August 23, 2011 and shall apply to services rendered after that date. All other prices, terms and conditions of the Agreement remain unchanged.

FINANCIAL KNOWLEDGE NETWORK, LLC

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Lyndsay Mills, Vice President of Programs

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
David Bailey  
Chief Executive Officer

August 23, 2011

Agenda Item 7.5

To: Board of Retirement

From: David Bailey, Chief Executive Officer  
Brenda B. Carlson, Chief Legal Counsel



Subject: Approval of Amendments to *SamCERA's Conflict of Interest Code*

**STAFF RECOMMENDATION:** Staff recommends that the board adopt a resolution amending *SamCERA's* Conflict of Interest Code.

**BACKGROUND:** *SamCERA's* movement into alternative investments prompted a discussion earlier this year regarding the board's Conflict of Interest Code, which sets forth the requirements for board members, certain staff members and contractors to file Form 700s.

The Political Reform Act ("Act") declares that public officials, whether elected or appointed, are required to perform their duties in an impartial manner, free from bias caused by their own financial interests or the financial interests of persons who support them. The Act further requires the disclosure of economic interests through the filing of Fair Political Practices Commission (FPPC) Form 700 "Statements of Economic Interest." Certain officials are required under the Act to file Form 700s. This category of filer is referred to as a "code filer." *SamCERA* is mandated under the Act to adopt a "Conflict of Interest Code" designating which *SamCERA* officials and employees, in addition to the code filers, must file a Form 700. These filers are referred to as "designated filers."

Officials "who manage public investments" are code filers and are required to file statements of economic interests under Government Code §87200. Section 87200 filers must report all non-exempt investments and income as well as all non-exempt real property interests in their agency's jurisdiction, which for *SamCERA* is the County of San Mateo. Public officials (officers, employees or consultants) "who manage public investments" include those "[m]embers of boards and commissions, including pension and retirement boards and commissions, or committees thereof, who exercise responsibility for the management of public investments." [FPPC Regulation §18701(b)(1)(A).] On page 14 of its 2010 "FPPC Form 700 Reference Pamphlet," the FPPC summarizes the filing requirements as follows, emphasis added:

**Public Officials Who Manage Public Investments:** Individuals who invest public funds in revenue-producing programs must file Form 700. This includes individuals who direct or approve investment transactions, formulate or approve investment policies, and establish guidelines for asset allocations. FPPC Regulation 18701 defines "public officials who manage public investments" to include the following:

- Members of boards and commissions, including pension and retirement boards or commissions, and committees thereof, who exercise responsibility for the management of public investments;
- High-level officers and employees of public agencies who exercise primary responsibility for the management of public investments (for example, chief or principal investment officers or chief financial managers); and
- Individuals who, pursuant to a contract with a state or local government

agency, perform the same or substantially all the same functions described above.

Additionally, the FPPC has opined that “consultants” including “investment consultant and investment management firm employees and principals ... who provide services to [SamCERA] ... with influence over the investment decisions pertaining to the [retirement fund] ... in positions that involve the making or participation in the making of decisions which may foreseeably have a material effect on any financial interest ... are required to file financial disclosure statements for ... investments in and income from, business entities which are or may foreseeably be invested in by [SamCERA] and investments in, and income from, persons or business entities engaged in buying and selling securities for the account of [SamCERA].”

**DISCUSSION:** The proposed amended Conflict of Interest Code submitted for your approval clarifies which *SamCERA* positions are to file under §87200 and which positions are to file under §87100. The § 87200 filers are: Trustees, Alternate Trustees, Chief Executive Officer, Chief Investment Officer, Chief Legal Counsel and Consultants. Consultants are defined as “those employees of consultants who have been determined by the Chief Executive Officer to perform the same or substantially the same functions as *SamCERA*’s Chief Investment Officer, which includes, but is not limited to persons who direct or approve investment transactions, formulate or approve investment policies, and establish guidelines for asset allocations.” In making his determination, the Chief Executive Officer will complete the attached “Consultant Determination Form for Purposes of Designation Under *SamCERA*’s Conflict of Interest Code.” As will be explained at the meeting, it is anticipated that for those investment agreements that create an ownership interest for *SamCERA* in a limited partnership or limited liability company, those entities will not be designated as a consultants.

The proposed Conflict of Interest Code provides that §87200 filers also disclose information on their Form 700 as to categories 1, 2 and 3 which read as follows:

**Category 1:** Persons in this category shall disclose all interest in real property within the boundaries of the County of San Mateo or within two miles outside the boundaries of the County of San Mateo and property located within two miles of any land owned or used by *SamCERA*. Persons are not required to disclose property, such as a home or vacation cabin, used exclusively as a personal residence.

**Category 2:** Persons in this category shall disclose all business positions, investments in, or income (including gifts and loans) received from business entities that manufacture, provide or sell service and/or supplies of a type utilized by *SamCERA*.

**Category 3:** Persons in this category shall disclose all business positions and investments in business entities that are the type in which *SamCERA*’s trust funds may be invested (include securities, real estate and business entities), all income from such business entities, and all interests in real estate co-owned with or purchased from such *SamCERA* business entities.

The positions designated as §87100 filers are: Assistant Executive Officer, Chief Technology Officer, Benefits Manager and Consultants. As with the investment consultants, the Chief Executive Officer will use the same process in his determination as to whether these other consultants (e.g. the actuary) should file. In making his determination, he will determine whether the individual is performing the same or substantially the same functions as designated employees.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**RESOLUTION AMENDING THE CONFLICT OF INTEREST CODE FOR THE  
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**WHEREAS**, the board has adopted a Code of Fiduciary Conduct which requires among other things, that Trustees, the Chief Executive Officer, Consultants, Investment Managers and other professionals retained by the board and SamCERA staff shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended...and all other laws pertinent to the conduct of public pension fund fiduciaries; and

**WHEREAS**, Government Code §87300 mandates the adoption of a Conflict of Interest Code by independent public agencies; and

**WHEREAS**, the board, by Resolution 96-97-03, adopted the Conflict of Interest Code provisions of California Fair Political Practices Commission (FPPC) Regulation 18730; and

**WHEREAS**, Government Code §87306.5 mandates that the board review its designation of employees and disclosure categories from time to time. Therefore, be it

**RESOLVED** that the board hereby instructs the Chief Executive Officer to provide annual disclosure Form 700s to all trustees and all individuals in the *Designated Positions*. Each individual receiving said form must file the original Form 700 with the Chief Executive Officer who must make and retain a copy and forward the original to the County Clerk. Form 700 must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties, including but not limited to late fines. Be it further

**RESOLVED** that the board hereby instructs the Chief Executive Officer to implement a program to provide reasonable assurance that foreseeable potential conflict of interest situations will be disclosed and prevented and to provide each affected person with a clear and specific statement of his or her duties under the Conflict of Interest Code. Be it further

**RESOLVED** that the board hereby instructs the Chief Executive Officer to supply the necessary forms and manuals, to monitor timely and complete filing compliance, to take action regarding late filings and to report apparent violations of the Conflict of Interest Code to the Board.

**RESOLVED** that the board hereby redefines *SamCERA's* List of Designated Individuals and Disclosure Categories per FPPC Regulation 18730, to read as follows:

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
CONFLICT OF INTERESTED CODE**

Each person holding any position listed below must file FPPC Form 700--Statement of Economic Interests disclosing the kinds of financial interest shown for the designated employee's position. Statements must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties including but not limited to late fines. Each person holding a position who must file a Statements of Economic Interest in accordance with Government Code section 87200 *et seq* and California Code of Regulations shall file in accordance with those statutes, with the proviso that the original statements will be filed with *SamCERA* and with a copy to County Clerk. The County Clerk does not need to forward the Statement of Economic Interest to the Fair Political Practices Commission.

**LIST OF DESIGNATED POSITIONS AND APPLICABLE DISCLOSURE CATEGORIES**

**Government Code section 87200 filers:** the following positions which manage public investments for purposes Government Code section 87200, shall, *in addition* to the disclosures required by Government Code section 87200 *et seq* and California Code of Regulations, disclose:

	Disclosure Category
Trustees and Alternate Trustees	1, 2, 3
Chief Executive Officer	1, 2, 3
Chief Investment Officer	1, 2, 3
Chief Legal Counsel	1, 2, 3
Consultants*	4

*\* Consultants are those employees of consultants who have been determined by the Chief Executive Officer to perform the same or substantially the same functions as SamCERA's Chief Investment Officer, which includes, but is not limited to persons who direct or approve investment transactions, formulate or approve investment policies, and establish guidelines for asset allocations. The Chief Executive Officer shall further determine the applicable disclosure categories, which shall be the required disclosure for such Consultants.*

**Government Code section 87100 filers:** Designated SamCERA employee positions and employees of consultants, who shall file in accordance with Government Code section 87100:

	Disclosure Category
Assistant Executive Officer	1,2, 3
Chief Technology Officer	2
Benefits Manager	2
Finance Officer	2
Consultants	**

*\*\* Consultants are those employees of consultants who have been determined by the Chief Executive Officer to perform the functions that pursuant to California Code of regulations section 18700 (a)(2) are required to file statements of economic interests. The Chief Executive Officer shall further determine the applicable disclosure categories.*

**DESCRIPTION OF FINANCIAL DISCLOSURE CATEGORIES**



**Category 1:** Persons in this category shall disclose all interest in real property within the boundaries of the County of San Mateo or within two miles outside the boundaries of the County of San Mateo and property located within two miles of any land owned or used by *SamCERA*. Persons are not required to disclose property, such as a home or vacation cabin, used exclusively as a personal residence.

**Category 2:** Persons in this category shall disclose all business positions, investments in, or income (including gifts and loans) received from business entities that manufacture, provide or sell service and/or supplies of a type utilized by *SamCERA*.

**Category 3:** Persons in this category shall disclose all business positions and investments in business entities that are the type in which *SamCERA*'s trust funds may be invested (include securities, real estate and business entities), all income from such business entities, and all interests in real estate co-owned with or purchased from such *SamCERA* business entities.

**Category 4:** Persons in this category are those investment consultants have been determined by the Chief Executive Officer to have a requirement to file and such consultant shall disclose all business positions and investments in business entities that are the type in which, under the terms of that consultant's agreement with *SamCERA*, *SamCERA*'s trust funds may be invested by that consultant's employer (include securities, real estate and business entities), all income from such business entities, and all interests in real estate co-owned with or purchased from such *SamCERA* business entities.

ADOPTED by unanimous vote, February 23, 1999

AMENDED by unanimous vote, February 22, 2000

AMENDED by unanimous vote, February 27, 2001

AMENDED by unanimous vote, February 26, 2002

AMENDED by unanimous vote, March 25, 2003

AMENDED by unanimous vote, February 22, 2005

AMENDED by unanimous vote, January 24, 2006

AMENDED by unanimous vote, February 26, 2008

AMENDED by unanimous vote, July 28, 2009

AMENDED by unanimous vote, March, 2010

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

August 23, 2011

Agenda Item 7.6

To: Board of Retirement

From: David Bailey, Chief Executive Officer



Subject: Contract with Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP for legal services

**STAFF RECOMMENDATION:**

Authorize the Chair to execute an Agreement with Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP ("Contractor") for legal services.

**BACKGROUND:**

Currently, Bob Blum of Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP provides legal services for *SamCERA* in relation to I.R.S tax issues that arise from time to time. Mr. Blum and his associates are assisting *SamCERA* with its tax determination letter in order to maintain *SamCERA*'s tax qualified status. We are still awaiting comment from the I.R.S. in regards to this matter.

In addition, the Hanson Bridgett firm has assisted in the review of certain documents related to the board's private equity investments. *SamCERA* has been pleased with the legal services provided by Mr. Blum and the Hanson Bridgett firm.

Hanson Bridgett is providing these legal services through an agreement between the County Counsel's Office and Hanson Bridgett. Due to the creation of the Chief Legal Counsel position, staff recommends that the board directly contract with Hanson Bridgett. The proposed agreement delegates the general supervision and direction of Hanson Bridgett to the Chief Executive Officers and the Chief Legal Counsel.

The proposed agreement is for a term of just under three years, ending June 30, 2014. It provides that Mr. Blum will be compensated at an hourly rate of \$470, which may be increased during the term of the agreement. Any such increases would be limited to Bay Area CPI. The total amount payable under the three-year agreement is \$100,000. All charges would be service based. There is no retainer fee.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

*RESOLUTION 11-12-*

RESOLUTION AUTHORIZING THE CHAIR OF THE BOARD OF RETIREMENT  
TO EXECUTE AN AGREEMENT WITH HANSON, BRIDGETT, MARCUS,  
VLAHOS & RUDY, LLP FOR LEGAL SERVICES

**WHEREAS**, Government Code §31529.9 provides that this board may contract with attorneys in private practice or employ staff attorneys for legal services; and

**WHEREAS**, through an arrangement with County Counsel, this board currently receives legal services in relation to tax, investment and other matters from the Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP law firm; and

**WHEREAS**, as this board has created a Chief Legal Counsel position, this board has now determined that it would be preferable to have an agreement directly with Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP for these specialized legal services; and

**WHEREAS**, this board has read and approved the agreement with Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP and desires to enter into the agreement; now, therefore, be it

**RESOLVED**, that the Chair is hereby authorized to execute an agreement with Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP ("Contractor") for legal services.

## RETAINER AGREEMENT FOR LEGAL SERVICES

THIS AGREEMENT is made and entered into this \_\_\_\_\_ day of August 2011, by and between the San Mateo County Employees' Retirement Association ("SamCERA"), (hereinafter referred to as the "Board") and Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP ("Contractor").

### **FOR AND IN CONSIDERATION OF THE PROMISES, COVENANTS AND CONDITIONS CONTAINED HEREIN, THE PARTIES HERETO DO MUTUALLY AGREE AS FOLLOWS:**

1. Retention. Board hereby retains Contractor to perform the legal services described in Paragraph 2 below, and Contractor hereby accepts such retention and agrees to perform such services under the terms and conditions set forth herein.

2. Services. Contractor shall provide legal advice, consultation and representation in connection with miscellaneous investment, tax and benefit issues for the Board.

a) The Board delegates to the Chief Executive Officer and Chief Legal Counsel the general supervision and direction of Contractor in the provision of services for the Board. Contractor shall not accept direction from any individual Board member, any other official or employee of *SamCERA*.

b) Contractor shall coordinate all its activities with the Chief Legal Counsel.

c) Contractor shall provide aforesaid services as assigned by the Board and agreed to by Contractor.

e) Contractor shall attend such meetings as the Board or designees determines are necessary or appropriate during the term of this Agreement.

f) Contractor shall not institute any administrative proceeding, arbitration or litigation unless directed to do so by the Chief Legal Counsel or the Board.

g) Contractor shall not compromise or settle any claim, protest or dispute against *SamCERA* without the prior consent of the Board.

3. Term. The term of this Agreement shall be effective upon full execution and continue until June 30, 2014, or until such time as the Agreement is terminated pursuant to Section 14 below.

4. Compensation. Subject to the provisions of subsections (a)-(d) below, Board shall pay compensation to Contractor for the services rendered hereunder as follows:

a) The services to be performed by Contractor pursuant to this Agreement shall be performed by Robert Blum and other attorneys with Contractor to whom Robert Blum delegates responsibilities. In the case of such delegation, Mr. Blum shall be responsible for all work performed.

b) Contractor shall be compensated as follows. Contractor will be paid for the services at the respective hourly rates of \$460 per hour for Mr. Blum and up to \$470 per hour for other attorneys, based on their standard hourly rate. These rates may be increased annually at a rate not greater than the most recent average annual change in the Bay Area Consumer Price Index as determined by the federal Bureau of Labor Statistics. The Board shall not be responsible for the cost of services provided by any individuals unless such services and the rate of compensation are approved in advance and in writing by the Chief Legal Counsel.

c) Board shall not be charged for secretarial or other support services.

d) Total compensation under this contract, including expenses paid pursuant to Section 5, shall not exceed \$100,000.

5. Expenses. Board shall pay Contractor for its incidental expenses incurred in connection with this Agreement as follows:

a) Postal and delivery expenses shall be charged to Board at Contractor's cost;

b) There will be no "overhead" charges for such services as in-house copying, fax, mailing or mileage.

c) Contractor may charge *SamCERA* for computerized research if the vendor charges Contractor for research specifically for the Board.

d) Board shall have no liability for any other charges or expenses unless approved in writing by the Chief Legal Counsel prior to being incurred.

6. Claims For Services. Contractor shall submit monthly statements to the Board itemizing amounts charged under the hourly rate and any costs and expenses for which Contractor is entitled to reimbursement. Board shall pay the full amount due within 30 days following approval by the Chief Legal Counsel. The Chief Legal Counsel may request additional information or clarification to support the billing by Contractor from Contractor who will promptly provide the requested information.

7. Independent Contractor.

a) It is understood and agreed that Contractor is an independent contractor and that no relationship of employer-employee exists between Board and Contractor

hereto. Contractor hereby holds *SamCERA*, the Board, its officers and employees harmless from any and all claims that may be made based upon any contention by any third party that an employer-employee relationship exists by reason of this Agreement.

b) It is further understood and agreed by the parties hereto that Contractor in the performance of its obligations hereunder is subject to the control or direction of Board, merely as to the result to be accomplished by the services hereunder agreed to be rendered and performed and not as to the means and methods for accomplishing the results. No permitted or required approval by Board, of personnel, costs, documents or services of Contractor shall be construed as making *SamCERA*, the Board, its officers and employees responsible for the manner in which Contractor performs its services or for any acts, errors or omissions of Contractor. Such approvals are intended only to give Board the right to satisfy itself with the cost and status of work performed by Contractor.

c) If, in the performance of this Agreement, any third persons are employed by Contractor, such persons shall be entirely and exclusively under the direction, supervision and control of Contractor. All terms of employment, including hours, wages, working conditions, discipline, hiring and discharging or any other terms of employment, or requirements of law, shall be determined by Contractor, and *SamCERA*, the Board, its officers and employees shall have no right or authority over such person or the terms of such employment.

d) It is further understood and agreed that Contractor shall issue W-2, or with respect to partners Schedule K-1, Forms for income and employment tax purposes for all of Contractor's assigned personnel under the terms and conditions of this Agreement.

8. Indemnification. Contractor shall indemnify, defend and hold harmless, the Board, *SamCERA*, its officers, agents and employees, from and against any and all claims, losses, liabilities or damages, demands and actions including payment of reasonable attorneys' fees, in any way occasioned by or arising out of negligence or intentional act of the Contractor in the performance of this Agreement except to the extent that any such claims, losses, liabilities or damages, demands or actions are caused by action or inaction of the Board, *SamCERA*, its officers, agents or employees.

9. Insurance.

a) Without limiting Contractor's indemnification, Contractor shall maintain in force at all times during the term of this Agreement and any extensions or modifications thereto, insurance covering its errors and omissions in the amount of \$15 million.

b) Chief Legal Counsel is authorized to execute amendments and waivers, with or without conditions, by letter to the insurance requirements of this Agreement, subject to the insurance requirements of this Agreement and to the approval of Contractor if such amendments, waivers or conditions would increase the cost, liability or obligations of Contractor.

10. Assignment and Subcontracting. No performance to be rendered or payment due under this Agreement may be assigned or transferred, and Contractor shall not subcontract any work hereunder, without the prior written approval of the Chief Legal Counsel.

11. Non-Discrimination. No person shall be excluded from participation in, denied benefits of, or be subject to discrimination under this Agreement on the basis of their race, color, religion, national origin, age, sex, sexual orientation, pregnancy, childbirth or related conditions, medical condition, mental or physical disability or veteran's status. Contractor shall ensure full compliance with federal, state and local laws, directives and executive orders regarding non-discrimination for all employees and Subcontractors under this Agreement. The Contractor shall comply fully with the non-discrimination requirements required by 41 CFR 60-741.5(a) which is incorporated herein as if fully set forth.

12. Audit of Contractor Records.

a) Contractor shall retain all records, including but not limited to, documents, reports, books, papers, and accounting records which pertain to any work or transactions under this Agreement for a period of four (4) years after expiration of this Agreement. Board, or any duly authorized representative of Board, shall, with reasonable notice, have access to and the right to examine, audit and copy such records.

b) Contractor shall reimburse Board for any overpayment determined to have been made as a result of an audit of Contractor's records not later than ten days following the date of service of written notice to Contractor of the amount of the overpayment. The Auditor or his or her designated representative shall not disclose to any other Board department or person any personally identifiable information concerning client services performed by Contractor derived as a result of the conduct of any audit.

14. Termination. This Agreement and the attorney-client relationship between Contractor and Board may be terminated in whole or in part by the Board at any time upon thirty (30) days written notice to Contractor. Upon termination of this Agreement, Board will pay Contractor the fees, costs and expenses due under Section 4, as of the effective date of termination, in no case exceeding the limitation set forth in Section 4. In the event of such termination, Contractor shall transmit to Board all records, materials, work product and other matters developed or collected pursuant to this Agreement.

15. Governing Law. All claims, counterclaims, disputes and other matters in question between the Board and Contractor arising out of or relating to this Agreement or breach thereof will be decided under the laws of the State of California or any other dispute resolution methods agreeable to both parties. California law shall govern the

interpretation of this Agreement.

16. Amendments. This Agreement may be modified or amended, or any of its provisions waived, only by written agreements executed by both parties.

17. Entire Agreement. This instrument constitutes the entire Agreement between Board and Contractor concerning the subject matter hereof.

18. Notices. Notices concerning this Agreement shall be deemed to have been served when deposited in the United States Mail, first class postage prepaid, and addressed as follows:

TO Board:

Brenda B. Carlson  
Chief Legal Counsel  
100 Marine Parkway, Ste 125  
Redwood City, CA 94065

TO Contractor:

Robert Blum  
Hanson, Bridgett et al  
425 Market St, 26<sup>th</sup> Floor  
San Francisco, CA 94105

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first written above.

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP

Dated: \_\_\_\_\_, 2011 By \_\_\_\_\_  
Robert Blum

San Mateo County Employees' Retirement Association


Dated: \_\_\_\_\_, 2011 By \_\_\_\_\_  
Name: Al David  
Title: Board Chair



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

August 23, 2011

Agenda Item 7.7

**TO:** Board of Retirement  
**FROM:** David Bailey, Chief Executive Officer   
**SUBJECT:** Discussion of Topics and Dates for a 2012 Board/Staff Retreat

**STAFF RECOMMENDATION:** Staff recommends the board discuss and provide input and/or direction to staff regarding the dates and topics for a 2012 Board/Staff Retreat.

**BACKGROUND:** In April 2011, *SamCERA* held a Board/Staff Retreat. Speakers included consultants, staff members and outside professionals who addressed several topics. The board opined that the retreat was beneficial and that they would like to schedule a retreat again in 2012.

Staff suggests that a 2012 retreat be scheduled along the same lines as the 2011 retreat:

Days: Two consecutive days  
Timing: Leave time in between speakers for discussion  
Location: In the *SamCERA* boardroom  
Speakers: Draw speakers from outside professionals as well as *SamCERA*'s consultants and staff  
Regular Business: Conduct the board's regular monthly business during the afternoon on Tuesday of the retreat  
Dates: **April 26 & 27.**

The dates suggested above would place the retreat on a Tuesday and Wednesday rather than on a Monday and Tuesday as in the past. Meeting on a Tuesday and Wednesday would allow any speakers who need to travel a long distance to avoid having to do so on a Sunday, which many don't prefer.

If the board is agreeable to the April 26 & 27 dates, staff will return at the September board meeting to formalize that acceptance.

Below are some of the topic areas that may be appropriate for the 2012 retreat. Staff would appreciate any thoughts or suggestions.

Investments	Financial Audits	Benefits Changes
Economics	Actuarial Science	Other Topic Areas??
Disabilities	Pension Law	Specific Topics??
Taxation	Technology	

Staff will bring the topics and agenda for the retreat before the board a few more times as the details evolve toward finalization.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

August 23, 2011

Agenda Item 7.8

To: Board of Retirement

From: David Bailey, Chief Executive Officer



Subject: Amendment to Board of Retirement Regulation 4.1 Relating to "Membership".

**RECOMMENDATION:**

Adopt a resolution approving an amendment to Board of Retirement Regulation 4.1 regarding criteria for *SamCERA* membership.

**BACKGROUND:**

In the process of preparing *SamCERA*'s request to the IRS for a tax determination letter, staff determined that Regulation 4.1, which defines "membership", should be amended. In addition, a recent amendment to the '37 Act modified the authority of retirement boards regarding the establishment of reciprocity by giving members more flexibility in the date used for commencing and terminating retirement system membership. The proposed modifications to Regulation 4.1 are reflected below and can be summarized as follows.

- By statute, the Superior Court became a separate employer from the County of San Mateo. State law further provides that Court employees continue to be *SamCERA* members. The proposed change to the regulation reflects the Superior Court's status as a separate *SamCERA* employer.
- The Mosquito Abatement District changed its name to the Mosquito and Vector Control District.
- In 2007 the Board amended Regulation 4.1. to allow members to delay the start of retirement system membership for up to six weeks for the purpose of establishing reciprocity. This change addressed recurring issues with members requesting reciprocity but being denied because the member had overlapping service with another public entity, which is a violation of Section 31836 of the 1937 Act. In 2010, legislation was enacted that authorizes '37 Act retirement boards to extend this delay in membership up to 12 weeks. It further authorizes the boards to allow members to terminate retirement system membership up to 12 weeks prior to the member's termination of employment for purposes of establishing reciprocity.

The proposed amendment to Regulation 4.1 would apply to current and future active members and read as follows:

**4.1 Membership:** An individual entering full time or permanent part time employment with a SamCERA employer, which shall be either the County of San Mateo, the Superior Court of the County of San Mateo, or the Mosquito and Vector Control District prior to July 1, 1996, shall become a member of SamCERA on the first day of the first pay period commencing after the date of employment. An individual entering such employment on or after July 1, 1996, shall become a member of SamCERA on the first day of employment. Members may delay the effective start date of their membership with SamCERA up to twelve ~~six~~ weeks after the date of employment and/or terminate accrual of service credit with SamCERA up to twelve weeks prior to termination of employment with a SamCERA employer, for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Board of Retirement**

RESOLUTION APPROVING AMENDMENT OF REGULATION 4.1  
OF ARTICLE IV OF THE BOARD OF RETIREMENT REGULATIONS REGARDING  
MEMBERSHIP

RESOLUTION 11-12 \_\_\_\_\_

**WHEREAS**, Government Code §31525 provides that this Board, with the approval of the Board of Supervisors, may establish regulations that govern the operation of *SamCERA* that are not inconsistent with the California Employees' Retirement Law of 1937; and

**WHEREAS**, Board of Retirement regulation 4.1 sets forth certain membership criteria and from time to time it must be updated in order to reflect changes in participating employers and changes in law; and

**WHEREAS** by statute, the Superior Court of the County of San Mateo became a separate employer from the County of San Mateo and Court employees continue to be *SamCERA* members; and

**WHEREAS**, in 2010, legislation was passed authorizing the Board to adopt a regulation extending the period that an employee can delay entering membership from 6 to 12 weeks and allowing the termination of membership up to 12 weeks prior to the member's employment termination for purposes of establishing reciprocal membership with another public entity; and

**WHEREAS**, this board has reviewed the amendment to regulation 4.1 which incorporates these changes in statute and desires to adopt such amendment: now, there be it

**RESOLVED** that the board hereby amends regulation 4.1 of Article 4 of the Regulations of the Board of Retirement to read as follows:

**4.1 Membership:** An individual entering full time or permanent part time employment with a SamCERA employer, which shall be either the County of San Mateo, the Superior Court of the County of San Mateo, or the Mosquito and Vector Control District prior to July 1, 1996, shall become a member of SamCERA on the first day of the first pay period commencing after the date of employment. An individual entering such employment on or after July 1, 1996, shall become a member of SamCERA on the first day of employment. Members may delay the effective start date of their membership with SamCERA up to twelve weeks after the date of employment and/or terminate accrual of service credit with SamCERA up to twelve weeks prior to termination of employment with a SamCERA employer, for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act.